HELLO VALUES

Why
business
needs
values

ANNUAL REPORT
2017 / 18

otto group

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WHY BUSINESS NEEDS VALUES

We live in exciting times. Digitisation – probably one of the greatest breakthroughs in human history since the Renaissance – has only just begun. The world is coming together, fully connected thanks to computers and smartphones. It's creating amazing opportunities. But it also means that global crises are more present than ever: climate change, economic uncertainty, political conflict. The current data scandals are also causing worry. Trust in the political and financial sectors is dropping. People today are longing for security and guidance – but do not want to miss out on the speed and advantages of digital innovation.

This results in major challenges and requirements for companies like the Otto Group. We accept this responsibility. For our customers, our employees and business partners, for society as a whole and for the environment. This is why this annual report isn't just about facts and figures. It's about the new meaning of values. We believe in handling the new opportunities brought about by the digital revolution in a conscientious way. We believe in competition that doesn't come at the expense of mankind and nature. We believe in transparency and honesty. Over the following pages, we want to show that these are not empty promises but part of our everyday life – no matter whether it is about data protection or the "Cotton made in Africa" initiative that helps small farmers earn a living.

Traditional business virtues such as reliability, fairness, and responsibility have always been fundamentally important to us. We're just learning about the role these values play in the digital revolution. But this much we know: it is values that make a difference. It is values that count in these exciting times. Enjoy reading.

KEY DATA

The Otte Group increased its revenue in the 2017/18 financial year (28 February) from EUR 12.5 billion to EUR 13.7 billion and recorded a remarkable development in all three segments. E-commerce revenue increased from EUR 7.0 billion to EUR 7.9 billion. The Otto Group was able to conclude the financial year with partly significant increases at all profit levels.

	2017/18 EUR million	2016/17 EUR million
Group in total		
Revenue*	13,653	12,512
E-commerce revenue*	7,880	7,016
EBITDA	750	730
EBIT	405	365
EBT	629	262
Profit	519	41
Group equity	1,532	1,308
Gross cash flow	806	760
Capital expenditure in intangible assets and property, plant and equipment	380	382
Employees (average number)	51,785	49,787
Group "FS at Equity"		
Group equity	1,471	1,249
Net financial debt	1,594	1,432
EBITDA	705	719
Revenues by segment		
Multichannel Retail	10,541	9,819
Financial Services	841	732
Services	2,271	1,961

	2017 in %	2016 in %
Sustainability (CR Strategy 2020)**		
Share of sustainable cotton in own and licensed brands	78	49
Share of FSC®-certified furniture products	52	46
Share of FSC®-certified catalogue paper	43	34
Share of integrated suppliers of own and licensed brands in the Social Programme	91	80
Reduction of CO_2 emissions (compared to the base year 2006)	−42	−36

* Also includes revenues resulting from the harmonised financial years of individual Group companies at the consolidated balance sheet date. Please refer to the Group Management Report (as of page 75) for more information.

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

THE CORPORATE OVERVIEW

Selected companies and brands

MULTICHANNEL RETAIL

About You
Bonprix
Crate and Barrel
Eddie Bauer Japan
Ackermann
Freemans Grattan Holdings
Eventures*
Frankonia
Baur
CB2
Baumarkt Direkt
Küche & Co
Heine
Lascana
Blue Yonder
Neckermann
Limango
Manufactum
Mytoys Group
Venus
Otto Group Brasilien
OTTO
Witt Group
Universal
Otto Group Media
Otto Japan
Sheego
Project A*
Schwab
Otto Group Russia
Unito
Shopping 24
Quelle
Sportscheck

SERVICES

Hermes Group
Baur Fulfillment
Hermes-OTTO International
Hermes Hansecontrol

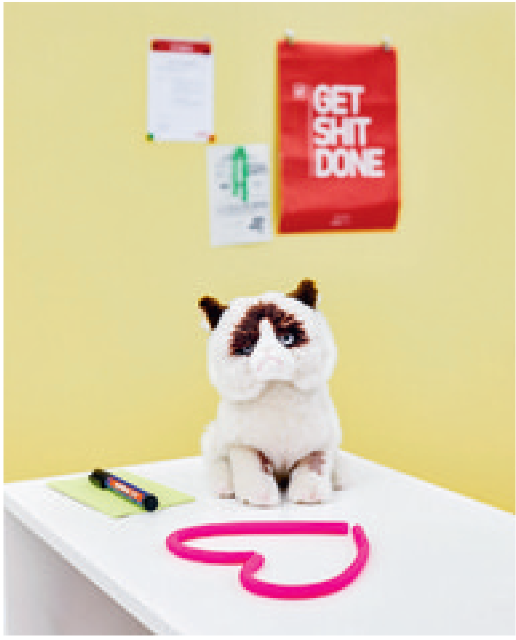
FINANCIAL SERVICES

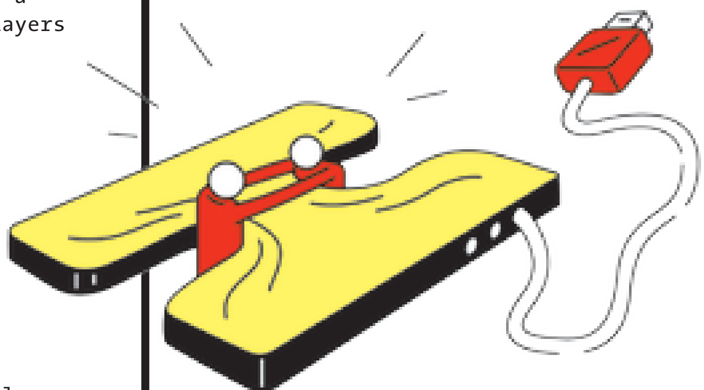
Collect AI
EOS Group
Cofidis
Hanseatic Bank
Risk Ident
Liquid Labs
HVD

* investment companies

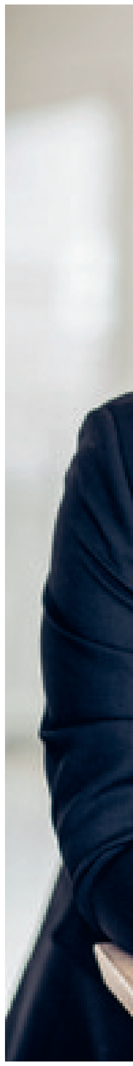
VALUES AND VALUE CREATION

COMPANY CULTURE





HELLO EXECUTIVE BOARD



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

We can look back on a successful financial year, having made major progress in the last twelve months on our way to returning the Group to a strong and sustainable growth path.

In the vital online retail sector alone, we were able to increase our revenues from existing activities by more than ten percent to reach just under EUR 8 billion and to further expand our strong market position. With overall growth of just under seven per cent compared to the previous year, we significantly outperformed our overall plan.

I am particularly pleased to see that we have made a real breakthrough in the hearts and minds of many of our colleagues. The passion for experimenting with new technologies and work methods has noticeably increased. As has the courage to develop away from traditional structures with internal and external partners. And there is now far greater willingness to take the reins and help shape the future of our company. With this mindset and our wide variety of attractive brands, my roughly 51,800 colleagues have worked together to push the limits in highly competitive markets with amazing success.

Trust in our Group plays a major role here. In this age of digitisation, many people are wondering what further changes will affect our world, not just as customers but as global citizens. It starts with the question of how responsible we are as a company when it comes to handling the data entrusted to us. It continues with the question of how we can successfully provide our employees with the responsibility to actively help configure changes within the company. And it does not end with the question of what contribution we can make in our production and supply chains for a world worth living in. As a company, it is our responsibility to find authentic and future-oriented answers and communicate these in the most transparent way possible.

This is why we have chosen “values” as the main topic for this annual report. We have been seeking expert opinions and are presenting ideas and solutions from across the Group. Once again, we invite you, as partners and friends of the Otto Group, to share your opinion with us and help us on our way to become better – on the market and for society.

Alexander Birken
Chairman of the Executive Board & CEO

Dr Winfried Zimmermann
Member of the Executive Board, Projects, Corporate Audit, Transformation and IT (until 30 September 2017)

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

Dr Rainer Hillebrand
Vice Chairman of the Executive Board, Member of the Executive Board, Corporate Strategy, E-Commerce & Business Intelligence

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

Hanjo Schneider
Member of the Executive Board, Services (until 31 December 2017)[1]

Neela Montgomery
Member of the Executive Board, Multichannel Retail (until 31 July 2017)[2]

1 Successor as of 1 April 2018: Kay Schiebur
2 Successor as of 1 April 2018: Sven Seidel

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

At the beginning of the past financial year, the shareholders set out a programmatic objective: the Otto Group was to be developed into a fully digitalised retail and services company over the next few years. Under the stewardship of CEO Alexander Birken, the Executive Board announced a joint proposal for the “Otto Group Path” with a new mission statement, strategic principles, and an ambitious growth plan with the express and active support of the shareholders.

The pleasing results of the past financial year show that this ambitious plan has been put in place with great commitment and open-mindedness in terms of company culture. The Otto Group is energetically driving forward the transformation of all business processes; it has become much faster and more customer-oriented and is on a strong and sustainable growth path.

I would like to thank all our employees for this fantastic progress. Particular thanks also go to the Executive Board and those members of the Board who left over the course of the past year at their own request: Neela Montgomery, who is now running our Crate and Barrel business in the US, Hanjo Schneider, and Dr Winfried Zimmermann. I would like to welcome Kay Schiebur and Sven Seidel to the Executive Board, joining as of 1 April 2018 to represent Services and Multichannel Retail, respectively.

“We will not sweep social and ecological *RESPONSIBILITY* under the carpet in the face of *DIGITISATION* and globalisation”

The transformation of the Otto Group into a digital company is intrinsically linked to the question of how we as a family company can ensure that our corporate management style remains based on values. Our deep conviction as shareholders is that there is no need to sweep social and ecological responsibility under the carpet in the face of digitisation and globalisation – quite the opposite. We can only obtain the trust of our partners, customers, and employees when we constantly reinvigorate our long-term orientation towards values, such as respect for human beings and nature as well as the belief in a free and social market economy, despite fierce competition.

This task is in safe hands with the Otto Group Executive Board and all our employees.

Michael Otto

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

KARL-HEINZ GRUSSENDORF*
Hamburg
Deputy Chairman Member of the Works Council Otto (GmbH & Co KG)

ANNETTE ADAM*
Kahl/Main
Deputy Chairwoman of the Works Council SCHWAB VERSAND GmbH

THOMAS ARMBRUST
Reinbek
General Manager Kommanditgesellschaft CURA Vermögensverwaltung G.m.b.H. & Co.

ANITA BEERMANN
Ahrensburg
Employee Kommanditgesellschaft CURA Vermögensverwaltung G.m.b.H. & Co.

* Employee Representative

HORST BERGMANN*
Michelau
Chairman of the Works Council Baur Versand (GmbH & Co KG)

OLAF BRENDEL*
Hamburg
Chairman of the Works Council Hermes Fulfilment GmbH

DR MICHAEL E. CRÜSEMANN
Hamburg
General Manager (retired) until 28 February 2017

DR THOMAS FINNE
Hamburg
General Manager Kommanditgesellschaft CURA Vermögensverwaltung G.m.b.H. & Co.

PETRA FINNERN*
Jesteburg
Chairwoman of the Works Council EOS Region Germany

HEIKE LATTEKAMP*
Hamburg
ver.di Trade Union Secretary Commerce

DR WOLFGANG LINDER
Hamburg
General Manager (retired)

ANJA MARRECK*
Holzkirchen
Works Council SportScheck GmbH until 28 February 2017

STEFAN NAJDA*
Glienicke
ver.di Trade Union Secretary

LARS-UWE RIECK*
Hamburg
Regional Specialist ver.di Trade Union

HANS-OTTO SCHRADER
Hamburg
General Manager (retired) as of 1 March 2017

DR WINFRIED STEEGER
Hamburg
Attorney

MONIKA VIETHEER-GRUPE*
Barsbüttel
Chairwoman of the Works Council, bonprix Handelsgesellschaft mbH as of 11 April 2017

SANDRA WIDMAIER-GEBAUER*
Hamburg
Executive employee/ Human Resources

PROF DR PEER WITTEN
Hamburg
Honorary Chairman of BVL, Bundesvereinigung Logistik e.V.

WE NEED TO STAND UP

The Digital Life Design (DLD) conference in Munich. Before Alexander Birken and David Kirkpatrick discuss values in a globalised, digital economy on stage, they have had an intensive conversation about the new big players, corporate responsibility, and ethical consumption. Alexander is skimming through the “Techonomy” magazine, which is published by David, then delves into the article “Amazon, Facebook, and Google: Too big to tolerate. Too big to stop.”

left

ALEXANDER BIRKEN
Chairman of the Executive Board & CEO Otto Group

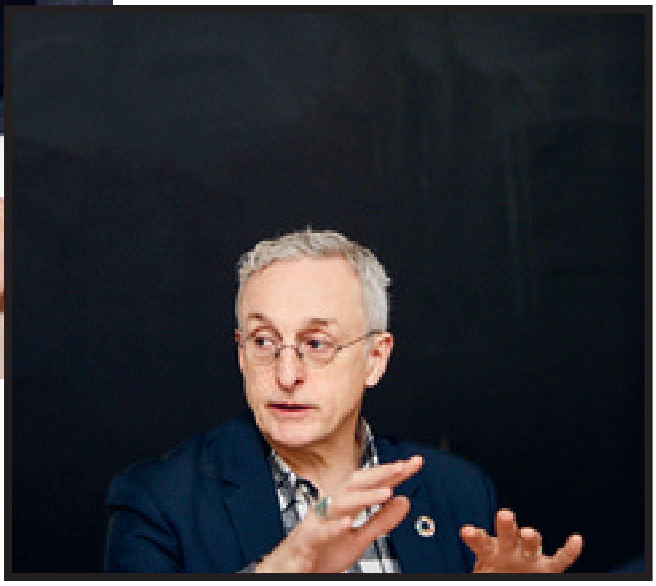
right

DAVID KIRKPATRICK
Journalist and Author

FOR OUR VALUES

“PEOPLE understand that they can WIELD INFLUENCE”

DAVID KIRKPATRICK



ALEXANDER BIRKEN You wrote this article, didn't you? It describes a major challenge of our time. In my opinion, the European answer could well be: let's break up these companies! Yet that would be a reaction from the last century.

DAVID KIRKPATRICK Yes, I wrote that. And I believe that, yes, breaking them up wouldn't work. The only way Facebook is going to retain legitimacy is if it responds regularly to outside input, from governments, NGOs, the business world, citizens – in short, everyone. It would be an engaged process and would not necessarily constitute regulation. It would likely take a new approach as, fundamentally, these companies are relatively young. We've never had global companies like Facebook or Google before.

AB True. These big players need to be kept in check, be they social media platforms or retailers, because they're growing all the time. But people love them, so you can't take them away from their customers either. What we need is an open debate about these new realities.

Speaking about debates and discussions: there seems to be a cultural clash between the European public in general and US tech companies which are widely accused of not sharing a European understanding of issues such as data protection or employee rights.

DK There's no question that all three of the American tech giants – Facebook, Google, and Amazon – convey American values, such as individual freedom, self-reliance, and competition, everywhere they go. That's the way they are; it's inherent in their structures, their interfaces, their presumptions. Yet they do make an effort to adapt. Facebook is starting to acknowledge, for instance, that they have done a poor job of adjusting to the specific conditions prevailing in the countries in which they operate.

AB First of all, there are reasons why these companies started in the US. For instance, it offers a unique environment in which the entrepreneurial spirit influences how companies are created and how universities are connected to business. These American companies do more than analyse ideas. They put them into action, changing patterns and adapting business models. One cannot apply this same situation to Germany. Having said that, once you take your business abroad, you have to recognise and respect other standards and systems, such as collective pay-scale agreements, data protection, even taxes. I therefore believe we definitely need to start thinking about how we can find common ground, a level playing field with comparable conditions for all. We must endorse fair competition and working conditions in every context, whether it be taxes, workers' rights, data protection or whatever. Today that's not the case.

DK I think Europe is a little ahead of the United States on this. Take the General Data Protection Regulation, for example. It was a long time coming, but now that it's almost here it will essentially bring American companies in line with European standards. That may well be a good thing. The EU has devoted more critical thought to the digital economy. At the same time, and maybe this is an American point of view, I still think there is real value in the way the Internet and global platforms are bringing the world closer together and, to some extent, creating a global culture that benefits everyone.

However, there is a rising concern especially in Europe that globally active companies elude and ignore the rules by which everyone else has to live.

AB Consider the environment, for example; in Europe, companies, NGOs, and politicians have succeeded in communicating openly and honestly about the issues that need addressing. At the moment, however, that is all that seems to be happening. Few companies are actually taking action, necessitating that the politicians step in, which is usually the worst solution.

DK The 20th century was a kind of battle between capitalism and Marxism on a macro-level. Capitalism thankfully won. But I think what happened, partly because of the urgency of the digital revolution, is that business has been forced to reckon with capitalism's consequences a lot sooner than governments – business has a bottom line which the government doesn't have – which is why they are also more capable of adapting. In addition, the public – which is something I know you, Alexander, care about – doesn't want to do business with companies who are hurting the planet or treating people unfairly. People understand that they can wield influence.

Speaking of people: according to a recent survey by Forsa regarding trustworthiness only 27 percent of Germans have trust in corporations and only 6 percent in their managers.[1]

AB That is clearly a result of management decisions in the past. It all began with the global financial crisis – which is still unresolved – when billions were spent on shoring up the banks. That was the point when people started wondering. What is more, we had the aftermath of "Dieselgate" to deal with, and close on its heels the Paradise Papers affair. It is only logical that people's faith in business has been shaken. And not only that. At the moment, all of our elites in the political, scientific, and economic fields have lost credibility and legitimacy. In contrast, populism is growing. This is a dangerous development.

DK If people vote with their spending, they vote with their spending every day. So there has got to be more responsibility taken on the part of business. That's a good thing in my opinion; it's good to put in place some systems that can make you more responsive, and maybe even more so than your competition.

AB Here in Germany, we also see growing numbers of consumers looking to exercise their buying power by patronising companies with high standards across the board. While I believe that the willingness to pay appreciably more for a high-quality product is still relatively limited, I do have the impression that things are changing. People are overwhelmed, inundated with data, and more information is constantly flooding, at an ever-faster pace. In this situation, people naturally seek safe harbours and turn to things they can trust – for instance, a company that upholds the same values and high standards as they do.

DK I heard that you go to great lengths not to ship your apparel by airplane. I assume because of the carbon footprint.

AB Yes, we try to transport by ship or rail.

DK Many of your competitors use air freight for efficiency reasons and so on. Do you talk to your customers about why you made the decision?

AB No, we have not publicised it much – yet. But we are currently redefining our position. Although sustainability has long been part of our DNA, we are now looking at adapting our mission statement to place corporate responsibility closer to the core of our brand. We also want to relay this more effectively to both our employees and our customers. We are striving to improve every day, especially in terms of communicating our sustainability goals.

A key part of corporate responsibility in the digital age is data protection. How would you define the responsibility companies have in dealing with customer data?

AB The data belongs to the customer. Period. It is incumbent upon us to be transparent about what kind of data is collected and from where. On the one hand, you can ascertain a household's energy usage by collecting the data and analysing the peaks

1 Forsa study on trustworthiness on behalf of RTL Media, 2017

MIT scientist Andrew McAfee, Alexander Birken and David Kirkpatrick (from left to right) discuss values in times of digitisation at the DLD conference in Munich in January 2018

“We must endorse **FAIR COMPETITION** and working conditions”

ALEXANDER BIRKEN

and troughs – and take decisions accordingly. Everyone benefits, which is a good thing. Nonetheless, it should be up to the individuals to decide whether to provide their data. To be honest, I don’t even know who is collecting my data right now.

DK I agree, but I think there is a contradiction in public attitudes, where on the one hand people – especially the more informed, well-educated – are saying, I don’t want to have my data controlled by Facebook and Google, I want to have some control back, or I don’t like the idea of how much of my information is floating around the world, especially in the hands of business. On the other hand, people expect customised service. And yet, they don’t realise the degree to which, in most cases, the two are interconnected.

Another crucial consequence of the digital revolution is that companies need to become more flexible and faster and let their employees work in a completely self-reliant and responsible way. To achieve this, the Otto Group launched Kulturwandel 4.0 (cultural change) in 2016. Can you explain the important reasons behind that change process?

AB We needed to change to remain relevant in the digital age. Command-and-control no longer works. Our main objective is to empower our employees and become more customer-centric. To that end, we had to relinquish control of how the organisation is run. As a first step, we opened several management processes to the entire Group in a top-down and bottom-up combined approach. This rendered leadership more transparent in terms of decision-making, while empowering employees to play a more active role across departmental lines and hierarchical structures. Initially quite a few people asked me if this meant I was putting an end to hierarchy. I said no, I love hierarchy – it gives us a framework within which to do our jobs. That being said, the role of leadership is changing. It’s no longer the bottleneck through which all information and every decision needs to pass. My role has become that of a facilitator. This means that I have to set very clear directives, while being much more open and flexible.

DK I wrote a book about Facebook, and I actually think Facebook is one of the reasons why other companies have had to make such changes. Clearly, Alexander, you’re ahead of many in how you’ve thought about it. A lot of companies have recognised the need to be more responsive to the concerns of both the customer and the employee and to be more collaborative. They also realise it hastens the speed of innovation. But they didn’t really have the choice not to do so in my opinion, because once Facebook emerged and employees got the habit of being able to express their views, it almost democratised business. I’m curious, do you measure employee sentiment and morale? Do you have any metrics on that?

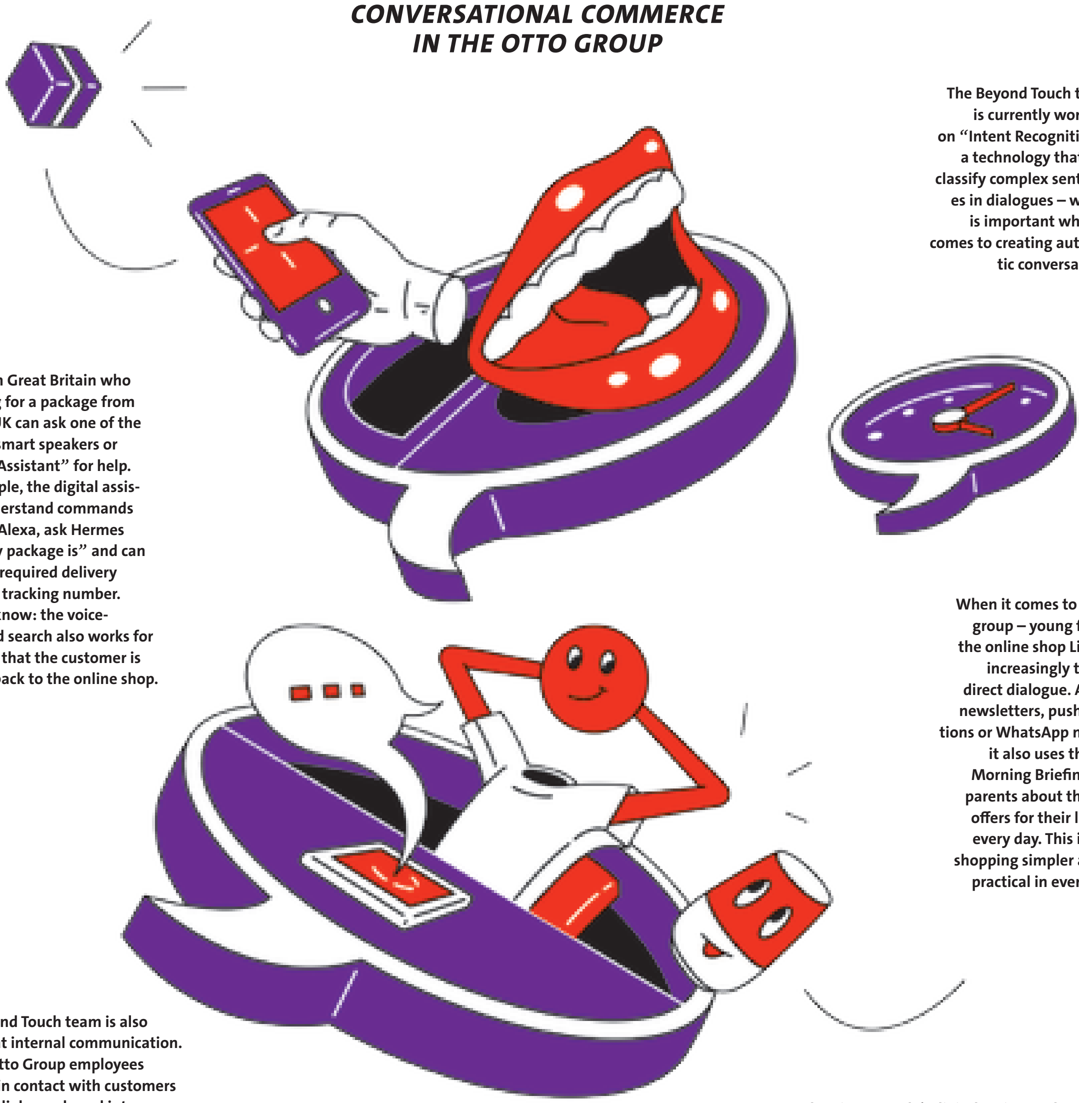
AB We regularly conduct various customer surveys and also ask our employees on all levels for their feedback. The perception of the company generally appears to be quite positive, and the employees feel taken care of. More and more people come to us and say they don’t want to work just for the money; they seek a deeper meaning behind what they do. In that sense we have achieved our goal. We will continue to stand up for our values and standards to ensure that our current and future employees and customers are proud to be associated with us. In the process, we’ll hopefully set an example for the rest of the business world.

LEVERAGING OPPORTUNITIES • 1

TALK TO ME!

In 2017, the Otto Group introduced five official strategic principles in order to become a fully digitalised retail and services company. Conversational commerce is an example for the first principle “leveraging opportunities”. The future of mobile shopping will no longer just take place on small smartphone displays where you have to swipe through product galleries and zoom in on pictures. Experts agree: the “heads down” phenomenon will soon be a thing of the past. Voice assistants such as Google Assistant or Amazon’s Alexa are on the rise. The Otto Group is getting on board with this technological development driven by the “Beyond Touch Initiative”, an interdisciplinary team of colleagues from, for example, OTTO, Bonprix, and Otto Group Solution Provider. They are pooling expertise, developing an overall strategy on the topic, and working on concrete solutions. The systems are technologically advanced: artificial intelligence can work out the customer’s intentions based on words. “The keyword here is conversational commerce,” says Member of the Executive Board Dr Rainer Hillebrand. “These are methods that use dialogue-based interaction for customer contact in e-commerce. The future of shopping will be voice-controlled.” This is confirmed by recent numbers: in the US, more than 24 percent of all households own a device with voice control in 2016.[1] In 2017, 52 percent of millennials in Germany use voice-controlled assistants.[2]

CONVERSATIONAL COMMERCE IN THE OTTO GROUP



The Beyond Touch team is currently working on “Intent Recognition”, a technology that can classify complex sentences in dialogues – which is important when it comes to creating authentic conversation.

Anyone in Great Britain who is waiting for a package from Hermes UK can ask one of the Amazon smart speakers or “Google Assistant” for help. For example, the digital assistants understand commands such as “Alexa, ask Hermes where my package is” and can track the required delivery using the tracking number. Good to know: the voice-controlled search also works for packages that the customer is sending back to the online shop.

When it comes to its target group – young families – the online shop Limango is increasingly turning to direct dialogue. Alongside newsletters, push notifications or WhatsApp messages, it also uses the “Alexa Morning Briefing” to tell parents about the newest offers for their little ones every day. This is making shopping simpler and more practical in everyday life.

The Beyond Touch team is also looking at internal communication. It links Otto Group employees who are in contact with customers through dialogue-based interaction, creates space for exchanging information and provides regular updates.

Anyone who gives Google’s digital assistant the command “Talk to OTTO!” is connected to otto.de. Users can ask the smart assistant questions about their favourite products, request the deal of the day or check out the “OTTO Shopping Festival”. The special twist: the software actually has a conversation with the user, actively asks if it can help with anything else, answers queries and even says goodbye appropriately at the end of the conversation.

1 Survey by Walker Sands Future of Retail, 2017
2 Survey by Statista, 2017

COLLABORATORS 2

JOINED FORCES

Working together to achieve more: Otto Group companies are open to cooperation.

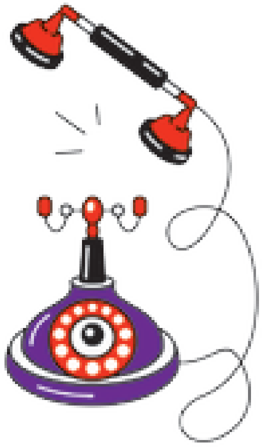
Nothing stands still in the world of digital transformation. On the one hand, there are the major tech companies such as Google, Alibaba, and Amazon, with whom the Otto Group is competing as well as cooperating. On the other hand, new start-ups with creative business models are constantly battling for their share of the market. The Otto Group is responding with another strategic principle called "Collaborators". This does not only work within the Group but increasingly on an external basis as well.

The best current example of this is otto.de which is increasingly turning into a real platform through the continous integration of external partners and brands. There are plenty of other examples: the Otto Group cooperates with scientists and research facilities at the Massachusetts Institute of Technology (MIT) in Boston. Networking with young start-ups via Eventures or Project A is also a central focus.

Another important concept at the Otto Group is linking up with strategic financial partners, such as Mytoys. About You is also open to external partners. The online retailer, one of the fastest growing start-ups in Europe, is bringing strong partners on board that perfectly complement its existing competencies. They already found external partners in Seven Ventures and the German Media Pool. A new financing round started in Fall 2017. The objective: turn About You into a billion-dollar company within the next few years. Together, this can be achieved.

ACCELERATED NETWORKING

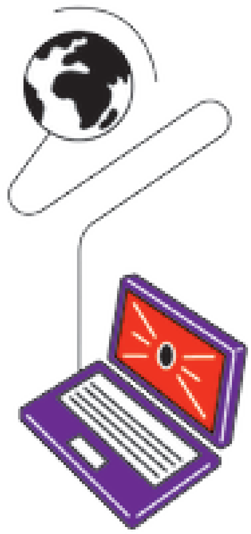
This graphic shows how many years it takes a technical innovation to reach 100 million users.[1]



Telephone, 1878
75

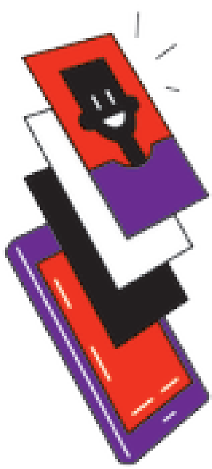
Mobile phone, 1979
16

Internet, 1990
7



iTunes, 2003
6.5

Facebook, 2004
4.5



Whatsapp, 2009
2.4

Instagram, 2010
2.2

1 OECD Report 2017: "Key Issues for Digital Transformation in the G20"

OPERATIONAL EXCELLENCE • 3

THREE ROUTES TO SUCCESS

The third strategic principle of the Otto Group calls operational excellence the basis for efficiency. This is what the Witt Group stands for because it continously manages to steer a straight course, even in troubling times. It was able to increase its revenues by 49 per cent over the last ten years - substantially without additional acquisitions. The guarantee for success is the focus on and the understanding of the sophisticated customer segment: women over 50. Managing Director Wolfgang Jess explains the three pillars that Witt's success is based upon.

1 Understanding women 50+

"Over the last few decades, Witt has developed into a company that really understands clothes for women over 50," says Wolfgang Jess. Something that sounds easy, almost casual, but was actually really hard work. "We work with a very experienced customer sector – women who have high expectations and demands. The question always is: how do we reach these women, how do we make that connection?" Think about trends, for example. "Of course our customers know about developments in the world of fashion, but a lot of trends have been developed specifically for young women. For us, it's a question of translating trends appropriately for our target group. We keep what makes these developments interesting – but we make it wearable for our customers."

2 Brand diversification

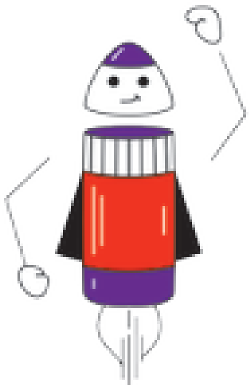
Brand diversification is a major growth driver for the Witt Group. Witt Weiden, which focuses on women's outerwear, lingerie, and home textiles is the traditional heart of the brand family, Sieh an! as the brand for price-conscious customers, and Création L and Ambria for more sophisticated, younger fashion. With Wäschepur, the Witt Group is now also opening up the market for feel-good textiles. "In all this, we're always driven by this question: how can we benefit our target group – and what brands are right for them?" says Jess.

3 Internationalisation and strengthening over-the-counter retail

The focus of the Witt Group has so far rather been distance selling. "Witt was actually one of the first major mail-order companies in Germany," says Jess. The Witt Group is also active in ten European countries outside Germany, sometimes with multiple brands. In the US, Witt cooperates with the American Group company and Bonprix subsidiary Venus. There, customers have been able to order Création L clothing since 2017. At the same time, over-the-counter retail saw a big boost over the past ten years in the roughly 130 stores; temporary stagnation could be compensated by ideas and measures initiated by the Kulturwandel (cultural change). Jess explains: "We also need to think about how we can improve when it comes to over-the-counter retail." The answer: "We have to offer a much more personal shopping experience." Lots of little changes have been made. At the heart of the process was the idea of involving employees in every change so that they could play an active part in shaping the process; everything from an attractive shop layout to natural sales talk.

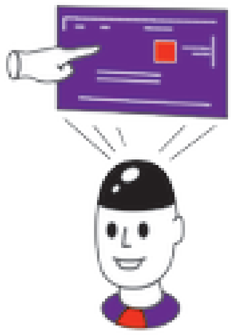
REAL PEOPLE, REAL PASSION

The most powerful and most authentic ambassadors for a company are its own employees. Based on the fourth strategic principle “People First”, a framework is created that allows recruiting, supporting, and binding the best talents. This is why OTTO, one of the first brands in Germany, focuses on training up its own experts to become job ambassadors, lifting professional recruiting and employer branding to a whole new level.
Posters on the underground, promotional films or appearances at conferences – the online retailer has been relying on experts from its own companies for a long time for employer marketing as well as recruiting by showing real employees. With success: it is precisely this approachable information about OTTO and the direct contact with potential colleagues that applicants demonstrably consider to be particularly valuable. This is why the HR team created the OTTO Job Ambassador programme in October 2017. This training project is all about “corporate influencers” sharing their passion for the job – digitally and analogically. Anyone can join in: by the start of 2018, 185 of the 4,500 OTTO employees were working as job ambassadors. Based on interest, several seminars are offered and possible areas of work defined. And it’s worth mentioning that they’re purely motivated by the opportunity to inspire new employees for OTTO and the chance to actively influence the selection of their direct colleagues.



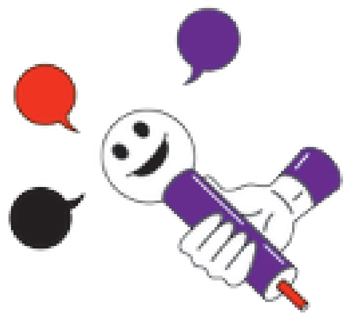
The Initiator

The Initiator is the all-rounder. Their task is to optimise the applicant experience. They focus on the company’s appearance, assess the effectiveness of campaigns, and think about what could make OTTO even more attractive to new colleagues.



The Professional Expert

The primary task of Professional Experts is to signal competence and appeal. Jobs become more interesting as the work level increases. The Professional Experts demonstrate the diversity of OTTO at eyelevel at specialist conferences and during the recruitment process.



The Co-Recruiter

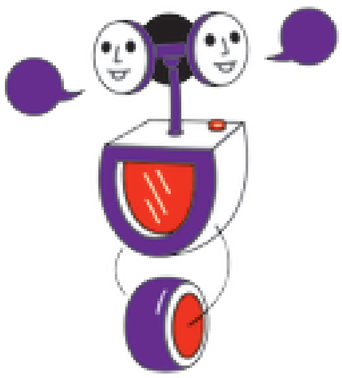
The Co-Recruiter conducts first interviews to ensure that the candidate is a good fit. Direct colleagues are often better at assessing the skills of potential colleagues. This cultural fit is worth its weight in gold.

The Contact Person

The Contact Person is the direct line to applicants. They assist those interested in the job, guides them through the application process, and answers their questions.

The Multiplier

The Multiplier is the classic influencer: they’re all about attracting attention in social networks. Multipliers comment on and share OTTO posts, create content for their own communities and thereby strengthen the brand and reach.

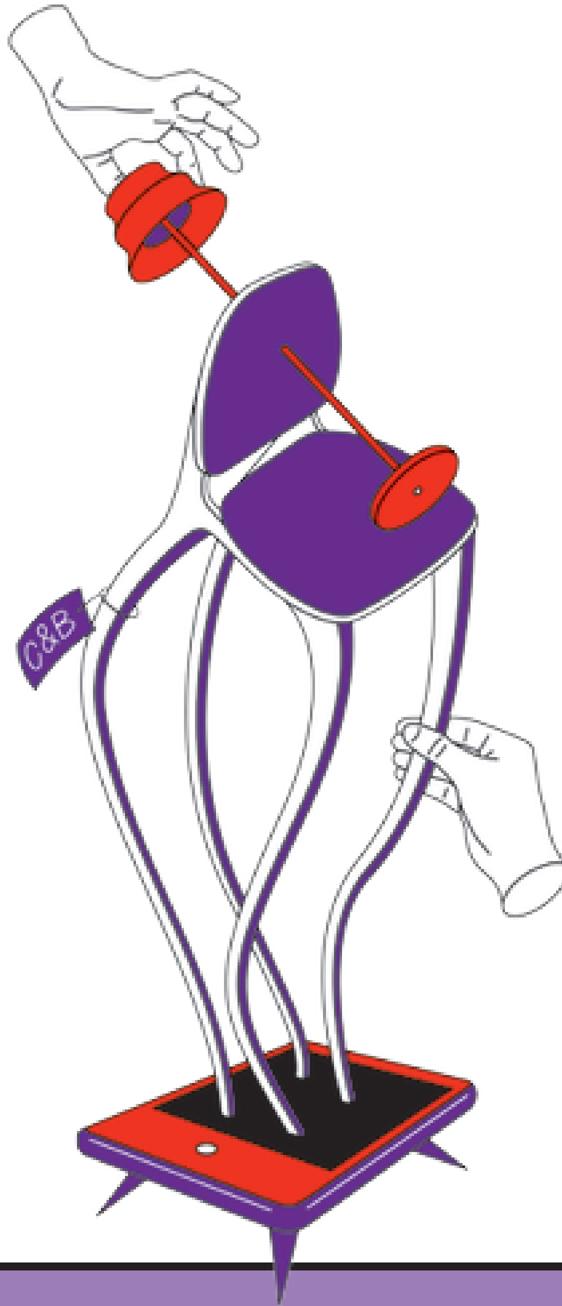


The Socializer

The Socializer represents OTTO as an employer through personal contact. This means: they provide concrete information about the job on social networks as well as personally at recruiting events and specialist conferences.

CULTURAL CHANGE IN EXCHANGE

The concept of Kulturwandel 4.0 (cultural change) was developed in Hamburg – and must be an integral part of every management agenda in accordance with this fifth strategic principle. But does it stand the test around the world? What ideas from Group headquarters in Germany are bearing fruit abroad? And where have concepts progressed further? Neela Montgomery, CEO of the US home furnishings company Crate and Barrel, is familiar with both worlds. Before moving to Chicago, she was the Executive Board member responsible for Multichannel Retail at the Otto Group headquarters in Hamburg. Here, she sums up the differences in five learnings and explains how a US company can benefit from the Group-wide Kulturwandel.



1
Values and brand authenticity are more important than ever in the world of digital transformation.

Our purpose at Crate and Barrel is: "To help people love how they live in moments that matter." As a purpose driven company with a long-term view, we created shared expectations for associates by launching the "Purpose & Values" programme. Based on six core values such as "Drive Results", "Take Responsibility" or "Have Fun", these principles create a commitment around transparency and fairness for customers, as well as within our own Crate and Barrel team.

2
You need to have your own moral compass – even if it's not something your customers have asked for yet.

Many customers in the US are values driven, but the majority are still less willing to pay more for a product that aligns with values such as social responsibility or sustainability. Our commitments, such as printing our catalogue on environmentally friendly FSC® paper or converting all of our store lighting to LEDs, are not reactions to customers' wishes – we do it because we think it's the right thing to do. We are proud to be pioneers.

3
We need to be open to new solutions.

As a creative organisation, we have great skills in anticipating design trends, but need to learn more about external best practices in other areas. We consider Kulturwandel 4.0 to be a valuable framework for addressing the challenges of digitisation in retail. For example, the need for speed and agility when analysing insights from our customers. As for data-driven decision-making, artificial intelligence, and technical infrastructure in general, the headquarters in Hamburg are pretty far ahead and Kulturwandel 4.0 offers the opportunity for direct exchange with other Otto Group companies.

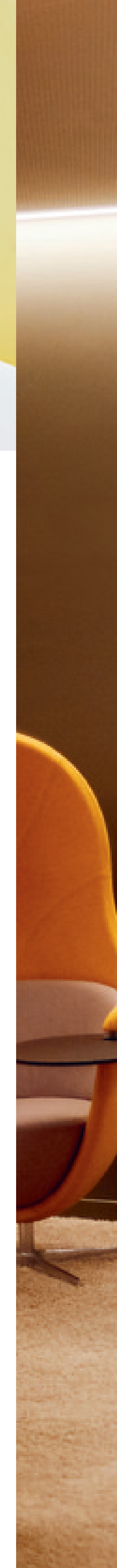
4
Kulturwandel fits in perfectly with our "Purpose & Values" programme

It's impossible to have too much communication when embedding your "Purpose & Values" programme. To drive meaningful change, we describe our values using Kulturwandel 4.0 concepts such as speed, collaboration and customer focus. For example, our value "Drive Results" encourages associates to take risks and make smart decisions. We've set this as the expectation, not the aspiration. All very much in line with the concept of the Kulturwandel 4.0.

5
We're not afraid of change – we help to shape it.

Digitisation is making everything faster – and we need to speed up too. Having a strong customer focus means we aren't afraid of change. Take diversity and inclusion, for example, and the variety of lifestyles and life choices. That's central to Crate and Barrel's values. One of our guiding principles is to: "Be inclusive, embrace our differences". We bring this to life in our external customer communications such as in our "Welcome Love In" campaign, where different couples tell the story of their love.

A modern working environment requires modern spaces – like the co-working space “Collabor8” on the Otto Group campus in Hamburg, Germany



FLEXIBLE SIZE

Employee demands have changed. They ask for feedback, want to make creative and innovative contributions, place importance on values and work-life balance. And at the top of list: the meaning behind it all. The Kulturwandel 4.0 (cultural change) of the Otto Group is rising to the occasion. A trip around a Group that is trying to combine the best of new job worlds and established working structures.

TOBIAS KRÜGER
Kulturwandel 4.0
Division Manager,
Otto Group

A huge loft space, a range of different working environments, lots of small coffee tables, seats dangling from the ceiling: the "Collabor8", the co-working space that has been available to Otto Group employees on the Hamburg campus since January 2017, is also an answer to the changing requirements of the working environment of the future. Working to the time clock is over; the focus now is on value-oriented management, meaningful work, and an open feedback culture – and this is exactly where Kulturwandel 4.0 at the Otto Group comes into play. But can you really bring security and self-fulfilment together in the age of digitisation? Our first interviewee is Tobias Krüger, Kulturwandel 4.0 Division Manager at the Otto Group.

Mr. Krüger, this feels like a start-up environment. How did this change come about for the Otto Group?
A few years ago, it became clear that the Otto Group needed to take action in order to remain relevant and successful in the digital culture. We had to revise our corporate strategy while also analysing the existing culture. In hindsight, it was an incredibly bold step to set up this change in culture, because none of us could predict what that would mean at the end of the day. All we knew was that the economic cost of doing nothing would be higher in future than if we took action and implemented real change.
What does such a process require?
First of all, it is dependent on commitment. Kulturwandel means that everyone needs to participate. Secondly: you need to get to know your own organisation. This results in some pretty significant findings – for example, that processes are too slow. This could in turn indicate a far more fundamental issue, i.e. colleagues don't trust each other, which you then need to address directly. Thirdly: you can't solve all the problems at once. You have to prioritise them and set realistic targets.
In your opinion, do younger employees find the upheaval of Kulturwandel easier to handle?
Interestingly enough, no. In my experience, the way in which you get to grips with Kulturwandel isn't so much a question of generation or hierarchy, but more a question of type. One of the most avid supporters of the Kulturwandel has been with us for decades. On the other hand, however, the Kulturwandel allows us to recruit outstanding young employees who can see what we're doing here and that the change is being implemented in harmony with the values that the Otto Group has been living for decades – such as trust and reliability. It's clear in job interviews today that young applicants want to work in a different way than was usual a few years ago. And they can do that at the Otto Group.
How is that noticeable in concrete terms?
The new generation is far more assertive. They ask: what can you offer me? They ask for continuous feedback and are prepared to work very intensively and creatively, but at the same time it is also important for them to get away from work at the end of the day. These are all excellent developments. The most interesting fact here is that demands on management have changed entirely.
To what extent?
For a long time, it was standard practice for you to follow your manager's orders – and that was never questioned. You simply delivered ideas "upstream" – and that was it. It made your own work less meaningful and others could run with your idea and shine – that no longer flies, particularly with the younger generation. They – along with most of our colleagues – want to shape the future and make creative contributions, and they require management to let this happen. That is the mentality we need in our Kulturwandel. The Otto Group offers an incredible range of opportunities to try different things out and push the boundaries, while also working in a reliable, stable environment with long-term perspective.

PAUL HESS

Trainee with Schwab

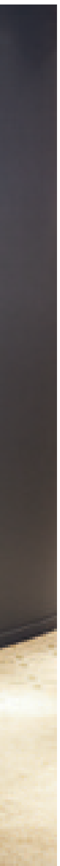
One of the young colleagues that Tobias Krüger is talking about is Paul Hess. The 20-year-old is a trainee with Otto Group company Schwab in Hanau and has direct experience of the positive consequences of the Kulturwandel.

Mr. Hess, why are you working for Schwab?
The answer is rather dull to be honest: I come from the area around Hanau, so I looked around to see what was available there. Schwab has a good reputation in the region. I knew from the start that I could rely on Schwab and that it would be a good, secure job. I also thought about joining a marketing agency, but I quickly realised that I would only be employed on a project-by-project basis for the first few years. But I wanted to do something actually meaningful.

Did it work?
Yes, very much so as I was involved with a major project right from the start. As part of the Kulturwandel, we developed the idea of building an outlet for our Sheego brand at our headquarters in Hanau. What was special about this was that it was thought up and then also implemented by trainees. It seemed crazy that they would trust us trainees enough to manage the project alone.

How did it go?
Everything moved very fast. We came up with the idea in October 2017. We wanted to get it up and running by the beginning of December in order to take full advantage of Christmas business. So all the trainees pitched in. Really – all of us! Although the actual shop was built by tradespeople, it was our job to turn the empty space into an outlet. A total of 14 trainees were involved in the project. We also had a colleague acting as a mentor. Then we had to think about marketing, which was part of my job.

What exactly did you do?
We thought about the customer base. How could we reach the right target group? We made direct contact with customers via Facebook and newsletters, and the local press also reported on our campaign. Trainees open a shop – that story almost tells itself. When we finally opened, we had accomplished quite a bit. We were all pretty happy and people were soon beating a path to our door. It was a great experience.



SANDRA HARTWIG

Head of Communications at
Otto Group Digital Solutions

The working atmosphere that Paul Hess describes is more often found at a start-up. Sandra Hartwig, Head of Communications at the Group's own company builder Otto Group Digital Solutions, knows this sector well.

Ms. Hartwig, to what extent can established major companies and start-ups profit from one another?
By bringing together the best of both worlds: our aim at Otto Group Digital Solutions is to combine the speed of a start-up with the knowledge of the Otto Group. My own networking experience has shown that a lot is changing in the Otto Group culture. It is entirely possible to be an employee of a strong established group while also working independently in an agile way. It's all about empowerment, open access, freedom and, above all, not being afraid to make mistakes.

How does that work in concrete terms?
A good example is the company Risk Ident which focuses on online fraud prevention. As with a successful start-up outside the Group, the business idea arose from a concrete need: employees in the OTTO Fraud Department reported problems with attempted fraud in online orders. Our team then developed a technology that was loosely based on one already established in the US. We were able to use the huge retailer databases of our Group companies OTTO or Baur as strategic levers. It's unlikely that OTTO would have granted access to assets like this to an external start-up, but it was no problem for us working in-house, and our techies created a self-learning artificial intelligence solution that became the basis for the Risk Ident business model. OTTO also checked out our solution in comparison to established market providers, but as we had built a specific solution for OTTO, ours worked the best. That was truly a great success. Today, Risk Ident is the market leader in fraud prevention in Germany.

Why is this new way of working – combining self-fulfilment and security – so popular, particularly among young colleagues?
The so-called Generation Y lives in an information society, which simply didn't exist before. Knowledge is accessible everywhere and is no longer an instrument of power. They don't take things for granted. If something doesn't suit them, they say so. They have a very precise values compass – which includes the knowledge that self-determined work and security are no longer contradictions in terms.

