

How the future of work is  
already changing us today

# HELLO FUTURE

*otto group*

ANNUAL REPORT 2016 / 17



HELLO

## HELLO FUTURE.

How the future of work is  
already changing us today

We're in the midst of a revolution. Those who have been working for a long time know full well what it felt like, say 20 years ago, to go to work. The job was dictated by the time clock, chains of command were clearly defined, and creativity primarily meant guessing what would please the boss.

Things are changing drastically. In a company like the Otto Group, this change is perceptible at all levels. These days, it is crucial for good ideas to gain acceptance quickly – regardless of who comes up with them. For everyone in the company to be treated as equals. For the work to be judged only by the result – not by when and where it was carried out. We

are taking this change seriously. At the Otto Group, our team spirit has always been more important than working by the book. But above all, we know that speed is crucial if we are to actively manage the digital transformation. This will only work if the decision-making process does not involve setting some creaking mechanism in motion. And if all our colleagues are enthusiastic about their jobs.

This annual report focuses on the future of work. To this end, we invited external experts to engage in discussion. Together, we investigate why strict hierarchies are becoming obsolete and what focusing on the needs of the customers means for our day-to-day business. We ask what tools can be used to promote this work transformation and how robots and artificial intelligence will fundamentally change our practices.

For these discussions, we visited places that are symbols of transformation: the

Elbphilharmonie in Hamburg, Copenhagen, which is a metropolis of innovation, Zurich International Airport and a former power station in Berlin, which is now one of the city's most exciting cultural areas.

There are also some very specific examples of how the future of work within the Otto Group is being implemented – thanks to the Kulturwandel 4.0 (cultural change). One thing we can reveal: this future began for us a long time ago. Bring it on.

We hope you enjoy reading.

With kind regards,

**otto group**

# KEY DATA

## OTTO GROUP 2016/17

The Otto Group was able to increase its revenue in the 2016/17 financial year (28 February) from EUR 12.1 billion to EUR 12.5 billion, with e-commerce revenues in particular rising from EUR 6.5 billion to EUR 7.0 billion. Due to the increase in profitability, the Otto Group was able to conclude the financial year on a clearly positive note at all profit levels.

	2016/17	2015/16
	EUR Million	EUR Million
<b>Group in total</b>		
Revenue	12,512	12,104
E-commerce revenue	7,016	6,516
EBITDA	730	639
EBIT	365	259
EBT	262	187
Profit/loss for the year	41	-190
Group equity	1,308	1,517
Gross cash flow	760	696
Capital expenditure in intangible assets and property, plant and equipment	382	332
Employees (average number)	49,787	49,597
<b>Group "FS at Equity"</b>		
Group equity	1,249	1,459
Net financial debt	1,432	1,317
EBITDA	719	597
<b>Revenues by segment</b>		
Multichannel Retail	9,819	9,588
Financial Services	732	678
Services	1,961	1,838
	2016	2015
	in %	in %
<b>Sustainability key indicators (CR Strategy 2020)*</b>		
Share of sustainable cotton in own and licensed brands	49	27
Share of FSC®-certified furniture products	46	43
Share of FSC®-certified catalogue paper	34	28
Share of integrated suppliers of own and licensed brands in the Social Programme	80	41
Reduction of CO <sub>2</sub> emissions (compared to the base year 2006)	-34	-28

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



# THE CORPORATE OVERVIEW\*

## MULTICHANNEL RETAIL

**About You**  
**Ackermann**  
**Baumarkt  
Direkt**  
**Baur**  
**Blue Yonder**  
**Bonprix**  
**CB2**  
**Collins**  
**Crate and  
Barrel**  
**Eddie Bauer**  
**Japan**  
**Edited**  
**Eventures\*\***  
**Freemans**  
**Grattan  
Holdings**

**Frankonia**  
**Heine**  
**Küche & Co**  
**Lascana**  
**Limango**  
**Manufactum**  
**Mytoys Group**  
**Neckermann**  
**OTTO**  
**Otto Group  
Brasilien**  
**Otto Group  
Media**  
**Otto Group  
Russia**  
**Otto Japan**  
**Project A\*\***  
**Quelle**

**Schwab**  
**Sheego**  
**Shopping 24**  
**Sportscheck**  
**Unito**  
**Universal**  
**Venus**  
**Witt Group**

## SERVICES

**Baur**  
**Fulfillment**  
**Dispeo**  
**Girard Agediss**  
**Hermes  
Group**  
**HVD**  
**Mondial Relay**

## FINANCIAL SERVICES

**Cofidis**  
**Collect AI**

**EOS Group**  
**Hanseatic Bank**

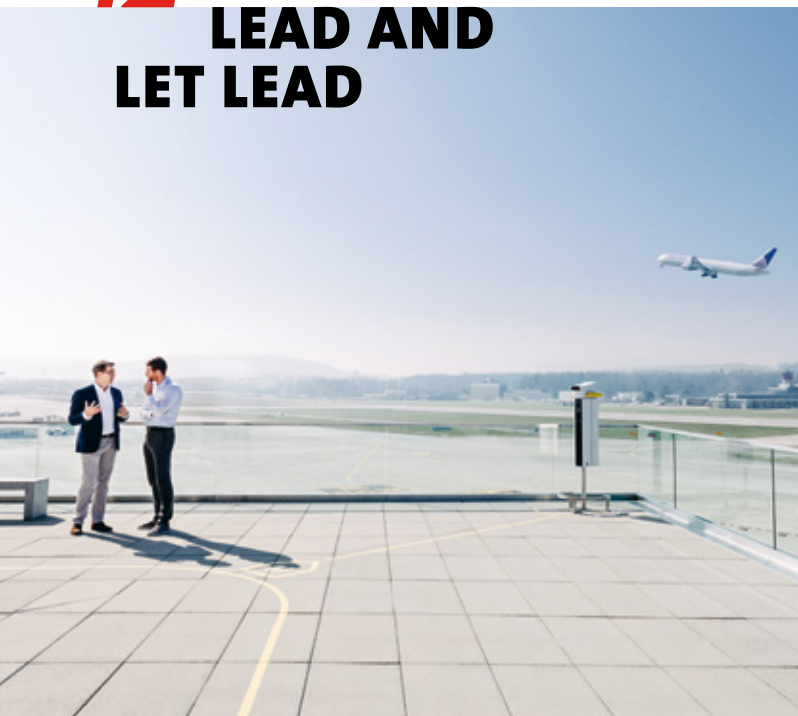
**Liquid Labs**  
**Risk Ident**

\* selected companies and brands

\*\* investment companies

12

## LEAD AND LET LEAD



## DISCUSSIONS

Four Members of the Executive Board in talks with visionaries from economy and research

22

## ADVANTAGE CUSTOMER



34

## ROOM FOR THE NEW



H  
E  
L  
L  
O  
  
F  
U  
T  
U  
R  
E

4



44

## FIVE MINUTES TO FUTURE

More:

[OTTOGROUP.COM/HELLOFUTURE](http://OTTOGROUP.COM/HELLOFUTURE)

## Alexander Birken

Chairman of the Executive Board  
and CEO  
Page 6

## The Purpose

Page 7

## The Executive Board

Page 8

## Dr Michael Otto

Chairman of the Supervisory Board  
Page 10

## The Supervisory Board

Page 11

# CULTURE PERFOR & MANCE

## Lead and Let Lead

Alexander Birken and Bodo Janssen  
have a CEO talk at Zurich Airport  
Page 12

## More Room to Manoeuvre

Measures for a  
modern corporate culture  
Page 18

## We are Witt!

How cultural change at Witt has  
boosted business  
Page 19

## Better with Open Leadership

Communication formats promote  
transparency – across all hierarchies  
Page 20

## Continue!

The Shopping 24 Internet Group wins  
the Culture Cup  
Page 21

# DIGITI SATION & CUSTOMER PROXIMITY

## Advantage Customer

Neela Montgomery and Andrew  
Doherty discuss the future of  
shopping in Copenhagen  
Page 22

## Ideas Across all Channels

Crate and Barrel is known a benchmark  
for exciting customer experience  
Page 28

## Kitchen Tips

Küche & Co provides franchise  
partners access to tools for successful  
recommendation marketing  
Page 28

## The Power of the Brand

Five theses from  
Dr Marcus Ackermann  
Page 29

## Reaching Customers the Smart Way

How OTTO uses hyperpersonalisation  
to create genuine added value  
Page 30

## Nimble Fingers

The Mobile Lab speeds up app  
development for all Group companies  
Page 32

## Renting Instead of Buying

OTTO Now opens up new avenues in  
the sharing economy marketplace  
Page 32

## Happiness is Measurable

Dr Winfried Zimmermann on  
customer satisfaction and Big Data  
Page 33

# COLLABO RATION & NET WORKING

## Room for the New

Office talk in the Elbphilharmonie:  
Petra Scharner-Wolff and  
Sabine Bendiek on the workplace  
of the future  
Page 34

## Gaining Ground Together

Events, platforms and formats for a  
new culture of collaboration within  
the Otto Group  
Page 40

## Open for Dialogue

New spatial concepts at the  
Hamburg campus – interview  
with Benjamin Otto  
Page 42

## Business Meets Science

How the Otto Group is developing  
further by exchanging ideas with  
researchers  
Page 43

# MAN & MACHINE

## Five Minutes to Future

Dr Rainer Hillebrand and Professor  
Dr Michael Feindt meet up at Berlin's  
former power station to discuss  
what the future has to offer  
Page 44

## A Whole New World

Hanjo Schneider on the use of robots  
in logistics  
Page 50

## Algorithms for the Shopping Basket

Artificial intelligence is already  
optimising business processes within  
the Otto Group  
Page 51

## Intelligent Offers

How data technologies will shape the  
future of online shopping  
Page 52

## Chatting and Shopping

Conversational commerce depends  
on software being able to understand  
human speech  
Page 53

## The Chronicle

Page 54

## SUSTAINABILITY AT THE OTTO GROUP

Strategy and Management  
Page 58

Raw Materials and Processing  
value-adding stage  
Page 67

Final Production value-adding stage  
Page 69

Trade value-adding stage  
Page 71

Customer value-adding stage  
Page 73

## FIGURES FOR THE OTTO GROUP

Group Management Report  
Page 76

Consolidated Financial Statements  
Page 118

Notes  
Page 134

Credits  
Page 218





for the personalised customer experience. We intend to push the limits so that our employees have all the creative possibilities. And we intend to push the limits when it comes to developing bigger ideas for our future and society as a whole.

The things we need to achieve our goals are what we want to create every day: a clear view of our customers' future needs, the huge opportunities offered by a digital world, the unimagined possibilities of even closer collaboration between our colleagues, and the fascinating opportunity of getting the best people and keeping them inspired. Last but not least, we have pushed the limits for change with the Kulturwandel 4.0 (cultural change) process which we started last year.

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

Over the previous financial year, which was mostly overseen by my predecessor Hans-Otto Schrader, we saw our e-commerce sales increase by more than EUR 500 million to over EURO 7 billion – from existing business. In achieving this, the Otto Group has consolidated its key position as one of the world's leading online retailers. We are proud to say that our company – full of its own traditions – has become a world champion of transformation in the international retail market.

But it would be dangerous just to keep looking back in an intensely competitive market with so many major digital players. We are looking forward. I and my fellow Board Members have worked together to set the ambitious target of taking the Otto Group on a strong path to sustainable growth again.

We already have what we need to achieve this – our 50,000 or so colleagues. It is our firm intention to push the limits together. This is what our new Purpose says – one that we devised with thousands of colleagues. We intend to push the limits

**WE ARE GOING  
TO TAKE THE  
OTTO GROUP  
ON A STRONG  
PATH TO  
SUSTAINABLE  
GROWTH**

Alexander Birken

We would like to invite you – as partners and friends of the Otto Group – to tell us what you think, support us on our way and help us to be better – for the market and for society.

**ALEXANDER BIRKEN**  
Chairman of the Executive Board  
& CEO Otto Group

THE PURPOSE OF THE OTTO GROUP

# TOGETHER WE PUSH

The desire to succeed and the ambition to accomplish great things – that's what drives and unites us. The pleasure we take from working with people is our emotional bond. It is shown in our warmth, trust and respect for one another.

- ▷ **We strive to delight our customers always through personality and technology.**
- ▷ **We encourage entrepreneurial freedom and collaboration to push the limits.**
- ▷ **We develop great ideas for our future and our world that are bold and sustainable.**

# THE LIMITS

## KULTUR WANDEL THESES

**1**

People,  
not machines, create  
transformation

**2**

There is not just one  
corporate culture

**3**

No evolution without  
revolution

**4**

Corporate culture needs  
the word "why"

**5**

Only the welcome  
loss of control  
releases new energies

**6**

Culture is defined  
through the quality  
of relationships

# THE EXECUTIVE BOARD

## Well, hello!

Agile cooperation, networking, dialogue: the cultural change that is carrying the entire Otto Group on its way into the future also influences the way the new management team works.



H  
E  
L  
L  
O  
  
F  
U  
T  
U  
R  
E

From left to right:

**ALEXANDER BIRKEN** Chairman of the Executive Board and Chief Executive Officer (CEO)

**NEELA MONTGOMERY** Member of the Executive Board, Multichannel Retail

**HANJO SCHNEIDER** Member of the Executive Board, Services





From left to right:

**PETRA SCHARNER-WOLFF**

Member of the Executive Board,  
Chief Financial Officer (CFO),  
Controlling, Human Resources

**DR WINFRIED ZIMMERMANN**

Member of the Executive Board, Projects,  
Corporate Audit, Transformation and IT



How the future of work is already changing us today

# MEET 2LEAD



From left to right:

**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

More about the  
Otto Group Executive Board:

**OTTOGROUP.COM**



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

We have introduced a generational change to the Executive Board of the Otto Group over the last financial year. With Alexander Birken as the new Chairman of the Executive Board and Dr Marcus Ackermann as Member of the Executive Board for Multichannel Distance Selling, we have taken a major step forward in the process of rejuvenating the Executive Board. I would like to take this opportunity to extend my sincere

thanks to Hans-Otto Schrader for his excellent work as a long-term Member and Chairman of the Executive Board.

Where the past few years have been strongly marked by a comprehensive transformation process and the consolidation of our Group, the newly formed Executive Board has now set ambitious targets for digitisation and growth. The expectation of the shareholders and the Executive Board is to develop the Otto Group more intensively into a fully digitised retail and services Group.

In an increasingly changing market environment, we as a family company aim to achieve this goal with a distinct entrepreneurial mindset, greater speed and digital expertise, more openness and networking, and absolute customer focus.

At the same time, we have to continue to live traditional values such as respect for people as well as social and ecological responsibility in an exemplary fashion. Given the visible changes in socio-political spheres, one more thing needs to be said: as a company, we see ourselves as a living part of society, and will make our contribution to defending basic democratic principles such as freedom, diversity and the rule of law.

It is the job of the newly formed Otto Group Executive Board to overcome the challenges

# WE WILL LEAD BY EXAMPLE WHEN IT COMES TO SOCIAL AND ECOLOGICAL RESPONSIBILITY

Dr Michael Otto

brought about by the digitisation of the economy and society and by political unrest. We are totally confident that they will succeed.

**DR MICHAEL OTTO**  
Chairman of the Supervisory Board Otto Group



# THE SUPERVISORY BOARD

## 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

## Karl-Heinz Grussendorf\*

Hamburg  
Deputy Chairman  
Chairman of the  
Works Council  
until 22 March 2017  
Works Council  
as of 23 March 2017  
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

## Dr Richard Gottwald\*

Hamburg  
Executive employee /  
Marketing and Sales  
until 30 September 2016

## Herta Heuberger\*

Sauerlach/Arget  
Chairwoman of the  
General Works Council  
SportScheck GmbH  
until 31 March 2016

## Heike Lattekamp\*

Hamburg  
ver.di Trade Union Secretary  
Commerce

## Dr Wolfgang Linder

Hamburg  
General Manager (retired)

## Anja Marreck\*

Holzkirchen  
Works Council  
SportScheck GmbH  
as of 1 April 2016  
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 Handels-  
gesellschaft mbH  
as of 12 April 2017

## Sandra Widmaier-Gebauer\*

Hamburg  
Executive employee /  
Human Resources  
as of 1 October 2016

## Prof Dr Peer Witten

Hamburg  
Honorary Chairman of BVL,  
Bundesvereinigung Logistik  
e.V.

\* Employee Representative

# LEAD

H E L L O F U T U R E



**ALEXANDER BIRKEN**  
Chairman of the Executive Board  
and Chief Executive Officer Otto Group

**BODO JANSSEN**  
Managing Director  
of the hotel chain Upstalsboom

# LET LEAD

# A N D





# A HUB OF IDEAS:

**At Zurich International Airport, Bodo Janssen, Managing Director of the hotel chain Upstalsboom, and Alexander Birken, CEO of the Otto Group, outline their visions for a modern management culture. A conversation about transformation, the boss as service provider, and meaningful economies.**

H  
E  
E  
L  
L  
O  
  
F  
U  
T  
U  
R  
E

**When did you last have to admit that one of your employees was right, not you?**

**BODO JANSSEN** That happens to me every day. So often that I do not even think in the categories right and wrong any more, and no longer claim to know better. My colleagues often have much more insight into specific topics and have ideas that are much more effective than mine.

**ALEXANDER BIRKEN** I'm very familiar with that. Just yesterday we discussed a major event in which we will be bringing together the managers of the entire Group. I had very clear ideas as to how this event should take place. But then there were quite different ideas – and finally I was happy to admit that they were much better.

**What you're just saying – that bosses can be told what to do – would have been very much the exception years ago. Why is a new corporate culture so important today?**

**AB** I think that the social upheaval triggered by digitisation is the most powerful change since the Renaissance. We cannot fully predict this yet, because we are in the middle of it. The new technical possibilities have a massive impact on how we communicate, how we perceive, how we shop and how we work, in short: how we live. Generation Y – those born between 1980 and 1990 – has completely different demands with regard to jobs than the generations before.

**BJ** Most corporate structures come from the late nineteenth century. This was a militarised society in which people went to work with a kind of sense of duty. Their personality was given up at the factory gate. That's over now. I believe that the next generations will increasingly also perceive themselves as spiritual beings who no longer want to separate work and leisure.

**Is it a matter of a more equitable work-life balance?**

**AB** The term work-life balance has bothered me for a long time. It suggests that the moment I go to work, I stop living. And when I stop working, I start living again. I think such an attitude makes you ill in the long run. People also want to be alive at work, and to evolve in their work. I would like to think my colleagues are happy to go to work, that they don't regard it as opposed to life. We also initiated the Kulturwandel 4.0 (cultural change) process in the Otto Group for that reason. I'm firmly convinced that if we don't commit to radical changes, we have no chance of survival.

**How so?**

**AB** The upheavals in the Internet business of the past ten years have been disruptive. E-commerce is now entirely dominated by mobile devices. Even our wall units are bought via smartphone today. The world has changed. If I only react to it, I'm too slow and too passive. It's about speed and agility. With rigid structures you can no longer do justice to the demands of today.

**Can you give up control and build up speed at the same time?**

**BJ** It can actually only be done this way. In our company, it's been our experience that the teams that have a high degree of self-determination and are not subject to classic management have the highest degree of innovation. And that's speed. Innovation is only about speed.

**AB** A rigid structure that works through military values such as orders and obedience hinders agility. We know this from the software engineering area, where agile methods are now commonplace. We know that only with these methods are we able to react quickly to changes in technology so that we remain competitive.

**Mr. Janssen, you have subjected your company, a family-run hotel chain, to a massive transformation. It used to be very hierarchical. Today, you emphasise values such as own initiative, self-organisation and humanity. How do you organise such a change?**

**BJ** I consider management as a service. I believe management should have only one goal: to support people in becoming aware of themselves, their own abilities and inclinations. The task of management is to accompany this process and then to give colleagues the tasks that correspond to their personality. If this is how you understand management, change is something quite natural.

**AB** In the Otto Group we simply try out a lot of things. We are in a test phase, which is also a kind of cultural change – just look and see if it works. For example, we have started to hold what are called stand-ups. Anyone who wants to can come along. And I, or a colleague, stand at the front, give a talk, and then virtually anything can be discussed.

**BJ** We have a kind of internal Facebook. There are no barriers, which means the dishwashers can look at everything I am working on if they want. Everyone can see everything. There are no secrets. This is symbolic of our corporate culture.

**But all change provokes resistance.**

**BJ** Resistance – the word sounds so negative. But it's central to any change. We know this from the human body. When we do sport, we need resistance to grow. We need resistance; it's essential to develop strength. And this also applies to the company. Resistance is a very important factor, provided it arises out of a constructive attitude. Destructive or purely passive resistance is problematic. But my experience here is also that if you openly approach people and engage with them, you can use this productively.

**AB** I think the biggest changeover process is actually taking place in middle management. These are often colleagues who have been part of the company for many years, who have grown into their role and a certain type of management. I always encourage colleagues to articulate very clearly what they have a problem with. Various channels must be open for that. One person is keen to express their criticism at a stand-up in front of a large audience. Others have a problem with this – but they also have to be heard.

**Can a change process such as Kulturwandel 4.0 also trigger anxiety?**

**AB** Of course. As a manager, I have to face this. The question of attitude is key to the entire cultural change. You have to be aware of why you act and how to behave towards others. This applies to individuals as well as to entire business areas. Anxieties are often initiated by unconscious triggers – but if you become clear about them, half the anxiety is already gone and you can work with it.



**WE SAY  
QUITE  
HONESTLY  
THAT WE DON'T  
KNOW,  
HOW IT  
WILL ALL END**

Alexander Birken



# CHANGES BRING ALONG COM- PLEXITIES. MAKE USE OF THEM

Bodo Janssen

- B J The task of management is to enable employees to be aware of their inner attitude. And when they are self-aware, they are freer from external things such as status, recognition, position, function. If you base everything on only that, there is a risk that it breaks away once change happens. This creates anxiety. But if you're aware of what you stand for, what you can do to make sure you yourself are a key player and not just a plaything, then strength comes from this – and you're ready to endure the complexities that changes bring. Or even to make use of them.

## Do you find it difficult to exemplify what you expect from your colleagues every day?

- A B Of course. You're always falling into the efficiency trap. Often the days are clocked by countless telephone calls, conferences and other prescribed topics. This is something you want to complete quickly and efficiently, but you can also quickly lose what's important to us: listening to each other, interacting with each other, perceiving each other. I still catch myself out too often. Then I tell myself: Alexander, you should have taken two or five minutes for the other person. This is all the more important since the process of transformation in which we find ourselves is completely open. We say quite honestly that we don't know how it will all end. We are getting involved in something we no longer control completely. This is in itself already an incredible cultural change. But it only works if this openness is accompanied by a different openness: constant dialogue with our colleagues.
- B J Anyone who wants to manage others must first learn to manage themselves. And this is an incredibly difficult task that you have to face again and again every day.

## What does the transformation process mean for corporate culture? Aren't you running the risk of losing your identity?

- A B To do this, we first have to define the corporate culture we're talking about. Each company in the Otto Group has its own. We're firmly convinced that it's a good thing, because this is the only way to trade meaningfully or provide services appropriately in the various countries. But of course, there's something like a common thread which runs through all Otto Group companies. It has something to do with passion for the customer, but above all, with a sense of responsibility – and the process in which we find ourselves at the moment doesn't challenge this. It's rather the expression of this consciousness that we have responsibility.

### What does this actually mean?

- A B That, for example, we should shape relationships with our suppliers in such a way as to create reasonable working conditions. If we want to buy products made under humane circumstances, that costs money in case of doubt. But I'm firmly convinced that this is becoming more and more important – and that customers also pay more attention to this and hold us responsible.
- B J The sensual orientation can be a decisive sales argument. If I have two similar products, and behind one is a company that stands for something that is reasonable to the customer, he will decide for it. This also applies in the company. We talked about generation Y before. Their representatives no longer give up their personality at the factory gate. These colleagues are not only bound to the company by money. They want to do something meaningful. Responsibility and meaning are clearly the unique defining characteristics of the future. Profitability is only the basis of our existence. The purpose of our actions is to make people successful.
- A B At a time when no one was even talking much about these issues, our company founder Werner Otto said something very similar: "Our employees are not there for the company – the company is there for our employees."



# THERE'S A COMMON THREAD WHICH RUNS THROUGH ALL OTTO GROUP COMPANIES: PASSION FOR THE CUSTOMER

Alexander Birken



Video interview:  
[OTTOGROUP.COM/  
HELLOFUTURE](http://OTTOGROUP.COM/HELLOFUTURE)

## LEADERSHIP

A modern corporate culture can only stand the test of time if company executives live and breathe it. In the Otto Group, various measures help to pave the way to fewer managerial levels, more teamwork and greater individual freedom. The target: more openness and thus greater opportunities to respond quickly and flexibly to the market.

# MORE ROOM TO MANOEUVRE



H E L L O F U T U R E

### AGILE COMMUNITY

It's not only line managers who think of ways to make their teams more agile. Employees also discuss how they can help management to act with greater agility. To put it another way – what is the actual benefit of adopting agile methods in project management? Issues such as these are regularly covered by the “Agile Community” at Barcamps – a group dedicated to incorporating agile methods, approaches and processes into individual Group companies. #Agilegroupie.

### AGILE RECRUITING

Recruitment today takes on a new dimension. Whether an applicant will fit to the team and adapt to the corporate culture are just as important as his or her professional qualifications. Applicants also place increasingly higher demands on employers and expect the recruitment process to move along at a significantly faster pace. Agile recruiting methods are designed to meet the requirements of both parties. Processes have been streamlined – for instance, OTTO no longer asks

for a covering letter. And the departments have a greater role to play. In short – more scope for the ideal match.

### HYBRID PROJECT DEVELOPMENT

Satisfying the customer with a maximum of individual responsibility for those involved and short project cycles are the goal of agile project development in the Otto Group. This is combined with elements of classic management such as planning and reporting – a hybrid approach that is showing best results.

### MARKET PLACE FOR INTRAPRENEURS

The goal: a start-up culture within the Group, using the crowd as a resource. The intrapreneur market place is how we get there. Employees upload an idea, which is then assessed by the internal crowd who invest credits during a fund-raising phase. Successful ideas are then further developed with the entrepreneur along the lines of a business concept. Ultimately, the Executive Board makes a clear-cut decision on whether

or not to set the ball rolling. Manufactum has been acting as the pilot company for this so far, but the option will soon be available to other companies within the Otto Group.

### LEAD FACTORY

Agile management means establishing a framework to encourage optimum, independent responsibility. The “Lead Factory” helps young managers in this process. Experienced mentors recount their practical experiences. At the same time, effective tools are provided to help reflecting on their own performance.

### 360° FEEDBACK

Something that is completely normal for employees can also be extremely useful for line managers: feedback on the quality of their work. The Otto Group uses a professional tool from the Cut-E company for this purpose. Internal and external feedback providers are recommended using an automated, anonymous system. The outcome is not a rigid evaluation but constructive feedback on the personal development of the line manager.



## PERFORMANCE



**MARIA GOLD**

Head of the Regensburg Preisland branch

**“In the monthly letter, decisions are now explained, not just proclaimed. We feel involved now. This makes selling fun again! But we must continue to find new ways to address our customers. Maybe the range needs to be adapted to local customers.”**

The Witt Group from Weiden is demonstrating that cultural change is not a feel-good measure, in fact it boosts business. Today, the over-the-counter retail business runs just as smoothly as the mail-order business. Turnover per square meter sales area is increasing. That has not always been the case. However, some smart counter-measures were taken, with employees taking the central role. The conclusion is that only someone who is passionate about the company can take care of the customers in a friendly and personal way. Three employees talk about the changes.

# WE ARE WITT!

**“The need to make savings and development oppressed the mood in 2012, so the most important thing was clear, open communication. That had to become the norm for us. Today, the customer is in the centre of attention. He isn’t interested in our internal processes.”**

**ALEXANDER TRAURIG**

Head of Real Estate Management & Shop Fitting



**“Times were hard then. Today, I have more open discussions, more scope for decision-making and less bureaucracy to cope with. In future, however, we will have to pay even more attention to customer requirements.”**

**UTE BERNET**

Sales Manager



How the future of work is already changing us today

TRANSPARENCY

# BETTER WITH OPEN LEADERSHIP



Decisions are no longer taken by an exclusive club in the back room and then executed from top to bottom. In order to make transparency an integral part of everyday work, the Otto Group promotes the exchange of information by regular events and cross-hierarchical communication formats.

**1 - CARDS ON THE TABLE**

Previously, board meetings were similar to a black box. You knew that they took place and that important things were negotiated there - but most of the employees did not know what exactly these things were. Since mid-2016, this has not been the case: following these meetings, a Member of the Executive Board reports on the key decisions in a video. This is published promptly via ottogroupnet, the Group-wide collaboration platform. Management Board meetings at Bonprix are held in the same vein: up to four employees can now attend in person as guests, a video of the Management Board made immediately after the meeting sums up the results for all employees. At the British company, Freemans Grattan Holdings (FGH), the Chairman of the Executive Board informs his staff about current strategic considerations and economic development on a quarterly basis, transparently and openly.

**2 - AT EYE LEVEL**

This is how inhibition thresholds are broken down. Dr Rainer Hillebrand, Member of the Executive Board, personally addressed all employees' questions concerning Kulturwandel 4.0 (cultural change) at the Heine-Casino. The same principle - dialogue across hierarchies - is taking place at OTTO, EOS and also at Group level: at lunch. Here, employees can chat with Members of the Executive or Management Board quite freely about anything and everything, put forward ideas or simply brainstorm together. Another open format now also being practised in the Otto Group is called Fishbowl: a round table in which discussions are held in a small group and the rest listens, can step into the group themselves and ask questions - for example to CEO Alexander Birken.

**3 - DON'T BE AFRAID TO MAKE MISTAKES**

It can't be helped: mistakes happen. However, what can be changed is how to talk about mistakes - and what can be learned from them. This is now taking place in the Otto Group. What went wrong is talked about in so-called "fuckup nights". Petra Scharner-Wolff (Otto Group), Marc Opelt (OTTO), and Markus Fuchshofen (Bonprix) were among the first to take part. Because bosses make mistakes, too.

**4 - UNPLUGGED**

- in music that means no special effects. But let's apply this to a company like OTTO. Management Board Members take to the stage at least once a month and report on the latest business developments to all interested members of staff. The outcome - an open dialogue with a liberal dash of humour along the way.

**CULTURE CUP 2016****CONTINUE!**

A whole Group has been set in motion with Kulturwandel 4.0 (cultural change). To make further use of this momentum, the Culture Cup has been awarded within the Otto Group. The first prize went to the Shopping 24 Internet Group. The operator of product search engines was convincing due to its transparency, cooperation and rapid decision-making. Shopping 24 was able to record not only a significant increase in revenue, but also above-average levels of employee satisfaction. This was also confirmed by the independent rating portal Kununu, which distinguished Shopping 24 as the best German employer in the retail and consumer goods sector for the second time in a row.





# ADVANTA

H E L L O F U T U R E

**ANDREW DOHERTY**  
User Experience Expert

# CUSTOMER



# GE



**NEELA MONTGOMERY**  
Member of the Executive Board,  
Multichannel Retail Otto Group

# R



# THE FUTURE OF SHOPPING:

**In the innovation metropolis of Copenhagen, Andrew Doherty, a user experience expert, and Neela Montgomery, responsible for Multichannel Retail within the Otto Group, discuss personalisation and the power of brands.**

H  
E  
L  
L  
O  
  
F  
U  
T  
U  
R  
E

## **Can you remember a really good recent shopping experience?**

**NEELA MONTGOMERY** Yes. It was with Lego. My boys are 'Lego-crazy'. Not only did the company know who I was but also how old my kids were and even which characters they liked.

## **You bought online?**

**NM** I did. Then I decided to go into a store and the staff had exactly the same information when I walked in. That's very impressive because often you can have quite a disjointed experience between the store and online. This was a great example of simple but effective personalization.

**ANDREW DOHERTY** I bought the Google Pixel phone. I actually wanted to hold it in my hands before I bought it. But I couldn't because there is no physical place to see, touch and buy that phone. So I had to take a leap of faith that the phone would impress me. And it did.

## **What are the main differences between customer behavior today and in the 1990s?**

**AD** I like to compare shopping with television 25 years ago when we were told what to watch and when to watch it. The decisions were made for us by the networks. But now, if I want to watch all of Game of Thrones in one go, I can. In the past we were being told what to buy by retailers, but now we're seeing that consumers are not only free to decide what they want to buy, but also very importantly, when they want to buy it, and from where.

**NM** That's true. These days customers are more influenced by many things beyond the control of retailers. That's an essential change enabled by technology specifically social media. Customers want to get information from other customers. Today, brands are no longer defined by what

they say about themselves but what others say about them.

## **Would you say that the customer is in the lead today?**

**NM** Definitely. The customer has more options than ever before. Brands don't have the same access to customers that they used to enjoy. So we all have to be more creative, more inventive – that's why bloggers and networks/platforms have become so powerful within that dynamic.

**AD** We are exposed to so much aspirational imagery today. We see one of our favourite movie stars, bloggers, or favourite



youtubers, using a product and nobody is talking about the product in a way that says “Please buy this” – The products are just being used, or seen in a natural way, and this has a very powerful effect on customers.

**What role does personalization play today and in the future?**

NM I think we are very much at the beginning of that journey and few retailers really deliver today. Customers will expect a deeply personalized interaction using predictive technology in the near future and will be unforgiving of those retailers who do not get on board.

AD We’re entering a new era where customers are moving away from product acquisition and towards product access. I don’t own any of my music. I rent it. I wanted to change music providers recently and go over to another one that was a little cheaper, but when I changed, none of my playlists were there, and none of the music recommendations were personalised. It felt like they didn’t know me at all, so I ended up having to go back to the original and pay the higher price.

NM Otto Now is an interesting model in terms of leveraging more income from rental, being able to reach much more customers and develop a subscription relationship with the customer.

**Why do you think people are starting to prefer renting to buying?**

NM If I want five different luxury handbags for different events, then renting rather than investing in one large purchase makes sense, don’t you think? Renting often feels like a smart economic decision. You often feel proud of yourself. It’s also perfect if you want to own the very latest product but can’t afford the purchase price up front. Uber and Airbnb have already demonstrated the power of shared networks and assets. For the model to work though, providers need a deep understanding of customers’ needs and the data intelligence to predict them as well as the technology to manage the platform.

**But at the same time lots of people are afraid of companies knowing too much about them. Do you understand this fear?**

AD If I had asked someone ten years ago if they would be comfortable using a product like facebook which would track their location with GPS, learn about their likes and interests, know who their friends are, what they are looking at – no one would have told me that that sounds like a good idea. But now even my grandmother is sitting there on facebook “liking” things all day. Customers say that they are afraid of giving away so much personal data, but if we look at what customers actually do, they demonstrate again and again that they are willing to give it up to get access to products. It is crucial that companies take their data protection responsibilities seriously.

NM Collecting data enables personalised content and it’s critical that customers see the value provided to them from using their data. At the same time, retargeting is in danger of becoming a negative trend right now. If you interrupt the customer journey too often, you abuse trust. Customers expect that data improves their experience and sales offers can sometimes cause more irritation than pleasure.

# TODAY, THE CUSTOMER HAS MORE OPTIONS THAN EVER BEFORE

Neela Montgomery



AD There is too much screaming advertising. It’s like screaming at a person “Buy me, buy me”. We have to transition towards whisper advertising – advertising that comes in the right volume at the right time.

NM Speaking of advertising, I am almost shocked these days when I watch an episode of Game of Thrones on a traditional channel because I had forgotten that there’s so much interruption of my viewing experience. Only five years ago, I totally accepted it. Netflix and other streaming services have completely reshaped my expectations.

**A disruption-free user-journey ... What other trends do you predict for the future of shopping?**

AD I think the line between physical retail stores and e-commerce will be quite blurred. Just like Neela’s experience with Lego. She started online and then transitioned into a physical store in a seamless way. In the future we will also see items being purchased online and 3D printed at home on demand.

NM Exactly. Expectations of the physical experience will increase even further. Customers want stores to be visually stunning and they will want a sensory experience. When I go to Asia, I am always reminded how good they are at providing the

whole package. They are much better at blending together shopping with entertainment, art and family – the whole thing is much more vibrant and alive. Some shopping centres in Europe are too cold and clinical and places you want to get out of as fast as possible. In the UK market, which is relatively advanced in multi-channel, we see multichannel retailers winning again. They realized that if you can go into an attractive store, have a fantastic conversation about a product with a knowledgeable person and pick up or order packages to home or stores that's a very compelling shopping experience!

**Where within the Otto Group are you trying to address these developments?**

NM Take Crate and Barrel. One of the things we recognized is that especially for high-value purchases like furniture people typically do want to speak to an experienced associate. And our associates are really very experienced. But customers often don't want to complete the transaction in the store where they're kind of under pressure. So now we offer the customer the possibility to go into the store to get help and then we send him the offer via mail afterwards so that he or she can finish the purchase from home. There used to be this unwritten rule: "There is no way people will feel comfortable to buy a 5000-dollar sofa online." That's just not true anymore. But it also means: if we offer a different experience in our online shop than the one you experience in our store, we immediately lose some of our brand trust.

**What does a contemporary brand have to look and feel like in 2017?**

AD A brand is a virus. It's organic, it breeds, it mutates daily, and it's everywhere. A brand is not just a logo that the marketing team is responsible for. A brand is bigger than just marketing, it should be embodied by everyone from the Executive Board and CEOs to every employee in the field. Our job is to create the best conditions for the virus to grow.

NM A brand is like telling a story. If you tell exactly the same story over and over again, it becomes boring. It is a fine line: you need the core of your brand to stay consistent, it needs to evolve with customers and society.

**Which brands at the Otto Group are doing well in terms of changing and adapting to the market and customer behavior?**

NM Bonprix is successfully developing into an international known and appreciated brand with very loyal customers. Crate and Barrel is very well recognized brand in the US and has historically been defined by a unique in store experience. One point that's important too: poor after sales experiences can really damage your brand. It makes people trust you less in the medium to long term. We have put a lot of effort in our post sales experiences such as our call centres. All retailers and brands generally need to think more critically about this experience.

AD The online sales process has changed the way we think about purchasing products. We no longer need to worry

so much at the moment of sale, because in the back of our minds we know we can easily return the product later if it's not what we want. So instead of deciding if we should buy an item or not, we now only need to decide whether we want to return it or not.



**A BRAND  
IS NOT  
JUST A LOGO.  
IT SHOULD BE  
EMBODIED BY  
EVERY SINGLE  
EMPLOYEE**

Andrew Doherty

**Within the Otto Group there are different levels of brands. On the one hand you have all the different companies, on the other hand you sell different brands within the Otto Group world. What role does a brand on that level play?**

NM At the end of the day we're a group and we're not customer-facing at that level. So therefore our Group values are probably more important than the idea of a brand. But when you get into the individual business you will find very strong brand positionings and characteristics. For example:



Bonprix offers women who know what life is all about inspirational fashion experiences. At the brand level it is very important to define what you stand for because there is no customer loyalty without a strong brand message. Brands are something that have to be actively managed, they have to be believed by every person who works in the organisation and that's the real challenge these days.