MARINA JOZIĆ
Marketing Assistant,
Eos Slovenia

Marina Jozić, Marketing Assistant at Eos in Slovenia, tells us about living out values in your job and what that means for your team. The Otto Group company is a financial service provider focusing on receivables management. The concept of the Kulturwandel also fell on fertile ground here.

Ms. Jozić, how did you find out about the Kulturwandel?
I first read about the Kulturwandel in the Eos Group employee magazine. In it, the Board was inviting all employees around the world to submit their ideas about how they wanted to shape Eos in an active way. Soon after, all the employees here in Ljubljana met in the lobby. We had a lot to talk about and identified a project that we wanted to work on.

What was that?
As in all highly specialised companies, there are a lot of very different jobs at Eos: call centres, IT, strategy and so on. It became clear that colleagues often didn't know what other people actually did. So we worked on establishing a team in the truest sense of the word.

How was it implemented?
It was all about the basics. For example: if a colleague has a problem with a tricky project, it's not just his or her problem. It's everyone's problem. We're not lone wolves. We at Eos in Slovenia are a real group – and we stick together. We achieve this through many different routes. For example, we sometimes meet up in the evenings, so that we have fun together. Or we simply talk about the things that are important to us.

What changed?
It's really all about giving meaning to our work. This also came up during our "cultural journey", the adaptation of the Otto Group Kulturwandel for the Eos Group: a worldwide employee survey indicated that we wanted to know what we were working for. Perhaps this can best be summarised in our new mission statement: "Eos – for a debt-free world". The slogan is short and snappy and shows why our job is important. All of us – whether we're working in a call centre, in IT or as a manager – can agree on this purpose and identify with it.

SEBASTIAN PURPS-PARDIGOL
Author and Coach

The topics that are so important to young people in their working life today – value-oriented work, creativity, more freedom while maintaining security – are also interesting for Sebastian Purps-Pardigol. The author and coach has written bestsellers such as "Leading with the Brain" and "Digitisation with the Brain", in which he applies brain research findings to the modern working world – including a reference to the Otto Group as an example of a successful transformation.

Mr. Purps-Pardigol, you've written a book about digitisation and one about leadership. What links the two topics together?
Two things. Firstly, digitisation increases pressure on companies and throws into question the way in which employees should be managed. You need to react to the disruptive business models of competing companies – quickly and creatively. You won't get far with the traditional militaristic values that have shaped working life for decades. These days, managers are finding out that there are a whole lot of things happening in the outside

world that they can no longer sort out alone. It's not enough to delegate tasks and have someone follow your orders. Managers who commit to digital transformation and the accompanying change in culture will only succeed if they give their team the chance to develop and evolve creatively and come up with new solutions. That's one point.

What's the other?

We're always "on" these days, constantly reachable. This means that we spend no time relaxing properly or at least a lot less. We can observe the consequences directly in the brain. In neurobiological terms, the neurotransmitter mix in our brain no longer changes at the end of the day when we are meant to be going to bed as it used to. Young people are particularly affected by this constant state of being "on". Their life is characterised by a high level of connectivity. This has plenty of advantages: these people are very good and very fast at finding information and communicating. Bu that also has a downside: they find it really difficult to focus. This is the direct impact of rapid digital communication.

However, the digitisation cannot be stopped anymore.

No, but we can shape it. And that's where work culture comes in. The sociologist Aaron Antonovsky researched what actually keeps people mentally healthy. He found that this involves three things: life being comprehensible, meaningful, and manageable. Today, we are in a situation that puts these three dimensions constantly at risk. Example: who understands what happens on the financial markets and what the best option is for investing your own savings? It's an enigma for most people. This makes it all the more important to integrate these three dimensions into your job. And that's the new task for today's management: employees need to understand what they're doing. They need to find it meaningful.

What does this mean for the Otto Group exactly?

This is where the values of a company group come into play. After all, employees need to feel like decisions aren't being made over their heads, that – as is the case with Kulturwandel 4.0 at the Otto Group – they are helping to shape the change together. If this all comes together properly, these people not only remain mentally healthy but are also able to act in the creative and agile way that the market demands today.

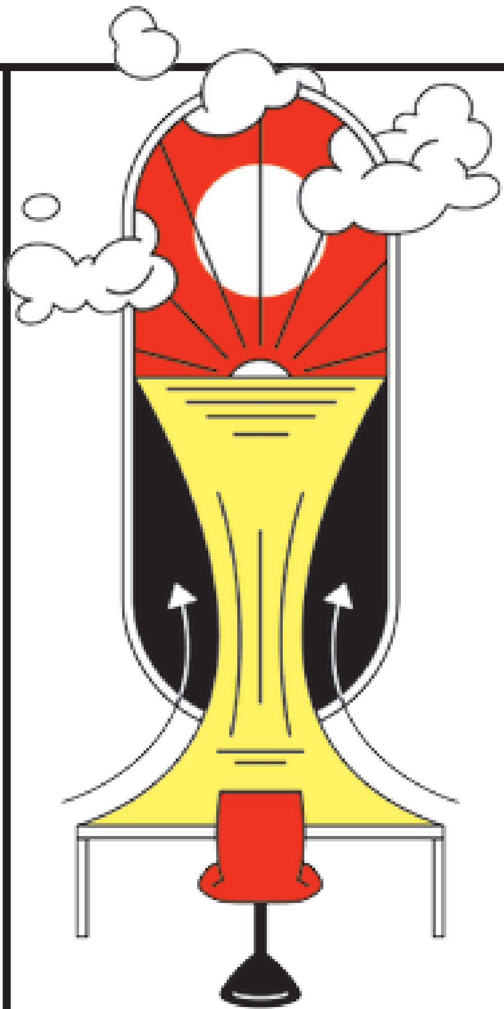
STRETCHY STRUCTURES

MOVE – for About You, this key word stands for a new way of working together flexibly. This organisation model not only means that projects can be processed faster and more intensively but also that employees should receive the best possible support.

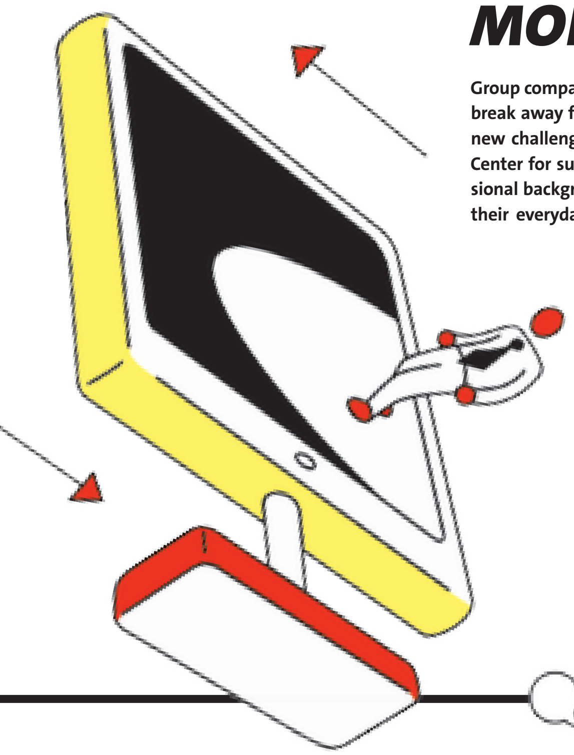
There are some problems that many large corporations can only dream of. When the young fashion and tech company About You experienced incredible rapid growth over the last few years, the question arose how exactly they could go about continuing that company growth with the team they had – particularly in relation to the tech sector. About You chose to pursue a truly agile path towards more freedom of choice and flexibility. The model goes by the name MOVE. The idea: instead of working in fixed units, there are open structures in thematic units which in turn consist of small powerful teams known as circles. The small teams act like start-ups, working in a fast and focused way. They work on demand – wherever they are currently needed. MOVE makes it possible to resize the current team set-up at any time. No resources are left idle and project prioritisation includes decisions on how many people will work on which project. This means that the fast-growing company can react to changes and new challenges whenever they arise and adapt its team structures accordingly. The right people are therefore in the right place – boosting further growth and motivation. And there's another innovative idea at work within MOVE: anyone who wants to see what it's like to be a manager can try it out for three to six months. After that, they can decide if they want to continue along this path or go back to their old job. This fosters a working environment with maximum agility. The other group companies in the Otto Group are observing this model with great interest – and the About You colleagues are more than happy to share their knowledge as part of the Kulturwandel communication initiative.

FIT FOR THE FUTURE

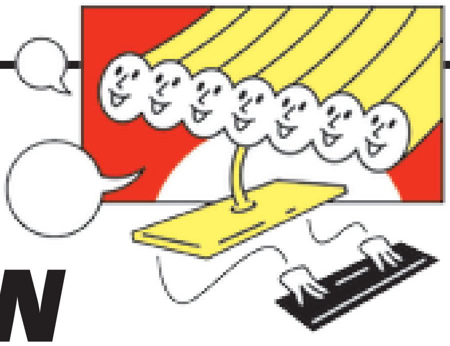
Agile ways of working, flat hierarchies, an individual and digital environment: the demands of tomorrow's working world are continuously becoming a reality at the Otto Group.



BECOMING MORE AGILE



Group companies and departments that are finding it hard to break away from old ways of thinking or to comprehend the new challenges of the job can turn to the Otto Group Agile Center for support. Employees from a wide variety of professional backgrounds tour the Group, accompany colleagues in their everyday work, and develop proposals for changes in working methods together: through workshops, games, the presentation of agile methods as well as coaching for management and teams. The focus is on joint decisions, having the courage to try something new, taking small steps to experiment with your own daily work routine in order to find solutions to problems and challenges at an early stage. In addition, the continually growing agile community #agilegroupie helps to make agility within the Otto Group perceptible.



LETTING IT HAPPEN

Speeding up decision paths, allowing teams to work independently, rethinking attitudes – these are the cornerstones being put in place as the roles of the management and employees at OTTO adapt to the requirements of the age of digitisation. The objective is to get away from the old ways of thinking when knowledge and information were solely a concern for management and instead work towards creating a flexible working culture with flat hierarchies. This is based on further training and initiatives as well as comprehensive feedback discussions in which both the management and employees can learn how to best prepare for working in a flexible and agile manner. This is also where the Kanban method comes into play at OTTO. It helps to make processes more flexible so that the entire organisation is able to react a lot faster to possible changes. Visualising workflows, consistently prioritising topics, managing them in a decentralised way – this is what the agile method is meant to do. OTTO organises its Kanban boards on three levels: the operational team (level 1), division and department level (level 2) and Executive Board level (level 3). Using ten Kanban boards, they go through pending tasks, set priorities, and decide on further procedures within the Group. The management no longer operates as a bottleneck, all employees make decisions as a team. This system makes the process more profound and more transparent – and ensures that the lower level topics are logically based on the higher ones. This ensures that the strategies within the organisation even go together when a lot of people are involved who do not see each other every day.

THINK AHEAD

The sterile 9-5 world of work is dead, long live the living room. Rapid digitisation developments have been accompanied by changes in working form requirements, including technologies and patterns of behaviour as well as work environments. This is where "Future Work" comes in: the cross-functional group, comprising OTTO IT, Otto Group IT, Building Management, HR Development and Corporate Communications, is working on the framework conditions and guidelines for what work will look like in the future in terms of culture, technology, and space. Three approaches are being used here: Activity-based working is based on the fact that everyone works in a different way, meaning that the necessary resources and ideal atmosphere need to be provided to suit all the various diverse requirements. This links together nicely with the second approach: Digital Office. It is no longer required to work at an office desk – if preferred or necessary, employees can use co-working spaces or work from home. However, this only works if the right mindset is adopted. And this is the point of the third approach, Culture, which looks at how to foster a mutual understanding of these new working forms.

SO, HOW ARE YOU DOING IT?

What do e-commerce experts uncover in user purchasing behaviour? How does the Marketing Department work? And what can we learn from colleagues? Real Kulturwandel (cultural change) is characterised by an ability to think outside the box. With the "HOW" work shadowing platform, the Otto Group supports employees who want to try out working for a different group company for a limited time. Just like Lisa Pustal and John Cook.

Lisa Pustal

Junior Controller at Otto Shared Services GmbH in Hamburg, spent eight weeks in Bradford, England, with Curvissa, a Freemans Grattan Holdings brand.

"I trained with OTTO as a wholesale and foreign trade businesswoman. As part of this training, you can spend a few weeks abroad and I definitely wanted to do that. I began my work shadowing in Merchandising at Curvissa in the UK in April 2017. I was able to bring my experience from OTTO into the team. The hierarchies are flat and I was taken seriously right from the start, even though I was still a trainee. There's no feedback culture like there is with us in Germany. You have to actively request feedback, but I simply asked for it. I was included in everything, which resulted in a lot of working routines. For example, I ran customer satisfaction analyses or was involved in making sure that the newsletter was sent to our customers. Looking after the Curvissa online shop was like OTTO in miniature: I was able to try anything out, experience everything first-hand. This is how I learned that I actually love working with numbers. That's something that I still benefit from today in my work in the accounting department. I also improved my language skills a lot in those eight weeks. Bradford is in the north of England and the accent there is really hard to understand, but I got used to it after a few weeks. I'd recommend going abroad to anyone. You rise to meet challenges like this because you are forced to leave your comfort zone all the time."

"I decided to try work shadowing because I wanted to gain new experiences. My bosses supported my plan right from the start. I joined the e-commerce team in Hamburg in March 2017. I was integrated in the team straightaway, given my own tasks, and involved in meetings. Some of them were in German. I do speak a bit of the language, but it was pretty hard. We use similar tools in England, but I was surprised how much bigger everything was in Hamburg - the company, the teams. The interdisciplinary skills of the e-commerce team were incredibly advanced. This made work more specialised and detailed. People focused hard on their work, but there was still a relaxed atmosphere – we often played table football in our breaks. I was amazed by how much trust OTTO has in its employees and how much freedom they are given. I really got to know the Otto Group better during my work shadowing trip: for example, I now understand how decisions are made within the company and how they are communicated. I was also able to develop my own skills and get to know a different culture. Eight weeks was exactly the right amount of time. I whole-heartedly recommend work shadowing. Oh and by the way, my team in England is hoping for a colleague from Germany to come and visit us again soon."

John Cook

John Cook, Insight Analyst at Freemans Grattan Holdings in Bradford, England, spent eight weeks at otto.de in Digital Analytics.

OTTO GROUP AWESOME

FIVE THEORIES ON THE FUTURE OF WORK BY PETRA SCHARNER-WOLFF, CHIEF FINANCIAL OFFICER OF THE OTTO GROUP.

The world is changing radically. What does that mean for each of us? And how can companies prepare themselves for the future of work? These topics were under discussion by a wide-ranging circle of experts, founders, authors, and academics at the Work Awesome Conference in Berlin in November 2017. It is a get-together of the international tech elite that engages in high-level discussions on digital and social trends. Among them: Petra Scharner-Wolff who is also responsible for the area of human resources at the Otto Group. She offers insights into the Group's everyday work life that were the subject of lively debate not just on the conference stage but also online. Below, her five most important statements.

After a successful launch in New York, "Work Awesome", the conference about the future of work, made its debut in Europe

1

More responsibility, less hierarchy

What has certainly dramatically increased is the speed at which you are required to change. In order to be able to handle this as a company, you need new ways of working: a less rigid hierarchy and more responsibility at employee level make quick decisions and agile reactions possible. And it's not just start-ups that can do this - so can large companies like the Otto Group.

Pixelwild
@pixelwild

Petra Scharner-Wolff from the Otto Group at #WorkAwesome**: Instead of being a filter, management should act as a role model in cultural change.**

10:39 – 30 Nov 2017

3 3

Ole Wintermann
@olewin

"Since so many people are focused on status, the digitisation of work poses a social challenge." According to Chief Financial Officer of @OttoGroup_Com **at** #workawesome #zukunftderarbeit

10:22 – 30 Nov 2017

13 16

2

A question of attitude

In a digital world, we need a new mentality and a new culture to be successful. To be open across all company and hierarchy levels, to seek innovations, to see colleagues as a source of inspiration, and to work together across departments and companies to find solutions – that's the basis for successful digital transformation in companies.

Hanna Drabon
@HannaDrabon

“The change in the world of work doesn’t mean loss of control – it means losing the illusion of control.” 👏 Petra Scharner-Wolff @otto_jobs @OttoGroup_Com #Workawesome

10:52 – 30 Nov 2017

7 80 147

3

Communication instead of commands

The new world of work needs a new understanding of leadership. The aim is not to control employees but to treat them as equals and empower them. Employees need support and breathing space so that they can recognise innovations, weigh up opportunities and risks, and make their own decisions. That’s the only way to test new ideas quickly and implement them. Even mistakes help us move forward.

Joyful discussion: Petra Scharner-Wolff’s “Work Awesome” keynote caused lively exchange

5

Room for ideas

A new internal attitude towards work needs a matching outer framework. Working hours and locations should be as flexible as possible, oriented towards employees’ needs. Offices should be set up so that they encourage communication and networking across teams and departments, providing more space for creative and focused work.

4

Understanding the customer

Changing oneself is fundamentally important. But the most important thing to remember is that the customer should be at the centre of all your corporate actions. Their wishes change incredibly fast. We need to listen hard and always be ready to learn new things and recognise and understand wishes and needs as early as possible. If we can manage that, we’re on the right track.

Alexander Kluge
@alecmcint

We need to talk much more about positive examples and show how self-organisation can also make people feel more satisfied. True! Petra Scharner-Wolff @OttoGroup_Com #WorkAwesome

10:51 – 30 Nov 2017

1 2 13

Tanja Wente
@tanjawnt

The question of all questions at #workawesome**: how do you cope with this transition (towards more self-organisation)? The answer of all answers: COMMUNICATION!** @futurelix

15:32 – 30 Nov 2017

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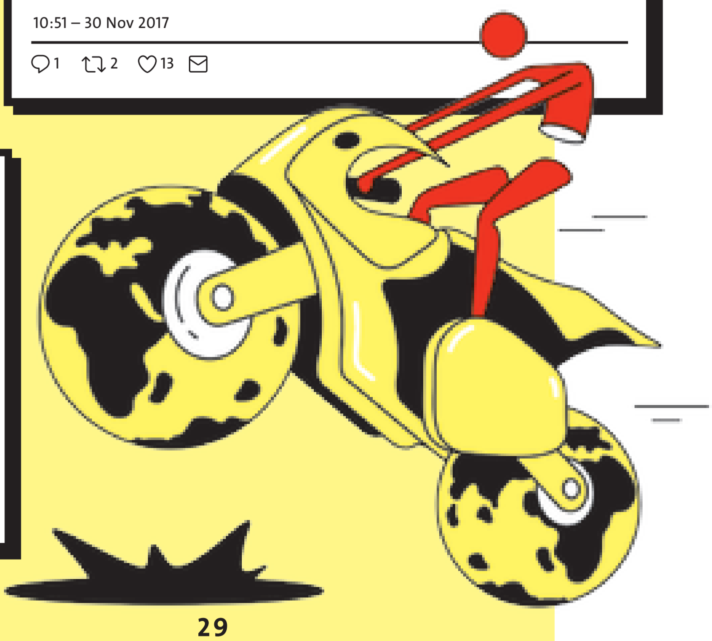


IT'S ABOUT RESPECT

Dr Marcus Ackermann and Prof Dr Frank T. Piller know how to meet the customers' needs. At the airport Cologne/Bonn, they talk about the shopping experience of the future, the data collection rules that companies currently have to follow, and how much control customers should have.

PROF DR FRANK T. PILLER
Professor for technology and innovation management at the RWTH Aachen University

DR MARCUS ACKERMANN
Member of the Executive Board, Multichannel Distance Selling

Mr. Ackermann, Mr. Piller, customers increasingly expect companies to act in a responsible and sustainable manner. What does that mean for you and your work?

DR MARCUS ACKERMANN For us at the Otto Group, for example, it means that we are thinking about how the goods we sell are made. Who wants to buy products from a company that treats people badly along their supply chain? Data protection is also very important, particularly in distance selling and e-commerce and particularly in Germany: the question of whether a company is handling its customers' data properly is arguably a much more important issue here in Germany than in other markets.

> "People feel when you are serious about ***SOCIAL RESPONSIBILITY***"
>
> **DR MARCUS ACKERMANN**

PROF DR FRANK T. PILLER But could you also say that German customers have a contradictory relationship with data protection? On the one hand, concerns about data protection are expressed a lot more in Germany than anywhere else. On the other hand, we also know that a lot of fitness trackers are being sold and that GPS-based vehicle insurance is popular. In the latter case in particular, it seems that customers are actually prepared to hand over personal data after all if it means that they get a price discount. Customers are highly sensitive about their data, but at the same time they simply want a good-quality, cost-effective product.

MA It's precisely these contradictory attitudes that make it vital for us to act in a way that is entirely open, transparent, and proactive. We want to make it as easy as possible for our customers to find out about their rights. They don't have to fight their way through pages of general terms and conditions of business with us; we offer a brief and easy-to-understand summary of the data protection regulations on our website. It highlights the importance data protection has for us in concrete terms. But that's only one example. In general, we believe it is important to act in a value-oriented manner and to comply with social and ecological standards. Not because they serve the immediate success of the company, but because we are convinced of them.

FP However, it will be quite interesting to defend these standards in the long term – particularly when you are increasingly coming up against markets that don't care about such things.

MA But that shouldn't keep us from complying with these standards in these markets too and setting a good example as we go. Naturally, we have to be competitive when it comes to the basics of business – a good selection of products, fast delivery, and a good price. If you have great values in place, but your service isn't good enough, things will get difficult. Nevertheless, I think that people feel when you are serious about social responsibility. It's also a way to stand out from your competitors. And that's precisely why we shouldn't just gamble away our customers' trust. We need to stick to the rules of the game – which are becoming increasingly strict on the basis of the EU Data Protection Regulation and ePrivacy Regulation. These are demanding topics.

FP But aren't these regulations also the best thing that could have happened to you? Strict regulation surely always plays into the hands of major players like the Otto Group because they're better equipped to deal with the wide variety of different laws in all the various countries than their smaller competitors. It's a lot of work for you, of course, but they are often of existential nature for others.

MA We know we have advantages over smaller competitors, but we also like to take a good detailed look at how the other big players are dealing with these issues.

Data protection, ecological and social standards. What are customers actually expecting in addition? And how has the relationship between company and customers changed in recent years?

FP Customers certainly expect a certain level of orientation or guidance, and companies with plenty of experience in the sector are often better at providing this than others. These days, we have a never-ending list of options when it comes to shopping – we need someone who can steer us along the right course, a competent provider whom we can trust. And this seems to be more important than ever in the age of digitisation and the internet.

MA We've made a start in this field with About You. Although customers haven't yet developed any products, they have collaborated in setting up shops with certain themes. We have experimented with such ideas several times, but they have never turned out to be particularly popular. We focus heavily on incorporating our customers' ideas into our service sector. Sometimes we don't see what's right in front of us, but our customers draw our attention to what needs to be done. For example: our customers suggested that they would like to receive information about product reviews by other customers in a far more specific way. Before, if I wanted to buy a TV, all the product reviews for this TV would be displayed. Now I can search by keyword on otto.de and, for instance, only see review comments that relate to the screen resolution or the quality of the remote control.

FP And then I have to trust that you are really showing me everything and that the algorithm isn't filtering out anything critical.

MA We don't filter out negative reviews because those are important for the purchasing decision as well. We are simply helping our customers to browse more targeted. The algorithm for those reviews would not work without the transparency.

FP That's a pretty exciting task anyway: companies have to work out how open they should be and how much control they should hand over. As we were just talking about co-creation: Henkel had a competition a few years ago for customers to design a "Pril" bottle. The bottle with the most votes would go into production and be sold on the market. The copywriter Peter Breuer designed a bottle with a chicken on it, accompanied by the slogan "With the delicious taste of chicken!" Mr. Breuer has a significant following on Twitter and the design went viral. The company subsequently tried to change the rules so that Breuer's bottle didn't make it onto the shelves. A huge mistake; the story made serious negative headlines. Henkel would have been better off using the customer votes to create a shortlist and letting a jury decide the winner. Everyone would have accepted that.

MA Customers simply want to be taken seriously. I've been visiting our call centres regularly for years to listen to what's going on. It's amazing how close the relationship is between customers and companies these days. Plenty of people are incredibly enthusiastic in their communications. Others are more critical. In any case, you can feel a real connection to the company – which again leads to a certain level of expectation, of course.

FP Do you also work together with your customers as in co-creation or some sort of collaboration to develop and design products?

MA We had a similar situation once with a model competition. The winner was to become the official face of our Facebook page. A man dressed up as a woman got the most votes. We took it in good part, did a shoot with him, and actually used him on the site for a while. You need to be open and honest when you invite your customers to participate.

"We need someone who can steer us along the *RIGHT COURSE*, who is competent and whom we *CAN TRUST*"

PROF DR FRANK T. PILLER

Does this also mean that you need to keep on getting better at being able to predict what each individual customer wants and to offer them exactly the right product at the right time?

MA I think it depends on the area. For basics like black socks, that's probably a service that customers want. But for other products, they may prefer searching themselves, comparing the products they find and working out which is the right camera or bike for them by themselves. In that case, it's not about an algorithm finding the perfect product for me.

FP And life would be incredibly dull if you no longer had the possibility of discovery.

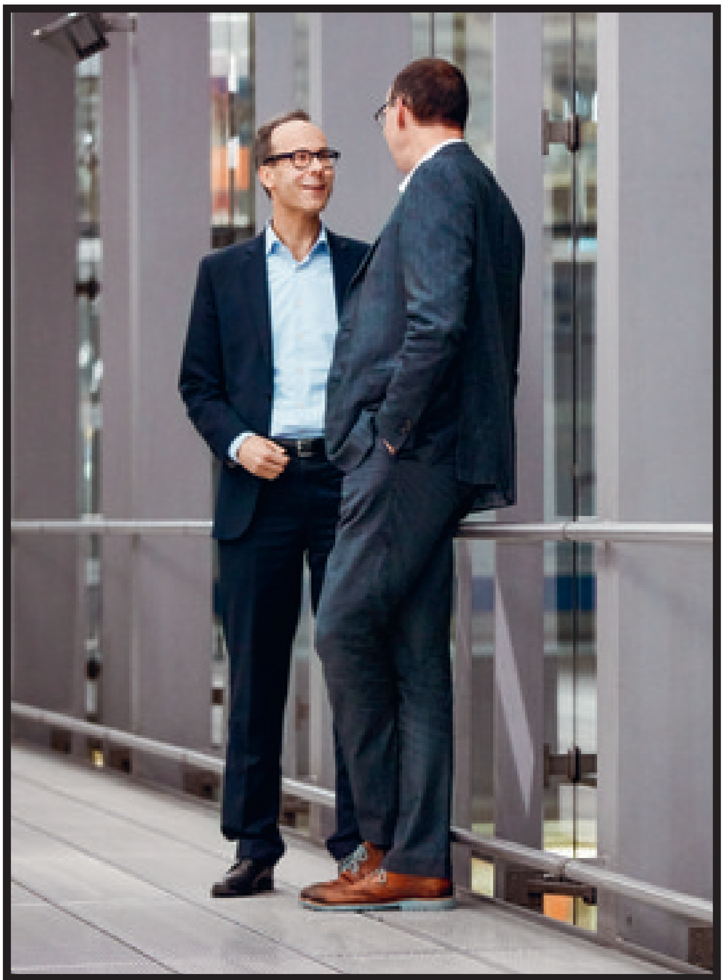
MA Nevertheless, data-based predictions still play a certain role for us. In terms of warehouse management, for example – meaning when a product should ideally be available to order to ensure fast delivery. And successful advertising these days is obviously data-based and personalised.

FP Even though the algorithms are so bad? I keep being shown things I've already bought. If I order a book, an advert on the next news site offers it to me again.

MA This retargeting generally works pretty well, but you need the right data and the ability to analyse it. We do the same thing at OTTO ourselves – and soon the entire Group will be doing it, so that we stay on the ball better and quickly acquire the potential skills that might be vital in future. The level of technical understanding that you need these days is becoming increasingly granular; you need to stay up to date and experiment. It all becomes more difficult if you outsource this field to a service provider.

"The level of technical understanding that you need these days is becoming increasingly granular; you need to STAY UP TO DATE and experiment"

DR MARCUS ACKERMANN



What technical innovations will become significant in the next few years?

FP Technological development is so incredibly quick that, despite all our expertise, it's actually very hard to predict the future in any real way. You have to keep your ear to the ground, remain observant at all times, and react in a flexible way to whatever happens next. Smart homes are a major trend, but I can't quite see where this provides the right boost in terms of added value yet. Are you also intending to become integrated into your customers' homes? You're obviously already working with voice assistants.

MA Yes, we're looking at this in depth at the moment, as this technology is likely to be significant in future. Our first offerings are already out there. Take our subsidiary, Hermes, for example – you can ask voice assistants about the current location of the package you've ordered. We're also working intensively on new applications with a team from multiple Group companies. Even though the real "killer apps" for voice assistants aren't available yet, we want to be at the forefront when it becomes apparent what customers really want and what skills we need.

Everyone's talking about augmented and virtual reality right now.

MA And so are we. We sell a lot of home furnishings via OTTO and via Crate and Barrel in the US. We recently went to the International Interiors Show in Cologne to talk about how to sell furniture online in the future. You can walk through your living room with an iPad, virtually place sofas, tables, and chairs in the picture and see what they look like in your room. That's an AR application that's coming soon.

FP I'm on the Supervisory Board at Doob Group AG, a company based in Düsseldorf that has developed the best body scanner in the world. Doob worked with Uniqlo to develop the scanner that allows people to try on clothes on their own avatar. At first, I thought it was all about the fit, but some people are simply doing it because it's fun. These avatars are incredibly high-definition, at a level never previously seen, which also makes them interesting for the entertainment sector. You could soon be playing alongside the virtual players on your FIFA Playstation games in perfect definition. All tests indicate that people would pay double the normal rate for a game like this if it included such a feature. Even more in Japan. Up until now, smartphones or the Playstation itself have not been able to scan well enough to allow this to work. Again, we are only at the beginning.

MA Changes are already all around us. My kids no longer call up an app on their mobile phone to find out the weather forecast for the day. They simply stand in the living room in the morning and shout: "Alexa, what's the weather like in Hamburg today?" Kids are growing up with things that we still need to get used to. To them, social media and voice assistants are the most normal things in the world. We need to keep up with developments like this.

IT'S

Ever since it was established in 2014, the online fashion retailer About You has relied on social media stars as brand ambassadors for the customer dialogue. This has been a major contributing factor to the company's rapid growth. In 2017, About You celebrated the biggest German influencers for the first time at an awards show that was streamed live to millions of people via Facebook and Instagram. A total of 70 so-called Idols now work with About You, including Lena Gercke, Stefanie Giesinger, Franziska Knuppe – and Bonnie Strange. Julian Jansen spoke to the 31-year-old about marketing, responsibility, and common values.

Julian Jansen

Head of Relationship Marketing, About You

Bonnie Strange

It-Girl and About You-Idol

Bonnie, what is it that connects you to About You?

About You has become like family to me. It's such an incredibly nice team and I always have so much fun when we work together on something. That's really the secret to the success of About You, you do everything together and I'm not just used as the face of a brand. I'm also proud of having grown up with About You. It's incredible how large the company has become. I mean, the About You Awards having its own TV show – wow!

I'll pass that "wow" right back to you: you already have over 600,000 followers on Instagram and 18,000 fans at About You. Why do you think that influencer marketing works so well?

People simply believe more in real people than they do in models in a TV ad that was created for a defined target group. I'd certainly rather buy products that are recommended by people who clearly actually use them. And you can be sure when it comes to the people you're following that they're recommending things that interest them because they share your interests. The whole thing is simply more target group oriented.

What do you consider your responsibility to be as an idol?

I don't really think a lot about it, I'm thrilled if I can inspire people with what I do. However, I don't want to be a role model and don't like feeling pressured into being one. It's not something that I'm actively seeking and I don't want to be limited by that idea.

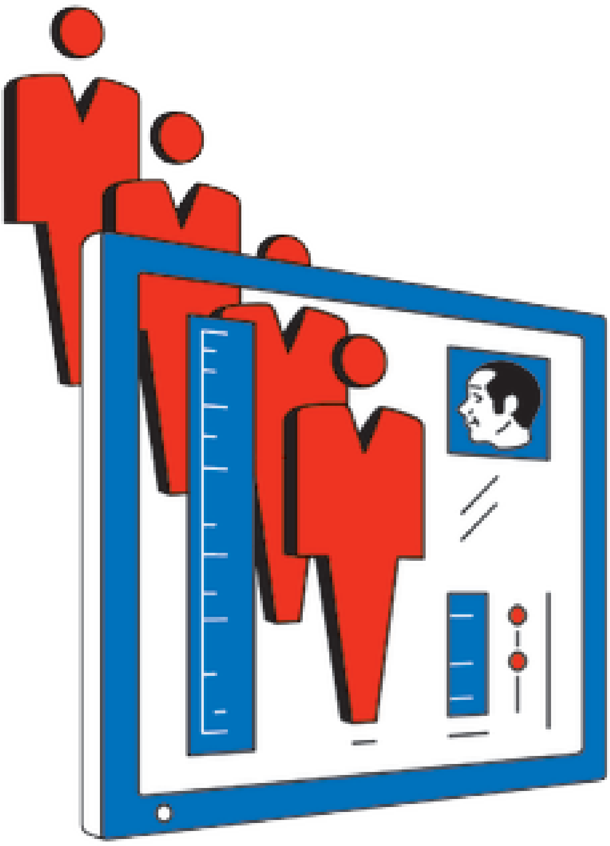
For us, a decisive factor is working with people who represent our brands and our values. It is through this commitment that communication remains authentic. What values does a brand need to embody in order for you to work with them?

I just have to be passionate about the brand. I need to understand it and the brand needs to understand me. That's the basic requirement. I like working with brands that let me be creative myself.

ABOUT YOU!

DIGITAL SERVANTS

The research into and the use of artificial intelligence (AI) has become a major focal point of public interest. Machines are now learning to develop their own capabilities. This is creating entirely new opportunities for the cooperation between man and machine – which also benefits the customer. In the Otto Group, these opportunities already include intelligent optimised product recommendations as well as algorithm-based receivables management.



WITH BEST RECOMMENDATIONS

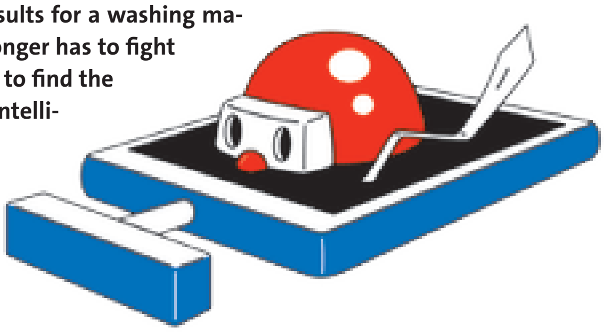
Online shopping offers endless opportunities. In order to ensure that these remain manageable for the customer, OTTO relies on artificial intelligence. More precisely on a self-developed – and so far unique – algorithm that helps online customers to keep an overview of the hundreds of product reviews as well as benefit from the experiences of other customers. Online personalisation is key these days. Customers expect product recommendations that are customised to them alone; companies no longer want broad strokes when it comes to advertising, instead they want to present the right inspiration to their customers at the right place at the right time. And this is where the aforementioned algorithm comes into play: using machine learning models, it analyses each review text, filters the most frequently cited aspects and sorts these into semantically similar groups. A procedure that is used for deep learning, meaning learning based on artificial neural pathways. These "aggregated reviews" allow easy access to product-related details – such as water consumption, price or washing results for a washing machine – so that the customer no longer has to fight their way through tons of reviews to find the decisive information. Artificial intelligence has already found it and sorted it accordingly.

1,500,000

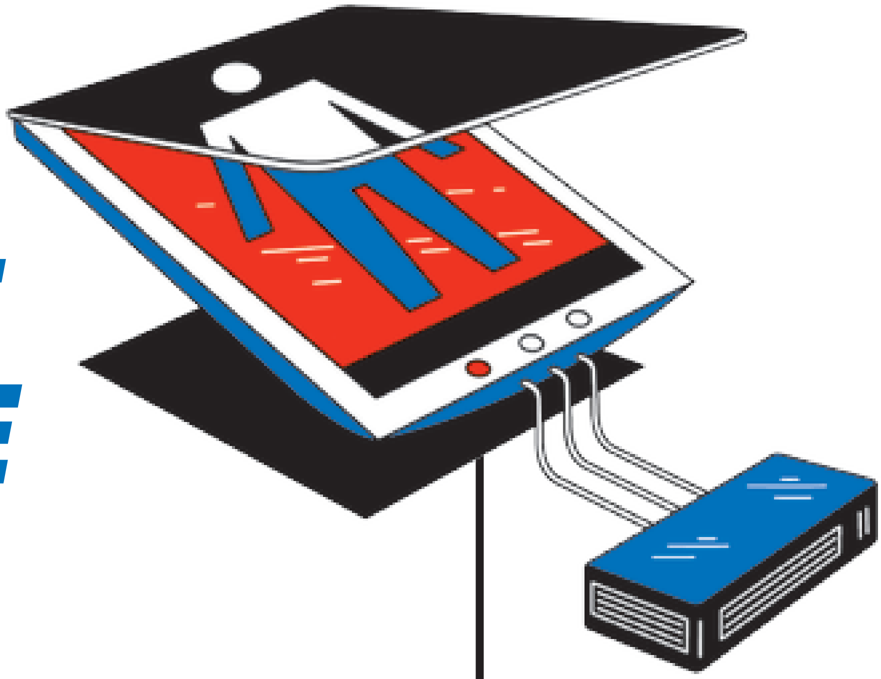
customer reviews are analysed every night by OTTO's artificial intelligence. It takes one hour and defines 165,000 categories.

65%

of consumers use customer reviews for making purchasing decisions online.[1]

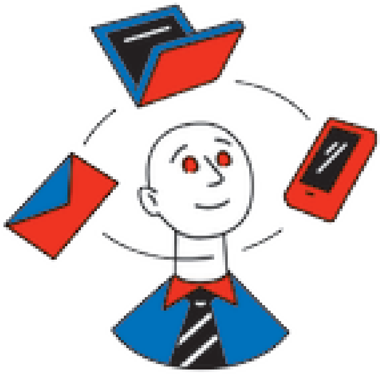


[1] Survey by Bitkom, 2017



SMART CHOICE

Artificial intelligence is now also providing support in an area not immediately associated with it: debt collection. The Otto Group company Eos, one of the world's leading receivables management companies, has been running a "Center of Analytics" in Hamburg since June 2017. The aim is to create self-learning digital tools that are better able to collect, evaluate, and use the data from the debt collection process. Due to its decade-long market experience, Eos possesses the necessary knowledge to optimise receivables management. Thanks to the right algorithm, debtors can already be contacted on the best possible channel for them, i.e. by letter, email or text message. The best method for younger people is probably a message on their smartphone, while a phone call is a more suitable option for older people. This has huge advantages for both sides: debtors can communicate with Eos quickly and directly via their preferred channel and avoid rising interest through early contact. And should they actually be unable to pay, Eos can much quicker find a way to help them reduce their debt, tailored to the individual debtor. For Eos, the advantage of AI-based receivables management is that the reminder process can be completed much quicker because fewer contact attempts are needed to find a solution. The team at the centre is working on further improving these processes and training its employees to become data scientists. They are learning how to evaluate data in a target-oriented way and make decisions made on the basis of that data. Results include the development of a platform for machine learning algorithms that can be used by colleagues from the more than 25 countries in which Eos operates. In future, this will make debt collection more automated, digital, data-driven – and, above all, individual.

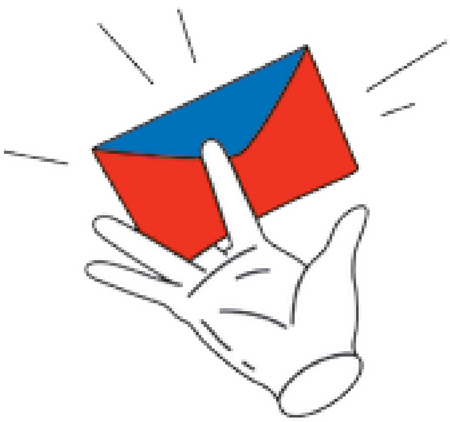


49 %

of all companies agree that digital dunning leads to fewer late payments.[1]

81 %

of young consumers (until 24 years) have liabilities to online retailers.[2]



FAIR FINTECH

Collect AI, a start-up within the Otto Group, specialises in making the entire end-to-end process for receivables management digital and intelligent. The Fintech is providing this to clients in sectors such as e-commerce, banks, insurances, and energy suppliers. The AI-supported technology ensures a customised, solution-oriented service for customers. It means they don't get caught in a loop of repeated reminders because letters get lost or they simply forget to pay. Machine learning mechanisms make it possible to contact customers on their preferred channel of communication and find out which channel is best to use for each customer. Different languages and payment options are also part of the service. The look and feel of the landing page, personalised for each customer, gives them the opportunity to provide feedback about payments via live chats and call backs. The digital assistant has a whole range of amazing benefits overall: not only does it save a huge amount in terms of paper and costs; the digital dunning process also helps increase customer satisfaction and leads to a reduction in payment arrears.

1 Study "European Payment Practices 2017", Kantar TNS on behalf of Eos
2 Bundesverband Deutscher Inkasso-Unternehmen e.V., "Trend Survey 2017"

IT'S COMING

The changes being brought about by digitisation are known by popular key words. Sebastian Klauke classifies the current buzzwords – and explains the significance of the topics for the Otto Group and its customers.

AUGMENTED REALITY

Using your smartphone camera to film your living room and positioning a sofa, table or shelf in it virtually: all possible with augmented reality. The Otto Group is working on using these technologies for furniture presentation in particular, using OTTO's own augmented reality app.

ROBOTICS

Robots are taking on more and more tasks in our daily business. This can have huge advantages and make many processes smoother and more efficient, as well as reducing the pressure on employees. Within the Otto Group, robots are particularly of interest for logistics because, in the ever-growing world of e-commerce, good service means being able to handle constantly increasing quantities within as short a timeframe as possible. This requires automated processes, and robots help to implement these successfully in order to give our customers a truly special shopping experience. We have already developed a few prototypes in this sector and have carried out pilot tests. For example, a robot will be used for supply replenishment at our large warehouse in Haldensleben this year and our Hermes Starship robot has already delivered parcels in Hamburg – albeit still accompanied by humans.

BLOCKCHAIN

Money transfers without banks, contracts without lawyers. So-called blockchains could make this possible in future. For example, the cryptocurrency bitcoin is based on this technology. A blockchain is like a database saved decentrally, with lots of computers on one network. The transfer of bitcoins from a customer to a vendor, for example, is recorded by all network participants. This protects the records against fraud and the intervention of other parties. It means you no longer need an intermediary such as a bank. The technology is still at a very early stage of development, but there are plenty of ideas about how it could also be relevant within the Otto Group – e.g. in the financial services sector, for non-falsifiable proof of production conditions along the supply chain or when controlling online advertising.

VOICE ASSISTANTS

Most customers still communicate with us via websites, apps or even the good old telephone. In the next few years, natural speech will become even more important as a user interface, up to and including ordering via voice assistants ("conversational commerce"). We're ready for these developments and are already working with corresponding technologies in many areas. Along with using chatbots, OTTO is one of the pioneers in this field with apps on Google Assistant that you can use to ask about the deal of the day or other offers. For our customers, this development means that contact with us is not only via the most natural method – speech – but also on an emotional and personal level.

Sebastian Klauke
Chief Digital Officer (CDO) of the Otto Group

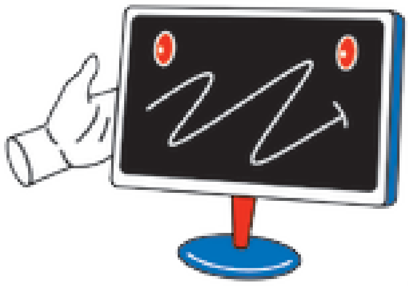
Streaming music, renting cars for short trips, vacationing in private apartments – the sharing economy has undergone incredibly rapid development in recent years. People don't necessarily want to own things anymore; it's enough just to be able to use them whenever they need to. What started out with bicycles has now extended to every product you could possibly think of, including washing machines and TVs. The Kulturwandel 4.0 (cultural change) at the Otto Group also means registering these changing customer needs early on, taking them seriously, and processing them in an innovative way within own business fields. That's why OTTO is now offering OTTO Now.

FOR RENT

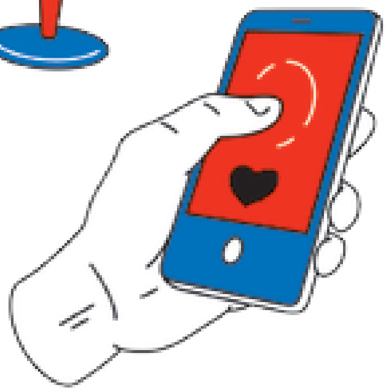
You no longer need to own a washing machine to get your laundry clean. You don't even have to run to the nearest laundromat. It's much simpler than that. With offers like OTTO Now, you can simply rent a variety of daily helpers. What started out as a somewhat mad idea has now become a sort of start-up within a company – and a real business model. Triggered by the Kulturwandel 4.0 in the Otto Group, OTTO Now began renting out selected products in December 2016, including consumer electronics systems such as the Xbox and fitness equipment. Many other products were added over the course of the year, and the range now comprises over 100 products. OTTO Now has concluded thousands of lease agreements for them, gaining valuable experience in this new business model. The most popular products have been TVs, followed by smartphones, coffee machines, and washing machines. This indicates that tech-savvy customers are using the service to try out the latest devices and equipment and also that household equipment does not necessarily have to be bought anymore. Another interesting point is that the average rental period is one year and products are returned in excellent condition. The cycle works. According to a PwC analysis, the sharing economy will develop into a 570 billion-dollar market by 2025. In 2016, it was only at 28 billion[1]; and offers such as OTTO Now aren't even yet included in that. This is a market that keeps on opening up new opportunities – for the Otto Group and its customers.

[1] PwC Study: "Shared Benefits. How the sharing economy is reshaping business across Europe", 2016

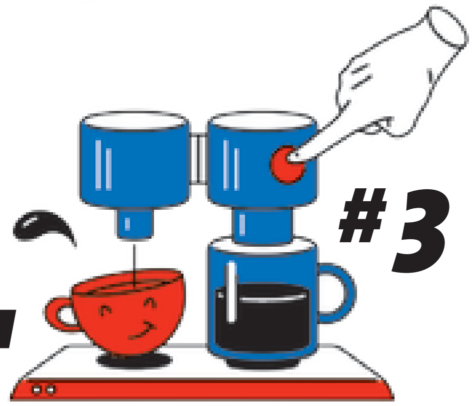
THE FIVE MOST POPULAR PRODUCTS ON OTTO NOW



#1
Televisions

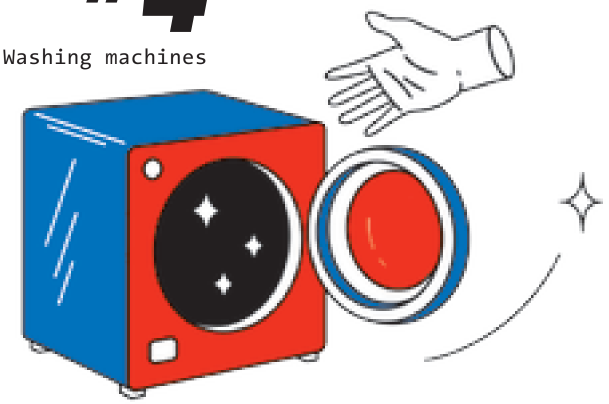


#2
Smartphones



#3
Automatic coffee machines

#4
Washing machines

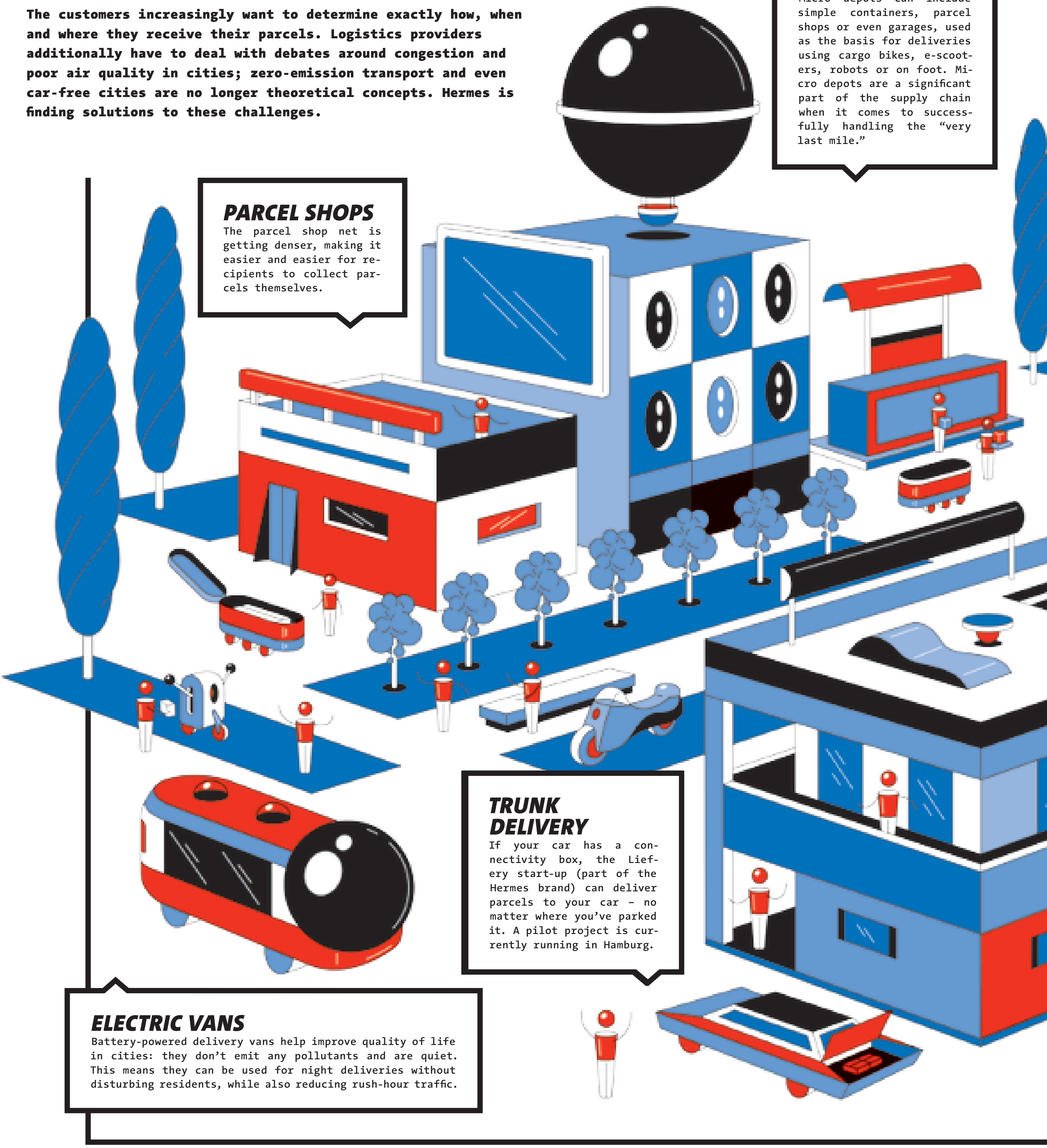


#5
Notebooks

Source: OTTO Now, 2017

WE MUST DELIVER!

The customers increasingly want to determine exactly how, when and where they receive their parcels. Logistics providers additionally have to deal with debates around congestion and poor air quality in cities; zero-emission transport and even car-free cities are no longer theoretical concepts. Hermes is finding solutions to these challenges.



MICRO DEPOTS

Micro depots can include simple containers, parcel shops or even garages, used as the basis for deliveries using cargo bikes, e-scooters, robots or on foot. Micro depots are a significant part of the supply chain when it comes to successfully handling the "very last mile."

PARCEL SHOPS

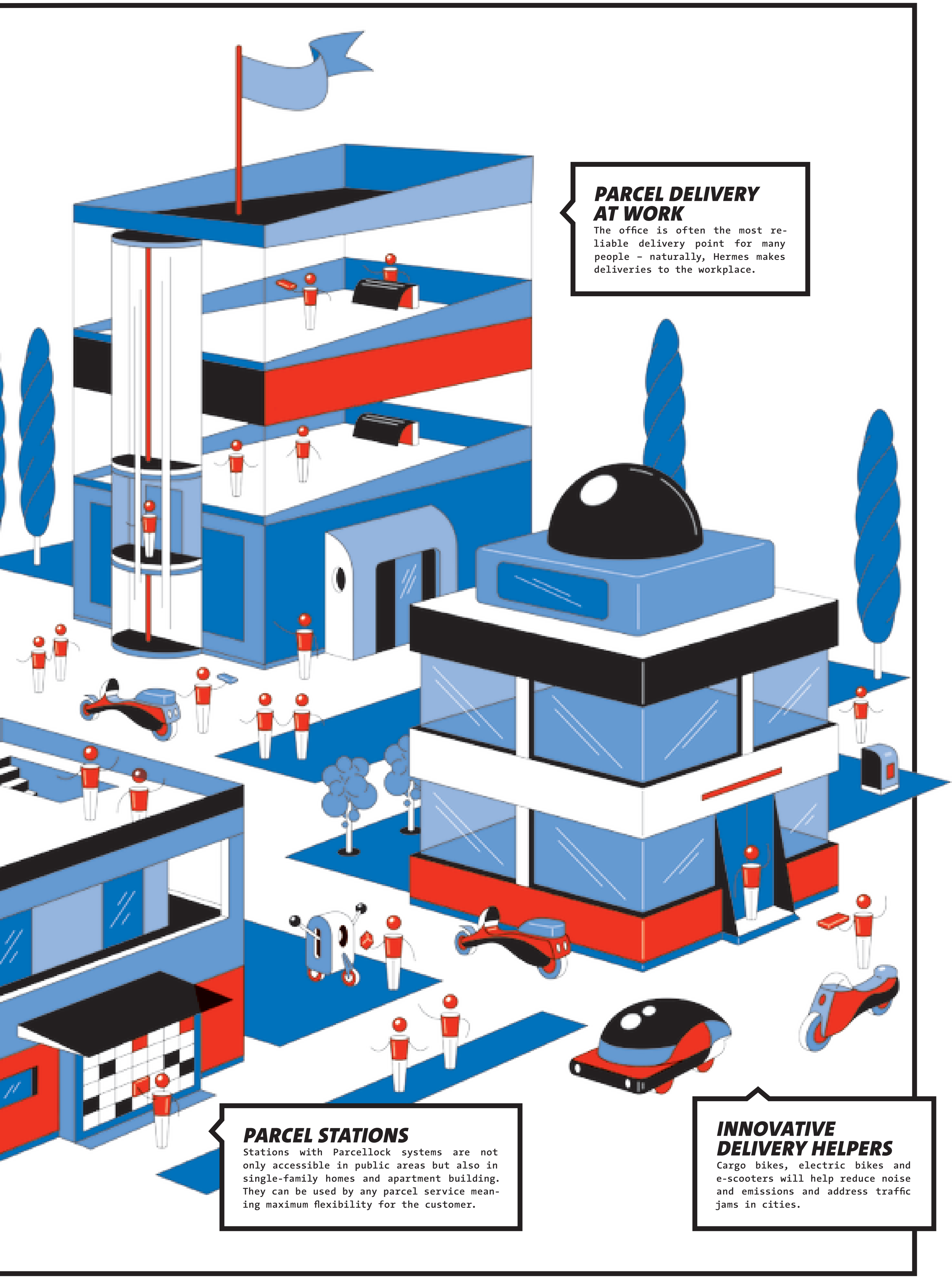
The parcel shop net is getting denser, making it easier and easier for recipients to collect parcels themselves.

TRUNK DELIVERY

If your car has a connectivity box, the Liefery start-up (part of the Hermes brand) can deliver parcels to your car – no matter where you've parked it. A pilot project is currently running in Hamburg.

ELECTRIC VANS

Battery-powered delivery vans help improve quality of life in cities: they don't emit any pollutants and are quiet. This means they can be used for night deliveries without disturbing residents, while also reducing rush-hour traffic.


PARCEL DELIVERY AT WORK
The office is often the most reliable delivery point for many people – naturally, Hermes makes deliveries to the workplace.
PARCEL STATIONS
Stations with Parcellock systems are not only accessible in public areas but also in single-family homes and apartment building. They can be used by any parcel service meaning maximum flexibility for the customer.
INNOVATIVE DELIVERY HELPERS
Cargo bikes, electric bikes and e-scooters will help reduce noise and emissions and address traffic jams in cities.

FINDING COMMON GROUND

f.l.t.r.

DR JOHANNES MERCK
Vice President Corporate Responsibility Otto Group

RENATE KÜNAST
Member of the German Federal Parliament and former Federal Minister for Food, Agriculture and Consumer Protection

RIEN JANSEN
Managing Director Buying, Marketing and Retail at Bonprix

Adding value? Living values? Saving the world? And who is actually responsible? Renate Künast, Dr Johannes Merck, and Rien Jansen discuss how politics, business, and society can listen to and learn from each other. To make sustainable actions possible.

A special discussion needs a special location: the “Tieranatomische Theater” of Berlin’s Humboldt University

Climate change, destruction of the environment, social inequality – sometimes it seems that the world is beyond repair. Do you share this pessimism?

RIEN JANSEN I'm no pessimist. My children's behaviour gives me hope. What makes them tick is quite different from what motivated me when I was young. They're far more conscious of their consumption – and the things that surround them. This consciousness is likely to change still further over the next few years, which has a lot to do with new media and the new technological options out there. People are better able to find out every last detail – and companies cannot hide any longer.

RENATE KÜNAST I don't just want to rely on other people. I want to do something myself. And I certainly never want to find myself saying: "Oh well, we couldn't do anything anyway." The reality is that we can actually do a lot! We now know enough to be able to change ourselves and the world. We have the intelligence. And we have the tools to make the right adjustments.

DR JOHANNES MERCK Exactly. We do have the knowledge. But we have to adjust the framework in a way to ensure that that knowledge can actually be more effective.

But what does that mean in concrete terms? Mrs. Künast, you just mentioned adjustments. What exactly are they?

RK The top priority is transparency. Customers these days need to know where a product comes from, who made it and what's in it. And by customers, I don't just mean you and me. As a politician, for example, I am also interested in public procurement as a whole. It involves huge volumes of products as well as money. Where does the material for police uniforms come from? Was it produced at the expense of people and the environment?

And what is the answer?

RK I'm going to raise the question in the Bundestag soon. I am dreading the answer. When I was a minister, I once wrote to the Defence Minister to ask if more organic food could be provided for our soldiers and got a one-line reply: "Too expensive." Meaning that healthy nutrition is apparently too expensive for the people defending our country. Alongside transparency, there is another important aspect: the same rules need to apply to everyone in the market. It shouldn't be the case that a company conducts itself in an environmentally friendly way but suffers disadvantages in competition because their competitors don't act in the same way.

The aim of the Textiles Partnership, established four years ago by Development Minister Gerd Müller and supported by the Otto Group among others, is to oblige producers to run their business in a sustainable manner.

RK But the Textiles Partnership is purely voluntary and very slow. Partnerships like that move at a snail's pace. The slowest one determines the speed. Some do a lot and spend a lot of time and effort on the issues, while others only do what's absolutely necessary. And in the end, they both bring out almost the same cherry-red T-shirt on the market. So who's the stupid one there? That's why we need a European transparency directive that makes it possible to track every textile product at every single stage – from cotton cultivation to sewing. It should apply to everyone who wants to sell their products on the European market. Does every supplier comply with the standards, do they refrain from employing children, do they pay the minimum wage?

JM That's a great all-encompassing approach, but you know as well as I do that politics has the same problem as business: you need the support of society for such wide-reaching decisions. You did bring in the Bio-Siegel [organic label] as Minister, but you won't save the world with that.

RK *(laughing)* I just wasn't a minister for long enough.

JM You mentioned the problem of global competition, Mrs. Künast. If you impose statutory regulation on the local market, that could make it hard for domestic companies to compete on the global market. We want to find a solution to this with the Textiles Partnership. If we can't formally regulate the global market, we want to at least set informal standards for as many partners as possible. Obviously this is all going slowly at the moment. 50 percent participation from the textiles industry is certainly far too little right now. More needs to happen so that the Partnership can become a real regulator and be of use to those who adhere to the set standards. Politicians, NGOs, and companies need to work together better to make this a reality.

RJ I also think that companies and politicians need to take responsibility together. We need to work together to formulate the rules. I'm not as worried about the speed of developments. After all, a lot of companies are thinking about how they can make their businesses better in terms of ecology and social issues. I have always done that myself. At Bonprix, we follow not only our own objectives but also the corporate responsibility objectives of the Otto Group. For example, we have pledged to source 100 percent of our cotton from sustainable cultivation sources by 2020. And we will make that happen.

> "You have to look after the house that you **LIVE AND WORK IN**, otherwise it will collapse"
>
> RENATE KÜNAST

“We have to adjust the framework to ensure that our *KNOWLEDGE* can be more effective”

DR JOHANNES MERCK

What other concrete improvements do you want to make?

RJ We want to make the entire value chain sustainable. That’s why we introduced our own CR strategy last year in addition to our commitments in the Group, with specific focuses for the Bonprix business model. We’re currently building a factory called CleanDye in Vietnam, where we will dye shirts without water. Around 25 litres of water are usually used per shirt; we are using CO_2 for dyeing. It doesn’t bring in any profit for us, but it fits our brand values. We do care. That’s why we’re doing it. As you can see: companies can act responsibly on their own initiative.
RK That’s going the right way, but even that’s not quite enough. We need to get right down to the basics. As a politician, I feel I am judged by the climate objectives that we signed up to in Paris. They’re very ambitious. We have to do something in every area – traffic, transport, food, production. Everyone has to do their part. We need to put more pressure on in every sector in order to create more incentive for increased creativity and competition.
JM Politicians need to remain realistic with their objectives though. I was surprised in a positive way when Gerd Müller started up the Textiles Partnership with such zeal. But when he said that everyone needed to make their entire value chain transparent and sustainable within a year, we thought that there’s someone who hasn’t understood the complexity of the challenge. It’s not something that can be rushed. Every item that followed this criterion was then to be labelled with a “green button” as a reward. The button was intended to be a sustainability indicator for consumers.
RK He initially withdrew the idea of the “green button” again though.
JM It would be a gigantic bureaucratic effort. If a company has to verify that every part of its value chain is ecologically and socially responsible, it will take time. Even now, four years after the Textiles Partnership was established, the partners are still far off that aim.
RK At the time, a lot of people thought I was in favour of the “green button”, not least because of the colour. I find the idea ridiculous. What was this label meant to convey? It took a year and a half in the Textiles Partnership to even start discussing, which criteria should be considered in terms of needing to comply with set standards some day in the future. That’s what I mean by a snail’s pace. It would probably have been better to start off somewhat smaller. You could have developed a label that indicated that a company was refraining from using certain chemicals and had made a voluntary commitment to the Textiles Partnership. And that could have included a broad information campaign. No one really knows about the Textiles Partnership.

How did you go about introducing the Bio-Siegel in 2001, Mrs. Künast?

RK We defined guidelines oriented towards a European level of regulation. I had a few debates with environmental organisations at the time that wanted even stricter conditions, but businesses needed to remain competitive in Europe. At the same time, we had gone nationwide with the Federal Organic Farming Programme [Bundesprogramm Ökologischer Landbau] with info campaigns and demo operations, educational activities, Kindergartens, and research. After all, if you do not understand the quality of the process and the end product, you won’t want to be a part of it. We had to think holistically. And that also goes for the textiles industry, as already mentioned. All the products on sale should be certified, like being made from sustainable cotton and being produced under fair conditions. Politicians need to apply pressure here if necessary. After the collapse of the Rana Plaza factory in Bangladesh in 2013, the EU threatened the government there with an import ban and higher customs duties if they didn’t change the working conditions. And look what happened: within a few weeks the government had raised the minimum wage by 30 percent and the structural design of all buildings is now being reviewed.
JM The Bangladesh Accord is a real success story. We managed to improve relations without a legal agreement. We will have to continue the groundwork step by step. It will work through using laws, but also on the basis of partnerships like the Textiles Partnership.

Particularly because it’s not just about politics. Consumers also have a decisive voice here. In your opinion, to what extent are the general public prepared to pay more for sustainable products?

RJ If you ask customers today if they’re prepared to pay three euros more for a certified shirt, most will say “No”. I believe this will only change if you actually really make them understand the conditions under which such products are made and what and who they are supporting when they make a purchase like this. Clothes need to come into value again. A pair of jeans for a few euros is totally mad. We need to be far clearer to people and show them what it means when we use 100 percent cotton from sustainable cultivation for our products. For example, the fact that we support small farmers in the sub-Saharan region through the “Cotton made in Africa” initiative. Also, actually, in my experience customers now often want to know more about how we make clothes.
RK I don’t think it’s great advice to tell companies to base their behaviour on whether customers have said they’re willing to pay a few more euros or not. It’s really about how you position yourself on the market. Conditions can change fast. After all, it wasn’t long ago that no one was really interested in where our food came from. That’s totally different these days. Companies can’t afford a food scandal now. That could be the same in the textiles industry soon.
JM Reputation risks are already playing a major role in the textiles sector. The trend is clearly heading in the direction of transparency. We have an extremely high obliga-

“CLOTHES need to come into VALUE again”

RIEN JANSEN

tion to justify our decisions these days and we’re almost entirely transparent nowadays in comparison to before. As a result of the digitisation, this will only increase since information spreads faster and it becomes easier to review the supply chain in more detail. However, we also need to improve our offers. What we’re offering at Bonprix – 100 percent sustainable cotton as of 2020 – will have to apply for all market participants sometime soon.

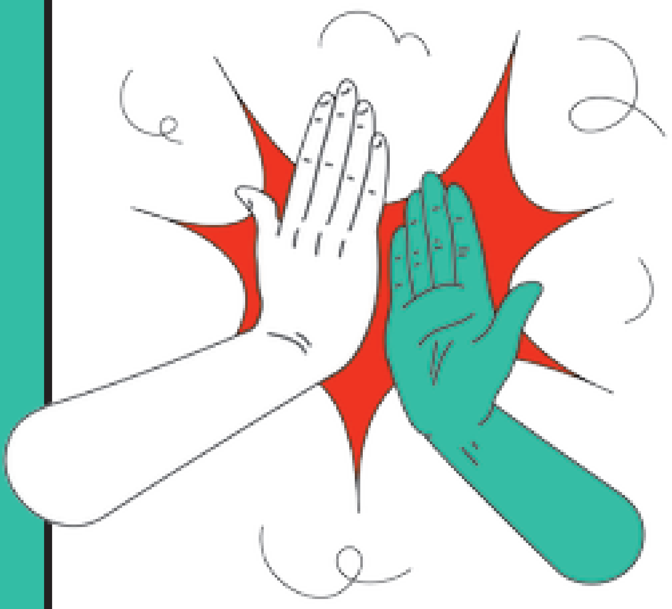
RJ We shouldn’t just be thinking about sustainability and environmental protection either – we also need to think about inequality around the world. It really concerns me. I was in Uganda recently, where the level of youth unemployment is over 60 percent. The people there have other things to worry about than sustainability; they need a job and something to eat. This is why we supported the opening of a new cotton processing factory. We put up a notice saying that we were looking for staff, and the next day there were 4,000 people outside the door. We could only take on 200. People there need support. We are trying to do our part without losing sight of our economic viability. These are all small steps, but in the right direction.

Is it actually still possible at all to separate social and environmental interest on the one hand and financial interests on the other hand?

JM If you look at everyday working life for many companies, the financial key figures are still the sole focus. That makes it hard to be sustainable. It’s different in the Otto Group. Every manager is obliged to meet certain sustainability targets. These targets are also reflected in the 17 UN Sustainable Development Goals, aiming, for example, to ensure food for all, reducing inequality or ensuring sustainable production and consumption worldwide by 2030. Many of our projects will meet these goals early. Particularly because we carry out detailed checks to see if our managers are meeting our environmental requirements in the same way as we check on economic achievements. This has a major impact.

RK I also believe that it is not contemporary at all to separate the two levels. A colleague once came up with a wonderful phrase: “Staying in the black with green ideas.” I think this is almost an understatement now. If climate change continues as it has done, companies will soon have trouble finding sufficient raw materials. This will lead to fights for scarce resources. Both ecology and economy contain the same base word, eco or oikos, the Greek word for house. You have to look after the house that you live and work in, otherwise it will collapse.

WELCOME!



Oualid El Kilouli is a shift supervisor at Hermes Germany in Bad Rappenau. He came to Germany from Morocco in 2012 and knows: not everyone who comes here is as lucky as he is. And that's why he is helping refugees with their new start at Hermes.

When Oualid El Kilouli makes his way through the huge sorting hall, he's constantly patting people on the back, shaking hands, asking everyone he meets how it's going and if there's anything they need. He knows everyone here by name. Lots of people stop what they're doing for a quick chat. The 27-year-old has been working as a shift supervisor at the Hermes distribution centre in Bad Rappenau for almost a year. It's the first of nine new logistics centres (LC) planned by the company to be built in Germany by 2019 and the largest in south-west Germany: 116 loading bays and 214 container spaces for outgoing and incoming goods. Up to 200,000 packages pass through the hall every day. When the logistics centre opened its gates in April 2017, it created 200 new jobs – and a big problem: the German Federal State Baden-Württemberg reports almost full employment every month. How could the company fill the vacancies quickly? The answer was clear for Peter Bachmann, General Area Manager and Head of the Bad Rappenau LC: employees at the Blacksheep e.V. cultural association established contact with residents from two homes for refugees. Volunteers helped with applications, work permits, and organisation. "We didn't intend for this to be a refugee project. We simply made a virtue out of a necessity," says Bachmann. Now it's a project close to people's hearts at Hermes.

Almost a quarter of German companies have taken on refugees as employees over the last three years. One of them is Hermes. The company employs more than 12,000 people from 63 nations in 22 countries. Together with the Europäischen Bildungswerk für Beruf und Gesellschaft [European Association for Vocational and Social Education] and the Agentur für Arbeit [Employment Agency], Hermes Fulfilment GmbH set up the "Education, Integration, Perspective" project in 2016 and was awarded the Integration Prize of the German Federal State of Saxony-Anhalt for its contribution to the integration of refugees in Haldensleben. "Integration comes from a common work environment," says Peter Bachmann. For people who have been torn away from their old life and have to make a new start, work gives them a foothold and perspective.

The Bad Rappenau packaging centre now employs 50 refugees. The integration into the team and the overall operation is going well. "People like Oualid are worth their weight in gold as they build bridges between people," says Bachmann. El Kilouli is not only a shift supervisor but also an interpreter and mentor for employees who are refugees. He speaks Arabic, Spanish, French, and English and has experience in the German job market; this definitely makes him the right person to turn to with questions or worries. "I enjoy the responsibility and the trust placed in me here." You can see that he really likes his job. El Kilouli smiles all the time. He is sincere and polite. And he shows a lot of understanding. "The men who come here from Syria, Afghanistan, Iran, and Iraq have all experienced war, have been on the move for months or years and had to leave their families behind." That's why El Kilouli is happy to give people three or four chances if they forget to call in sick or simply leave without signing out. "Different cultures are colliding here: Arabic informality and German reliability," says El Kilouli. He had to learn that too. He's already overcome the greatest hurdle: the language.

Oualid El Kilouli speaks very good German. Only the strong Swabian dialect of operations manager Ralf Eiermann still gives him a little trouble. Although most of the refugees carry out physical work for Hermes, unloading and loading packages, the company offers German lessons before and after shifts so that more complex tasks with customer contact and technical equipment can be possible options for them for the future. Training opportunities are available as well as further development. "They shouldn't just have to slave away, we want them to feel at home and be able to develop their skills further," says Bachmann. "Many of the refugees are qualified – one worked as a truck driver in Syria, another was an electronics engineer for seven years." Of course, there are always new challenges. "It will soon be summer and we'll need to think about Ramadan," says Bachmann. There's also the question of whether the refugees will be able to stay in Germany in the long term or want to stay if the political situation in their home countries changes. Bachmann is confident that you can go a long way at Hermes if you show you are willing to put in the effort. "You need to engage with the country and the people and don't be discouraged by the problems that you are certain to encounter at some stage," says El Kilouli to every refugee as advice. And thanks to his help, the model at Bad Rappenau is setting a precedent, and other companies in the region are now showing an interest in following the same path. What's more, Hermes will be setting up numerous new logistics centres by the end of 2019, including one in Bavaria. Oualid El Kilouli will spend a week there, welcoming new employees from all over the world.

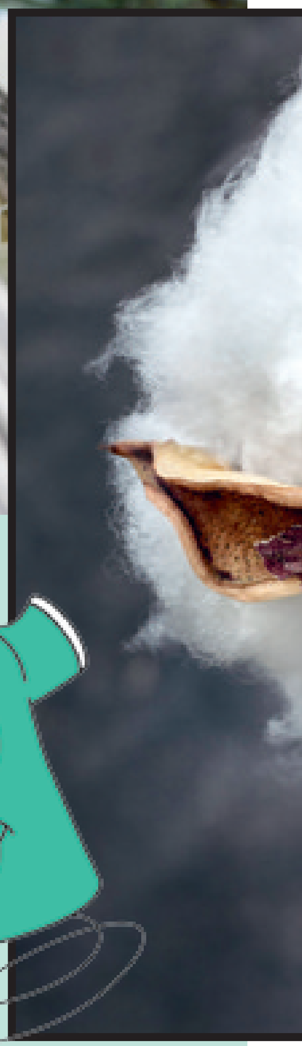
Oualid El Kilouli

Supervisor and "start helper" at Hermes Germany in Bad Rappenau

AID BY TRADE

For African cotton farmers, it has never been easy to sustain a place on the international market. The objective of the initiative "Cotton Made in Africa" (CmiA) is to improve the living and working conditions of small farmers in countries south of the Sahara through capacity building. CmiA was initiated in 2005 by the Aid by Trade Foundation founded by Prof Dr Michael Otto. Through the years, this has resulted not only in the development of a standard for sustainable cotton but also in an alliance between companies and brands like Bonprix, Jack & Jones, and Rewe. They order CmiA-certified cotton and may use the "Cotton made in Africa" label in return for a fee. This creates a cycle: with the revenues from licenses, CmiA finances their work in Africa, like the education of small farmers, the building of schools and infrastructure or projects for environmental protection, thus giving more and more people a livelihood and perspective. Overall, CmiA supports over one million cotton farmers in nine countries in sub-Saharan Africa, of which 17 percent are women. Supporting them is an important cornerstone. In addition, the initiative and its partners are also active in the development of the local textile production. This creates jobs and increases the value creation of those countries which are cultivating the valuable resource cotton.

A step towards the future: from "cotton" to "textiles" made in Africa

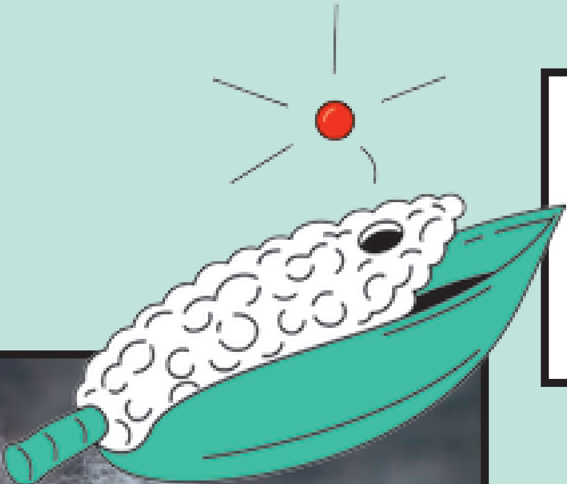


EDUCATION

Agricultural and business management trainings enable smallholder farmers to improve their working and living conditions through their own efforts. In addition, CmiA helps to develop an educational infrastructure especially in the rural regions of Africa. This is how both children and adults are given access to education. Another focus of CmiA is to help women to get on their feet financially. For example, female farmers are given the necessary support when negotiating contracts with cotton companies and applying for loans.

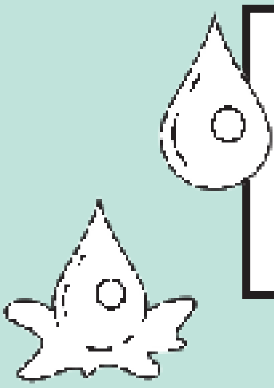
1 MILLION

cotton farmers benefit from the initiative "Cotton made in Africa"



CULTIVATION

Only farmers with cultivation areas of three hectares or less can join the CmiA initiative. That equals a maximum of four soccer fields – a significantly smaller area than the huge cotton monocultures in the US or Brazil. The small farmers use crop rotation, following cotton with maize or soya. This preserves the soil and reduces pest damage.



IRRIGATION

The small farmers rely on rain-fed agriculture, i.e. they do not use artificial irrigation for their fields. Water is becoming an increasingly valuable commodity – especially in Africa south of the Sahara. Through rain-fed agriculture, CmiA saves 2,100 litres of water per kilogramme of cotton or 500 litres per shirt.

PROTECTION AND HARVEST

Cotton is a very sensitive plant that is often damaged by pests. In order to protect the harvest as well as the environment and the small farmers' health, the use of pesticides is only allowed to a very limited extent. They harvest their cotton by hand, not with defoliants. This reduces the strain on nature.

WE CARE

Dörte Lehne
team leader re:Blog, the OTTO sustainability blog

What is the concept of re:Blog?
When we started the blog in 2014, we wanted to establish a platform that would make sustainability come to life and where people could come together to discuss and find out more about conscious consumerism. Now, multipliers such as bloggers, authors, and OTTO sustainability experts talk with interested customers about a wide range of topics, including consumption, lifestyle, and trends – always on equal terms. We have a broad target group. That means we want to communicate with people who don't know very much about the subject, as well as experts who may be very well-informed but actually end up finding out something new from us.

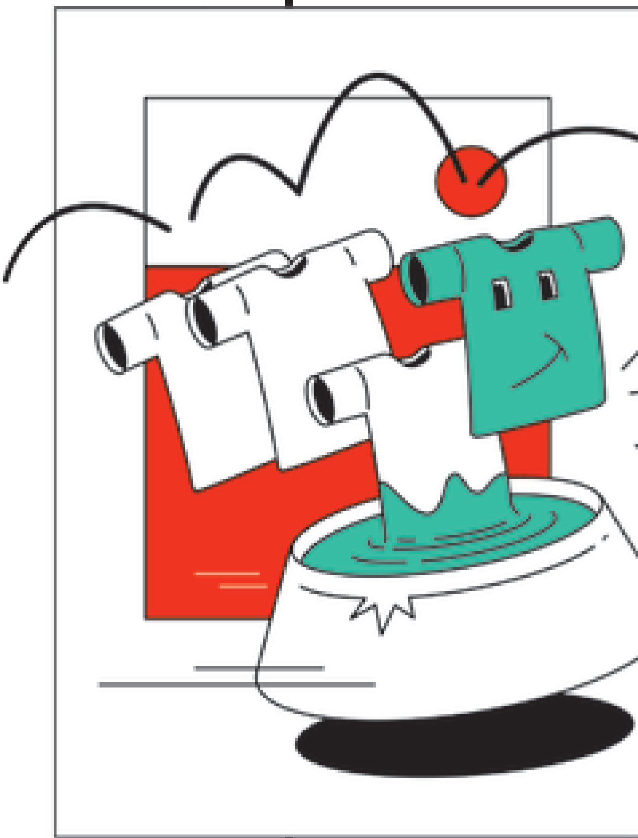
What does that actually look like in terms of the blog?
re:Blog takes on the role of a multiplier, acting as a bridge between experts and end consumers. The principal basis is the variety of sustainability issues at OTTO. Employees from a wide range of different departments talk about their everyday tasks and issues, providing deeper insight into the company's sustainability management. These subjects are fleshed out with stories from bloggers, authors, and the re:Blog editorial team, who are all experts in their chosen subject. The "everyday tips" category provides users with practical and viable tips to incorporate sustainability into everyday life. We're also active offline, e.g. in the re:Mind workshop we organise, inviting members of our network to our Group headquarters in Hamburg to discuss the same issues in real life.

What values are you conveying with re:Blog?
We don't want to tell anyone how to live their life. All we really want to do is show people how they can genuinely achieve something with the smallest change in behaviour. These values aren't necessarily anti-consumerism. It's more about showing how you can consume at OTTO in a sustainable and ethical way.

What are the future aims for re:Blog?
We intend to further expand the network and turn it into a point of reference for a conscious lifestyle. The blog is meant to be a focus for all those who are looking for inspiration and information about sustainable living in all its many facets. We want to continue to provide information on a wide variety of topics, from travel to food and from fashion to DIY – while also raising awareness of how you can start small with sustainability and build up gradually so that in the end, step by step, absolutely anyone can be doing their part to keep our planet healthy.

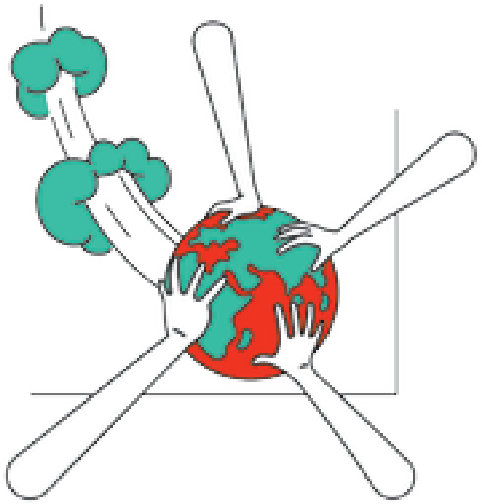
CLEAN DYE

Dyeing without water and chemicals has long been considered impossible. But that is exactly what will be happening as of this year in a new factory in Vietnam with the support of Bonprix as part of a joint venture. Using a new procedure called DyeCoo, textiles are coloured using liquid carbon dioxide (CO_2). The quality is similar to dyeing with water – but conserves far more resources, not least because it uses less energy. The products also do not need to be dried. After the process, up to 95 percent of the CO_2 is recycled. Dyeing could hardly be cleaner.



SETTING THE COURSE

The Paris Climate Agreement officially entered into force in November 2016. The aim of this so far unique agreement is to significantly reduce global warming. The Otto Group has been committed to environmental protection and eco-friendly business practices for years and has anchored these issues in its corporate strategy. Three current examples.



F20

Alleviating the impact of climate change is a daunting task that can only be tackled through the joint efforts of the business sector, politicians, and civil society. The F20 foundation platform wants to bundle these forces together. On the initiative of Prof Dr Michael Otto, over 40 foundations from Europe, the US, South America, Russia, and China have come together to form the platform, including the German Federal Environmental Foundation, the WWF, the Environmental Foundation Michael Otto (formerly Michael Otto Foundation for Environmental Protection) and Foundation 2° founded by Prof Dr Michael Otto in 2012, which promotes climate protection and consists of German entrepreneurs. F20 is focusing on a global energy revolution and sustainable financial support for developing countries. Above all, the platform considers itself to be duty-bound to remind the G20 states in particular about their own climate objectives and social development aims.

E-MOBILITY

Hermes and Mercedes-Benz Vans entered into a strategic partnership in early 2017. The car manufacturer and parcel-services provider are working together on electrifying the vehicle fleet. Initial pilot vehicles will be rolled out in Hamburg and Stuttgart in 2018. By 2020, 1,500 e-transporters are planned to be on the road delivering parcels in numerous German urban areas. The initiative is part of the Hermes strategy to make the city centres of major German cities 100 percent emission-free by 2025. In addition, it is also relevant for the aim of Otto Group's CR Strategy 2020 to cut CO_2 emissions in half by 2020 compared to 2006.

THE GREATEST CHANCE

A guest commentary by Nigel Salter, founder and CEO of the consulting agency Salterbaxter in London, that is specialising in sustainable strategies.

Just a decade ago, many people in business saw sustainability as a burden and a cost. The agenda was defined in some sectors by negative incidents that underlined that business was being irresponsible or unsustainable, rather than by positive achievements and benefits.

That has now changed. Sustainability is no longer about doing less harm. It is about finding ways to do more good for society in general and the communities we live in.

A combination of shifts also mean that sustainability is no longer the barely tolerated guest at the table, but a real and much needed opportunity for businesses to act responsibly with the resources available while finding new growth and customers.

A few examples support that the time to act is now – and has never been better:

- Consumers are increasingly concerned about how things are made, who by, with what and where – and there is increasing evidence that they are changing their buying patterns in line with these concerns. As the customer experience shifts more online, buying becomes more of an expression of personal values and 66 percent of global millennials are willing to spend more on brands that are sustainable.
- Social media is the perfect channel to start an open and transparent communication with customers to build trust and competitive advantage. However, companies must take it seriously as any indiscretion, mistake or secret will be exposed immediately.
- In 2015 almost the entire world signed up to the Paris Agreement to keep the world below 2 degrees of climate change – and the main force for delivering this commitment will be business.
- The UN Sustainable Development Goals have created a common framing (197 states signed up to them) of what the world's most pressing challenges are. They have been described by some economists as the biggest economic opportunity of our generation, with the potential to open up an estimated US$12 trillion in market opportunities (Business and Sustainable Development Commission).
- Recent research by the Bank of America showed that companies integrating sustainability were less likely to suffer large price declines, and showed significantly better three- to five-year returns on equity than their counterparts.
- It's not only consumers expecting more from the brands they are buying. Employees are now one of the main driving forces in raising the bar, wanting to work in organisations that have a clear positive contribution to society.

And even those who are still not convinced of the scale of the sustainability opportunity are finding it hard to ignore the scale of the risk side. The CEO of the largest fund manager in the world, Larry Fink of Blackrock, is one of the leading voices calling for sustainability to be central to the way business measures performance. His latest letter to all leading CEOs was stark: 'Society is demanding that all companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society.'

So what does this new environment mean for business? On the one hand, it provides the unique opportunity to innovate through the lens of sustainability.

Two examples happening right now are innovations in materials for the future and innovation for the circular economy:

- A report by the Ellen MacArthur Foundation, 'A New Textiles Economy' provides a vision for the apparel industry. It's one that is restorative and regenerative by design. Clothes, textiles, and fibres are kept at their highest value during use and re-enter the economy afterwards, avoiding the loss of $500 billion worth of underutilised materials each year.
- Materials innovation is moving fast – from recycled ocean plastic (G-Star denim) to mushroom-based leather (Stella McCartney). And underwear brand Wolford has created biodegradable, Cradle to Cradle certified hosiery and lingerie, that use cellulose-based fibres, biodegradable Infinito fibres, and stretch is created by an innovative alternative to elastane.

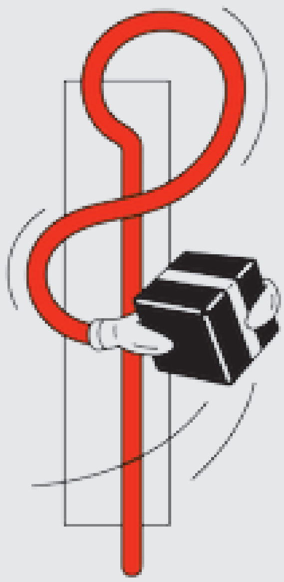
The other requirement for leading in this new landscape is the ability to see the big picture. The leaders, and those likely to gain the most rewards, have worked out that these challenges need the whole system to change, not just their own operations. And this also requires the creation of new partnerships, collaborations, and new ways of working both within and across sectors.

So sustainability really is no longer needing to apologise for being at the table. Quite the opposite: it is one of the biggest opportunities for unlocking growth, producing and selling better products, and – above all – doing good for society and our planet.

CHRONICLE

2017

MARCH



Deal with Liefery

Hermes already invested in Liefery, the same-day-delivery experts, in 2015; now Hermes has taken over the majority of the service and technology platform. This is how the company not only secures access to technical developments and innovative concepts for the "last mile", but also an excellent position in the booming market for same-day and next-day delivery.

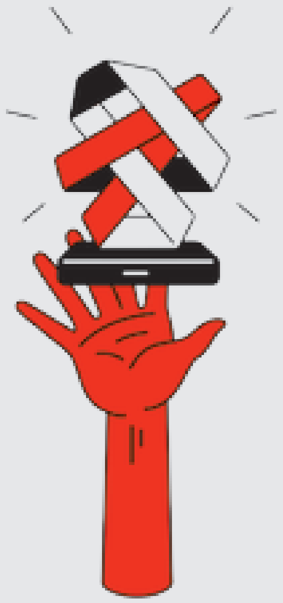
Awarded

Shopping24 and into-e GmbH, both companies of the Otto Group Digital Solutions, receive the EHI Science Award for the best cooperation between practice and science in Germany.

APRIL

Raising Awareness

Bonprix presents its "Pink Collection". Created jointly with Brustkrebs Deutschland e. V., the collection consists of bras with sewn-in breast check-up instructions that are deliberately intended to make you uncomfortable when you put the bra on, thus drawing attention to the aspect of early detection. The campaign wins the European Excellence Award in the "Fashion & Beauty" category in November.



Sustainability prize for Prof Dr Otto

Prof Dr Michael Otto, Chairman of the Otto Group Supervisory Board, receives the highly renowned "German CSR Award for Outstanding CSR Engagement" at the 13th German CSR Forum.

MAY

Electric instead of emissions

Hermes Germany aims for 100 percent emission-free deliveries in all major German city centres by 2025. The logistics expert is testing package delivery by electric tricycle in Göttingen. The so-called TRIPL vehicles are used particularly in inner city areas that are inaccessible to traditional trucks. Together with Mercedes-Benz Vans, Hermes is also planning to implement the use of electric transporters. The first battery-powered vans are planned to hit the roads in early 2018; 1,500 are planned to be in use throughout Germany by 2020.

JUNE

Otto Group issues bond

The Otto Group successfully places a bond issue totalling EUR 300 million with a coupon of 1.875 %. The bond has a term of seven years.

CmiA by Manufactum

Manufactum includes cotton clothing with the "Cotton made in Africa" label in its range, supporting the resource-saving cultivation of cotton as well as the improvement of working and living conditions for small farmers and factory workers in Africa.

JULY

Shopping King

Guido Maria Kretschmer presents his "Luz de la Luna" collection, along with his Living collection exclusive to OTTO, at Berlin Fashion Week. The event livestream reaches over one million viewers.

Expansion

With the launch of its own web shop in Norway, Bonprix now has a presence in 30 countries. The company is the most international brand within the Otto Group as well as one of the highest earners.

AUGUST

Logistik XXL

Hermes opens its largest European logistics centre in Rugby (UK). The 140,000 m²-sized Midlands super hub will process record volumes of up to 1.5 million packages a day. Around EUR 34 million was invested in the new construction.

On a sustainable path

As a member of the German Partnership for Sustainable Textiles initiated by the German Federal Government, the Otto Group publishes its own action plan on a voluntary basis, urging all members to ensure the effectiveness and future viability of the Partnership together.

New boss

Neela Montgomery, former Otto Group Executive Board Member for Multichannel Retail, becomes CEO of the US Group company Crate and Barrel. Her designated successor for Multichannel Retail is Sven Seidel, who joins the Otto Group in April 2018.

SEPTEMBER

New Partner

Seven Ventures, the financial investor for the ProSiebenSat.1 Group, uses a media-for-equity investment to buy into the Mytoys Group which is part of the Otto Group and the number 1 online retailer for family shopping in Europe.

Sustainable strategy

With its new corporate responsibility strategy, Bonprix focuses on technological innovation, transparent processes, and collaborative methods. The increased use of sustainable materials is intended to make the manufacturing of Bonprix products even more sustainable and future-oriented.

OCTOBER

Really close friends

As one of the first third-party providers, OTTO is compatible with "Google Assistant" in Germany. Customers can use the smart assistant to ask questions about their favourite products, the deal of the day or the "OTTO Shopping Festival".

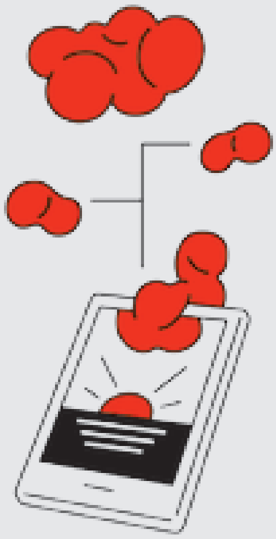
Working wherever I want

A new culture needs new methods. The new works agreement on mobile working regulates all the activities agreed upon in employment contracts for Otto (GmbH & Co KG) employees, that are carried out both online and offline outside the office. It promotes work-life balance and meets the demand for more flexibility.

NOVEMBER

Bye bye, plastic

In order to reduce the use of plastic bags and raise customers' awareness for environmental protection, Witt Weiden stops offering plastic bags and instead only provides bags made from FSC®-certified paper or fashionable cloth bags made from organic cotton.



Off to the cloud

Otto Group company About You now offers its own e-commerce infrastructure as a licensed product with the About You Cloud, thus opening up a further business sector: e-commerce technology as a service.

DECEMBER

Check, please!

On behalf of the financial services provider Eos, the social research institute Forsa carries out a representative online survey in Germany, the US, and Russia. The "Eos Debt Survey" shows how people deal with debt differently depending on the country they live in. The result: 55 percent of Russians are "debt avoiders", ahead of Germans (45 percent) and Americans (37 percent).

Communication is everything

A ranking of the 100 online shops with the highest revenues in Germany shows: OTTO and Quelle are the best at providing their customers with information about the environmental and social sustainability of their product ranges; Bonprix is ranked 4th.

Change in Executive Board

Hanjo Schneider leaves the Otto Group Executive Board at the end of the year at his own request. His position as Member of the Executive Board, Services is taken over by Kay Schiebur as of 1 April 2018.

2018

JANUARY

Mobile News

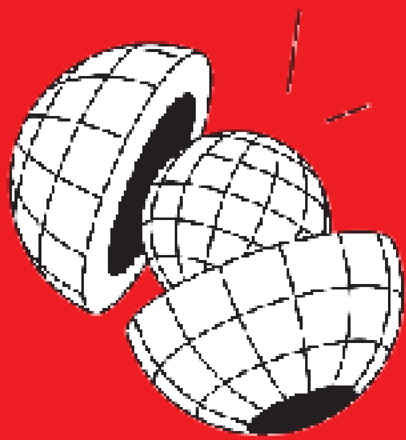
The Otto Group news app, og2go, is rolled out Group-wide. Employees can connect across company boundaries on their smartphones and subscribe to news from other companies.

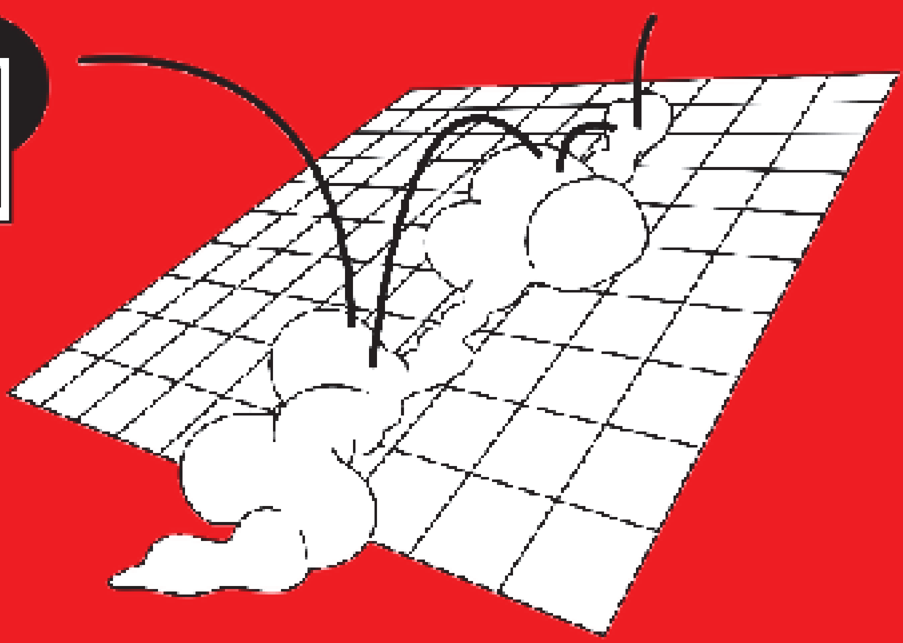
FEBRUARY

Start-up feeling

With a budget of EUR 85 million for start-ups, the Otto Group has added Otto Group Digital Solutions (OGDS) to its corporate company building in order to play an active part in shaping the digital future of the Otto Group. The internal company factory is intended to turn out two to three new business models each year focusing on logistics, e-commerce, and fintech.

SUSTAINABILITY AT THE OTTO GROUP





HOW THE OTTO GROUP LIVES SUSTAINABILITY

For over 30 years, the Otto Group has combined economic goals with responsibility for humans and nature. This fundamental principle is deeply rooted in its corporate culture together with a strong set of values. In a world characterized by great challenges and rapid change, these values assist the Group in staying on target, operating successfully and preserving its sustainability.

SUSTAINABLE DEVELOPMENT AS THE MODEL

The belief of former CEO and current Chairman of the Supervisory Board Prof Dr Michael Otto to conduct business in a way that protects the quality of life for current and future generations guides the Otto Group in its day-to-day actions. As an internationally engaged retailer and service provider, the Otto Group strives to achieve sustainable development in all areas of the company. Its business strategy combines economic success with the attainment of ecological and social objectives. It seeks to minimize negative impacts of its business activities while achieving added value for the society. This strategy is driven by the Group's desire to support social responsibility, environmental protection and fair cooperation to the best of its ability. This is achieved through the sustainability management process "impACT", which forms the foundation of its responsibility-minded actions. Results and findings of this process feed into the CR Strategy 2020 (CR = corporate responsibility), which forms an integral part of the Group's strategy.