**What does this all mean for the employees?**

AD I am talking a lot about Artificial Intelligence (AI) and people always ask me: "But will we lose our jobs to robots?" I think there will be a shift in the kind of roles available to humans in the future. Loving your job and being really good at it will become increasingly important, because we'll see that certain jobs can easily be replaced by robots. If I have a choice to interact with Siri or Google or one of the speech recognition products or a grumpy sales person who has had a bad day, I am probably going to prefer to interact with the friendly AI that knows me, even if it is a little clunky. Robots do a great job at repetitious tasks, but humans are really good at asking questions and other "unproductive" things like art, storytelling, and imagining.

And these unproductive things are really valuable if our goal is to create the right conditions for customers to give themselves permission to feel good and spend money.

NM Therefore, the people who work in customer-facing roles need to be brilliant. I've been spending a lot of time recently in call centres and I've been impressed by how engaged our colleagues are in answering calls and interacting with the customers in a very human way. That's what I like about the Otto Group. We are a very human company and we have a strong set of personal values which can be a great strength if they come across in our customer interactions as well.

Video interview:

**[OTTOGROUP.COM/HELLOFUTURE](http://OTTOGROUP.COM/HELLOFUTURE)**

**YOU NEED THE  
CORE OF YOUR  
BRAND TO STAY  
CONSISTENT, IT  
NEEDS TO EVOLVE  
WITH CUSTOMERS  
AND SOCIETY**

NEELA MONTGOMERY

**CUSTOMER CENTRICITY**

On the US market, Crate and Barrel is known a benchmark for exciting customer experience. The US lifestyle, home furnishing brand is once again living up to its reputation for inspiring products and experiences across channels.

Customers who buy furniture come into contact with the retailer eight times on average: they might first spot a piece of furniture on Instagram, go to the furniture store website, use the app to show it to a friend later on, visit the furniture store, mull over the purchase at home ... Crate and Barrel understands: online or offline, it's all one world. It's about engaging with the customer at each point of contact with personal advice. In August 2016, the first stores launched the "Design Services" project. This focuses on the digital "Mood Board", where customers can store products. Design specialists provide personalised proposals. Then in the store, where customers can examine the products by touching and handling them, the "Mood Board" is used during on-site discussions with the experts concerning details and customisation requirements. The customer receives the results by e-mail, and can complete the purchase online without any pressure. For a fee, the interior design expert will also come to the customer's home for a detailed consultation (from USD 99). To date, none of the competitors has offered this, and it leads to a conversion rate of around 80 percent, long-lasting brand loyalty and happy customers. In 2017, all branches will be implementing this concept.

# IDEAS ACROSS ALL CHANNELS



## KITCHEN TIPS

**RECOMMENDATION MARKETING**

A built-in kitchen is not something we buy every day. As a rule, customers usually draw on the experiences of others when making such big purchases. The buzz words at the moment are assessment portals, offering a wide range of concise opinions. Küche & Co, the multi-award-winning retail specialist for built-in kitchens, provides the customers of their approximately one hundred franchise partners their own rating portal. On the distributor side, the tool ensures greater scope and visibility in terms of the individual studios on the Internet, and customers benefit from optimum transparency. This builds trust. Küche & Co welcomes every kind of feedback. According to Managing Director, André Pape, "That helps us to get even better."

## DIGITAL BRANDING

### THE POWER OF THE BRAND

1

**Brands need a strong profile and a message that can be clearly communicated, more so than ever before.** This is the only way in which they can keep their promise – lending direction to make the right choice given the overwhelming range of digital commerce goods on offer.

2

**Successful brands can now be found in many different channels, devices and international markets.** The key point here is that the brand image remains consistent on all levels.

3

**The customer determines the offer.** If companies do not provide individually relevant and tailor-made offers today, their goods will not be purchased.

4

**Brand loyalty is no longer a mystery but a benchmark of measurable customer satisfaction. This requires the use of technology: Companies who fail to invest in new technology today will face huge problems tomorrow.**

5

**A brand doesn't have to be a jack of all trades. We don't have to take every digital trend on board. It's all about providing the right content and services at the right time, via the right channel and in the right format.**



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

**Brands have never been as important for customers as they are today – and that applies to all product, retail and service categories as well as distribution channels. Five comments from Dr Marcus Ackermann, Member of the Executive Board, about the rebirth of brands in the e-commerce sector and how they guarantee unique shopping experiences, tailor-made offers, and high confidence for the customer.**

### MANUFACTUM

Before Manufactum there was nothing like Manufactum. It's a broad range of home, gardening and lifestyle products which in many cases have been rediscovered. The concept inspires with a long-lasting, high-quality and responsible approach regardless of channels. In keeping with its image of timeless classics, Manufactum stores are springing up in historical, urban locations. 2016 saw the opening of a Manufactum store in the Bremer Bank which is a listed building. It was chosen by the Handelsverband Deutschland (German Retail Association) as "Store of the Year 2017".

### BONPRIX

Formerly synonymous with reasonably priced fashion, today Bonprix stands for the latest trends and high quality at a fair price. Over 30 million female customers across the world have got the message. A clear brand image secures the success: the powerful umbrella brand and five labels for different style directions give clear orientation for female customers. The clear focus is on customer requirements: inspiration, advice and individualisation – powered by Smart Data.

### MYTOYS GROUP

With Mytoys (children's products), Mirapodo (shoes), Ambellis (women's fashion), Yomonda (interiors) and Limango (private shopping), the Mytoys Group is Europe's leading online shopping retail brand for families. The recipe for success? Clear focus on the target group "Digital Mums" and their customer requirements as well as the inevitable expansion of technological competence and the development of the innovative multishop concept.

# #CUSTOMER

## PERSONALISATION &amp; SOCIAL MEDIA

# REACHING CUSTOMERS THE SMART WAY

Overwhelming pop-ups, self-starting roll-out videos, flashing final-offer gifs: online advertising no longer works in this way. OTTO succeeds by creating added value through hyperpersonalised marketing.

## KERSTIN PAPE

Division Manager Online Marketing OTTO



commerce. Things moved forward in 2016 with **Smart Data** and intelligent technology. For example, investments in our in-house retargeting competence now make it possible for us to re-address website visitors, people who abandon their shopping cart and buyers

with more suitable product proposals based on collected user data. Instead of a newsletter for all, OTTO is now continuing to focus on the **'Products for you' newsletter**. The content is regenerated by software personally for each customer on the basis of user data. This newsletter is no longer sent at fixed times, but always only when there is relevant news for this particular user. The success of such measures has already been quantifiable since 2013: OTTO developed what is called a dynamic attribution model. This is a procedure in which the success rate of all advertising channels is determined individually. Advertising can be done more effectively like this, instead of using the scattergun approach. The advantage for OTTO is advertising that reaches its mark. The benefit for customers is advertising that is no longer annoying."

**"One in four Germans uses Adblocker.** And ever more are doing so. Entire target groups are lost because intrusive online advertising does not work and is simply annoying. Today the customer can only be reached with marketing messages when he does not perceive them as such, but rather as personal added value.

On the one hand this means new advertising formats that tell emotional stories, and on the other hand product-oriented retargeting, which is perceived in a positive light. For this it is important to know the individual customer well enough to ensure that advertising reaches him with exactly the right content at the right time and in the right dose. This is **hyperpersonalised marketing** – an area in which the Group company OTTO is a pioneer.

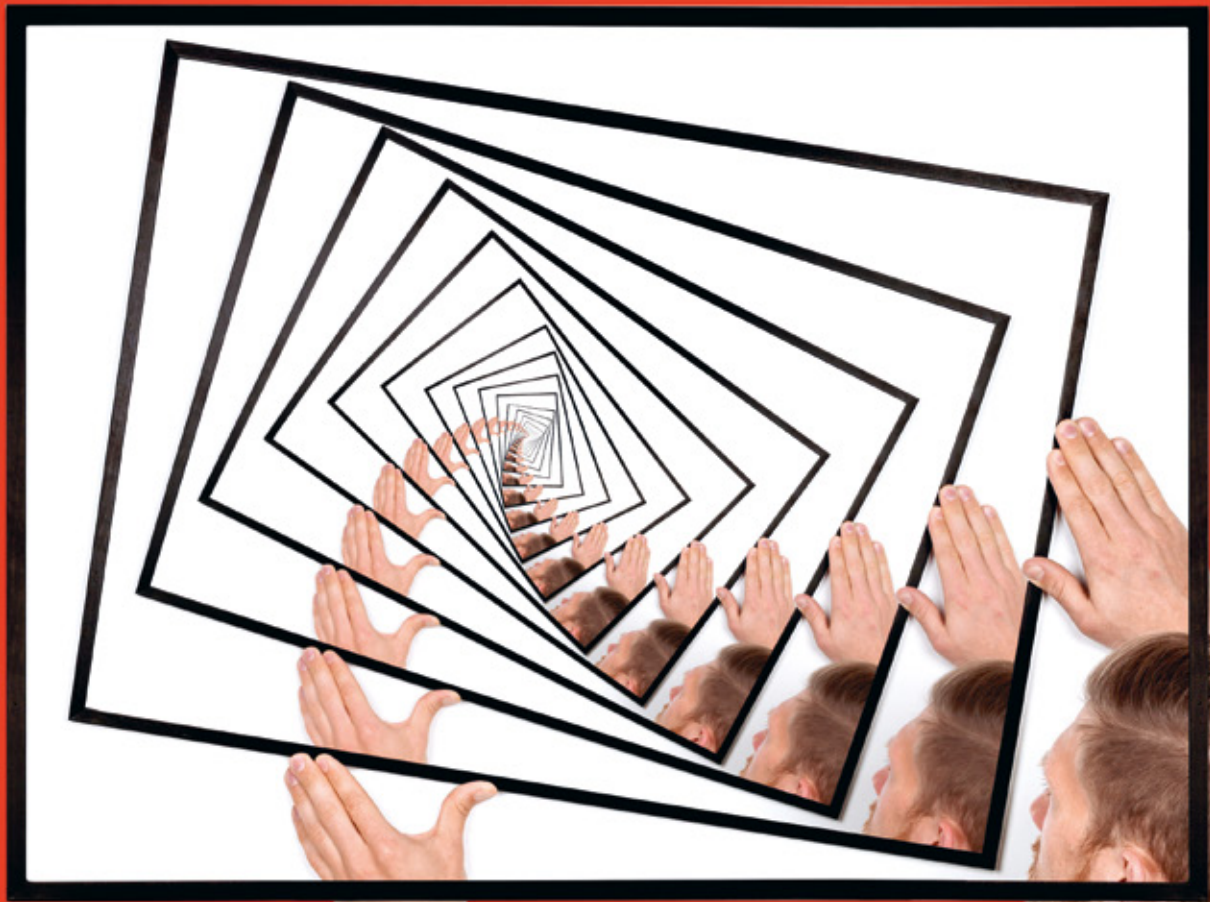
The OTTO team wants to become the most personal provider in digital

## ABOUT YOU

### EXTENDED PROFILE

A company that conveys its message in a playful way and is able to tell its contents emotionally, will have a bigger impact on its customers. This is exactly why the social networking trend is to communicate through image and video. We enjoy watching and listening to stories in this way. About You social media experts have picked up on this trend and incorporated it in their own marketing portfolio, creating far-reaching social media profiles through Instagram and Snapchat. These image and video messaging services are in the process of supplanting Facebook in the young target group. And only face to face would be more direct.





How the future of work is already changing us today

# 5 FACTS ON THE POWER OF IMAGES

- 1** Images on websites prolong the retention time.
- 2** Posts with images generate up to 94 percent more interactions and almost twice as many views.
- 3** Images make purchasing decisions easier – ultimately 90 percent of purchasing decisions involve visual factors.
- 4** Advertising with moving images is perceived to be more pleasant.
- 5** A clip in the product description increases the conversion rate by up to 80 percent.

Sources: Marketing-Börse, Quick Sprout, BVDW, Unbounce

**MOBILE**

Today's online commerce is mobile. The goal of the corporate Mobile Lab is therefore to help all Group companies develop their own apps.

In 2016, for the very first time, more customers discovered Otto Group deals from their mobile devices than from their PC. All Group companies should therefore have their own apps to meet this demand. Experts from the company-owned Mobile Lab founded in 2015 and subsequently extended to include an "App Acceleration Centre", are helping to develop them. Companies can have their apps realised by specialists from planning to implementation or use a series of specially developed shopping and service modules based on a modular design. The development time per app has been cut to eight weeks. This gives customers faster access to the apps of their favourite shops that are also always state-of-the-art. The Mobile Lab think tank is now working on messenger service applications.

**SHARING ECONOMY**

**RENTING  
INSTEAD OF  
BUYING**

Once upon a time, possession was everything. This is no longer the case, as evidenced by the success of streaming services. No one owns a Netflix film. And increasingly fewer people are purchasing their own car. It is enough just to use one, which explains the boom in sharing models such as Car2Go, Drive Now or Uber. According to a study by PwC, the sharing economy world-wide has exceeded the USD 15 billion mark, and an annual volume of USD 335 billion is forecast by 2025. With OTTO Now, OTTO is testing out the "renting instead of buying" principle in the areas of technology, household goods and sport. Do you need a camera for your holiday? Do you want to test out how a treadmill works in your own home? Would you prefer to rent a washing machine rather than buy one? No problem. State-of-the-art technical products are immediately available. Delivery, installation and maintenance are all included in the monthly rental fee and you have the added bonus of contributing to sustainability.



**CUSTOMER JOURNEY**

# HAPPINESS IS MEASURABLE



**DR WINFRIED ZIMMERMANN**  
Member of the Executive Board, Projects,  
Corporate Audit, Transformation and IT

**D  
A  
T  
A**

**B**

## **S A T I S F I E D ? F O R S U R E !**

Customer data opens up new access to the customer for retailers, but also entails a high degree of responsibility. It is clear that only if customers know their data is secure will they trust the retailer. In the Otto Group, therefore, all Group companies are committed to maintaining a high standard of data protection and information security. The aim is to achieve a consistently high level of security throughout the Group.

Satisfied customers buy again. And whether they are happy with offer, advice and retailers can be measured with intelligent software. Three questions on customer satisfaction in the digital age to Otto Group Executive Board Member Dr Winfried Zimmermann.

### Big Data is already helping with pricing or personalisation of advertising. To what extent are large amounts of data interesting in the context of customer satisfaction?

Big Data means in this context data points that give us information about our customers' mood, in other words: customer feedback. We get much more of this now, because social media offer many more channels and possibilities for them to express their opinions. At the same time, customers on the net also actively seek out the opinion of others when making decisions to purchase or use products. There is a huge treasury of data to be opened up.

### Which analysis tools can you use to measure customer satisfaction?

There is a wide variety of instruments, from web analytics to customer surveys. But the challenge does not lie in the measurement itself. The exciting thing is how are these measuring instruments used to implement measures in respect of customers? Intelligent software helps us here, for example to sift through all the feedback on all channels from service chat to Instagram profile for topics that are relevant from the customer's perspective. With Crate and Barrel, for instance, it was evident that order updating, exchange and return had to be further optimised. At the same time, such tools have a "social listening" function: they help us understand why customers buy from us – or from our competitors, and then we can act accordingly.

### Against the background of these new possibilities, how do you assess the role that employees will play in future in the matter of customer satisfaction?

Personal contact, which is always in the foreground with us in the form of advice, service chats and hotlines, will surely continue to play this important role or become even more relevant. What is also exciting, however, is what happens when speech recognition works so well that machines really recognise what customers want, if what are called "text to intent" processes can also read the subtext. This certainly has an impact on what kind of contact will continue to run through people, and what kind will run through machines.

How the future of work is already changing us today




# R O O M

# F O R

H E L L O F U T U R E







**PETRA SCHARNER-WOLFF**  
Member of the Executive Board,  
Chief Financial Officer,  
Controlling, Human Resources Otto Group

**SABINE BENDIEK**  
Chairwoman of the Management  
Board Microsoft Germany

THE NEW



# HOW WILL WE BE WORKING TOMORROW?

In the Elbphilharmonie in Hamburg, the Chairwoman of the Management Board Microsoft Germany, Sabine Bendiek, and Petra Scharner-Wolff, Chief Financial Officer of the Otto Group, take time to discuss the flexibility, creativity, and the office of the future.

## How do you get good ideas?

**SABINE BENDIEK** I do something that has nothing to do with my work. I enjoy walking or sailing. That clears my mind! Or I go to an exhibition or listen to music in the hope of getting a fresh perspective on things. Above all, I have learnt that you can develop lots of new ideas simply by chatting to other people.

**PETRA SCHARNER-WOLFF** You rarely get good ideas when sitting on your own in the office. I find it useful to be in an unusual environment: a Fintech trip to New York or a trade fair in Germany. Somewhere where you not only meet colleagues from your own industry but also other people from other areas. You can then exchange ideas and reflect together. Good ideas come from interaction. But sometimes I get a good idea in the shower. That's practical, of course, because a shower is a daily occurrence.

**Many companies including Microsoft and Otto Group are going to great lengths to try and create conditions that encourage employees to work together as creatively as possible. Why is that? Are good ideas and innovations really more important than ever before?**

**PSW** There has been pressure to be innovative for decades. On the one hand, we have to adapt much more quickly today – that's one thing that has changed. This inevitably also calls for different working methods. On the other hand, industry has become far more permeable. More and more companies are also operating outside their traditional business zone. For instance, Google is now building cars. The online bookseller does not only sell books anymore but food, fashion – basically everything you can imagine. This means that the pressure is generated not only by the normal competitive environment but also by entirely different sectors. Nowadays, completely new competitors are involved. Therefore, we have to ask ourselves a lot more questions, more often, constantly seeking different approaches, particularly as far as new technologies are concerned.

**SB** At the same time, the latest technologies have greatly accelerated product development cycles in companies. The fact that technology is simply everywhere today



means that innovation is becoming increasingly important in all company sectors. Previously, at Microsoft, we only talked to our customers' IT managers but now we are frequently in touch with product managers as well as the marketing and financial departments.

**PSW** We are trying out a lot of new working methods for the first time in IT because IT staff had to reinvent the wheel years before the rest. Previously, many activities in our company were carried out in entirely separate units. Even the various IT sectors were still working traditionally, alongside each other. When these areas started to really communicate with each other and network – triggered by a Group-wide IT project – other departments throughout the Group followed suit. Today we are working virtually as a whole – the previous units are pretty much a thing of the past. Ideas are now being developed in small packages – along the lines of agile working in IT – and quickly converted without initially having to draft a thousand or so Powerpoint slides.

**The Elbphilharmonie where we are today is also fascinating because even when you are in the upper left-hand corner of the great hall, you can still hear when someone in front of you, to the right, is speaking quietly. How do you ensure that your employees hear about important company developments and contact each other?**

**SB** We have developed a series of formats and channels for this purpose in addition to conventional methods such as e-mails or newsletters. These range from quarterly business talks, where we are in touch with all employees through seminars and a Skype video stream, via daily dialogue on our social media network, Yammer, through to my videoblog books with updates on strategies and business developments. Thanks to this diverse, two-pronged approach, all opportunities for discussion are covered. Personally, I recently held a so-called "YamJam Session" for all employees via social media. There were over 100 questions and responses in 30 minutes. You cannot get such low-threshold feedback with meetings or newsletters alone. This type of exercise promotes dialogue and boosts knowledge. There's also another point to this. You also have to create the right environment for people to chat and network together.

**So what do such modern facilities look like?**

**SB** Much more open and transparent than before. In our new Munich office, which we developed in conjunction with the Fraunhofer Institute, there are four different areas. There are workplaces where people can work quietly, in a concentrated manner. Then we have areas with sofas and armchairs where people can relax and chat. The design of this area is friendly and inviting. Then we have meeting rooms where the emphasis is very much on technology, allowing all

teams to work together virtually. Last but not least, we have areas where employees can simply take time to sit comfortably and reflect on ideas, with a pleasant view over the surrounding area. That's also an important part of the work.

**Do these areas work for you?**

**SB** Yes, but some people do not like to sit down there yet because it might give the impression that they have nothing to do.

**PSW** We are also remodelling everything on our campus, especially our new networking areas such as our new coworking area, Collabor8, two new bistros and a new

**IDEAS  
ARE NOW BEING  
DEVELOPED IN SMALL  
PACKAGES AND  
QUICKLY  
CONVERTED –  
WITHOUT A THOUSAND OR  
SO POWERPOINT SLIDES**

Petra Scharner-Wolff





boulevard which encourages staff to work outdoors, all of which have been very well received by employees. However, some areas are not as popular yet. For instance, we have a row of comfortable seats directly facing the window, where employees can sit quietly and reflect. This area is known as “Elbstrand”. Directly behind this is a normal working area. It means that someone is relaxed, sitting down and reflecting, looking out of the window whilst others right behind them are working hard on the computer. That hasn’t worked so far. The quiet area should be a bit more secluded. But maybe it’s a case of getting used to it.

**SB** But do you know what I find charming? You say, we’ve tried something and learned from it. I believe that this is a very important skill that has to be developed even further in the company. Just simply trying something – and then being ok to admit that maybe we are not there yet. But we will keep developing and we will learn from it.

**What meetings and events do you use to encourage staff and their creativity?**

**PSW** The formats have become much more diverse in recent years. It is interesting to note that this doesn’t only apply at management level. A lot of incentives come from the workforce. The Hackathon is a typical example of this.

**You are talking about the events in which staff work together on developing software or hardware.**

**PSW** Yes. We have a very active community within the workforce that organises this type of event. Members of staff book the rooms, prepare topics, invite guests from outside the company and simply carry out the event. And everyone involved gets a great deal of pleasure from this exercise. I believe that one of the key strengths of the Hackathon events is that they are directed towards practical implementation. It’s not simply about philosophy and theory. Solutions are developed and can be put into practice the next day in the normal working environment. It’s also great to network with all of the different workshop participants. I can see what staff get out of it – sheer enjoyment and they are really inspired!

**SB** I agree. It generates incredible drive and a positive element of competition prevails. Everyone wants to do something good in the individual group – participants encourage each other. We carry out Hackathons with many customers and other external partners. There are also unusual elements which are not really business-related. For example, one Hackathon with Germany’s Aktion Mensch lottery, to generate ideas as to how technology can be used to improve the living conditions of people with disabilities. Great things came out of this exercise.

**Could such joined events prevent you from overlooking your customer in times of rapid internal change?**

**SB** As a technology company, it’s easy for us to be enthusiastic about the exciting things we are developing and forget what use really means. Therefore, one of the key doctrines for me is that we are only successful if our customers are successful with our products. That means we constantly have to do a reality check: what are we doing here? Does it help the customer? It’s important to check this over and over again with concrete examples and in conjunction with the customer. Have we achieved





what we set out to achieve together? Have we improved? Is follow-up required? What can we learn from this?

PSW New technologies help to bring us closer to our customers – over and above our normal market research. It has become much easier for our customers to provide direct feedback via social media. We can better understand interactions between our customers and us, and we have a better idea of requirements. We can also offer much lower threshold contact options than before.

# WE HAVE TO CREATE AN ENVIRON- MENT WHERE PEOPLE CAN TALK AND NETWORK WITH EACH OTHER

Sabine Bendiek

Chats on our website, for instance, encourage more fluent dialogue than if someone has to call our telephone hotline first of all.

**New communication technologies facilitate different ways of working. How do you deal with employees' requests to work from home or whilst on the road?**

SB The younger generation simply expect flexibility. They have difficulty committing themselves to the idea of a nine-to-five job in one fixed location. Furthermore, employees who become parents often find it difficult to integrate their family into their conventional daily working routine. So it's a good thing if we can allow mothers and of course fathers to say, "I'm taking the afternoon off, picking my child up. I will make dinner and then sit down to work again in the evening". However, it is also important not to forget about the other generations in the company. There is a risk of excessive demands because some people feel that they have to be constantly accessible or have to prove to others that they are working. This is where managers are questioned. They must explain that this is not the case.

PSW I often feel that employees think they have to be permanently available although that is not true. It is important for the management to always convey a clear message. We also make conscious attempts not to make



How the future of work is already changing us today

"flexibility" a female issue. Because people will soon be branded with the following label: a woman works from home and is only looking after her children. Firstly, not only women

take care of children. Secondly, anyone who has children knows that it is difficult to work and bring up children at the same time. Therefore we have renamed home office into flex office. Most people are not working at home. They are somewhere in the world working – just like both of us work from anywhere.

**How many Otto Group employees use this option?**

PSW We have examined that recently: 30 percent. I was personally surprised at this figure. I thought it would be low. But once again it shows the rapid pace at which the world of work is changing.

Video interview:

[OTTOGROUP.COM/HELLOFUTURE](http://OTTOGROUP.COM/HELLOFUTURE)

**COLLABORATION**

**An entire Group is leaping ahead. Together, colleagues in the Otto Group are taking the digital change into their own hands, thus pushing boundaries. With fewer managerial levels, new collaborations and a liberal dash of courage, they are testing out a new way of working, fuelled by Kulturwandel 4.0 (cultural change). And everyone involved shares this one single feeling: dear future, bring it on.**

**THIS IS WHERE IT'S ALL HAPPENING**

Innovation days, short lectures, community events – the Otto Group provides employees with numerous opportunities to learn something new and get to know each other professionally across departments and companies. For example, at the annual innovation days, the OTTO e-commerce team invites employees to put forward future online trading concepts. In 2016, participants submitted almost 100 proposals and converted 18 of them into prototypes including an algorithm that provides customers with helpful evaluations. Top executives give short presentations to more than 300 employees at so-called TED conferences whilst the “ON” community provides colleagues with opportunities to get to know each other better at monthly events.

**RETHINKING MEETINGS**

Whether with time limits of 22 minutes, or a Jour fixe standing up – the Otto Group companies are testing new meeting formats by such approaches. This is not about rigid rules, but about each team finding the strategy that best suits their working day. Short, precise, result-oriented: the Otto Group takes the strain off its employees with an up-to-date meeting culture. The best possible preparation, clear time limits and switched off smartphones increase the efficiency of meetings. Meeting-free days allow work to carry on without interruptions.

**PERFECT NETWORKING**

Regardless of where Otto Group employees are located, they are becoming closer and closer thanks to digital tools. For instance, they can create a profile on the ottogroupnet collaboration platform and work together in virtual team rooms. They can find out about the latest Kulturwandel 4.0 developments on an integrated website whilst the work-shadowing platform, HOW, is the point of contact for all those eager to discover more about specialist areas or other Group companies. All assistants have teamed up via a Group-wide network as well.



## S K Y P E

With Skype for Business, the Otto Group is introducing staff to fewer emails and faster dialogue. Colleagues can chat or participate in audio and video conferencing using the skype software for computers and mobile devices - regardless of their location. Decentralised teams can hold meetings in virtual conference rooms and still see colleagues face to face, despite the distance, thanks to video technology. There are no longer any boundaries to sound collaboration. Employees in different locations can all view a document at the same time, work on it and review it together via a screen-sharing function. They can also hold discussions via a chat window opened up alongside. The icing on the cake? The collaboration platforms and email address book will tell you whether colleagues are available, out of the office, in a meeting or do not want to be disturbed.

## E V E R Y V O I C E C O U N T S

The more open the dialogue, the better the collaboration. This provides the basis for Baur's "Kulturrad" (culture wheel) approach, setting the tone for the four corporate values. Employees, for example, subjectively assess appreciation and the honest interaction with each other on a scale from 0 to 100, and put forward suggestions for improvement. This not only triggers and constantly reviews concrete changes, but also promotes dialogue on all levels.

## Y E S , Y O U C A N !

When people are able to work independently, they surpass themselves. For this reason, the EOS Group revamped its IT structure in 2016. As part of the PACE project, IT specialists formed product teams that now implement tasks self-sufficiently. This approach allows colleagues to network more effectively and to work faster with greater flexibility.

## H E L L O N E I G H B O U R S !

What are the colleagues at Hermes up to? How does a developer tick at About You? Questions like this can be answered by the Otto Group's new lunch roulette. Once a month, participants get to have lunch with two colleagues that are randomly selected. The effect is that they get to know each other better and also become more familiar with the Group.

# T O G E T H E R

How the future of work is already changing us today



## WORK PLACES

From an innovative indoor setting to a green boulevard via a cafeteria to promote dialogue at Bonprix – the Otto Group is modernising the world of work on the Hamburg campus based on the SPACE initiative. The latest highlight: the opening in early 2017 of Collabor8, a coworking area for all employees.



Maximum flexibility:  
Collabor8

A place to eat and network – the new Bonprix cafeteria



Working outdoors: the new campus  
boulevard



# N

# FOR DIALOGUE

# CREATIVITY NEEDS ROOM TO GROW!

**Mr. Otto, you basically came up with the initiative for Collabor8. Why is this project so important to you?**

It's a visible sign of Kulturwandel 4.0 (cultural change) in the Otto Group. We have so much talent in the Group that needs to come together. Collabor8 is just what we need. We will obviously also network on other platforms such as ottogroupnet, but personal exchange is still important in this digital age.

**Collabor8 provides an ideal working environment for up to 200 employees to work together over an area of 1,700 square meters. What is the key function in your opinion?**

Ideas should be developed in these areas. The heart of the building, the so-called "Arena", can accommodate 60 employees. Mobile workspaces can be arranged as needed. Quiet areas can be used for tasks requiring a great deal of concentration. But Collabor8 is more than just a working space. It is a meeting place, a forum for creativity. Employees can come together here, hold meetings and swap their offices for an inspiring environment. It's been scientifically proven that people don't come up with the best ideas if they sit behind their desks all day!



**BENJAMIN OTTO**  
Shareholder

**What impact do these areas have within the Otto Group?**

The Group will continue to adapt to flexible working requirements in the future. I think it's great that projects such as Collabor8 create a momentum that can't be stopped.

How the future of work is already changing us today

## COLLABORATION

# B U S I N E S S M E E T S S C I E N C E

**EXCHANGE IDEAS WITH THE BEST:** How do leading international researchers see the future of retail? Thanks to a collaboration with the Massachusetts Institute of Technology (MIT), the Otto Group will remain fully informed on this. As a member of the "Industrial Liaison Program", it is able to exchange ideas with renowned academics, place research assignments and participate in conferences. At the beginning of the year, the Otto Group's Executive

Board spent several days at the MIT and held discussions with researchers. Further workshops are planned. — **JOINING FORCES IN E-COMMERCE:** Developing innovations, pooling know-how and fostering talent – these targets laid the foundations for the "E-Commerce Science Campus" launched in 2017 in Burgkunstadt. Created by companies such as Baur and the Fraunhofer Institute of the Bayreuth University, the initiative seeks, amongst other things, to generate new approaches to e-commerce, arrange workshops and disseminate talent. — **TRAINING FOR E-PIONEERS:** Future retail calls for digital experts – hence the Otto Group has long since been cooperating with universities such as FH Wedel (University of Applied Science), where it has created a chair for e-commerce. Here students can study Bachelor's and Master's degree courses in business, media and computer science.



# FIVE

H E L L O F U T U R E

**DR RAINER HILLEBRAND**  
Vice Chairman of the Executive Board,  
Member of the Executive Board,  
Corporate Strategy, E-Commerce  
& Business Intelligence Otto Group

**PROFESSOR DR  
MICHAEL FEINDT**  
Physicist and Founder  
of Blue Yonder

# TO FUTURE





MINUTES

RE



# IS THERE ANYTHING A HUMAN BEING CAN STILL DO BETTER THAN A COMPUTER?

And how  
does the

**Otto Group benefit from Big Data? Dr Rainer Hillebrand and Professor Dr Michael Feindt met up at the old power station in Berlin and discussed data, digitisation, and the future of retail.**



**Nowadays, data is often referred to as 21st century oil – a vital resource for any business. So how has handling data changed over the last decade?**

**MICHAEL FEINDT** Companies have always collected information about their customers and their own financial situation, but the way in which it is stored has fundamentally changed. Information that was once entered in Excel tables or jotted down on notepads is now saved in databases, which makes data access and analysis much easier. This also has an impact on data quality, which is much better than it was ten years ago.

**RAINER HILLEBRAND** As the Otto Group is a mail-order company with a remote operating set-up, information has always been extremely important. It starts with simple things such as who is calling and what is the delivery address, and continues right up to after-sale customer feedback. Thanks to advanced digitisation, data can be collected using entirely different methods and in greater quantities than ever before. It can also be processed much faster and stored at a fraction of the cost – something we hardly even dreamt about ten years ago.

**Large quantities of data are one thing but analysing this is another. What challenges do you face in this respect?**

**RH** The key question is how can we filter out the right information to satisfy customers' requirements from the mass of data we accumulate? When a customer is looking for a specific product, we have to come up with an ideal, tailor-made solution.

**This is where you have your finger on the pulse, Mr. Feindt. With your colleagues at Blue Yonder, you have developed an algorithm that facilitates data analysis and works independently.**

**MF** Our algorithm calculates how our customers' purchasing habits change on a day-to-day basis. This is very important in

our customer approach, as Mr. Hillebrand has already pointed out, but it is also important from a business management perspective. For a mail-order company, inventory management and speed of delivery are crucial. These processes are optimised in our case through artificial intelligence.

#### How does this work?

MF As much information as possible is analysed focusing on historical sales data, prices, discounts, the weather forecast for the next few days and the season, i.e. any factors that can influence a purchase. The system does this for every item in the range. This helps the retailer to decide which products will be ordered from the manufacturer and in what quantities, and which products are not so urgent. The goods are already in the warehouse before the customer orders them, which obviously speeds up delivery times. Furthermore, you store as many items as you need. This means that no bulk quantities are left over at the end of the season and, from a supermarket perspective, there is far less waste.

**Your artificial intelligence system works independently and automatically. It takes on tasks previously carried out by people because it is faster and more efficient. What does this mean for the corporate culture of the Otto Group?**

RH It means a change, of course, but people shouldn't view the use of algorithms solely as a threat to jobs. Algorithms help us to improve our customer service and operate more efficiently. That's good for the company and therefore for every employee. We have to face the challenges of the future. The Otto Group is a large company with numerous options. If we lose one task today, a new one is being created elsewhere in the company. Obviously, employees have to be more proactive today. It's no longer a case of learning something and resting on our laurels for the next 50 years. Job descriptions are constantly changing and people have to retrain and learn more. But we are helping our employees to move with the times.

MF Digitisation is an innovative process as we have seen over and over again in the history of mankind. CERN, for instance, the European Organisation for Nuclear Research, where I worked as a physicist, was created sixty years ago. At that time, hundreds of women sat in huge halls with slide rules and logarithm tables, and calculated what physicists needed for their work. These jobs no longer exist having been taken over by computers. But would we want to go back to those days? We are currently in a transition phase. Throughout history, the more efficient has always prevailed so we certainly cannot stop digitisation. It's definitely not a case of replacing people but about helping them to improve.



# THE DIGITAL REVOLUTION IS STILL AT ITS VERY BEGINNING, A FEW HOURS AFTER THE BIG BANG

Dr Rainer Hillebrand

I'm convinced that the relationship between man and machine will become closer because human beings can do a lot of things beyond the realms of artificial intelligence.

#### What?

MF A machine cannot think strategically about formulating corporate goals for the coming years. Similarly, it is light years away from designing next season's fashions. Mankind is always superior when it comes to creativity. But machines optimise processes more efficiently, e.g. repetitive processes



such as the ordering of goods. Let's consider the partnership in this way: man devises the strategy and the machine implements it. I strongly believe that there will be as much work as there is today. Fact is that at some point we just did not need a boiler man on trains anymore either. But people don't have to do all the donkey work.

RH It's like that: People have a lot of experience. And experience is based on information we accumulate through life. Algorithms can connect this wide range of experience-related data in a more logical, stringent, error-free manner than we can. But they need processes within a narrow framework. When we make a decision, lots of things come into play – a certain knowledge, experience and gut feeling that software simply doesn't have – at least, not yet.

**Today, people are worried about their jobs on the one hand and their data on the other hand, which is collected by many companies. How do you allay your customers' fears?**

RH On the one hand, we follow the legal framework rigidly. The Otto Group is a family-run business and we rely on our good, reliable reputation built up over many years through a correct

approach, values and social responsibility. It would be foolish to risk this reputation. At the same time we want to offer our customers great service. To do this, we need as much information about our customers as possible. Everyone is familiar with this predicament. On the one hand people are worried about what will happen to their personal data – will it be misused? But on the other hand, everyone wants a good, personal service. We have learned from experience that customers are happy to pass on personal data to us if it means an improvement in the end product and we explain how the data will be used. If we don't adopt this approach, people are rather reluctant to pass on information.

MF No company can afford to work against its customers and upset them by acting unscrupulously. But something strange is happening with data protection in Europe. I have chatted to younger people about this on numerous occasions. I would say that 95 percent of them are not interested in what companies do with their data. Many do not know that messenger services read every message and create profiles of the sender and recipient and their networks, and sell these to the advertising industry.

**But does it really bother them?**

MF People say that the younger element doesn't care. Young people are not bothered by the advertising they receive through social media. They have a relaxed attitude when it comes to their data and US companies in particular make full use of this. We have to ask ourselves if we are placing ourselves at a competitive disadvantage if we are too reserved. I personally think that our attitude isn't bad but our competitors are far more aggressive than us. How do we deal with this? We don't talk about it enough.

RH This is why the Otto Group is constantly calling for equal competition between American and European companies. In addition to the comparatively less stringent data protection in the USA, Amazon, Google, Ebay and even the Chinese companies have another competitive edge. Their markets are huge and they have a lot more customers. They create profiles from the customers' personal data, link these and deliver the perfect service. Europe is also a big market but the various languages and jurisdictions complicate matters.

**Can Europe still catch up?**

MF We still have a chance. Digitisation now ranks highly on the list of priorities of most companies. But change doesn't happen overnight. Germany is still very conservative, which is perhaps also due to our previous success model. The value of data and software is not apparent

# MAN DEVISES THE STRATEGY AND THE MACHINE IMPLEMENTS IT



# DIGITAL CHANGE WILL CERTAINLY REMAIN THE DRIVING FORCE IN RETAIL

Dr Rainer Hillebrand

here yet. A car has a value that can be grasped. This can also be rather expensive and we are investing billions of euros to develop this. The Americans have long since moved on to this kind of thinking. The world's most expensive companies are software and data companies. This is where daylight dawns – software is extremely important. It's a long drawn-out process. I'm not sure if we'll catch up.

**You both work in areas in which forecasts are very important. What will the retail market look like five years from now?**

**RH** I would be happy if I knew what it would look like in a year's time. Digital change will certainly remain the driving force in retail. The opportunities to collect and store data and make them useable by algorithms will go from strength to strength. After the smartphones success story – 50 percent of our business runs via mobile devices – the next big topic will be conversational commerce and going beyond touch with chatbots and voice input playing a major role in the purchasing process.

**What developments lie ahead?**

**RH** Personalisation and individualisation will continue to be key topics along with an even better understanding of what customers are looking for and how they will behave. Blue Yonder will continue to be very helpful for us in this respect. It is fair to say that the progress of the digital revolution is still at its very beginning, basically a few hours after the Big Bang. There's a long way to go – we haven't had the full impact yet.