PROF DR MICHAEL OTTO DECLARED ENVIRONMENTAL PROTECTION AS A CORPORATE GOAL IN 1986.

impACT AS THE BASIS OF ACTION

The impACT management process fully determines the impact of the Corporate Group's business activities, and targeted actions (act) are derived from it. Crucial factor: Effectiveness of the measures. The process consists of three steps. Once material issues are analysed and priorities set, measures are developed and assessed. In the end, those measures that indicate the most optimal relationship between cost and benefit are implemented. This process follows a holistic approach, helping to use financial and human resources where they are most effective and have the greatest impact on sustainability. The clear focus on effectiveness and efficiency, combined with business opportunities and risks, allows the Otto Group to embed sustainability at the core of its business processes. With developing the future CR Strategy 2025, the materiality analysis and assessment of measures of the impACT management process are further developed.

BEARING IN MIND THE VALUE CHAIN

The CR Strategy 2020 encompasses the entire value chain. For the Otto Group as a retailer and service provider, it is especially complex, tied to numerous procedural steps and multiple challenges (see graphic page 58). The greatest ecological and social impact is felt in the preliminary stages of widely branching supply chains. In addition, the issue of data security and how to safeguard it in platform business is becoming increasingly important in the Customer value-adding stage. The impACT management process makes it possible to determine and quantify the effects of external costs and risk-working hours along the entire value chain.

DEALING WITH GROWING DEMANDS

Technological changes, political and regulatory developments as well as market trends affect sustainability management and business activities. At an early stage, the Otto Group identifies how conditions are changing and adjusts its strategy accordingly.

CONSEQUENCES OF DIGITALIZATION

The digital transformation has a significant effect on the Otto Group's business activities and resulting business models. It changes consumers' behavior and their means of interaction, exemplified by voice-accessed virtual assistants or augmented reality apps that can create virtual homes, for example. Equipped with smartphones and wearables and driven by innovative technology groups, customers make new demands on both brick-and-mortar and online trade.

By connecting to and processing huge datasets – extending from the demand side to the availability of supply – it becomes possible to analyse and service customer needs in a targeted approach. Linking multiple data sources also offers new perspectives in sustainability management: Utilization of new tracking and tracing methods such as blockchain technologies will allow for an improved traceability of products along the entire value chain, achieving transparency for further improvement measures in upstream production steps.

Besides creating opportunities, this growing digitalization also offers major challenges such as protection against the misuse of data, dynamic online pricing of products, or devices such as digital virtual assistants that are tied exclusively to a single online merchant. Also in the digital world, the Otto Group strives to meet its high requirements to act responsibly. Against this backdrop, the Group is systematically addressing the issue of corporate digital responsibility.

POLITICAL AND REGULATORY DEVELOPMENTS

Political initiatives and regulatory requirements have a direct impact on business activity, as do the voluntary commitments of individual industries. The Otto Group systematically monitors emerging changes in framework conditions – such as a possible pricing of CO_2 emissions, regulatory steps that target greater energy efficiency in the building sector or alternative drive systems in road transport. With proactive and ambitious environmental and social activities, the Otto Group is well-positioned and prepared to be able to react quickly to future regulations.

Differentiation of business models

To reposition itself to succeed in swiftly changing markets, the Group is focused on differentiating existing business models and developing new ones. On one hand, acting as an incubator, the corporation is awarding initial capital to startups through its companies Eventures, Project A and Liquid Labs. On the other hand, existing business models like the OTTO online retailer are being enhanced to become platforms open to third-party providers. These combined efforts influence changes in the value chain: Such business models do not involve directly influencing the value-adding stages Raw Materials and Processing or Final Production. For the Otto Group's sustainability activities, business relationships with platform partners and collaboration with customers are moving more into the spotlight.

NATIONAL ACTION PLAN ON BUSINESS AND HUMAN RIGHTS

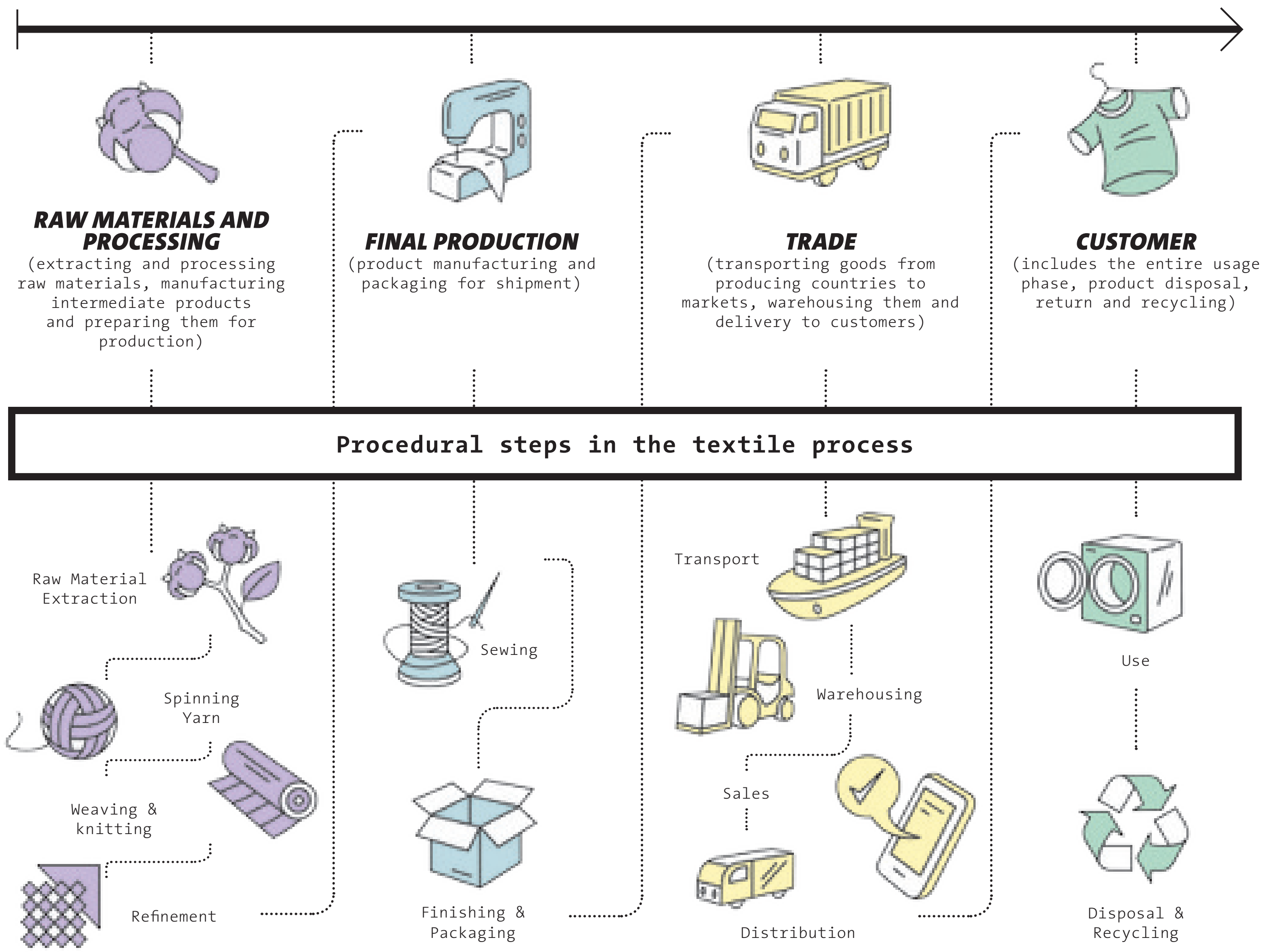
At the end of 2016, the German Federal Government voted to implement the Guiding Principles of the United Nations National Action Plan (NAP) on Business and Human Rights. The implementation extends over a four-year period and envisions that one half of German companies with 500 employers or more will meet their corporate due diligence responsibilities by 2020. In accordance with applicable laws, conventions and provisions, the Otto Group commits itself to adhere to human rights around the world and to take appropriate corrective measures where these are violated.

SUSTAINABLE DEVELOPMENT GOALS

The Otto Group is committed to the global Sustainable Development Goals (SDGs) of the United Nations and supports these without restriction. With the CR Strategy 2020 and other sustainability programs and the commitment to initiatives and alliances, the Group is already contributing to the achievement of numerous SDGs as exemplified by its involvement in the “Cotton made in Africa” (CmiA) initiative. CmiA promotes actions to combat poverty and protect the environment, advocates for women’s rights in Africa and invests in formal education.

The goal of the Otto Group is the systematic involvement of SDGs into the sustainability management process currently taking place. Especially for the CR Strategy 2025 the SDGs will play an important role for measuring positive effects within the impACT process.

FOUR VALUE STAGES



FOCUSING ON WHAT IS MATERIAL

In the context of sustainability management, the Otto Group determines and assesses its impact along the value chain – and develops targeted measures. The results of the impACT process serve as the basis of decisions that efficiently and effectively orient business processes in the direction of sustainability.

The impACT management process developed by the Otto Group employs the triad: analyse, assess, act. In its materiality analysis, the impact of the business activity on humans and nature is determined and the material topic areas are identified. In the second step, this priority setting serves to develop the objectives and measures and assess these according to their cost and benefit. In this way, the Otto Group can allocate financial and human resources precisely where they will have the greatest impact – and can act sustainably.

impACT STEP 1: ANALYSE

In its materiality analysis, the Otto Group combines the quantitative valuation of the ecological and social impacts of its business activities with the assessment of these challenges from the point of view of stakeholders, integrating these in the materiality matrix (page 62).

Impact categories and topic areas

Ecological and social impacts across the four value-adding stages are initially determined. Ecological impact is segmented into the impact categories of greenhouse gases, pollutants, water usage and land use. Social impact is illustrated using the fifth impact category social risks. The Otto Group refers to the effects in the respective impact category/value-adding stage intersections as topic areas. Nineteen topic areas are examined using quantitative analysis (for ex., greenhouse gases within the Raw Materials and Processing value-adding stage).

Quantitative assessment of external costs and risks

In its calculation of ecological impact, the Otto Group combines its procurement and distribution statistics with figures from external databases regarding effects on ecosystems and human health. This results in quantitative values that are converted into “caused” external costs. Social effects are measured using risk-working hours. This quantification enables the Otto Group to form a realistic picture of its ecological and social footprint (see graphic on page 62, y-axis).

Qualitative assessment by stakeholders

As a complement to this, the 19 topic areas plus the three additional topics of animal welfare, recycling and resource efficiency are evaluated by the stakeholders (see graphic on page 62, x-axis) so that by now there are 22 topic areas. The qualitative assessment consists of four surveys. To understand the expectations of external stakeholders, a group of experts representing science, politics, non-governmental organisations and research regularly conducts an online survey. Internal stakeholders evaluate the topic areas from three perspectives: reputation-related opportunities and risks, regulation risks and business activity. In this way, the weighted findings from internal and external stakeholders are incorporated into the assessment. Their validity ranges from two to five years.

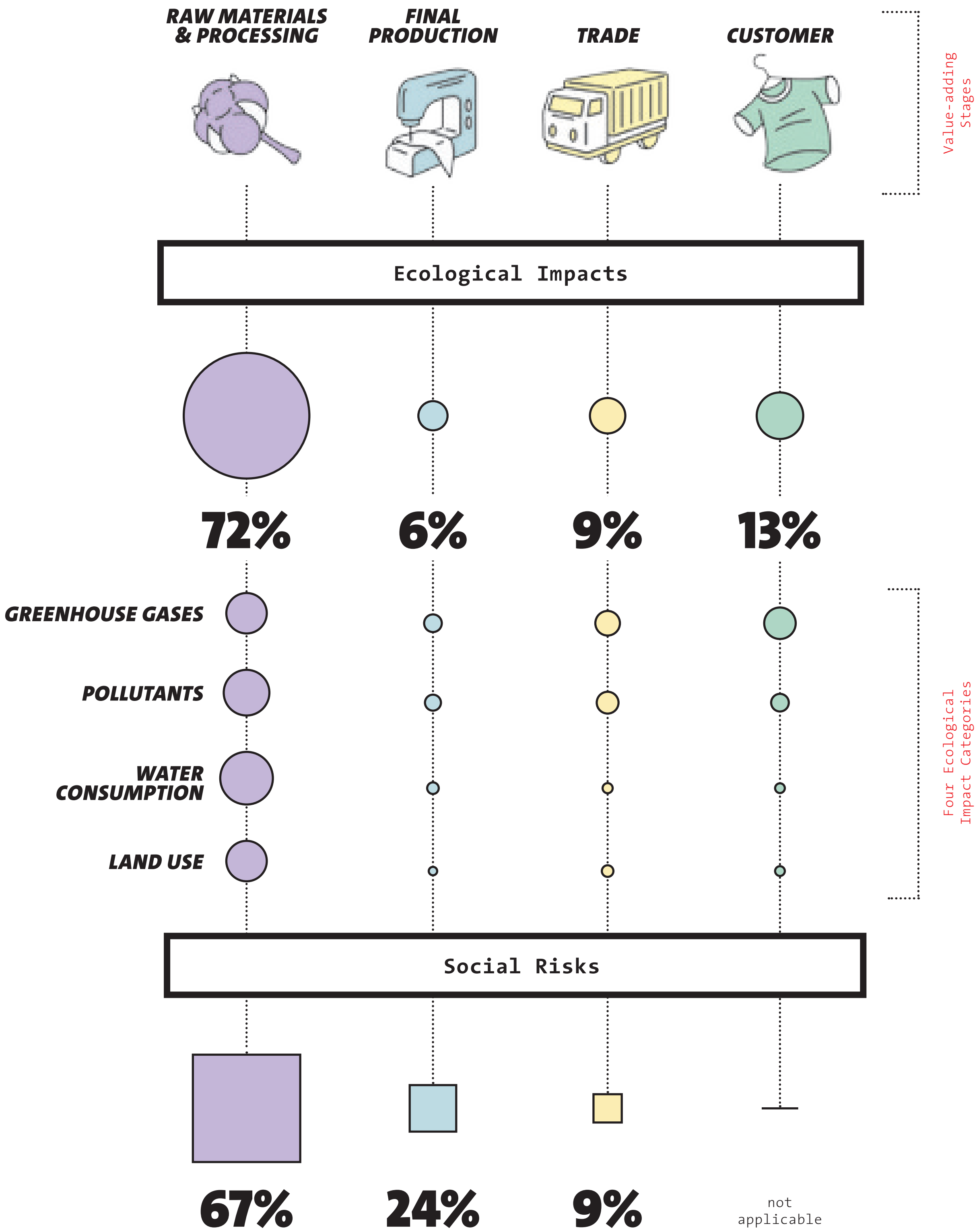
Materiality matrix

The matrix (see graphic page 62) indicates which topics are especially relevant for the Otto Group due to their high external effects and/or their significance as assessed by the various stakeholder groups.

impACT STEP 2: ASSESS

The materiality analysis provides a content-rich foundation for decision-making and indicates the priorities for action. With this well-founded knowledge, the Otto Group is developing potential measures to be able to go into action at precisely the most important and beneficial point in the value chain. To achieve maximum effect, various possible measures are comprehensively assessed with regard to their cost and benefit. The assessment of these measures consists of three components: An initial determination will be made

IMPACT OF BUSINESS ACTIVITIES



of the extent to which each measure can reduce environmental and social impacts and achieve positive effects. Further, the benefit resulting for the Otto Group, such as whether it meets stakeholder expectations, reduces risks to reputation or expands market opportunities, is incorporated. This is compared to estimated expenses such as investment or personnel costs.

In the context of CR Strategy 2025, the second step of the impACT management process is further developed. For example, the SDGs are included to assess the measures' positive effects on environment and society.

impACT STEP 3: ACT

The measures displaying the most favorable cost-benefit ratio will be discussed and adopted by the CR decision-making bodies. Implementing specific approved measures and monitoring the achievement of targets takes place under the umbrella of the CR Strategy. That way the Otto Group integrates the findings from the previous steps of the impACT management process into its strategic action plan. The centrally monitored measures that are of group-wide relevance will be supplemented by specific activities by individual Group companies.

IN 2017 ALL FIVE KPI OF THE CR STRATEGY 2020 HAVE DEVELOPED POSITIVELY.

For more information see graphic page 64

impACT FACT BASED CR MANAGEMENT

The three steps of the impACT process

1

ANALYZE:
CARRY OUT A MATERIALITY ANALYSIS
see graphic page 62

2

ASSESS:
DEVELOP MEASURES AND PERFORM COST-BENEFIT EVALUATION
see page 59

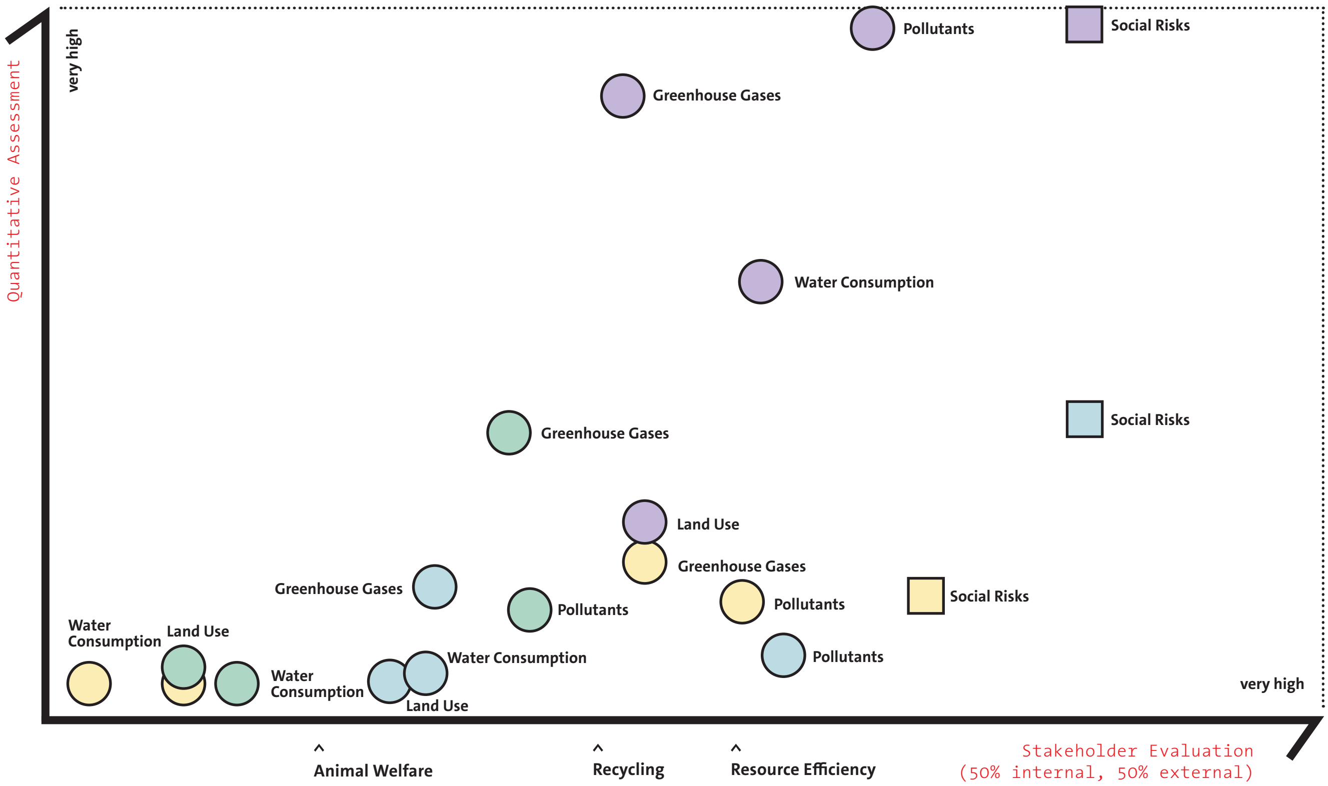
3

ACT:
IMPLEMENT MEASURES UNDER THE UMBRELLA OF THE CR STRATEGY
see graphic page 64

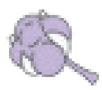
MATERIALITY MATRIX 2017

Relevance of the topic areas to the Otto Group

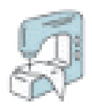
When considering the whole value chain the biggest social and ecological challenges lay within the extraction of resources and their processing. Also the final production is exposed to high social risks. For the derivation of the materiality matrix see section "impACT step 1: Analyse" on page 59.



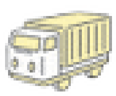
VALUE-ADDING STAGES



Raw Materials & Processing



Final Production



Trade

Customer

IMPACT CATEGORIES

Greenhouse Gases
Pollutants
Water Consumption
Land Use

Social Risks

ADDITIONAL TOPIC AREAS

Since 2016 stakeholders have evaluated other topic areas which cannot yet be quantified. In the most recent survey, the stakeholders also estimated the qualitative relevance for these topics.

Animal Welfare
Recycling
Resource Efficiency

CR Strategy 2025 is under preparation

In 2017 external frameworks including the Global Reporting Initiative, German Sustainability Code and Law on Implementing the CSR Guidelines were analyzed. In this light and as a result of the Otto Group's diversification of its business portfolio (see p. 57), the 22 CR topic areas were expanded to include three additional topics: corporate digital responsibility, impact investment and sustainability awareness. Additionally, an internal stakeholder evaluation was performed. The expanded findings are incorporated into the elaboration of CR Strategy 2025.

SUSTAINABLE ACTIONS INTEGRATED STRATEGICALLY

The impACT management process provides for the implementation of ecological and social criteria in all Otto Group business models and processes. The CR Strategy 2020 is derived from the findings and is an element of the Group's strategy. Its achievement of targets directly relates to the variable remuneration of the Group Executive Board. This is how sustainability is firmly embedded in the corporate group.

CR STRATEGY 2020 AND OUTLOOK

The CR Strategy 2020, approved in 2012, covers five sub-strategies. Its objectives include careful extraction and processing of raw materials (Textile, Furniture and Paper Strategy), factory conformity with societal standards in Final Production (Social Programme) and reduction of the carbon footprint at its own sites in both procurement and distribution transport (Climate Strategy). In the context of the CR Strategy 2020, strategic targets were modified for paper (55% FSC®-certified catalogue paper by 2019, 60% by 2020) and furniture (100% FSC®-certified furniture by 2025) strategy. Apart from this, CR Strategy 2025 targets will be derived from the continued development of the impACT management process (beginning on page 59).

GROUP COMPANY INVOLVEMENT

CR Strategy 2020 is being carried out by all major Group companies headquartered in Germany and Austria (annual external revenue of more than EUR 100 million). These companies account for 57% of corporate revenues and are responsible for approximately 80% of Otto Group's ecological impact. While Frankonia has not met the requirements of the textile strategy since 2017 and has thus been excluded from it, preparations are currently underway for the integration of new Group companies.

In addition, the principle foreign enterprises of Bonprix (IT, USA, PL, FR) as well as Freemans Grattan Holdings (GBR) and Crate and Barrel (USA and Canada) – have been integrated into CR Strategy 2020 since 2016. Due to their later integration, the individual Group companies are following separate trajectories.

RESPONSIBILITIES AND STRUCTURES

To enable the Otto Group to provide holistic management of sustainability, the responsible individuals from various positions and Group companies have been networked with one another. Under the direction of the CEO, Alexander Birken, the CR Board is the decision-making body of greatest importance. The annual variable remuneration of the Group Executive Board is tied to attainment of the five CR Strategy 2020 goals among other things. Since 2014 the Sustainable Supply Chain Management Board (SSCM Board), consisting of managers and directors of the Group companies generating the highest revenue, has been an important body.

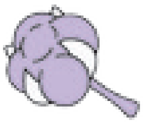
Within the Otto Group, the Corporate Responsibility division monitors sustainability actions across the Group, develops objectives and concepts and advises Group companies. Due to the Otto Group's decentralized organisation structure, the managers of the individual Group companies hold responsibility for implementing the five sub-strategies of the CR Strategy 2020. They receive support from CR coordinators who are in constant contact with the Group's CR division.

A restructuring of sustainability coordination will take effect in financial year 2018/2019: The CR Board and SSCM Board will be merged into a cross-hierarchical decision-making body. Decision-making responsibility will be increasingly transferred to the operational level.

COMMUNICATION WITH STAKEHOLDERS

For many years the Otto Group has engaged in dialogue with other sociopolitical players, and it is actively involved in policy debates on improvement of the environment and the working world. The Group provides transparency and invites

CR STRATEGY 2020



TEXTILE STRATEGY

Target until 2020
100% SUSTAINABLE COTTON FOR OWN AND LICENSED BRANDS

2016 target achievement **49%**

2017 target achievement **78%**

FURNITURE STRATEGY

Target until 2025*
100% FSC®-CERTIFIED FURNITURE

2016 target achievement **46%**

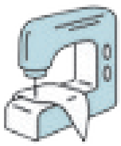
2017 target achievement **52%**

PAPER STRATEGY

Target until 2020
60% FSC®-CERTIFIED CATALOGUE PAPER

2016 target achievement **34%**

2017 target achievement **43%**

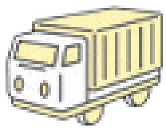


SOCIAL PROGRAMME**

Target until 2020
100% INTEGRATED SUPPLIERS FOR OWN AND LICENSED BRANDS

2016 target achievement **80%**

2017 target achievement **91%**



CLIMATE STRATEGY

Target until 2020
-50% REDUCTION IN CO_2 EMISSIONS (compared to 2006)

2016 target achievement **-36%**

2017 target achievement **-42%**

DECENTRALISED MEASURES BY GROUP COMPANIES

Those included in the CR Strategy 2020 since the beginning are Baumarkt Direkt, Baur, Bonprix, EOS, Frankonia, Heine, Hermes, Mytoys, OTTO, Schwab/Sheego, Sportscheck, Unito and Witt-Gruppe. Information regarding criteria for inclusion of Group companies in the sub-strategies is displayed on page 61 of the 2016/17 Annual Report. The five KPIs of the CR Strategy 2020 were audited by the independent accounting firm Pricewaterhouse Coopers (PwC) in accordance with International Standard on Assurance Engagements (ISAE) 3000.

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

** Frankonia, Mytoys and Unito are incorporated into the Social Programme, but their statistics on target attainment remain separately recorded and are not integrated into the Otto Group's target achievement figures.

critical feedback to clarify expectations and demands and facilitate a steady transfer of knowledge. Besides involvement by the impACT management process via online surveys and workshops, communication occurs through discussions in the context of events and segment initiatives.

Selected memberships and alliances

> Accord on Fire and Building Safety in Bangladesh
(since 2013)
> amfori, formerly Foreign Trade Association = FTA
(since 1985)
> amfori BSCI, Business Social Compliance Initiative
(founding member since 2004)
> Sustainable Textile Alliance
(since 2015)
> German Environmentally Sensititive Management Working Group (Bundesdeutscher Arbeitskreis für Umweltbewusstes Management - B.A.U.M.)
(since 1987)
> Carbon Performance Improvement Initiative, CPI_2
(founding member since 2012)
> Fur Free Retailer, a program of the Four Paws organisation
(since 2014)
> Forest Stewardship Council Deutschland, FSC®
(since 2006)
> German Retail Association (Handelsverband Deutschland = HDE)
(member since 2009)
> Biodiversity in Good Company Initiative
(founding member since 2008)
> Cotton made in Africa (CmiA) Initiative
(founding member since 2005)
> Stiftung 2° – German Companies for Climate Protection
(initiation and participation by Prof Dr Michael Otto since 2007)
> Textile Exchange (member since 2006)
> United Nations Global Compact, UNGC (since 2002)

In exchange with stakeholders – three examples

Environmental Foundation Michael Otto

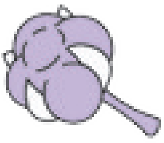
For almost 25 years the Environmental Foundation Michael Otto has paved the way for future-oriented solutions in the areas of environmental protection and nature conservation. Among others, it promotes the project F.R.A.N.Z. (the German acronym 'Für Ressourcen, Agrarwirtschaft & Naturschutz mit Zukunft' – in English, Promoting Resources, Farming and Nature Conservation with a Future) for greater biodiversity in farming. In addition, the Foundation was a key co-founder of the platform Foundations 20, an association of over 30 international foundations devoted to greater climate protection and a global energy revolution.

FSC® Vancouver Declaration

In October 2017 the Otto Group signed the Forest Stewardship Council's® Vancouver Declaration, which seeks to expand wood certification around the world. Among other links, the declaration is tied to the UN's global Sustainable Development Goals (SDGs). Its signatories commit themselves to responsible forest management and a thoughtful handling of natural resources.

Partnership between CPI_2 and SAC

In 2017 the Otto Group's sector-wide initiative CPI_2 formed a partnership with the Sustainable Apparel Coalition (SAC), the most significant international platform for sustainable textile supply chain management. The common goal is to achieve synergies and reduce negative social and ecological impact on the global supply chain. The partnership has succeeded in expanding the use of the CPI_2 tool for manufacturers and companies in the textile and footwear segments.



RAW MATERIALS AND PROCESSING

The Otto Group also keeps its eye on the initial value-adding stage, and depending on its potential influence, implements targeted measures where they can have greatest effect. With three sub-strategies of the CR Strategy 2020, the company contributes to sustainable extraction and processing of resources.

Approximately 70 percent of the total ecological impact and social risks of the Otto Group's business activities occur in the first value-adding stage. The stakeholder evaluation also indicate that the greatest relevance is seen in social risks and pollution. In the examples of wood or cotton, chemicals that can be harmful to humans and the environment are introduced in the cultivation state and also used in the subsequent processing of textiles. The Otto Group is working intensively to extract raw materials in a manner that protects the environment and to promote improved management of chemicals in manufacturing operations along the supply chain.

MANAGEMENT OF CHEMICALS

During the reporting period, the Otto Group developed a holistic approach to handling chemicals that are primarily managed by manufacturers employing wet processing technology in textile production. As a retailer, the corporation has limited options to influence the preliminary stages in the absence of direct contractual relationships. This leads to a focus on a partnership approach in imparting important knowledge and skills for using and managing chemicals. The Otto Group therefore primarily relies on the power of the many, seeking along with others (such as the Partnership for Sustainable Textiles) to promote on-site improvements through a comprehensive training program on chemicals management or the use of CPI$_2$ tools, to cite two examples. The online tool provides an action-oriented approach to improving use of energy, water and chemicals in factories.

STATUS TEXTILE STRATEGY

With its Textile Strategy, the Otto Group is pursuing the goal of exclusively using sustainably grown cotton in its own and licensed brands by 2020. In 2017 the use of sustainable cotton rose to 78% (2016: 49%). This positive development above all is due to the established process of procuring cotton from the "Cotton made in Africa" (CmiA) initiative and the resulting increased use of this cotton by Bonprix, OTTO and the Witt-Group. Beginning in 2018, the proportion of recycled cotton will be included in the textile strategy KPI. In this way, the Otto Group expects a further increase in the proportion of sustainable cotton by pursuing the utilization of recycled cotton and further expanding CmiA procurement quantities for 2018.

IN 2017 THE OTTO GROUP PURCHASED NEARLY 28,000 TONNES OF SUSTAINABLE COTTON.

STATUS FURNITURE STRATEGY

The goal is the complete switch of own and licensed brands and strategically relevant third-party brands to articles coming from responsible forest management that have been certified under the standards of the Forest Stewardship Council® (FSC®). Due to the short supply of FSC®-certified wood-based materials (especially particle board) in Germany, the target year was pushed back from 2020 to 2025. In addition, the 10% proportion of FSC®-certified forest lands in Germany is relatively small. The Otto Group has therefore expanded its contact to FSC®, collaborating at various levels of the organisation. For example, the Otto Group has joined representatives of FSC® and other furniture traders in a working group that promotes increased supply of and demand for FSC®-certified wood-based materials in

Germany. In 2017 the proportion of FSC®-certified wood used by the Otto Group was 52% (2016: 46%). The slight increase resulted from the expanded offering of FSC®-certified furniture products by Heine and OTTO.

IN 2017 THE OTTO GROUP REDUCED ITS PAPER CONSUMPTION FOR CATALOGUES AND ADVERTISING MATERIAL BY APPROXIMATELY 10%.

STATUS PAPER STRATEGY

With its Paper Strategy, the Otto Group intends to expand the use of FSC®-certified paper for gravure and offset printing of its catalogues and promotional materials. In the reporting period, the increased target figure was reviewed and approved: By 2019 the proportion of FSC®-certified paper is targeted to reach 55%, by 2020 60% (previously 50%). In 2017 the FSC® proportion amounted to 43% (2016: 34%). The significant increase is attributed to the long-term agreements worked out with suppliers by the OTTO Group company, which accounts for the bulk of catalogue paper procurement within the Otto Group.

Cotton made in Africa

Cotton made in Africa (CmiA) is an initiative of the Aid by Trade Foundation, founded in 2005 by Prof Dr Michael Otto. Its goal: By building an alliance of textile companies that choose CmiA-certified cotton for their manufacturing, it supports self-help for African cotton farmers while protecting the environment. CmiA provides instruction for small farmers, training them in sustainable and efficient cotton production; it stands up for children's rights, promotes improved working conditions for small farmers and those who work in the cotton-processing industry in Africa, and supports female small farmers in their quest for greater independence. It rejects genetically altered seeds, pesticides labelled as dangerous by international conventions, and the deforestation of primary forest lands. In comparison to conventional cotton, CmiA-certified cotton produces up to 40% lower greenhouse gas emissions and saves around 2,100 litres of water per kilo by global comparison through the elimination of artificial irrigation. In Tanzania and Zambia, on-site cooperation with local cotton enterprises made it possible to develop accessible and inexpensive options for effective organic crop protection. In 2017 over one million small farmers in nine African countries benefited from the initiative. They produced over 496,000 tonnes of sustainable cotton. From that quantity, the Otto Group received an amount equivalent to 27,156 tonnes.

Example from practice

BONPRIX: SUSTAINABLE RAW MATERIALS

In its product portfolio, Bonprix emphasizes FSC®-certified wood, CmiA and organic cotton, recycled cotton, recycled polyester and TENCEL®. CmiA cotton accounts for the largest share, currently meeting almost 80% of the total cotton need. Besides its increased utilization of sustainable materials, Bonprix also promotes transparent operations, collaborative approaches and technological innovations – with a focus on the manufacturing process area.

Example from practice

BONPRIX: CleanDye

In the context of the "CleanDye" joint venture founded in 2017, Bonprix is collaborating in the development of a factory in Vietnam. The plant will employ a revolutionary method to dye products with CO_2 instead of water. The carbon dioxide will be 95% recycled, the methodology yields a water saving of around 25 litres per T-shirt, and the project uses no process chemicals. The first CleanDye products will reach the market by the end of 2018.

Forest Stewardship Council®

The Forest Stewardship Council (FSC®) seeks to preserve woodlands. It acts to achieve this by protecting forests and promoting responsible forest management. The FSC® defines uniform basic principles throughout the world. For example, long-term ownership claims and usage rights regarding land and forest resources must be resolved. To be respected as well are the legal and traditional rights of indigenous groups concerning ownership, usage and cultivation of land, territories and resources. Stringent criteria governing cultivation will prevent deforestation, human rights violations and excessive environmental degradation. Meanwhile, forest capacity remains unaffected. Through certification of the timber processing and trade chain from the forest to the retail market, more transparency for the consumer is assured.

Sustainable cotton *
(in tonnes)

	2014	2015	2016	2017
Entire quantity of cotton	35,599	35,941	33,664	35,943
Organic cotton quantity	478	504	639	750
CmiA cotton quantity	3,405	9,225	15,913	27,156
Sustainable cotton proportion	**11%**	**27%**	**49%**	**78%**

* Based on raw cotton procurement quantity.

FSC®-certified furniture **
(articles)

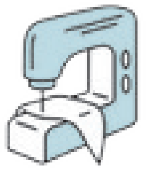
	2014	2015	2016	2017
Total furniture articles	56,350	49,694	58,527	62,270
Of those, number of FSC®-certified articles in product portfolio	18,688	21,281	26,829	32,229
Proportion of FSC®-certified articles in full product portfolio	**33%**	**43%**	**46%**	**52%**

** Since 2015 without OTTO Office.

Paper consumption for catalogues and promotional materials ***
(in tonnes)

	2014	2015	2016	2017
Entire quantity	264,189	239,560	221,497	200,559
FSC® paper quantity	51,172	67,833	75,047	85,821
Proportion of FSC® paper	**19%**	**28%**	**34%**	**43%**

*** Since 2015 without OTTO Office.



FINAL PRODUCTION

In the Final Production value-adding stage, products are finished and packaged for transport. The focus is on production facility working conditions in risk countries, where the Otto Group directs its attention to its Social Programme and forming collaborations.

Through its Group companies, the Otto Group offers a wide range of articles and works with a variety of direct and indirect suppliers. In addition, approximately half the traded goods are foreign brands – responsibility for monitoring and complying with human rights in such cases falls to the brand manufacturers: In these collaborative arrangements, manufacturers are required to comply with the Otto Group Code of Conduct (CoC). Own and licensed brands work through their own procurement agencies or importers. Due to complex procurement structures, the Otto Group frequently has only minimal influence on conditions of production, electing for this reason to collaborate closely with suppliers.
The Social Programme, under continuous development, aims to ensure acceptable working conditions and robust social management systems at the production sites. In addition, the Otto Group stresses the power of such cooperative associations as the Business Social Compliance Initiative (amfori BSCI).

CODES OF CONDUCT

According to its procurement structure, besides its Code of Conduct for merchandising goods, the Otto Group has also introduced similar codes for services and non-merchandising goods, each of which defines social standards. Beginning in mid-2018, to contribute to greater consistency within the segment, the Otto Group will adopt the amfori BSCI Code of Conduct.

STATUS SOCIAL PROGRAMME

Integrated into the program are all suppliers for own and licensed brands of the Group companies, that produce these goods in risk countries (as defined in the amfori BSCI classification*). This includes all suppliers that submit valid and acceptable social audits or certifications for all production facilities where goods are manufactured on behalf of the Otto Group. In 2017 the Group Company Sportscheck was added into the KPI. The share of suppliers integrated into the Social Programme was 91% for the reporting period (2016: 80%). Collaboration is terminated with suppliers that do not guarantee the required transparency and do not apply the corresponding standards.

In 2017, 50 production facilities in the principal procurement countries of China, Turkey, India and Bangladesh participated in the Otto Group's qualification program. Over a period of eight months, selected factory representatives were trained in changes in legal regulations – for example, in the workplace safety and options for improving social management systems were developed.

GROUP DIRECTIVE "SUSTAINABILITY IN PROCUREMENT"

The internal "sustainability in procurement" guideline specifies minimum social and ecological requirements for overall sourcing of goods by Group companies. Among other stipulations, it contains provisions for the use of animal-based and textile materials, transparency and worker protection at production sites and chemical standards for final products.

SIGNING THE "BANGLADESH ACCORD"

The Otto Group is a signatory to the Accord on Fire and Building Safety in Bangladesh, which regulates textile factories. The accord contains mandatory regulations regarding independent inspections with publicly accessible reports and mandatory repair measures. It was signed in 2013 and was written to expire after five years. During the reporting period the Otto Group signed the 2018 accord – containing an extension of the agreement until 2021.

* Amfori BSCI, Country Risk Classification: (http://www.amfori.org/sites/default/files/amfori%20BSCI%20CRC%20V2018_HM_AD.pdf)

PARTNERSHIPS

Partnership for Sustainable Textiles

The Textile Partnership was founded in October 2014 as an initiative of the German Federal Ministry for Economic Cooperation and Development. It is a response to several accidents in textile factories in Bangladesh and Pakistan aimed at improving worldwide conditions for the textile industry – from raw materials production to waste disposal and recycling. Since 2015 the Otto Group is a member of the Textile Partnership; at the start of 2017, in the context of its participation in the Alliance, it distributed a road map laying out objectives. The focus is on the areas of social and chemicals management as well as natural fibres. A yearly report charts its attainment of these objectives. Dr Johannes Merck, the Otto Group's Vice President Corporate Responsibility, is one of four business representatives sitting on the Textile Partnership Steering Committee.

amfori BSCI (Business Social Compliance Initiative)

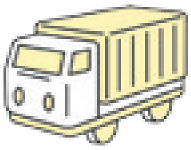
In 2004 the Otto Group helped to found the Business Social Compliance Initiative (BSCI), known today as amfori BSCI. It brings together retailers and producers with the goal of improving working conditions in the supply chain. In March 2017 amfori BSCI and the Otto Group initiated the multi-stakeholder forum "Protection of Syrian Labor Rights in Turkey – A Business-Led Call for Supply Chain Action". Syrian citizens in Turkey are regarded as 'temporary' refugees with no legal access to work, education or health care. As a result, many Syrians work illegally. The group's objectives included developing solutions to integration, strengthening legal protection and improving working conditions in the Turkish apparel industry.

Social Programme: Integration status and supplier performance

	Description	2017
Status: integrated		**91%**
accepted	All of a supplier's active factories have valid accepted standards and assessments in place or they are participating in the qualification program	57%
advanced	There are valid SA8000 certificates or amfori BSCI audits with A or B scores in place for all of a supplier's active factories	21%
BSCI member	Importer is a member of amfori BSCI	13%
Status: not integrated		**9%**
not accepted	Not all of a supplier's active factories have valid standards or assessments in place or the factory information is not up-to-date	5%
no performance	Integration status still unclear since, for example, there is still no transparency regarding active factories	4%

Social Programme: Integration status and factory performance

	Description	2017
Status: integrated		**95%**
accepted	There are valid accepted standards and assessments in place	70%
advanced	There are valid SA8000 certificates or amfori BSCI audits with A or B scores in place	25%
Status: not integrated		**5%**
not accepted	There are no valid accepted standards and assessments in place	5%



TRADE

Elements of the value-adding stage Trade include procurement transport, warehousing and goods shipment. The social risks and ecological impacts are assessed by the stakeholders as significant. The main causes include transport-related emissions of greenhouse gases and particulate matter. In its Climate Strategy, the Otto Group is pursuing a reduction in CO_2 exhaust gases. Compliance with legal working conditions is being reviewed by the Group company Hermes Germany through the use of a certification system developed by SGS-TÜV Saar.

Besides procurement and distribution transport systems, the Trade value-adding stage also includes activities taking place at around 400 of its own sites in Germany. The Otto Group's potential influence is especially high at this stage. Legal regulations on the horizon limiting pollutant emissions strengthen the need for action in the transport segment. Provisions such as those restricting central city vehicle access present a challenge for retailers and logistics service providers. The Otto Group has already become involved in the development of alternative concepts. Especially through its plan to switch its urban vehicle fleet to electric power, Hermes has approved a target of delivering emissions-free in German cities by 2025.

The Otto Group climate strategy aims to reduce CO_2 emissions by its transports and onsite operations. To accomplish this, the Group has defined a clear goal and implementation framework in which Group companies take action on their own. Even the direction and implementation of environmental management at individual sites is decentralized.

STATUS CLIMATE STRATEGY

In its Climate Strategy, the Otto Group pursues the goal of cutting in half the adjusted CO_2 emissions from its own sites, procurement and distribution transport and business travel by 2020, using 2006 as the benchmark year. In 2017, emissions were reduced to 171,000 tonnes from 189,000 in the previous year. Compared to the benchmark year, this represents a reduction of 42% (2016: 36 %). On one hand, this development is due to increased energy efficiency and the shift from air

Example from practice

HERMES GERMANY: URBAN BLUE

With its Urban Blue concept, the Corporation is striving to achieve its strategic objective of emission-free delivery of goods to the city centre areas of the 80 largest cities in Germany by 2025. Reaching this point involves such measures as a gradual changeover of its vehicle fleet to low-emission or emission-free drives, development of small, decentralized distribution centres and the use of eCargobikes. In November 2017 Hermes Germany, through a strategic partnership with Mercedes Benz Vans, launched the pilot phase featuring electric vans. Since spring 2018 a test of five Volkswagen e-Crafter vans is conducted. Following a successful pilot phase, the series production phase in around 40 German large cities will start at the beginning of 2019, until 2020 a total of 1500 electric vehicles should be in use. For its Urban Blue program Hermes Germany was honoured with the 2017 Hanse Globe – Hamburgs Award for sustainable logistics – in February 2018.

Example from practice

CRATE AND BARREL: COMPLETE CONVERSION TO LED

An active partner in our climate strategy, the home furnishings and accessories specialty retailer Crate and Barrel has retrofitted all store sales floors with LED lighting. Similarly, the stores of their CB2 brand will be completely retrofitted in 2018. It is projected that energy efficiency from LED lighting at the stores will increase by 66%. Crate and Barrel brands are proactively working to ensure that all future stores are 100% LED – which would include the sales floor, back of the house and office space.

cargo to lower-emission sea, road and rail transport of goods procured from producing countries. On the other hand, purchases of high-quality certified green electricity by Group companies in Germany (approximately 25% of the overall power need at these sites) also contributed to reducing CO_2 emissions.

ENVIRONMENTAL PROTECTION AT THE SITES

The Otto Group carries out decentralized environmental management through its individual sites. At the current time, 17 of the sites included in this report maintain an ISO 14001-certified environmental management system. Environmental management priorities at Group sites include the careful use of natural resources like water and packaging materials and responsible handling of waste. What cannot be prevented is recycled or properly disposed of.

DEALING WITH CONTRACTORS FOR PARCEL DELIVERY

At Hermes Germany parcel shipment is generally contracted to independent partner entrepreneurs. Since 2012 these have been monitored on a regular basis for such issues as workplace security, remuneration, working time, quality and the environment by an internal auditing team as well as the SGS-TÜV Saar certification firm. Hermes Germany thus continues to be the first and only courier company in the market to maintain an independent third-party-supported auditing system.

During the reporting period, 510 audits were performed on a total of 367 active partners. Contracts were terminated with five partners who were unable to meet auditing requirements. Moreover, the auditing system has evolved to assign SGS-TÜV Saar to conduct more frequent and extensive audits of remuneration, working time and subcontractor management. Since 2017, the established whistleblower system has been broadened to include investigations of any shortcomings by partners, including those revealed in unannounced special audits.

CO_2 emissions
(in tonnes)

	Benchmark year (2006)	2015	2016	2017
Absolute in tonnes	296,200	245,891	231,679	221,732
Adjusted in tonnes	296,200	212,241	189,028	171,077
Reduction of adjusted CO_2 emissions compared to 2006	–	**–28 %**	**–36%***	**–42%**

* Updated site data resulted in a revision of this figure from –34% to –36% compared to the 2016/2017 Annual Report.

CUSTOMER

This value-adding stage includes environmental effects, above all those brought about by the use of power to operate electric devices and by the washing of textiles. Sustainable design and marketing of the product line can reduce these effects. For this reason, Group companies adopt customer-tailored measures to increase their awareness of sustainability when selecting and using their products.

The entire product utilization phase, ending with return, recycling or disposal, falls into the Customer value-adding stage. Internal and external stakeholders assess this area as having a lower impact than the production of goods. Even so, over 10% of overall climate gases and pollutants are present in the utilization phase. By washing textiles, for example, chemicals penetrate into the water and the electricity used by washing machines, dryers and pressing equipment is considerable. To reduce these effects, the Otto Group focuses on designing its product portfolios in a more sustainable way. Although sustainable consumption addresses social concerns, there is little consumer readiness to pay more for sustainably produced and environmentally friendly products. Since the Corporate companies market to divergent target groups, they differ from one another in the measures they employ to raise awareness concerning sustainable consumption.

PROFESSIONAL RECYCLING/DISPOSAL OF ELECTRIC APPLIANCES

The Otto Group accepts the return of electric appliances at the end of their product life – if the customer chooses to take advantage of this service – and the Group arranges for these to be professionally recycled or disposed of. Every year the Group collects around 3% of Germany's electrical devices. This way it can play a direct role in reducing harmful ecological effects.

69% OF ALL CONSUMERS PAY ATTENTION TO SUSTAINABILITY WHEN MAKING PURCHASES.

Despite this, sustainable products continue to be a niche market, as evidenced by organic foods: The organic foods share of overall retail food revenues only amounted to 5.5% in 2017.

(Facit 2017, Statista 2018)

Labelling of sustainable products
According to surveys, shoppers frequently feel overwhelmed by the amount of labels and stickers. To simplify customers' familiarization process, various Group companies identify sustainable products in a very clear manner – for example, by attaching the 'GOODproduct' label. This serves as a catch-all to stand in for all seals and certificates that indicate the added value of sustainability. Since the label was introduced by OTTO in July 2015, other Group companies including Baur, Heine, Schwab and Unito have adopted it. In the same way, Bonprix developed the 'sustainable product' label. It indicates products made from materials or in manufacturing processes that meet high standards for protection of humans and the environment.

Efficient large electrical appliances *

	2014	2015	2016	2017
Quantity of large electrical appliances offered	2,876	2,030**	2,734***	3058
Share of efficient large electrical appliances in the total range	68.9%	32.3%**	37.7%***	35.9%

* Electrical appliances are regarded as efficient when they are demonstrated to be more energy-efficient than average energy consumption figures in their product group (for example, cooling-freezing combinations in energy category A+++).
** Criteria were tightened in the second semester of 2015 (for example, from A++ to A+++) and only data for the second semester were collected.
*** Data for 2016 were corrected.