**MF** That's true. I think that anyone who hasn't jumped on the digital train yet will be left standing on the platform. Over the years, several large trading chains have gone into liquidation because they failed to take technological innovation seriously.

**And it probably won't stay that way – right?**

**MF** Anyone who carries on as before and foregoes the ten percent you need to transform yourself with digitisation will disappear. The message is hard but simple. As a company, you have to keep on your toes. New, hitherto unknown technologies will emerge. But the potential must be harnessed and used. What we can predict is that most companies will switch to Algorithmic Merchandising. This means a combination of purchasing, supply chain, advertising, pricing and sales. These elements react and interact with each other and are controlled by algorithms. In the past, different departments did different things – the one hand didn't know what the other hand was doing. Everything was much less co-ordinated.

**And what will the customer's shopping experience look like?**

**RH** It will look exactly as the customer wants it to!

How the future of work is already changing us today

Video interview:

[OTTOGROUP.COM/HELLOFUTURE](http://OTTOGROUP.COM/HELLOFUTURE)

# A WHOLE NEW WORLD

Robots are still a rare sight in public. But, in ultramodern parcel centres they have been sharing the packing for a long time now. In the foreseeable future, they could be rolling through the cities as parcel carriers and even improve the transport of goods in long-distance transport. Hanjo Schneider ventures a look at the future of logistics.



**HANJO SCHNEIDER**

Member of the Executive Board, Services

## Where are robots already in use in logistics and order picking in the Otto Group?

Of course, at present everyone is talking about our Starship robots, which have delivered parcels for Hermes for the first time in August 2016. Robot delivery of real parcels to active customers – this was a true premiere in Germany! Behind the scenes, though, we have been using automatic systems in logistics for much longer. In our state-of-the-art parcel centres, for example, sorting has been largely automated for many years, thanks to digital high tech. At the Haldensleben location in Saxony-Anhalt, since mid-2016 Hermes Fulfilment has also been testing driverless “Weasel” vehicles, which significantly accelerate the picking of parcels.

## Where will robots shape the future?

In my opinion, the topic of robotics is still in its infancy. At the same time, it is clear that robots will increasingly find their way into our daily lives – including in the Otto Group, in the field of parcel delivery or customer service. Chatbots are a good example of this.

## What tasks will there still be for humans?

There’ll be enough! Let’s take the parcel delivery: a Starship robot, for example, can neither drive a transporter with more than a hundred parcels on board nor climb stairs. The machine doesn’t replace

the classic carrier, it is simply not designed to do so. The fact is, however, that development is extremely rapid. We cannot imagine what robots might be able to do in 10 years. But robots will definitely not replace people in parcel delivery in the foreseeable future.

## What other tasks can robots take over in logistics in the future?

If we define robots in a broader sense and add self-propelled transporters and trucks, the potential of such systems in logistics is definitely great. After all, millions of goods have to be moved day after day.

Autonomous or at least semi-autonomous operating transporters could be a logical further development – not only in inner-city delivery, but also in long-distance transport at night. For the time being, however, autonomous transport systems are visions of the future, especially since there are still many open legal questions on legislator’s side.

## What are the advantages of robots?

Robots work autonomously at best and can be used around the clock. This opens up entirely new possibilities for logistics in particular. A delivery request even at two o’clock in the morning would

not be a problem with an appropriately equipped delivery robot. On-demand delivery is also easier and more targeted with automated systems, benefiting the customer.

**ROBOTS WILL DEFINITELY NOT REPLACE PEOPLE IN PARCEL DELIVERY IN THE FORESEEABLE FUTURE**



## CARRIER ON SIX WHEELS

For six months, selected Hermes customers were able to take

a look at the possible future of parcel delivery. In Hamburg, a pilot project started with the six-wheeled Starship robot. It can transport parcels up to a weight of 15 kilograms over a distance of five kilometres. The vehicle moves solely on pavements at a walking pace and

# STARSHIP<sup>®</sup> ROBOTS

is permanently connected online with the headquarters of Starship in Tallinn/Estonia. The robot finds its way from the Parcelshop to the customer independently; its position can be precisely determined by GPS. The robot reacts to oncoming obstacles within a few milliseconds. After the first test in Hamburg, a second test run is to take place in London in 2017.



## PROCESSES AND SOFTWARE

# ALGORITHMS FOR THE SHOPPING BASKET

Big data technologies create the possibility of processing mass data using complex mathematical processes. Especially at OTTO, it has been possible to optimise many business processes with the help of artificial intelligence – from image recognition to improved use of article images in the customer dialogue through to individual product recommendations in digital and analogue channels. The Group companies Blue Yonder (see from page 44) and Risk Ident also work with tailor-made algorithms.

Blue Yonder, for example, uses algorithms that are based on artificial intelligence in a big way for online, fashion and food merchants. Business processes at retail companies are optimised and automated with solutions for demand forecast, predictive merchandising, supply chain optimisation and price optimisation. As part of the "replenishment optimisation" product, the algorithm evaluates hundreds of data sources every day to fully automate millions of daily orders from supermarkets. For this purpose, the software incorporates factors such as the day of the week, the weather, advertising campaigns, actions or range adjustments, for example. As a result, stock can be optimally adjusted to demand – sales, customer satisfaction and earnings can be increased. The self-learning anti-fraud software FRIDA from Risk Ident also uses the latest technologies to protect the e-commerce activities of Group companies and many other online merchants in real-time against fraudsters – even before the goods are shipped.

**BIG DATA**

# INTELLIGENT OFFERS

The future of online shopping will be determined by artificial intelligence. It not only improves service by precision and speed, but helps the customer

with an invisible hand to find the products that really suit him.

## DEEP QUERY

Zero hits in an online search are frustrating. The "Deep Query" algorithm ensures that the customer will definitely find something.

The customer doesn't notice, but with every online purchase he leaves information behind: which cut is preferred, which colour is the most suitable and which size fits. Such data plays an increasingly important role for Otto Group companies so that they can offer their customers a complete service, today and in the future. For who isn't annoyed when a product is recommended to him that has nothing to do with his own preferences? With the help of collected data, OTTO, for example, can make tailor-made offers to each customer. The aim is to take him by the hand immediately when he enters the website. Lengthy searches for the right bike helmet or a suitable coat are no longer necessary because the OTTO Business Intelligence (BI) algorithms analyse customer requirements, create appropriate recommendations and support the availability of products through sales forecasts. So that OTTO is able to look after its customers in this way, it is not only necessary to store millions of bytes of data, but the data must also be linked so that algorithms can evaluate it. This is a complex task, for which OTTO has

developed the business intelligence platform BRAIN.

It combines historical and real-time data from the online shop and the customer centre, in accordance with the data protection guidelines. The data is collected, structured and analysed in BRAIN. Then BI@OTTO can calculate which product will be displayed to the respective customer first. Or an algorithm helps to find exactly the right size for each item. To achieve this, it evaluates the purchases and returns of each customer for the last two years – for example, this is what Passformprognose 2.0 (fitting prognosis) does, which is already in use at Unito today. Another business intelligence application in the Otto Group is Deep Query, an algorithm that Heine, Baur and Unito use, avoiding zero-hit searches. OTTO also uses artificial intelligence methods to determine item similarities and thus to display the range even better. These state-of-the-art technologies channel the flood of information, network it and thus create completely new possibilities for customer support. This is the future that has just begun.

## #BUSINESS

More than

# 200 MILLION

learnable parameters can be processed in Passformprognose 2.0.

To improve service for the customer, OTTO collects millions of bytes of data, complying strictly with data protection guidelines. The business intelligence platform BRAIN bundles, structures and evaluates this wealth of information for the benefit of customers.

# BRAIN

Every day,

# 1,437,188

customer reviews are analysed to aggregate the most important topics from the reviews for the customers.

## CONVERSATIONAL COMMERCE

# CHATTING AND SHOPPING

### ALEXA, WHERE'S MY PARCEL?

Always knowing where your order is – this is even easier now. Hermes UK is one of the first parcel delivery companies to have developed a tracking solution for the Alexa voice service. Alexa informs customers of the whereabouts of their orders and in future will also know the locations of the nearest Hermes parcel shop – and where the customer would like to have his parcel delivered.

Machines understand language better and better. In future, they will order products for us on demand. A radical change. People who stare at screens? That could soon be history, because virtual assistants will soon be taking over the connection between the analogue and the digital world. And they don't follow the click of a mouse or a touch, but work on demand. Messenger apps such as Whatsapp or Facebook Messenger will provide what are called chatbots, which support the user in all life situations, including shopping. They contact online retailer on voice command. Chatbots know users' preferences and speak their language. The process needed for this is called natural language processing – the software learns to understand what its users say. No more typing is required, you have a conversation with the algorithm. This will also be possible outside messenger apps – on the websites of the Otto Group's online retailers for example. On demand, the virtual assistant then looks for a fridge. It asks the model, colour, size and provides the results at once. Today, already 57 percent of Internet users use chat or video chat in customer centres. Chatbots are still in their infancy, however, and still understand too little. But the technology will be successful in the next few years. And the Otto Group? It is already intensively seeking out business opportunities in the context of the "Beyond Touch" initiative, and is creating the technological prerequisites for conversations with smart systems.



# THE CHRONICLE

# 2016

## MARCH

### SUPERDEAL WITH ALIBABA

Borderguru, a start-up company of the Hermes Group, becomes an official contractual partner of the Chinese Alibaba Group. With a trading volume of EUR 410 billion and access to over 280 million customers, the Alibaba Group is currently the world's leading online retailer. For Cainiao, the logistics branch of the Chinese trading giant, Borderguru manages the entire logistics cross-border shipping process for European customers looking to sell on the booming Chinese market.

# SU!!! PER! DEAL

### SEPARATION FROM ALBA MODA

The Otto Group has cut ties with the Group company, Alba Moda GmbH. The latter has been sold to K-Mail Order GmbH & Co KG.

### YOU?!

A little word with a big meaning: The Otto Group Executive Board is pleased to drop formalities and address all staff as "Du" (informal use of "you" in German). HOS (Hans-Otto Schrader), Rainer, Alexander, Neela, Petra, Hanjo and Winfried are taking a small but effective step in the process of Kulturwandel 4.0 (cultural change) to promote the feeling of unity.

# »YOU«

keting campaign adopted for Koch-profis-Küche (Professional Cooking Program) developed jointly with franchise partner, RTL II professional cook, Ole Plogstedt, and Bosch experts.

### NEW CEO

The Advisory Board appointed Alexander Birken, spokesman OTTO, and Member of the Otto Group Executive Board with focus on Multichannel Distance Selling, as CEO of the Otto Group with effect from 1 January 2017. Long-standing CEO, Hans-Otto Schrader, opted to take retirement at the end of 2016 after reaching the age limit (60 years) for Members of the Otto Group Executive Board.

## JUNE

### EVERYTHING UNDER ONE ROOF

New logistics centre for the Hermes Einrichtungs Service in Löhne, North Rhine Westphalia: Up to 30,000 bulk item shipments such as sofas, washing machines and flat screen televisions are stored in the 100,000 square meter facility every day, en route to customers.

### EUR 250 MILLION BOND

The Otto Group has secured a bond worth EUR 250 million. It carries a seven-year term and has a historically low coupon of 2.5 percent.

## APRIL

### INVESTMENT IN HALDENSLEBEN

Hermes Fulfilment has developed one of Germany's most modern fashion logistics facilities in the Haldensleben distribution centre. About EUR 15 million have been invested in the installation of a new ordering and sorting technique.

## MAY

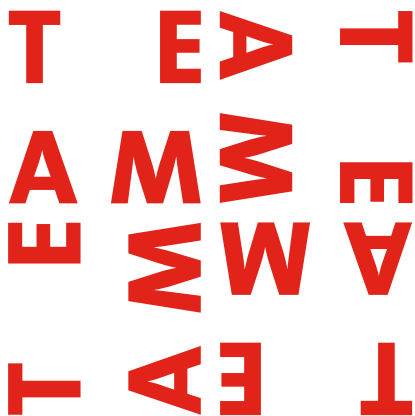
### SUCCESS FOR KÜCHE & CO

Küche & Co wins the DFV Award in the Marketing sector for the first time. The award was presented by the Deutscher Franchise-Verband (German Franchise Association) in recognition of the mar-

# 2.5 PERCENT

## NEW EXECUTIVE BOARD AT BONPRIX

Bonprix has a new Executive Board: Markus Fuchshofen and Dr Richard Gottwald will take the company forward together with current Managing Directors, Rien Jansen and Dr Kai Heck. As of 1 January 2017 Dr Marcus Ackermann replaces Alexander Birken as Member of the Executive Board with focus on Multi-channel Distance Selling, Otto Group.



## DIGITAL CHAMPION 2016

Dr Michael Otto was the recipient of the 2016 special "Digital Champion" Award, "Digitalisierungsmacher" (Digitisation Maker), presented by the financial magazine, "Wirtschaftswoche" and Telekom.

## JULY

### EOS ON COURSE FOR EXPANSION

The internationally active EOS Group has now consolidated its position in Montenegro. The recently created company EOS Montenegro DOO offers management services in the traditional receivables sector. In addition, 100 percent of the shares of the debt-collection service provider, Contentia, have been bought in France and Belgium.

### SPOT ON

With its 360 degree campaign, OTTO is catapulting the topic of sustainability into the spotlight. The focus of the campaign is an emotionally charged TV ad which draws customers' attention to sustainable cotton produced on the basis of the "Cotton made in Africa" initiative.

# SUSTAINABILITY

## ROOM TO GROW

Limango proudly presents its new company building in the Schwabing district of Munich. It is paving the way for future structural growth as it moves into its new 4,500 m<sup>2</sup> head office over 9 floors.

## AUGUST

### PILOT TESTS WITH DELIVERY ROBOTS

Hermes is the first German company to test robot-delivered packages. Three delivery robots, known simply as 6D9 and produced by the innovative European Technology Start-up Starship, are delivering regular packages to selected customers as part of the trial. They have also been collecting returns since January 2017.

### EXPANSION AT LIMANGO

After Germany, Poland and the Netherlands, Limango is now extending its business to France.

## SEPTEMBER

### ABOUT YOU TIPPED FOR SUCCESS

About You is witnessing unprecedented growth as the company is worth an amazing EUR 320 million in just two years. In addition, Seven Ventures, the media investor of the ProSiebenSat.1 Group, and media investor, German Media Pool, have also been secured as investors.

### OTTO GROUP CREATES DIGITAL SOLUTIONS

The Otto Group has created Otto Group Digital Solutions as a holding company for digital service companies. The aim is to identify, create and establish new and attractive business models in the trading-related service sector.

### HOME & LIVING

The Mytoys Group has started a new home & living online shop with Yomonda. The 5000-strong product range offers decorative bathroom and household accessories in addition to practical kitchen utensils and "must-haves" for living rooms and bedrooms.

## OCTOBER

### WITT GOES USA

The Witt Group announces the expansion of its international business and plans to start trading in the USA in 2017. With approximately 70 million potential female customers in the 50 plus age group, the United States offer enormous market potential. US customers can order fashion and lingerie under the "création L" label via the internet or by catalogue or phone.

### BAUR DELIVERS WITH NEW FACE AT THE TOP

On 1 January 2017, Albert Klein took over as Chairman of the Baur Group. He has been a Member of the Baur Executive Board for 15 years with initial responsibility for finances, logistics, construction and IT. In 2014 he was appointed spokesman for the Executive Board.

### MYTOYS STORE NO. 15 AND 16

The Mytoys Group opens its new store in the "Perle Hamburg" shopping mile, right in the heart of the Hanseatic city, thus continuing its successful omnichannel strategy. Store no. 16 opens in Leer, Germany, at the beginning of November.

### LEARNING FROM MISTAKES

The Otto Group holds its first so-called "fuckup night". Around 200 participants listen eagerly to Petra Scharner-Wolff, Otto Group Chief Financial Officer, Marc Opelt, Member of the OTTO Management Board, and Marcus Fuchshofen, Managing Director of Bonprix, as they openly discuss failed projects, flawed business models and major challenges encountered during their professional careers and how they have learned from these and moved forward.



### NEW PERSON AT THE TOP IN HERMES FULFILMENT

Dr Georg Rau is the new CEO at Hermes Fulfilment. He replaces Dieter Urbanke who held the key post from 2006 onwards and retires at the end of the year.



## NOVEMBER

### MOBILE DIY MARKET

Online and offline shopping grow together. From now on, customers in the home improvement, home and garden sectors can use their smartphones to search and purchase via the app in the online portal hagebau.de. The app also serves as an intelligent shopping aid for the on-site Hagebau market. The Otto Group and Hagebau operate the online portal as a joint venture.

### FAREWELL TO MERCURY!

The Otto Group has decided to remove energy-saving lamps and fluorescent tubes containing mercury from the European market. This makes the Otto Group a pioneer in this sector and sends out strong signals for environmental protection.

### CO-OPERATION WITH CAMBRIDGE

The Otto Group has recently joined forces with the Massachusetts Institute of Technology (MIT), the elite US University in Cambridge. This cooperation facilitates dialogue with MIT research experts, access to research and numerous interesting conferences and workshops.

**M** **MASS**  
**A** **ACH**  
**U** **USE**  
**T** **TTS**  
**I** **INST**  
**T** **ITUTE**  
**O** **OF TE**  
**C** **CHNO**  
**L** **LOGY**

## DECEMBER

### BYE, BYE HOS!

Hans-Otto Schrader, affectionately known as HOS, is given a personal send-off after 39 years with the Otto Group. Dr Michael Otto delivers the main speech and around 400 guests including employees past and present ensure that he has a fitting farewell.

### RENTING INSTEAD OF BUYING

Washing machines, treadmills, coffee machines and games consoles are all available on the new OTTO Now platform. OTTO, for test purposes, is giving customers the option to rent products from categories such as technology, household goods and sport. The offer is particularly attractive for residential communities and young families with children whose needs are constantly changing. This option is also available to so-called early adopters, who are the first to use innovative products and therefore set trends.

**2017**

## JANUARY

### GENERATIONAL CHANGE

Hans-Werner Scherer, the former long-standing, successful CEO of the EOS Group, says goodbye to his employees at a staff event to celebrate his retirement. Klaus Engberding, former Member of the EOS Group Executive Board with responsibility for Germany, is appointed CEO with effect from 1 March 2017.

### THIRD DATATHON

Otto Group BI holds its third Datathon on the Hamburg-Bramfeld campus. Participants include developers from all companies within the Otto Group. Under the motto, "personalisation and individualisation", new applications and services are being developed to improve the personal customer shopping experience.

**3<sup>RD</sup> DATA THON**

## FEBRUARY

### STORE OF THE YEAR

The Bremer Manufactum department store incorporating the Brot & Butter (bread & butter) store has been singled out by the Handelsverband Deutschland (German Retail Association) to win the coveted "Store of the Year 2017" award in the "Living" category. The new Manufactum branch was opened in September 2016.

### CDO FOR THE OTTO GROUP

The Otto Group Executive Board has appointed Sebastian Klauke, a renowned digitisation expert, as the first Chief Digital Officer of the Otto Group with effect from 1 July 2017. Klauke spent four years with the Boston Consulting Group as advisor and, most recently, as Project Manager. He has been a partner and Managing Director of BCG Digital Ventures GmbH, a subsidiary of the Boston Consulting Group, since July 2014.

**CHIEF [ DIGITAL ] OFFICER**

### "THE DEBT COLLECTORS' WAY"

EOS has launched its first viral online campaign on Facebook and YouTube – "The debt collectors' way". Known preconceptions of the debt collection industry are tackled amusingly to allay any concerns. These films go hand in hand with the campaign website, the-debt-collectors-way.com.

### NEW RISK CAPITAL

Project A has secured funding to the tune of EUR 140 million. A further EUR 40 million are also available to boost investments to date. This increases Project A's overall capital from EUR 80 million to EUR 260 million.

### RESTRUCTURING IN FRANCE

The Otto Group has successfully implemented the announced sale of the retail operations of the 3SI Group. Business will continue as usual with the same workforce.

# S U S T A I N A B I L I T Y A T T H E O T T O G R O U P

- 58** Strategy and Management
- 67** Raw Materials and Processing value-adding stage
- 69** Final Production value-adding stage
- 71** Trade value-adding stage
- 73** Customer value-adding stage

# WHAT SUSTAINABILITY MEANS FOR THE OTTO GROUP

When the concept of sustainable development was formulated 30 years ago by the World Commission on Environment and Development, the balancing of ecological, social and economic interests was still largely new. Today, the concept of sustainability is an overall social concern and its mission more current than ever.

## SUSTAINABILITY AS A BUSINESS STRATEGY

Responsibility for people and nature is rooted in the vision of the Otto Group. To achieve social and environmental objectives for the Group is as much a part of the business strategy as economic success. It wants to reduce the negative impact of its business activities and create value for society. This works with the “impACT” sustainability management process, laying the foundation for sustainable action. Results and findings of the impACT process are directly incorporated into the 2020 CR Strategy (CR = Corporate Responsibility). It is part of the overall company strategy and includes five sub-strategies.

## THE VALUE CHAIN AS A KEY CHALLENGE

For the Otto Group as a trading group, the complexity of the value chain is an enormous challenge for systematic activities, geared towards sustainability aspects. The biggest social and ecological impacts of business activities are incurred in the preliminary stages of an extended supply chain. To handle this, the Otto Group fundamentally reoriented its sustainability management in 2013. Since then, it has determined ecological impacts and social risks along the entire value chain and quantified these through external costs and risk-working hours. The Otto Group now has a solid basis for decision-making to promote the sustainable direction of their business models efficiently and effectively.

## impACT AS A GUIDE AND BENCHMARK

The impACT sustainability management process involves three steps – from the prioritisation of issues to the development and assessment of measures to the implementation under the umbrella of the CR strategy. This process follows a holistic approach, helping to use financial and human resources specifically where they 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. The topics that will be evaluated by the sustainability management depend largely on external requirements and developments.

**IMPACT  
ESTIMATES THE  
DAMAGE  
TO THE  
ENVIRON  
MENT IN  
EUROS**



# WHAT INFLUENCES SUSTAINABILITY MANAGEMENT

The requirements for sustainability management are constantly changing, for example, through market trends, international politics and digital transformation. The Otto Group addresses these developments early on and considers them in its policies and actions. Systematically, this is done through stakeholder surveys and policy evaluations as part of the impACT process.

## DIGITISATION OF THE BUSINESS

Digitisation notably concerns the business activities of the Otto Group and changes its business models radically. By linking and processing large amounts of data – from the demand side to the availability of goods – production, logistics and sales processes can be controlled more precisely and in a more resource-efficient manner.

Connecting a variety of different data sources opens up new opportunities in sustainability management: Purchasing and sales figures can be selectively combined with external databases, for example to ecological impacts in the supply chain, in order to simulate and control external effects of the business model. New tracking and tracing methods also enable better traceability of products along the entire manufacturing process and create transparency for further improvement measures in the upstream production steps.

Apart from considerable opportunities, digitisation also presents great challenges for retail companies, such as constantly changing competitive conditions and customer preferences. These require a high degree of flexibility and adaptability from companies. Sustainability management is therefore faced with the task of pursuing sustainable progress and long-term goals in an ever more rapidly changing environment.

## THE GLOBAL SUSTAINABILITY GOALS

The 17 Sustainable Development Goals (SDGs), decided in autumn 2015 by the United Nations, influence the sustainability agendas of companies worldwide. The

sustainability activities of the Otto Group are aimed at achieving a variety of SDGs. For example, the use of Cotton made in Africa (CmiA)- certified cotton provides amongst other things a contribution to SDGs 1 “No Poverty”, 2 “Zero Hunger” and 15 “Life on Land”. In 2017, the SDGs will be systematically included into the impACT process of the Otto Group.

## SUSTAINABILITY AND DEMAND IN THE MARKET

Young people are especially aware of the transformative power of sustainable consumption. In particular,

# SUSTAINABLE PRODUCTS

CANNOT COST (MUCH) MORE

new sharing concepts are becoming increasingly popular. But the willingness to buy organic or fairly manufactured products is low across the total population, due to their additional costs. Thus, the market for sustainably produced goods still remains a niche. For 2014, the Federal Environment Agency estimated private consumption expenditure on green products in Germany at around EUR 50 billion, representing about 3.4% of total spending. Sustainable product alternatives in textiles, paper and wood products as well as cleaning products, at EUR 1.6 billion, played only a minor role. Sustainable approaches for the mass market need to consider the price sensitivity of customers – therefore a cost-effective increase in the sustainability performance of the entire range is most important for the Otto Group.

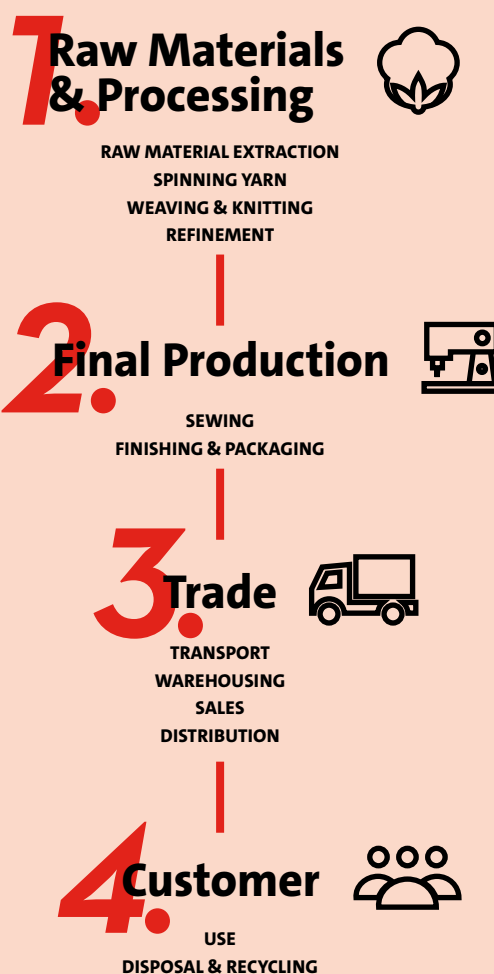
## POLITICAL AND REGULATORY DEVELOPMENTS

Regulatory developments, policy initiatives and commitments in certain sectors directly influence the Otto Group. These include the Bangladesh Accord and the German Textile Alliance. The Bangladesh Accord was founded in 2013 in response to the collapse of the Rana Plaza building in which more than 1,100 people were killed. The Otto Group is one of the signatories of the agreement, which is intended to improve the health and safety of workers in Bangladesh's garment factories.

In addition, the company Group is a member of the German Textile Alliance initiated by the Federal Development Minister Gerd Müller in 2014, which also aims at better working conditions and more environmental protection in the supply chain.

The German Climate Action Plan 2050 for the implementation of the Paris Agreement within the UN obliges companies to achieve the 2 degree Celsius target: By 2030, greenhouse gas emissions in Germany will have to drop by 55% compared with 1990 and 80 to 95% by 2050. With its previous pro-active and ambitious climate change mitigation activities, the Otto Group is well positioned to respond adequately to future regulatory pressure. Regulatory measures are possible to aim at increased energy efficiency of buildings or alternative vehicle drive systems.

## Value-adding and process stages based on textiles



# HOW SUSTAINABILITY IS INTEGRATED INTO MANAGEMENT

In order to manage its sustainability performance, the Otto Group has established the impACT management process, which is closely oriented to business processes. The goals are set by the CR Strategy 2020.

## CR STRATEGY 2020

Developed in 2012, the CR strategy 2020 is an integral part of the company strategy. It is implemented by all major Group companies (annual external revenue of more than EUR 100 million), based in Germany and Austria. Together they generate 59% of Group revenue and are responsible for about 80% of the environmental

impact of the Otto Group. The CR Strategy includes five thematic sub-strategies. Due to the decentralised organisation of the Otto Group the managing directors of the individual Group companies are responsible for the implementation of the five sub-strategies.

## CR Strategy 2020 with participating Group companies

## TEXTILE STRATEGY

## CR STRATEGY 2020

**TARGET BY 2020**  
**100% sustainable cotton**

**TARGET ACHIEVEMENT 2015–2016**  
**27% → 49%**

**CRITERIA FOR INCLUSION OF  
GROUP COMPANIES**

> EUR 10 million annual textile sales with own and  
licensed brands

**PARTICIPATING COMPANIES**

Bonprix, Frankonia, Heine, OTTO, Schwab, Sportscheck,  
Witt-Gruppe

## FURNITURE STRATEGY

**TARGET BY 2020**  
**100% FSC®-certified furniture  
products**

**TARGET ACHIEVEMENT 2015–2016**  
**43% → 46%**

**CRITERIA FOR INCLUSION OF  
GROUP COMPANIES**

> EUR 10 million sales in the product group furniture

**PARTICIPATING COMPANIES**

Baumarkt direkt, Bonprix, Heine, OTTO

## PAPER STRATEGY

**TARGET BY 2020**  
**50% FSC®-certified paper  
for catalogues**

**TARGET ACHIEVEMENT 2015–2016**  
**28% → 34%**

**CRITERIA FOR INCLUSION OF  
GROUP COMPANIES**

> 1,000 t purchasing volume of catalogue paper

**PARTICIPATING COMPANIES**

OTTO coordinates procurement for all 13 strategy companies\*  
(except for Mytoys, Hermes & EOS)

## SOCIAL PROGRAMME

**TARGET BY 2020**  
**100% integrated suppliers**

**TARGET ACHIEVEMENT 2015–2016**  
**41% → 80%**

**CRITERIA FOR INCLUSION OF  
GROUP COMPANIES**

Procurement of own and licensed brands

**PARTICIPATING COMPANIES**

Bonprix, OTTO, Heine, Schwab, Witt-Gruppe,  
Frankonia\*\*, Mytoys\*\*, Sportscheck\*\*, Unito\*\*

## CLIMATE STRATEGY

**TARGET BY 2020**  
**50% reduction of CO<sub>2</sub>  
emissions (base year 2006)**

**TARGET ACHIEVEMENT 2015–2016**  
**–28% → –34%**

**CRITERIA FOR INCLUSION OF  
GROUP COMPANIES**

Operating locations and hiring of transport

**PARTICIPATING COMPANIES**

All 13 strategy companies\*

\* Included in the CR Strategy 2020 are Baumarkt direkt, Baur, Bonprix, EOS, Frankonia, Heine, Hermes, Mytoys, OTTO, Schwab/Sheego, Sportscheck, Unito, Witt-Group. Companies are integrated into the Social Programme, their achievement values, however, are still listed separately and are not included in the target achievement value of the Otto Group.

## INCLUSION OF INTERNATIONAL SUBSIDIARIES IN THE CR STRATEGY

Since 2016 Freemans Grattan Holdings (UK), Crate and Barrel (USA and Canada) and the principal foreign enterprises of Bonprix (IT, USA, PL, FR) have been integrated into the CR Strategy. Due to the subsequent integration they pursue separate target paths in the relevant sub-strategies. First concrete targets have been set up for 2017.

## RESPONSIBILITIES AND STRUCTURES

The CEO of the Otto Group, Alexander Birken, is directly responsible for sustainability management and, at the same time, chairman of the CR Board, which decides on strategic sustainability issues. The CR Board also includes Hanjo Schneider, Member of the Executive Board, Services Otto Group, and Dr Michael Heller, Member of the OTTO Management Board for Categories. The annual



variable component of the Group's Executive Board is subject to the achievement of the CR Strategy 2020. The Sustainable Supply Chain Management Board (SSCM Board) has been a bridge between the CR Board and the Group's operating divisions since 2014 and looks at the sustainability issues in the supply chain from a holistic perspective and prepares decisions for the CR Board. It consists of managers and directors of selected Group companies and meets four to five times a year.

The Otto Group's Sustainability Management Division manages the Group-wide sustainability activities and advises companies on strategy implementation and innovation. This includes the development of strategies and concepts as well as the provision of suitable measuring instruments. Other tasks include stakeholder management, networking and knowledge transfer among the Group companies.

## STAKEHOLDER MANAGEMENT AND DIALOGUE

The Otto Group is in dialogue with its stakeholders to understand their expectations, to ensure a steady transfer of knowledge and to involve them in strategic developments. To do so, it uses a variety of channels. For example, the requirements and assessments of selected stakeholders influence the strategic direction of the company Group through the impACT management process. In addition, the Otto Group promotes external initiatives and involves itself in the public debate on sustainability.

## MICHAEL OTTO FOUNDATION FOR ENVIRONMENTAL PROTECTION

For over 20 years, the Michael Otto Foundation has been committed to environmental protection for a variety of conservation issues and to education for sustainable development. In 2016, the Foundation was able to further develop its AQUA AGENTS project for the sustainable education of primary school pupils in a nationwide programme. They also took over responsibility for the Centre of Excellence for Nature Conservation and Energy Policy. In January 2017, the Foundation initiated the nationwide dialogue and demonstration project F.R.A.N.Z. (For resources, agriculture and nature protection with a future).

social impacts of global textile production. Dr Johannes Merck, Otto Group Director for Corporate Responsibility was appointed in 2015 as one of four business representatives in the steering committee of the Textile Alliance. Representatives of the Group Division are involved in the technical working groups of the Alliance.

**Bangladesh Accord:** The Otto Group is a signatory of the Bangladesh Accord (see also page 70), which has been developed together with our global union federations IndustriALL and UniGlobal, the Clean Clothes Campaign (CCC), the Worker Rights Consortium (WRC), national unions and major international companies in the textile sector. When founded in 2013, the Accord was initially intended for a five-year period. The Otto Group, as a member of the Accord Steering Committee, is currently focused on working on the conceptual design of an action plan post 2018.

### Forest Stewardship Council® (FSC):

This non-profit organisation is committed to preserve forests by promoting responsible forest management (see also page 68). Strict management criteria avoid uncontrolled deforestation and human rights abuses and fosters the preservation of ecosystems and

**Textile Alliance:** The German Alliance for Sustainable Textiles unites stakeholders from industry, commerce, politics, trade unions and civil society with the aim of systematically reducing the negative environmental and

biodiversity. In summer 2016, the annual FSC General Assembly was held at the Otto Group in Hamburg. On this occasion, the company also celebrated its 10-year membership in the organisation.

COPERATION  
INITIATIVES  
MAKES  
MORE EFFICIENT

**Textile Exchange:** The international network promotes sustainability in the textile industry. With Andreas Streubig, head of Division Sustainability Management, the Otto Group is represented on the Governance Board of the organisation. The Annual Conference 2016 was held with the support of the member company Otto Group in Hamburg.

**Foundation 2°:** Initiated by the Dr Michael Otto, the foundation brings together prominent business leaders who work on climate change mitigation. Foundation 2° has set itself the goal of supporting the policy of establishing an effective enterprise framework for climate change mitigation and to leverage German companies' required competencies. For example in 2016 it published statements for the federal government's Climate Action Plan 2050 as well as on the theme of carbon consensus.

# HOW MATERIALITY LEADS TO ACTION

As part of its sustainability management, the Otto Group determines and evaluates the social and environmental impacts throughout the value chain. This enables resources to be allocated where they have the greatest impact.

Developed by the Otto Group, the impACT management process links the effects (impact) with the derived action (act). The impACT process involves three steps: First, the impacts of business activities on people and nature are qualitatively and quantitatively assessed and identified as material topic areas. This prioritisation is used in the second step as a basis for the development of strategic objectives and operational measures that will eventually be implemented in the third step under the umbrella of

the CR Strategy 2020. In 2014, the Otto Group received the German Federal Government's CSR Award for this innovative approach.

## impACT STEP 1: MATERIALITY ANALYSIS

The Otto Group Materiality Analysis comprises a quantitative assessment of all environmental and social impacts of operations and an evaluation of these challenges from

### THE FOUR VALUE-ADDING STAGES

The Otto Group divides its business activities and its sustainability performance into four stages of the value chain:

- ▶ **Raw Materials & Processing:** In the first stage raw materials are produced and prepared for production.
- ▶ **Final Production:** At this stage, the finished products are produced from the intermediate products and packaged for transport.
- ▶ **Trade:** This stage includes the transport of goods from the production countries to the markets, storage and delivery to customers.
- ▶ **Customer:** This final stage includes the entire usage phase and disposal or recycling of products.



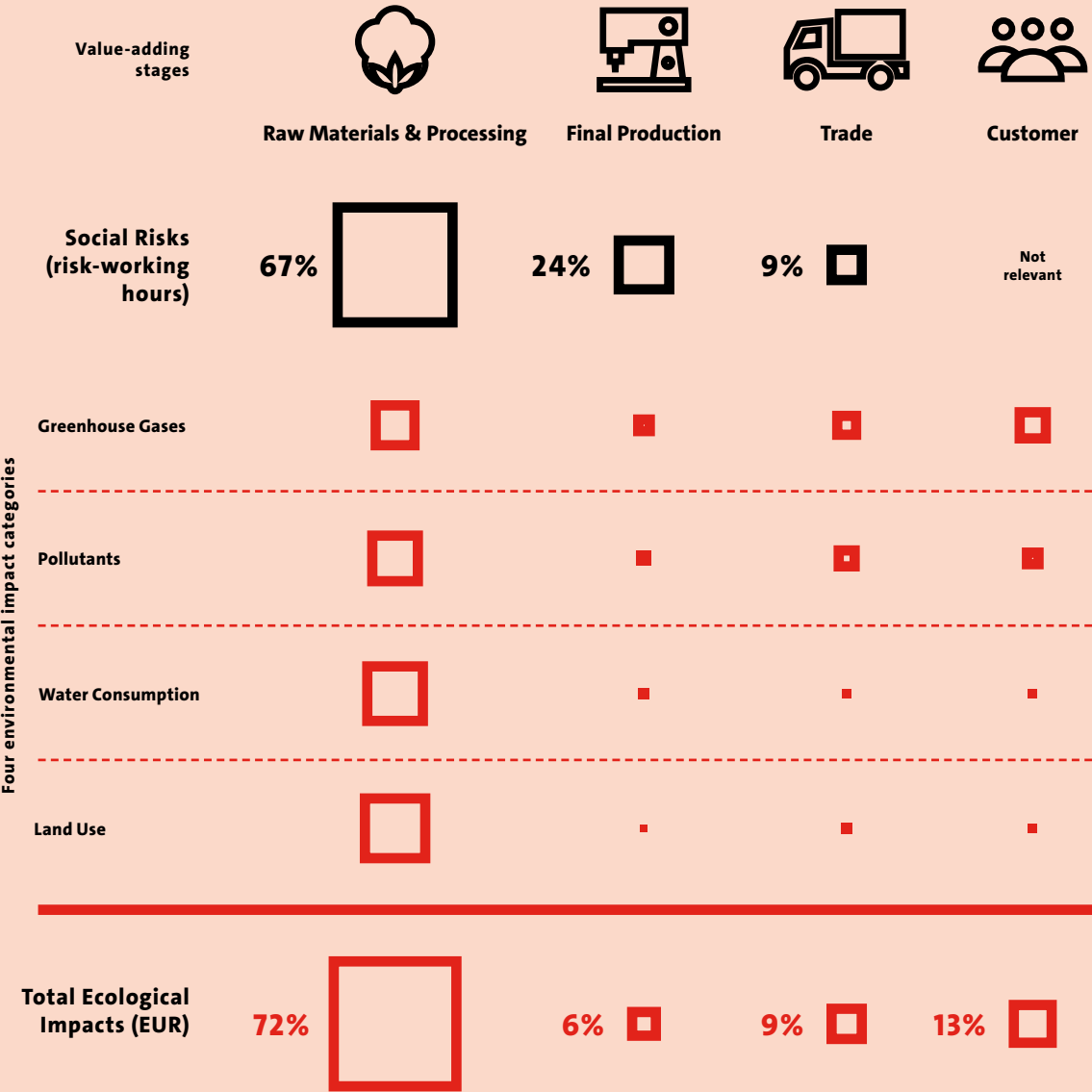
a stakeholder perspective. The quantitative analysis is carried out annually, the stakeholder surveys every two years, most recently in 2016.

QUANTITATIVE IDENTIFICATION OF EXTERNAL COSTS AND RISKS

For the quantitative assessment (see y-axis of the matrix on page 66) the environmental and social impacts along the four value-adding stages are determined. The ecological effects are allocated to the four impact categories greenhouse gases, pollutants, water consumption and land use. For its calculation, the Otto Group links its purchasing and sales numbers with values from external databases on impacts on ecosystems and human health. This results in quantitative values that are converted into “caused” external environmental costs (in EUR).

- The qualitative assessment consists of four surveys:
- ▶ In order to assess the expectations of **external stakeholders**, the Otto Group, in 2016, conducted an on-line survey among experts from science, politics, non-governmental organisations and research (weighting on the overall result of the qualitative assessment: 50%).
  - ▶ For an assessment of **reputational risks and opportunities** all topic areas were assessed in internal workshop (weighting: 16.7%).
  - ▶ In order to assess **regulatory risks**, the probability of the introduction of regulations was determined internally and linked to the estimated expenses that would arise for the Otto Group if the regulation was introduced (Weighting: 16.7%).
  - ▶ The evaluation of the topic areas in terms of their relevance to the **business** of the Otto Group was carried out by means of an on-line survey addressed to directors and board members (Weighting: 16.7%).

Distribution of ecological impacts and social risks along the value chain





The social consequences are represented by the fifth impact category of social risks and measured by risk-working hours. To do so, the Group determines the country- and industry-specific risk that indicates the chance of working hours performed in violation of minimum social standards. By quantifying environmental and social impacts, the Otto Group receives a realistic picture of the external effects associated with its business activities, i.e. its ecological and social footprint.

## QUALITATIVE EVALUATION BY STAKEHOLDERS

In addition, the individual topic areas are assessed by internal and external stakeholders (see the x-axis of the matrix on page 66). Topic areas refer to the effects by impact category and value-adding stage (for example, greenhouse gases in the Trade value-adding stage). In addition to the 20 topic areas, stakeholders in 2016 estimated the relevance of the topics of animal welfare, recycling and resource efficiency for the Otto Group. The evaluation of all issues was performed in view of the next two to five years.

## MATERIALITY MATRIX 2017

In the matrix (see chart, page 66) all results of the Materiality Analysis are merged. It shows which topic areas are particularly relevant to the Otto Group because of the high external effects and/or importance of the Otto Group for the various stakeholder groups.

## impACT STEP 2: DERIVING TARGETS AND MEASURES

Based on the Materiality Analysis, the Otto Group develops potential measures which then undergo a cost-benefit analysis. Both the benefits for the Otto Group as well as for people and nature are considered. For this purpose, it is determined to what extent the potential measures can reduce the environmental impacts and social risks. The evaluation of the benefits for the Otto Group includes whether these reduce reputational and regulatory risks, increase market opportunities by increasing efficiency and innovation, and meet the expectations of external stakeholders. This is

## The three steps of the impACT process

# 1.

## Carry out a Materiality Analysis

see graphic page 66

# 2.

## Develop measures and assess their costs & benefits

see text below

# 3.

## Implement measures under the umbrella of the CR Strategy

see graphic page 61

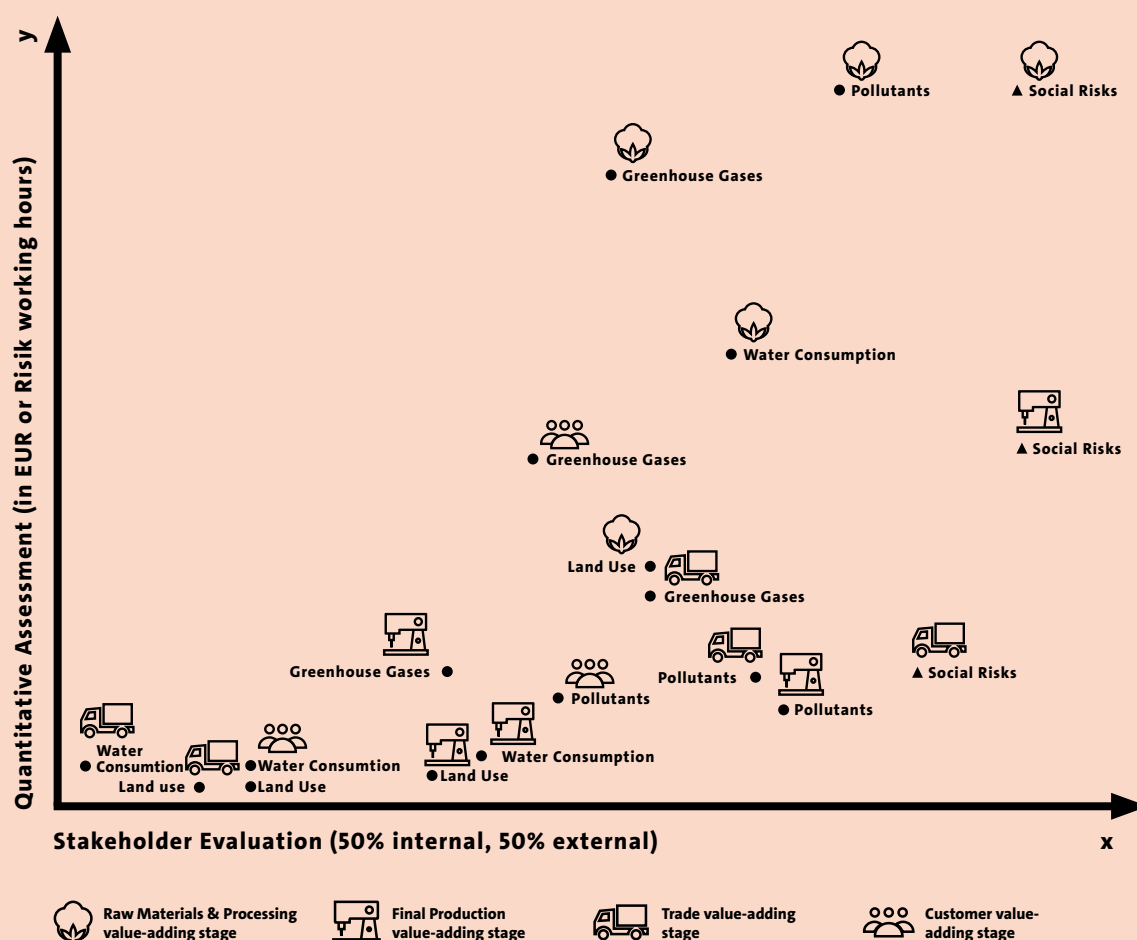
compared with the estimated expenses, for example, investment or personnel costs.

## impACT STEP 3: IMPLEMENTING THE CR STRATEGY

The measures with the best cost-benefit ratio are presented to the SSCM Board, adjusted if necessary and then submitted to the CR Board for decision. Any measure adopted is then managed under the umbrella of the CR Strategy 2020. In the third step of the impACT process, the Otto Group thus implements the insights gained from the Materiality Analysis and the cost-benefit assessment. The centrally controlled measures with Group-wide relevance are supplemented by specific activities of the individual Group companies.

**DETERMINE THE  
FOOTPRINT  
OF THE OTTO GROUP**

## Materiality Matrix 2017: Relevance of the topic areas for the Otto Group



### MATERIALITY ANALYSIS 2017

A comparison of the results with the 2015 analysis shows the following changes:

- ▶ Social risks in trade were rated higher, mainly due to possible adjustment (adjustment of the minimum wage in Germany and corresponding cost effects).
- ▶ The impact category of greenhouse gases was rated less relevant in the entire value chain. This could result from the perception that the Paris Agreement will enforce climate regulations effectively.
- ▶ From the point of view of external stakeholders, the additional topics of recycling and resource efficiency have a medium relevance for the Otto Group across the entire value chain. The issue of animal welfare has little relevance (little need for action) for the business model of the Otto Group.

# RAW MATERIALS AND PROCESSING VALUE-ADDING STAGE

The first stage of the value chain comprises the assembly and exploitation of raw materials and their further processing. The share of environmental impacts and social risks is greatest here at around 70 percent. With three sub-strategies, the company contributes to more sustainable usage of raw materials.

The Otto Group is working intensively to achieve more sustainable extraction of raw materials and to work towards a better management of chemicals in the production facilities along the supply chain. Already in the cultivation of cotton and the subsequent refinement of textiles many chemicals are used, which can be harmful for humans and nature. The sub-strategies for textiles, furniture and paper promote more sustainable cotton production and a responsible use of wood, the raw materials most widely used in the Otto Group.

## STATUS TEXTILE STRATEGY

In the year 2020, only cotton from sustainable cultivation will be used for the company's own and licensed

brands. **In 2016 the use of sustainable cotton rose to 49% (2015: 27%).** This positive development is mainly due to the increasingly well-established cotton sourcing processes from the Cotton made in Africa (CmiA) initiative and the associated significant increase in use at OTTO, Bonprix and the Witt Group. As a result of higher CmiA sourcing volumes, the share of sustainable cotton is expected to continue to grow significantly in 2017.

### COTTON MADE IN AFRICA

“Cotton made in Africa” (CmiA) is an initiative of the Aid by Trade Foundation, founded in 2005 by Dr Michael Otto. Compared to conventional cotton, CmiA-certified cotton causes up to 40% less greenhouse gas emissions, saves around 2,100 litres of water per kilogram through the exclusive use of rainwater and excludes the use of certain pesticides. In addition, smallholders benefit from agricultural and business training as well as dependable payment. Cost-effective sourcing allows companies to use CmiA cotton in the mass market. The underlying “mass balance approach” is similar to the green electricity model: CmiA cotton does not have to be detected in individual products. The decisive factor is that a corresponding quantity flows into the value chain and thus demand is created. In 2016, 690,000 smallholders in nine African countries benefited from the CmiA initiative. More than 280,000 tonnes of CmiA cotton were produced – the Otto Group procured an equivalent quantity of almost 16,000 tonnes.

CMIA- COTTON HAS  
MORE THAN  
33 BILLION  
LITRES OF WATER  
IN COTTON GROWING  
IN 2016



**Sustainable cotton\* (in t)**

	2013	2014	2015	2016
Total quantity of cotton	39,453	35,599	35,941	33,664
Quantity of organic cotton	607	478	504	639
Quantity of CmiA cotton	2,164	3,405	9,225	15,913
Share of sustainable cotton	7%	11%	27%	<b>49%</b>

\* Based on the sourcing volume of raw cotton.

**STATUS FURNITURE STRATEGY**

The goal is the complete conversion of the wood furniture series to items from responsible forestry, certified according to the Forest Stewardship Council's (FSC) standard. **In 2016, FSC-certified wood accounted for 46% (2015: 43%)** of the total wood furniture range. The slight increase resulted from agreements between subsidiaries and the major furniture suppliers. In 2017, the FSC-share is expected to significantly increase in the wood furniture range.

An obstacle to the complete FSC certification of the wood furniture range is the low availability of FSC-certified wood materials (especially fibre board) on the German market, since so far only the Otto Group has been a major consumer. In addition, the proportion of FSC-certified forest area in Germany at about 10% is relatively low. In a working group formed together with representatives of the FSC and other furniture retailers, the Otto Group advocates for better availability and increased demand for FSC-certified wood materials in Germany.

**FSC-certified furniture products (number)**

	2013	2014*	2015	2016
Total number of furniture articles	45,485	56,350	49,694	58,527
of which, number of FSC-certified articles in the assortment	11,872	18,688	21,281	26,829
Share of FSC-certified articles in terms of the overall furniture assortment	26%	33%	43%	<b>46%</b>

\* Up to 2014, including OTTO Office; from 2015 without OTTO Office.

**STATUS PAPER STRATEGY**

The Otto Group is one of the largest paper consumers in Germany. By 2018, the proportion of FSC-certified paper from gravure and offset printing processes for catalogues and advertising material should be at least 50%. **In 2016, the FSC proportion was 34% (2015: 28%).** The reasons for the increase were long-term agreements

with suppliers through the Group company OTTO, which coordinates the sourcing of much of the catalogue paper within the Otto Group. For the same reason, a significant increase in the FSC share is expected for 2017. In addition, an increase of the target value for 2020 will be reviewed in 2017.

**Catalogue and advertising-material paper consumption (in t)**

	2013	2014	2015	2016*
Total quantity of paper	258,382	264,189	239,560	221,497
of which, quantity of FSC paper	28,306	51,172	67,833	75,047
Share of FSC paper	11%	19%	28%	<b>34%</b>

\* Data based on forecast figures which deviate only slightly from actual figures.

## ROADMAP TEXTILE ALLIANCE

As part of the membership of the German Textile Alliance, in early 2017 the first roadmap with objectives for the current year was presented. Thereby, the Otto Group dealt intensively with the classification of its own sustainability activities and objectives in relation to the Alliance's requirements by the end of 2017. The roadmap concentrates on

the issues that the Textile Alliance currently puts into focus: Chemicals management, natural fibres and social

management. The Group will report annually on the target achievements.

## PRACTICAL EXAMPLE OF BONPRIX

**Sustainable raw materials:** In addition to Cotton made in Africa, organic cotton and FSC materials, Bonprix also offers REPREEVE®. This recycled polyester fibre is made from PET bottles and registered under the Global Recycled Standard of the non-profit organisation Textile Exchange. From it, new products such as outdoor jackets or jeans are produced.

# FINAL PRODUCTION VALUE-ADDING STAGE

At this stage, the final steps in the manufacturing process up to the packaging of goods for transport take place. The ecological impacts of business activities are rather low, whereas risks of inadequate working conditions are high. The Otto Group focuses on these through its social programme and its partnerships.

commitment of the Group is clear: The Otto Group takes its responsibility in the supply chain seriously and with its Social Programme, wants to ensure acceptable working conditions at all production sites and qualify them accordingly.

The actions of the Otto Group in the Final Production value-adding stage depend on the nature of the sourcing of merchandise. Around half of the traded goods are third-party brands – in this case, the brand manufacturers are obligated to sign the Otto Group's Code of Conduct or the Group recognises their codes of conduct in case of agreement. In the case of own and licensed brands, one part is procured directly, the other through importers or external sourcing organisations. The manufacturing factories are rarely direct business partners of the Otto Group, since a contractual relationship usually only exists with the supplier, who often cooperates with different factories. In addition, the range of products at more than 1 million is high and the order quantity per article often low. Together with the complex sourcing structures, this makes it difficult for the Group companies to influence conditions of production. Nevertheless, the

## CODES OF CONDUCT

In accordance with its sourcing structure, the Otto Group has introduced two Codes of Conduct with established social standards: one for merchandising goods and one for non-merchandising goods and services. The Code of

# FOCUS ON WORKING CONDITIONS IN RISK COUNTRIES

## Social Programme: Integration status and supplier performance

	Description	2016
Status: integrated		<b>80%</b>
accepted	Valid and accepted standards or assessments provided for all of a supplier's active factories	51%
advanced achieved	Valid SA8000 certificates or a BSCI audit result of 'good' provided for all of a supplier's active factories	17%
BSCI member	Importer is a BSCI member	12%
Status: not achieved		20%
Not accepted	A supplier does not have valid and accepted standards or assessments for all active factories	10%
No Performance	Integration status still unclear as, for example, transparency has not yet been established concerning active factories	10%

Conduct for merchandise is based, inter alia, on the core labour standards of the International Labour Organization and relevant UN Conventions against Child Labour and Gender Discrimination. Suppliers and business partners commit themselves with their signatures not only to comply within their own company, but also to ensure the standards at their subcontractors.

### STATUS SOCIAL PROGRAMME

The programme integrates all suppliers for own and licensed brands of the Group companies producing in factories in risk countries (according to the BSCI classification<sup>1</sup>). Integrated suppliers are suppliers that provide valid and accepted social audits or certificates for all factories producing for Otto Group companies. **In 2016, this was true for 80% of the suppliers (2015: 41%).** The significant increase is mostly due to improved data availability regarding social standards of factories. The Otto Group creates this transparency with the help of a Group-wide database – the Supply Chain Database implemented in 2014. Due to the further improvement of data management and the resulting control possibilities, a slight increase in the integration rate is also expected in 2017. In addition, the consistent termination of cooperation with non-compliant suppliers will contribute to the expected increase.

In 2016, 124 factories in the main sourcing countries of China, Turkey, India and Bangladesh took part in the Otto Group's qualification programme. In small groups, selected factory representatives acquire skills to improve working conditions over several months, in order to be able to implement them permanently.

### IMPLEMENTATION OF THE BANGLADESH ACCORD

To implement the Bangladesh Accord, comprehensive corrective measures, informed by independent safety investigations, were taken in the reporting period to improve safety at work in all 32 factories in Bangladesh in which the Otto Group manufactures.

### GROUP DIRECTIVE SUSTAINABILITY IN PROCUREMENT

The internal guideline "Sustainability in Procurement" establishes social and ecological minimum requirements for the entire sourcing of goods by the Group companies. Since 1 January 2017, it has been valid in an updated version throughout the Group. The thematic additions include guidelines for the use of recycled materials in textiles and the prevention of chemicals, as well as the ban on the sale of mercury-containing fluorescent lamps

## PRACTICAL EXAMPLE OF BONPRIX

**Qualification measures:** By the end of 2016 Bonprix was able to integrate 92% of its suppliers into the Social Programme. These suppliers provided valid and accepted social audits/ standards for all factories active for Bonprix. In addition, selected factories were trained in small groups over a period of several months within the framework of a qualification programme in order to achieve sustainable improvements in their production plants.

<sup>1</sup> [http://www.bsci-intl.org/sites/default/files/countries\\_risk\\_classification\\_final\\_version\\_20140109.pdf](http://www.bsci-intl.org/sites/default/files/countries_risk_classification_final_version_20140109.pdf)



and energy-saving lamps. In addition to minimum standards, the revised Directive contains recommendations on the use of sustainable materials.

## COMMITMENT AGAINST CHILD LABOUR

For nine years the Otto Group has been working with the human rights organisation Terre des Hommes to combat child labour in India. Since the start, more

than 900 children and young people have been visiting education centres and children's clubs with the help of the Otto Group, and have been trained or completed an apprenticeship. In addition, about 1,100 children in public schools benefit from improved quality of education. The parents are supported to set up a small business to be able to afford the education of their children. The successful cooperation with Terre des Hommes will be completed as planned in March 2017.

## PARTNERSHIPS

The Otto Group has played a key role in establishing the Business Social Compliance Initiative (BSCI), an initiative by traders and producers with the aim of improving working conditions in the supply chain. In 2016 the Otto Group helped, for example, to develop a "Guidance package" with recommendations for action to identify and avoid precarious working conditions for refugees in the Turkish clothing industry.

In order to improve the climate change mitigation of textile manufacturers in the supply chain, the Otto Group set up the Carbon Performance Improvement Initiative (CPI2) together with seven other trading companies. The range of topics has been expanded to water and chemicals. In the CPI2 data tool, more than 400 improvement measures are now available with information on their effort and benefits. In 2016, 168 textile manufacturers producing for the Otto Group followed these recommendations.

# TRADE VALUE-ADDING STAGE

In addition to the activities at the approximately 400 locations in Germany, the Trade value-adding stage also comprises the transport from the sourcing countries to the warehouses of the trading companies and the distribution from the warehouses to the customers. Every year, the German Group companies procure around 100,000 tonnes of goods. Both the sourcing and delivery of goods are mostly carried out by the Group company Hermes. Thus, the Otto Group's room for manoeuvre is high. At the same time foreseeable legal regulations limiting pollutant emissions underline the need for action in the field of transport. Possible restrictions, such as access restrictions for inner cities, would hit trading companies and logistics service providers particularly hard.

At this stage, the environmental impacts and the social risks are relatively low, the influence of the Otto Group is however high. The main effects are the greenhouse gas and pollutant emissions resulting from sourcing transport and the delivery of goods. With its Climate Strategy, the Group aims to reduce CO<sub>2</sub> emissions.

## STATUS CLIMATE STRATEGY

By 2020, the adjusted CO<sub>2</sub> emissions from the company's own sites, as well as sourcing and distribution transports, are to be halved in comparison to the base year 2006. Last year, the adjusted CO<sub>2</sub> emissions decreased from 212,000 to 196,000 tonnes compared to 2015. **Compared to the base year, this means a reduction of 34% (2015: 28%).** The development is mainly due to the shift in airfreight to the lowered CO<sub>2</sub> rates for sea, road and rail transport as well as in distribution logistics to a sharp increase in delivery volumes at Hermes Germany and the associated efficiency increases per delivery. CO<sub>2</sub> emissions

will also drop significantly in 2017, since on 1 January 2017 many Otto Group power supplies were switched to high-quality certified green electricity. Another contribution to target achievement is expected at Hermes Germany: The company is further optimising its location structure and distribution to the customer from the economic as well as the environmental point of view.

### ENVIRONMENTAL MANAGEMENT AT ITS OWN SITES

At their locations, the Otto Group pays attention to the careful use of natural resources such as water and the responsible management of waste. At locations with more than 5,000 square meters of usable space, as

**SINCE 2006,  
34%  
CO<sub>2</sub> REDUCTION**

well as at all of the head offices of the Group companies included in the report, energy and water consumption as well as sewage and waste water are measured. At present, 15 of the sites covered by the reporting have environmental management systems that are certified according to the international standard ISO 14001.

### DEALING WITH CONTRACTORS FOR PARCEL DELIVERY

The package delivery at Hermes Germany usually is taken over by contract partners. Since 2012 these are being reviewed regularly by an internal audit team and the certification company SGS-TÜV Saar, which spot checks aspects of occupational safety, compensation,

## PRACTICAL EXAMPLE OF HERMES

**Urban Blue 4.0:** The delivery quantities of packages to private customers are expected to nearly double from 2015 to 2025. Against the background of increasing urbanisation and the already large impact through noise and pollutants, new ways must be found to maintain urban quality of life. Hermes Germany sees itself as a provider of solutions for sustainable urban logistics and as a partner for municipalities and trade. With the Urban Blue 4.0 concept, Hermes Germany pursues the strategic goal of delivering goods free of emissions in all inner cities of Germany. Steps to this target include, for example, the successive conversion of the vehicle fleet to low-emission engines, the use of parcel shops as urban micro-hubs and the use of electric cargo bikes as well as parcel robots. For this purpose, Hermes Germany cooperates with Starship Technologies and tests the partly automatic delivery in Hamburg.

### Distribution of adjusted CO<sub>2</sub> emissions 2016

**59% Transport**

**37% Locations**

**4% Mobility\***

\* Includes employee business trips and the operation of the company car fleet.

### Absolute and adjusted CO<sub>2</sub> emissions (in t)

	2006 (base year)	2014	2015	2016
absolute in t	296,200	248,101	245,891	235,873
adjusted in t	296,200	224,149	212,241	196,468
Reduction in adjusted CO <sub>2</sub> emissions versus 2006	–	–24%	–28%*	–34%

\* With respect to the Annual Report 2015/16 value has changed with updated location data from –27% to –28%.

working hours, quality and environment. Since 2013 a consistently high certification rate of 95–99% has been achieved. During the reporting period, 208 of the 403 active contract partners were audited, 205 of which received the certificate. In 2017, SGS-TÜV Saar will audit

all active contract partners and focus on the risk areas of employment conditions and service management. In parallel, the contract partners continue to be randomly checked in internal audits for the aspects work safety, environment and quality.

#### Waste by category (in t)

	2013	2014	2015	2016
Total waste	36,602	35,018	30,561	35,855
Quantity of hazardous waste*	73	115	189	905
Share of hazardous waste	0.2%	0.3%	0.6%	2.5%
Quantity of non-hazardous waste	36,529	34,903	30,373	34,950
Share of non-hazardous waste	99.8%	99.7%	99.4%	97.5%

\* Hazardous waste is generated mainly by electrical waste at the Otto Group. The rise in 2016 was due to construction work at the location Hamburg-Bramfeld (715 t asphalt containing tar).

## CUSTOMER VALUE-ADDING STAGE

During product use, an average of 13% of the total environmental impacts incur across the product range. The Group companies initiate individual measures to sensitise their customers in the selection and use of products for sustainability.

The Customer value-adding stage includes all phases of product usage to disposal and recycling. Relevant from an ecological point

of view are the release of greenhouse gases and pollutants, for example by the energy consumption and the discharge of chemicals during the washing of textiles. A sustainable product range and marketing can reduce

these impacts. From a social perspective, sustainable consumption is desirable. However, beyond food and cosmetics the willingness of most consumers to pay for sustainably manufactured products is low.

### ORIENTATION FOR CONSUMERS

According to surveys, consumers often feel overwhelmed by the multitude of labels when it comes to sustainable consumption. The GOODproduct label serves as identification and combines all relevant seals and certificates with sustainable added value. Unlike in the case of food shopping, “eco” or “organic” in fashion shopping is more associated with renunciation and a bad conscience. This is why the term GOODproduct is used, which conveys a positive shopping experience that is both socially and environmentally compatible. The GOODproduct label was introduced by the Group company OTTO in July 2015. Meanwhile, it is also used by the Group companies Baur, Heine, Schwab and Unito.



## FUR-FREE FASHION

In addition to the long-term exclusion of fur from the product range, the Otto Group has been a member of the international “Fur Free Retailer” programme since 2014, whose signatories assure not to use any real fur. In this way, a clear public sign of animal protection is set beyond the previous self-commitment to the protection of animals.

# CUSTOMERS WANT A PERSONAL ADVANTAGE THROUGH SUSTAINABLE PRODUCTS

## PRACTICAL EXAMPLES OF OTTO

**Campaign on sustainability:** For the first time, OTTO broadcasted a TV spot on sustainability in 2016. A 360° communication accompanied the “Cotton made in Africa” campaign. It intended to raise awareness among consumers of responsible cotton farming.

**Access to clean drinking water:** As part of the “Drop for Life” project, OTTO and the Aid by Trade Foundation, the cotton company Plexus and Deutsche Entwicklungs- und Investitionsgesellschaft (DEG) support drinking water supplies to villages in Mozambique. In the project period from November 2014 to August 2016, more than 50,000 people in 20 villages got access to clean drinking water for the first time. Thus, OTTO draws its customers’ attention to sustainability issues in the value chain and demonstrates the commitment they have made.

**Renting instead of buying:** With OTTO Now, OTTO is testing a new business model and is approaching customers who just want to use a product temporarily. On the platform they can rent products such as televisions, washing machines and electric bikes.

### Efficient large electrical appliances\*

	2013	2014	2015	2016
Number of large electrical appliances in total range	2,504	2,876	2,030**	2,597
Share of efficient large electrical appliances in total range	57.8%	68.9%	32.3%	31.7%

\* Electrical appliances are considered to be efficient if they are provably more energy-efficient than the average energy consumption values in their product group (for example, refrigerator-freezer combinations in energy class A+++).

\*\* Criteria were tightened in the second half of 2015 (for example, from A++ to A+++), and only data for the second half of 2015 were collected.

# FIGURES FOR THE OTT GROUP

<b>76</b>	Group Management Report
<b>118</b>	Consolidated Financial Statements
<b>134</b>	Notes
<b>216</b>	Auditors' Report





# GROUP MANAGEMENT REPORT

**BASIC INFORMATION ABOUT THE GROUP** PAGE 78

**ECONOMIC ENVIRONMENT** PAGE 85

**COURSE OF BUSINESS** PAGE 88

**FINANCIAL POSITION AND NET ASSETS** PAGE 94

**REPORTING THE FINANCIAL SERVICES PROVIDERS  
USING THE “AT EQUITY” METHOD** PAGE 98

**OPPORTUNITIES AND RISKS REPORT** PAGE 100

**CORPORATE RESPONSIBILITY** PAGE 108

**OUTLOOK** PAGE 112

# BASIC INFORMATION ABOUT THE GROUP

## GROUP STRUCTURE

The Otto Group is a globally active group of retailers and retail-related service providers with an average of 49,787 employees and sales of EUR 12.5 billion in the 2016/17 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 7.0 billion, the Otto Group is one of the world's largest online retailers.

### MULTICHANNEL RETAIL

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

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.

## FINANCIAL SERVICES

**Cofidis**  
**Collect AI**

**EOS Group**  
**Hanseatic Bank**

**Liquid Labs**  
**Risk Ident**

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.

## SERVICES

**Baur**  
**Fulfillment**

**Dispeo**

**Girard Agediss**

**Hermes**  
**Group**

**HVD**

**Mondial Relay**

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 fashion and lifestyle. Online sales account<sup>1</sup> for approximately 92% of OTTO's revenue.

The **bonprix Group** is represented in 29 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 80% of the bonprix Group's 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 16 over-the-counter stores with the same name. Together with its online shops ambellis, mirapodo, yomonda and limango, the company is one of Germany's most successful German e-commerce companies in terms of revenue, and with its brand myToys, it is one of the leading multichannel providers of children's products in German-speaking countries. Online sales account for approximately 93% of revenue.

Mail-order retailer **Schwab** offers a wide range of fashion trends, as well as consumer electronics and household goods, which are exported to 25 countries worldwide. With the sheego brand, the company also covers the important market segment for plus-size clothing. Online sales account for approximately 83% of Schwab's revenue.

As a supplier of current fashion trends and inspiring home furnishings, Heinrich Heine GmbH has developed the **heine** brand into a classic yet modern fashion label for stylish, feminine women in the digital world. Thanks to the online shop, heine.de, and the new heine app, online sales account for approximately 65% of Heine's revenue.

The **Baur Group's** range of goods covers fashion, shoes, furniture and home accessories for customers with high expectations in terms of quality and service. The company and its subsidiaries are active in several European countries. Online sales account for approximately 90% of revenue.

The **Witt Group** is one of the leading textile mail-order companies in Europe 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 19% 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, a shopping app, and catalogue. Online sales account for approximately 34% of revenue.

The **Crate and Barrel Group** offers international housewares, furniture and home accessories for sophisticated tastes in the North American market. Apart from the main Crate and Barrel brand, the Group also operates under the CB2 and Land of Nod brands. 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 44% of revenue, but the company focuses primarily on over-the-counter retail.

**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 73% of revenue.

---

<sup>1</sup> The percentage of online sales in relation to revenue in this section relates to the 2016/17 financial year.

**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 83% 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

The shareholders' business mandate defined in the 2013/14 financial year specifies the framework conditions and guiding principles within which the Otto Group's sustainably profitable business models are to be developed and operated. Furthermore – in harmony with the Group's future mission statement – this lays the basis for the further development and realisation of the Group strategy and also for portfolio and investment management.

The business mandate and future mission statement highlight the importance of sustainable action, whereby business goals are combined with social and environmental responsibility. The Group strategy is derived directly from this basis. The Group strategy covers the strategic segments of the Otto Group, namely Multichannel Retail (with special emphasis on online retail), Financial Services, and Services (primarily logistics) as well as the strategy for complying with social and environmental responsibility (Corporate Responsibility Strategy 2020 – hereafter CR Strategy 2020). These strategies 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.

### STRATEGIES IN THE SEGMENTS

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.

#### Multichannel Retail

In the Multichannel Retail segment, a fundamental strategic goal is the further development of e-commerce – and in particular retail via mobile devices – as a sales channel that has shown the strongest growth and is a key driver of future expansion.

The Otto Group's focus is on the further development and, in particular, the ongoing digitisation of its successful retail model, as well as the strengthening of its brand concepts. Of particular note in this regard are the continued intensive expansion of otto.de and, in the growth area of brand concepts, of international brand bonprix. The About You open commerce model also represents an important growth area for the Otto Group. This focus has helped the Group to continuously expand the channels it uses to reach end-consumers as well as its expertise in the core competencies of online retail. It also allows the Group to use this specific experience to further develop other existing multi-channel brands.

Again the focus here 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 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 big data, visual technologies, 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 aimed at ensuring the responsible international development of the receivables management business. In addition, the Otto Group is continuing to develop new digital financial services such as automated receivables management 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. Future growth is focused primarily on growth in the distribution sector. This focus will help to expand the Group's significant position as a provider of retail-related services, both in Germany and internationally in attractive e-commerce markets such as the United Kingdom.

## **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.<sup>2</sup>

## **PORTFOLIO MANAGEMENT**

An essential strategic goal of the Otto Group is to strengthen its portfolio. The course required in order to achieve this goal is set by the strategies for the segments.

---

<sup>2</sup> A more in-depth presentation of the CR Strategy 2020 and its five sub-strategies may be found in the chapter "Corporate Responsibility".



Portfolio management comprises continuous assessment of the profitability and future viability of each individual Group company while also ensuring that targeted investments are made in promising, future-oriented business models right across the strategies for the individual segments. The Group is thus placing itself in an agile starting position so as also to be able to take direct advantage of new business opportunities in the future.

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 "FDL at equity" presentation of the Otto Group – are primary indicators of financial performance. The debt service ratio in particular improved due to the earnings position in the past financial year. The Group aims to also improve the leverage ratio in the future.<sup>3</sup>

## AN IMPORTANT BASIC PREREQUISITE: FURTHER DEVELOPMENT OF IT

In order to be able to successfully implement the Group strategy, the Group intends, by means of the continual further development of all business processes – in particular in the areas of IT and business intelligence – not only to keep up with developments in the relevant markets but also to continue to live up to the high claim to be one of the global leaders among e-commerce companies. Continued investment in the IT infrastructure is necessary in order to ensure that the Otto Group's market position can be strengthened in the long term also. The Group companies invest autonomously in their own IT 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 and mobile 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.

## 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 and the Group's vast data resources 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.

<sup>3</sup> For the development of the financial performance indicators with regard to the 2016/17 financial year, refer to the chapter "Reporting the Financial Services providers using the 'at equity' method".

Some sample projects are presented below:

## **VIRTUAL REALITY**

Virtual reality opens up entirely new opportunities for consuming and interacting with digital content – which means that this technology also has the potential to fundamentally change the nature of online shopping. Although the range and distribution of the hardware available has already gained considerable momentum and is being promoted by some of the leading companies in the digital sector, applications in sectors such as retail are still at an early stage of development. The Otto Group is one of the first large e-commerce providers to develop and test concepts for e-commerce shopping applications in the field of virtual reality.

## **MESSAGING WITHIN THE CONTEXT OF E-COMMERCE AND CUSTOMER SERVICE**

The majority of users are already communicating via smartphones, using messaging apps such as WhatsApp. Therefore, in order to maintain direct contact with customers in future, this channel is becoming increasingly important for e-commerce providers as well. Messaging apps can serve as an information or service channel and thus make it possible to provide highly personalised purchasing advice. Through the additional integration of chatbots, the customer can engage in automated dialogue with a company and place orders, for example, which reduces the workload for “manual” customer support teams. For this reason, the Otto Group is assessing and testing the use of chatbots within its channels in order to further enhance its customer service offering.

## **DELIVERY ROBOTS**

Delivery robots are autonomous vehicles that can be used for the “last mile”, i.e. delivering the parcel to its recipient. Deliveries are sent to a parcel collection hub and kept there for up to ten days. Recipients can then use their smartphone to initiate delivery of their parcel by delivery robot – at the precise time that suits them best. Delivery robots are more environmentally friendly and cause less air pollution than traditional delivery vehicles. They also contribute to a reduction in traffic, as they use the pavements to make deliveries. As a result, they offer a cost-effective option for the flexible delivery of individual packages within tight turnarounds. In autumn 2016, Hermes Germany GmbH in conjunction with Estonian technology start-up Starship Technologies launched a pilot scheme in Hamburg on the use of delivery robots to deliver parcels.

# ECONOMIC ENVIRONMENT

## OVERALL ECONOMIC ENVIRONMENT

The economic development of the **global economy** in 2016 was characterised by a rise in the global gross domestic product – hereafter GDP – of 3.1% in real terms (2015: 3.0%) and gradually stabilised over the course of the year. In the last two quarters in particular, the global economy proved considerably more robust than in the previous years, despite increased political uncertainty. In the advanced economies, overall economic expansion was exceptionally dynamic, which is primarily attributable to positive development in employment and household consumption 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 there were increasing indications of an economic upswing in these countries. In China, growth in overall economic output increased, but nevertheless remained at a comparatively moderate level. In addition, underlying conditions for countries exporting raw materials improved noticeably, with a considerable increase in the cost of raw materials. In Russia, the recessionary environment was less pronounced than in the previous year, and positive growth rates in real GDP were even recorded in the second half of the year. Against this background, international trade grew by just 1.8% for the entire year (2015: 2.2%) and, despite a dynamic fourth quarter, proved weak by comparison.

In a persistently difficult international environment, growth of the **German economy** proved remarkably dynamic in 2016 and was characterised by a noticeable rise in real GDP of 1.9% (2015: 1.7%). However, despite a dynamic start to the first half of the year, the economy saw a slight loss in momentum over the last two quarters. Overall economic expansion was driven by domestic factors, with private-household and state consumption expenditure in particular increasing substantially once again compared to the previous year. Both the sustained rise in real wages and continued stability in the labour market contributed to this dynamic development in private consumption expenditure. The annual average working population rose substantially by 1.0% (2015: 0.9%) compared to the previous year and reached a new high of 43.4 million workers. The average annual unemployment rate for 2016 fell accordingly to 6.1% (2015: 6.4%). When viewed as a whole, foreign trade did not make a positive contribution to economic expansion in 2016. Despite continued recovery in the Euro area and increased economic stability in China, exports proved considerably weaker than in the previous year, and also showed less growth than imports.

The economic recovery of the **Euro area** continued at the same moderate pace in 2016 and was characterised by a rise in real GDP of 1.7% (2015: 1.9%). Overall economic output in the Euro area has thus displayed an uninterrupted upwards trend for the past four years. The rise in GDP was driven almost exclusively by domestic demand. Private-household consumption expenditure benefited from a rise in real wages and growth in employment. The ongoing positive development observed on the labour market since mid-2013 continued, with the annual average unemployment rate falling to 10.1%, thus lying below the previous year's figure of 10.9%. Increasingly expansionary investment activity by companies and financial policy in most Euro area countries also had 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 also persisted in the past year, but did not intensify further. Economic development in the **European Union** countries outside of the Euro area was predominantly dynamic in 2016, with Sweden and Poland especially recording somewhat strong growth in overall economic output.