Practical examples from
OTTO:

MAKE SPACE – WITH A HEART (IN GERMAN: PLATZ SCHAFFEN MIT HERZ)

During financial year 2017/18 it was possible to bring new partners into this initiative to take back used clothing: Joining Witt, Baur and Mytoys this year are Lascana, Weight Watchers and Lillestoff. The principle is simple: Well-cared-for clothing articles and shoes can be sent via Hermes Germany at no cost to 'Make Space – with a heart'. The initiative converts the clothing into cash donations, sending the proceeds to organizations such as Conservation Alliance Germany, World Hunger Assistance or Cotton made in Africa.

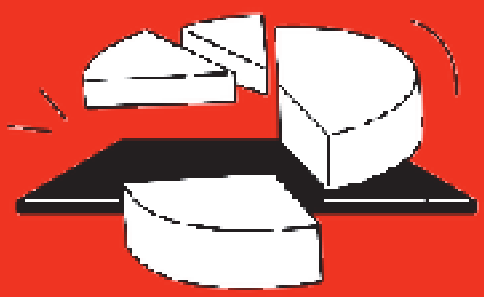
OTTO NOW

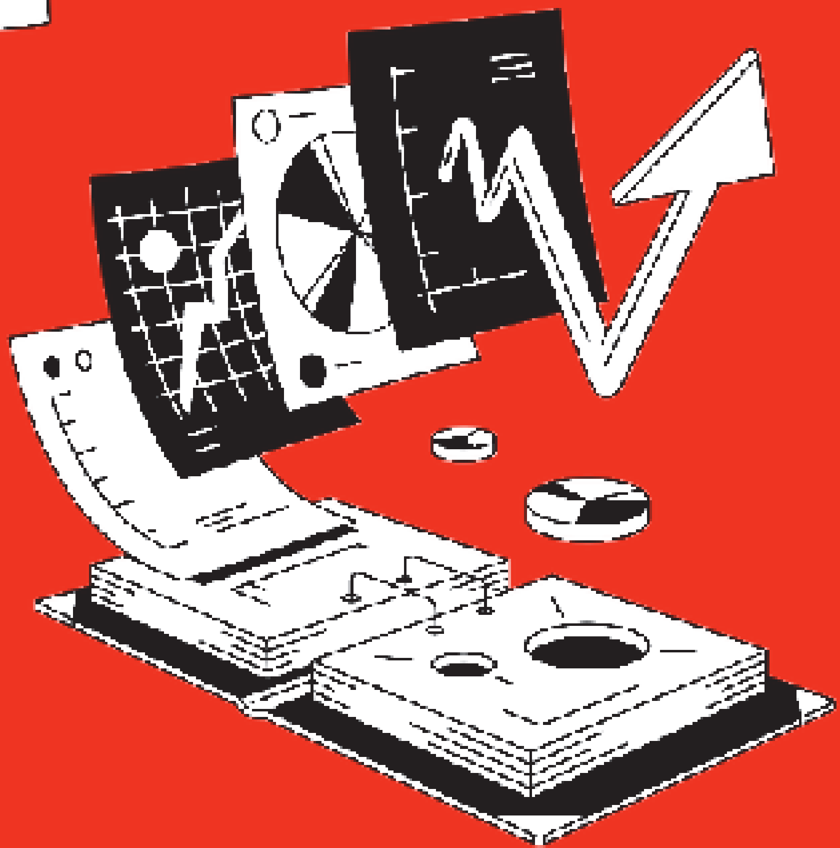
The internal startup company is based on the concept of leasing instead of purchasing and has concluded thousands of lease agreements since its founding in 2016. OTTO Now initially focused its business on selected multimedia devices, household electronics and sports equipment. Since then, the product range has been extended to over 100 articles. Lessees usually return the products to OTTO Now in very good condition, allowing them to be leased again.

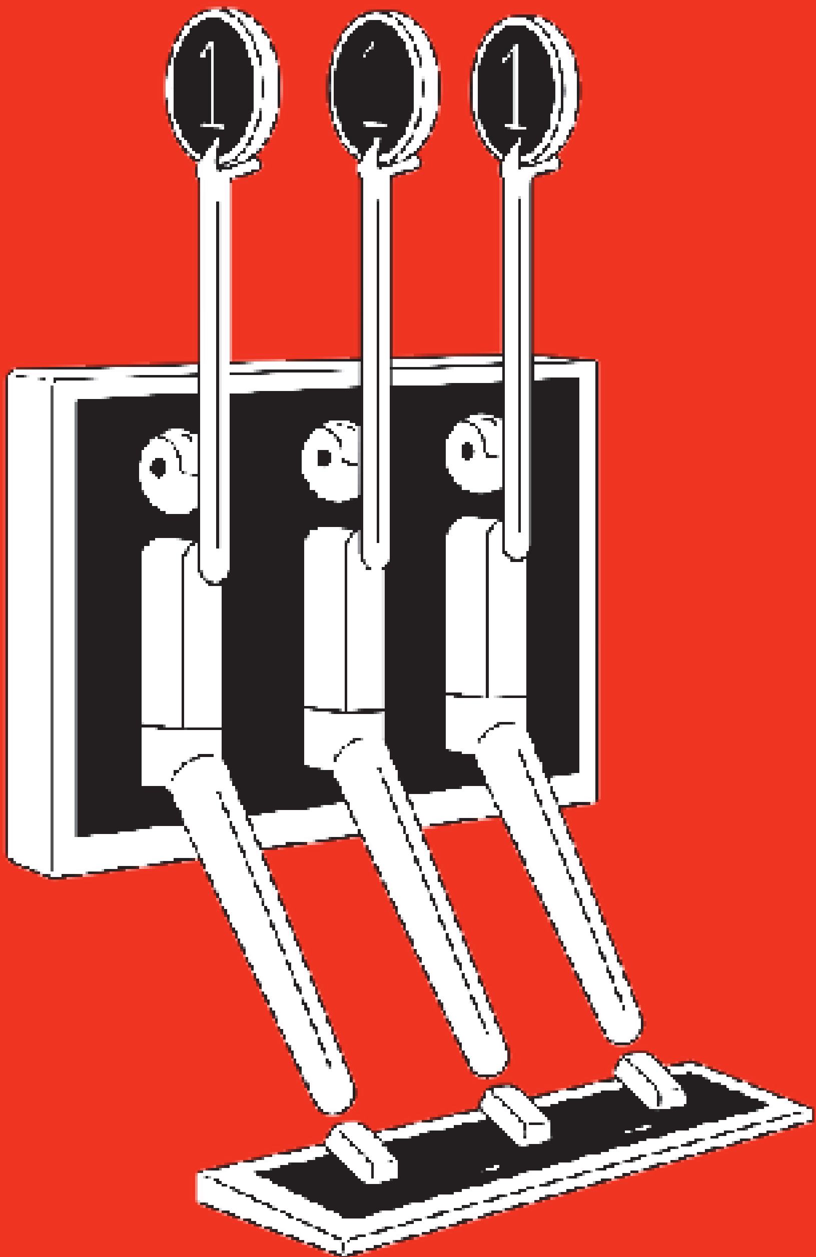
CLIMATE PROTECTION ON THE DOORSTEP

OTTO provides regular support for a climate protection project to restore the moors of Jasmund National Park on the Island of Rügen. As a significant carbon reservoir, moors play a major role in protecting the climate. OTTO and its longtime partner, the Mountain Forest Project association (in German: Bergwaldprojekt e.V.), have the goal of restoring the park's most important moors almost to their natural state by 2020. Through the raising of the moors' water table, around 33 tonnes of CO_2 can be avoided, amounting to over 1,600 tonnes of CO_2 in the next 50 years. The climate protection effort also impacts OTTO customers. Besides supporting the climate protection project, customers are given incentives through regular promotional campaigns to purchase highly energy-efficient large home appliances. By exchanging older appliances, customers are contributing to an annual savings of over 3,600 tonnes of CO_2. This creates a twofold climate projection impact.

FIGURES FOR THE OTTO GROUP





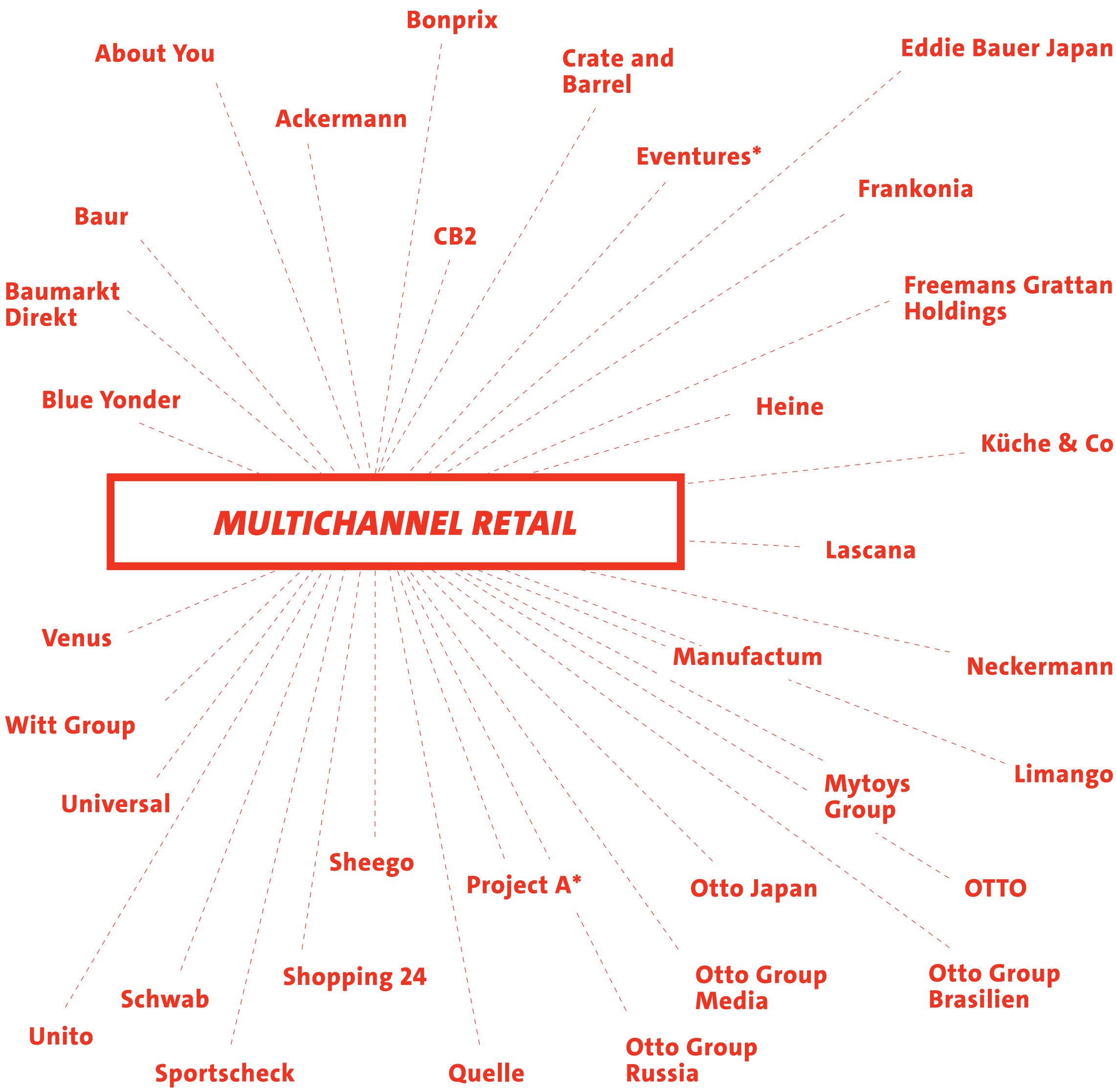


GROUP MANAGEMENT REPORT

BASIC INFORMATION ABOUT THE GROUP

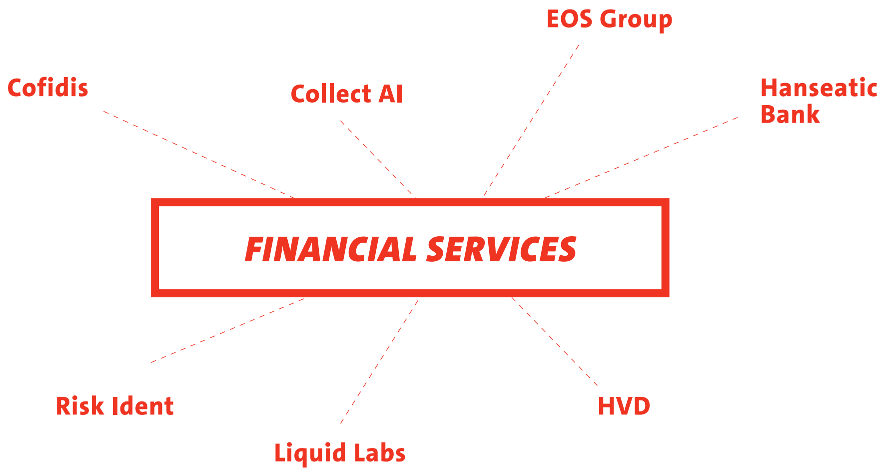
GROUP STRUCTURE

The Otto Group is a globally active group of retailers and retail-related service providers with an average of 51,785 employees and sales of EUR 13.7 billion in the 2017/18 financial year. Through 123 major 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 EUR 7.9 billion, the Otto Group is one of the world's largest online retailers.

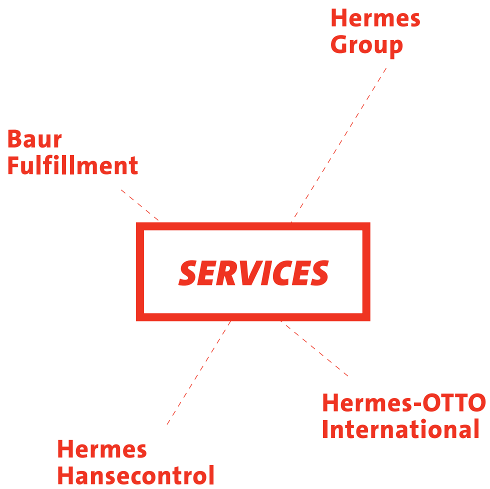


* investment companies

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.



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.



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 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 image of the segment.

THE FOLLOWING MAJOR COMPANIES 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 and additional specialist online shops, with a focus on home and living. Online sales [1] account for approximately 95% of OTTO's 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 83% of the bonprix Group's revenue.

ABOUT YOU GmbH is a fashion and technology company. The online fashion shop has digitised the traditional window-shopping experience for its customers. As well as providing a rich source of inspiration, the aboutyou.de website and ABOUT YOU mobile app provide women and men aged between 20 and 49 with a range of more than 150,000 products across 1,000 brands. For ABOUT YOU GmbH, online sales account for approximately 98% 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. Together with its online shops ambellis, mirapodo, yomonda and limango, the company is one of the most successful German e-commerce companies for the target groups of family and women in terms of revenue. Online sales account for approximately 95% of revenue.

Mail-order retailer **Schwab** offers a wide range of fashion trends, as well as consumer electronics and household goods. Selected product ranges are also sold in other countries. With the sheego brand, the company also covers the important market segment for plus-size clothing. Online sales account for approximately 82% of Schwab's 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.

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 91% of revenue.

The **Witt Group** is one of the leading European mail-order companies for textiles for the 50+ target group. The company reaches its customers via catalogues, online shops and its 125 specialist shops. Online sales currently account for approximately 20% of revenue.

SportScheck is one of Germany's leading sports retailers. Its product range is available in 19 stores across Germany, and is also available in Austria and Switzerland via an online shop, mobile shop, shopping app, and catalogue. Online sales account for approximately 38% of revenue.

The **Crate and Barrel Group** offers international housewares, furniture and home accessories for sophisticated tastes in the North American market. In addition to the main Crate and Barrel brand, the Group also operates under the CB2 brand. With over 100 stores as well as online retail and catalogues, Crate and Barrel has established itself well as a multichannel retailer in the USA and Canada. Online sales account for approximately 47% of revenue. The company focuses primarily on over-the-counter retail.

[1] The percentage of online sales in relation to revenue in this section relates to the 2017/18 financial year.

Freemans Grattan Holdings 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 81% of revenue.

Otto Group Russia is active in the Russian mail-order retail market. Across Russia, it markets the brands OTTO, bonprix, Witt and Quelle as well as various NaDom Group brands. Online sales account for approximately 84% of the Otto Group Russia's 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 cross-country 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.**

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 that the Otto Group has set out for itself. 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 overarching objective is to achieve revenue of EUR 17 billion by the 2022/23 financial year[2].

[2] And on a comparable basis by the end of the 2016/17 financial year.

To achieve this objective, the Group is pursuing a targeted growth strategy for its three segments. Targeted investments are being made in market-specific business models and in Group companies that are estimated to be capable of particularly strong performance and 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 Kulturwandel 4.0 (cultural change) 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 MANAGEMENT

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. As a result of high levels of investment for the future, the debt service ratio rose slightly in the past financial year, while the leverage ratio was maintained at a consistent level due to the very good earnings position.[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 this context, the decision was made in the 2017/18 financial year to encourage investors and strategic partners to acquire interests in ABOUT YOU GmbH. This strategy aims to support the growth of this successful business model by means of bringing in additional competencies and to grow the company into a billion-euro-revenue company over the coming years. Growth drivers include the replication of this successful business model in international markets, the continued expansion of the IT system and the development of innovative marketing approaches.

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. Furthermore, future-oriented skills, in particular in the areas of business intelligence, mobile commerce and conversational commerce (via the centralised mobile app acceleration centre, for example) continue to be built up in a centralised manner in order to support Group companies in the best way possible.

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.

[3] For the development of the financial performance indicators with regard to the 2017/18 financial year, refer to the chapter "Reporting the Financial Services providers using the 'at equity' method".

The Otto Group will focus on two main areas here: firstly, the key retail platforms OTTO and ABOUT YOU will be developed further as a top priority; and secondly, efforts to expand and grow brand concepts will continue. Notable players here include the internationally active brands bonprix, Witt, and Crate and Barrel. By adopting this focus, the Group will be able to continuously increase its profile in the key focus areas of fashion and home & living.

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

Within the Multichannel Retail segment, the focus is further on venture and incubation activities by the Otto Group's investment companies. 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 becoming an increasingly significant factor in business activities with end-consumers. 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 Einrichtungsservice GmbH & Co. KG is a clear market leader in Germany; and warehousing, which plays a key role in the Otto Group's retail activities, due in particular to Hermes Fulfilment GmbH.

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 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]

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 the **E-Commerce Competence Center** 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.

Some sample projects are presented below:

AUGMENTED REALITY IN FURNITURE PURCHASING

With an increasing number of smartphones now being equipped with the technology necessary for augmented reality, this topic has been garnering much attention, and the Group companies of the Otto Group are already playing a part in making e-commerce ever more three-dimensional thanks to range of applications. For instance, at imm cologne – the world's largest furniture and interiors trade fair – in January 2018, Group company OTTO presented a number of digital tools designed to make shopping online for furniture a more inspiring and convenient experience. These innovative shopping technologies include a virtual mock-up of furniture within a room using augmented reality, high-resolution 360-degree panoramic images and a 3D room planner.

CONVERSATIONAL COMMERCE

The use of voice input and output at digital touchpoints is growing at a fast pace. Users are now making use of voice functionality as part of their entire daily routine, for example via their smartphones, in the car or at home through specially designed smart speakers. To optimise contact with these voice-savvy users in future, this channel is becoming increasingly important for e-commerce providers. Voice channels can serve as information or service channels or even accommodate the entire purchase process in some cases. In this regard, it is important to understand and respond to users' actual requests in as automated a way as possible. For this reason, the Otto Group is developing and testing chatbots and their integration in other smart devices, such as smart speakers.

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

ECONOMIC ENVIRONMENT

OVERALL ECONOMIC ENVIRONMENT

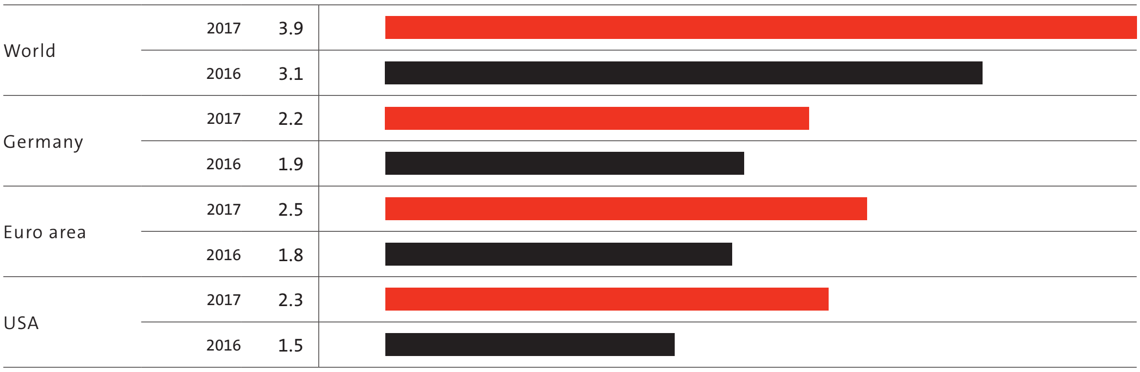
The economic development of the **global economy** proved extremely dynamic in 2017 and was characterised by a considerable increase in the global gross domestic product – hereafter GDP – of 3.9%, as adjusted for inflation (2016: 3.1%). In the advanced economies, overall economic expansion – which had already been at a high level – saw a significant upward trend once again. This is attributable in particular to positive development in private consumption, corporate investment and employment over the year as a whole. In emerging economies, the period of weak economic performance observed over the past several years did not continue, and economic development in these countries witnessed a noticeable upswing. In China in particular, growth in overall economic output increased substantially. The higher cost of raw materials also had a positive impact, resulting in improved conditions for the emerging economies exporting raw materials. Economic recovery continued in Russia, although at a very slow pace. Against this background, international trade expanded significantly by 4.5% for the entire year (2016: 1.8%), leaving behind the pronounced weak phase experienced between 2012 and 2016.

In 2017, the development of the **German economy** was characterised by a noticeable rise in real GDP of 2.2% (2016: 1.9%). Overall economic expansion was driven by both domestic factors and foreign trade. Private-household consumption expenditure once again grew substantially in comparison to the previous year. The sustained rise in real wages in addition to continued stability in the labour market contributed to the dynamic development in private consumption expenditure. The annual average working population rose substantially by 1.5% (2016: 1.0%) compared to the previous year and reached a new high of 44.3 million workers. The average annual unemployment rate for 2017 fell accordingly to 5.7% (2016: 6.1%). Corporate investment grew at a faster pace than in the previous year due to high levels of capacity utilisation in numerous sectors. Overall, foreign trade also made a positive contribution to economic expansion in 2017. Exports expanded at a considerably stronger rate than in the previous year, which was primarily due to an extensive economic upturn in the relevant sales markets.

The moderate economic recovery of the **Euro area** observed in previous years picked up considerably in 2017 and was characterised by a noticeable rise in real GDP of 2.5% (2016: 1.8%). Overall economic output in the Euro area has thus displayed an uninterrupted upwards trend for the past five years. The rise in real GDP was strongly influenced by external economic stimuli as well as by domestic demand. Private-household consumption expenditure benefited from a rise in real wages and growth in employment in particular. The ongoing positive development observed on the labour market since mid-2013 continued, with the annual average unemployment rate falling to 9.1%, thus lying below the previous year's figure of 10.0%. Increasingly expansionary investment activity by companies and financial policy in most Euro area countries, in addition to a favourable financing environment, also continued to have a positive effect on domestic demand. The at times sharp differences in economic growth that have existed for some years between the individual economies in the Euro area decreased considerably in the past year, with all Euro area countries reporting growth in overall economic output. Economic growth in the **European Union** countries outside of the Euro area was also predominantly dynamic in 2017. In the United Kingdom, however, overall economic expansion was rather modest due to the impact of the impending Brexit situation.

In the **USA**, overall economic output accelerated strongly in 2017 and was characterised by an inflation-adjusted increase in GDP of 2.3% (2016: 1.5%). Growth stimuli came almost exclusively from domestic demand. With real growth of 2.7% (2016: 2.7%), private consumption expenditure continued to show strong growth, which was primarily due to a considerable reduction in the savings rate. Corporate investment increased noticeably and also had a positive impact on economic growth. The US labour market delivered a robust performance in the past year, resulting in continued strong growth in employment and a fall in average annual unemployment levels to 4.4% (2016: 4.9%). However, given that imports grew at a much faster rate than exports, foreign trade did not provide any positive impetus overall in 2017.

Change in real GDP
(in %)



SECTOR-SPECIFIC ENVIRONMENT

MULTICHANNEL RETAIL

In 2017, the entire **German retail sector** recorded a nominal rise in revenue of 4.3% compared to the previous year (2016: 2.9%). Adjusted for inflation, this corresponds to a rise of 2.3% (2016: 2.5%). This meant that for the eighth year in a row, German retailers recorded both nominal and inflation-adjusted sales increases compared to the previous year. The significant increase in retail sales can be explained by the continued positive development of the German economy. The ongoing dynamic growth in employment witnessed over the past twelve years continued in 2017, with employment figures reaching a new high. Low interest rates likewise provided positive stimuli. Real wages grew once again, following the previous year's increase of 1.8%; however, at 0.8%, the rate of increase was considerably lower, due in particular to developments in consumer prices. These saw a sharp average rise of 1.8% in 2017, and stood distinctly above the annual rates of inflation seen in the preceding years. The rise in the cost of energy products, in particular, led to inflationary pressures. Against the background of this overall economic development, private-household consumption expenditure, adjusted for inflation, increased by 1.9% in the past year (2016: 2.0%).

The **German online and mail-order sales sector** increased its sales of goods by 8.8% in 2017 to EUR 62.2 billion (2016: EUR 57.1 billion). The share in total retail sales thus increased to 13.2%, exceeding last year's figure of 12.7%.

In the **e-commerce sector** especially, above-average sales increases of 10.9% were recorded, whereby sales of goods in pure online business amounted to EUR 58.5 billion (2016: EUR 52.7 billion). Clothing remained the best-selling class of products in 2017 in the e-commerce sector – followed by electronics and telecommunications products, computer equipment and games, software products and shoes. At the same time, classes of products that up to now were not particularly compatible with the mail-order sector, such as furniture, lighting and decoration as well as groceries, once again recorded significant increases in revenue. 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 2017. In terms of sales, the percentage of orders of goods in the German e-commerce sector placed via the mobile Internet rose to 27.0% in 2017 (2016: 24.0%).

FINANCIAL SERVICES

The continuing positive development of the German economy in 2017 also had an effect on the **German financial services sector**. In the past year, the number of company insolvencies decreased for the eighth time in a row and declined noticeably by 6.6% to 20,093 cases compared to the previous year (2016: 21,518 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 rose to approximately EUR 29.7 billion (2016: EUR 27.4 billion) and the average claim amount per insolvency was EUR 1.5 million (2016: EUR 1.3 million). The increase in receivables combined with the decline in the number of company insolvencies is due to the fact that more economically significant companies had to file for insolvency in 2017 than in the previous year.

German companies' payment behaviour, which had already been at a very high level, saw a further slight improvement in 2017. Companies identified temporary liquidity bottlenecks, taking advantage of supplier credit, and high levels of payment default by their own customers as the main reasons for not meeting their payment obligations. On the other hand, low order volumes played a distinctly minor role.

The number of consumer insolvencies also declined substantially in comparison to the previous year. With 71,896 cases, it was 6.9% below the corresponding figure for the previous year of 77,238 cases. Personal over-indebtedness, unchecked consumerism, temporary liquidity bottlenecks and intentional non-payment were given as the main reasons for not meeting payment obligations. On the other hand, job losses played only a minor role in light of the continuing positive development of the German economy. In 2017, it was once again 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 2017, 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 1.9% on average over the year (2016: 1.9%). The dynamic performance of the German economy in 2017 therefore also had an effect, albeit in slightly weaker form, on the transport sector.

In addition to a continued intensely competitive market environment, the development of crude oil prices and wage costs in particular have had a noticeable influence on the German transport and logistics sector. Overall, general cost levels in German goods transport displayed a slight upward trend in 2017. In addition to higher personnel expenses as a result of collective wage agreements, crude oil prices rose slightly during the course of 2017. Nevertheless, as in the previous year, the rise in the price of crude oil proved decidedly moderate, which meant that the development of fuel costs did not have a significant negative impact on the German transport and logistics sector.

As a result of the continued dynamic growth in online and mail-order sales and the sharp increase in the volume of parcel deliveries to private households, German parcel-services providers continued to invest heavily in 2017 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 increasing impact of driver shortages and the escalating traffic situation.

COURSE OF BUSINESS

The Otto Group began the 2017/18 financial year with a targeted growth strategy, and was thus able to sustain its revenue growth to a noticeable extent while simultaneously increasing profitability at all earnings levels, in some cases significantly, in the 2017/18 financial year.

Revenue showed extremely positive development in all three segments and grew by a total of 9.1% to EUR 13.7 billion. As adjusted for currency rates and on a comparable basis, i.e. adjusted for changes to the scope of consolidation, the Otto Group achieved an increase in revenue of 9.6%. The Group-wide harmonisation of individual Group companies' previously different financial years to match the Group's financial year-end date, which was carried out in the past financial year, had a one-off positive impact of just under 2.5% on the development of the Group's revenue figures. As a result, when adjusted for the impact of adopting a standard financial year, revenue still increased by a satisfactory 6.7%. Among other areas, e-commerce revenue in the Multichannel Retail segment recorded dynamic development, growing significantly by 12.3% to EUR 7.9 billion.

Earnings before interest and tax (EBIT) to the amount of EUR 405.0 million increased compared to last year's EBIT figure of EUR 365.5 million. The major Group companies and sub-groups, such as OTTO, the bonprix Group, the Crate and Barrel Group, the Witt Group and the EOS Group, were once again able to generate very positive results in operational terms. While the myToys Group and ABOUT YOU GmbH, which was deconsolidated on 28 February 2018, continued to have an adverse effect on the result, they showed very positive development in terms of revenue. SportScheck GmbH, within which restructuring activities continued in the past financial year, achieved revenue figures that were almost on a par with the previous year, though it continued to have an adverse effect on the result.

Earnings before tax (EBT) to the amount of EUR 629.0 million increased significantly compared to last year's EBT figure of EUR 261.9 million. In the 2017/18 financial year, the decision was made to encourage strategic partners to acquire interests in ABOUT YOU GmbH in order to support the growth of this successful business model by bringing in additional competencies. The inclusion of new investors in the past financial year and the resulting deconsolidation of the company in the 2017/18 financial year had a very positive effect on the net financial result. The sale of a German financial services provider also had a positive effect here, while the sale of French logistics service providers in particular had a contrary effect on the net financial result. The deconsolidation of the above-mentioned companies resulted in an overall gain of EUR 455,2 million, which is reported under other net financial income (expenses). Following the Otto Group's disposal of the activities of the 3SI Commerce operation in France in the 2016/17 financial year, the discontinued operation 3SI Commerce ceased to have a negative impact in the 2017/18 financial year. In the 2016/17 financial year, its negative impact amounted to EUR 122.9 million.

Following a consolidated annual profit of EUR 40.7 million in the 2016/17 financial year, the Otto Group recorded a consolidated annual profit of EUR 519.1 million.

Overall, the course of the 2017/18 financial year may be described as very successful. The growth in revenue and earnings (EBT) forecast for the 2017/18 financial year in the 2016/17 Group Management Report was surpassed in each case.

THE GROUP'S FINANCIAL PERFORMANCE

The Otto Group's revenue increased by 9.1% in the 2017/18 financial year, from EUR 12,511.8 million to EUR 13,652.9 million. This corresponds to an increase of EUR 1,141.1 million, which was made possible due to the positive development in all three segments. The Group-wide harmonisation of individual Group companies' previously different financial years had a one-off positive impact on this development of the Group's revenue figures. As adjusted for currency rates and on a comparable basis, the Otto Group's revenue increased by 9.6%.

In the 2016/17 Group Management Report, revenue growth of approximately 5% was forecast for the Group on a comparable basis for the 2017/18 financial year. The development in revenue figures, as adjusted for currency rates and changes to the scope of consolidation, was well above expectations with an increase of 9.6% in the 2017/18 financial year. Even taking into account an additional adjustment for the impact of adopting a standard financial year, expectations were exceeded both at Group level and within each of the three segments.

Consolidated income statement (summary)

	2017/18 EUR Million	2016/17 EUR Million
Revenue	13,653	12,512
Earnings before interest, tax, depreciation and amortisation (EBITDA)	750	730
Earnings before interest und tax (EBIT)	405	365
Earnings before tax (EBT)	629	262
Profit for the year from continuing operations	519	164
Loss for the year from discontinued operations	0	–123
Profit for the year	**519**	**41**

Average revenue per employee rose considerably compared to last year, from EUR 251.3 thousand to EUR 263.6 thousand.

Overall, 76.7% of the Otto Group's revenue was obtained from the sale of merchandise (EUR 10,477.4 million, 2016/17: 78.2%), 6.1% from revenue from financial services (EUR 835.0 million, 2016/17: 5.8%), and 17.1% from revenue from other services (EUR 2,340.5 million, 2016/17: 16.0%). The Group's development in terms of revenue in the 2017/18 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 decreased share of 60.5% (2016/17: 61.5%) in the Otto Group's revenue, Germany remained the Group's most significant regional sales market in the 2017/18 financial year. While 21.6% (2016/17: 19.8%) of revenue was derived from Europe (excluding Germany and Russia), the North America region contributed 13.9% (2016/17: 14.6%) of the Otto Group's revenue. Russia followed with 2.4% (2016/17: 2.1%) and Asia with 1.4% (2016/17: 1.6%).

Revenue by region

	2017/18 EUR Million	2016/17 EUR Million	Change in %	Currency-adjusted in %
Germany	8,264	7,701	7.3	7.3
Europe (exlcuding Germany and Russia)	2,946	2,480	18.8	20.8
North America	1,892	1,825	3.7	8.9
Russia	324	268	20.9	14.9
Asia	191	203	–5.9	1.0
Other regions	36	35	2.9	2.9
Group	**13,653**	**12,512**	**9.1**	**10.3**
Domestic	8,264	7,701	7.3	7.3
Foreign	5,389	4,811	12.0	15.0

Developments in revenue figures in the Group's individual sales markets were varied. In Germany, revenue growth of 7.3% was achieved in the past financial year. Most notably, the Group companies OTTO and ABOUT YOU GmbH recorded strong revenue growth and contributed to the positive development in the main sales market in Germany. The rest of Europe recorded a strong increase in revenue of 18.8% on a euro basis, which amounted to 20.8% when adjusted for currency rate effects. This increase in revenue was mainly achieved in France and the United Kingdom, predominantly by group companies of the Hermes Group in both cases. The North American Crate and Barrel furnishings and lifestyle group reported an increase in revenue of 6.0%, which amounted to a positive increase of 11.3% when adjusted for currency rates.

The Group's gross profit margin amounted to 47.4% (2016/17: 47.9%), which was slightly below the previous year. In absolute terms, gross profit rose by EUR 475.9 million to EUR 6,468.4 million.

While other operating expenses rose by EUR 258.8 million and personnel expenses rose by EUR 233.0 million, other operating income rose by EUR 36.0 million in contrast. The rise in other operating expenses was primarily driven by the substantial increase in advertising as part of the growth strategy, as well as by shipping costs. The sharp rise in personnel expenses was mainly due to personnel increases in technology and logistics. The reorganisation of the logistics infrastructure in Germany also had significant adverse effects in the 2017/18 financial year, which are included under both personnel expenses and other operating expenses.

As a result of the above-mentioned favourable developments in business operations, earnings before interest, tax, depreciation and amortisation (EBITDA) amounted to EUR 750.0 million in the 2017/18 financial year, which exceeded last year's very strong EBITDA figure of EUR 730.4 million.

In the past financial year, depreciation, amortisation and impairments together fell by EUR 20.0 million to EUR 345.0 million. This decline is predominantly attributable to impairment losses. Amounting to a total of EUR 62.3 million, these were considerably lower than the previous year's figure of EUR 90.1 million. In the 2017/18 financial year, impairment losses on intangible assets and on property, plant and equipment were primarily attributable to acquired software and software developed in-house, technical equipment and machinery, and office and operating equipment, and predominantly related to two German retailers in the Multichannel Retail segment. The amortisation of intangible assets and of property, plant and equipment increased by EUR 7.8 million.

Primarily as a result of the favourable business performance, and taking the above-mentioned effects into account, earnings before interest and tax (EBIT) increased to EUR 405.0 million in the 2017/18 financial year (2016/17: EUR 365.5 million). Due to the stronger increase in EBIT in proportion to revenue, the EBIT margin increased to 3.0% compared to 2.9% in the previous year.

The Group's net financial result in the 2017/18 financial year was EUR 224.0 million, which is very positive compared to the previous year's figure of EUR −103.6 million. Net interest income (expense) amounted to EUR −102.9 million (2016/17: EUR −89.5 million) and other net financial income (expense) rose to EUR 326.9 million compared to EUR −14.1 million in the previous year. The increase in other net financial income (expense) was primarily attributable to positive effects resulting from the decision to encourage investors and strategic partners to acquire interests in ABOUT YOU GmbH. The sale of shares in ABOUT YOU GmbH and the resulting deconsolidation of the company in the 2017/18 financial year contributed to a positive net financial result. The sale of a German financial services provider also had a positive effect here, while the sale of French logistics service providers in particular had a contrary effect.

Earnings before tax (EBT) in the amount of EUR 629.0 million more than doubled in comparison to last year's figure of EUR 261.9 million.

With this EBT development, the results forecast given in the previous year was clearly exceeded. In the 2016/17 Group Management Report, the EBT figure forecast for the Group for the 2017/18 financial year was expected to be on a par with the strong earnings position achieved in the 2016/17 financial year on an operational level, i.e. without taking the effects of the portfolio optimisation process into account. Even without taking into account the inclusion of new investors in ABOUT YOU GmbH and the portfolio optimisation efforts, which had a positive effect overall, the forecast EBT figure would still have been achieved.

The income tax expense for the 2017/18 financial year amounted to EUR 109.9 million and thus stood above the previous year's income tax expense of EUR 98.3 million. Current income tax increased significantly, both in Germany and in other countries. Furthermore, deferred taxes in Germany resulted in tax-reducing effects, which were almost fully compensated by tax-increasing effects in other countries.

Following the Otto Group's disposal of the activities of the 3SI Commerce operation in France in the 2016/17 financial year, there was no result recorded for the discontinued operation 3SI Commerce in the 2017/18 financial year (2016/17: EUR −122.9 million). For more information, refer to the Notes to the consolidated financial statements (see Notes to the consolidated financial statements as at 28 February 2018, Note (5)(c): "Discontinued operations").

With an increase of EUR 478.4 million, the profit for the year, at EUR 519.1 million, was significantly higher than the annual profit for the previous year of EUR 40.7 million. Of this, EUR 440.0 million (2016/17: EUR −34.0 million) was attributable to the owners of the parent company, EUR 73.8 million (2016/17: EUR 68.9 million) to non-controlling interests and EUR 5.3 million (2016/17: EUR 5.8 million) to participation certificates.

FINANCIAL PERFORMANCE OF THE SEGMENTS

Revenue/EBIT

	Revenue		EBIT	
	2017/18 EUR Million	2016/17 EUR Million	2017/18 EUR Million	2016/17 EUR Million
Multichannel Retail	10,541	9,819	161	146
Financial Services	841	732	338	297
Services	2,271	1,961	−6	6
Holding/consolidation	–	–	−88	−84
Group	**13,653**	**12,512**	**405**	**365**

MULTICHANNEL RETAIL

In the 2017/18 financial year, the Multichannel Retail segment achieved revenue of EUR 10,540.60 million (2016/17: EUR 9,818.70 million) and contributed 77.2% (2016/17: 78.5%) to the Otto Group's revenue. The increase in revenue of 7.4% compared to the previous year was due in part to strong growth in Group companies OTTO and ABOUT YOU GmbH as well in the myToys Group and the Crate and Barrel Group. On a currency-adjusted basis, revenue increased by 8.3%. In addition, the adoption of a common financial year within the Otto Group, which also concerned Group companies in the Multichannel Retail segment, had a slightly positive impact on the reported development in revenue.

In the 2016/17 Group Management Report, an increase in revenue almost equal to the strong revenue growth of 5.0% achieved in the 2016/17 financial year was forecast on a comparable basis. Even before taking into account the effects of adopting a common financial year, this forecast was exceeded.

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 12.3% to EUR 7,880.1 million (2016/17: EUR 7,016.5 million). The segment's share in revenue amounted to 74.8% and stands clearly above the corresponding figure for the previous year of 71.5%. The Otto Group therefore continued to benefit noticeably from the very dynamic growth in the online retail market.

Group company OTTO's performance was exceptionally positive in the 2017/18 financial year. Revenue rose considerably by 8.5%. The strongest driver of this growth was the hardware product range, which was underpinned by the successful expansion of the number of active customers. In particular, the Group company ABOUT YOU GmbH as well as the myToys Group and the Witt Group achieved considerably higher revenue. The Group company SCHWAB VERSAND GmbH experienced a decline in revenue of 14.8%, which was primarily due to the realignment of the sheego brand. SportScheck GmbH, which continued its restructuring during the past financial year, performed steadily and achieved revenue figures that were almost on a par with the previous year.

In terms of international activities, developments in revenue figures were very varied. However, when adjusted for currency rate effects, positive revenue growth was achieved in all regions. For the Crate and Barrel furnishings and lifestyle group, which primarily operates in the USA and Canada, revenue increased by 6.0%, mainly due to a restructured product range and a targeted advertising strategy. When adjusted for currency rate effects, this amounted to an increase of 11.3%. In the United Kingdom, Freemans Grattan Holdings – hereafter FGH – experienced a decline in revenue of 1.3%. However, currency rate effects had a negative impact on revenue figures reported in euro. When adjusted for currency rate effects, FGH increased revenue by 4.2%. The group companies of Otto Group Russia reported a revenue increase of 13.3%. When adjusted for currency rate effects, this corresponded to an encouraging increase of 7.8%. However, this is primarily underpinned by the adoption of a common financial year.

The increase in revenue in the Multichannel Retail segment brought about an increase in gross profit of EUR 292.9 million. In the 2017/18 financial year, the gross profit margin was 47.6%, slightly below the previous year's figure (2016/17: 48.1%). The segment's financial performance improved across all earnings levels and led to an increase in the EBIT figure for the Multichannel Retail segment, which rose from EUR 146.1 million to EUR 161.5 million in the 2017/18 financial year.

FINANCIAL SERVICES

The Financial Services segment, which is primarily driven by the business operations of the internationally operating EOS Group, reported a continued positive business performance in the 2017/18 financial year. Revenue from this segment increased from EUR 732.4 million to EUR 841.4 million. In the past financial year, the EOS Group continued to complete significant debt purchases, which had a very positive effect on the development of revenue figures. The adoption of a common financial year also had a marginally positive effect on the development of revenue figures in the Financial Services segment.

In the Group Management Report for last year, revenue figures for the 2017/18 financial year were forecast to be on a par with the revenue figures for the previous year. With an actual revenue increase of 14.9%, this forecast was significantly exceeded. When adjusted for currency rate effects, this corresponded to an increase of 15.2%. When adjusted for changes to the scope of consolidation, revenue still increased by a respectable 13.4%. Even without taking into account the positive impact of adopting a common financial year, the forecast was significantly exceeded. The segment's contribution to the Group's revenue was 6.2%, which was slightly higher than the previous year (2016/17: 5.9%).

The Financial Services segment's EBIT figure increased by EUR 41.2 million to EUR 338.2 million in the 2017/18 financial year. The slight drop in income from equity investments in the Cofidis Group – reported using the "at equity" method – which can be attributed to the lower ratio of participation resulting from the sale of Cofidis shares in the previous year, was offset by strong operational performance.

SERVICES

In the Services segment, a substantial increase in external revenue of EUR 1,960.7 million to EUR 2,270.9 million was recorded in the 2017/18 financial year. The segment grew considerably with an increase in revenue of 15.8%, which corresponded to 18.0% when adjusted for currency rate effects. The adoption of a common financial year across individual Group companies within the Services segment had a slightly positive impact on the development of revenue figures.

This overall positive increase in revenue significantly exceeded the figure forecast in the 2016/17 Group Management Report for the 2017/18 financial year, which projected a considerable increase but one that was still lower than the 6.7% achieved in the previous year. Even after adjustment for changes to the scope of consolidation, the forecast was exceeded. In the previous financial year, this corresponded to 12.5%. The forecast for revenue growth before taking into account the adoption of a common financial year was exceeded in this segment as well. The share in the Group's revenue rose from 15.7% to 16.6%. In the Services segment, external revenue amounted to 66.9% of total revenue in the 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 2017/18 financial year.

The Hermes Group's growth in revenue was accompanied by, among other expenses, an increase in personnel expenses and an increase in carrier expenses. Moreover, advances continue to be made in the restructuring of the logistics infrastructure, which resulted in extraordinary charges of EUR 29.2 million in Germany. These charges are included under personnel expenses and other operating expenses. In the previous year, these effects in Germany had an adverse impact on the Services segment in the amount of EUR 42.8 million. The sale of the group companies of the Mezzo Group and the Group company DISPEO also reflect the change in business strategy in France. In the past financial year, these Group companies had a negative impact on EBIT for the last time in the order of EUR 29.3 million. Due to the effects described, among other factors, the segment's EBIT figure dropped from EUR 5.8 million to EUR –5.9 million in the 2017/18 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 88.8 million (2016/17: EUR 83.4 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)

	2017/18 EUR Million	2016/17 EUR Million
Cash flow from operating activities	168	184
Cash flow from investing activities	75	−310
Free cash flow	**243**	**−126**
Cash flow from financing activities	−96	266
Net increase in cash and cash equivalents	**147**	**140**
Changes in cash and cash equivalents due to foreign exchange rates	−8	4
Cash and cash equivalents at beginning of period	379	235
Cash and cash equivalents at end of period	**518**	**379**

Cash flow from operating activities for the 2017/18 financial year amounted to EUR 167.6 million, which was slightly below the previous year's figure of EUR 183.6 million. Although gross cash flow increased as a result of the positive growth in EBIT, the significant increase in working capital had a negative impact. The expansion of working capital is driven in particular by the increase in inventory and in trade receivables 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. Furthermore, the ongoing purchase of receivables packages in the case of the EOS Group within the scope of expanding receivables management activities also had an impact on working capital.

Cash flow from investing activities in the 2017/18 financial year was influenced in particular by the continued high level of investment in IT and logistics, among other elements, the further expansion of the Hermes Group's logistics infrastructure, the ongoing upgrade of OTTO's IT landscape and the successful development of the Crate and Barrel Group. Other equity investments were also made by the EVC Group. However, the purchase price receivable resulting from the sale of shares in Cofidis, which was settled in the previous financial year and amounted to EUR 304 million, had a positive impact on cash flow from investing activities. Furthermore, cash outflows resulting from the disposal of Group companies in the French logistics portfolio for restructuring reasons were offset by cash inflows from other portfolio activities. This resulted from the inclusion of investors in ABOUT YOU GmbH and the sale of a German financial services provider.

In the past 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 increase in the Group's net financial debt. Overall, there was a net assumption in the Otto Group's cash and cash equivalents in the 2017/18 financial year.

EQUITY AND FINANCING

As at 28 February 2018, the Otto Group's consolidated balance sheet discloses total equity and liabilities of EUR 9,105.2 million. This represents an increase of 7.5% compared to the previous year.

Financing

	28.02.2018		28.02.2017	
	EUR Million	in %	EUR Million	in %
Equity	1,532	16.8	1,308	15.4
Non-current provisions and liabilities	3,770	41.4	3,504	41.4
Deferred tax	83	0.9	85	1.0
Current provisions and liabilities	3,720	40.9	3,569	42.2
Total equity and liabilities	**9,105**	**100.0**	**8,466**	**100.0**

The significant increase in equity amounting to EUR 224.1 million is due in particular to the very strong earnings position recorded for the 2017/18 financial year, with profits for the year reported at EUR 519.1 million. However, dividends paid predominantly to minority shareholders had a negative impact on equity.

Non-current provisions and liabilities increased by EUR 265.4 million, corresponding to 7.6%, to EUR 3,770.0 million in comparison to the previous year. Firstly, three bonds totalling EUR 390 million with terms varying between five and nine years were issued in the 2017/18 financial year and subsequently recorded under non-current provisions and liabilities. Secondly, 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 151.0 million, corresponding to 4.2%, to EUR 3,720.3 million in the 2017/18 financial year. Short-term bank liabilities resulting from, among other factors, the rise in funds committed to working capital, recorded a particularly strong increase. In particular, the settlement of two bonds totalling EUR 200 million, which fell due in the past financial year, had a contrary effect here. Bonds payable, resulting from the current securities issued as part of the new commercial paper programme, did not change in comparison to the previous financial year and amounted to EUR 150 million.

NET FINANCIAL DEBT

The Otto Group's net financial debt increased by EUR 208.3 million to EUR 2,508.8 million in the 2017/18 financial year. This represents an increase of 9.1%.

Although the large operational Group activities continued to generate significant liquidity, the increase in net financial debt can be attributed, among other factors, to increased investment in the ABOUT YOU GmbH fashion platform, which recorded very strong operational growth in the past financial year. Against the background of strong growth across the Group, there were continued advances made in the restructuring of the IT and logistics infrastructure. Downstream payments resulting from the liquidation of the French trading companies and the associated sale of Group companies in the French logistics portfolio for restructuring reasons also had a negative impact on the net financial debt figure. The payment of dividends, to minority shareholders predominantly, as well as significant debt purchases connected to the growth of the EOS Group 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

	28.02.2018 EUR Million	28.02.2017 EUR Million
Bonds and other notes payable	1,439	1,251
Bank liabilities	1,327	1,109
Other financing liabilities	261	320
Financial debt	**3,027**	**2,680**
Less securities	0	−1
Less cash and cash equivalents	−518	−379
Net financial debt for the Group	**2,509**	**2,300**
Less net financial debt for Financial Services	−915	−868
Net financial debt for Retail and Services	**1,594**	**1,432**

ASSET STRUCTURE

The Otto Group's total assets increased by EUR 638.8 million to EUR 9,105.2 million in the 2017/18 financial year. This represents an increase of 7.5%.

Assets

	28.02.2018 EUR Million	in %	28.02.2017 EUR Million	in %
Fixed assets	3,434	37.7	3,146	37.2
Other non-current assets	1,208	13.3	979	11.5
Deferred tax	135	1.5	118	1.4
Current assets	4,328	47.5	4,223	49.9
Total assets	**9,105**	**100.0**	**8,466**	**100.0**

Non-current assets in the 2017/18 financial year amounted to EUR 4,642.8 million, which is significantly higher than the previous year's figure of EUR 4,125.5 million, and of which 114.2% (2016/17: 116.7%) is covered by long-term capital. Overall, the fixed assets component of this figure increased by EUR 287.6 million. Although intangible assets and property, plant and equipment showed a slight decrease, due to impairment losses among other factors, investments in associated companies and joint ventures increased primarily as a result of the reporting change for ABOUT YOU GmbH. As a result of the sale of shares, ABOUT YOU GmbH underwent deconsolidation, the consequence of which is that the remaining shares in the Otto Group will be recognised as investments in associated companies and joint ventures from now on. On initial recording, the shares were valued based on their fair value (see Notes to the consolidated financial statements as at 28 February 2018, Note (18): "Investments in associated companies and joint ventures and other financial investments"). In addition, non-current assets were increased by ongoing purchases of receivables packages by the EOS Group.

Current assets increased slightly by EUR 104.8 million, the equivalent of 2.5%, in the 2017/18 financial year. Certain inventories of large Group companies in the Multichannel Retail segment increased significantly as a result of the expansion of their business operations. The offset of the purchase price receivable resulting from the sale of shares in Cofidis, which is included in other financial assets and fell due during the past financial year, had a contrary effect in the amount of EUR 304 million.

INVESTMENT

Capital expenditure on intangible assets and property, plant and equipment in the 2017/18 financial year amounted to EUR 379.9 million, which is on a par with 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 invested 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 increased demand. In the 2017/18 financial year, Group company OTTO continued to invest strongly in the IT landscape so that it is in a position to develop further and adapt to both developments in the e-commerce sector and changing customer requirements. Moreover, extensive construction work was continued at Hamburg-Bramfeld. Against a background of positive 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 existing and new online shops as well as in further digitisation of their business models.

A total of EUR 16.2 million (2016/17: EUR 23.9 million) was attributable to additions in the area of finance leases.

Investment by segment

	2017/18 EUR Million	2016/17 EUR Million
Multichannel Retail	197	199
Financial Services	29	24
Services	154	159
Group	**380**	**382**

FUNDS COMMITTED BY SEGMENT

In the 2017/18 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

	28.02.2018 in %	28.02.2017 in %
Multichannel Retail	57.5	55.6
Financial Services	30.6	32.6
Services	11.9	11.8
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 2018. 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 amount to EUR 7,715.9 million, compared to EUR 7,144.9 million in the previous year. The increase is largely due to the greater portion of associated companies and joint ventures, which is a result of the reporting change for ABOUT YOU GmbH due to the sale of shares, as well as the increase in inventory in the large Group companies in the Multichannel Retail segment as a result of the expansion of operational activities in these Group companies. The Group equity ratio amounts to 19.1% compared to a figure of 17.5% last year. The increase is a result of the very strong earnings position in the 2017/18 financial year. However, dividends paid predominantly to minority shareholders had a negative impact on equity.

In the “FS at equity” presentation, the net financial debt figure increased by 11.3% to EUR 1,593.8 million compared to the previous year. This was largely due to higher levels of investment in the ABOUT YOU GmbH fashion platform and Group-wide investments in the restructuring of the IT and logistics infrastructure. Downstream payments resulting from the liquidation of the French trading companies and the associated sale of Group companies in the French logistics portfolio for restructuring reasons also had a negative impact on the net financial debt figure. The payment of dividends, predominantly to minority shareholders, also contributed to the increase in the net financial debt figure. Theoretically, it would take 2.3 years to pay off the net financial debt completely using results from operations (EBITDA). The leverage ratio remains unchanged at 1.1.

Otto Group “FS at equity”

		2017/18	2016/17
Group equity ratio	in %	19.1	17.5
Net financial debt	EUR Million	1,594	1,432
Debt service ratio (net financial debt/EBITDA)	in years	2.3	2.0
Leverage ratio (net financial debt/Group equity)	in years	1.1	1.1

Balance sheet structure "FS at equity"

	28.02.2018		28.02.2017	
	EUR Million	in %	EUR Million	in %
Assets				
Fixed assets	3,775	48.9	3,673	51.4
Other non-current assets	293	3.8	220	3.1
Deferred tax	148	1.9	130	1.8
Current assets	3,500	45.4	3,122	43.7
Total assets	**7,716**	**100.0**	**7,145**	**100.0**
Financing				
Equity	1,471	19.1	1,249	17.5
Non-current provisions and liabilities	3,114	40.4	2,848	39.9
Deferred tax	61	0.8	64	0.9
Current provisions and liabilities	3,070	39.7	2,983	41.7
Total equity and liabilities	**7,716**	**100.0**	**7,145**	**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, where applicable, appropriate measures can be taken immediately to limit the possible repercussions of the risks on the EBT figure, should such risks materialise.

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 the comprehensive identification of the relevant risks, the 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 2018 is characterised by expected further growth in overall economic output. Nonetheless, there are still potential risk factors and uncertainties influencing the performance of the global economy, which arise 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.

A further increase in economic growth, which was already at a high level, is forecast for advanced economies (in particular Germany and the USA) for 2018, which is likely to be characterised by higher growth rates in overall economic output. Against the backdrop of the considerable increase in employment, rapidly rising private consumption expenditure and a highly dynamic corporate investment environment, economic development in the German economy will accelerate further and continue its upward trend in the current year. In the Euro area, economic growth is set to continue at a slightly slower pace and lead to a further improvement in the employment situation. In the USA, significantly more dynamic economic growth is expected in the current year, which will be primarily driven by a rise in private-household consumption expenditure. The US tax reform that entered into effect at the beginning of 2018 is also set to provide positive impetus here. At the same time, economic and trade policy decisions taken by the US administration have resulted in uncertainty. On the whole, however, this provides the Otto Group with an opportunity, as overall economic development in major sales markets in Europe and North America resulting from increased private consumption expenditure, in particular, will have a substantial positive effect on business performance.

In emerging economies – and thus in potential growth markets for the Otto Group – the period of weak economic performance observed over the past several years did not continue, and the economic climate in these countries witnessed a noticeable upswing. This development is set to continue in the forecasting period, although economic growth is not likely to accelerate further. In Russia, overall economic recovery is expected to continue. However, strengthened economic growth in the Russian economy seems unlikely in the long term, in light of the continuing adverse institutional conditions. Nevertheless, positive impetus for private consumption is expected to come from the drastically reduced inflation rate and the resulting renewed 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. It is also expected that cotton prices, which have been rising steadily, and crude oil prices, which are expected to stabilise at the current moderate level, 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. Following the Otto Group's disposal of the activities of the 3SI Commerce operation in France in the 2016/17 financial year, the French logistics portfolio was subsequently successfully restructured in the 2017/18 financial year with the sale of the Mezzo Group and group company DISPEO. 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. 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 unsuccessful turnaround attempts in individual Group companies and the negative impact on liquidity and earnings resulting from the disposal of Group companies.

In the **Multichannel Retail** segment, the Otto Group envisages significant growth opportunities in the continuous further development of e-commerce. The success story of online fashion shop aboutyou.de, which was launched in 2014 by ABOUT YOU GmbH, a Collins GmbH & Co. KG company, continued in the 2017/18 financial year. ABOUT YOU GmbH is one of the fastest-growing e-commerce companies in Europe. In the past financial year, the company more than doubled its revenue, which is in the triple-digit million euro range. The plan is to develop the company into a billion-euro-revenue company over the coming years. Growth drivers include the replication of this successful business model in international markets, the continued expansion of the IT system and the development of innovative marketing approaches. In order to realise this opportunity, the Otto Group is in the process of encouraging further investors and strategic partners to acquire interests in the company in order to optimally complement existing competencies. Risks may arise if the company does not develop as planned.

Group company OTTO is one of Germany's leading e-commerce companies. In the 2017/18 financial year, OTTO succeeded in substantially increasing its active customer base. In combination with successful marketing campaigns and initiatives, this resulted in renewed revenue growth. Furthermore, key steps were taken towards expanding otto.de into a platform in the past financial year. For instance, a wide range of new partners and products were added by means of extending product numbers, among other approaches. This platform development will allow OTTO to access new potential target groups.

Building on its strong position, the Witt Group is now focusing on accelerated revenue growth. In addition to its successful relationship with its existing, deeply loyal customers, strategic measures are currently being implemented to target new customer groups. One of its aims is to counteract 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 thus undergoing major changes, and in doing so is focusing in particular on continued digitisation and the shift from catalogue to online business. In addition, the group is setting its sights on new international markets, for example by entering the US market in the 2017/18 financial year.

Furthermore, the Otto Group sees clear opportunities in deeper market penetration of existing foreign target markets. However, it must also contend with the economic and industry-specific risks inherent in these markets. The Crate and Barrel Group's business in the USA and Canada showed continued positive development in the past financial year. This was due in part to the multiple measures taken along the entire value chain. These measures relate to product ranges and service offerings in stores, for example, but also to additional product ranges and new features in the online shop. Further measures are planned for the 2018/19 financial year, such as the opening of additional stores and further investment in IT and logistics. In addition, the US tax reform that entered into effect at the beginning of 2018 will ease the tax burden and thus have very positive effects in the short-to-medium term. In the United Kingdom, Freemans Grattan Holdings (FGH) recorded further growth in local currency in the mail-order sector for the 2017/18 financial year, despite a challenging market environment. This was primarily due to the further development of the online offering and the corresponding increase in online revenue, which continued at an above-average level. By systematically capitalising on further opportunities afforded by digitisation to improve its offering and enhance service for its customers, FGH expects this growth trend to continue in the 2018/19 financial year. Nevertheless, there are a number of risk factors associated with the Brexit decision and the direct impact that this could have on FGH's business performance. The concrete implications of this situation will depend on the development of future relations between the European Union and the United Kingdom. Through a cross-divisional Brexit project team, current developments are being closely monitored and preliminary measures for FGH and the Otto Group are being taken. In Russia, the business performance of all of the Otto Group's Russian activities is influenced by the overall economic conditions as well as the high volatility of the Russian rouble. Diverse measures have been taken to counteract the resulting risks. In addition, the Russian mail-order and online retail sector is rapidly becoming more competitive, and customer requirements are constantly growing. In order to be able to face these challenges, a range of possible measures, some structural, are being evaluated on a continuous basis. This current development will also result in the creation of further long-term growth opportunities for the Otto Group in Russia.

Market opportunities for profitable growth continue to be seen in the **Financial Services** segment. For the EOS Group in particular, it is expected that the strong performance both in Germany and elsewhere in Europe will continue and that investment levels can be increased. On the other hand, there are risks associated with the potential tightening of legal conditions for operations as well as with potential default by major customers.

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. The founding of an additional company builder, into-e GmbH, in the 2017/18 financial year resulted in a further increase in the investment budget for innovative concepts and technology-based prototypes. Further investments are also being made in established business models. For instance, a receivables management solution based on artificial intelligence is being developed further via collect Artificial Intelligence GmbH. 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 coming financial years, the **Services** segment is also set to benefit from the strong domestic and international momentum in the markets in which the Hermes Group – hereafter Hermes – is active. However, the appeal of these markets also means a high level of competition from existing and new market participants. Against this backdrop, Hermes has created a comprehensive project portfolio to strengthen and develop its performance and market position in a sustainable manner, despite increasing competition and cost pressure. For example, a new on-demand express service is being launched in Germany as a new service offering for fast overnight deliveries. As part of its extended service offering, the level of service for end-consumers has also been improved further by the introduction of delivery time frames that are now just two hours. At the same time, Hermes is countering possible risks resulting from the discussion about exhaust and emissions pollution with a range of pilot projects focused on e-mobility and the "last mile" to the end-consumer. Concrete trials are already taking place in Hamburg and Göttingen in Germany. Furthermore, Hermes is continuing to optimise its geographical distribution in Germany in order to substantially increase delivery capacity, target new customer segments, and simultaneously improve delivery times. This provides an opportunity to also benefit in the future from the rapidly growing e-commerce market and the increasing number of deliveries from companies to private households. In order to strengthen its market position in other countries, Hermes Parcelnet Limited is continuing to invest substantially in logistics infrastructure. In the 2017/18 financial year, it opened a major new logistics centre in Rugby in the United Kingdom.

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 2.1 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. The Otto Group made use of this facility again in the 2017/18 financial year by means of a number of bond issues totalling EUR 390 million. 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 2018, 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 deliver good quality products immediately is a crucial competitive factor. Failure to deliver, delays and inadequate quality can threaten the trust that customers place in the Group's ability to process their orders reliably, and hence negatively impact mail-order sales. 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 being fine-tuned to ensure the ready availability of goods 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 many years of experience in logistics services, the Group maintains resources that are able to cope even with 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. One of the associated risks is the increasing impact of delivery agent shortages. In order to ensure that intra-Group customers' different types of business model continue to be successfully supported in the future, the 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.

In terms of advancing digitisation, the A² programme's "ACHT" project relating to the extension of product numbers was successfully implemented during the 2017/18 financial year. The A² programme provides a framework for enabling the significant expansion of both the product range and the service offering while also optimising the creation of product data. As such, it will provide 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.

From 25 May 2018, data protection law within the European Union will be directly and uniformly governed by the EU General Data Protection Regulation. The EU General Data Protection Regulation presents risks for the Otto Group in that, at the present time, it has not been conclusively determined how individual provisions of the Regulation are to be interpreted in practice. In this regard, the European Court of Justice has yet to make decisions on a number of relevant areas, which may have either a negative or positive impact on individual business models. Until the European Court of Justice has conclusively resolved certain important legal issues, there will be residual risk associated with a small number of data processing operations due to the nature of these operations.

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. At the beginning of the 2018/19 business year, a strategic restructuring of the data centres was launched. This restructuring involves the upgrading of the data centre operations at Hamburg Bramfeld, as well as the establishment of an externally operated colocation centre based on the highest standards.

The established IT emergency management process also provides for ongoing development of IT emergency precautionary measures. Regular emergency exercises are carried out in order to test the performance of the extensive security measures, both individually and as a group.

With a view to minimising risks, 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 audits by Group Internal Audit and also audit by an independent firm of auditors.

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, consulting third-party experts 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.

NO DISCERNIBLE OVERALL RISK TO THE GROUP

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

CORPORATE RESPONSIBILITY

EMPLOYEES

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

The Otto Group employed an average of 51,785 staff – calculated on a full-time equivalent basis – in the 2017/18 financial year (2016/17: 49,787).

Employees

	2017/18	2016/17	Change
	number	number	in %
Multichannel Retail	24,619	24,129	2.0
Financial Services	6,612	6,671	– 0.9
Services	20,153	18,594	8.4
Holding	401	393	2.0
Group	**51,785**	**49,787**	**4.0**

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 human resources management strategy. One of the core objectives of the group-wide human resources 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" (http://www.charta-der-vielfalt.de/en/diversity-charter.html), the Otto Group is committed to providing equal opportunities to each and every employee, regardless of gender, nationality, ethnic background, religion or world view, physical ability, age, sexual orientation and identity. Diversity is also important in order to be able to make use of 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 maintained using Group-wide diversity assessment measures.

Founded in 2012 by the Otto Group's female executives, the aim of the "Power of Diversity" initiative is to foster the development of future female executives across the Group through targeted activities and thus increase the proportion of women in top management positions. In the past financial year, those involved in this initiative were mostly focused 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 fifth time in 2017. The "Boost Your Network" event in autumn 2017 also provided a platform that allowed participants of different "women and leadership" initiatives across the individual Otto Group companies to come together for the fourth time and exchange information about their activities and goals. Discussions focused on the path that women need to take in order to become tech and cultural leaders, and included a general reflection on the key traits identified by the Otto Group's Kulturwandel 4.0 (cultural change) initiative that are needed to achieve this, such as courage, autonomy and confidence.

In accordance with the German law on equal participation of men and women in managerial roles, the Otto Group had set itself the following goals, which are to be reviewed by 30 June 2017: The Group's Supervisory Board was to have reached a target quota of 25%. The actual quota reached as of 30 June 2017 was 30%, meaning that this target was reached with a comfortable margin. For the Executive Board of Verwaltungsgesellschaft Otto mbH, a target quota of 28% was set and subsequently also met by the actual quota of 28% that was achieved as of 30 June 2017; however, due to several personnel changes within the Executive Board, this quota is no longer being met at present.

In light of the re-election of all members of the Supervisory Board that was held in the past financial year as scheduled, the Supervisory Board will review the target quotas set for both the Supervisory Board itself and for the Executive Board during its upcoming meeting in May 2018, and will either approve the retention of the existing quotas or establish new ones.

In the management boards of the Group companies covered by this law, efforts have been made and will also continue to be made until 31 December 2021 to ensure that at least one seat on each board is filled by a woman. This target has already been achieved in four of thirteen Group companies. In terms of top-level management, these Group companies had set themselves the objective of achieving an average target quota of 23%. The actual quota reached on 31 December 2016[5] was 20%, just short of the original target (target quota for 31 December 2021 remains 23%). In terms of second-tier management, a target quota of 30% was set and subsequently reached on 31 December 2016 with an average actual quota of 34% (new target quota for 31 December 2021: 33%).

As an internationally active group, networking and knowledge exchange between employees beyond company and national boundaries is extremely important. A new company-wide work-shadowing platform was created at the beginning of 2017 in order to help employees benefit more from mutual exchange, see things from different perspectives, improve interaction and provide new impetus. With this platform, employees can proactively offer and find work-shadowing opportunities that will promote collaboration and knowledge exchange and help them further develop their competencies. Since the beginning, the number of work-shadowing opportunities available through the platform has increased to approximately 100 opportunities right across Germany. Another instrument for Group-wide and international exchange is the “Otto Group JobFinder” app. The app compares Group-wide German- and English-speaking jobs vacancies with the user profiles of registered employees and other interested parties and offers suitable job vacancies. As a mobile solution, the Otto Group JobFinder app appeals particularly to tech-savvy talent and is becoming more widely used.

An essential pillar of the Otto Group’s human resources strategy is the group-wide range of basic training courses as well as the Otto Group Academy’s development programmes for executives and professionals that are systematically geared towards the needs of the Group. Using different Group-wide formats, emphasis is placed on conveying the mindset and methods used in agile organisations. For example, the compact training course on agile coaching is a new course offered by the Otto Group Academy and teaches participants how to initiate and support agile change processes. Additionally, the Digital Readiness programme played a role in establishing an individualised training programme aimed at creating a common understanding among top-level management of the multifaceted dimensions of digitisation and also at promoting shared learning. Regular inter-Group events are also organised for alumni of the Otto Group Academy in an effort to strengthen Group-wide networking opportunities.

The kickoff of the Kulturwandel 4.0 initiative in December 2015 was also an instrumental step in ensuring the successful development of the Group and its future human resources strategy. In this context, Prof Dr Michael Otto and Benjamin Otto, along with the Group’s Executive Board, called for a change in corporate culture within the Otto Group. Since then, the core objective has been to make the Otto Group more agile, transparent and interconnected than ever before. In order to facilitate this change, full involvement of and discussion with all colleagues will be crucial. To this end, thousands of colleagues took part in a collective assessment of the status of the Otto Group this past year. The initiative resulted in a new mission statement centered on the core principle: “Together we push the limits”. Building on this newly formed collective mindset, the goal for the future is to ensure even stronger networking across all Group companies and levels, resulting in even greater synergies for everyone. The past year also saw the launch of the work of the central cultural change team at Group headquarters in Hamburg. Working with a network of approximately 20 local cultural change teams from around the world, this central team is now driving change within the Group.

Furthermore, the systematic integration of changes in human resources instruments is a key factor for ensuring that this change will be effective in the long term. Group-wide human resources initiatives such as “Recruiting 4.0”, for example, are supporting change right across the Group. The “Recruiting 4.0” concept focuses on the applicant as a customer and emphasises the relevance of the cultural fit of a potential employee in addition to technical competence.

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[5] According to the German law on equal participation of men and women in managerial roles, the latest possible deadline for defining the target figures is 30 June 2017. For the purposes of synchronising reporting cycles, this deadline was taken as 31 December 2016.

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 put into effect since 2013 in all major Group companies based in Germany and Austria (with an annual external revenue of more than EUR 100 million)[6]. Together, these companies generate 57% of Group revenue (for the 2017/18 financial year) and are responsible for approximately 80% of the Group's adverse environmental impacts.

TARGET-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 2017 [7] have been achieved, and in some cases, exceeded (the Social Programme, for example). The Otto Group expects this positive overall development to continue in 2018.

Value-adding stage	Sub-strategy	Target	Actual 2016 in %	Forecast 2017	Actual 2017 in %	Forecast 2018
Raw Materials and Processing	Textile	100% sustainable cotton in own and licensed brands	49	clear rise	78	clear rise
	Furniture	100% FSC®-certified furniture products	46	clear rise	52	slight rise
	Paper	60% FSC®-certified catalogue paper	34	clear rise	43	clear rise
Final Production	Social Programme	100% integration of suppliers of own and licensed brands in the social porgramme	80	slight rise	91	slight rise
Trade	Climate	50% reduction of CO_2 emissions*	–36**	clear reduction	–42	clear reduction

* The target refers to adjusted CO_2 emissions compared to 2006 base year.
** With respect to the Annual Report 2016/17 value has changed with updated location data from –34% to –36%.

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 in particular, cotton from the "Cotton made in Africa" initiative – hereafter "CmiA". From 2018, the share of recycled cotton will also be included in the key indicators for the Textile Strategy. In 2017, use of sustainable cotton increased to 78% (2016: 49%)[8]. This forecasted significant increase is primarily attributable to the increasingly established procurement processes for CmiA cotton and the associated sharp rise in procurement

6 In the financial year 2015/16, the major Group companies of Freemans 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 newly integrated into the CR Strategy 2020. Separate targets applied to these Group companies as of the calendar year 2017, so their target achievements will not be included in the figures from the CR Strategy 2020.

7 All subsequent key indicators will refer to the respective calendar year.

8 Given that Frankonia Handels GmbH & Co. KG did not meet the requirements of the Textile Strategy in 2017, its data will no longer be included in the actual values for the Group for 2017.

volumes. 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 rising procurement volumes of CmiA cotton, the share of sustainable cotton is expected to continue to increase in 2018.

With its **Furniture Strategy**, the Otto Group aims to ensure that all products from the wooden furniture range that are managed by the Group itself are derived from responsible forestry certified by the Forest Stewardship Council® – hereafter FSC. In 2017, the share of FSC-certified wood as a percentage of the total wooden furniture product range accounted for 52% (2016: 46%). The sharp increase in the FSC share that was forecast is the result of long-term agreements concluded in previous years between the Group companies and major furniture suppliers. A slightly less significant increase in the FSC share in the wooden furniture product range is expected for 2018.

The **Paper Strategy** aims to increase the share of FSC-certified paper used in catalogues to at least 60%[9] by 2020. This applies to catalogue paper printed using the gravure process as well as the offset process. In 2017, the share of FSC-certified paper in use increased to 43% (2016: 34%). 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 share of FSC-certified paper used in catalogues is expected to increase again significantly in 2018.

With the **Social Programme**, the Otto Group seeks to create greater transparency as well as improved working conditions in suppliers' factories. All suppliers for Group companies' own and licensed brands with factories in risk countries[10] are to be integrated into this programme. A supplier is deemed to be integrated if they have provided valid and accepted evidence of social audits or certificates for all active factories at the time of production. In 2017, this applied to 91% of suppliers (2016: 80%). This increase in the share of integrated suppliers is a result of the consolidation of suppliers and the subsequent termination of relationships with suppliers who do not fulfil the standards. The Otto Group anticipates a further slight increase in the integration rate in 2018. This forecast is based on the ongoing optimisation of technical and management processes and the continued termination of relationships with suppliers who do not fulfil the standards.

The goal of the **Climate Strategy** is to reduce CO_2 emissions at the value chain level of trade. By 2020, adjusted[11] 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 2017, absolute (unadjusted) CO_2 emissions fell in comparison to 2016, dropping from 231,679 t to 221,732 t. During the same period, adjusted CO_2 emissions fell from 189,028 t to 171,077 t. This corresponds to a reduction of 42% in relation to the base year of 2006 (2016: –36%). This development corresponds to the significant reduction that was forecast for 2017. This is partly attributable to further improvements in energy efficiency as well as to the ongoing shift from air freight to less CO_2-intensive forms of transport such as maritime, road and rail transport in the procurement of goods from producing countries. The purchase of high-quality, certified green energy by German Group companies (accounting for approximately 25% of the total volume of electricity) also contributed to the reduction in CO_2 emissions. A further significant reduction in total CO_2 emissions is also expected in 2018.

9 The target for the Paper Strategy has been increased to 60%.

10 The classification of risk countries is determined in accordance with the Business Social Compliance Initiative (BSCI).

11 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 4.0% in 2018 (2017: 3.9%). Therefore, the growth in worldwide production is also set to increase. While the economic growth levels experienced in 2017 were attributable to the development in advanced economies and emerging economies to an approximately equal extent, growth in the forecasting period is set to increase significantly once again, primarily in the advanced economies (especially Germany and the USA). In the emerging economies, overall economic development is expected to continue at the current pace during the forecasting period, however, economic growth will not accelerate further. In China in particular, early economic indicators are pointing to a deceleration of the pace of expansion and thus to a less pronounced rise in real GDP. In Russia, overall economic recovery is expected to continue. However, in light of continually unfavourable institutional conditions, a sustainable increase in economic growth is unlikely. In terms of foreign trade, an increase of 4.0% (2017: 4.5%) is forecast for 2018, with the likelihood of slightly less significant growth in comparison to the previous year.[12]

In the forecasting period, both the growth in worldwide production and in global trade levels remain vulnerable to disruption. 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 could have a significant negative impact on global economic growth in the short-to-medium term.[13]

Overall economic output in the **German economy** is expected to accelerate further in 2018. When adjusted for inflation, this corresponds to an increase of 2.5% (2017: 2.2%). The sustained upturn is set to continue across the board as upward trends in both the domestic economy and foreign trade will influence economic development during the forecasting period. General conditions indicate strong growth in the domestic economy, with private household consumption expenditure set to continue expanding significantly, amounting to an estimated real growth of 1.7% (2017: 1.9%) . Apart from a rise in real wages, labour market performance in particular is expected to stimulate private household consumption expenditure. The growth in employment seen in previous years is expected to continue at an increased rate in 2018, leading to a drop in the average annual unemployment rate to 5.2% (2017: 5.7%). In addition, due to high and ever-increasing capacity utilisation levels, corporate investments are likely to grow at an accelerated pace and, together with continued high levels of investment in construction, will further promote economic growth. In addition to upward trends in the German economy, foreign trade is also expected to remain a driving force in the economic upturn and make a positive contribution to expansion during the forecasting period. However, exports are expected to grow at a slightly decreased rate, due to a marginal decline in economic growth in the relevant sales markets. Additionally, imports are expected to grow more strongly than exports due to the growth in the domestic economy.[14]

In the **Euro area**, a slight slowdown in economic growth is expected overall in 2018, with price-adjusted GDP set to increase by 2.4% (2017: 2.5%). Overall economic expansion during the forecasting period will be driven both by domestic economic factors and by external economic stimuli. Private-household consumption expenditure is set to benefit from this and expand further thanks to the continuing upswing in the labour market and the slightly higher increase in real wages. The employment situation in the Euro area should improve further in the forecasting period,

[12] Kiel Institute for the World Economy: “World Economic Outlook, Spring 2018”.

[13] Kiel Institute for the World Economy: “World Economic Outlook, Spring 2018”.

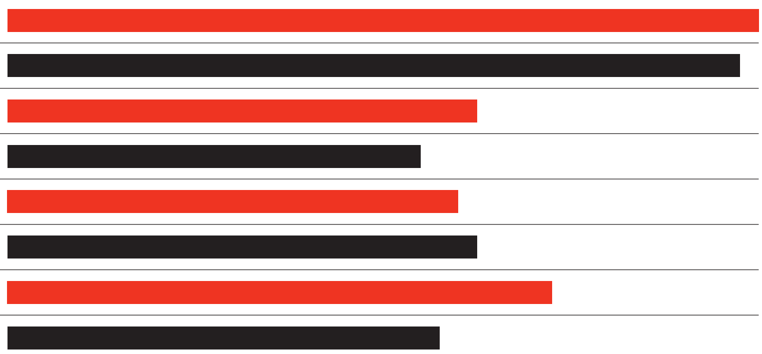
[14] Kiel Institute for the World Economy: “German Economic Outlook, Spring 2018”.

leading to a drop in the average annual unemployment rate to 8.4% (2017: 9.1%). Corporate investment is also set to increase further on the back of a persistently favourable financing environment and increased levels of capacity utilisation, and will have a significant impact on the expansion of overall economic output. Furthermore, most Euro area countries can be expected to continue implementing expansionary fiscal policies. In the other **European Union** countries, a deceleration of the recently very strong expansion of overall economic output is expected in the forecasting period. In the United Kingdom in particular, a further decline in the rate of real GDP growth is expected due to the impending Brexit situation.[15]

In the **USA**, overall economic development in 2018 is again expected to be considerably more dynamic compared to the previous year, giving rise to a substantial forecast increase in price-adjusted GDP of 2.9% over the forecasting period (2017: 2.3%). Positive impetus is expected to come from the continued increase in private-household consumption expenditure, which will be supported by rising real wages, an ongoing reduction in the numbers of people saving, and favourable financing terms. In addition, the strong growth in employment is forecast to continue in the current year, and the annual average unemployment rate is set to fall to 3.9% (2017: 4.4%). Corporate investment is also expected to increase significantly in the forecasting period, with the tax reform that was agreed in 2017, among other factors, set to act as a stimulus. However, as in prior years, foreign trade will not have a positive impact on the expansion of overall economic output.[16]

Forecast of change in real GDP
(in %)

World	2018	4.0
	2017	3.9
Germany	2018	2.5
	2017	2.2
Euro area	2018	2.4
	2017	2.5
USA	2018	2.9
	2017	2.3



SECTOR DEVELOPMENT

MULTICHANNEL RETAIL

Positive growth is expected to continue in the overall **German retail sector** in 2018, with a projected nominal increase of 2.0%[17] in sales (2017: 4.3%). Due to the expected increase in real wages and the anticipated continued growth in employment, private-household consumption expenditure in Germany looks set to rise by 3.6% in nominal terms in 2018 (2017: 3.8%). This corresponds to a price-adjusted increase of 1.9% (2017: 2.0%).[18] As a result of the dynamic economic conditions, it is therefore expected that private household expenditure will expand significantly, as in previous years.

[15] Kiel Institute for the World Economy: "Euro Area Economy, Spring 2018".

[16] Kiel Institute for the World Economy: "World Economic Outlook, Spring 2018".

[17] Press release, German Retail Association (Handelsverband Deutschland, HDE), January 2018.

[18] German Federal Ministry for Industry and Energy: "Annual Economic Report 2018".

The German E-Commerce and Distance Selling Trade Association (Bundesverband E-Commerce und Versandhandel [bevh])[19] is forecasting a continuation of the successful performance seen in **German online and mail-order** sales in preceding years. According to these projections, sales of goods will grow to EUR 67.3 billion in 2018 (2017: EUR 62.2 billion), corresponding to an increase of 8.3% (2017: 8.8%).

The **e-commerce sector** in particular will continue to see stronger momentum in the forecasting period, with a projected increase in revenue of 9.3% (2017: 10.9%); this is, however, lower than the previous year. Pure online revenue is expected to rise to approximately EUR 63.9 billion (2017: EUR 58.5 billion). It is also expected that classes of products that up to now were not entirely compatible with the mail-order sector, such as furniture, lamps and decoration, will continue to record significant increases in revenue in the e-commerce sector in 2018. In addition, shifts between channels – such as more orders being placed via the mobile Internet using smartphones and tablets – are set to continue.

FINANCIAL SERVICES

The forecasted development in the German economy in 2018 will also have an effect on the **German financial services sector**. Based on the positive economic forecast, the German Association of Debt Collection Companies (Bundesverband Deutscher Inkasso-Unternehmen, BDIU)[20] anticipates that the payment behaviour of companies and consumers will stabilise at the same positive level as the previous year. It is expected that the sustained drop in company insolvencies since 2010 will continue at a significant pace in the forecasting period, and that the number of company insolvencies in 2018 will fall below 20,000 cases for the first time (2017: 20,093 cases). The market for receivables management is nonetheless expected to continue to remain attractive in 2018. 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[21], the **German transport and logistics sector** is expected to see an upward trend in all transport-intensive sectors in 2018. Total goods transport is set to grow by 1.0% in the forecasting period (2017: 1.9%), and is expected to benefit both from the continuing positive development of the German economy and from the anticipation of dynamic growth in international trade.

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 2017 and those planned for 2018. Following a moderate increase in 2017, it is expected that crude oil prices will stabilise during the forecasting period, and that the German transport and logistics sector will only experience a slight increase in fuel prices, if at all.

Given the dynamic increase in revenue from online and mail-order sales expected for 2018, German parcel-services providers will also face serious challenges in 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 for the purposes of expanding the logistics infrastructure. At the same time, new approaches are being developed and tested in 2018 in order to accommodate the increasing number of deliveries in the face of changing customer requirements, the increasing impact of driver shortages and the escalating traffic situation.

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[19] Press release, German E-Commerce and Distance Selling Trade Association (bevh) 1/22/2018.

[20] Press release, German Association of Debt Collection Companies (BDIU) 29/11/2017.

[21] German Federal Office for Goods Transport: “Rolling Mid-Term Forecast for Goods and Passenger Traffic – Winter 2017/18”.

DEVELOPMENT OF THE OTTO GROUP

The Otto Group will continue its targeted growth strategy across all segments in the coming financial years. Over the medium term, the Otto Group will concentrate on the ambitious target of achieving revenue of EUR 17 billion by the 2022/23 financial year, 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-based expansion of the customer base, opening up the Group to external partners and considerably stronger internal networking. The Kulturwandel 4.0 (cultural change) initiative will play a key role in promoting internal networking and technological exchange within the Otto Group

All initiatives and measures implemented in the coming financial years will be systematically aligned with customer requirements. The objective is to increase customer satisfaction by providing an even more personalised customer experience and by offering tailored services for customers.

Expectations for overall economic development and sector development form the point of departure for the projected development of the Otto Group and its segments in the 2018/19 financial year. The forecast is supported by the overall economic conditions and sector growth projected for the relevant sales markets, i.e. Germany, the rest of Europe and the USA. In particular, the expansion of private-household consumption expenditure is expected to have a positive influence on business performance in these sales markets. 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** in the 2017/18 financial year was significantly higher than in the previous year, with an increase of 8.3%, when adjusted for currency rate effects. In addition, the Group-wide harmonisation of individual Group companies' previously different financial years resulted in a slight increase in revenue. For the 2018/19 financial year, the Group expects an increase in revenue that will be almost on a par with the very strong growth achieved in the previous year after overall adjustment. The Otto Group's focus is on revenue growth in the forecast year, based on selected platform, retail and brand concepts. For example, Group company OTTO plans to continue to invest heavily in the expansion of the e-commerce platform in order to significantly increase the range of products on offer. Notable players among the brand concepts included in the targeted growth strategy include the bonprix Group, the Crate and Barrel Group, and the Witt Group. To a large extent, revenue growth exceeding the segment's growth level is planned for all brand concepts. Activities in Russia remain challenging in light of the overall economic environment, which, although improved, is still not achieving dynamic growth levels.

The **Financial Services segment** achieved currency-rate-adjusted revenue growth of 15.2% in the 2017/18 financial year; when adjusted for changes to the scope of consolidation, the increase amounted to 13.7%. The Group-wide harmonisation of individual Group companies' previously different financial years resulted in a one-off slight increase in revenue in this segment also. The segment is influenced to a large extent by the EOS Group. In the coming financial years, the EOS Group will continue to focus on debt collection services, strong investment in debt purchasing – both in Germany and also in western and eastern Europe – as well as business process outsourcing. Initiatives aimed at continuously optimising operational processes, such as the increased use of business analytics in receivables processing, for example, will be advanced further and will influence the performance of 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. For the 2018/19 financial year, the Otto Group expects revenue levels for this segment to be only slightly below the previous year, after overall adjustment.

The **Services segment** continued to grow noticeably in the 2017/18 financial year with currency-rate-adjusted external revenue growth of 18.0%. On a comparable basis, i.e. when also adjusted for changes to the scope of consolidation, the increase in revenue amounted to 14.8%. The harmonisation of previously different financial years, which also concerned Group companies in the Services segment, resulted in a one-off slight increase in revenue. Strong external revenue growth is also expected for the 2018/19 forecast year. However, after overall adjustment, the projected increase is not likely to reach the growth achieved in the previous year, a figure which was slightly below double digits. Notable contributors to this growth include the Group companies Hermes Germany GmbH in Germany and Hermes Parcelnet Limited in the United Kingdom.

The Hermes Group, which has a major influence in the Services segment, will focus mainly on distribution in the future. One of the reasons for this is the increasing significance of individualised, tailor-made delivery solutions for customers (such as next-day and same-day delivery, or on-demand delivery) and the associated services, which are much more challenging. Other key areas include the expansion of the international, cross-border parcel business, ongoing digitisation and the Europe-wide expansion of Hermes' network of parcel collection hubs. To achieve these ambitious targets, heavy investment is also planned in the forecast year as part of these policies.

At **Group level**, the Otto Group achieved significant revenue growth overall in the 2017/18 financial year. As adjusted for currency rates and on a comparable basis, i.e. adjusted for changes to the scope of consolidation, revenue increased by 9.6%. In addition, the Group-wide harmonisation of individual Group companies' previously different financial years had the one-off effect of increasing revenue by approximately two and a half per cent. On a comparable basis and adjusted for the effects of adopting a common financial year, the Group is aiming for revenue growth of approximately 5% in the 2018/19 forecast year.

The process of streamlining and adjusting the Otto Group's portfolio previously represented a primary focal point aimed at sustainably improving the Group's financial performance. Restructuring measures in France were recently completed with the sale of the group companies of the Mezzo Group and the DISPEO Group company. In the forecast year and the coming financial years, the Otto Group will focus in particular on opening up to external partners and investors. Through the inclusion of new investors in ABOUT YOU GmbH, for example, the Otto Group has set the course for strong growth in this successful business model.

Internationally active brands, especially the Witt Group, Crate and Barrel Group and the bonprix group, are also planning strong or very strong EBT contributions in the 2018/19 forecast year. The EOS Group will make a significant contribution to the earnings of the Otto Group once again. Group company OTTO is anticipating a temporary decline in EBT in the course of its transition to the platform model. With regard to the Group's other retail concepts, the Baur Group and the heine Group in particular had a positive effect in terms of earnings, while the myToys Group and SportScheck GmbH are expected to have a further negative impact on the EBT figure in the forecast year. Given the low levels of economic growth in Russia, Otto Group Russia is not expected to make a positive contribution to earnings. In addition, 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.

Taking into account the above-mentioned influencing factors, the Group-level EBT figure expected for the 2018/19 financial year will, on an operational level, be on a par with the strong earnings position achieved in the 2017/18 financial year.

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

The Otto Group is continuing to undergo major changes and is investing heavily in the digital transformation of various business models. Given its targeted growth strategy, which has identified particularly promising business models that are attracting above-average levels of investment, the Otto Group considers itself to be well prepared to successfully maintain its position in the dynamic and highly competitive environment of the individual segments.

In terms of corporate action, the Otto Group continues to take responsibility for its business activities by focusing on the entire value chain.

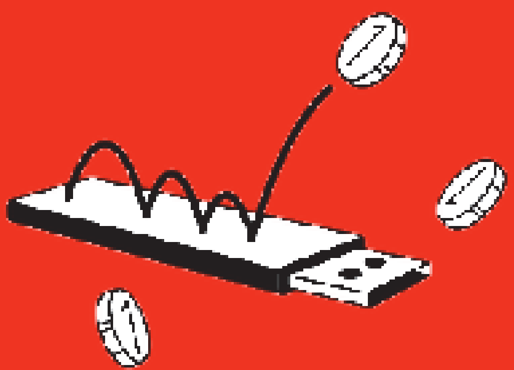
The Otto Group's earnings capacity improved significantly. The Executive Board considers the Otto Group to be on the right track in terms of revenue and earnings for the forecast years and the coming financial year. The net assets and financial position of the Otto Group is solid.

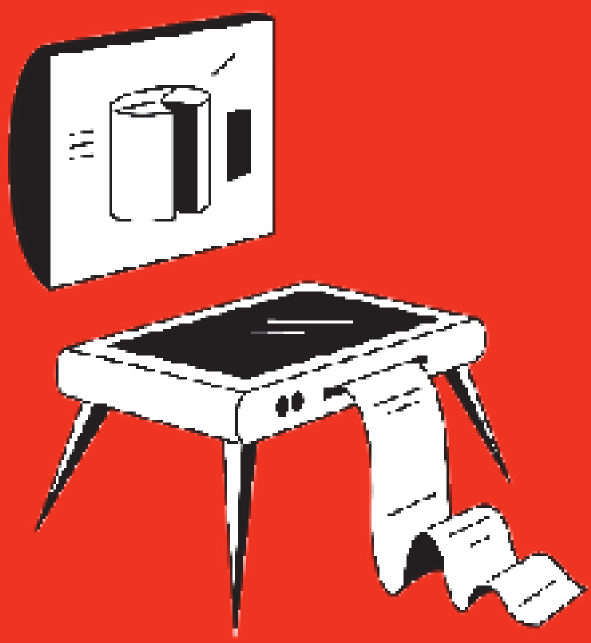
The Executive Board takes a positive view of the Group's business situation.