In the **USA**, the inflation-adjusted increase in GDP in 2016 amounted to 1.6% (2015: 2.6%), with economic growth increasing considerably over the last two quarters, following a weak performance in the first half of the year. Overall, however, the increase in overall economic output experienced a marked slowdown. Growth stimuli came primarily from domestic demand. Private consumption expenditure increased noticeably again, recording real growth of 2.7% (2015: 3.2%), whereas state consumption expenditure stagnated and corporate investment even declined in comparison to the previous year. The US labour market delivered a robust performance in the past year, resulting in continued growth in employment and a fall in average annual unemployment levels to 4.9% (2015: 5.3%). As in prior years, given that imports grew at a much faster rate than exports, foreign trade did not provide any positive impetus in 2016.

#### Change in real GDP

	2016 in %	2015 in %
World	3.1	3.0
Germany	1.9	1.7
Euro area	1.7	1.9
USA	1.6	2.6

## SECTOR-SPECIFIC ENVIRONMENT

### MULTICHANNEL RETAIL

In 2016, the entire **German retail sector** recorded a nominal rise in revenue of 2.3% compared to the previous year (2015: 2.6%). Adjusted for inflation, this corresponds to a rise of 1.8% (2015: 2.5%). The significant increase in retail sales can be explained by the continued positive development of the German economy in 2016. Real wages grew noticeably once again by 1.8%, following the previous year's increase of 2.4%. In addition, the continued growth in employment witnessed over the past ten years continued, with employment figures reaching a new high. Low interest rates likewise provided positive stimuli. At 0.5%, the average rise in consumer prices in 2016 was decidedly moderate and was only slightly above the previous year's annual rate of inflation of 0.3%. In particular, the decline in energy prices had a deflationary effect, as in the previous years. Against the background of this overall economic development, private-household consumption expenditure, adjusted for inflation, increased by 2.0% in the past year (2015: 2.0%).

The **German online and mail-order sales sector** increased its sales of goods by 9.1% in 2016 to EUR 57.1 billion (2015: EUR 52.4 billion). The share in total retail sales thus increased to 12.7%, considerably exceeding last year's figure of 11.7% as a result of the less dynamic development of the German retail sector.

In the **e-commerce sector** especially, above-average sales increases of 12.5% were recorded, whereby sales of goods in pure online business exceeded EUR 52.7 billion (2015: EUR 46.9 billion). Clothing remained the best-selling class of products in 2016 in the e-commerce sector – followed by electronics and telecommunications products, computer equipment and games, software products and books. At the same time, classes of products that up to now were not particularly compatible with the mail-order sector, such as furniture and decoration as well as groceries, once again recorded significant increases in revenue.

Internet usage via smartphones and tablets also increased further in 2016 in Germany. In terms of sales, the percentage of orders of goods in the German e-commerce sector placed via the mobile Internet rose slightly to 24.0% in 2016 (2015: 22.0%).

## FINANCIAL SERVICES

The continuing positive development of the German economy in 2016 also had an effect on the **German financial services sector**. In the past year, the number of company insolvencies decreased for the seventh time in a row and declined noticeably by 6.9% to 21,518 cases compared to the previous year (2015: 23,123 cases). The number of company insolvencies thus reached its lowest level since the introduction of the German Insolvency Code in 1999. However, creditors' claims arising from filed company insolvencies rose to approximately EUR 27.4 billion (2015: EUR 17.3 billion) and the average claim amount per insolvency was EUR 1.3 million (2015: EUR 0.7 million). The significant 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 2016 than in the previous year.

German companies' payment behaviour stabilised at a very high level in 2016. Companies identified temporary liquidity bottlenecks, payment default by their own customers and taking advantage of supplier credit as the main reasons for not meeting payment obligations. On the other hand, low order volumes played a distinctly minor role.

The number of consumer insolvencies also declined in comparison to the previous year. With 77,238 cases, it was 3.9% below the corresponding figure for the previous year of 80,347 cases. Personal over-indebtedness, unchecked consumerism, 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 2016, it was primarily companies in the online and mail-order retail sectors, the craft sector and the general service sector that were affected by poor payment behaviour at consumer level.

## SERVICES

In 2016, 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 1.1% on average over the year and was thus slightly below the corresponding growth figure for the previous year of 1.2%. The dynamic performance of the German economy in 2016 therefore also had an effect, albeit in weaker form, on the transport sector.

Developments in individual transport-intensive sectors were varied. Road freight transport increased by 1.5% (2015: 1.5%) compared to the previous year and continued to dominate goods transport in Germany with a share of 78.6% in total freight volume (2015: 78.1%). On the other hand, due to a negative development in freight volumes, inland navigation recorded a minus figure of 0.8% (2015: –3.1%) and rail freight transport recorded a decline of 1.6% (2015: +0.6%). Air freight transport grew by 3.4% (2015: 0.1%) in comparison to the previous year.

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 only a slight upward trend in 2016. In addition to higher personnel expenses as a result of collective wage agreements, crude oil prices rose during the course of 2016. Nevertheless, 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.

# COURSE OF BUSINESS

In light of the encouraging development among the larger Group companies, the Otto Group was able to sustain its revenue growth and increase profitability at all earnings levels in the 2016/17 financial year.

Revenue showed positive development in all three segments and grew by a total of 3.4% to EUR 12.5 billion. On a comparable basis, i.e. adjusted for changes to the scope of consolidation, the Otto Group achieved an increase in revenue of 5.0%. E-commerce revenue in the Multichannel Retail segment recorded a particularly positive development, growing significantly by 7.7% to EUR 7.0 billion and on a comparable basis even by 10.1%.

Earnings before tax (EBT), amounting to EUR 261.9 million, increased significantly compared to last year's EBT figure of EUR 186.9 million. The major Group companies and sub-groups, such as OTTO, bonprix, Witt and EOS, were once again able to generate very positive results in operational terms. While the myToys Group and the About You open commerce model continued to have an adverse effect on the result, they showed very positive development in terms of revenue. Due to the ongoing restructuring of its business model, SportScheck GmbH experienced a drop in revenue and a negative impact on earnings related to the restructuring.

The retail activities of the 3SI Group in France, recognised as a discontinued operation since the 2015/16 financial year – hereafter referred to as the 3SI Commerce operation – were successfully disposed of or wound up in the past financial year and placed a strain on the Group's consolidated earnings for the last time in the 2016/17 financial year. Following a consolidated loss of EUR –189.6 million in the 2015/16 financial year, the Otto Group recorded a consolidated profit of EUR 40.7 million.

Overall, the course of the 2016/17 financial year may be described as successful. The growth in revenue and earnings (EBT) forecast for the 2016/17 financial year in the 2015/16 Group Management Report was surpassed.

## **THE GROUP'S FINANCIAL PERFORMANCE**

The Otto Group's revenue increased by 3.4% in the 2016/17 financial year, from EUR 12,104.4 million to EUR 12,511.8 million. This corresponds to an increase of EUR 407.3 million, which was made possible due to the positive development in all three segments.

In the 2015/16 Group Management Report, currency-rate-adjusted revenue growth of approximately 4% was forecast for the Group on a comparable basis for the 2016/17 financial year. The currency-rate-adjusted revenue figure recorded on a comparable basis for the 2016/17 financial year was above expectations.



**Consolidated income statement (summary)**

	2016/17	2015/16
	EUR Million	EUR Million
Revenue	12,512	12,104
Earnings before interest, tax, depreciation and amortisation (EBITDA)	730	639
Earnings before interest und tax (EBIT)	365	259
Earnings before tax (EBT)	262	187
Profit for the year from continuing operations	164	90
Loss for the year from discontinued operations	–123	–280
<b>Profit/loss for the year</b>	<b>41</b>	<b>–190</b>

Average revenue per employee rose considerably compared to last year, from EUR 244.1 thousand to EUR 251.3 thousand.

Overall, 78.2% of the Otto Group's revenue was obtained from the sale of merchandise (EUR 9,782.4 million, 2015/16: 79.1%), 5.8% from revenue from financial services (EUR 730.5 million, 2015/16: 5.6%), and 16.0% from revenue from other services (EUR 1,998.9 million, 2015/16: 15.3%). The Group's development in terms of revenue in the 2016/17 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 share of 61.5% (2015/16: 61.7%) in the Otto Group's revenue, Germany remained the Group's most significant regional sales market in the 2016/17 financial year. While 19.8% (2015/16: 20.4%) of revenue was derived from Europe (excluding Germany and Russia), North America contributed 14.6% (2015/16: 13.8%) to the Otto Group's revenue. Russia followed with 2.1% (2015/16: 2.2%) and Asia with 1.6% (2015/16: 1.6%).

**Revenue by region**

	2016/17	2015/16	Change	Currency-adjusted
	EUR Million	EUR Million	in %	in %
Germany	7,701	7,471	3.1	3.1
Europe (excluding Germany and Russia)	2,480	2,467	0.5	6.0
North America	1,825	1,671	9.2	9.2
Russia	268	264	1.5	2.7
Asia	203	195	4.1	–3.1
Other regions	35	36	–2.8	–5.6
<b>Group</b>	<b>12,512</b>	<b>12,104</b>	<b>3.4</b>	<b>4.4</b>
Domestic	7,701	7,471	3.1	3.1
Foreign	4,811	4,633	3.8	6.5

Developments in the Group's individual sales markets were varied. In Germany, revenue growth of 3.1% was achieved in the past financial year. Most notably the Group companies OTTO, bonprix Handelsgesellschaft mbH and the myToys Group, but also e-commerce start-up Collins, which was launched in the 2014/15 financial year, recorded strong revenue growth and contributed to the positive development in the main sales market in Germany. The rest of Europe recorded a slight increase in revenue of 0.5% on a euro basis, which was strongly affected by fluctuations in the British pound exchange rate. On a currency-rate-adjusted basis, revenue in the rest of Europe increased by a very satisfactory 6.0 %. The North American Crate and Barrel furnishings and lifestyle group reported a significant increase in revenue of 10.7% both on a euro basis and in the local currency.

The Group's gross profit margin amounted to 47.9% (2015/16: 48.2%) which almost was on a par with the previous year. In absolute terms, gross profit rose by EUR 154.9 million to EUR 5,992.5 million.

While other operating income rose by EUR 18.8 million and personnel expenses fell by EUR 32.4 million, other operating expenses moved in the opposite direction with an increase of EUR 119.0 million. The decline in personnel expenses was primarily driven by diminished negative impacts compared to the previous year resulting from the reorganisation of the logistics infrastructure in Germany and from restructuring as part of portfolio measures in the previous year. In terms of other operating expenses, it was primarily expenses for advertising that increased significantly. The reorganisation of the logistics infrastructure in Germany also had significant adverse effects in the 2016/17 financial year, which are included under both personnel expenses and other operating expenses.

As a result of these favourable developments in business operations, earnings before interest, tax, depreciation and amortisation (EBITDA) amounted to EUR 730.4 million in the 2016/17 financial year, which is considerably higher than last year's EBITDA figure of EUR 638.9 million.

In the past financial year, depreciation, amortisation and impairments together fell by EUR 15.3 million to EUR 365.0 million. This figure reflects a decline of EUR 15.7 million attributable to the amortisation of intangible assets and of property, plant and equipment. At a total of EUR 90.1 million, impairment losses were on par with the previous year's level (2015/16: EUR 89.7 million). This includes impairment losses on goodwill amounting to EUR 5.1 million (2015/16: EUR 17.9 million). In the 2016/17 financial year, impairment losses on other intangible assets and on property, plant and equipment were primarily attributable to software developed in-house and acquired customer lists, as well as land and buildings, and predominantly related to one German retailer in the Multichannel Retail segment.

Earnings before interest and tax (EBIT) increased to EUR 365.5 million in the 2016/17 financial year (2015/16: EUR 258.6 million). Due to the stronger increase in EBIT in proportion to revenue, the EBIT margin increased significantly to 2.9% compared to 2.1% in the previous year.

The Group's net financial result in the 2016/17 financial year was EUR –103.6 million, which is lower than the previous year's figure of EUR –71.8 million. Net interest income (expense) amounted to EUR –89.5 million (2015/16: EUR –105.8 million) and other net financial income (expense) amounted to EUR –14.1 million compared to EUR 34.1 million in the previous year. The decline in the net financial result was primarily due to the fact that the disposal of companies in the framework of the portfolio optimisation process had less of an impact in the 2016/17 financial year than in the previous year.

Earnings before tax (EBT) amounted to EUR 261.9 million, which is a significant EUR 75.0 million higher than the corresponding result for the previous year of EUR 186.9 million.

With this EBT development, the EBT forecast given in the previous year was achieved. In the 2015/16 Group Management Report, the EBT figure forecast for the Group for the 2016/17 financial year was expected to significantly exceed the EBT figure of EUR 186.9 million reported in the 2015/16 financial year.

The income tax expense for the 2016/17 financial year amounted to EUR 98.3 million and thus lay slightly above the previous year's income tax expense of EUR 96.8 million. The increased current income tax in Germany was slightly compensated for by decreased current income tax in other countries. Furthermore, tax expense increased as a result of deferred tax.

The result from the discontinued operation 3SI Commerce in the 2016/17 financial year amounted to EUR –122.9 million compared to EUR –279.6 million in the previous year. For more information, refer to the Notes to the Consolidated Financial Statements (see Notes to the Consolidated Financial Statements as at 28 February 2017, Note (5)(c): “Discontinued operations and disposal groups”).

With an increase of EUR 230.3 million, the profit for the year, at EUR 40.7 million, was significantly higher than the annual result for the previous year of EUR –189.6 million. Of this, EUR –34.0 million (2015/16: EUR –218.6 million) was attributable to the owners of the parent company, EUR 68.9 million (2015/16: EUR 26.2 million) to non-controlling interests and EUR 5.8 million (2015/16: EUR 2.8 million) to participation certificates.

## FINANCIAL PERFORMANCE OF THE SEGMENTS

### Revenue/EBIT

	Revenue		EBIT	
	2016/17 EUR Million	2015/16 EUR Million	2016/17 EUR Million	2015/16 EUR Million
Multichannel Retail	9,819	9,588	146	178
Financial Services	732	678	297	203
Services	1,961	1,838	6	–35
Holding/consolidation	–	–	–84	–87
<b>Group</b>	<b>12,512</b>	<b>12,104</b>	<b>365</b>	<b>259</b>

### MULTICHANNEL RETAIL

In the 2016/17 financial year, the Multichannel Retail segment achieved revenue of EUR 9,818.7 million (2015/16: EUR 9,588.1 million) and contributed 78.5% (2015/16: 79.2%) to the Otto Group's revenue. The increase in revenue of 2.4% compared to the previous year was due in part to positive growth in the larger Group companies. On a currency-adjusted basis, revenue increased by 2.7%. On a comparable basis, a satisfactory currency-rate-adjusted growth in revenue of 5.2% was achieved (2015/16: 5.6%).

In the 2015/16 Group Management Report, a currency-rate-adjusted increase in revenue almost equal to the strong revenue growth of 5.6% achieved in the 2015/16 financial year was forecast on a comparable basis. This forecast was thus achieved.



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 7.7% to EUR 7,016.5 million (2015/16: EUR 6,515.5 million). The segment's share in revenue amounted to 71.5% and lay distinctly above the corresponding figure for the previous year of 68.0%. 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 2016/17 financial year. Revenue rose considerably by 6.3%. The largest driver of growth was the furniture and furnishings product range. In addition, the bonprix Group and the myToys Group in particular, as well as e-commerce start-up Collins, achieved considerably higher revenue. The Heine Group experienced a decline in revenue of 23.5%, which was primarily attributable to the sale of Alba Moda GmbH. SportScheck GmbH also experienced a decline in revenue due to the restructuring of its business model.

In terms of international activities, developments in revenue figures were very varied. Revenue in the Russian market remained stable, despite ongoing difficulties in the domestic economic climate. In the rest of Europe, revenue decreased by 4.5% on a euro basis, primarily due to the portfolio adjustment in France that took place in the previous year and fluctuations in the British pound exchange rate in the 2016/17 financial year. On a currency-adjusted basis, the rest of Europe recorded an increase in revenue of 2.5% in this segment. The North America region reported the strongest growth in revenue. For the Crate and Barrel furnishings and lifestyle group, which primarily operates in the USA and Canada, revenue increased by 10.7% both on a euro basis and in the local currency, due primarily to a realignment in the product range.

The increase in revenue in the Multichannel Retail segment brought about an increase in gross profit of EUR 87.7 million. In the 2016/17 financial year, the gross profit margin was 48.1%, which was on par with the previous year (2015/16: 48.3%). Despite the continuing positive development among the core companies, earnings from this segment were below the previous year's figure. A high degree of strain, particularly due to the substantial increase in impairment losses as well as to renewed intensified investment in new business models, led to a decrease in the Multichannel Retail segment's EBIT figure from EUR 178.1 million to EUR 146.1 million in the 2016/17 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 2016/17 financial year. Revenue from this segment increased from EUR 678.3 million to EUR 732.4 million. This increase in revenue of 8.0% is attributable to a high performance in debt collection. The EOS Group also completed significant debt purchases, which had a positive effect on the development of revenue figures in this financial year. In last year's Group Management Report, a currency-rate-adjusted increase in revenue that considerably exceeded the growth of 5.0% achieved in the previous year was forecast for the 2016/17 financial year. This forecast was clearly achieved thanks to the currency-rate-adjusted increase in revenue of 8.2%. The segment's share in the Group's revenue was 5.9%, which was slightly higher than the previous year (2015/16: 5.6%).

The Financial Services segment's EBIT figure increased by EUR 94.1 million to EUR 297.0 million in the 2016/17 financial year. This development was due among other things to the positive business performance in the area of consumer credit; furthermore, the previous year's result was negatively impacted by the business operations and closure costs of the Yapirol Group.

## SERVICES

In the Services segment, a substantial increase in external revenue from EUR 1,838.0 million to EUR 1,960.7 million was recorded in the 2016/17 financial year. The segment grew considerably with an increase of 6.7% in revenue. The positive increase in currency-rate-adjusted revenue of 11.9% exceeded the currency-adjusted figure of just under 11.5% that was forecast in the 2015/16 Group Management Report for the 2016/17 financial year. The share in the Group's revenue rose from 15.2% to 15.7%. In the Services segment, external revenue amounted to 64.8% 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. The Hermes Group was therefore able to increase its revenue in the 2016/17 financial year by 4.9% compared to the previous year. Hermes Germany GmbH in particular achieved excellent growth in revenue, and the successful business expansion in France, due in part to the acquisition of GIRARD AGEDISS, also contributed to the positive development of the segment. In contrast, Group company Hermes Parcelnet Limited in the United Kingdom most notably experienced development in the other direction. The company experienced a decline in revenue of 3.9%, which was negatively impacted by the performance of the British pound. In the local currency, however, a satisfactory increase in revenue of 10.1% was reported.

Despite the negative impact on earnings resulting from the further development of the logistics infrastructure in Germany, the Hermes Group generated a positive EBIT contribution. Extraordinary charges in Germany amounted to a total of EUR 42.8 million, which are included under personnel expenses, other operating expenses and impairment losses. In the previous year, the Services segment was affected by extraordinary effects in Germany and France amounting to EUR 68.6 million. The segment's EBIT figure improved significantly in the 2016/17 financial year, rising from EUR –35.3 million to EUR 5.8 million.

## HOLDING/CONSOLIDATION

Apart from the effects of inter-segment consolidation, the holding/consolidation item reported inter-divisional costs of Group functions amounting to EUR 83.4 million (2015/16: EUR 87.1 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)

	2016/17	2015/16
	EUR Million	EUR Million
Cash flow from operating activities	184	480
Cash flow from investing activities	– 310	– 113
<b>Free cash flow</b>	<b>– 126</b>	<b>367</b>
Cash flow from financing activities	266	– 352
<b>Net increase in cash and cash equivalents</b>	<b>140</b>	<b>15</b>
Changes in cash and cash equivalents due to foreign exchange rates	4	– 7
Reclassification with regard to disposal groups	0	– 27
Cash and cash equivalents at beginning of period	235	254
<b>Cash and cash equivalents at end of period</b>	<b>379</b>	<b>235</b>

Cash flow from operating activities for the 2016/17 financial year amounted to EUR 183.6 million, which was below the previous year's figure of EUR 480.4 million. This was negatively impacted by the restructuring and subsequent disposal of the 3SI Commerce operation in France, as well as the 3SI Group's operating cash burn rate. The extension of working capital also contributed to the decline, and is attributable in particular to purchases of receivables packages in the case of the EOS Group. Targeted investment in debt purchasing and international receivables management will increase the EOS Group's profitability in the short-to-medium term.

Cash flow from investing activities in the 2016/17 financial year was determined by a number of elements, including the continued high investments in IT and logistics, including for the further expansion of the Hermes Group's logistics infrastructure and the ongoing upgrade of OTTO's IT landscape, as well as the successful development of the Crate and Barrel Group. Furthermore, a logistics service provider in France was acquired, in addition to further equity investments by the EVC Group. Cash flow from investing activities in the 2016/17 financial year was also negatively impacted by the disposal of Group companies from the discontinued operation 3SI Commerce in France.

Cash flow from financing activities was influenced by the increase in the Group's net financial debt. The proceeds from the assumption of other financial liabilities increased significantly in comparison to the previous 2015/16 financial year and led to a net assumption of cash and cash equivalents overall in the 2016/17 financial year.

## EQUITY AND FINANCING

As at 28 February 2017, the Otto Group's consolidated balance sheet discloses total equity and liabilities of EUR 8,466.4 million. This represents an increase of 7.7% compared to the previous year.

### Financing

	28.02.2017		29.02.2016	
	EUR Million	in %	EUR Million	in %
Equity	1,308	15.4	1,518	19.3
Non-current provisions and liabilities	3,504	41.4	3,127	39.8
Deferred tax	85	1.0	92	1.1
Current provisions and liabilities	3,569	42.2	3,126	39.8
<b>Total equity and liabilities</b>	<b>8,466</b>	<b>100.0</b>	<b>7,863</b>	<b>100.0</b>

The decline in equity of EUR 209.5 million is primarily due to actuarial losses on pensions obligations being taken into account. The amount of actuarial losses resulted almost entirely from the sharp drop in the actuarial interest rate. Furthermore, dividends paid primarily to minority shareholders resulted in a reduction in equity.

Non-current provisions and liabilities increased by EUR 377.6 million, corresponding to 12.1%, to EUR 3,504.5 million in comparison to the previous year. This change is due in part to the significant increase in provisions for pensions, which can be attributed to actuarial losses resulting from the decrease in the actuarial interest rate. In addition, a bond amounting to EUR 250 million with a term of seven years was issued in the 2016/17 financial year. On the other hand, two bonds due in the 2017/18 financial year were reclassified as current provisions and liabilities.

Current provisions and liabilities increased by EUR 442.9 million, corresponding to 14.2%, to EUR 3,569.3 million in the 2016/17 financial year. This was essentially due to the increase in bonds payable, which resulted from the current securities issued as part of the new commercial paper programme as well as from the reclassification of bonds from non-current provisions and liabilities.

## NET FINANCIAL DEBT

The Otto Group's net financial debt increased by EUR 352.5 million to EUR 2,300.4 million in the 2016/17 financial year. This represents an increase of 18.1%, which was primarily attributable to Group companies in the Financial Services segment.

The larger operational Group activities continued to generate sufficient liquidity to sustain ongoing high investment in IT and logistics infrastructure, as well as in the Otto Group's new business models. The rise in debt is primarily driven by the very high strain on liquidity caused by the restructuring and subsequent disposal of the 3SI Commerce operation in France. Furthermore, the extensive purchase of receivables packages in the case of the EOS Group also led to an increase in net financial debt.



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

### Net financial debt

	28.02.2017	29.02.2016
	EUR Million	EUR Million
Bonds and other notes payable	1,251	829
Bank liabilities	1,109	1,137
Other financing liabilities	320	217
<b>Financial debt</b>	<b>2,680</b>	<b>2,183</b>
Less securities	– 1	0
Less cash and cash equivalents	– 379	– 235
<b>Net financial debt for the Group</b>	<b>2,300</b>	<b>1,948</b>
Less net financial debt for Financial Services	– 868	– 631
<b>Net financial debt for Retail and Services</b>	<b>1,432</b>	<b>1,317</b>

## ASSET STRUCTURE

The Otto Group's total assets increased by EUR 603.4 million to EUR 8,466.4 million in the 2016/17 financial year. This represents an increase of 7.7%.

### Assets

	28.02.2017		29.02.2016	
	EUR Million	in %	EUR Million	in %
Fixed assets	3,146	37.2	3,358	42.7
Other non-current assets	979	11.5	801	10.2
Deferred tax	118	1.4	117	1.5
Current assets	4,223	49.9	3,587	45.6
<b>Total assets</b>	<b>8,466</b>	<b>100.0</b>	<b>7,863</b>	<b>100.0</b>

Non-current assets in the 2016/17 financial year amounted to EUR 4,125.5 million, which is slightly below the previous year's figure of EUR 4,158.9 million. They are covered as to 116.7% (2015/16: 111.7%) by long-term capital. Fixed assets decreased by EUR 211.6 million, whereby the decline, in addition to impairment losses from the previous financial year, was primarily due to the proportionate disposal of the carrying amount of the Cofidis Group, accounted for using the equity method. On the other hand, contrary effects on non-current assets arose from purchases of receivables packages in the case of the EOS Group as a result of the expansion of the receivables management business.

Current assets increased by EUR 635.6 million or 17.7% in the past financial year. This development is primarily due to the purchase price claim from the sale of shares in Cofidis due in the 2017/18 financial year, which is included in other financial assets and amounts to EUR 304 million. In addition, the inventories of large Group companies in the Multichannel Retail segment increased as a result of the expansion of their business operations.

## INVESTMENT

Capital expenditure on intangible assets and property, plant and equipment increased by EUR 50.8 million to EUR 382.5 million in the 2016/17 financial year. This primarily related to IT and logistics infrastructures in various Group companies.

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 increase capacity and respond to increased demand. In the 2016/17 financial year, Group company OTTO made high investments in the IT landscape, among other things, in order to position itself for future competitive requirements, particularly in the area of e-commerce. Moreover, extensive construction work was carried out at Hamburg-Bramfeld. In light of the successful further development, the Crate and Barrel Group invested in IT infrastructure as well as in existing and new over-the-counter retail stores. Furthermore, a number of additional Group companies from the Multichannel Retail segment invested in existing and new webshops as well as in further digitisation.

A total of EUR 23.9 million (2015/16: EUR 21.7 million) was attributable to additions in the area of finance leases.

### Investment by segment

	2016/17	2015/16
	EUR Million	EUR Million
Multichannel Retail	199	195
Financial Services	24	54
Services	159	83
<b>Group</b>	<b>382</b>	<b>332</b>

## FUNDS COMMITTED BY SEGMENT

In the 2016/17 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

	28.02.2017	29.02.2016
	in %	in %
Multichannel Retail	55.6	60.4
Financial Services	32.6	28.4
Services	11.8	11.2
<b>Group</b>	<b>100.0</b>	<b>100.0</b>

# 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 2017. 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 7,144.9 million, compared to EUR 6,833.5 million in the previous year. The increase is largely due to the growth of the EOS Group, which is reflected in an increased amount of investments in associates and joint ventures. The Group equity ratio amounts to 17.5% compared to a figure of 21.4% last year. The decline was primarily attributable to the actuarial losses relating to the valuation of pensions recognised directly in equity.

In the “FS at equity” presentation, net financial debt increased by 8.8% to EUR 1,432.4 million compared to the previous year, largely due to the continued strain on liquidity caused by the restructuring and sale of the discontinued operation 3SI Commerce. Theoretically, it would take 2.0 years to pay off the net financial debt completely using results from operations (EBITDA). The central credit rating therefore improved despite the high payments for the restructuring activities in France. The leverage ratio amounts to 1.1.

## Otto Group “FS at equity”

		2016/17	2015/16
Group equity ratio	in %	17.5	21.4
Net financial debt	EUR Million	1,432	1,317
Debt service ratio (net financial debt/EBITDA)	in years	2.0	2.2
Leverage ratio (net financial debt/Group equity)	in years	1.1	0.9

**Balance sheet structure “FS at equity”**

	28.02.2017		29.02.2016	
	EUR Million	in %	EUR Million	in %
<b>Assets</b>				
Fixed assets	3,673	51.4	3,512	51.4
Other non-current assets	220	3.1	247	3.6
Deferred tax	130	1.8	128	1.9
Current assets	3,122	43.7	2,947	43.1
<b>Total assets</b>	<b>7,145</b>	<b>100.0</b>	<b>6,834</b>	<b>100.0</b>
<b>Financing</b>				
Equity	1,249	17.5	1,459	21.4
Non-current provisions and liabilities	2,848	39.9	2,625	38.4
Deferred tax	64	0.9	73	1.1
Current provisions and liabilities	2,983	41.7	2,676	39.1
<b>Total equity and liabilities</b>	<b>7,145</b>	<b>100.0</b>	<b>6,834</b>	<b>100.0</b>



# 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 purpose of the RMS is to ensure as balanced a relationship as possible between opportunities and risks from a business management point of view. To do so, it 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 appropriate measures can be taken immediately to limit the possible repercussions of the risks, should they 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. Risks to the business reported by the respective Group companies and/or divisions are analysed in terms of their possible impact over a three-year planning period. The principal risks are identified by the Group companies and divisions according to defined operational and functional risk categories and fields using checklists. The risks are then assessed according to their probability of occurrence and the amount of damage they could cause. 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 levels of damage, which depend 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.

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 2017 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 pending decisions relating to economic, trade and monetary policy, the impact of the development in crude oil prices, potential turbulence in financial markets and ongoing geopolitical crises.

A gradual increase in economic growth is forecast for advanced economies for 2017, which is likely to be characterised by high growth rates in overall economic output. Against the backdrop of the progressive increase in employment, rising private consumption expenditure and a highly dynamic corporate investment environment, the upturn in the German economy will continue in the current year. In the Euro area, economic growth is set to continue at the same moderate pace due to upward trends in the domestic economy and lead to a further improvement in the employment situation. In the USA, significant economic growth is expected in the current year, which will be primarily driven by a continuous rise in private-household consumption expenditure. At the same time, pending economic and trade policy decisions by the new 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, due to increased private consumption expenditure in particular, will have a positive effect on business performance.

Following a pronounced weak phase, the overall economic situation in the emerging economies – and thus in potential growth markets for the Otto Group – stabilised for the most part in the past year, and strengthened economic growth in the current year seems increasingly likely. However, structural problems remain in many economies in these countries, and will at least partially inhibit the pace of economic growth in the future. In Russia, the signs of overall economic recovery are expected to become stronger, although a sustainable economic upturn seems unlikely due to the continuing adverse institutional conditions. The difficult labour-market situation and the inflation rate, which remains high despite a noticeable decrease, will continue to have a negative impact on private consumption expenditure due to falling 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 continued to have a noticeable impact on the development in these sales markets. It is also expected that cotton prices, which have been rising steadily since March 2016, and crude oil prices, which are expected to stabilise at a low level, will have a 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. Thanks to continued efforts, further improvements have been achieved in the past year. The decision to discontinue 3SI Commerce in France, an unprofitable operation operating in a difficult market environment, was successfully implemented with the sale of the associated activities. This provides the Otto Group with an opportunity to significantly enhance profitability. At the same time, further potential portfolio optimisations present both opportunities and risks. For instance, following several expressions of interest from other market participants in the warehouse logistics sector, further streamlining of the portfolio with regard to the French service providers could be conceivable.

In the **Multichannel Retail** segment, the Otto Group envisages significant growth opportunities in the continuous further development of e-commerce. The success story of e-commerce start-up Collins, which was launched in 2014, continued in the 2016/17 financial year with the About You open commerce model. The open commerce model continued to experience rapid growth, and achieved revenue in the triple-digit million euro range for the first time in the past financial year. About You shows the greatest e-commerce growth potential in the fashion-discovery segment, and as a result is continuously improving the personalisation of its online shop. In 2016, this included redesigning the newsfeed and implementing several new features. By combining inspiring content, personal recommendations and seamless integration with mobile devices, About You has already been able to significantly increase order rates per customer. The company's success is also attracting investors. In summer 2016, a number of strategic media partners acquired a minority share in About You. This new partnership with leading European media houses provided an opportunity to drive growth even further.

Group company OTTO is one of Germany's leading e-commerce companies. In the 2016/17 financial year, a number of other sales activities and initiatives, such as "Germany tests OTTO", were carried out with the aim of continuing the dynamic growth levels of the previous year. Furthermore, with its "OTTO Now" rental model, OTTO has succeeded in making a new, innovative business model available for market testing within a short space of time. This will allow customers to rent products from ottonow.de for a period of time. This approach has allowed OTTO to access new potential customer groups.

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. Thus, the Otto Group's goal is to use innovative technologies to develop new marketable concepts right across the Group portfolio's value chain, and to fully capitalise on the continuously growing opportunities in digitisation. Otto Group Media GmbH, which offers marketing and user-based distribution services for advertising spaces, is set to continue its growth in the coming financial year. Using this business model, the Otto Group will continue to maximise on existing potential within the Group. As a result, the Otto Group has the opportunity to benefit from the growth in e-commerce via the advertising marketing channel.

Furthermore, the Otto Group sees clear opportunities in deeper market penetration of 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 saw very positive growth across all brands and sales channels in the USA and Canada. This was due to the multiple measures taken along the entire value chain. These measures relate to the presentation of product ranges in stores and in the online shop, as well as improvements in logistics and in organisational structures. Further measures are planned for the 2017/18 financial year, such as the opening of additional stores. At the same time, further economic and trade policy decisions by the new US administration have resulted in uncertainty, which could lead to difficult import conditions. Venus Fashion, Inc., a bonprix Group company in the USA, also recorded an encouraging increase in sales. Further growth opportunities are expected to develop here in the future. In the United Kingdom, Freemans Grattan Holdings – hereafter FGH – recorded considerable growth in local currency in the mail-order sector for the 2016/17 financial year. In addition to sustained high levels of investment in its customer base, measures were taken to enhance the shopping experience, such as extending the order deadline for next-day delivery to 10.30 p.m. and offering mobile apps. These measures have had a positive effect on business performance. Through the implementation of further measures, FGH expects this growth trend to continue for the 2017/18 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. As a result, a cross-divisional Brexit project team was put in place to closely monitor developments with a view to recommending a requirements-based course of action for the Otto Group. 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. Exchange rate fluctuations are currently favourable and signs of overall economic recovery are expected to become stronger in Russia, therefore creating long-term growth opportunities for the Otto Group's activities.

Market opportunities for profitable growth continue to be seen in the **Financial Services** segment. Continued strong growth is expected, particularly for the EOS Group, both in Germany and abroad in Europe. 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, for instance due to a European banking crisis.

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 market position in a sustainable manner, despite increasing competition and cost pressure. A new, innovative approach is being tested by carrying out trials with delivery robots, for example. Furthermore, Hermes is currently optimising its geographical distribution in Germany in order to substantially increase 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 the furnishing services sector, Hermes has succeeded in maintaining its strong position as market leader. As part of its extended service offering, the level of service for end customers was further improved by introducing delivery timeframes of three to four hours. In an effort to strengthen the market position abroad, the completion of an acquisition opened up the French market for furnishing services even further in the 2016/17 financial year.



## 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 consists in not having sufficient funds at its disposal to meet its payment obligations, or when the liquidity required cannot be obtained at anticipated conditions.

The financial management system ensures that 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 1.7 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 capitalised on this in the 2016/17 financial year with a public bond issue for EUR 250 million and a term of seven years. 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 2017, 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 promptly 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. High-quality logistics services with fast, reliable delivery times are defined in service-level agreements with both external and intra-Group customers and are monitored on an ongoing basis. The logistics processes for the different ranges are now standardised and documented, and form the basis for consistent service delivery.

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. The expected long-term rise in purchasing prices and the general development of the markets are regularly reviewed within the framework of risk management by those responsible for the individual product groups. If required, the latter take suitable steps to strengthen the gross product margin.

## **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 decentralise the IT systems and 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 strengthening the market focus of IT services, the Otto Group's IT department is 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 order to implement the decentralisation strategy, Group companies are given responsibility. They are responsible for planning and managing the process of implementing their own decentralised IT strategies. The Group companies' decentralisation plans, including any identified dependencies, are monitored centrally. Regular status reports on the transformation ensure ongoing transparency. The particular challenges that emerge due to the parallelism of many IT demands are counteracted by means of organisational and procedural measures which are designed and developed based on both current demands and changes expected in the future. An independent risk-control procedure is established for key transformation projects.

For example, the A<sup>2</sup> programme was set up for digitisation purposes in the 2016/17 financial year. The A<sup>2</sup> programme forms the framework for the significant expansion of the product range and the optimised creation of product data. As such, it will provide the opportunity 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 and misuse of data. The Otto Group minimises these risks by deploying comprehensive security concepts. 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 measures adopted on this basis are rigorously implemented and monitored.

The robustness and business continuity of the Otto Group's own data centres, operated under its own responsibility, are ensured by fire protection and emergency power supply systems, even after a fire or power interruption. Network connection and power supply are provided by two separate sets of house lead-ins. Business-critical systems are stored based on a redundant model in two data centres. This also applies to vital data that is permanently mirrored across both data centres. Data is also regularly backed up. Data centres are protected in a number of ways and can only be accessed via an access control system.

The 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 the domestic SAP systems are hosted at the data centres of a strategic partner who is regularly audited – together with 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, 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 or 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 49,787 staff – calculated on a full-time equivalent basis – in the 2016/17 financial year (2015/16: 49,597).

### Employees

	2016/17 number	2015/16 number	Change in %
Multichannel Retail	24,129	23,866	1.1
Financial Services	6,671	7,805	– 14.5
Services	18,594	17,547	6.0
Holding	393	379	3.7
<b>Group</b>	<b>49,787</b>	<b>49,597</b>	<b>0.4</b>

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 becoming increasingly apparent, there is a growing 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 context of the initiative, the Otto Group has already held two Diversity Conferences which were each attended by over 100 female executives and a selection of male executives. At the 2016 Diversity Conference, participants discussed the topics of diversity and leadership in the context of the digital revolution. 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 fourth time in 2016. The “Boost Your Network” event in autumn 2016 also provided a platform that allowed participants of different “women and leadership” initiatives across the individual Otto Group companies to come together for the third time and exchange information.

In accordance with the German law on equal participation of men and women in managerial roles, the Otto Group has set itself the following goals to be met by 30 June 2017: The Group's Supervisory Board is aiming to reach a target quota of 25% and the Executive Board is aiming to reach a target quota of 28%. Efforts are also being made by the management boards of the Group companies covered by this law to ensure that at least one seat on each board is filled by a woman. In terms of top-level management, the Group companies have set themselves the objective of achieving an average target quota of 23% and do not want to fall below an average target quota of 30% for the second management tier.

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. After just a short time, there were already 50 work-shadowing places across Germany offered on the platform. 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 JobFinder app appeals particularly to tech-savvy talent and is becoming increasingly 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, participants in the Top Executive programme undertook a Learning Journey. By doing so, they were able to gain a deeper insight into organisations where agile work is the norm. Additionally, the first ever Digital Readiness Check and the Digital Readiness programme contributed to the development of an individualised training programme to create a common understanding among senior management of the multifaceted dimensions of digitisation and to promote learning together. 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 "Cultural Shift 4.0" initiative in December 2015 represents an instrumental step in ensuring the successful development of the Group and its future human resources strategy. In this context, 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. Knowledge should be shared more intensively and there should be a more open approach to suggestions. In order to facilitate this change, full involvement of and discussion with all colleagues will be crucial. Furthermore, the systematic integration of changes in HR instruments is a key factor for ensuring that this change will be effective in the long term. Group-wide initiatives such as "Multidimensional Feedback" and "Recruiting 4.0" thus support change across the Group. The implementation of a dialogue-oriented feedback culture will be facilitated by versatile, situationally useful digital processes and feedback methods. 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.

# 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<sub>2</sub> 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)<sup>4</sup>. Together, they generate 59% of Group revenue and are responsible for approximately 80% of the Group's ecological 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 2016<sup>5</sup> have been achieved. The Otto Group expects this positive overall development to continue in 2017.

Value-adding stage	Sub-strategy	Target	Actual 2015 in %	Forecast 2016	Actual 2016 in %	Forecast 2017
Raw Materials and Processing	Textile	100% sustainable cotton in own and licensed brands	27	clear rise	49	clear rise
	Furniture	100% FSC®-certified furniture products	43	slight rise	46	clear rise
	Paper	50% FSC®-certified catalogue paper	28	slight rise	34	clear rise
Final Production	Social Programme	100% integration of suppliers of own and licensed brands in the social programme	41	clear rise	80	slight rise
Trade	Climate	50% reduction of CO <sub>2</sub> emissions*	–28**	slight reduction	–34	clear reduction

\* The target refers to adjusted CO<sub>2</sub> emissions compared to 2006 base year.

\*\* With respect to the Annual Report 2015/16 value has changed with updated location data from –27% to –28%.

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. The share of sustainable cotton used increased to 49% in 2016 (2015: 27%). The considerable increase forecast is primarily attributable to the increasingly established procurement processes for cotton from the Cotton Made in Africa initiative – hereafter CmiA – and the associated sharp rise in procurement volumes. Group companies OTTO and bonprix Handelsgesellschaft mbH, as well as 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 considerably in 2017.

<sup>4</sup> 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.

<sup>5</sup> All subsequent key indicators will refer to the respective calendar year.

With its **Furniture Strategy**, the Otto Group aims to ensure that all products in its range of wooden furniture are sourced from responsible forestry certified by the Forest Stewardship Council® – hereafter FSC. In 2016, the share of FSC-certified wood as a percentage of the total wooden furniture product range was 46% (2015: 43%). The slight increase in the FSC share that was forecasted is the result of agreements concluded between the Group companies and major furniture suppliers. A more significant increase in the FSC share in the wooden furniture product range is expected for 2017.

The **Paper Strategy** aims to increase the share of FSC-certified paper used in catalogues to at least 50% by 2018. This applies to catalogue paper printed using the gravure process as well as the offset process. In 2016, the share of FSC-certified paper in use increased to 34% (2015: 28%). This slight increase was due to long-term agreements negotiated with suppliers by Group company OTTO, which is the main procurer 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 significantly in 2017.

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<sup>6</sup> are to be integrated into this programme. Integrated suppliers are suppliers that provide valid and accepted social audits or certificates for all active factories at the time of production. In 2016, this applied to 80% of suppliers (2015: 41%). The forecasted increase in the share of suppliers integrated into the programme can be largely attributed to the availability of improved data on the social status of factories. The Otto Group anticipates a further slight increase in the integration rate in 2017. This forecast is based on further improvements in data management and the subsequent termination of relationships with suppliers who do not fulfil the standards.

The goal of the **Climate Strategy** is to reduce CO<sub>2</sub> emissions at the Trade value-adding stage. By 2020, adjusted<sup>7</sup> CO<sub>2</sub> 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 2016, absolute (unadjusted) CO<sub>2</sub> emissions fell in comparison to 2015 from 246,000 t to 236,000 t. During the same period, adjusted CO<sub>2</sub> emissions fell from 212,000 t to 196,000 t. This corresponds to a reduction of 34% in relation to the base year of 2006. (2015: –28%). The development of these values exceeds the slight reduction forecast for 2016 and is primarily attributable to the shift from air freight to less CO<sub>2</sub>-intensive forms of transport such as maritime, road and rail transport in the procurement of goods from producing countries. Increased energy efficiency at the Group's own sites and in goods-distribution transport also contributed to the reduction in CO<sub>2</sub> emissions. As a result of further anticipated increases in efficiency on site and during transport, as well as in the Group-wide purchase of green energy, a significant reduction in total CO<sub>2</sub> emissions is also expected for 2017.

<sup>6</sup> The classification of risk countries is determined in accordance with the Business Social Compliance Initiative (BSCI).

<sup>7</sup> For CO<sub>2</sub> adjustment factors, see the Otto Group's Sustainability Report 2015, p. 48.



# OUTLOOK

## OVERALL ECONOMIC DEVELOPMENT

According to estimates by the Kiel Institute for the World Economy (Institut für Weltwirtschaft) – hereafter IfW Kiel – the performance of the **global economy** is set to see a price-adjusted increase in global GDP of 3.5% in 2017 (2016: 3.1%). Therefore, the growth in worldwide production is also set to increase, however it will continue to remain at a moderate level for the forecasting period. For advanced economies (particularly the USA and Germany), overall economic expansion is expected to increase gradually during the year. In emerging countries, the overall economic situation of the previous year has largely stabilised and a gradual increase in economic growth seems increasingly likely for the forecasting period, even though structural problems continue to exist in many economies. In China, early economic indicators since the beginning of the year have been pointing to continued high levels of growth for the current year, which is likely to be characterised by a significant rise in real GDP. In Russia, signs of overall economic recovery trends are expected to become stronger. However, in light of unfavourable institutional conditions, a sustainable upturn is unlikely. An increase of 3.0% (2016: 1.8%) is forecast for international trade in 2017, with the likelihood of more significant dynamic growth in comparison to the previous year. Nevertheless, both the growth in worldwide production and in global trade levels remain vulnerable to disruption. Potential risk factors for the forecasting period are mainly due to the many uncertainties arising from economic, trade and monetary policy decisions, the impact of the development in crude oil prices, potential turbulence in the financial markets, and ongoing geopolitical crises.<sup>8</sup>

**German** overall economic output is expected to rise in 2017 by 1.7%, as adjusted for inflation (2016: 1.9%). The sustained upturn will continue to gather momentum as both the domestic economy and foreign trade will influence economic development in the forecasting period. Private household consumption expenditure is set to further increase by an estimated 1.4% (2016: 2.0%) in real terms, although at a considerably slower pace due to an inflation-related reduction in purchasing power. However, private household consumption expenditure will be stimulated by the fact that the growth in employment seen in previous years is set to continue to a noticeable extent in 2017, leading to an expected drop in the average annual unemployment rate to 5.7% (2016: 6.1%). In addition, corporate investments are likely to gain considerable momentum once again and, together with continued strong investment in construction, to have an increasing influence on economic growth. Due to a sustained upturn in the global economy, foreign trade is set to expand significantly. However, it is unlikely that any positive growth will be achieved just yet in the forecasting period. Exports are expected to benefit from growing demand in major sales markets. However, it is anticipated that imports will increase further due to upward trends in the domestic economy.<sup>9</sup>

In the **Euro area**, economic growth is expected to continue at the same moderate pace in 2017, with price-adjusted GDP increasing by 1.8% (2016: 1.7%). As in previous years, overall economic expansion in the forecasting period will be primarily driven by domestic economic factors. Private-household consumption expenditure is set to benefit from the further upswing in the labour market in particular. The employment situation in the Euro area should improve further in the forecasting period, leading to a drop in the average annual unemployment rate to 9.3% (2016: 10.1%). Corporate investment is also set to increase further in view of persistently favourable financing conditions and stable economic growth, and will have a noticeable impact on the expansion of overall economic output. Furthermore, most Euro area countries can be expected to implement mildly expansionary fiscal policies. In the other European Union countries, particularly Sweden and Poland, a strong and sustained expansion of overall economic output is expected in the forecasting period.<sup>10</sup>

<sup>8</sup> Kiel Institute for the World Economy: "World Economic Outlook, Spring 2017"

<sup>9</sup> Kiel Institute for the World Economy: "German Economic Outlook, Spring 2017"

<sup>10</sup> Kiel Institute for the World Economy: "Euro Area Economy, Spring 2017"

In the **USA**, overall economic development in 2017 is expected to be considerably more dynamic compared to the previous year, giving rise to a substantial forecast increase in price-adjusted GDP of 2.5% over the forecasting period (2016: 1.6%). Positive impetus is expected to come mainly from the continued increase in private-household consumption expenditure, which will be supported by rising real wages, strong labour market performance and favourable financing conditions. The growth in employment is also expected to continue in the current year, and the annual average unemployment rate is set to fall slightly to 4.8% (2016: 4.9%). Against the backdrop of increased capacity utilisation, corporate investment is expected to increase sharply. However, as in prior years, it is anticipated that foreign trade will not have a positive impact on the expansion of overall economic output.<sup>11</sup>

#### Forecast of change in real GDP

	2017 in %	2016 in %
World	3.5	3.1
Germany	1.7	1.9
Euro area	1.8	1.7
USA	2.5	1.6

## SECTOR DEVELOPMENT

### MULTICHANNEL RETAIL

Positive growth is expected to continue in the overall **German retail sector** in 2017, with a projected nominal increase in revenue of 2.0%<sup>12</sup> in sales (2016: 2.3%). 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 3.0% in nominal terms in 2017 (2016: 2.6%). However, this would correspond to a price-adjusted increase of just 1.4% (2016: 2.0%)<sup>13</sup>. The projected acceleration of consumer price inflation is expected to lead to a considerably slower rate of increase in real private-household consumption expenditure in 2017 compared to the previous year<sup>14</sup>.

The German E-Commerce and Distance Selling Trade Association (Bundesverband E-Commerce und Versandhandel [bevh])<sup>15</sup> is forecasting a continuation of the successful performance seen in **German online and mail-order sales sector** in preceding years. According to these projections, sales of goods will grow to EUR 61.7 billion in 2017 (2016: 57.1 billion EUR), corresponding to an increase of 8.1% (2016: 9.1%).

In particular, the **e-commerce sector** will continue to experience stronger growth levels in the forecasting period, with a projected increase in revenue of 11.0%, just slightly down on the previous year. Pure online revenue is expected to rise to approximately EUR 58.5 billion (2016: EUR 52.7 billion). It is also expected that classes of products that up to now were not particularly compatible with the mail-order sector, such as furniture and decoration as well as groceries, will once again record significant increases in revenue in the e-commerce sector in 2017. In addition, shifts between channels – such as more orders being placed via the mobile Internet – are expected to continue to a noticeable extent.

<sup>11</sup> Kiel Institute for the World Economy: "World Economic Outlook, Spring 2017"

<sup>12</sup> Press release, German Retail Association (Handelsverband Deutschland, HDE) 31/01/2017

<sup>13</sup> German Federal Ministry for Industry and Energy: 'Annual Economic Report 2017'

<sup>14</sup> Kiel Institute for the World Economy: "German Economic Outlook, Spring 2017"

<sup>15</sup> Press release, German E-Commerce and Distance Selling Trade Association (bevh) 21/02/2017

## FINANCIAL SERVICES

The forecasted development in the German economy in 2017 will also have an effect on the **German financial services sector**. The German Association of Debt Collection Companies (Bundesverband Deutscher Inkasso-Unternehmen e.V. [BDIU])<sup>16</sup> anticipates that due to the positive economic environment forecast, the payment behaviour of companies and consumers will stabilise at a high level, although it will not improve further. It is expected that the continued drop in company insolvencies since 2010 will continue at a marginal pace in the forecasting period, if at all, and that the number of company insolvencies in 2017 will reach a figure similar to the year before, i.e. 21,500 cases approximately (2016: 21,518 cases). The market for receivables management is still set to remain decidedly attractive in 2017. Against this backdrop, the market leaders in this sector have invested heavily in recent years and have grown considerably.

## SERVICES

Following the mid-term forecast of the German Federal Office for Goods Transport<sup>17</sup>, the **German transport and logistics sector** is expected to see positive growth in all transport-intensive sectors in 2017. Total goods transport is set to grow by a probable 1.2% in the forecasting period (2016: 1.1%), and is expected to benefit both from the continuing positive development of the German economy and from the anticipation of more dynamic growth in international trade. This includes an expected rise in freight volumes: 1.3% in road freight (2016: 1.5%), 0.5% in inland navigation (2016: –0.8%), 2.5% in air freight transport (2016: 3.4%) and 0.4% in rail freight transport (2016: –1.6%).

Alongside overall economic development, both crude oil prices and wage costs will have an influence on the future development of the German transport and logistics sector. Wage costs are expected to grow further in view of the wage agreements concluded in 2016 and those planned for 2017. Following a marginal increase in 2016, it is expected that crude oil prices, which are still comparatively low, 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. Nevertheless, due to ongoing global economic risk factors, any forecast relating to the development of crude oil prices is subject to a high degree of uncertainty.

Given the continued dynamic increase in revenue from online and mail-order sales expected for 2017, German parcel-services providers will also face serious challenges in the forecasting period in terms of handling the ever-increasing number of deliveries sent by companies to private households. This will require a sustained high level of investment in logistics infrastructure.

<sup>16</sup> Press release, German Association of Debt Collection Companies (BDIU) 19/01/2017

<sup>17</sup> German Federal Office for Goods Transport: "Rolling Mid-Term Forecast for Goods and Passenger Traffic – Winter 2016/17"

## DEVELOPMENT OF THE OTTO GROUP

In the 2016/17 financial year, the Otto Group launched various initiatives and continued to drive digital transformation. The consistent alignment of business models with customer requirements will also determine the direction of the Group in the coming financial years. To accompany the Cultural Shift 4.0 process launched in 2015, a fundamental process was initiated within the Otto Group with the aim of ensuring that the Group achieves significant dynamic growth in the e-commerce sector and retail-related services in the coming years. The requirements of the market and of individual customers will be met with a high degree of flexibility, speed and innovation.

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 2017/18 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 continued increase in private-household consumption expenditure is expected to have a positive influence on business performance in these sales markets.

Revenue from the **Multichannel Retail segment** amounted to EUR 9,818.7 million in the 2016/17 financial year (2015/16: EUR 9,588.1 million), which was moderately higher (2.4%) than the previous year, and considerably higher (5.0%) when adjusted for changes to the scope of consolidation. For the 2017/18 financial year, the Group expects an increase in revenue that will be almost on a par with the very strong growth of 5.0% achieved in the previous year. Significant revenue growth is anticipated for the parent company OTTO, the bonprix Group, the Crate and Barrel group and the myToys Group as well as e-commerce start-up Collins, and is expected to be in the high-double-digit to low-triple-digit million euro range. Revenue from other Group companies and sub-groups in the Multichannel Retail segment is largely expected to hit the single-digit to mid-double-digit million euro range. Despite a persistently difficult overall economic environment, revenue from the activities of the Otto Group in Russia for the 2017/18 financial year are expected to be on a par with the previous year due to its strong position in the Russian mail-order sector.

The **Financial Services segment** achieved significant revenue growth of 8.0% in the 2016/17 financial year. This segment is influenced to a large extent by the EOS Group. In the coming financial years, it will continue to focus on debt collection services, significant investment in debt purchasing – mostly 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 2017/18 financial year, the Otto Group expects revenues from this segment to be in line with the previous 2016/17 financial year.

The **Services segment**, which is largely dominated by the Group companies of the Hermes Group, continued to grow noticeably in the 2016/17 financial year with external revenue growth of 6.7%. For the 2017/18 forecast year, the Otto Group anticipates a further significant increase in segment revenue, which will fall just marginally short of the previous year's strong growth rate. This strong business performance is driven by Hermes Germany GmbH in particular. Hermes Parcelnet Limited in the United Kingdom is also set to continue its successful performance in the local currency.

Given the anticipated growth in business both with Group companies and third parties, the coming financial years will also see significant investment in logistics infrastructure in the Services segment, particularly in Germany and the United Kingdom. The Group will also continue to build up additional services. In July 2015, the Hermes Group acquired a 28.5% share in LieferFactory GmbH, a start-up established one year previously. LieferFactory GmbH, in which the Hermes Group has since acquired a majority share, specialises in same-day delivery and delivery within specified timeframes through its "Liefery" service.



At **Group level**, the Otto Group achieved revenue growth of 3.4% in the 2016/17 financial year. The financial year was significantly influenced by changes to the scope of consolidation, such that, when taken on a comparable basis, higher revenue growth of 5.0% was achieved. For the 2017/18 forecast year, the Group is aiming for revenue growth that will be on a par with the strong growth achieved in the previous year.

The process of streamlining and adjusting the Otto Group's portfolio has already led to a sustainable increase in the Group's earnings capacity in the past 2016/17 financial year. In terms of the portfolio optimisation process, significant progress has been achieved, most notably as a result of the sale of the 3SI Commerce operation in France. The Otto Group's portfolio will continue to be reviewed in the coming financial years. In addition, the business models of the Group companies will continue to be realigned as part of the digital transformation process.

Major Group companies and sub-groups, such as OTTO, Witt, bonprix and EOS, once again anticipate strong or very strong EBT contributions in the 2017/18 forecast year. However, growth companies such as the myToys Group and e-commerce start-up Collins, as well as newer business models in the Otto Group Digital Solutions Group will place a strain on the Otto Group's EBT figure, as planned. SportScheck GmbH, which is in the process of being restructured, has succeeded in implementing a series of measures aimed at realigning its business model and will continue this approach in the current financial year. Taking into account the above-mentioned influencing factors, the Group-level EBT figure expected for the 2017/18 financial year will, on an operational level, be on a par with the strong earnings position achieved in the 2016/17 financial year. In addition, ongoing portfolio optimisation efforts may have both a positive and negative impact on EBT.

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

With its various business models and activities, the Otto Group's offering to its customers has a worldwide appeal. In the dynamic and highly competitive environment of the individual segments, digital transformation will continue to be key in driving the growth and profitability of the Group.

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 is set to improve steadily in the coming financial years, and reasonable profitability is expected to be achieved. 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, 26 April 2017

The Executive Board



# CONSOLIDATED FINANCIAL STATEMENTS

**CONSOLIDATED STATEMENT OF COMPREHENSIVE  
INCOME** PAGE 120

**CONSOLIDATED INCOME STATEMENT** PAGE 121

**CONSOLIDATED BALANCE SHEET** PAGE 122

**CONSOLIDATED CASH FLOW STATEMENT** PAGE 124

**STATEMENT OF CHANGES IN  
CONSOLIDATED EQUITY** PAGE 126

**CONSOLIDATED STATEMENT OF CHANGES  
IN FIXED ASSETS** PAGE 128

**SEGMENT REPORTING** PAGE 132



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**1 MARCH 2016 TO 28 FEBRUARY 2017**

	2016/17	2015/16
	EUR 000	EUR 000
<b>Profit/loss for the year</b>	<b>40,697</b>	<b>–189,613</b>
<b>Items that may be reclassified subsequently to profit or loss</b>		
Gains and losses arising from translation of financial statements in foreign currencies	8,893	78
Gains and losses on remeasuring fair values of available-for-sale securities after tax	–19,987	40,068
Gains and losses in other comprehensive income	–25,612	50,250
Gains and losses reclassified to profit or loss	5,625	–10,182
Gains and losses arising from changes in fair values of derivatives held as cash flow hedges after tax	–12,067	–33,610
Gains and losses in other comprehensive income	–31,886	46,654
Gains and losses reclassified to profit or loss	19,819	–80,264
Share of income and expenses not affecting profit and loss of associates and joint ventures accounted for using the equity method after tax	7,181	292
<b>Items that will not be reclassified to profit or loss</b>		
Remeasurements of the net defined benefit liability after tax	–159,637	55,162
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)	–430	133
<b>Other comprehensive income for the year</b>	<b>–176,047</b>	<b>62,123</b>
<b>Total comprehensive income for the year</b>	<b>–135,350</b>	<b>–127,490</b>
Total comprehensive income attributable to the owners of Otto (GmbH & Co KG)	–213,334	–156,251
Total comprehensive income attributable to non-controlling interests	72,212	26,002
Total comprehensive income attributable to participation certificates	5,772	2,759

# CONSOLIDATED INCOME STATEMENT

1 MARCH 2016 TO 28 FEBRUARY 2017

	Note	2016/17	2015/16
	[No.]	EUR 000	EUR 000
<b>Revenue</b>	[6]	<b>12,511,770</b>	<b>12,104,445</b>
Other operating income	[7]	759,945	741,113
<b>Revenue and other operating income</b>		<b>13,271,715</b>	<b>12,845,558</b>
Change in inventories and other internal costs capitalised		48,538	58,521
Purchased goods and services	[8]	–6,519,242	–6,266,783
Personnel expenses	[9]	–2,153,257	–2,185,685
Other operating expenses	[10]	–4,004,814	–3,885,860
Income (loss) from equity investments	[11]	87,483	73,161
Income from associates and joint ventures		85,145	70,423
Income from other equity investments		2,338	2,738
<b>Earnings before interest, tax, depreciation and amortisation (EBITDA)</b>		<b>730,423</b>	<b>638,912</b>
Depreciation and amortisation	[12]	–274,876	–290,547
Impairment losses	[13]	–90,091	–89,726
<b>Earnings before interest and tax (EBIT)</b>		<b>365,456</b>	<b>258,639</b>
Interest and similar income	[14]	38,156	35,885
Interest and similar expenses	[14]	–127,620	–141,714
Other net financial income (expense)	[14]	–14,111	34,066
<b>Earnings before tax (EBT)</b>		<b>261,881</b>	<b>186,876</b>
Income tax	[15]	–98,311	–96,843
<b>Profit/loss for the year from continuing operations</b>		<b>163,570</b>	<b>90,033</b>
Loss for the year from discontinued operations	[5c]	–122,873	–279,646
<b>Profit/loss for the year</b>		<b>40,697</b>	<b>–189,613</b>
Profit/loss attributable to the owners of Otto (GmbH & Co KG)		–33,998	–218,617
Profit/loss attributable to non-controlling interests		68,923	26,245
Profit/loss attributable to participation certificates		5,772	2,759

# CONSOLIDATED BALANCE SHEET

**AS AT 28 FEBRUARY 2017**

## Assets

	Note	28.02.2017	29.02.2016*	01.03.2015*
	[No.]	EUR 000	EUR 000	EUR 000
<b>Non-current assets</b>				
Fixed assets		3,146,293	3,357,887	3,404,312
Intangible assets	[16]	799,812	794,907	829,252
Property, plant and equipment	[17]	1,467,602	1,516,423	1,653,230
Investments in associated companies and joint ventures	[18]	582,184	713,716	652,491
Other financial investments	[18]	296,695	332,841	269,339
Trade receivables	[20]	155,996	152,963	154,164
Receivables from financial services	[20]	677,148	483,195	456,416
Receivables from related parties	[21]	60,751	61,966	57,820
Other assets	[22]	85,290	102,891	97,739
Other financial assets		64,903	69,016	89,479
Miscellaneous other assets		20,387	33,875	8,260
		<b>4,125,478</b>	<b>4,158,902</b>	<b>4,170,451</b>
<b>Deferred tax</b>	[15]	<b>118,155</b>	<b>116,896</b>	<b>127,765</b>
<b>Current assets</b>				
Inventories	[19]	1,403,377	1,263,132	1,407,177
Trade receivables	[20]	1,187,563	1,145,518	1,137,256
Receivables from financial services	[20]	406,714	349,320	391,593
Receivables from related parties	[21]	45,491	38,124	28,983
Income tax receivables		36,028	40,570	68,893
Other assets	[22]	763,605	369,330	452,772
Other financial assets		435,402	138,227	219,239
Miscellaneous other assets		328,203	231,103	233,533
Securities	[22]	942	129	129
Cash and cash equivalents		379,042	234,545	253,996
Assets held for sale	[5c]	0	146,535	151,911
		<b>4,222,762</b>	<b>3,587,203</b>	<b>3,892,710</b>
<b>Total assets</b>		<b>8,466,395</b>	<b>7,863,001</b>	<b>8,190,926</b>

\* Prior year restated

**Equity and liabilities**

	Note	28.02.2017	29.02.2016*	01.03.2015*
	[No.]	EUR 000	EUR 000	EUR 000
<b>Equity</b>				
Equity attributable to the owners of Otto (GmbH & Co KG)		434,121	680,750	851,126
Capital provided by the limited partners in Otto (GmbH & Co KG)		820,000	820,000	770,000
Consolidated retained earnings		353,839	429,388	663,166
Net cost in excess of net assets acquired in step acquisitions		– 217,097	– 222,948	– 173,565
Accumulated other comprehensive income		– 537,903	– 360,931	– 423,911
Accumulated other equity		15,282	15,241	15,436
Non-controlling interests		756,832	721,107	710,494
Participation certificates		116,984	115,533	45,740
	[23]	<b>1,307,937</b>	<b>1,517,390</b>	<b>1,607,360</b>
<b>Non-current provisions and liabilities</b>				
Profit and loss participation rights	[24]	23,900	26,287	35,754
Provisions for pensions and similar obligations	[25]	1,357,436	1,167,293	1,235,397
Other provisions	[26]	141,452	119,435	104,322
Bonds and other notes payable	[27]	884,238	815,540	832,317
Bank liabilities	[27]	569,593	573,168	621,776
Other financing liabilities	[28]	114,821	45,175	41,036
Trade payables		39,707	41,126	45,226
Liabilities to related parties	[29]	16,441	14,094	7,812
Other liabilities	[30]	356,957	324,823	334,892
Other financial liabilities		235,339	200,763	200,921
Miscellaneous other liabilities		121,618	124,060	133,971
		<b>3,504,545</b>	<b>3,126,941</b>	<b>3,258,532</b>
<b>Deferred tax</b>	[15]	<b>84,626</b>	<b>92,267</b>	<b>86,616</b>
<b>Current provisions and liabilities</b>				
Profit and loss participation rights	[24]	3,476	4,944	1,684
Other provisions	[26]	142,158	139,090	193,423
Bonds and other notes payable	[27]	367,188	13,268	65,885
Bank liabilities	[27]	539,435	564,276	685,776
Other financing liabilities	[28]	205,151	171,205	175,811
Trade payables		1,335,904	1,086,014	1,100,983
Liabilities to related parties	[29]	17,093	13,436	15,918
Income tax liabilities		47,564	42,690	37,481
Other liabilities	[30]	876,904	856,348	900,713
Other financial liabilities		414,989	420,553	467,450
Miscellaneous other liabilities		461,915	435,795	433,263
Liabilities classified as held for sale	[5c]	34,414	235,132	60,744
		<b>3,569,287</b>	<b>3,126,403</b>	<b>3,238,418</b>
<b>Total equity and liabilities</b>		<b>8,466,395</b>	<b>7,863,001</b>	<b>8,190,926</b>

\* Prior year restated



# CONSOLIDATED CASH FLOW STATEMENT

## 1 MARCH 2016 TO 28 FEBRUARY 2017

	2016/17	2015/16
	EUR 000	EUR 000
Earnings before interest and tax (EBIT)	365,456	258,639
Depreciation, amortisation and impairment losses/reversal of impairment losses on intangible assets and property, plant and equipment	357,332	365,306
Profits (-)/losses (+) from associated companies and joint ventures	-85,144	-70,423
Dividends received from associated companies and joint ventures	17,860	31,690
Increase (+)/decrease (-) in allowances on loans, receivables and inventories	136,948	115,005
Gains (-)/losses (+) on disposals of items in intangible assets and property, plant and equipment	-15,834	22,600
Pension payments exceeding (-)/less than (+) pension expense	-16,676	-26,939
Other non-cash income (-) and expenses (+)	382	301
<b>Gross cash flow from operating activities</b>	<b>760,324</b>	<b>696,179</b>
Increase (-)/decrease (+) in working capital	-387,753	-67,016
Decrease (+)/increase (-) in inventories (gross)	-103,060	10,534
Decrease (+)/increase (-) in trade receivables (gross)	-118,698	-217,430
Decrease (+)/increase (-) in receivables from financial services (gross)	-257,011	3,974
Increase (+)/decrease (-) in provisions	12,336	31,444
Increase (+)/decrease (-) in trade payables	199,598	89,640
Increase (+)/decrease (-) in receivables due from related parties/in payables due to related parties	5,412	-10,242
Changes in other assets/liabilities	-126,330	25,064
<b>Net cash generated from operating activities</b>	<b>372,571</b>	<b>629,163</b>
Income tax paid	-80,444	-54,165
Interest received	14,156	6,691
Cash inflows/outflows from non-current financial assets and securities	3,216	541
<b>Cash flow from operating activities from continuing operations</b>	<b>309,499</b>	<b>582,230</b>
Operating cash flow from discontinued operations	-125,929	-101,818
<b>Cash flow from operating activities</b>	<b>183,570</b>	<b>480,412</b>

	2016/17	2015/16
	EUR 000	EUR 000
<b>Cash flow from operating activities</b>	<b>183,570</b>	<b>480,412</b>
Capital expenditures on purchases of intangible assets and property, plant and equipment	–297,013	–272,628
Payments for acquisition of subsidiaries	–24,443	–26,179
Capital expenditures on purchases of other financial investments	–133,068	–75,257
Proceeds from disposals of intangible assets and property, plant and equipment	77,756	31,504
Proceeds from disposals of consolidated subsidiaries	19,902	152,357
Proceeds from disposals of other financial investments	75,305	86,059
<b>Investing cash flow from continuing operations</b>	<b>–281,561</b>	<b>–104,144</b>
Investing cash flow from discontinued operations	–28,213	–9,587
<b>Cash flow from investing activities</b>	<b>–309,774</b>	<b>–113,731</b>
<b>Free cash flow</b>	<b>–126,204</b>	<b>366,681</b>
Dividends paid	–65,566	–40,448
Interest paid and bank charges	–135,672	–148,832
Proceeds from additions to equity	0	120,366
Payments for step acquisitions in subsidiaries	–888	–22,274
Payments (net) for repurchases of profit and loss participation rights	–4,238	–6,505
Payments of principal on finance lease	–15,383	–11,943
Proceeds from assumption of other financial liabilities	675,090	112,103
Repayments of other financial liabilities	–187,581	–351,980
<b>Financing cash flow from continuing operations</b>	<b>265,762</b>	<b>–349,513</b>
Financing cash flow from discontinued operations	9	–2,274
<b>Cash flow from financing activities</b>	<b>265,771</b>	<b>–351,787</b>
Cash and cash equivalents at beginning of period	234,673	254,125
Net increase in cash and cash equivalents	139,567	14,894
Changes in cash and cash equivalents due to foreign exchange rates	4,931	–6,765
Reclassification with regard to disposal groups	0	–27,581
<b>Cash and cash equivalents at end of period (please refer to note 33)</b>	<b>379,171</b>	<b>234,673</b>

# 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 trans- lation 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
<b>2016/17</b>					
<b>01.03.2016</b>	<b>820,000</b>	<b>429,388</b>	<b>- 222,949</b>	<b>- 106,417</b>	<b>146,188</b>
Total comprehensive income	-	- 33,998	-	8,511	- 19,966
Profit/loss for the year	-	- 33,998	-	-	-
Other comprehensive income for the year	-	-	-	8,511	- 19,966
Capital increase	-	-	-	-	-
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	-	-	-
<b>28.02.2017</b>	<b>820,000</b>	<b>353,839</b>	<b>- 217,097</b>	<b>- 97,906</b>	<b>126,222</b>
<b>2015/16</b>					
<b>01.03.2015</b>	<b>770,000</b>	<b>675,276</b>	<b>- 173,565</b>	<b>- 105,769</b>	<b>106,171</b>
Restatement holiday and overtime liabilities	-	- 12,110	-	-	-
<b>01.03.2015 (adjusted)</b>	<b>770,000</b>	<b>663,166</b>	<b>- 173,565</b>	<b>- 105,769</b>	<b>106,171</b>
Total comprehensive income	-	- 218,617	-	- 648	40,017
Loss for the year	-	- 218,617	-	-	-
Other comprehensive income for the year	-	-	-	- 648	40,017
Capital increase	50,000	-	-	-	-
Changes in entities consolidated	-	- 910	- 1,647	-	-
Step acquisitions/partial disposals	-	-	- 47,736	-	-
Dividends paid	-	- 8,966	-	-	-
Other changes recognised directly in equity	-	- 5,285	-	-	-
<b>29.02.2016</b>	<b>820,000</b>	<b>429,388</b>	<b>- 222,948</b>	<b>- 106,417</b>	<b>146,188</b>

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
<b>25,659</b>	<b>–424,537</b>	<b>–1,824</b>	<b>15,242</b>	<b>680,750</b>	<b>721,107</b>	<b>115,533</b>	<b>1,517,390</b>
–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
<b>12,282</b>	<b>–581,638</b>	<b>3,137</b>	<b>15,282</b>	<b>434,121</b>	<b>756,832</b>	<b>116,984</b>	<b>1,307,937</b>
<b>59,524</b>	<b>–480,363</b>	<b>–3,474</b>	<b>15,436</b>	<b>863,236</b>	<b>710,647</b>	<b>45,740</b>	<b>1,619,623</b>
–	–	–	–	–12,110	–153	–	–12,263
<b>59,524</b>	<b>–480,363</b>	<b>–3,474</b>	<b>15,436</b>	<b>851,126</b>	<b>710,494</b>	<b>45,740</b>	<b>1,607,360</b>
–33,865	55,211	1,651	–	–156,251	26,002	2,759	–127,490
–	–	–	–	–218,617	26,245	2,759	–189,613
–33,865	55,211	1,651	–	62,366	–243	–	62,123
–	–	–	–	50,000	366	70,000	120,366
–	614	–	–175	–2,118	268	–	–1,850
–	–	–	–	–47,736	25,462	–	–22,274
–	–	–	–	–8,966	–28,516	–2,966	–40,448
–	–	–	–20	–5,305	–12,969	–	–18,274
<b>25,659</b>	<b>–424,538</b>	<b>–1,823</b>	<b>15,241</b>	<b>680,750</b>	<b>721,107</b>	<b>115,533</b>	<b>1,517,390</b>



# CONSOLIDATED STATEMENT OF CHANGES IN FIXED ASSETS

## 2016/17

	Historical cost						
	01.03.2016	Initial Con- solidation	Additions	Disposals	Reclassifi- cations	Foreign currency translation	
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
<b>Intangible assets</b>							
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
<b>Total</b>	<b>1,542,672</b>	<b>17,758</b>	<b>145,993</b>	<b>–74,985</b>	<b>1,636</b>	<b>19,240</b>	<b>1,652,314</b>
<b>Property, plant and equipment</b>							
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
<b>Total</b>	<b>3,289,834</b>	<b>25,955</b>	<b>192,759</b>	<b>–185,237</b>	<b>–1,636</b>	<b>15,711</b>	<b>3,337,386</b>

Accumulated depreciation, amortisation and impairments										Carrying amount	
01.03.2016	Initial Con- solidation	Disposals	Depreciation and Amorti- sation	Impairments	Reclassifi- cations	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		-	-
<b>-747,765</b>	<b>-6,649</b>	<b>63,490</b>	<b>-99,316</b>	<b>-50,635</b>	<b>-2</b>	<b>-</b>	<b>-11,625</b>	<b>-852,502</b>		<b>799,812</b>	<b>794,907</b>
-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
<b>-1,773,411</b>	<b>-11,387</b>	<b>134,566</b>	<b>-175,560</b>	<b>-39,456</b>	<b>2</b>	<b>7,635</b>	<b>-12,173</b>	<b>-1,869,784</b>		<b>1,467,602</b>	<b>1,516,423</b>

# CONSOLIDATED STATEMENT OF CHANGES IN FIXED ASSETS

## 2015/16

	Historical cost							
	01.03.2015	Initial Con- solidation	Additions	Disposals	Reclassifi- cations	Reclassifica- tion IFRS 5	Foreign currency translation	29.02.2016
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
<b>Intangible assets</b>								
Internally generated intangible assets	356,571	–	43,841	–14,428	43,178	–78,621	610	351,151
Purchased intangible assets	639,281	26,515	51,327	–46,359	26,638	–52,823	–5,172	639,407
Goodwill	461,363	–	9,267	–382	–	–	–4,226	466,022
Advance payments on intangible assets	108,142	–	56,580	–7,726	–69,529	–1,994	612	86,085
Intangible assets under finance lease	10,913	–	296	–10,728	–	–475	1	7
<b>Total</b>	<b>1,576,270</b>	<b>26,515</b>	<b>161,311</b>	<b>–79,623</b>	<b>287</b>	<b>–133,913</b>	<b>–8,175</b>	<b>1,542,672</b>
<b>Property, plant and equipment</b>								
Land, land rights and buildings	1,801,970	–	23,551	–28,638	7,253	–40,491	7,663	1,771,308
Technical plant and machinery	588,151	–	15,420	–37,086	26,981	–16,704	–993	575,769
Other plant, operating and office equipment	821,949	804	55,573	–80,252	1,612	–26,247	–2,230	771,209
Advance payments and construction in progress	44,073	11	27,066	–5,724	–34,646	–1,396	–1,339	28,045
Assets under finance lease	136,819	–	21,408	–3,348	–1,487	–7,242	–2,647	143,503
<b>Total</b>	<b>3,392,962</b>	<b>815</b>	<b>143,018</b>	<b>–155,048</b>	<b>–287</b>	<b>–92,080</b>	<b>454</b>	<b>3,289,834</b>

Accumulated depreciation, amortisation and impairments											Carrying amount	
01.03.2015	Initial Con- solidation	Disposals	Depreciation and Amorti- sation	Impairments	Reclassifi- cations	Reversals of Im- pairment losses	Reclassi- fication IFRS 5	Foreign currency translation	29.02.2016		29.02.2016	28.02.2015
EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000		EUR 000	EUR 000
-204,504	-	9,781	-35,422	-19,455	-	-	39,991	-721	-210,330		140,821	152,067
-423,583	-1,251	38,618	-68,245	-4,067	6	-	47,282	3,633	-407,607		231,800	215,698
-113,999	-	382	-	-17,932	-	-	-	1,866	-129,683		336,339	347,364
-153	-	-	-	-	-	15	-	-	-138		85,947	107,989
-4,779	-	5,524	-531	-695	-	-	475	-1	-7		-	6,134
<b>-747,018</b>	<b>-1,251</b>	<b>54,305</b>	<b>-104,198</b>	<b>-42,149</b>	<b>6</b>	<b>15</b>	<b>87,748</b>	<b>4,777</b>	<b>-747,765</b>		<b>794,907</b>	<b>829,252</b>
-754,943	-	24,079	-72,301	-10,866	-1,020	12,840	33,553	-8,392	-777,050		994,258	1,047,027
-332,759	-	14,719	-34,506	-28,023	-	236	15,170	968	-364,195		211,574	255,392
-561,397	-612	72,825	-69,929	-7,848	191	-	22,674	218	-543,878		227,331	260,552
-440	-	88	-	-47	-	32	59	-	-308		27,737	43,633
-90,193	-	2,853	-9,613	-793	823	1,844	4,458	2,641	-87,980		55,523	46,626
<b>-1,739,732</b>	<b>-612</b>	<b>114,564</b>	<b>-186,349</b>	<b>-47,577</b>	<b>-6</b>	<b>14,952</b>	<b>75,914</b>	<b>-4,565</b>	<b>-1,773,411</b>		<b>1,516,423</b>	<b>1,653,230</b>



# SEGMENT REPORTING

	Multichannel Retail		Financial Services	
	2016/17	2015/16	2016/17	2015/16
	EUR 000	EUR 000	EUR 000	EUR 000
External revenue	9,818,737	9,588,141	732,374	678,295
Internal revenue (inter-segment)	91	410	33,868	30,894
Purchased goods and services	–5,096,506	–4,953,928	0	0
<b>Gross profit</b>	<b>4,722,322</b>	<b>4,634,623</b>	<b>766,242</b>	<b>709,189</b>
Operating income and expenses	–3,198,640	–3,090,102	–291,287	–284,664
Personnel expenses	–1,160,057	–1,164,737	–257,165	–269,252
Income (loss) from equity investments	–4,696	–1,133	96,432	74,294
Income from associates and joint ventures	–7,027	–3,871	96,425	74,294
Income from other equity investments	2,331	2,738	7	0
<b>Earnings before interest, tax, depreciation and amortisation (EBITDA)</b>	<b>403,284</b>	<b>432,618</b>	<b>320,244</b>	<b>233,451</b>
Depreciation and amortisation	–191,019	–203,173	–18,556	–19,897
Impairment losses	–66,153	–51,347	–4,692	–10,649
<b>Earnings before interest and tax (EBIT)</b>	<b>146,112</b>	<b>178,098</b>	<b>296,996</b>	<b>202,905</b>
<b>Segment assets</b>	<b>4,473,531</b>	<b>4,461,020</b>	<b>2,619,190</b>	<b>2,102,968</b>
Of which attributable to investments in associates and joint ventures	70,293	65,392	523,372	675,652
<b>Capital expenditure on intangible assets and property, plant and equipment</b>	<b>199,424</b>	<b>195,333</b>	<b>23,785</b>	<b>53,887</b>
<b>Gross cash flow from operating activities</b>	<b>467,419</b>	<b>503,811</b>	<b>266,607</b>	<b>209,313</b>
<b>Employees from continuing operations (average number)</b>	<b>24,129</b>	<b>23,866</b>	<b>6,671</b>	<b>7,805</b>

Services		All Segments		Holding/Consolidation		Group	
2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
1,960,659	1,838,009	12,511,770	12,104,445	0	0	12,511,770	12,104,445
1,064,572	1,061,649	1,098,531	1,092,953	–1,098,531	–1,092,953	0	0
–1,558,557	–1,464,248	–6,655,063	–6,418,176	135,821	151,393	–6,519,242	–6,266,783
<b>1,466,674</b>	<b>1,435,410</b>	<b>6,955,238</b>	<b>6,779,222</b>	<b>–962,710</b>	<b>–941,560</b>	<b>5,992,528</b>	<b>5,837,662</b>
–682,822	–673,631	–4,172,749	–4,048,397	927,880	903,650	–3,244,869	–3,144,747
–687,440	–702,504	–2,104,662	–2,136,493	–48,595	–49,192	–2,153,257	–2,185,685
–4,253	0	87,483	73,161	0	0	87,483	73,161
–4,253	0	85,145	70,423	0	0	85,145	70,423
0	0	2,338	2,738	0	0	2,338	2,738
<b>90,319</b>	<b>59,945</b>	<b>813,847</b>	<b>726,014</b>	<b>–83,424</b>	<b>–87,102</b>	<b>730,423</b>	<b>638,912</b>
–65,301	–67,477	–274,876	–290,547	0	0	–274,876	–290,547
–19,246	–27,730	–90,091	–89,726	0	0	–90,091	–89,726
<b>5,772</b>	<b>–35,262</b>	<b>448,880</b>	<b>345,741</b>	<b>–83,424</b>	<b>–87,102</b>	<b>365,456</b>	<b>258,639</b>
<b>951,252</b>	<b>825,181</b>	<b>8,043,973</b>	<b>7,389,169</b>	<b>–415,008</b>	<b>–412,423</b>	<b>7,628,965</b>	<b>6,976,746</b>
0	5,000	593,665	746,044	–11,480	–32,328	582,185	713,716
<b>159,256</b>	<b>82,439</b>	<b>382,465</b>	<b>331,659</b>	<b>0</b>	<b>0</b>	<b>382,465</b>	<b>331,659</b>
<b>109,604</b>	<b>71,108</b>	<b>843,630</b>	<b>784,232</b>	<b>–83,306</b>	<b>–88,053</b>	<b>760,324</b>	<b>696,179</b>
<b>18,594</b>	<b>17,547</b>	<b>49,394</b>	<b>49,218</b>	<b>393</b>	<b>379</b>	<b>49,787</b>	<b>49,597</b>



# NOTES

**ACCOUNTING PRINCIPLES AND POLICIES** PAGE 136

**SCOPE OF CONSOLIDATION** PAGE 151

**NOTES TO THE CONSOLIDATED  
INCOME STATEMENT** PAGE 156

**NOTES TO THE CONSOLIDATED BALANCE SHEET** PAGE 164

**NOTES TO THE CONSOLIDATED CASH FLOW  
STATEMENT** PAGE 186

**NOTES TO THE SEGMENT REPORTING** PAGE 187

**OTHER DISCLOSURES** PAGE 189

# 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 24 April 2017.

## (1) PRINCIPLES

The consolidated financial statements for the year ended 28 February 2017 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 § 315a (3) of the German Commercial Code (HGB). In addition, the supplementary commercial law regulations pursuant to § 315a (3) in conjunction with § 315a (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 acquisitions. For such transactions, no undisclosed reserves and charges are recognised and no goodwill is reported.