Hamburg, 3 May 2018

The Executive Board

CONSOLIDATED FINANCIAL STATEMENTS





CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1 MARCH 2017 TO 28 FEBRUARY 2018

	2017/18 EUR 000	2016/17 EUR 000
Profit for the year	**519,095**	**40,697**
Items that may be reclassified subsequently to profit or loss		
Gains and losses arising from translation of financial statements in foreign currencies	–61,240	8,893
Gains and losses on remeasuring fair values of available-for-sale securities after tax	10,185	–19,987
Gains and losses in other comprehensive income	18,499	–25,612
Gains and losses reclassified to profit or loss	–8,314	5,625
Gains and losses arising from changes in fair values of derivatives held as cash flow hedges after tax	–20,295	–12,067
Gains and losses in other comprehensive income	–967	–31,886
Gains and losses reclassified to profit or loss	–19,328	19,819
Share of income and expenses not affecting profit and loss of associates and joint ventures accounted for using the equity method after tax	6,391	7,181
Items that will not be reclassified to profit or loss		
Remeasurements of the net defined benefit liability after tax	–22,903	–159,637
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)	15	–430
Other comprehensive income for the year	**–87,847**	**–176,047**
Total comprehensive income for the year	**431,248**	**–135,350**
Total comprehensive income attributable to the owners of Otto (GmbH & Co KG)	352,141	–213,334
Total comprehensive income attributable to non-controlling interests	73,764	72,212
Total comprehensive income attributable to participation certificates	5,343	5,772

CONSOLIDATED INCOME STATEMENT

1 MARCH 2017 TO 28 FEBRUARY 2018

	Note [No.]	2017/18 EUR 000	2016/17 EUR 000
Revenue	[6]	**13,652,891**	**12,511,770**
Other operating income	[7]	795,920	759,945
Revenue and other operating income		**14,448,811**	**13,271,715**
Change in inventories and other internal costs capitalised		51,096	48,538
Purchased goods and services	[8]	−7,184,480	−6,519,242
Personnel expenses	[9]	−2,386,282	−2,153,257
Other operating expenses	[10]	−4,263,641	−4,004,814
Income (loss) from equity investments	[11]	84,457	87,483
Income from associates and joint ventures		82,034	85,145
Income from other equity investments		2,423	2,338
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**749,961**	**730,423**
Depreciation and amortisation	[12]	−282,655	−274,876
Impairment losses	[13]	−62,335	−90,091
Earnings before interest and tax (EBIT)		**404,971**	**365,456**
Interest and similar income	[14]	36,195	38,156
Interest and similar expenses	[14]	−139,121	−127,620
Other net financial income (expense)	[14]	326,949	−14,111
Earnings before tax (EBT)		**628,994**	**261,881**
Income tax	[15]	−109,899	−98,311
Profit for the year from continuing operations		**519,095**	**163,570**
Loss for the year from discontinued operations	[5c]	0	−122,873
Profit for the year		**519,095**	**40,697**
Profit attributable to the owners of Otto (GmbH & Co KG)		439,970	−33,998
Profit attributable to non-controlling interests		73,782	68,923
Profit attributable to participation certificates		5,343	5,772

CONSOLIDATED BALANCE SHEET

AS AT 28 FEBRUARY 2018

Assets

	Note [No.]	28.02.2018 EUR 000	28.02.2017 EUR 000
Non-current assets			
Fixed assets		3,433,909	3,146,293
Intangible assets	[16]	708,404	799,812
Property, plant and equipment	[17]	1,368,135	1,467,602
Investments in associated companies and joint ventures	[18]	1,078,923	582,184
Other financial investments	[18]	278,447	296,695
Trade receivables	[20]	167,644	155,996
Receivables from financial services	[20]	878,812	677,148
Receivables from related parties	[21]	56,152	60,751
Other assets	[22]	106,295	85,290
Other financial assets		82,169	64,903
Miscellaneous other assets		24,126	20,387
		4,642,812	**4,125,478**
Deferred tax	[15]	**134,891**	**118,155**
Current assets			
Inventories	[19]	1,616,718	1,403,377
Trade receivables	[20]	1,228,126	1,187,563
Receivables from financial services	[20]	419,679	406,714
Receivables from related parties	[21]	117,830	45,491
Income tax receivables		33,401	36,028
Other assets	[22]	393,713	763,605
Other financial assets		133,242	435,402
Miscellaneous other assets		260,471	328,203
Securities	[22]	443	942
Cash and cash equivalents		517,615	379,042
		4,327,525	**4,222,762**
Total assets		**9,105,228**	**8,466,395**

Equity and liabilities

	Note [No.]	28.02.2018 EUR 000	28.02.2017 EUR 000
Equity			
Equity attributable to the owners of Otto (GmbH & Co KG)		733,717	434,121
Capital provided by the limited partners in Otto (GmbH & Co KG)		820,000	820,000
Consolidated retained earnings		739,621	353,839
Net cost in excess of net assets acquired in step acquisitions		−215,626	−217,097
Accumulated other comprehensive income		−625,396	−537,903
Accumulated other equity		15,118	15,282
Non-controlling interests		681,319	756,832
Participation certificates		116,985	116,984
	[23]	**1,532,021**	**1,307,937**
Non-current provisions and liabilities			
Profit and loss participation rights	[24]	25,710	23,900
Provisions for pensions and similar obligations	[25]	1,416,795	1,357,436
Other provisions	[26]	144,135	141,452
Bonds and other notes payable	[27]	1,272,413	884,238
Bank liabilities	[27]	555,073	569,593
Other financing liabilities	[28]	47,581	114,821
Trade payables		32,604	39,707
Liabilities to related parties	[29]	464	16,441
Other liabilities	[30]	275,186	356,957
Other financial liabilities		173,622	235,339
Miscellaneous other liabilities		101,564	121,618
		3,769,961	**3,504,545**
Deferred tax	[15]	**82,981**	**84,626**
Current provisions and liabilities			
Profit and loss participation rights	[24]	1,851	3,476
Other provisions	[26]	151,770	142,158
Bonds and other notes payable	[27]	166,810	367,188
Bank liabilities	[27]	771,631	539,435
Other financing liabilities	[28]	213,340	205,151
Trade payables		1,426,845	1,335,904
Liabilities to related parties	[29]	24,516	17,093
Income tax liabilities		53,500	47,564
Other liabilities	[30]	910,002	876,904
Other financial liabilities		479,180	414,989
Miscellaneous other liabilities		430,822	461,915
Liabilities classified as held for sale	[5c]	0	34,414
		3,720,265	**3,569,287**
Total equity and liabilities		**9,105,228**	**8,466,395**

CONSOLIDATED CASH FLOW STATEMENT

1 MARCH 2017 TO 28 FEBRUARY 2018

	2017/18	2016/17
	EUR 000	EUR 000
Earnings before interest and tax (EBIT)	404,971	365,456
Depreciation, amortisation and impairment losses/reversal of impairment losses on intangible assets and property, plant and equipment	337,169	357,332
Profits (–)/losses (+) from associated companies and joint ventures	–82,034	–85,144
Dividends received from associated companies and joint ventures	7,194	17,860
Increase (+)/decrease (–) in allowances on loans, receivables and inventories	159,789	136,948
Gains (–)/losses (+) on disposals of items in intangible assets and property, plant and equipment	–8,408	–15,834
Pension payments exceeding (–)/less than (+) pension expense	–12,771	–16,676
Other non-cash income (–) and expenses (+)	455	382
Gross cash flow from operating activities	**806,365**	**760,324**
Increase (–)/decrease (+) in working capital	–579,008	–387,753
Decrease (+)/increase (–) in inventories (gross)	–329,415	–103,060
Decrease (+)/increase (–) in trade receivables (gross)	–228,015	–118,698
Decrease (+)/increase (–) in receivables from financial services (gross)	–272,067	–257,011
Increase (+)/decrease (–) in provisions	–17,323	12,336
Increase (+)/decrease (–) in trade payables	171,056	199,598
Increase (+)/decrease (–) in receivables due from related parties/in payables due to related parties	–29,972	5,412
Changes in other assets/liabilities	126,728	–126,330
Net cash generated from operating activities	**227,357**	**372,571**
Income tax paid	–99,244	–80,444
Interest received	38,409	14,156
Cash inflows/outflows from non-current financial assets and securities	1,125	3,216
Cash flow from operating activities from continuing operations	**167,647**	**309,499**
Operating cash flow from discontinued operations	0	–125,929
Cash flow from operating activities	**167,647**	**183,570**

	2017/18 EUR 000	2016/17 EUR 000
Cash flow from operating activities	**167,647**	**183,570**
Capital expenditures on purchases of intangible assets and property, plant and equipment	−361,787	−297,013
Payments for acquisition of subsidiaries	0	−24,443
Capital expenditures on purchases of other financial investments	−105,162	−133,068
Proceeds from disposals of intangible assets and property, plant and equipment	112,511	77,756
Proceeds from disposals of consolidated subsidiaries	−9,707	19,902
Proceeds from disposals of other financial investments	439,060	75,305
Investing cash flow from continuing operations	**74,915**	**−281,561**
Investing cash flow from discontinued operations	0	−28,213
Cash flow from investing activities	**74,915**	**−309,774**
Free cash flow	**242,562**	**−126,204**
Dividends paid	−203,481	−65,566
Interest paid and bank charges	−157,757	−135,672
Payments for step acquisitions in subsidiaries	0	−888
Payments (net) for repurchases of profit and loss participation rights	−339	−4,238
Payments of principal on finance lease	−20,858	−15,383
Proceeds from assumption of other financial liabilities	522,776	675,090
Repayments of other financial liabilities	−236,286	−187,581
Financing cash flow from continuing operations	**−95,945**	**265,762**
Financing cash flow from discontinued operations	0	9
Cash flow from financing activities	**−95,945**	**265,771**
Cash and cash equivalents at beginning of period	379,171	234,673
Net increase in cash and cash equivalents	146,617	139,567
Changes in cash and cash equivalents due to foreign exchange rates	−8,043	4,931
Cash and cash equivalents at end of period (please refer to note 33)	**517,745**	**379,171**

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
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
2017/18					
01.03.2017	**820,000**	**353,839**	**−217,097**	**−97,906**	**126,222**
Total comprehensive income	–	439,970	–	−60,200	10,171
Profit for the year	–	439,970	–	–	–
Other comprehensive income for the year	–	–	–	−60,200	10,171
Changes in entities consolidated	–	−3,983	1,471	–	–
Dividends paid	–	−49,079	–	–	–
Other changes recognised directly in equity	–	−1,126	–	–	–
28.02.2018	**820,000**	**739,621**	**−215,626**	**−158,106**	**136,393**
2016/17					
01.03.2016	**820,000**	**429,388**	**−222,949**	**−106,417**	**146,188**
Total comprehensive income	–	−33,998	–	8,511	−19,966
Profit for the year	–	−33,998	–	–	–
Other comprehensive income for the year	–	–	–	8,511	−19,966
Changes in entities consolidated	–	−9,298	6,036	–	–
Step acquisitions/partial disposals	–	–	−184	–	–
Dividends paid	–	−26,712	–	–	–
Other changes recognised directly in equity	–	−5,541	–	–	–
28.02.2017	**820,000**	**353,839**	**−217,097**	**−97,906**	**126,222**

Gains and losses arising from changes in fair values of derivatives held as cash flow hedges	Remeasurements of the net defined liability	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	Participation certificates	Total
EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
12,282	**−581,638**	**3,137**	**15,282**	**434,121**	**756,832**	**116,984**	**1,307,937**
−21,314	−22,472	5,986	–	352,141	73,764	5,343	431,248
–	–	–	–	439,970	73,782	5,343	519,095
−21,314	−22,472	5,986	–	−87,829	−18	–	−87,847
–	336	–	–	−2,176	−217	–	−2,393
–	–	–	–	−49,079	−149,060	−5,342	−203,481
–	–	–	−164	−1,290	–	–	−1,290
−9,032	**−603,774**	**9,123**	**15,118**	**733,717**	**681,319**	**116,985**	**1,532,021**
25,659	**−424,537**	**−1,824**	**15,242**	**680,750**	**721,107**	**115,533**	**1,517,390**
−13,377	−159,464	4,961	–	−213,333	72,211	5,772	−135,350
–	–	–	–	−33,998	68,923	5,772	40,697
−13,377	−159,464	4,961	–	−179,335	3,288	–	−176,047
–	2,363	–	2	−897	1,804	–	907
–	–	–	–	−184	−704	–	−888
–	–	–	–	−26,712	−34,532	−4,321	−65,565
–	–	–	38	−5,503	−3,054	–	−8,557
12,282	**−581,638**	**3,137**	**15,282**	**434,121**	**756,832**	**116,984**	**1,307,937**

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**

CONSOLIDATED STATEMENT OF CHANGES IN FIXED ASSETS

2016/17

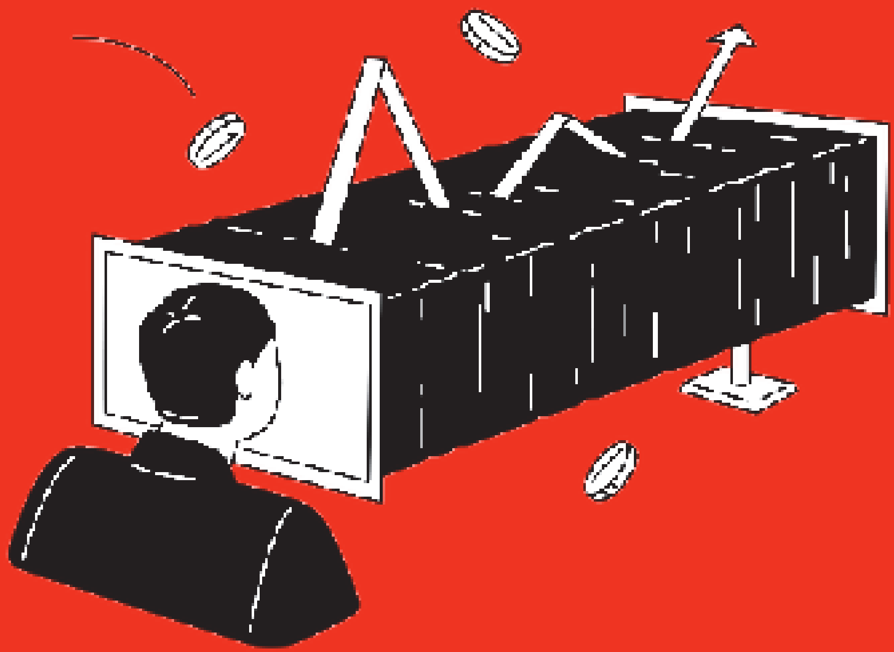
	Historical cost						
	01.03.2016	Initial Con-solidation	Additions	Disposals	Reclassi-fications	Foreign currency translation	28.02.2017
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Intangible assets							
Internally generated intangible assets	351,151	7,762	19,596	−10,441	10,023	898	378,989
Purchased intangible assets	639,407	9,846	50,539	−53,035	24,323	7,221	678,301
Goodwill	466,022	–	15,725	−8,890	–	10,429	483,286
Advance payments on intangible assets	86,085	150	60,133	−2,619	−32,710	692	111,731
Intangible assets under finance lease	7	–	–	–	–	–	7
Total	**1,542,672**	**17,758**	**145,993**	**−74,985**	**1,636**	**19,240**	**1,652,314**
Property, plant and equipment							
Land, land rights and buildings	1,771,308	9,104	29,257	−115,113	8,588	17,519	1,720,663
Technical plant and machinery	575,769	4,550	11,117	−7,583	2,684	684	587,221
Other plant, operating and office equipment	771,209	3,228	68,882	−55,883	5,701	1,289	794,426
Advance payments and construction in progress	28,045	121	59,641	−5,970	−18,609	−692	62,536
Assets under finance lease	143,503	8,952	23,862	−688	–	−3,089	172,540
Total	**3,289,834**	**25,955**	**192,759**	**−185,237**	**−1,636**	**15,711**	**3,337,386**

	Accumulated depreciation, amortisation and impairments									Carrying amount	
	01.03.2016	Initial Con-solidation	Disposals	Depreci-ation and Amortisation	Impairments	Reclassi-fications	Reversals of Impairment losses	Foreign currency translation	28.02.2017	28.02.2017	29.02.2016
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
	−210,330	−647	6,957	−36,821	−19,755	5	–	−1,007	−261,598	117,391	140,821
	−407,607	−6,002	47,643	−62,495	−25,821	−143	–	−6,076	−460,501	217,800	231,800
	−129,683	–	8,890	–	−5,056	–	–	−4,542	−130,391	352,895	336,339
	−138	–	–	–	−3	136	–	–	−5	111,726	85,947
	−7	–	–	–	–	–	–	–	−7	–	–
	−747,765	**−6,649**	**63,490**	**−99,316**	**−50,635**	**−2**	**–**	**−11,625**	**−852,502**	**799,812**	**794,907**
	−777,050	−1,691	74,855	−67,789	−21,882	−16	7,261	−12,048	−798,360	922,303	994,258
	−364,195	−4,315	7,382	−30,422	−7,293	−16	220	−510	−399,149	188,072	211,574
	−543,878	−2,745	52,021	−65,531	−10,241	−13	154	−2,436	−572,669	221,757	227,331
	−308	−59	–	–	−40	47	–	–	−360	62,176	27,737
	−87,980	−2,577	308	−11,818	–	–	–	2,821	−99,246	73,294	55,523
	−1,773,411	**−11,387**	**134,566**	**−175,560**	**−39,456**	**2**	**7,635**	**−12,173**	**−1,869,784**	**1,467,602**	**1,516,423**

SEGMENT REPORTING

	Multichannel Retail		Financial Services	
	2017/18	2016/17	2017/18	2016/17
	EUR 000	EUR 000	EUR 000	EUR 000
External revenue	10,540,561	9,818,737	841,406	732,374
Internal revenue (inter-segment)	1,040	91	28,656	33,868
Purchased goods and services	−5,526,404	−5,096,506	–	–
Gross profit	**5,015,197**	**4,722,322**	**870,062**	**766,242**
Operating income and expenses	−3,380,337	−3,198,640	−320,231	−291,287
Personnel expenses	−1,275,425	−1,160,057	−281,311	−257,165
Income (loss) from equity investments	8,287	−4,696	76,170	96,432
Income from associates and joint ventures	6,168	−7,027	75,866	96,425
Income from other equity investments	2,119	2,331	304	7
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**407,033**	**403,284**	**357,326**	**320,244**
Depreciation and amortisation	−191,546	−191,019	−19,132	−18,556
Impairment losses	−54,009	−66,153	–	−4,692
Earnings before interest and tax (EBIT)	**161,478**	**146,112**	**338,194**	**296,996**
Segment assets	**4,860,492**	**4,473,531**	**2,589,114**	**2,619,190**
Of which attributable to investments in associated companies and joint ventures	498,080	70,293	592,323	523,372
Capital expenditure on intangible assets and property, plant and equipment	**197,107**	**199,424**	**28,845**	**23,785**
Gross cash flow from operating activities	**494,543**	**467,419**	**310,998**	**266,607**
Employees from continuing operations (average number)	**24,619**	**24,129**	**6,612**	**6,671**

Services		All Segments		Holding/Consolidation		Group	
2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
2,270,924	1,960,659	13,652,891	12,511,770	–	–	13,652,891	12,511,770
1,125,602	1,064,572	1,155,298	1,098,531	−1,155,298	−1,098,531	–	–
−1,808,277	−1,558,557	−7,334,681	−6,655,063	150,201	135,821	−7,184,480	−6,519,242
1,588,249	**1,466,674**	**7,473,508**	**6,955,238**	**−1,005,097**	**−962,710**	**6,468,411**	**5,992,528**
−732,688	−682,822	−4,433,256	−4,172,749	965,535	927,880	−3,467,721	−3,244,869
−780,270	−687,440	−2,337,006	−2,104,662	−49,276	−48,595	−2,386,282	−2,153,257
–	−4,253	84,457	87,483	–	–	84,457	87,483
–	−4,253	82,034	85,145	–	–	82,034	85,145
–	–	2,423	2,338	–	–	2,423	2,338
74,440	**90,319**	**838,799**	**813,847**	**−88,838**	**−83,424**	**749,961**	**730,423**
−71,977	−65,301	−282,655	−274,876	–	–	−282,655	−274,876
−8,326	−19,246	−62,335	−90,091	–	–	−62,335	−90,091
−5,863	**5,772**	**493,809**	**448,880**	**−88,838**	**−83,424**	**404,971**	**365,456**
1,002,226	**951,252**	**8,451,832**	**8,043,973**	**−395,399**	**−415,008**	**8,056,433**	**7,628,965**
–	–	1,090,403	593,665	−11,480	−11,480	1,078,923	582,185
153,975	**159,256**	**379,927**	**382,465**	**–**	**–**	**379,927**	**382,465**
89,931	**109,604**	**895,472**	**843,630**	**−89,107**	**−83,306**	**806,365**	**760,324**
20,153	**18,594**	**51,384**	**49,394**	**401**	**393**	**51,785**	**49,787**



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 3 May 2018.

(1) PRINCIPLES

The consolidated financial statements for the year ended 28 February 2018 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	2017/18	2016/17	28.02.2018	28.02.2017
US dollar (USD)	1.157	1.101	1.221	1.060
Russian ruble (RUB)	67.024	70.561	68.754	61.755
British pound (GBP)	0.881	0.834	0.884	0.853
Japanese yen (JPY)	128.847	119.198	130.720	118.830
Polish zloty (PLN)	4.227	4.353	4.178	4.315
Canadian dollar (CAD)	1.487	1.443	1.561	1.398
Brazilian real (BRL)	3.707	3.686	3.962	3.281
Hong Kong dollar (HKD)	9.027	8.540	9.560	8.225
Swiss franc (CHF)	1.127	1.085	1.152	1.065

(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 26,211 thousand (28 February 2017: EUR 26,604 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.

In accordance with IAS 20, government grants to encourage investment are deducted from the original cost of the subsidised assets. The entitlement is capitalised when it is reasonably certain that subsidies will be granted and conditions relating to the subsidies will be met.

(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 1.50%. 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 6.91% and 11.29% (28 February 2017: 6.60% to 14.81%) 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, available-for-sale financial assets, financial liabilities, forward exchange transactions, interest rate swaps and currency options.

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. A financial asset is recognised initially at fair value plus any directly attributable transaction costs, provided the financial asset has not been assigned to the at fair value through profit or loss category. Financial assets are subsequently measured either at fair value or at cost or at amortised cost using the effective interest method, depending on the IAS 39 category to which the financial instrument has been assigned.

Financial liabilities are initially measured at fair value less transaction costs and subsequently at amortised cost. Financial liabilities classified as at fair value through profit or loss, however, are initially and subsequently accounted for at fair value.

Financial assets and financial liabilities are derecognised provided that either the rights to cash flows generated from the asset expire, or substantially all risks are transferred to third parties in such a manner that meet 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 5,241 thousand (28 February 2017: EUR 5,252 thousand) are recognised for these obligations as at balance sheet date.

Financial liabilities are derecognised when the obligation either ceases to exist, is rescinded or expires, or if substantial changes are made to the contract terms.

(i) Cash and cash equivalents

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

(ii) Loans and receivables, LAR

Trade receivables, receivables from financial services and other non-derivative financial assets in this category are initially recognised at fair value. Receivables from financial services include purchased receivables that are reported as financial instruments in the loans and receivables category.

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. Value allowances are recognised as soon as objective evidence points to the existence of a credit risk for 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 in political or macroeconomic conditions. The extent of the allowance depends on experience and estimates of the individual risk. If irrecoverability is to be assumed, the items are derecognised.

(iii) Available-for-sale financial assets, AFS

Available-for-sale financial assets comprise investments in companies that are not accounted for according to IFRS 10, IFRS 11, or IAS 28 and securities and other non-derivative financial instruments that are not classified as either cash and cash equivalents, loans and receivables, or as held-to-maturity assets.

Available-for-sale financial assets are measured at fair value at the balance sheet date or, if this value cannot be determined, at cost. Unrealised gains and losses resulting from changes in fair value are reported in accumulated other comprehensive income, net of tax. Changes in fair value are not recognised in the income statement until the asset is sold, or until an impairment loss is recorded. Reversals of impairment losses on equity instruments are always recognised in accumulated other comprehensive income, whereas for debt instruments they are recognised in the income statement up to an amount equivalent to the initial impairment loss recognised in previous periods. Investments that qualify as equity instruments are measured at 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 pricing models, in cases where cash flows are volatile or cannot be reliably determined.

(iv) Financial liabilities measured at amortised cost, OL

On initial recognition, financial liabilities are reported at their 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.

(v) Derivatice financial instruments (financial assets/liabilities at fair value through profit or loss, AFV/LFV) 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 change in the fair value of derivatives depends on whether they are designated as hedging instruments and qualify as part of a hedging relationship under IAS 39.

If these conditions are not met, despite the presence of an underlying economic hedging relationship, changes in the fair value of the derivative financial instruments are recognised directly in the income statement.

The effective portion of the change in the 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, together with any attributable tax effect. The ineffective portion is recognised in the income statement. The effective portion is reclassified to revenue or to cost of purchased goods and services when the forecast 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 IAS 39. Changes in fair value are recognised in the income statement under other net financial income (expense).

(vi) Net investment in foreign operation

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

(vii) Fair value of financial instruments

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

The fair value of financial instruments is calculated on the basis of appropriate market values or by applying other suitable measurement methods. The fair values of cash and cash equivalents and other non-derivative current financial instruments are equivalent to their carrying amounts reported on the respective financial year-end dates.

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.

Interest rate swaps are measured using the present value of future cash flows calculated from observed 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 an at least adequate 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

Revenue and other operating income is recognised at the performance date, provided the amount can be reliably measured and it is probable that the economic benefits will flow to the entity. Revenues are reduced by revenue deductions.

When merchandise is sold to customers, the performance date is normally defined as the point in time at which the customer becomes the beneficial owner of the merchandise. This transfer of beneficial ownership does not necessarily correspond to the transfer of legal ownership.

Deliveries of merchandise which, based on past experience, are expected to be returned are not recognised in income. The cost of such merchandise, including the cost of processing the return and deducting any potential loss on the resale, is recognised in other assets.

Income from sale and leaseback transactions is immediately recognised in the income statement 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) PROFIT AND LOSS PARTICIPATION CERTIFICATES

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 required to be applied for the first time in the 2017/18 financial year had no material effect on the presentation of the Group's financial position or financial performance.

Application of the following Standards published by the IASB which are likely to have a significant 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 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 15	Clarification of IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
Various	Improvements to IFRSs (2014 – 2016)	1 January 2017/ 1 January 2018
IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	1 January 2018
IAS 40*	Transfers of Investment Property (Amendments to IAS 40)	1 January 2018
IFRIC 22*	IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRS 9*	Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 January 2019
IAS 28*	Long-term Interests in Associates and Joint Ventures	1 January 2019
IFRIC 23*	Uncertainty over Income Tax Treatments	1 January 2019
Various*	Improvements to IFRSs (2015 – 2017)	1 January 2019
IAS 19*	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019

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

IFRS 9, which regulates the recognition and measurement of financial assets and financial liabilities, will in future replace IAS 39. IFRS 9 introduces new requirements for the classification and measurement of financial assets and replaces the previous categories of financial assets with three categories in which financial assets are measured either at fair value, which is to be recognised in the income statement or in equity, or at amortised cost. IAS 39 regulations governing the classification and measurement of financial liabilities have largely been carried over to IFRS 9. Furthermore, regulations for accounting for hedging relationships and the impairment of financial assets were elaborated. The Otto Group intends to adopt the new standard on a modified basis retrospectively, with the exception of the regulations for hedge accounting, which will be adopted in full retrospectively for hedging relationships with currency options only.

The introduction of IFRS 9 means that it is no longer possible in the event of a sale to recycle accumulated other comprehensive income for investments in equity instruments which, up to now, had been classified as available-for-sale under IAS 39. In accordance with IFRS 9, these instruments will either be measured at fair value in the income statement or, alternatively, value changes will be recorded in other comprehensive income. Each financial instrument is to be classified on an individual basis. For the most part, the Otto Group will recognise investments in equity instruments in other comprehensive income in order to avoid high volatility in the net financial result. Where changes in the value of investments cannot be recorded in other comprehensive income, these investments will be recognised in profit or loss. The Group does not anticipate any significant implications to arise from other changes to the classification of financial instruments.

With the adoption of IFRS 9, the calculation of impairment losses on financial assets is based on a future-oriented model for expected credit losses. 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 will also adopt the simplified procedure for the classification of risk prevention for trade receivables and contract assets with significant financing components, as well as for leasing receivables. Furthermore, in the case of receivables from financial services, the Otto Group will apply the special provision for financial assets that have objective evidence of impairment losses on receipt. The Otto Group has analysed the impairment loss and credit management models applied by the Group and has reviewed the implications of IFRS 9. The transition effects resulting from the application of the new provisions of IFRS 9 for these models are under EUR 1,000 thousand and are not significant.

Pursuant to IFRS 9, it must be ensured that the accounting process for hedging relationships is consistent with risk management targets and strategies, and that a qualitative and future-oriented approach is applied with regard to assessing the effectiveness of hedging transactions. The accounting process for hedging relationships used by the Group meets the requirements of IFRS 9 and is consistent with the Otto Group's risk management strategies and targets. For hedging relationships with currency options, the fair value component is to be recognised in the future as hedging costs in other comprehensive income and will be incorporated directly in the acquisition costs for the non-financial asset when it is recognised. The implications arising from the new regulations result in a reduction in the volatility of the net financial result. As at 1 March 2018, the estimated implications for retained earnings and other reserves resulting from the application of the requirements of IFRS 9 to the accounting process for hedging relationships amounted to EUR 1,746 thousand. This corresponds to the reclassification of accumulated losses from consolidated retained earnings to accumulated other comprehensive income. The Otto Group does not anticipate that the additional regulations relating to hedging relationship requirements will have any significant effects on the consolidated financial statements. Hedge accounting will be applied in accordance with IFRS 9 in future. The Otto Group will not be exercising the option to continue to apply the hedge accounting requirements of IAS 39 during the transition period. Furthermore, IFRS 9 also imposes significantly more extensive disclosure requirements, particularly in relation to hedge accounting, credit risk and expected credit losses. The implications of IFRS 9 for the Otto Group's consolidated financial statements are subject to potential changes that largely depend on the Group's financial instruments, future economic conditions and choice of accounting method, as well as on discretionary decisions taken by the Group.

IFRS 15, which contains the revised regulations for recognising revenue, replaces, among others, IAS 18 and IAS 11 which have been applicable up to now, as well as a number of revenue-related interpretations. A five-step model will be used to determine when and to what extent revenue is to be recognised. Revenue is then recognised when performance obligations have been met by transferring control of the asset or service to the customer. IFRS 15 also includes extended guidelines on multiple-element transactions as well as new regulations on handling service contracts and adjustments to contracts.

In the Multichannel Retail segment, revenue is recognised at the time the performance obligations are fulfilled. Revenue is therefore recognised when control of the asset is transferred to the end customer in tandem with transfer of the asset. Preliminary analysis shows that accumulated other comprehensive income as at 1 March 2018 will decrease by EUR 12,113 thousand. The resulting effects on the balance sheet include a decrease in trade receivables and an increase in inventories. In accordance with IFRS 15, interest income from customer financing must be recorded separately in the income statement. As at the closing date of the year under review, revenue from customer financing would have amounted to EUR 125,829 thousand. Expected reversals of receivables due to returns have been offset against receivables up to now. The introduction of IFRS 15 means that take-back obligations are to be recognised as liabilities in future. In the 2017/18 financial year, this change in presentation would have resulted in an increase of EUR 216,102 thousand in the total equity and liabilities.

In the Services segment, revenue is recognised, in accordance with IFRS 15, at the time the performance obligations are fulfilled. The customer benefits from these services as they are being performed. In the Services segment, there are no significant implications for the consolidated financial statements arising from the first-time adoption of this standard. In the Financial Services segment, there are no significant balance sheet changes arising from the implementation of IFRS 15. In all three segments, the Otto Group will divide the contract liabilities into outstanding benefit obligations with a term of up to one year and outstanding benefit obligations with a term of more than one year. The latter primarily include customer loyalty programmes, customer vouchers and extended warranties. As at the closing date of the year under review, in accordance with IFRS 15, there were contract liabilities in the amount of EUR 198,117 thousand with a term of up to one year and in the amount of EUR 13,425 thousand with a term of more than one year. The Otto Group will adopt the new standard in full retrospectively. Furthermore, with the implementation of IFRS 15, significantly more extensive disclosures about revenue recognition will be required in the consolidated financial statements.

IFRS 16, which incorporates the future recognition of leases, replaces IAS 17 and the associated interpretations IFRIC 4, SIC 15 and SIC 27. Differentiating between finance and operating lease agreements will no longer be applicable to lessees. With the introduction of IFRS 16, all leases and associated contractual rights and obligations must be recognised by the lessee in the balance sheet. 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 pursuing an ongoing process of assessing the implications arising from IFRS 16 on the consolidated financial statements, although the full extent of the implications cannot be quantified at this time. The main impact of the first-time adoption will be an increase in the total equity and liabilities by the amount of the obligations from contracts classified as operating leases under IAS 17 (see Note (42)). Further effects on the Otto Group's consolidated financial statements will be estimated after all leases have been recognised on a systematic basis in accordance with IFRS 16, which will be completed in the 2018/19 financial year. The Otto Group will adopt the new standard following the modified retrospective approach.

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:

	28.02.2018	28.02.2017
Fully consolidated subsidiaries		
Germany	175	179
Other countries	173	188
Total	**348**	**367**
Associates and joint ventures reported under the equity method		
Germany	8	8
Other countries	16	19
Total	**24**	**27**

In the 2017/18 financial year, 15 companies were merged within the Otto Group (2016/17: 8 companies).

The consolidated financial statements include 14 companies (28 February 2017: 108) 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.

On 29 December 2017, the Otto Group sold all of its shares in debt collection agency EOS CARI RECOVERIES S.L. The existing loan was subsequently paid off in full. Due to the prior agreements with the seller and the financing bank, the Otto Group was unable to exercise control in previous years. As at last year's closing date, the following balances resulted from the Otto Group's involvement with EOS CARI RECOVERIES S.L:

	2016/17
	EUR 000
Carrying amount of the loan and the interest – recognised in receivables from related parties and other financial investments	57,560
Carrying amount of receivables from cost allocation – recognised in other financial assets	18
Carrying amount of the loan payable – recognised in liabilities to related parties	–16,702
Maximum exposure to loss (Carrying amount of the loan and the interest plus carrying amount of the receivables from cost allocation minus carrying amount of the loan payable)	40,876

In the 2016/17 financial year, the Otto Group received interest on granted loans to the amount of EUR 6,268 thousand.

On 1 February 2018, the Otto Group purchased the remaining shares in securitisation company FCT Foncred II - Compartiment Foncred II-A and now holds 100% of the shares. As of the 2017/18 financial year, the company will be fully consolidated. In the previous year, the Otto Group held 30% of the shares in FCT Foncred II - Compartiment Foncred II-A. Due to prior agreements, the Otto Group was unable to exercise significant influence. As at last year's closing date, the following balances resulted from the Otto Group's involvement with FCT Foncred II -Compartiment Foncred II-A:

	2016/17
	EUR 000
Carrying amount of the notes payable and interest – recognised in receivables from related parties	11,013
Maximum exposure to loss (carrying amount of the notes payable plus carrying amount of the interest)	11,013

In the 2016/17 financial year, the Otto Group received interest on notes payable to the amount of EUR 3,551 thousand.

(5) CHANGES IN THE SCOPE OF CONSOLIDATION

(a) ACQUISITIONS

In the 2017/18 financial year, companies were consolidated for the first time which in total are of only subordinate significance for the financial position and financial performance of the Otto Group.

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. At the time the consolidated financial statements were prepared, not all of the relevant financial information was available yet. The companies are assigned to the Services segment.

(b) DECONSOLIDATIONS

In the 2017/18 financial year, the Otto Group sold a total of 24.90% of the shares in ABOUT YOU GmbH, Hamburg, Germany, to related party company GFH Gesellschaft für Handelsbeteiligungen m.b.H., Hamburg under normal market terms. Taking into account additional non-controlling interests, the Otto Group holds 68.16% of the shares in ABOUT YOU GmbH as at the balance sheet date. Despite this majority share, the Group does not have the ability to exercise control, as due to contractual agreements the company can only be jointly controlled with at least one other shareholder. Following its deconsolidation, ABOUT YOU GmbH is accounted for in the consolidated financial statements using the equity method (see Note (18)). In order to finance further growth, the company is currently in the process of introducing additional investors.

At the beginning of the 2017/18 financial year, all of the shares in RatePAY GmbH, Berlin, Germany, were sold to private equity companies Advent International and Bain Capital Private Equity. RatePAY GmbH had been assigned to the Financial Services segment.

In addition, MEZZO, Villeneuve-d'Ascq, France, and its subsidiaries in Spain and Tunisia, were disposed of in full with effect from 29 September 2017. These companies had all been included in the Services segment.

All of the shares in DISPEO, Croix, France, were sold with effect from 31 January 2018. This company had also been part of the Services segment.

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

	2017/18 EUR 000
Assets	
Fixed Assets	14,712
Trade receivables	26,359
Receivables from financial services	63,971
Receivables from related parties	4,761
Other receivables and assets	37,184
Inventories	42,401
Cash and cash equivalents	79,700
Deferred Tax	940
Provisions and liabilities	
Provisions for pensions and similar obligations	2,399
Other provisions	6,475
Trade payables	55,860
Liabilities to related parties	87,823
Other liabilities and assets	18,187
Deferred Tax	1,104

In the past financial year up to the time of their deconsolidation, the deconsolidated companies generated revenue of EUR 359,606 thousand; the earnings before tax amounted to EUR −143,508 thousand.

The deconsolidation of the above-mentioned companies, in addition to the reporting of remaining shares at proportionate fair value as part of an equity valuation, resulted in an overall gain of EUR 455,195 thousand, which is reported under other net financial income (expenses).

In addition, further companies were deconsolidated in the 2017/18 financial year, which in total are only of subordinate significance for the Otto Group's financial position and financial performance.

(c) DISCONTINUED OPERATIONS

In the 2015/16 financial year, the decision was made to dispose of significant Multichannel Retail activities in France. The 3SI Commerce operation represented a significant and separable business operation and, in accordance with IFRS 5, was classified as held for sale and reported as a discontinued operation. As at last year's closing date, provisions from the settlement for severance payments to personnel amounted to EUR 34,414 thousand, the majority of which habe now been utilised.

The result for discontinued operations comprised the following components in the previous year:

	2016/17
	EUR 000
Income	255,723
Expenses	−386,879
Earnings before tax from discontinued operations	**−131,156**
Income tax	8,283
Loss for the year from discontinued operations	**−122,873**

The loss from the sale amounted to EUR 34,400 thousand in the 2016/17 financial year. The result for discontinued operations related fully to shareholders of Otto (GmbH & Co KG). In the previous year, the average number of employees in these companies calculated on a full-time equivalent basis was 250.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

(6) REVENUE

Revenue is composed as follows:

	2017/18 EUR 000	2016/17 EUR 000
Revenue from the sale of merchandise	10,477,436	9,782,446
Revenue from financial services	834,996	730,471
Revenue from other services	2,340,459	1,998,853
Revenue	**13,652,891**	**12,511,770**

(7) OTHER OPERATING INCOME

Other operating income is made up as follows:

	2017/18 EUR 000	2016/17 EUR 000
Income from ancillary business	219,320	194,826
Income from debt collection services	98,317	101,337
Advertising subsidies	96,283	87,401
Income from costs recharged to related parties and third parties	59,522	61,925
Income from reversal of provisions and liabilities	48,925	38,738
Income from amortised receivables	37,376	28,604
Income from disposal of assets	22,772	31,006
Income from leases	20,223	27,995
Income from charges to suppliers	15,180	13,721
Income from reversal of allowances on receivables	11,085	11,012
Miscellaneous	166,917	163,380
Other operating income	**795,920**	**759,945**

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:

	2017/18	2016/17
	EUR 000	EUR 000
Costs of merchandise	5,362,803	4,949,407
Costs of services received	1,801,800	1,550,544
Packing and shipping materials	19,877	19,291
Purchased goods and services	**7,184,480**	**6,519,242**

(9) PERSONNEL EXPENSES

Personnel expenses are composed as follows:

	2017/18	2016/17
	EUR 000	EUR 000
Wages and salaries	1,967,896	1,774,314
Social security contributions	366,040	330,883
Retirement benefit costs	52,346	48,060
Personnel expenses	**2,386,282**	**2,153,257**

Wages and salaries include expenses of EUR 14,927 thousand (2016/17: EUR 16,885 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 2017/18 financial year, the average number of employees in the Otto Group calculated on a full-time equivalent basis was 51,785 (2016/17: 49,787). 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:

	2017/18	2016/17
	EUR 000	EUR 000
Catalogue and advertising costs	1,660,360	1,564,171
Shipping costs	390,859	343,769
Leasing expenses	364,726	360,057
Costs of contract staff	278,355	241,440
Maintenance and repairs	204,547	191,247
Order processing, warehousing and picking costs	146,257	131,995
Derecognitions and changes in allowances on receivables	144,246	143,314
Commissions and fees	120,754	110,707
Ancillary building costs	117,275	118,094
Legal expenses and audit fees	104,342	82,986
Office and communication costs	100,673	97,678
IT consultancy	93,337	99,168
General consulting costs	64,602	56,329
Vehicle costs	55,010	50,946
Other	418,298	412,913
Other operating expenses	**4,263,641**	**4,004,814**

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.

(12) DEPRECIATION AND AMORTISATION

Depreciation and amortisation relate to:

	2017/18 EUR 000	2016/17 EUR 000
Amortisation of internally generated intangible assets	37,696	36,821
Amortisation of other intangible assets	71,406	62,495
Depreciation of property, plant and equipment	173,553	175,560
Depreciation and amortisation	**282,655**	**274,876**

(13) IMPAIRMENT LOSSES

	2017/18 EUR 000	2016/17 EUR 000
Impairment losses on goodwill	67	5,056
Impairment losses on other intangible assets	40,081	45,579
Impairment losses on property, plant and equipment	22,187	39,456
Impairment losses	**62,335**	**90,091**

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 2017/18 financial year and the previous year, impairment losses on other intangible assets and on property, plant and equipment were primarily attributable to software developed in-house and acquired software, as well as acquired customer lists and operating equipment. They primarily relate to two German Group companies from the Multichannel Retail segment and one 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:

	2017/18	2016/17
	EUR 000	EUR 000
Interest income from loans and securities	24,650	28,067
Income from interest rate derivatives	7,665	6,481
Interest income from bank deposits	3,641	3,499
Other interest income	239	109
Interest and similar income	**36,195**	**38,156**
Interest expense for bank liabilities and bonds	−65,754	−66,313
Net interest expense on defined benefit plans	−30,464	−31,499
Expenses from interest rate derivatives	−9,217	−9,897
Interest on finance leases	−1,663	−1,248
Other interest expense	−32,023	−18,663
Interest and similar expenses	**−139,121**	**−127,620**
Net interest income (expense)	**−102,926**	**−89,464**
Income from financial investments and securities and from the disposal of shares in consolidated and associated companies and joint ventures	541,704	80,819
Expenses from financial investments and securities and from the disposal of shares in consolidated and associated companies and joint ventures	−90,302	−46,855
Bank charges	−67,671	−53,567
Foreign currency gains and losses	−55,128	10,404
Miscellaneous financial income (expense)	−1,654	−4,912
Other net financial income (expense)	**326,949**	**−14,111**
Net financial result	**224,023**	**−103,575**

Expenses of EUR 62,276 thousand (2016/17: EUR 53,509 thousand) from financial instruments measured in accordance with IAS 39 are netted under net interest income.

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

(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:

	2017/18 EUR 000	2016/17 EUR 000
Current income tax, Germany	39,918	27,253
Current income tax, other countries	70,736	59,838
Current income tax	**110,654**	**87,091**
Deferred tax, Germany	−5,168	−2,382
Deferred tax, other countries	4,413	13,602
Deferred tax	**−755**	**11,220**
Income tax	**109,899**	**98,311**

Income tax includes income taxes for prior years amounting to EUR 4,023 thousand (2016/17: EUR 1,131 thousand), of which EUR 7,497 thousand (2016/17: EUR 1,292 thousand) results from current income tax for the previous year and deferred tax for previous years amounting to EUR −3,474 thousand (2016/17: EUR −161 thousand).

At the German companies, corporation tax credits within the meaning of § 37 of the German Corporation Tax Act (Körperschaftsteuergesetz – KStG) totalling EUR 1,142 thousand were recognised and were not discounted in the previous year.

In the 2017/18 and 2016/17 financial years, existing tax loss carry-forwards amounting to EUR 143,935 thousand and EUR 164,567 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:

	2017/18 EUR 000	2016/17 EUR 000
Earnings before tax from continuing operations (EBT)	628,994	261,881
Tax rate for Otto (GmbH & Co KG)	15 %	15 %
Pro forma income tax expenses	**94,349**	**39,282**
Corrections in deferred taxes	109,044	74,413
Non-deductible expenses	15,276	24,310
Income taxes for prior years	4,023	1,131
Foreign withholding tax	336	597
Effects of consolidation adjustments recognised in income	−51,149	−39,333
Change in applicable tax rate	6,342	7,942
Additions and deductions for trade tax	2,107	1,245
Non-taxable income	−42,576	−11,167
Permanent differences	−62,747	−16,331
Differences in tax rates	35,466	16,714
Other	−572	−492
Total differences	**15,550**	**59,029**
Income tax	**109,899**	**98,311**

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:

	28.02.2018		28.02.2017	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	EUR 000	EUR 000	EUR 000	EUR 000
Intangible assets	12,138	71,216	15,328	96,822
Property, plant and equipment	19,959	64,344	29,913	93,762
Inventories	5,739	5,133	3,621	4,548
Receivables and other assets	20,610	33,044	24,233	27,947
Securities and financial investments	732	3,637	1,064	3,870
Provisions	149,043	31,869	140,853	56,973
Liabilities	40,715	3,952	58,317	3,711
Temporary differences	**248,936**	**213,195**	**273,329**	**287,633**
Loss carry-forwards	16,169	0	47,833	0
Offset	–130,214	–130,214	–203,007	–203,007
Total	**134,891**	**82,981**	**118,155**	**84,626**

Accumulated other comprehensive income and expenses contains tax income from the change in the temporary differences in available-for-sale financial instruments amounting to EUR 307 thousand (2016/17: EUR 581 thousand), tax expenses from the change in the temporary differences in cash flow hedge derivatives amounting to EUR –3,814 thousand (2016/17: EUR –573 thousand) and tax expenses from the change in the temporary differences in the pensions provisions amounting to EUR –18,308 thousand (2016/17: EUR –15,110 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 3,182,010 thousand and EUR 3,124,211 thousand in the 2017/18 and 2016/17 financial years respectively. Of these, tax loss carry-forwards of EUR 3,046,401 thousand and EUR 3,031,240 thousand respectively can be carried forward indefinitely.

Deferred tax expenses from the occurrence and reversal of temporary differences amount to EUR –36,290 thousand (2016/17: EUR –17,666 thousand)

In the year under review, an interest carry-forward of EUR 80,668 thousand (2016/17: EUR 65,901 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 37,201 thousand (28 February 2017: EUR 37,088 thousand) for internally-generated intangible assets which are still in development.

In the 2017/18 financial year, borrowing costs amounting to EUR 88 thousand (28 February 2017: EUR 48 thousand) were capitalised on qualified assets, pursuant to IAS 23. The underlying capitalisation rate was 2.45% (28 February 2017: between 2.95%).

Of the goodwill recognised under intangible assets, EUR 166,627 thousand (28 February 2017: EUR 215,870 thousand) is attributable to companies in the Multichannel Retail segment, EUR 113,781 thousand (28 February 2017: EUR 116,504 thousand) to companies in the Financial Services segment and EUR 21,336 thousand (28 February 2017: EUR 20,521 thousand) to companies in the Services segment.

There are contractual obligations for the acquisition of intangible assets amounting to EUR 4,652 thousand (28 February 2017: EUR 4,852 thousand).

(17) PROPERTY, PLANT AND EQUIPMENT

Subsidies received amounting to EUR 7 thousand (28 February 2017: EUR 672 thousand) were deducted from the additions to the purchase or production costs of property, plant and equipment.

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

	28.02.2018	28.02.2017
	EUR 000	EUR 000
Property	2,337	2,446
Technical plant	44,599	56,311
Computers and other IT equipment	14,974	11,082
Other business and office equipment	3,688	3,455
Property, plant and equipment under finance leases	**65,598**	**73,294**

Contractual obligations for the acquisition of property, plant and equipment (purchase commitments) amounted to EUR 20,143 thousand (28 February 2017: EUR 28,227 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%):

	2017/18 EUR 000	2016/17 EUR 000
Non-current assets	8,366,018	7,629,317
Current assets	4,258,458	4,461,778
Non-current liabilities	5,904,768	5,383,667
Current liabilities	5,050,963	5,262,278
Net assets	**1,668,745**	**1,445,150**
Group's share of carrying amount	**489,944**	**424,296**
Revenue	1,317,112	1,290,644
Profit for the year	220,488	187,519
Other comprehensive income for the year	3,093	−1,883
Total comprehensive income for the year	**223,581**	**185,636**
of which, attributable to Group	65,643	84,204
Dividends received by the Group	0	15,865

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.

Due to the loss of control in Group company ABOUT YOU GmbH, Hamburg, Germany, at the end of the 2017/18 financial year and the associated transitional consolidation into a company jointly controlled with other shareholders, ABOUT YOU GmbH was accounted for in the consolidated financial statements on 28 February 2018 using the equity method. For the purposes of reporting interests, the relevant shareholding was 68.26%. The shares were measured based on their fair value, which is determined on the basis of sales carried out as well as financing rounds relating to the company's further growth. The Otto Group is currently in the process of analysing the allocation of the difference to individually identifiable assets and liabilities. In addition to other intangible assets such as brand, customer lists and software, the majority is expected to be attributable to goodwill.

As at 28 February 2018, the balance sheet structure for ABOUT YOU GmbH was as follows:

	28.02.2018
	EUR 000
Non-current assets	14,107
Current assets	93,204
Non-current liabilities	65
Current liabilities	74,435
Net assets	**32,811**

For 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:

	2017/18		2016/17	
	Joint ventures	Associated companies	Joint ventures	Associated companies
	EUR 000	EUR 000	EUR 000	EUR 000
Carrying amount of the investment	1,573	170,321	1,556	156,332
Loss/Profit for the year	−15,845	54,060	−18,621	33,783
Other comprehensive income for the year	249	16,102	253	15,292
Total comprehensive income for the year	**−15,596**	**70,162**	**−18,368**	**49,075**

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 available-for-sale financial instruments included under other financial investments, are measured on a fair value basis as at balance sheet date or, if a fair value cannot be reliably determined, at cost, as follows:

	28.02.2018	28.02.2017
	EUR 000	EUR 000
Fair Value	263,541	271,486
At cost	14,906	25,209
Other financial investments	**278,447**	**296,695**

The other financial investments calculated on a cost basis are financial investments in non-listed equity instruments for which no active market exists. Assessing the fair value of these financial investments would not have yielded any essential additional information. Significant disposals are not currently anticipated.

(19) INVENTORIES

Inventories are composed as follows:

	28.02.2018 EUR 000	28.02.2017 EUR 000
Merchandise	1,596,406	1,379,361
Raw materials, consumables and supplies	17,144	20,255
Finished goods and services and work in progress	3,168	3,761
Inventories	**1,616,718**	**1,403,377**

Inventory stock includes obsolescence allowances amounting to EUR 201,836 thousand (28 February 2017: EUR 185,965 thousand).

(20) TRADE RECEIVABLES AND RECEIVABLES FROM FINANCIAL SERVICES

These receivables are composed as follows:

	28.02.2018 EUR 000	28.02.2017 EUR 000
Trade receivables, gross	1,551,312	1,490,028
Allowances on trade receivables	−155,542	−146,469
Trade receivables	**1,395,770**	**1,343,559**
Receivables from financial services, gross	1,306,716	1,090,591
Allowances on receivables from financial services	−8,225	−6,729
Receivables from financial services	**1,298,491**	**1,083,862**

Receivables from financial services also include receivables purchased from third parties of EUR 1,215,814 thousand (28 February 2017: EUR 970,513 thousand).

Remaining terms of receivables as at 28 February 2018 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	1,228,126	167,644	0	**1,395,770**
Receivables from financial services	419,679	609,703	269,109	**1,298,491**

As at 28 February 2017, 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	1,187,563	155,996	0	**1,343,559**
Receivables from financial services	406,714	510,566	166,582	**1,083,862**

Value allowances recognised on existing trade receivables developed as follows:

	2017/18	2016/17
	EUR 000	EUR 000
Allowances as at 1 March	**146,469**	**121,173**
Exchange rate changes	–723	–1,231
Changes to the scope of consolidation	–4,134	395
IFRS 5	0	8,033
Utilisation	–115,157	–105,397
Reversals	–10,338	–8,039
Additions	139,425	131,535
Allowances as at 28 February	**155,542**	**146,469**

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

	2017/18 EUR 000	2016/17 EUR 000
Allowances as at 1 March	**6,730**	**14,259**
Exchange rate changes	−149	0
Changes to the scope of consolidation	0	−455
Utilisation	−2,430	−10,831
Reversals	−747	−2,973
Additions	4,821	6,730
Allowances as at 28 February	**8,225**	**6,730**

The age structure of trade receivables which are not impaired but overdue is as follows:

	Less than 30 days EUR 000	30 to 90 days EUR 000	More than 90 days EUR 000	Total EUR 000
Balance as at 28 February 2018	56,536	621	14,904	**72,061**
Balance as at 28 February 2017	46,545	7,336	4,220	**58,101**

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:

	28.02.2018 EUR 000	28.02.2017 EUR 000
Receivables from unconsolidated subsidiaries	16,099	15,778
Receivables from associated companies and joint ventures	72,539	31,019
Receivables from other related parties	85,344	59,445
Receivables from related parties	**173,982**	**106,242**

Receivables from other related parties include the sums receivable from GFH Gesellschaft für Handelsbeteiligungen m.b.H, Hamburg, for the sale of shares in ABOUT YOU GmbH, Hamburg, as well as receivables from the sale of property to evoreal GmbH, Hamburg.

The value allowances recognised on existing receivables from related parties developed in detail as follows:

	2017/18 EUR 000	2016/17 EUR 000
Allowances as at 1 March	**7,852**	**3,781**
Disposals	–613	–219
Additions	1,772	4,290
Allowances as at 28 Feburary	**9,011**	**7,852**

Remaining terms as at balance sheet date are as follows:

	28.02.2018 EUR 000	28.02.2017 EUR 000
Remaining term of up to 1 year	117,830	45,491
Remaining term of more than 1 to 5 years	56,152	40,008
Remaining term of more than 5 years	0	20,743
Receivables from related parties	**173,982**	**106,242**

(22) OTHER ASSETS AND SECURITIES

Other assets consist of the following:

	28.02.2018 EUR 000	28.02.2017 EUR 000
Deposits	51,082	34,406
Amounts owed by suppliers	38,281	31,223
Derivatives at fair value	19,030	33,817
Receivables from employees	2,169	2,315
Other	104,849	398,544
Other financial assets	**215,411**	**500,305**
Receivables from other taxes	89,100	76,765
Expected returns of merchandise	82,719	87,251
Prepaid expenses	68,347	78,140
Other	44,431	106,434
Miscellaneous other assets	**284,597**	**348,590**
Other assets	**500,008**	**848,895**

The legal right to recover expected returns of merchandise to the amount of EUR 82,719 thousand (28 February 2017: EUR 87,251 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 from the previous year include the purchase price claim from the sale of shares in COFIDIS PARTICIPATIONS, Villeneuve-d'Ascq, France, amounting to EUR 304,000 thousand.

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

	Remaining term of up to 1 year	Remaining term of more than 1 to 5 years	Remaining term of more than 5 years	Total
	EUR 000	EUR 000	EUR 000	EUR 000
Balance as at 28 February 2018	133,242	67,470	14,699	**215,411**
Balance as at 28 February 2017	435,402	54,916	9,987	**500,305**

Allowances to the amount of EUR 5,031 thousand (28 February 2017: EUR 1,033 thousand) were recognised for other assets.

All available-for-sale financial assets (AFS) securities amount to EUR 443 thousand (28 February 2017: EUR 942 thousand).

(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:

	28.02.2018	28.02.2017
	EUR 000	EUR 000
Capital provided by the limited partners in Otto (GmbH & Co KG)	820,000	820,000
Consolidated retained earnings	100,702	56,268
Puttable financial instruments	**920,702**	**876,268**

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 37,096 thousand (28 February 2017: EUR 40,948 thousand) of consolidated retained earnings was not available for distribution as at 28 February 2018.

(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:

	2017/18 EUR 000	2016/17 EUR 000
Consideration paid (–) or received (+)	0	–888
Increase (–)/decrease (+) in non-controlling interests	0	704
Changes in net cost in excess of net assets acquired in step aquisitions	**0**	**–184**

(d) ACCUMULATED OTHER EQUITY

Accumulated other equity is composed as follows:

	2017/18 EUR 000	2016/17 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	1,515	1,679
Accumulated other equity	**15,118**	**15,282**

(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[1]		Argosyn Group	
	2017/18	2016/17	2017/18	2016/17
	EUR 000	EUR 000	EUR 000	EUR 000
Non-current assets	427,414	454,695	517,543	549,213
Current assets	67,512	3,853	340,503	567,996
Non-current liabilities	143,208	121,190	2,298	1,551
Current liabilities	80,979	68,364	58,465	157,496
Net assets	**270,739**	**268,994**	**797,283**	**958,162**
of which, attributable to non-controlling interests	270,366	268,620	369,271	443,785
Revenue	105	0	48,375	68,585
Profit for the year	23,139	14,182	75,234	80,940
of which, attributable to non-controlling interests	23,116	14,163	34,845	37,485
Other comprehensive income for the year	1,388	1,170	534	4,053
Total comprehensive for the year	**24,527**	**15,352**	**75,767**	**84,993**
of which, attributable to non-controlling interests	24,504	15,333	35,093	39,438
Net increase (decrease) of cash and cash equivalents	**0**	**0**	**164,343**	**103,703**
Dividends paid to non-controlling interests	22,757	19,357	109,623	0

[1] A wholly owned subsidiary of Otto (GmbH & Co KG) holds 1% of the shares in a subsidiary of FORUM Grundstücksgesellschaft m.b.H.

(f) PARTICIPATION CERTIFICATES

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 2018, the as yet unpaid remuneration on the equity components named amounting to EUR 1,984 thousand (28 February 2017: 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 2018, 29,583 packages worth EUR 27,561 thousand (28 February 2017: 31,743 packages worth EUR 27,376 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 12,866 thousand in the 2017/18 financial year (2016/17: EUR 11,273 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. In addition, there is state supervision by the authority responsible for these matters (Pensions Regulator). The benefits 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.

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:

	2017/18 in %	2016/17 in %
Discount rate	2.2	2.3
Salary trend	1.4	1.3
Pension trend	1.8	1.8
Inflation	1.8	1.9
Fluctuation	8.0	8.0

The carrying amount of the provisions for pensions in the Group as at balance sheet date amounted to:

	28.02.2018 EUR 000	28.02.2017 EUR 000
Defined benefit obligation, unfunded plans	1,387,683	1,249,260
Defined benefit obligation, funded plans	605,361	726,463
Present value of pension obligations	**1,993,044**	**1,975,723**

The net defined benefit liability has developed as follows:

	Defined benefit obligations		Plan assets		Provisions for pensions	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Status as at 1 March	**1,975,723**	**1,757,611**	**618,287**	**590,318**	**1,357,436**	**1,167,293**
Current service cost	23,440	21,771	0	0	23,440	21,771
Past service cost	15,190	14,467	0	0	15,190	14,467
Effects of plan curtailments and settlements	−1,413	99	0	0	−1,413	99
Interest income (expense)	44,690	51,364	14,226	19,865	30,464	31,499
Changes recognised in profit or loss	**81,907**	**87,701**	**14,226**	**19,865**	**67,681**	**67,836**
Actuarial gains and losses						
arising on demographic assumptions	−38,916	−3	0	0	−38,916	−3
arising on financial assumptions	66,411	249,703	0	0	66,411	249,703
arising on experience adjustments	1,605	−6,784	0	0	1,605	−6,784
Return on plan assets less interest income	0	0	−12,111	70,647	12,111	−70,647
Foreign exchange rate changes	−25,964	−50,721	−22,080	−46,589	−3,884	−4,132
Changes recognised in other comprehensive income	**3,136**	**192,195**	**−34,191**	**24,058**	**37,327**	**168,137**
Payments to beneficiaries	−65,086	−66,468	−32,793	−35,371	−32,293	−31,097
Transfers	−237	−71	0	0	−237	−71
Contributions from employer	0	0	22,030	20,267	−22,030	−20,267
Changes to the scope of consolidation	−2,399	4,755	0	−850	−2,399	5,605
Other changes	**−67,722**	**−61,784**	**−10,763**	**−15,954**	**−56,959**	**−45,830**
Status as at 28 February	**1,993,044**	**1,975,723**	**587,559**	**618,287**	**1,405,485**	**1,357,436**
of which provisions for pensions					1,416,795	1,357,436
of which net defined benefit asset					−11,310	0

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

	28.02.2018	28.02.2017
	EUR 000	EUR 000
Securities	511,889	539,562
Property	45,101	18,525
Cash and cash equivalents	11,989	47,255
Loans	4,072	0
Other	14,508	12,945
Plan assets	**587,559**	**618,287**

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 2018/19 financial year, the Group expects to pay EUR 21,274 thousand into the defined benefit plans and also anticipates that EUR 59,432 thousand will be paid out from these plans.

The weighted average term of the present value of the defined benefit obligation is 19.5 years (28 February 2017: 19.4 years).

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

		2017/18	2016/17
		in %	in %
Discount rate	+ 0.5%	− 9.0	− 8.8
	− 0.5%	10.2	10.2
Pension trend	+ 0.25%	2.5	2.5
	− 0.25%	− 2.3	− 2.4
Life expectancy	Increase of one year	1.7	1.8
	Decrease of one year	− 1.9	− 2.0

There is no material dependence of the plans on salary. Approximately 97% 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:

	01.03.2017	Exchange rate changes/ reclassifications/ changes in the scope of consolidation	Utilisation	Reversals	Additions	Compounding	28.02.2018
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Restructuring obligations	57,999	28,139	−32,807	−20,820	20,008	449	52,968
management of occupational pensions	35,470	0	−2	−1,111	402	4,137	38,896
Personnel expenses	31,157	−2,467	−3,439	−284	7,960	216	33,143
Costs of asset removal or site restoration	24,736	−518	−152	−1,114	968	361	24,281
Insurance provisions	17,115	0	0	0	60	0	17,175
Legal costs and risks	17,886	−547	−3,376	−4,074	4,163	0	14,052
Warranties and customer goodwill payments	7,261	0	−510	−274	202	0	6,679
Onerous contracts	5,600	−34	−2,091	−1,636	2,107	−135	3,811
Other	86,386	−865	−11,649	−4,204	35,207	25	104,900
Other provisions	**283,610**	**23,708**	**−54,026**	**−33,517**	**71,077**	**5,053**	**295,905**

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 the Services segment 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.

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.

The provisions for personnel costs mainly comprise topping-up amounts for partial retirement obligations and also anniversary bonus entitlements.

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.

The remaining terms of other provisions are broken down as follows as at 28 February 2018:

	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	27,205	25,763	0	**52,968**
management of occupational pensions	0	38,896	0	**38,896**
Personnel expenses	688	16,146	16,309	**33,143**
Costs of asset removal or site restoration	1,309	12,767	10,205	**24,281**
Insurance provisions	17,175	0	0	**17,175**
Legal costs and risks	14,015	37	0	**14,052**
Warranties and customer goodwill payments	6,287	392	0	**6,679**
Onerous contracts	3,416	395	0	**3,811**
Other	81,675	23,225	0	**104,900**
Other provisions	**151,770**	**117,621**	**26,514**	**295,905**

(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 2018 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 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	367,188	636,823	247,415	**1,251,426**
Bank liabilities	539,435	396,114	173,479	**1,109,028**

The principal bonds outstanding as at 28 February 2018 have the following nominal values, interest rates and maturities:

Company	Financing commitment	Utilisation until 28.02.2018	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

In the 2017/18 financial year, two bonds totalling EUR 200,000 thousand were repaid. In addition, three bonds totalling EUR 390,000 thousand with terms varying between five and nine years were issued in the year under review.

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 2018, the total volume of bonds issued within the framework of the ETMN programme amounted to EUR 980,000 thousand (28 February 2017: EUR 590,000 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 2018, the total volume of outstanding commercial paper amounts to EUR 150,000 thousand, remaining unchanged from last year.

As at 28 February 2018, there are the following material liabilities to various German and foreign banks (in order of maturity):

Segments	Currency	Utilisation until 28.02.2018	Interest rate	Maturity
		EUR 000		
Multichannel Retail	EUR	201,615	1.2 – 6.7%	2018 – 2023
	EUR	173,014	Euribor + variable mark-up	2019 – 2039
	EUR	127,730	1.5 – 6.9%	2023 – 2028
Financial Services	EUR	45,000	Euribor + variable mark-up	2019 – 2025
	EUR	80,200	1.6 – 2.7%	2021 – 2023
Services	EUR	59,265	1.7 – 3.7%	2023 – 2027

These are broken down based on segment allocation, fixed or variable interest rates, and maturity – of up to five years (28 February 2023) or over five years (as of 1 March 2023).

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

(28) OTHER FINANCING LIABILITIES

Other financing liabilities consist of the following:

	28.02.2018	28.02.2017
	EUR 000	EUR 000
ABS liabilities	189,087	240,268
Finance lease liabilities	64,676	69,750
Loans payable	4,546	5,040
Bills payable	2,612	4,914
Other financing liabilities	**260,921**	**319,972**

The remaining terms to maturity as at 28 February 2018 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	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**

The remaining terms to maturity of the 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	175,268	65,000	0	**240,268**
Finance lease liabilities	19,929	46,667	3,154	**69,750**
Loans payable	5,040	0	0	**5,040**
Bills payable	4,914	0	0	**4,914**
Other financing liabilities	**205,151**	**111,667**	**3,154**	**319,972**

Finance lease liabilities as at 28 February 2018 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	18,295	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**

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	21,712	49,392	3,252	**74,356**
Interest component	1,783	2,725	98	**4,606**
Principal component	**19,929**	**46,667**	**3,154**	**69,750**

(29) LIABILITIES TO RELATED PARTIES

Liabilities to related parties consist of the following:

	28.02.2018 EUR 000	28.02.2017 EUR 000
Liabilities to unconsolidated subsidiaries	17,874	8,970
Liabilities to associated companies and joint ventures	1,867	2,847
Liabilities to other related parties	5,239	21,717
Liabilities to related parties	**24,980**	**33,534**

The remaining terms to maturity were as follows:

	28.02.2018 EUR 000	28.02.2017 EUR 000
Remaining term of up to 1 year	24,516	17,093
Remaining term of 1 to 5 years	0	15,977
Remaining term of more than 5 years	464	464
Liabilities to related parties	**24,980**	**33,534**

(30) OTHER LIABILITIES

The other liabilities are composed as follows:

	28.02.2018 EUR 000	28.02.2017 EUR 000
Liabilities to employees	259,888	262,117
Liabilities to puttable equity interest	95,445	92,138
Debtors with credit balances	93,000	94,721
Negative fair values of derivatives	53,273	31,653
Obligation to acquire equity interests	49,212	59,441
Other	101,984	110,258
Other financial liabilities	**652,802**	**650,328**
Advance payments from customers	187,224	188,688
Liabilities for other taxes	185,450	211,902
Deferred income	129,288	152,202
Social security liabilities	17,552	19,579
Liabilities for other charges	9,266	9,148
Other	3,608	2,014
Miscellaneous other liabilities	**532,388**	**583,533**
Other liabilities	**1,185,190**	**1,233,861**

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):

	28.02.2018 EUR 000	28.02.2017 EUR 000
Remaining term of up to 1 year	479,181	414,989
Remaining term of more than 1 to 5 years	169,427	222,861
Remaining term of more than 5 years	4,194	12,478
Other financial liabilities	**652,802**	**650,328**

(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 2006/7 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	−42,692	−24,977	54,352	38.26	74.63
2014	122,595	−37,959	−14,811	53,589	0.00	95.41
2015	148,860	−46,414	−17,165	47,952	0.00	100.11
2016	157,770	−48,348	−10,194	36,270	17.57	85.19
	1,325,405	**−345,589**	**−668,951**	**192,163**		

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	11.44
	56,920	**−34,960**	**0**	**0**		

Taking into account the vesting period pursuant to IFRS 2, a liability of EUR 16,309 thousand was recognised for both employee participation programmes as at balance sheet date (2016/17: EUR 15,579 thousand), owing to the performance of the value. Expenses amounting to EUR 8,201 thousand arose the reporting year (2016/17: EUR 14,583 thousand).

In the 2017/18 financial year, payments of EUR 6,104 thousand were made to former employees for rights that had already vested when they left the company (2016/17: EUR 78 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.

The put options may be exercised at different predetermined times. The full purchase price will not vest until a date in the 2019/20 financial year. At any given time, the purchase price is calculated as a product of the applicable annual revenue and a multiplier derived from a specific margin.

Taking into account the vesting period pursuant to IFRS 2, a liability of EUR 10,546 thousand was recognised as at the balance sheet date for the first time. Corresponding expenses amounting to EUR 10,546 thousand arose in the reporting 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:

	28.02.2018	28.02.2017
	EUR 000	EUR 000
Cash	517,615	379,042
Securities with maturities of three months or less	130	129
Cash and cash equivalents	**517,745**	**379,171**

Of the cash and cash equivalents reported in the consolidated cash flow statement, EUR 11,014 thousand have been deposited as collateral (28 February 2017: EUR 10,896 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 2017/18 financial year relate to the closing of finance lease contracts to the amount of EUR 16,247 thousand (2016/17: EUR 23,862 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, and 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:

	28.02.2018 EUR 000	28.02.2017 EUR 000
Segment assets	**8,056,432**	**7,628,965**
Other financial investments	269,897	291,103
Receivables and other assets	126,393	49,130
Cash and cash equivalents	517,615	379,042
Deferred tax assets	134,891	118,155
Consolidated assets	**9,105,228**	**8,466,395**

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:

Geographic information	Revenues from third parties		Non-current assets	
	2017/18 EUR 000	2016/17 EUR 000	28.02.2018 EUR 000	28.02.2017 EUR 000
Germany	8,264,200	7,700,563	1,312,651	1,353,647
Europe (excluding Germany and Russia)	2,945,743	2,480,460	354,678	431,129
North America	1,892,154	1,824,941	345,674	406,525
Russia	323,735	267,975	14,596	17,539
Asia	191,072	202,579	48,123	57,634
Other regions	35,987	35,252	816	939
Group	**13,652,891**	**12,511,770**	**2,076,538**	**2,267,413**

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 under IAS 39. Cash flow hedges are recognised separately.

Pursuant to IFRS 13, all financial instruments 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 2017/18 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 2,486 thousand from foreign currency translation. Changes in the fair value resulted in income of EUR 7,744 thousand, which is included in the net financial result.

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.

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 2018. 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 or the fair value corresponds to the present value of the relative long-term financial instrument, using current interest rate parameters. Finance lease liabilities are calculated in accordance with IAS 17 and are therefore not assigned to any measurement category in the table as per IAS 39. 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 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	1,395,770	1,395,770	–	–	–	–	–	–
Receivables from financial services	1,298,491	1,298,491	–	–	–	–	–	–
Receivables from related parties	173,982	173,982	–	–	–	–	–	–
Other financial assets	196,382	196,382	–	–	–	–	–	–
Cash and cash equivalents	517,615	517,615	–	–	–	–	–	–
Loans and receivables (LAR)	**3,582,240**	**3,582,240**	**–**	**–**	**–**	**–**	**–**	**–**
Other financial investments	153	153	–	–	–	–	–	–
Securities	313	313	–	–	–	–	–	–
Held to maturity (HTM)	**466**	**466**	**–**	**–**	**–**	**–**	**–**	**–**
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	–	–	–	–	–	–
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	–	–	–	–	–	–
of which, finance lease liabilities	64,676	64,676	–	–	–	–	–	–
Trade payables	1,459,449	1,459,449	–	–	–	–	–	–
Liabilities to related parties	24,980	24,980	–	–	–	–	–	–
Other financial liabilities	550,318	550,318	–	–	–	–	–	–
Financial liabilities measured at amortised cost (OL)	**5,024,479**	**5,024,479**	**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**

As at the closing date of the comparative period there are the following carrying amounts and fair values of financial assets and liabilities, including their classification in the fair value hierarchy:

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	1,343,559	1,343,559	–	–	–	–	–	–
Receivables from financial services	1,083,862	1,083,862	–	–	–	–	–	–
Receivables from related parties	106,242	106,242	–	–	–	–	–	–
Other financial assets	466,488	466,488	–	–	–	–	–	–
Cash and cash equivalents	379,042	379,042	–	–	–	–	–	–
Loans and receivables (LAR)	**3,379,193**	**3,379,193**	**–**	**–**	**–**	**–**	**–**	**–**
Other financial investments	153	153	–	–	–	–	–	–
Securities	813	813	–	–	–	–	–	–
Held to maturity (HTM)	**966**	**966**	**–**	**–**	**–**	**–**	**–**	**–**
Other financial investments	296,542	25,056	0	271,486	271,486	180	271,306	0
Securities	129	0	0	129	129	129	0	0
Available-for-sale financial assets (AFS)	**296,671**	**25,056**	**0**	**271,615**	**271,615**	**309**	**271,306**	**0**
Derivatives not designated as hedging instruments	11,681	0	11,681	0	11,681	0	11,681	0
Financial assets at fair value through profit or loss (AFV)	**11,681**	**0**	**11,681**	**0**	**11,681**	**0**	**11,681**	**0**
Cash flow hedges	**22,136**	**0**	**0**	**22,136**	**22,136**	**0**	**22,136**	**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	27,376	27,376	–	–	–	–	–	–
Bonds and other notes payable	1,251,426	1,251,426	0	0	1,412,044	1,029,337	382,707	0
Bank liabilities	1,109,028	1,109,028	0	0	1,133,804	0	1,133,804	0
Other financing liabilities	250,221	250,221	–	–	–	–	–	–
of which, finance lease liabilities	69,750	69,750	–	–	–	–	–	–
Trade payables	1,375,611	1,375,611	–	–	–	–	–	–
Liabilities to related parties	33,534	33,534	–	–	–	–	–	–
Other financial liabilities	559,234	559,234	–	–	–	–	–	–
Financial liabilities measured at amortised cost (OL)	**4,606,430**	**4,606,430**	**0**	**0**	**2,545,848**	**1,029,337**	**1,516,511**	**0**
Other financial liabilities	59,441	0	0	59,441	59,441	0	0	59,441
Derivatives not designated as hedging instruments	14,152	0	14,152	0	14,152	0	14,152	0
Financial liabilities at fair value through profit or loss (LFV)	**73,593**	**0**	**14,152**	**59,441**	**73,593**	**0**	**14,152**	**59,441**
Cash flow hedges	**17,501**	**0**	**0**	**17,501**	**17,501**	**0**	**17,501**	**0**

Net gain/loss from financial instruments is broken down according to the individual IAS 39 categories as follows:

Net gain/net loss

	28.02.2018			28.02.2017		
	Recognised in equity	Recognised in income	Total	Recognised in equity	Recognised in income	Total
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Loans and receivables (LAR)	0	715,600	715,600	0	663,030	663,030
LAR excluding financial services	0	–125,806	–125,806	0	–69,344	–69,344
Receivables from financial services	0	841,406	841,406	0	732,374	732,374
Available-for-sale financial assets (AFS)	10,185	11,671	21,856	–19,987	–16,033	–36,020
Financial assets at fair value through profit or loss (AFV)	0	6,831	6,831	0	16,120	16,120
Financial liabilities measured at amortised cost (OL)	0	–1,872	–1,872	0	5,370	5,370
Financial liabilities at fair value through profit or loss (LFV)	0	–21,175	–21,175	0	–36,739	–36,739

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 totalling EUR 841,406 thousand (28 February 2017: EUR 732,374 thousand) is reported, which also falls under the LAR category.

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 2018, assets from ABS transactions totalling EUR 104,177 thousand (28 February 2017: EUR 147,047 thousand) were recognised.

(b) DERIVATIVE FINANCIAL INSTRUMENTS

Owing to its international activities, the Otto Group is particularly exposed to risks from fluctuations in foreign exchange and interest rates. The 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 a strict separation of trading and settlement. 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.

The nominal values and fair values of interest rate derivatives and foreign exchange derivatives are composed as follows:

	28.02.2018		28.02.2017	
	Nominal value	Fair value	Nominal value	Fair value
	EUR 000	EUR 000	EUR 000	EUR 000
Assets				
Currency derivatives	799,791	16,291	1,109,115	33,817
Interest rate derivatives	265,000	2,739	0	0
Total	**1,064,791**	**19,030**	**1,109,115**	**33,817**
Liabilities				
Currency derivatives	1,292,317	42,446	681,079	16,201
Interest rate derivatives	348,395	10,826	342,742	15,452
Total	**1,640,712**	**53,272**	**1,023,821**	**31,653**

The Otto Group recognises certain derivatives as cash flow hedges pursuant to IAS 39 if they meet the hedging relationship requirements of IAS 39.

Cash flow hedges are used to hedge interest rate fluctuation and currency risks related to variable cash flows from highly probable future transactions (merchandise purchasing and revenue) as well as from existing credit agreements. The effectiveness of the hedging relationships was tested at the balance sheet date using the dollar offset method with the help of the hypothetical derivative method.

There are the following hedging instruments which meet the criteria of IAS 39 for classification as cash flow hedges:

	28.02.2018		28.02.2017	
	Nominal value	Fair value	Nominal value	Fair value
	EUR 000	EUR 000	EUR 000	EUR 000
Assets				
Currency derivatives	429,757	8,417	556,504	22,137
Interest rate derivatives	265,000	2,739	0	0
Total	**694,757**	**11,156**	**556,504**	**22,137**
Assets				
Currency derivatives	664,460	18,876	208,056	3,044
Interest rate derivatives	318,014	10,569	287,616	14,457
Total	**982,474**	**29,445**	**495,672**	**17,501**

The underlying transactions hedged eventuate in a period of up to three years (previous year: up to three years) in the case of foreign exchange derivatives and up to 22 years (previous year: up to eight years) in the case of interest rate derivatives. Furthermore, currency risks are hedged for periods of up to five years. The probable cash flow effects will occur in the same period. The nominal volumes of the hedging transactions are associated with planned transactions and with underlying transactions that have already been recognised, amounting to EUR 28,104 thousand (28 February 2017: EUR 75,994 thousand) in the case of foreign exchange derivatives and EUR 388,395 thousand (28 February 2017: EUR 342,742) in the case of interest rate derivatives. For recognized underlying transactions from a hedging transaction with foreign exchange derivatives, EUR 190 thousand (28 February 2017: EUR 2,948 thousand) from accumulated other comprehensive income was included at cost.

The Otto Group enters into derivative transactions on the basis of the master netting agreements in the German Master Agreement for Financial Derivatives Transactions. In cases of certain credit events, such as a default, all outstanding transactions under the defaulted master netting agreement are terminated and the value as at the date of termination 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 master netting agreements:

	28.02.2018			28.02.2017		
	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	19,030	13,461	5,569	33,817	8,095	25,722
Financial liabilities						
Interest rate and currency derivatives	53,273	13,461	39,812	31,653	8,095	23,558

(c) FINANCIAL RISKS

Owing to its international activities, the Otto Group is exposed to a number of 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. The conditions for using these instruments are specified in a guideline issued by the Executive Board, compliance with which is monitored by an independent risk management department. As a general principle, interest-rate ris exposures are hedged up to 100%.

A central liquidity management system additionally ensures that the Otto Group has sufficient funds at its disposal for its business operations and investments.

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. An overview of the movements of currencies that have a material effect on the consolidated financial statements can be found under Note (2)(b).

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 2018. 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	
		2017/18	2016/17	2017/18	2016/17
		EUR 000	EUR 000	EUR 000	EUR 000
Fluctuation in USD	+ 10%	– 7	12,586	– 45,728	– 32,999
	– 10%	– 3,532	– 20,941	50,533	44,461
Fluctuation in HKD	+ 10%	– 95	1,457	– 4,471	46
	– 10%	96	– 1,239	4,485	– 46
Fluctuation in CHF	+ 10%	– 490	– 35	21,018	15,716
	– 10%	496	70	– 20,971	– 15,675
Total effects	+ 10%	**– 592**	**14,008**	**– 29,181**	**– 17,237**
	– 10%	**– 2,940**	**– 22,110**	**34,047**	**28,740**

In the Otto Group, exchange rate hedges are partially accounted for as cash flow hedges in accordance with IAS 39. In the overview above, fluctuations in the market value of the effective part are shown in 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	
		2017/18	2016/17	2017/18	2016/17
		EUR 000	EUR 000	EUR 000	EUR 000
Shift in level of interest	+ 50 bp	2,552	174	11,398	4,463
	– 50 bp	– 2,693	– 169	– 13,366	– 4,685

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. 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. Appropriate allowances are made for recognised default risks, especially in trade receivables and receivables from financial services. 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.

In principle, deposits at banks and financial assets are only held with associates that enjoy faultless creditworthiness in line with rankings from an internationally-recognised rating agency.

Loans and receivables not impaired or overdue 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.

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.

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.

(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 2018:

	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**

As at 28 February 2017, 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	387,746	720,197	262,500	**1,370,443**
Bank liabilities	555,584	442,586	194,115	**1,192,285**
Trade payables	1,335,904	39,707	0	**1,375,611**
Other financial liabilities	615,827	268,570	13,385	**897,782**
of which, derivative financial instruments	16,717	18,189	555	**35,461**

(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:

	01.03.2017	Cash changes	Non-cash changes: Effects from changes of the scope of consolidation	Non-cash changes: Effects from exchange rate changes	Non-cash changes: Effects from conclusion of new lease contracts	Non-cash changes: Effects from reclassifica-tions	28.02.2018
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Profit and loss participation rights	27,376	185	0	0	0	0	27,561
Current bonds and other notes payable	367,188	−50,918	0	0	0	−149,460	166,810
Non-current bonds and other notes payable	884,238	238,715	0	0	0	149,460	1,272,413
Current bank liabilities	539,435	80,802	24,986	−1,015	0	127,423	771,631
Non-current bank liabilities	569,593	67,903	0	0	0	−82,423	555,073
ABS liabilities	240,268	−3,296	0	−2,885	0	−45,000	189,087
Finance lease liabilities	69,750	−20,858	0	−470	16,254	0	64,676
Other financing liabilities	9,953	−2,375	0	−420	0	0	7,158
Liabilities from financing activities	**2,707,801**	**310,158**	**24,986**	**−4,790**	**16,254**	**0**	**3,054,409**

(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 2018.

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 2017 to 28 February 2018

	2017/18 EUR 000	2016/17 EUR 000
Revenue	**12,812,648**	**11,780,409**
Other operating income	787,460	749,156
Revenue and other operating income	**13,600,107**	**12,529,565**
Change in inventories and other internal costs capitalised	38,459	42,517
Purchased goods and services	−7,184,546	−6,519,335
Personnel expenses	−2,104,971	−1,896,092
Other operating expenses	−3,964,700	−3,737,526
Income (loss) from equity investments	321,128	300,278
Income from associates and joint ventures	319,009	297,947
Income from other equity investments	2,119	2,331
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**705,476**	**719,406**
Depreciation and amortisation	−263,523	−256,320
Impairment losses	−62,335	−85,399
Earnings before interest and tax (EBIT)	**379,619**	**377,687**
Interest and similar income	30,195	39,028
Interest and similar expenses	−131,025	−120,715
Other net financial income	290,247	−72,987
Earnings before tax (EBT)	**569,035**	**223,013**
Income tax	−63,258	−68,648
Profit for the year from continuing operations	**505,777**	**154,365**
Loss for the year from discontinued operations	0	−122,873
Profit for the year	**505,777**	**31,492**
Profit attributable to the owners of Otto (GmbH & Co KG)	439,970	−33,998
Profit attributable to non-controlling interests	62,536	62,164
Profit attributable to participation certificates	3,271	3,326

Financial services at equity consolidated balance sheet as at 28 February 2018

	28.02.2018	28.02.2017
	EUR 000	EUR 000
ASSETS		
Non-current assets		
Fixed assets	3,774,648	3,673,085
Intangible assets	533,152	629,593
Property, plant and equipment	1,342,672	1,442,798
Investments in associates and joint ventures	1,623,538	1,319,534
Other financial investments	275,287	281,160
Trade receivables	167,644	155,996
Receivables from related parties	56,152	1,054
Other assets	69,151	62,933
Other financial assets	45,988	43,519
Miscellaneous other assets	23,164	19,414
	4,067,596	**3,893,069**
Deferred tax	**147,510**	**129,724**
Current assets		
Inventories	1,497,276	1,359,934
Trade receivables	1,102,520	1,055,369
Receivables from related parties	98,640	29,482
Income tax receivables	30,889	32,153
Other assets	353,338	357,492
Other financial assets	113,881	108,398
Miscellaneous other assets	239,457	249,095
Securities	353	852
Cash and cash equivalents	417,818	286,807
	3,500,833	**3,122,089**
Total assets	**7,715,939**	**7,144,882**

	28.02.2018	28.02.2017
	EUR 000	EUR 000
EQUITY AND LIABILITIES		
Equity		
Equity attributable to the owners of Otto (GmbH & Co KG)	733,716	434,121
Capital provided by the limited partners in Otto (GmbH & Co KG)	820,000	820,000
Consolidated retained earnings	739,621	353,839
Net cost in excess of net assets acquired in step acquisitions	–215,626	–217,097
Accumulated other comprehensive income	–625,396	–537,903
Accumulated other equity	15,118	15,282
Non-controlling interests	665,566	743,175
Participation certificates	71,590	71,590
	1,470,872	**1,248,886**
Non-current provisions and liabilities		
Profit and loss participation rights	25,710	23,900
Pensions and similar obligations	1,345,225	1,297,288
Other provisions	140,438	137,099
Bonds and other notes payable	918,514	622,100
Bank liabilities	329,633	323,203
Other financing liabilities	47,518	49,821
Trade payables	32,604	39,707
Liabilities to related parties	464	464
Other liabilities	273,689	354,709
Other financial liabilities	172,223	233,131
Miscellaneous other liabilities	101,465	121,578
	3,113,793	**2,848,292**
Deferred tax	**61,041**	**64,299**
Current provisions and liabilities		
Profit and loss participation rights	1,851	3,476
Other provisions	116,897	113,946
Bonds and other notes payable	120,414	258,333
Bank liabilities	492,531	354,816
Other financing liabilities	103,325	111,836
Trade payables	1,347,137	1,265,238
Liabilities to related parties	24,313	15,926
Income tax liabilities	41,477	31,223
Other liabilities	822,288	794,196
Other financial liabilities	416,452	353,775
Miscellaneous other liabilities	405,836	440,421
Liabilities classified as held for sale	0	34,414
	3,070,233	**2,983,405**
Total equity and liabilities	**7,715,939**	**7,144,882**

Financial services at equity consolidated cash flow statement
1 March 2017 to 28 February 2018

	2017/18 EUR 000	2016/17 EUR 000
Earnings before interest and tax (EBIT)	379,619	377,687
Depreciation, amortisation and impairment losses/reversal of impairment losses on intangible assets and property, plant and equipment	318,052	334,088
Profits (–)/losses (+) from associates and joint ventures	–319,009	–297,947
Dividends received from associates and joint ventures	280,634	136,352
Increase (+)/decrease (–) in allowances on loans, receivables and inventories	142,286	115,666
Gains (–)/losses (+) on disposals of items in intangible assets and property, plant and equipment	–8,650	–15,901
Pension payments exceeding (–)/less than (+) pension expenses	–13,687	–16,096
Other non-cash income (–) and expenses (+)	426	356
Gross cash flow from operating activities	**779,669**	**634,205**
Decrease (+)/increase (–) in working capital	–312,052	–74,076
Decrease (+)/increase (–) in inventories (gross)	–254,518	–114,186
Decrease (+)/increase (–) in trade receivables (gross)	–220,968	–100,185
Increase (+)/decrease (–) in provisions	–21,241	6,907
Increase (+)/decrease (–) in trade payables	146,043	189,298
Increase (+)/decrease (–) in receivables due from related parties/in payables due to related parties	–10,125	–2,312
Changes in other assets/liabilities	48,758	–53,598
Net cash generated from operating activities	**467,618**	**560,129**
Income tax paid	–53,691	–64,013
Interest received	20,705	19,771
Cash inflows/outflows from non-current financial assets and securities	1,125	3,221
Cash flow from operating activities from continuing operations	**435,757**	**519,108**
Operating cash flow from discontinued operations	0	–125,929
Cash flow from operating activities	**435,757**	**393,179**

	2017/18 EUR 000	2016/17 EUR 000
Cash flow from operating activities	**435,757**	**393,179**
Capital expenditures on purchases of intangible assets and property, plant and equipment	−334,783	−273,378
Payments for acquisition of subsidiaries	0	−16,869
Capital expenditures on purchases of other financial investments	−253,485	−313,569
Proceeds from disposals of intangible assets and property, plant and equipment	112,323	77,310
Proceeds from disposals of consolidated subsidiaries	−29,707	21,180
Proceeds from disposals of other financial investments	181,250	99,292
Cash flow from investing activities from continuing operations	**−324,403**	**−406,033**
Investing cash flow from discontinued operations	0	−28,213
Cash flow from investing activities	**−324,403**	**−434,247**
Free cash flow	**111,354**	**−41,068**
Dividends paid	−193,879	−56,473
Interest paid and bank charges	−150,760	−130,932
Proceeds/payments (net) for issues and repurchases of profit and loss participation rights	−310	−4,221
Payments of principal on finance lease	−20,752	−15,308
Proceeds from assumption of other financial liabilities	562,496	560,226
Repayments of other financial liabilities	−171,031	−187,497
Financing cash flow from continuing operations	**25,764**	**165,794**
Financing cash flow from discontinued operations	0	9
Cash flow from financing activities	**25,764**	**165,804**
Cash and cash equivalents at beginning of period	286,846	158,023
Net increase in cash and cash equivalents	137,117	124,736
Changes in cash and cash equivalents due to foreign exchange rates	−6,106	4,087
Cash and cash equivalents at end of period	**417,857**	**286,846**

(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)

	2017/18				
	Otto Group (1)	Financial Services segment (2)	I/E-conso-lidation (3)	Other (4)	Otto Group FS at Equity (5)
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Revenue	**13,652,891**	**−870,061**	**29,818**	**0**	**12,812,648**
Other operating income	795,920	−12,872	4,411	0	787,460
Revenue and other operating income	**14,448,811**	**−882,933**	**34,229**	**0**	**13,600,107**
Changes in inventories and other internal costs capitalised	51,096	−12,637	0	0	38,459
Purchased goods and services	−7,184,480	0	−67	0	−7,184,546
Personnel expenses	−2,386,282	281,311	0	0	−2,104,971
Other operating expenses	−4,263,641	333,103	−34,162	0	−3,964,700
Income (loss) from equity investments	84,457	−76,171	0	312,841	321,128
Income from associates and joint ventures	82,034	−75,866	0	312,841	319,009
Income from other equity investments	2,423	−305	0	0	2,119
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**749,961**	**−357,326**	**0**	**312,841**	**705,476**
Depreciation and amortisation	−282,655	19,132	0	0	−263,523
Impairment losses	−62,335	0	0	0	−62,335
Earnings before interest and tax (EBIT)	**404,971**	**−338,194**	**0**	**312,841**	**379,619**
Interest and similar income	36,195	−20,681	14,683	0	30,195
Interest and similar expenses	−139,121	22,778	−14,682	0	−131,025
Other net financial income	326,949	−36,703	0	0	290,247
Earnings before tax (EBT)	**628,994**	**−372,801**	**0**	**312,841**	**569,035**
Income tax	−109,899	46,641	0	0	−63,258
Profit/loss for the year	**519,095**	**−326,159**	**0**	**312,841**	**505,777**
Profit attributable to the owners of Otto (GmbH & Co KG)	439,970	−282,963	0	282,963	439,970
Profit attributable to non-controlling interests	73,782	−41,125	0	29,879	62,536
Profit attributable to participation certificates	5,343	−2,071	0	0	3,271

(c) NOTES ON THE RECONCILIATION OF THE CONSOLIDATED BALANCE SHEET

Reconciliation of consolidated balance sheet (FS at equity)

	28.02.2018				
	Otto Group (1)	Financial Services segment (2)	I/E-consolidation (3)	Other (4)	Otto Group FS at Equity (5)
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
ASSETS					
Non-current assets					
Fixed assets	3,433,909	−796,553	0	1,137,291	3,774,648
Intangible assets	708,404	−175,592	1	339	533,152
Property, plant and equipment	1,368,135	−25,463	0	0	1,342,672
Investments in associates and joint ventures	1,078,923	−592,323	0	1,136,937	1,623,538
Other financial investments	278,447	−3,176	0	15	275,287
Trade receivables	167,644	0	0	0	167,644
Receivables from financial services	878,812	−878,812	0	0	0
Receivables from related parties	56,152	−2,106	284,698	−282,592	56,152
Other assets	106,295	−37,143	0	0	69,151
Other financial assets	82,169	−36,182	0	0	45,988
Miscellaneous other assets	24,125	−962	0	0	23,164
	4,642,812	**−1,714,615**	**284,699**	**854,699**	**4,067,596**
Deferred tax	**134,891**	**−11,184**	**23,803**	**0**	**147,510**
Current assets					
Inventories	1,616,718	−119,442	0	0	1,497,276
Trade receivables	1,228,126	−125,606	0	0	1,102,520
Receivables from financial services	419,679	−419,679	0	0	0
Receivables from related parties	117,830	−169,931	683,502	−532,762	98,640
Income tax receivables	33,401	−2,512	0	0	30,889
Other assets	393,712	−40,393	18	0	353,338
Other financial assets	133,242	−19,361	0	0	113,881
Miscellaneous other assets	260,471	−21,032	18	0	239,457
Securities	443	−90	0	0	353
Cash and cash equivalents	517,615	−99,797	0	0	417,818
	4,327,525	**−977,450**	**683,520**	**−532,761**	**3,500,833**
Total assets	**9,105,228**	**−2,703,249**	**992,021**	**321,939**	**7,715,939**

	28.02.2018				
	Otto Group (1)	Financial Services segment (2)	I/E-consolidation (3)	Other (4)	Otto Group FS at Equity (5)
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
EQUITY AND LIABILITIES					
Equity					
Equity attributable to the owners of Otto (GmbH & Co KG)	733,716	−492,745	0	492,745	733,716
Capital provided by the limited partners in Otto (GmbH & Co KG)	820,000	0	0	0	820,000
Consolidated retained earnings	739,621	−509,111	0	509,110	739,621
Net cost in excess of net assets acquired in step acquisitions	−215,626	−4,576	0	4,576	−215,626
Accumulated other comprehensive income	−625,396	21,905	0	−21,905	−625,396
Accumulated other equity	15,118	−964	0	964	15,118
Non-controlling interests	681,320	−242,432	0	226,677	665,566
Participation certificates	116,984	−45,394	0	0	71,590
	1,532,021	**−780,572**	**0**	**719,423**	**1,470,872**
Financing the investments outside the segment	**0**	**−417,887**	**0**	**417,888**	**0**
Non-current provisions and liabilities					
Profit and loss participation rights	25,710	0	0	0	25,710
Pensions and similar obligations	1,416,795	−71,570	0	0	1,345,225
Other provisions	144,135	−3,698	0	0	140,438
Bonds and other notes payable	1,272,413	0	0	−353,899	918,514
Bank liabilities	555,073	−98,433	0	−127,006	329,633
Other financing liabilities	47,581	−64	0	0	47,518
Trade payables	32,604	0	0	0	32,604
Liabilities to related parties	464	−278,090	284,698	−6,608	464
Other liabilities	275,186	−1,498	0	0	273,689
Other financial liabilities	173,622	−1,398	0	0	172,223
Miscellaneous other liabilities	101,565	−99	0	0	101,465
	3,769,961	**−453,352**	**284,698**	**−487,513**	**3,113,793**
Deferred tax	**82,981**	**−45,743**	**23,803**	**0**	**61,041**
Current provisions and liabilities					
Profit and loss participation rights	1,851	0	0	0	1,851
Other provisions	151,770	−34,873	0	0	116,897
Bonds and other notes payable	166,810	0	0	−46,395	120,414
Bank liabilities	771,631	−89,330	0	−189,770	492,531
Other financing liabilities	213,340	−110,015	0	0	103,325
Trade payables	1,426,845	−79,709	0	0	1,347,137
Liabilities to related parties	24,516	−591,868	683,358	−91,693	24,313
Income tax liabilities	53,500	−12,023	0	0	41,477
Other liabilities	910,003	−87,877	162	0	822,288
Other financial liabilities	479,180	−62,890	162	0	416,452
Miscellaneous other liabilities	430,823	−24,987	0	0	405,836
	3,720,265	**−1,005,694**	**683,520**	**−327,858**	**3,070,233**
Total equity and liabilities	**9,105,228**	**−2,703,249**	**992,021**	**321,939**	**7,715,939**

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.

(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:

	2017/18	2016/17
	EUR 000	EUR 000
Income Statement		
Revenue	23,893	22,245
Other operating income	59,957	52,882
Purchased goods and services	4,443	3,928
Personnel expenses	12,962	13,085
Other operating exenses	14,770	15,412
Net financial income (expense)	18,740	−12,301

	28.02.2018	28.02.2017
	EUR 000	EUR 000
Balance Sheet		
Receivables from related parties	173,982	106,242
Cash and cash equivalents	8,217	7,246
Pension obligations to related parties	58,183	55,733
Liabilities to related parties	24,980	33,535

(a) TRANSACTIONS WITH ASSOCIATED COMPANIES AND JOINT VENTURES

Revenues from associated companies and joint ventures in the 2017/18 financial year amount to EUR 11,734 thousand (2016/17: EUR 10,428 thousand). They result primarily from income from receivables collection with the Cofidis Group amounting to EUR 10,045 thousand (2016/17: EUR 9,518 thousand).

Other operating income amounts to EUR 51,195 thousand in the 2017/18 financial year (2016/17: EUR 43,541 thousand) and primarily results as to EUR 50,004 thousand (2016/17: EUR 41,266 thousand) from income from factoring settlements with Hanseatic Bank GmbH & Co KG.

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 2017/18 financial year, receivables totalling EUR 1,607,409 thousand (2016/17: EUR 1,504,956 thousand) were sold. The value of these receivables as at the closing date of 28 February 2018 amounts to EUR 1,299,780 thousand. As at 28 February 2018 the cash and cash equivalents held at Hanseatic Bank GmbH & Co KG, Hamburg, amount to EUR 8,217 thousand (28 February 2017: EUR 7,246 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 2018 and as at 28 February 2017, 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.

During the year under review, GFH Gesellschaft für Handelsbeteiligungen m.b.H., Hamburg, acquired shares in ABOUT YOU GmbH, Hamburg (see Note 5 (b)). The Otto Group has granted a loan to the amount of EUR 56,152 thousand to GFH Gesellschaft für Handelsbeteiligungen mbH. under normal market terms and with a three-year term in order to partially finance the purchase price.

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 2017/18 financial year amounts to EUR 8,294 thousand (2016/17: EUR 7,541 thousand) and is payable in the short term. Of this, EUR 3,516 thousand relates to fixed components (2016/17: EUR 4,325 thousand) and EUR 4,778 thousand relates to variable components (2016/17: EUR 3,216 thousand). The pension obligations to members of the Executive Board amount to EUR 11,365 thousand (28 February 2017: EUR 15,039 thousand). Allocations to pension provisions amount to EUR 1,449 thousand (2016/17: EUR 3,266 thousand).

The remuneration of former members of the Executive Board and their survivors amounts to EUR 3,219 thousand (2016/17: EUR 2,278 thousand). Provisions of EUR 46,818 thousand (28 February 2017: EUR 40,694 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 2017/18 financial year amounts to EUR 278 thousand (2016/17: EUR 280 thousand).

(41) CONTINGENT LIABILITIES

The Otto Group's contingent liabilities are composed of guarantees and other obligations that, together, amount to EUR 29,327 thousand (28 February 2017: EUR 4,289 thousand).

(42) OPERATING LEASES

The lease instalments paid under operating leases during the year under review amounting to EUR 364,726 thousand (2016/17: EUR 360,057 thousand) were recognised in the income statement. Of this, EUR 3,425 thousand relates to contingent rent payments (2016/17: EUR 3,196 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	304,925	832,627	477,189	**1,614,741**

Receipts of EUR 398 thousand (2016/17: EUR 358 thousand) are expected from sublease agreements.

Future operating lease payments of EUR 1,487,288 thousand (2016/17: EUR 1,577,377 thousand) relate to the renting of properties.

The present value of future operating lease payments amounts to EUR 1,393,954 thousand. A term- and country-specific incremental borrowing interest rate of between 1.37% and 4.27% was used to calculate the present value as at the closing date.

(43) AUDITORS' FEES

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

	2017/18	2016/17
	EUR 000	EUR 000
Fees for auditing the financial statements	2,215	2,146
Fees for other auditing services	55	52
Fees for tax consultancy services	316	371
Fees for other services	496	152
Auditors' fees	**3,082**	**2,721**

Of other services, EUR 12 thousand (2016/17: EUR 74 thousand) relate to the previous year.

(44) LIST OF SHAREHOLDINGS

The list of Otto Group shareholdings as at 28 February 2018, 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)
Annette Adam, Kahl/Main *	Deputy Chairwoman of the Works Council, SCHWAB VERSAND GmbH
Thomas Armbrust, Reinbek	General Manager Kommanditgesellschaft CURA Vermögensverwaltung G.m.b.H. & Co.
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 *	Chairman of the Works Council, Hermes Fulfilment GmbH
Dr. Michael E. Crüsemann, Hamburg	General Manager (retired), until 28 February 2017
Dr. Thomas Finne, Hamburg	General Manager Kommanditgesellschaft CURA Vermögensverwaltung G.m.b.H. & Co.
Petra Finnern, Jesteburg *	Chairwoman of the Works Council, EOS Region Germany
Heike Lattekamp, Hamburg *	ver.di Trade Union Secretary Commerce
Dr. Wolfgang Linder, Hamburg	General Manager (retired)
Anja Marreck, Holzkirchen *	Works Council SportScheck GmbH, until 28 February 2017
Stefan Najda, Glienicke *	ver.di Trade Union Secretary
Lars-Uwe Rieck, Hamburg *	Regional Specialist ver.di Trade Union
Hans-Otto Schrader, Hamburg	General Manager (retired), as of 1 March 2017
Dr. Winfried Steeger, Hamburg	Attorney
Monika Vietheer-Grupe, Barsbüttel *	Chairwoman of the Works Council, bonprix Handelsgesellschaft mbH, as of 11 April 2017
Sandra Widmaier-Gebauer, Hamburg *	Executive employee/Human Resources
Prof. Dr. Peer Witten, Hamburg	Honorary Chairman of BVL, Bundesvereinigung Logistik e.V.

* 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
Dr. Marcus Ackermann, Hamburg	Member of the Executive Board, Multichannel Distance Selling Otto Group
Neela Montgomery, Hamburg	Member of the Executive Board, Multichannel Retail Otto Group, until 31 July 2017
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, as of 1 April 2018
Hanjo Schneider, Hamburg	Member of the Executive Board, Services Otto Group, until 31 December 2017
Sven Seidel, Talheim	Member of the Executive Board, Multichannel Retail Otto Group, as of 1 April 2018
Dr. Winfried Zimmermann, Hamburg	Member of the Executive Board, Projects, Corporate Audit, Transformation and IT Otto Group, until 30 September 2017

(46) EVENTS AFTER THE REPORTING PERIOD

No events of major significance to the Otto Group occurred after the balance sheet date of 28 February 2018.

Hamburg, 3 May 2018

The Executive Board

AUDITORS' REPORT

We have audited the consolidated financial statements prepared by Otto (GmbH & Co KG), Hamburg, comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, statement of changes in consolidated equity, consolidated cash flow statement, and notes to the consolidated financial statement, together with the group management report for the financial year from 1 March 2017 to 28 February 2018. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) of the German Commercial Code [HGB] are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code [HGB] and the generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors [IDW]. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code [HGB] and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements , complies with the German statutory requirements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg 4 May 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

Becker	Prof. Dr. Zieger
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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