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.

## **(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 material foreign currency financial statements into euros were as follows:

1 Euro in foreign currencies	Average rate		Closing rate	
	2016/17	2015/16	28.02.2017	29.02.2016
US dollar (USD)	1.101	1.101	1.060	1.089
Russian ruble (RUB)	70.561	69.789	61.755	82.643
British pound (GBP)	0.834	0.728	0.853	0.786
Japanese yen (JPY)	119.198	132.911	118.830	123.140
Polish zloty (PLN)	4.353	4.212	4.315	4.354
Canadian dollar (CAD)	1.443	1.439	1.398	1.477
Brazilian real (BRL)	3.686	3.903	3.281	4.339
Hong Kong dollar (HKD)	8.540	8.542	8.225	8.465

### (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 26,604 thousand (29 February 2016: EUR 29,478 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 0.20% to 2.00%. Projected net cash flows are discounted on an after-tax basis using a risk-adjusted, country-specific interest rate. Other parameters are taken from standardised industry data. Discount rates of between 6.60% and 14.81% (29 February 2016: 7.01% to 13.66%) 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 5,252 thousand (29 February 2016: EUR 4,774 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.

### (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) Derivative 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 a foreign operation**

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

**(vii) Fair value of financial instruments**

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction on which the price is based takes place either in the principal market or in the most advantageous market to which the Otto Group has access. The price is measured using the assumptions that market participants would use when 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 (Personenhandels-gesellschaft) 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 2016/17 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 16*	Leases	1 January 2019
IFRS 10, IAS 28*	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	postponed
IAS 12*	Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January 2017
IAS 7*	Disclosure Initiative (Amendments to IAS 7)	1 January 2017
IFRS 15 *	Clarification of IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 2*	Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 4*	Applying IFRS9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	1 January 2018
Diverse*	Improvements to IFRSs (2014 – 2016)	1 January 2017/ 1 January 2018
IFRIC 22*	IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
IAS 40*	Transfers of Investment Property (Amendments to IAS 40)	1 January 2018

\* 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 implications of IFRS 9 for the Otto Group's consolidated financial statements largely depend on the Group's future financial instruments, future economic conditions and the choice of accounting methods, and on future discretionary decisions taken by the Group.

The introduction of IFRS 9 means that it is no longer possible in the event of a sale to recycle components of 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. The Otto Group is currently in the process of assessing future classification options for the consolidated financial statements. 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. The Otto Group is expected to adopt the simplified procedure for the classification of risk prevention for trade receivables with and without material financial components, as well as for leasing receivables. The Group is currently testing the implications of including projected information when calculating impairment losses. Based on current knowledge, this is not expected to cause any significant implications for the consolidated financial statements.

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. For hedging relationships with currency options, the fair value component is to be recorded in equity in the future as hedging costs in other comprehensive income. The implications arising from the new regulations result in a reduction in the volatility of the net financial result. 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. Furthermore, IFRS 9 also imposes significantly more extensive disclosure requirements, particularly in relation to hedge accounting, credit risk and expected credit losses.

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. The Otto Group is currently in the process of implementing the business-model-specific review arising from the first-time adoption of IFRS 15.

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. The criteria of IFRS 15 in relation to the transfer of control of goods will not lead to any significant adjustments to the time at which revenue is recognised. Regarding disclosure, there will be changes in the balance sheet recognition of return deliveries as well as of interest income from consumer financing. 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. The Otto Group is set to 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 will incorporate the 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. As a result, the Otto Group's total equity and liabilities will increase by the amount of the obligations from leases classified as operating leases under IAS 17 (see Note (42)). 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 still in the process of assessing the implications arising from the first-time adoption of IFRS 16 on the consolidated financial statements, and has launched a corresponding implementation project.

**(r) ADJUSTMENT OF COMPARATIVE INFORMATION**

The calculation of holiday pay and overtime liabilities was adjusted retrospectively in the Otto Group's consolidated financial statements. Rather than being measured in terms of monetary compensation obligations, holiday pay and overtime liabilities are measured in terms of economic value, which is calculated based on the obligation to grant time off.

In accordance with IAS 8, the following material effects of the retrospective adjustments on the consolidated balance sheet arise for the Otto Group:

	29.02.2016	Restatement	29.02.2016
	As reported previously	holiday and overtime liabilities	Restated
	EUR 000	EUR 000	EUR 000
Deferred tax assets	113,682	3,214	116,896
Consolidated retained earnings	441,498	– 12,110	429,388
Non-controlling interests	721,260	– 153	721,107
Current other financial liabilities	405,076	15,477	420,553

	01.03.2015	Restatement	01.03.2015
	As reported previously	holiday and overtime liabilities	Restated
	EUR 000	EUR 000	EUR 000
Deferred tax assets	124,551	3,214	127,765
Consolidated retained earnings	675,276	– 12,110	663,166
Non-controlling interests	710,647	– 153	710,494
Current other financial liabilities	451,973	15,477	467,450

When measuring holiday pay and overtime liabilities, random sampling showed that there were no significant deviations from the adjustment required as at 1 March 2015 and as at 29 February 2016, and as a result the comparative periods were adjusted using the same values.

# 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:

	28.02.2017	29.02.2016
<b>Fully consolidated subsidiaries</b>		
Germany	179	169
Other countries	188	186
<b>Total</b>	<b>367</b>	<b>355</b>
<b>Associates and joint ventures reported under the equity method</b>		
Germany	8	10
Other countries	19	11
<b>Total</b>	<b>27</b>	<b>21</b>

In the 2016/17 financial year, 8 companies were merged within the Otto Group (2015/16: 8 companies).

The consolidated financial statements include 108 companies (29 February 2016: 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.

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.

The Otto Group holds 100% of the shares in debt collection agency EOS CARI RECOVERIES S.L. However, due to the existing agreements with the seller and the financing bank, the Otto Group cannot exercise control. The company also has a loan from the Otto Group which has an estimated term of eight years. A bank deposit based on the original loan amount is used as a security. On the reporting date, the following balances resulted from the Otto Group's involvement with EOS CARI RECOVERIES S.L.:



	2016/17	2015/16
	EUR 000	EUR 000
Carrying amount of the loan and the interest – recognised in receivables from related parties and other financial investments	57,560	56,072
Carrying amount of receivables from cost allocation – recognised in other financial assets	18	18
Carrying amount of the loan payable – recognised in liabilities to related parties	–16,702	–14,376
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	41,714

In the 2016/17 financial year, the Otto Group received interest on granted loans to the amount of EUR 6,268 thousand (2015/16: EUR 8,240 thousand), and provided the company with further equity of EUR 2,000 thousand in order to offset the accumulated losses. This subsidy was made voluntarily. The amount was capitalised as subsequent acquisition costs for shares.

The Otto Group holds 30% of shares in securitisation company FCT Foncred II – Compartiment Foncred II-A. Due to existing agreements, the Otto Group cannot exercise significant influence. Furthermore, the Otto Group holds notes payable from the company without a fixed term. On the reporting date, the following balances resulted from the Otto Group's involvement with FCT Foncred II – Compartiment Foncred II-A:

	2016/17	2015/16
	EUR 000	EUR 000
Carrying amount of the notes payable and interest – recognised in receivables from related parties	11,013	14,439
Maximum exposure to loss (carrying amount of the notes payable plus carrying amount of the interest)	11,013	14,439

In the 2016/17 financial year, the Otto Group received interest on notes payable to the amount of EUR 3,551 thousand (2015/16: EUR 4,685 thousand).

## (5) CHANGES IN THE SCOPE OF CONSOLIDATION

### (a) ACQUISITIONS

In May 2016, 79.33 % of the shares in freight forwarding company Girard-Agediss SAS, Les Essarts, France, were acquired. The purchase price includes a contingent component in the form of a put option for 20.67 % of the shares. The company provides services in the two-man delivery sector.

In February 2017, the Otto Group also acquired a majority share in LieferFactory GmbH, Frankfurt am Main, Germany, and its subsidiaries. As part of the transaction, the Group's proportion of shares increased from 28.5 % to 61.18 %. These companies focus on the development and marketing of technology and software solutions for same-day transport.

The acquisition of these companies strengthens the Otto Group's Services segment.

The above-named acquisition transaction may be reconciled as follows:

	Fair value
	EUR 000
Intangible assets	10,345
Property, plant and equipment	14,158
Other financial investments	302
Vorräte	88
Receivables and other assets	21,706
Securities	3,313
Cash and cash equivalents	4,219
Deferred tax assets	1,369
Pension obligations	527
Bank liabilities	1,515
Trade Payables	11,366
Other provisions and liabilities	17,800
Other liabilities	6,071
Deferred tax liabilities	4,064
<b>Net assets excluding goodwill</b>	<b>14,157</b>
Goodwill recognised in income statement	15,725
Shares previously held and revalued	– 589
Dilution of shares due to unilateral capital increase	– 3,500
Non-controlling interests	– 793
<b>Consideration transferred</b>	<b>25,000</b>

With revenues of EUR 42,756 thousand, the companies mentioned above contributed a total of EUR 834 thousand to the Otto Group's EBT for the financial year. In addition, the companies disclose other comprehensive income and expenses amounting to EUR –77 thousand. Over the entire financial year, the companies generated EBT of EUR –2,383 thousand on revenues of EUR 81,285 thousand. As part of purchase price allocations, customer lists and an IT platform as well as trademark rights totalling EUR 8,904 thousand were reported with a remaining useful life of 10 years and 5 years respectively.

Further companies were also consolidated for the first time in the 2016/17 financial year, which in total are of only subordinate significance for the financial position and financial performance of the Otto Group.

## (b) DECONSOLIDATIONS

In addition to the companies that were classified as discontinued operations in the previous year (see Note (5)(c)), a number of companies were deconsolidated in the 2016/17 financial year, which in total are only of subordinate significance for the Otto Group's financial position and financial performance.

## (c) DISCONTINUED OPERATIONS AND DISPOSAL GROUPS

### (i) Discontinued operations

In the 2015/16 financial year, the decision was taken to dispose of significant Multichannel Retail activities in France. The 3SI Commerce operation represents a significant and separable business operation and, in accordance with IFRS 5, was classified as held for sale and reported as a discontinued operation. The sale was successfully concluded in January 2017. The closure of the remaining companies was largely completed. As at the closing date, provisions from the settlement for severance payments to personnel amounted to EUR 34,414 thousand.

In the previous year, the following assets and liabilities of the discontinued operations were recognised as held for sale:

	29.02.2016
	EUR 000
Intangible assets and property, plant and equipment	7,492
Non-current trade receivables	4,894
Other non-current assets	3,268
Inventories	17,626
Current trade receivables	32,111
Other current assets	42,689
Cash and cash equivalents	15,780
Deferred tax assets	1,003
<b>Assets held for sale</b>	<b>124,863</b>
Pensions and similar obligations and other non-current provisions	15,503
Non-current other liabilities	2,891
Current other provisions	79,034
Current trade payables	75,284
Current other liabilities	51,921
<b>Liabilities classified as held for sale</b>	<b>224,633</b>

The result for discontinued operations comprises the following components:

	2016/17	2015/16
	EUR 000	EUR 000
Income	255,723	650,156
Expenses	–386,879	–928,502
<b>Earnings before tax from discontinued operations</b>	<b>–131,156</b>	<b>–278,346</b>
Income tax	8,283	–1,300
<b>Loss for the year from discontinued operations</b>	<b>–122,873</b>	<b>–279,646</b>

The result for discontinued operations recognised an impairment of EUR 80,130 thousand in the previous year, which was due to the valuation carried out in the course of the reclassification as discontinued operations. 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 2015/16 financial year, the result for discontinued operations included lease instalments paid under operating leases amounting to EUR 1,206 thousand. There were no contingent rent payments. Future operating lease payments amounted to EUR 86 thousand for remaining terms of up to one year and EUR 31 thousand for remaining terms of more than one and less than five years. No payments were expected from sublease agreements. There were no future operating lease payments relating to the renting of properties. The present value of future operating lease payments amounted to EUR 4,602 thousand for discontinued operations.

The other comprehensive income and expenses for the 2015/16 financial year that related to discontinued operations totalled EUR 2,920 thousand. Of this, EUR 1,319 thousand resulted from remeasurements of the net defined benefit liability, EUR 1,177 thousand from fair values of cash flow hedge derivatives, and EUR 424 thousand from the adjustment items for the translation of financial statements in foreign currencies.

In the previous financial year, the companies that were classified as held for sale did not have net financial debt overall, but instead had a small amount of excess liquidity.

In the 2016/17 financial year, the average number of employees in these companies calculated on a full-time equivalent basis was 250 (2015/16: 1,907 employees).

## (ii) Disposal groups

An agreement on the sale of all shares in Alba Moda GmbH, Bad Salzflén, Germany, was concluded on 29 February 2016 and makes provisions for the transfer of control in the 2016/17 financial year. Accordingly, the company was presented as a disposal group pursuant to IFRS 5 as at last year's balance sheet date. Alba Moda GmbH operates as a mail-order company for fashion and was assigned to the Otto Group's Multichannel Retail segment.

Assets and liabilities held for sale as at 29 February 2016 are broken down as follows:

	29.02.2016
	EUR 000
Current trade receivables	8,656
Other current assets	1,216
Cash and cash equivalents	11,800
<b>Assets held for sale</b>	<b>21,672</b>
Pensions and similar obligations and other non-current provisions	2,200
Current other provisions	215
Current trade payables	5,359
Current other liabilities	2,725
<b>Liabilities classified as held for sale</b>	<b>10,499</b>

The deconsolidation of the company resulted in a loss of EUR 6,559 thousand in the 2016/17 financial year. The reclassification as a disposal group resulted in the previous year in an impairment of EUR 13,333 thousand, which was reported under other net financial income (expenses).

# NOTES TO THE CONSOLIDATED INCOME STATEMENT

## (6) REVENUE

Revenue is composed as follows:

	2016/17	2015/16
	EUR 000	EUR 000
Revenue from the sale of merchandise	9,782,446	9,574,365
Revenue from financial services	730,471	677,022
Revenue from other services	1,998,853	1,853,058
<b>Revenue</b>	<b>12,511,770</b>	<b>12,104,445</b>

## (7) OTHER OPERATING INCOME

Other operating income is made up as follows:

	2016/17	2015/16
	EUR 000	EUR 000
Income from ancillary business	194,826	191,591
Income from debt collection services	101,337	117,187
Advertising subsidies	87,401	84,331
Income from costs recharged to related parties and third parties	61,925	63,045
Income from reversal of provisions and liabilities	38,738	26,946
Income from disposal of assets	31,006	2,279
Income from amortised receivables	28,604	28,809
Income from leases	27,995	27,250
Income from charges to suppliers	13,721	15,577
Income from reversal of allowances on receivables	11,012	15,117
Miscellaneous	163,380	168,981
<b>Other operating income</b>	<b>759,945</b>	<b>741,113</b>

Miscellaneous operating income includes income from factoring settlements with the Hanseatic Bank GmbH & Co KG (see note (39)).



## (8) PURCHASED GOODS AND SERVICES

Purchased goods and services breaks down as follows:

	2016/17	2015/16
	EUR 000	EUR 000
Costs of merchandise	4,949,407	4,797,801
Costs of services received	1,550,544	1,449,484
Packing and shipping materials	19,291	19,498
<b>Purchased goods and services</b>	<b>6,519,242</b>	<b>6,266,783</b>

## (9) PERSONNEL EXPENSES

Personnel expenses are composed as follows:

	2016/17	2015/16
	EUR 000	EUR 000
Wages and salaries	1,774,314	1,813,180
Social security contributions	330,883	328,132
Retirement benefit costs	48,060	44,373
<b>Personnel expenses</b>	<b>2,153,257</b>	<b>2,185,685</b>

Wages and salaries include expenses of EUR 16,885 thousand (2015/16: EUR 54,738 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 2016/17 financial year, the average number of employees in the Otto Group calculated on a full-time equivalent basis was 49,787 (2015/16: 49,597). 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:

	2016/17	2015/16
	EUR 000	EUR 000
Catalogue and advertising costs	1,564,171	1,481,933
Leasing expenses	360,057	357,218
Shipping costs	343,769	336,657
Costs of contract staff	241,440	234,081
Maintenance and repairs	191,247	176,371
Derecognitions and changes in allowances on receivables	143,314	133,589
Order processing, warehousing and picking costs	131,995	133,752
Ancillary building costs	118,094	110,679
Commissions and fees	110,707	107,867
IT consultancy	99,168	103,072
Office and communication costs	97,678	110,798
Legal expenses and audit fees	82,986	69,754
General consulting costs	56,329	51,348
Vehicle costs	50,946	52,614
Other	412,913	426,127
<b>Other operating expenses</b>	<b>4,004,814</b>	<b>3,885,860</b>

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:

	2016/17	2015/16
	EUR 000	EUR 000
Amortisation of internally generated intangible assets	36,821	35,422
Amortisation of other intangible assets	62,495	68,776
Depreciation of property, plant and equipment	175,560	186,349
<b>Depreciation and amortisation</b>	<b>274,876</b>	<b>290,547</b>

## (13) IMPAIRMENT LOSSES

	2016/17	2015/16
	EUR 000	EUR 000
Impairment losses on goodwill	5,056	17,932
Impairment losses on other intangible assets	45,579	24,217
Impairment losses on property, plant and equipment	39,456	47,577
<b>Impairment losses</b>	<b>90,091</b>	<b>89,726</b>

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. Impairment losses on goodwill undertaken in the 2016/17 financial year were primarily attributable to one German financial services provider for which the current earnings forecasts lie below the original expectations reflected in the purchase price. This company is assigned to the Financial Services segment.

In the 2016/17 financial year, impairment losses on other intangible assets and on property, plant and equipment were primarily attributable to software developed in-house and acquired customer lists, as well as land and buildings. They primarily relate to one German retailer, one French holding company 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:

	2016/17	2015/16
	EUR 000	EUR 000
Interest income from loans and securities	28,067	25,678
Income from interest rate derivatives	6,481	5,872
Interest income from bank deposits	3,499	2,240
Other interest income	109	2,095
<b>Interest and similar income</b>	<b>38,156</b>	<b>35,885</b>
Interest expense for bank liabilities and bonds	–66,313	–65,136
Net interest expense on defined benefit plans	–31,499	–30,814
Expenses from interest rate derivatives	–9,897	–11,678
Interest on finance leases	–1,248	–2,227
Other interest expense	–18,663	–31,859
<b>Interest and similar expenses</b>	<b>–127,620</b>	<b>–141,714</b>
<b>Net interest income (expense)</b>	<b>–89,464</b>	<b>–105,829</b>
Income from financial investments and securities and from the disposal of shares in consolidated and associated companies and joint ventures	80,819	153,281
Bank charges	–53,567	–51,181
Expenses from financial investments and securities and from the disposal of shares in consolidated and associated companies and joint ventures	–46,855	–36,900
Foreign currency gains and losses	10,404	–15,187
Miscellaneous financial income (expense)	–4,912	–15,947
<b>Other net financial income (expense)</b>	<b>–14,111</b>	<b>34,066</b>
<b>Net financial result</b>	<b>–103,575</b>	<b>–71,763</b>

Expenses of EUR 53,509 thousand (2015/16: EUR 73,721 thousand) from financial instruments measured in accordance with IAS 39 are netted under net interest income.

## (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:

	2016/17	2015/16
	EUR 000	EUR 000
Current income tax, Germany	27,253	22,200
Current income tax, other countries	59,838	66,494
<b>Current income tax</b>	<b>87,091</b>	<b>88,694</b>
Deferred tax, Germany	–2,382	–8,485
Deferred tax, other countries	13,602	16,634
<b>Deferred tax</b>	<b>11,220</b>	<b>8,149</b>
<b>Income tax</b>	<b>98,311</b>	<b>96,843</b>

Income tax includes income taxes for prior years amounting to EUR 1,131 thousand (2015/16: EUR –3,361 thousand), of which EUR 1,292 thousand (2015/16: EUR –2,277 thousand) results from current income tax for the previous year and deferred tax for previous years amounting to EUR –161 thousand (2015/16: EUR –1,084 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 (29 February 2016: EUR 2,283 thousand) were recognised and were not discounted.

In the 2016/17 and 2015/16 financial years, existing tax loss carry-forwards amounting to EUR 164,567 thousand and EUR 181,410 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:

	2016/17	2015/16
	EUR 000	EUR 000
Earnings before tax from continuing operations (EBT)	261,881	186,876
Tax rate for Otto (GmbH & Co KG)	15%	15%
<b>Pro forma income tax expenses</b>	<b>39,282</b>	<b>28,031</b>
Corrections in deferred taxes	74,413	74,907
Non-deductible expenses	24,310	18,170
Income taxes for prior years	1,131	–3,361
Foreign withholding tax	597	868
Effects of consolidation adjustments recognised in income	–39,333	–12,144
Change in applicable tax rate	7,942	–4,072
Additions and deductions for trade tax	1,245	356
Non-taxable income	–11,167	–19,500
Permanent differences	–16,331	32,872
Differences in tax rates	16,714	–20,167
Other	–492	883
<b>Total differences</b>	<b>59,029</b>	<b>68,812</b>
<b>Income tax</b>	<b>98,311</b>	<b>96,843</b>



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:

	28.02.2017		29.02.2016	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	EUR 000	EUR 000	EUR 000	EUR 000
Intangible assets	15,328	96,822	10,558	91,348
Property, plant and equipment	29,913	93,762	30,727	88,497
Inventories	3,621	4,548	4,074	3,858
Receivables and other assets	24,233	27,947	27,154	28,790
Securities and financial investments	1,064	3,870	4,431	3,108
Provisions	140,853	56,973	105,456	55,307
Liabilities	58,317	3,711	67,194	16,689
<b>Temporary differences</b>	<b>273,329</b>	<b>287,633</b>	<b>249,594</b>	<b>287,597</b>
Loss carry-forwards	47,833	0	62,632	0
Offset	– 203,007	– 203,007	– 195,330	– 195,330
<b>Total</b>	<b>118,155</b>	<b>84,626</b>	<b>116,896</b>	<b>92,267</b>

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 581 thousand (2015/16: EUR 247 thousand), tax expenses from the change in the temporary differences in cash flow hedge derivatives amounting to EUR –573 thousand (2015/16: EUR –5,491 thousand) and tax expenses from the change in the temporary differences in the pensions provisions amounting to EUR –15,110 thousand (2015/16: EUR 6,269 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 3,124,211 thousand and EUR 2,659,019 thousand in the 2016/17 and 2015/16 financial years respectively. Of these, tax loss carry-forwards of EUR 3,031,240 thousand and EUR 2,586,591 thousand respectively can be carried forward indefinitely.

Deferred tax expenses from the occurrence and reversal of temporary differences amount to EUR –17,666 thousand (2015/16: EUR –11,494 thousand)

In the year under review, an interest carry-forward of EUR 65,901 thousand (2015/16: EUR 48,243 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 37,088 thousand (29 February 2016: EUR 26,400 thousand) for internally-generated intangible assets which are still in development.

In the 2016/17 financial year, borrowing costs amounting to EUR 48 thousand (29 February 2016: EUR 1,296 thousand) were capitalised on qualified assets, pursuant to IAS 23. The underlying capitalisation rate was 2.95% (29 February 2016: between 3.20%).

Of the goodwill recognised under intangible assets, EUR 215,870 thousand (29 February 2016: EUR 210,666 thousand) relates to companies from the Multichannel Retail segment, EUR 116,504 thousand (29 February 2016: EUR 119,606 thousand) to companies from the Financial Services segment and EUR 20,521 thousand (29 February 2016: EUR 6,067 thousand) to companies from the Services segment.

There are contractual obligations for the acquisition of intangible assets amounting to EUR 4,852 thousand (29 February 2016: EUR 7,273 thousand).

## (17) PROPERTY, PLANT AND EQUIPMENT

Subsidies received amounting to EUR 672 thousand (29 February 2016: EUR 258 thousand) were deducted from the additions to the purchase or production costs of property, plant and equipment.

In the 2016/17 financial year, no borrowing costs were capitalised on qualified assets (2015/16: EUR 13 thousand) pursuant to IAS 23. The previous year's underlying capitalisation rates lay between 1.70% and 3.80%.

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

	28.02.2017	29.02.2016
	EUR 000	EUR 000
Property	2,446	190
Technical plant	56,311	50,034
Computers and other IT equipment	11,082	5,147
Other business and office equipment	3,455	152
<b>Property, plant and equipment under finance leases</b>	<b>73,294</b>	<b>55,523</b>

Contractual obligations to acquire property, plant and equipment (purchase commitments) amounted to EUR 28,227 thousand (29 February 2016: EUR 49,692 thousand). The decrease in these obligations resulted from the capitalisation of property, plant and equipment that took place for a Group company domiciled in the United Kingdom and relates to the expansion of its logistics network.

## (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%):

	2016/17	2015/16
	EUR 000	EUR 000
Non-current assets	7,629,317	7,291,161
Current assets	4,461,778	3,673,305
Non-current liabilities	5,383,667	5,369,347
Current liabilities	5,262,278	4,304,172
<b>Net assets</b>	<b>1,445,150</b>	<b>1,290,947</b>
<b>Group's share of carrying amount</b>	<b>424,296</b>	<b>585,538</b>
Revenue	1,290,644	1,261,539
Profit for the year	187,519	147,341
Other comprehensive income for the year	-1,883	-5,833
<b>Total comprehensive income for the year</b>	<b>185,636</b>	<b>141,508</b>
of which, attributable to Group	84,204	64,188
Dividends received by the Group	15,865	27,133

COFIDIS PARTICIPATIONS, Villeneuve-d'Ascq, France, and its subsidiaries are included in the consolidated financial statement based on a shareholding of 29.36% (29 February 2016: 45.36%) calculated using the equity method. These associated companies have a different reporting date of 31 December, which is based on the reporting date of their parent company. The companies operate within the financial services sector, particularly in the area of consumer credit.

For 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:

	2016/17		2015/16	
	Joint ventures	Associated companies	Joint ventures	Associated companies
	EUR 000	EUR 000	EUR 000	EUR 000
Carrying amount of the investment	1,556	156,332	11,073	117,105
Loss/Profit for the year	-18,621	33,783	-8,860	24,821
Other comprehensive income for the year	253	15,292	216	4,413
<b>Total comprehensive income for the year</b>	<b>-18,368</b>	<b>49,075</b>	<b>-8,644</b>	<b>29,234</b>

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:

	28.02.2017	29.02.2016
	EUR 000	EUR 000
Fair Value	271,486	296,880
At cost	25,209	35,961
<b>Other financial investments</b>	<b>296,695</b>	<b>332,841</b>

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:

	2016/17	2015/16
	EUR 000	EUR 000
Merchandise	1.379.361	1.232.853
Raw materials, consumables and supplies	20.255	19.013
Finished goods and services and work in progress	3.761	11.266
<b>Inventories</b>	<b>1.403.377</b>	<b>1.263.132</b>

Inventory stock includes obsolescence allowances amounting to EUR 185,965 thousand (29 February 2016: EUR 183,894 thousand).



## (20) TRADE RECEIVABLES AND RECEIVABLES FROM FINANCIAL SERVICES

These receivables are composed as follows:

	28.02.2017	29.02.2016
	EUR 000	EUR 000
Trade receivables, gross	1,490,028	1,419,654
Allowances on trade receivables	– 146,469	– 121,173
<b>Trade receivables</b>	<b>1,343,559</b>	<b>1,298,481</b>
Receivables from financial services, gross	1,090,591	846,774
Allowances on receivables from financial services	– 6,729	– 14,259
<b>Receivables from financial services</b>	<b>1,083,862</b>	<b>832,515</b>

Receivables from financial services also include receivables purchased from third parties of EUR 970,513 thousand (29 February 2016: EUR 739,759 thousand).

Remaining terms of receivables as at 28 February 2017 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	1,187,563	155,996	0	1,343,559
Receivables from financial services	406,714	510,566	166,582	1,083,862

As at 29 February 2016, 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	1,145,518	152,963	0	1,298,481
Receivables from financial services	349,320	351,836	131,359	832,515

Value allowances recognised on existing trade receivables developed as follows:

	2016/17	2015/16
	EUR 000	EUR 000
<b>Allowances as at 1 March</b>	<b>121.173</b>	<b>134.150</b>
Exchange rate changes	–1,231	–1,714
Changes to the scope of consolidation	395	–1,210
IFRS 5	8,033	–15,174
Utilisation	–105,397	–103,343
Reversals	–8,039	–11,272
Additions	131,535	119,736
<b>Allowances as at 28/29 February</b>	<b>146,469</b>	<b>121,173</b>

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

	2016/17	2015/16
	EUR 000	EUR 000
<b>Allowances as at 1 March</b>	<b>14,259</b>	<b>12,919</b>
Exchange rate changes	0	5
Changes to the scope of consolidation	–455	0
Utilisation	–10,831	–8,673
Reversals	–2,973	–3,845
Additions	6,729	13,853
<b>Allowances as at 28/29 February</b>	<b>6,729</b>	<b>14,259</b>

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

	Less than 30 days	30 to 90 days	More than 90 days	Total
	EUR 000	EUR 000	EUR 000	EUR 000
Balance as at 28 February 2017	46,545	7,336	4,220	<b>58,101</b>
Balance as at 29 February 2016	46,712	7,469	2,087	<b>56,268</b>

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:

	28.02.2017	29.02.2016
	EUR 000	EUR 000
Receivables from unconsolidated subsidiaries	15,778	19,592
Receivables from associated companies and joint ventures	31,019	18,731
Receivables from other related parties	59,445	61,767
<b>Receivables from related parties</b>	<b>106,242</b>	<b>100,090</b>

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

	2016/17	2015/16
	EUR 000	EUR 000
<b>Allowances as at 1 March</b>	<b>3,125</b>	<b>2,918</b>
Disposals	– 219	– 350
Additions	13,011	557
<b>Allowances as at 28/29 February</b>	<b>15,917</b>	<b>3,125</b>

Remaining terms as at balance sheet date are as follows:

	28.02.2017	29.02.2016
	EUR 000	EUR 000
Remaining term of up to 1 year	45,491	38,124
Remaining term of more than 1 to 5 years	40,008	37,927
Remaining term of more than 5 years	20,743	24,039
<b>Receivables from related parties</b>	<b>106,242</b>	<b>100,090</b>

## (22) OTHER ASSETS AND SECURITIES

Other assets consist of the following:

	28.02.2017	29.02.2016
	EUR 000	EUR 000
Deposits	34,406	31,983
Derivatives at fair value	33,817	66,068
Amounts owed by suppliers	31,223	21,390
Receivables from employees	2,315	2,210
Other	398,544	85,592
<b>Other financial assets</b>	<b>500,305</b>	<b>207,243</b>
Expected returns of merchandise	87,251	79,083
Prepaid expenses	78,140	64,912
Receivables from other taxes	76,765	70,563
Other	106,434	50,420
<b>Miscellaneous other assets</b>	<b>348,590</b>	<b>264,978</b>
<b>Other assets</b>	<b>848,895</b>	<b>472,221</b>

The legal right to recover expected returns of merchandise to the amount of EUR 87,251 thousand (29 February 2016: EUR 79,083 thousand) corresponds to the purchase costs of the delivered goods expected to be returned, less the cost of processing the returns and any losses incurred during disposal. Other financial assets include the purchase price claim from the sale of shares in COFIDIS PARTICIPATIONS, Villeneuve-d'Ascq, France, which is due for payment in the following financial year, amounting to EUR 304,000 thousand. Other assets include advance payments from a German financial services provider amounting to EUR 66,769 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 2017	435,402	54,916	9,987	500,305
Balance as at 29 February 2016	138,227	50,188	18,828	207,243

Allowances to the amount of EUR 1,033 thousand (29 February 2016: EUR 3,304 thousand) were recognised for other assets.

The securities belonging to the available-for-sale financial assets (AFS) category amount to EUR 942 thousand (29 February 2016: EUR 129 thousand) and are fully accounted for at fair value.

## (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 (38)). 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:

	28.02.2017	29.02.2016
	EUR 000	EUR 000
Capital provided by the limited partners in Otto (GmbH & Co KG)	820,000	820,000
Consolidated retained earnings	56,268	33,901
<b>Puttable financial instruments</b>	<b>876,268</b>	<b>853,901</b>

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 40,948 thousand (29 February 2016: EUR 41,696 thousand) of consolidated retained earnings was not available for distribution as at 28 February 2017.

### (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:

	2016/17	2015/16
	EUR 000	EUR 000
Consideration paid (–) or received (+)	– 888	– 22,274
Increase (–)/decrease (+) in non-controlling interests	704	– 25,462
<b>Changes in net cost in excess of net assets acquired in step acquisitions</b>	<b>– 184</b>	<b>– 47,736</b>

#### (d) ACCUMULATED OTHER EQUITY

Accumulated other equity is composed as follows:

	2016/17	2015/16
	EUR 000	EUR 000
Revaluation surplus from fair value increments within the scope of step acquisitions with the transfer of control	13,603	13,603
Other taxes recognised in equity	1,679	1,638
<b>Accumulated other equity</b>	<b>15,282</b>	<b>15,241</b>

#### (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 <sup>1</sup>		Argosyn Group	
	2016/17	2015/16	2016/17	2015/16
	EUR 000	EUR 000	EUR 000	EUR 000
Non-current assets	454,695	479,955	549,213	793,029
Current assets	3,853	2,353	567,996	266,752
Non-current liabilities	121,190	112,600	1,551	7,107
Current liabilities	68,364	96,684	157,496	168,427
<b>Net assets</b>	<b>268,994</b>	<b>273,024</b>	<b>958,162</b>	<b>884,247</b>
of which, attributable to non-controlling interests	268,620	272,644	443,785	409,552
Revenue	0	11	68,585	167,938
Profit for the year	14,182	17,084	80,940	–4,531
of which, attributable to non-controlling interests	14,163	17,065	37,485	–2,098
Other comprehensive income for the year	1,170	–1,099	4,053	–2,619
<b>Total comprehensive for the year</b>	<b>15,352</b>	<b>15,985</b>	<b>84,993</b>	<b>–7,150</b>
of which, attributable to non-controlling interests	15,333	15,966	39,438	–3,311
<b>Net increase (decrease) of cash and cash equivalents</b>	<b>0</b>	<b>0</b>	<b>103,703</b>	<b>–1,352</b>
Dividends paid to non-controlling interests	19,357	13,936	0	0

<sup>1</sup> 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 2017, the as yet unpaid remuneration on the equity components named amounting to EUR 1,984 thousand (29 February 2016: EUR 533 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 twenty 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 2017, 31,743 packages worth EUR 27,376 thousand (29 February 2016: 35,513 packages worth EUR 31,231 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 11,273 thousand in the 2016/17 financial year (2015/16: EUR 12,808 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:

	2016/17	2015/16
	in %	in %
Discount rate	2.3	3.0
Salary trend	1.3	1.3
Pension trend	1.8	1.9
Inflation	1.9	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:

	28.02.2017	29.02.2016
	EUR 000	EUR 000
Defined benefit obligation, unfunded plans	1,249,260	1,152,533
Defined benefit obligation, funded plans	726,463	627,753
Reversals with regard to IFRS 5	0	–22,675
<b>Present value of pension obligations</b>	<b>1,975,723</b>	<b>1,757,611</b>
Fair value of plan assets	–618,287	–598,507
Reversals with regard to IFRS 5	0	8,189
<b>Provisions for pensions and similar obligations</b>	<b>1,357,436</b>	<b>1,167,293</b>

The net defined benefit liability has developed as follows:

	Defined benefit obligations		Plan assets		Provisions for pensions	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
<b>Status as at 1 March</b>	<b>1,757,611</b>	<b>1,858,094</b>	<b>590,318</b>	<b>622,697</b>	<b>1,167,293</b>	<b>1,235,397</b>
Current service cost	21,771	23,131	0	0	21,771	23,131
Past service cost	14,467	14,988	0	0	14,467	14,988
Effects of plan curtailments and settlements	99	–7,091	0	3,228	99	–10,319
Interest income (expense)	51,364	52,069	19,865	21,255	31,499	30,814
<b>Changes recognised in profit or loss</b>	<b>87,701</b>	<b>83,097</b>	<b>19,865</b>	<b>24,483</b>	<b>67,836</b>	<b>58,614</b>
Actuarial gains and losses						
arising on demographic assumptions	–3	20,314	0	0	–3	20,314
arising on financial assumptions	249,703	–82,955	0	0	249,703	–82,955
arising on experience adjustments	–6,784	–7,929	0	0	–6,784	–7,929
Return on plan assets less interest income	0	0	70,647	–8,902	–70,647	8,902
Foreign exchange rate changes	–50,721	–48,721	–46,589	–45,860	–4,132	–2,861
<b>Changes recognised in other comprehensive income</b>	<b>192,195</b>	<b>–119,291</b>	<b>24,058</b>	<b>–54,762</b>	<b>168,137</b>	<b>–64,529</b>
Payments to beneficiaries	–66,468	–62,385	–35,371	–31,551	–31,097	–30,834
Transfers	–71	–46	0	0	–71	–46
Contributions from employer	0	0	20,267	19,882	–20,267	–19,882
Changes to the scope of consolidation	4,755	20,817	–850	17,758	5,605	3,059
Reversals with regard to IFRS 5	0	–22,675	0	–8,189	0	–14,486
<b>Other changes</b>	<b>–61,784</b>	<b>–64,289</b>	<b>–15,954</b>	<b>–2,100</b>	<b>–45,830</b>	<b>–62,189</b>
<b>Status as at 28/29 February</b>	<b>1,975,723</b>	<b>1,757,611</b>	<b>618,287</b>	<b>590,318</b>	<b>1,357,436</b>	<b>1,167,293</b>



Plan curtailments resulted primarily from the restructuring of individual Group companies.

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

	28.02.2017	29.02.2016
	EUR 000	EUR 000
Securities	539,562	531,173
Cash and cash equivalents	47,255	41,742
Property	18,525	22,570
Other	12,945	3,022
Reversals with regard to IFRS 5	0	–8,189
<b>Plan assets</b>	<b>618,287</b>	<b>590,318</b>

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 2017/18 financial year, the Group expects to pay EUR 21,144 thousand into the defined benefit plans and also anticipates that EUR 59,379 thousand will be paid out from these plans.

The weighted average term of the present value of the defined benefit obligation is 19.4 years (29 February 2016: 18,3 years).

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

		2016/17	2015/16
		in %	in %
Discount rate	+ 0,5%	–8.8	–8.3
	– 0,5%	10.2	9.5
Pension trend	+ 0,25%	2.5	2.3
	– 0,25%	–2.4	–2.2
Life expectancy	Increase of one year	1.8	1.4
	Decrease of one year	–2.0	–1.6

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:

	01.03.2016	Exchange rate changes/ reclassi- fications/ changes in the scope of consolidation	Utilisation	Reversals	Additions	Compound- ing	28.02.2017
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Restructuring obligations	65,589	4,377	–40,733	–11,404	39,371	799	57,999
management of occupa- tional pensions	31,516	8	–52	–352	559	3,792	35,471
Personnel expenses	16,445	892	–5,832	–373	19,632	393	31,157
Costs of asset removal or site restoration	23,352	199	–427	–1,089	2,154	547	24,736
Legal costs and risks	10,239	5,007	–1,468	–1,494	5,588	14	17,886
Insurance provisions	16,670	0	0	0	445	0	17,115
Warranties and customer goodwill payments	8,654	0	–1,481	–85	173	0	7,261
Onerous contracts	5,467	–92	–2,951	–1,005	4,136	45	5,600
Other	80,593	27,459	–59,369	–16,421	54,049	74	86,385
<b>Other provisions</b>	<b>258,525</b>	<b>37,850</b>	<b>–112,313</b>	<b>–32,223</b>	<b>126,107</b>	<b>5,664</b>	<b>283,610</b>

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 2017:

	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	24,784	19,072	14,143	57,999
Costs of asset removal or site restoration	1,924	12,016	10,796	24,736
Insurance provisions	17,115	0	0	17,115
Personnel expenses	628	4,603	25,926	31,157
Legal costs and risks	17,598	288	0	17,886
Warranties and customer goodwill payments	6,631	630	0	7,261
Onerous contracts	4,719	881	0	5,600
Other	68,759	53,097	0	121,856
<b>Other provisions</b>	<b>142,158</b>	<b>90,587</b>	<b>50,865</b>	<b>283,610</b>

## (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 2017 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 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	13,268	770,540	45,000	<b>828,808</b>
Bank liabilities	564,276	401,021	172,147	<b>1,137,444</b>

The principal bonds outstanding as at 28 February 2017 have the following nominal values, interest rates and maturities:

Company	Financing commitment	Utilisation until 28.02.2017	Nominal interest rate	Re-offer yield	Maturity
		EUR 000			
Otto (GmbH & Co KG)	Bearer bond (DE000A1C93H4)	50,000	5.700%	5.700%	10.03.2017
Otto (GmbH & Co KG)	Bearer bond (AT0000A0UJL6)	149,460	4.625%	4.651%	29.09.2017
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 (XS1433512891)	250,000	2.500%	2.625%	16.06.2023

In February 2016, a nominal amount of EUR 20,000 thousand was repurchased from the bearer bond (XS0847087714) with an original total volume of EUR 300,000 thousand prior to maturity. In the 2016/17 financial year, these shares were sold on the market once again. Furthermore, a nominal amount of EUR 540 thousand was repurchased from the bearer bond (AT0000A0UJL6) with a total volume of EUR 150,000 thousand prior to maturity for market-making purposes.

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 2017, the total volume of bonds issued within the framework of the EMTN programme amounted to 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 2017, the total volume of outstanding commercial paper amounts to EUR 150,000 thousand.

As at 28 February 2017, there are the following material liabilities to various German and foreign banks (in order of maturity):

Segments	Currency	Utilisation until 28.02.2017 EUR 000	Interest rate	Maturity
	EUR	230,963	1.2 – 6.7%	2017 – 2021
Multichannel Retail	EUR	154,616	Euribor + variable mark-up	2019 – 2024
	EUR	101,999	1.5 – 6.9%	2023 – 2028
Financial Services	EUR	45,000	Euribor + variable mark-up	2019
	EUR	91,800	1.6 – 3.5%	2017 – 2023
Services	EUR	6,068	3.7 – 5.0%	2017 – 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:

	28.02.2017 EUR 000	29.02.2016 EUR 000
ABS liabilities	240,268	156,258
Finance lease liabilities	69,750	55,456
Loans payable	5,040	1,081
Bills payable	4,914	3,585
<b>Other financing liabilities</b>	<b>319,972</b>	<b>216,380</b>

The remaining terms to maturity as at 28 February 2017 are as follows:

	Remaining term of up to 1 year EUR 000	Remaining term of more than 1 to 5 years EUR 000	Remaining term of more than 5 years EUR 000	Total EUR 000
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
<b>Other financing liabilities</b>	<b>205,151</b>	<b>111,667</b>	<b>3,154</b>	<b>319,972</b>



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	156,258	0	0	156,258
Finance lease liabilities	10,281	40,778	4,397	55,456
Loans payable	1,081	0	0	1,081
Bills payable	3,585	0	0	3,585
<b>Other financing liabilities</b>	<b>171,205</b>	<b>40,778</b>	<b>4,397</b>	<b>216,380</b>

Finance lease liabilities as at 28 February 2017 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	21,712	49,392	3,252	74,356
Interest component	1,783	2,725	98	4,606
<b>Principal component</b>	<b>19,929</b>	<b>46,667</b>	<b>3,154</b>	<b>69,750</b>

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	12,005	44,284	4,665	60,954
Interest component	1,724	3,506	268	5,498
<b>Principal component</b>	<b>10,281</b>	<b>40,778</b>	<b>4,397</b>	<b>55,456</b>

## (29) LIABILITIES TO RELATED PARTIES

Liabilities to related parties consist of the following:

	28.02.2017	29.02.2016
	EUR 000	EUR 000
Liabilities to unconsolidated subsidiaries	8,970	8,899
Liabilities to associated companies and joint ventures	2,847	1,050
Liabilities to other related parties	21,717	17,581
<b>Liabilities to related parties</b>	<b>33,534</b>	<b>27,530</b>

The remaining terms to maturity were as follows:

	28.02.2017	29.02.2016
	EUR 000	EUR 000
Remaining term of up to 1 year	17,093	13,436
Remaining term of 1 to 5 years	15,977	13,627
Remaining term of more than 5 years	464	467
<b>Liabilities to related parties</b>	<b>33,534</b>	<b>27,530</b>

## (30) OTHER LIABILITIES

The other liabilities are composed as follows:

	28.02.2017	29.02.2016
	EUR 000	EUR 000
Liabilities to employees	262,117	260,554
Debtors with credit balances	94,721	101,950
Liabilities to puttable equity interest	92,138	100,053
Negative fair values of derivatives	31,653	43,087
Obligation to acquire equity interests	59,441	38,729
Other	110,258	76,943
<b>Other financial liabilities</b>	<b>650,328</b>	<b>621,316</b>
Liabilities for other taxes	211,902	208,463
Advance payments from customers	188,688	172,914
Deferred income	152,202	147,275
Social security liabilities	19,579	20,214
Liabilities for other charges	9,148	8,799
Other	2,014	2,190
<b>Miscellaneous other liabilities</b>	<b>583,533</b>	<b>559,855</b>
<b>Other liabilities</b>	<b>1,233,861</b>	<b>1,181,171</b>

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):

	28.02.2017	29.02.2016
	EUR 000	EUR 000
Remaining term of up to 1 year	414,989	420,553
Remaining term of more than 1 to 5 years	222,861	184,666
Remaining term of more than 5 years	12,478	16,097
<b>Other financial liabilities</b>	<b>650,328</b>	<b>621,316</b>

## (31) EMPLOYEE PARTICIPATION PROGRAMMES

In the 2006/07 financial year, a Group company in the United States established a virtual share option programme as a long-term employee incentive plan. Under IFRS 2, this programme is classified as a cash-settled share-based payment. The transaction currency for grants and repurchases of the appreciation rights is the US dollar.

The appreciation rights granted annually under this plan 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 allows for a maximum of 590,000 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
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	– 37,042	– 31,130	51,007	53.31	59.79
2013	124,200	– 41,455	– 20,259	46,873	38.26	74.63
2014	122,595	– 33,791	– 10,626	43,332	0.00	95.41
2015	148,860	– 23,292	– 4,091	40,916	0.00	100.11
2016	157,770	– 8,642	– 613	21,915	17.57	85.19
	<b>1,325,405</b>	<b>– 277,269</b>	<b>– 583,887</b>	<b>204,043</b>		

Taking into account the vesting period pursuant to IFRS 2, a liability of EUR 15,579 thousand was recognised as at balance sheet date (2015/16: EUR 496 thousand) Expenses amounting to EUR 14,583 thousand arose from the employee share option programme in the reporting year (2015/16: EUR 490 thousand).

In the financial year 2016/17, payments of EUR 78 thousand were made to former employees for rights that had already vested when they left the company (2015/16: no payments).

# 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:

	28.02.2017	29.02.2016
	EUR 000	EUR 000
Cash	379,042	234,545
Securities with maturities of three months or less	129	128
<b>Cash and cash equivalents</b>	<b>379,171</b>	<b>234,673</b>

Of the cash and cash equivalents reported in the consolidated cash flow statement, EUR 10,896 thousand have been deposited as collateral (29 February 2016: EUR 9,950 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 2016/17 financial year relate to the closing of finance lease contracts to the amount of EUR 23,862 thousand (2015/16: EUR 21,704 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:

	28.02.2017	29.02.2016
	EUR 000	EUR 000
<b>Segment assets</b>	<b>7,628,965</b>	<b>6,976,746</b>
Other financial investments	291,103	326,481
Receivables and other assets	49,130	61,798
Cash and cash equivalents	379,042	234,545
Deferred tax assets	118,155	116,896
Assets held for sale	0	146,535
<b>Consolidated assets</b>	<b>8,466,395</b>	<b>7,863,001</b>

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	
	2016/17	2015/16	28.02.2017	29.02.2016
	EUR 000	EUR 000	EUR 000	EUR 000
Germany	7,700,563	7,471,048	1,353,647	1,367,620
Europe (excluding Germany and Russia)	2,480,460	2,467,075	431,129	448,602
North America	1,824,941	1,670,864	406,525	412,357
Russia	267,975	264,461	17,539	21,289
Asia	202,579	195,498	57,634	59,345
Other regions	35,252	35,499	939	2,118
<b>Group</b>	<b>12,511,770</b>	<b>12,104,445</b>	<b>2,267,413</b>	<b>2,311,331</b>

# 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;

**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 2016/17 financial year.

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 2017. 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	1,343,559	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	–	–	–	–	–	–
<b>Loans and receivables (LAR)</b>	<b>3,379,193</b>	<b>3,379,193</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
Other financial investments	153	153	–	–	–	–	–	–
Securities	813	813	–	–	–	–	–	–
<b>Held to maturity (HTM)</b>	<b>966</b>	<b>966</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
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
<b>Available-for-sale financial assets (AFS)</b>	<b>296,671</b>	<b>25,056</b>	<b>0</b>	<b>271,615</b>	<b>271,615</b>	<b>309</b>	<b>271,306</b>	<b>0</b>
Derivatives not designated as hedging instruments	11,681	0	11,681	0	11,681	0	11,681	0
<b>Financial assets at fair value through profit or loss (AFV)</b>	<b>11,681</b>	<b>0</b>	<b>11,681</b>	<b>0</b>	<b>11,681</b>	<b>0</b>	<b>11,681</b>	<b>0</b>
<b>Cash flow hedges</b>	<b>22,136</b>	<b>0</b>	<b>0</b>	<b>22,136</b>	<b>22,136</b>	<b>0</b>	<b>22,136</b>	<b>0</b>

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	–	–	–	–	–	–
<b>Financial liabilities measured at amortised cost (OL)</b>	<b>4,606,430</b>	<b>4,606,430</b>	<b>0</b>	<b>0</b>	<b>2,545,848</b>	<b>1,029,337</b>	<b>1,516,511</b>	<b>0</b>
Other financial liabilities	59,441	0	0	59,441	59,441	0	59,441	0
Derivatives not designated as hedging instruments	14,152	0	14,152	0	14,152	0	14,152	0
<b>Financial liabilities at fair value through profit or loss (LFV)</b>	<b>73,593</b>	<b>0</b>	<b>14,152</b>	<b>59,441</b>	<b>73,593</b>	<b>0</b>	<b>73,593</b>	<b>0</b>
<b>Cash flow hedges</b>	<b>17,501</b>	<b>0</b>	<b>0</b>	<b>17,501</b>	<b>17,501</b>	<b>0</b>	<b>17,501</b>	<b>0</b>

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	1,298,481	1,298,481	–	–	–	–	–	–
Receivables from financial services	832,515	832,515	–	–	–	–	–	–
Receivables from related parties	100,090	100,090	–	–	–	–	–	–
Other financial assets	141,175	141,175	–	–	–	–	–	–
Cash and cash equivalents	234,545	234,545	–	–	–	–	–	–
<b>Loans and receivables (LAR)</b>	<b>2,606,806</b>	<b>2,606,806</b>	–	–	–	–	–	–
Other financial investments	332,841	35,961	0	296,880	296,880	137	296,743	0
Securities	129	0	0	129	129	129	0	0
<b>Available-for-sale financial assets (AFS)</b>	<b>332,970</b>	<b>35,961</b>	<b>0</b>	<b>297,009</b>	<b>297,009</b>	<b>266</b>	<b>296,743</b>	<b>0</b>
Derivatives not designated as hedging instruments	23,305	0	23,305	0	23,305	0	23,305	0
<b>Financial assets at fair value through profit or loss (AFV)</b>	<b>23,305</b>	<b>0</b>	<b>23,305</b>	<b>0</b>	<b>23,305</b>	<b>0</b>	<b>23,305</b>	<b>0</b>
<b>Cash flow hedges</b>	<b>42,763</b>	<b>0</b>	<b>0</b>	<b>42,763</b>	<b>42,763</b>	<b>0</b>	<b>42,763</b>	<b>0</b>



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	31,231	31,231	–	–	–	–	–	–
Bonds and other notes payable	828,808	828,808	0	0	860,178	740,456	119,722	0
Bank liabilities	1,137,444	1,137,444	0	0	1,149,815	0	1,149,815	0
Other financing liabilities	160,925	160,925	–	–	–	–	–	–
of which, finance lease liabilities	55,456	55,456	–	–	–	–	–	–
Trade payables	1,127,140	1,127,140	–	–	–	–	–	–
Liabilities to related parties	27,530	27,530	–	–	–	–	–	–
Other financial liabilities	539,500	539,500	–	–	–	–	–	–
<b>Financial liabilities measured at amortised cost (OL)</b>	<b>3,908,034</b>	<b>3,908,034</b>	<b>0</b>	<b>0</b>	<b>2,009,993</b>	<b>740,456</b>	<b>1,269,537</b>	<b>0</b>
Other financial liabilities	38,729	0	0	38,729	38,729	0	38,729	0
Derivatives not designated as hedging instruments	13,717	0	13,717	0	13,717	0	13,717	0
<b>Financial liabilities at fair value through profit or loss (LFV)</b>	<b>52,446</b>	<b>0</b>	<b>13,717</b>	<b>38,729</b>	<b>52,446</b>	<b>0</b>	<b>52,446</b>	<b>0</b>
<b>Cash flow hedges</b>	<b>29,369</b>	<b>0</b>	<b>0</b>	<b>29,369</b>	<b>29,369</b>	<b>0</b>	<b>29,369</b>	<b>0</b>

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

### Net gain/net loss

	28.02.2017			29.02.2016		
	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	663,030	663,030	0	587,905	587,905
LAR excluding financial services	0	–69,344	–69,344	0	–90,390	–90,390
Receivables from financial services	0	732,374	732,374	0	678,295	678,295
Available-for-sale financial assets (AFS)	–19,987	–16,033	–36,020	40,068	24,168	64,236
Financial assets at fair value through profit or loss (AFV)	0	16,120	16,120	0	25,952	25,952
Financial liabilities measured at amortised cost (OL)	0	5,370	5,370	0	–10,755	–10,755
Financial liabilities at fair value through profit or loss (LFV)	0	–36,739	–36,739	0	–28,638	–28,638

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 732,374 thousand (29 February 2016: EUR 678,295 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 2017, assets from ABS transactions totalling EUR 147,047 thousand (29 February 2016: EUR 89,049 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:

	28.02.2017		29.02.2016	
	Nominal value	Fair value	Nominal value	Fair value
	EUR 000	EUR 000	EUR 000	EUR 000
<b>Assets</b>				
Currency derivatives	1,109,115	33,817	1,291,708	66,068
<b>Total</b>	<b>1,109,115</b>	<b>33,817</b>	<b>1,291,708</b>	<b>66,068</b>
<b>Liabilities</b>				
Currency derivatives	681,079	16,201	1,037,962	22,828
Interest rate derivatives	342,742	15,452	423,713	20,258
<b>Total</b>	<b>1,023,821</b>	<b>31,653</b>	<b>1,461,675</b>	<b>43,086</b>

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:

	28.02.2017		29.02.2016	
	Nominal value	Fair value	Nominal value	Fair value
	EUR 000	EUR 000	EUR 000	EUR 000
<b>Assets</b>				
Currency derivatives	556,504	22,137	859,588	42,763
<b>Total</b>	<b>556,504</b>	<b>22,137</b>	<b>859,588</b>	<b>42,763</b>
<b>Liabilities</b>				
Currency derivatives	208,056	3,044	184,107	10,993
Interest rate derivatives	287,616	14,457	349,504	18,376
<b>Total</b>	<b>495,672</b>	<b>17,501</b>	<b>533,611</b>	<b>29,369</b>

The underlying transactions hedged eventuate in a period of up to six years in the case of foreign exchange derivatives and 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 75,994 thousand in the case of foreign exchange derivatives and EUR 342,742 thousand in the case of interest rate derivatives. For recognized underlying transactions from a hedging transaction with foreign exchange derivatives, 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:

	28.02.2017			29.02.2016		
	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
<b>Financial assets</b>						
Interest rate and currency derivatives	33,817	8,095	25,722	66,068	19,607	46,461
<b>Financial liabilities</b>						
Interest rate and currency derivatives	31,653	8,095	23,558	43,087	19,607	23,480

## (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.

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 2017. 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	
		2016/17	2015/16	2016/17	2015/16
		EUR 000	EUR 000	EUR 000	EUR 000
Fluctuation in USD	+ 10%	12,586	9,617	- 32,999	- 37,979
	- 10%	- 20,941	- 16,052	44,461	46,682
Fluctuation in HKD	+ 10%	1,457	1,722	46	351
	- 10%	- 1,239	- 1,583	- 46	- 351
Fluctuation in CHF	+ 10%	- 35	- 3,377	15,716	23,255
	- 10%	70	3,460	- 15,675	- 23,096
<b>Total effects</b>	+ 10%	<b>14,008</b>	<b>7,962</b>	<b>- 17,237</b>	<b>- 14,373</b>
	- 10%	<b>- 22,110</b>	<b>- 14,175</b>	<b>28,740</b>	<b>23,235</b>

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	
		2016/17	2015/16	2016/17	2015/16
		EUR 000	EUR 000	EUR 000	EUR 000
Shift in level of interest	+ 50 bp	174	301	4,463	5,842
	- 50 bp	- 169	- 305	- 4,685	- 6,042

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.

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 Multi-channel 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.

**(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 2017:

	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	<b>1,370,443</b>
Bank liabilities	555,584	442,586	194,115	<b>1,192,285</b>
Trade payables	1,335,904	39,707	0	<b>1,375,611</b>
Other financial liabilities	615,827	268,570	13,385	<b>897,782</b>
of which, derivative financial instruments	16,717	18,189	555	<b>35,461</b>

As at 29 February 2016, 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	31,412	861,084	45,684	<b>938,180</b>
Bank liabilities	584,688	458,120	200,072	<b>1,242,880</b>
Trade payables	1,086,014	41,756	0	<b>1,127,770</b>
Other financial liabilities	578,391	167,396	17,715	<b>763,502</b>
of which, derivative financial instruments	25,101	19,976	1,797	<b>46,874</b>

## **(38) 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 2017.

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 2016 to 28 February 2017

	2016/17	2015/16
	EUR 000	EUR 000
<b>Revenue</b>	<b>11,780,409</b>	<b>11,427,340</b>
Other operating income	749,156	722,697
<b>Revenue and other operating income</b>	<b>12,529,565</b>	<b>12,150,037</b>
Change in inventories and other internal costs capitalised	42,517	54,638
Purchased goods and services	–6,519,335	–6,266,881
Personnel expenses	–1,896,092	–1,916,433
Other operating expenses	–3,737,526	–3,614,765
Income (loss) from equity investments	300,278	190,690
Income from associates and joint ventures	297,947	187,952
Income from other equity investments	2,331	2,738
<b>Earnings before interest, tax, depreciation and amortisation (EBITDA)</b>	<b>719,406</b>	<b>597,287</b>
Depreciation and amortisation	–256,320	–270,650
Impairment losses	–85,399	–79,078
<b>Earnings before interest and tax (EBIT)</b>	<b>377,687</b>	<b>247,559</b>
Interest and similar income	39,028	34,463
Interest and similar expenses	–120,715	–135,438
Other net financial income	–72,987	5,877
<b>Earnings before tax (EBT)</b>	<b>223,013</b>	<b>152,462</b>
Income tax	–68,648	–71,741
<b>Profit/loss for the year from continuing operations</b>	<b>154,365</b>	<b>80,721</b>
Loss for the year from discontinued operations	–122,873	–279,646
<b>Profit/loss for the year</b>	<b>31,492</b>	<b>–198,925</b>
Profit/loss attributable to the owners of Otto (GmbH & Co KG)	–33,998	–218,617
Profit/loss attributable to non-controlling interests	62,164	19,692
Profit/loss attributable to participation certificates	3,326	0

**Financial services at equity consolidated balance sheet as at 28 February 2017**

	28.02.2017	29.02.2016*	01.03.2015*
	EUR 000	EUR 000	EUR 000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets	3,673,085	3,512,400	3,563,526
Intangible assets	629,593	623,272	677,962
Property, plant and equipment	1,442,798	1,493,507	1,625,812
Investments in associates and joint ventures	1,319,534	1,075,708	998,775
Other financial investments	281,160	319,912	260,977
Trade receivables	155,996	152,966	154,164
Receivables from related parties	1,054	12,531	15,188
Other assets	62,933	80,974	77,377
Other financial assets	43,519	48,030	70,069
Miscellaneous other assets	19,414	32,945	7,308
	<b>3,893,069</b>	<b>3,758,871</b>	<b>3,810,255</b>
<b>Deferred tax</b>	<b>129,724</b>	<b>127,498</b>	<b>135,728</b>
<b>Current assets</b>			
Inventories	1,359,934	1,226,175	1,387,859
Trade receivables	1,055,369	1,019,364	1,020,595
Receivables from related parties	29,482	24,838	69,978
Income tax receivables	32,153	33,678	66,332
Other assets	357,492	338,536	424,249
Other financial assets	108,398	125,447	207,595
Miscellaneous other assets	249,095	213,089	216,655
Securities	852	39	39
Cash and cash equivalents	286,807	157,984	178,322
Assets held for sale	0	146,535	151,911
	<b>3,122,089</b>	<b>2,947,149</b>	<b>3,299,286</b>
<b>Total assets</b>	<b>7,144,882</b>	<b>6,833,518</b>	<b>7,245,269</b>

\* Prior year restated

	28.02.2017	29.02.2016*	01.03.2015*
	EUR 000	EUR 000	EUR 000
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Equity attributable to the owners of Otto (GmbH & Co KG)	434,121	680,750	851,126
Capital provided by the limited partners in Otto (GmbH & Co KG)	820,000	820,000	770,000
Consolidated retained earnings	353,839	429,388	663,166
Net cost in excess of net assets acquired in step acquisitions	-217,097	-222,948	-173,565
Accumulated other comprehensive income	-537,903	-360,931	-423,911
Accumulated other equity	15,282	15,241	15,436
Non-controlling interests	743,175	708,477	698,718
Participation certificates	71,590	70,000	0
	<b>1,248,886</b>	<b>1,459,227</b>	<b>1,549,845</b>
<b>Non-current provisions and liabilities</b>			
Profit and loss participation rights	23,900	26,287	35,754
Pensions and similar obligations	1,297,288	1,114,833	1,188,771
Other provisions	137,099	113,953	101,017
Bonds and other notes payable	622,100	602,045	656,433
Bank liabilities	323,203	359,045	419,777
Other financing liabilities	49,821	45,175	41,036
Trade payables	39,707	41,126	45,226
Liabilities to related parties	464	467	2,206
Other liabilities	354,709	322,509	332,232
Other financial liabilities	233,131	198,470	198,285
Miscellaneous other liabilities	121,578	124,039	133,947
	<b>2,848,292</b>	<b>2,625,440</b>	<b>2,822,452</b>
<b>Deferred tax</b>	<b>64,299</b>	<b>73,322</b>	<b>74,013</b>
<b>Current provisions and liabilities</b>			
Profit and loss participation rights	3,476	4,944	1,684
Other provisions	113,946	117,273	174,500
Bonds and other notes payable	258,333	9,794	51,962
Bank liabilities	354,816	354,775	432,979
Other financing liabilities	111,836	103,979	99,119
Trade payables	1,265,238	1,026,837	1,048,948
Liabilities to related parties	15,926	12,502	77,049
Income tax liabilities	31,223	33,202	29,113
Other liabilities	794,196	777,089	822,862
Other financial liabilities	353,775	363,712	410,859
Miscellaneous other liabilities	440,421	413,377	412,003
Liabilities classified as held for sale	34,414	235,132	60,744
	<b>2,983,405</b>	<b>2,675,528</b>	<b>2,798,959</b>
<b>Total equity and liabilities</b>	<b>7,144,882</b>	<b>6,833,518</b>	<b>7,245,269</b>

\* Prior year restated

**Financial services at equity consolidated cash flow statement 1 March 2016 to 28 February 2017**

	2016/17	2015/16
	EUR 000	EUR 000
Earnings before interest and tax (EBIT)	377,687	247,559
Depreciation, amortisation and impairment losses/reversal of impairment losses on intangible assets and property, plant and equipment	334,088	334,762
Profits (-)/losses (+) from associates and joint ventures	-297,947	-187,952
Dividends received from associates and joint ventures	136,352	157,875
Increase (+)/decrease (-) in allowances on loans, receivables and inventories	115,666	100,799
Gains (-)/losses (+) on disposals of items in intangible assets and property, plant and equipment	-15,901	19,573
Pension payments exceeding (-)/less than (+) pension expenses	-16,096	-26,397
Other non-cash income (-) and expenses (+)	356	280
<b>Gross cash flow from operating activities</b>	<b>634,205</b>	<b>646,499</b>
Decrease (+)/increase (-) in working capital	-74,076	-76,736
Decrease (+)/increase (-) in inventories (gross)	-114,186	20,960
Decrease (+)/increase (-) in trade receivables (gross)	-100,185	-200,378
Increase (+)/decrease (-) in provisions	6,907	27,710
Increase (+)/decrease (-) in trade payables	189,298	86,511
Increase (+)/decrease (-) in receivables due from related parties/in payables due to related parties	-2,312	-35,278
Changes in other assets/liabilities	-53,598	23,739
<b>Net cash generated from operating activities</b>	<b>560,129</b>	<b>569,763</b>
Income tax paid	-64,013	-31,476
Interest received	19,771	15,203
Cash inflows/outflows from non-current financial assets and securities	3,221	568
<b>Cash flow from operating activities from continuing operations</b>	<b>519,108</b>	<b>554,057</b>
Operating cash flow from discontinued operations	-125,929	-101,818
<b>Cash flow from operating activities</b>	<b>393,179</b>	<b>452,238</b>



	2016/17	2015/16
	EUR 000	EUR 000
<b>Cash flow from operating activities</b>	<b>393,179</b>	<b>452,238</b>
Capital expenditures on purchases of intangible assets and property, plant and equipment	– 273,378	– 255,362
Payments for acquisition of subsidiaries	– 16,869	– 3,445
Capital expenditures on purchases of other financial investments	– 313,569	– 238,668
Proceeds from disposals of intangible assets and property, plant and equipment	77,310	30,343
Proceeds from disposals of consolidated subsidiaries	21,180	152,357
Proceeds from disposals of other financial investments	99,292	146,258
<b>Cash flow from investing activities from continuing operations</b>	<b>– 406,033</b>	<b>– 168,516</b>
Investing cash flow from discontinued operations	– 28,213	– 9,587
<b>Cash flow from investing activities</b>	<b>– 434,247</b>	<b>– 178,103</b>
<b>Free cash flow</b>	<b>– 41,068</b>	<b>274,135</b>
Dividends paid	– 56,473	– 30,839
Interest paid and bank charges	– 130,932	– 144,545
Proceeds from additions to equity/payments for reductions in equity	0	120,000
Payments for step acquisitions in subsidiaries	0	– 22,274
Proceeds/payments (net) for issues and repurchases of profit and loss participation rights	– 4,221	– 6,378
Payments of principal on finance lease	– 15,308	– 11,935
Proceeds from assumption of other financial liabilities	560,226	104,072
Repayments of other financial liabilities	– 187,497	– 266,544
<b>Financing cash flow from continuing operations</b>	<b>165,794</b>	<b>– 258,442</b>
Financing cash flow from discontinued operations	9	– 2,274
<b>Cash flow from financing activities</b>	<b>165,804</b>	<b>– 260,716</b>
Cash and cash equivalents at beginning of period	158,023	178,362
Net increase in cash and cash equivalents	124,736	13,419
Changes in cash and cash equivalents due to foreign exchange rates	4,087	– 6,177
Reclassification with regard to disposal groups	0	– 27,581
<b>Cash and cash equivalents at end of period</b>	<b>286,846</b>	<b>158,023</b>

**(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)**

	2016/17				
	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
<b>Revenue</b>	<b>12,511,770</b>	<b>– 766,242</b>	<b>34,881</b>	<b>0</b>	<b>11,780,409</b>
Other operating income	759,945	– 14,730	3,941	0	749,156
<b>Revenue and other operating income</b>	<b>13,271,715</b>	<b>– 780,971</b>	<b>38,822</b>	<b>0</b>	<b>12,529,565</b>
Changes in inventories and other internal costs capitalised	48,538	– 6,021	0	0	42,517
Purchased goods and services	– 6,519,242	0	– 93	0	– 6,519,335
Personnel expenses	– 2,153,257	257,165	0	0	– 1,896,092
Other operating expenses	– 4,004,814	306,016	– 38,729	0	– 3,737,527
Income (loss) from equity investments	87,483	– 96,432	0	309,227	300,278
Income from associates and joint ventures	85,145	– 96,425	0	309,227	297,947
Income from other equity investments	2,338	– 7	0	0	2,331
<b>Earnings before interest, tax, depreciation and amortisation (EBITDA)</b>	<b>730,423</b>	<b>– 320,243</b>	<b>0</b>	<b>309,227</b>	<b>719,406</b>
Depreciation and amortisation	– 274,876	18,556	0	0	– 256,320
Impairment losses	– 90,091	4,692	0	0	– 85,399
<b>Earnings before interest and tax (EBIT)</b>	<b>365,456</b>	<b>– 296,995</b>	<b>0</b>	<b>309,227</b>	<b>377,687</b>
Interest and similar income	38,156	– 12,607	13,479	0	39,028
Interest and similar expenses	– 127,620	20,384	– 13,479	0	– 120,715
Other net financial income	– 14,111	– 49,986	0	– 8,891	– 72,987
<b>Earnings before tax (EBT)</b>	<b>261,881</b>	<b>– 339,204</b>	<b>0</b>	<b>300,336</b>	<b>223,013</b>
Income tax	– 98,311	29,663	0	0	– 68,648
<b>Profit/loss for the year from continuing operations</b>	<b>163,570</b>	<b>– 309,541</b>	<b>0</b>	<b>300,336</b>	<b>154,365</b>
Loss for the year from discontinued operations	– 122,873	0	0	0	– 122,873
<b>Profit/loss for the year</b>	<b>40,697</b>	<b>– 309,541</b>	<b>0</b>	<b>300,336</b>	<b>31,492</b>
Profit/loss attributable to the owners of Otto (GmbH & Co KG)	– 33,998	– 232,791	0	232,791	– 33,998
Profit/loss attributable to non-controlling interests	68,923	– 74,304	0	67,545	62,164
Profit/loss attributable to participation certificates	5,772	– 2,446	0	0	3,326

## (c) NOTES ON THE RECONCILIATION OF THE CONSOLIDATED BALANCE SHEET

### Reconciliation of consolidated balance sheet (FS at equity)

28.02.2017

	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
<b>ASSETS</b>					
<b>Non-current assets</b>					
Fixed assets	3,146,293	– 734,038	0	1,260,829	3,673,085
Intangible assets	799,812	– 170,312	0	93	629,593
Property, plant and equipment	1,467,602	– 24,804	0	0	1,442,798
Investments in associates and joint ventures	582,184	– 523,372	0	1,260,721	1,319,534
Other financial investments	296,695	– 15,550	0	15	281,160
Trade receivables	155,996	0	0	0	155,996
Receivables from financial services	677,148	– 677,148	0	0	0
Receivables from related parties	60,751	– 13,159	94,556	– 141,095	1,054
Other assets	85,290	– 22,356	0	0	62,933
Other financial assets	64,903	– 21,383	0	0	43,519
Miscellaneous other assets	20,387	– 973	0	0	19,414
	<b>4,125,478</b>	<b>– 1,446,701</b>	<b>94,556</b>	<b>1,119,734</b>	<b>3,893,069</b>
<b>Deferred tax</b>	<b>118,155</b>	<b>– 8,313</b>	<b>19,882</b>	<b>0</b>	<b>129,724</b>
<b>Current assets</b>					
Inventories	1,403,377	– 43,442	0	0	1,359,934
Trade receivables	1,187,563	– 132,194	0	0	1,055,369
Receivables from financial services	406,714	– 406,714	0	0	0
Receivables from related parties	45,491	– 197,560	744,803	– 563,252	29,482
Income tax receivables	36,028	– 3,875	0	0	32,153
Other assets	763,606	– 406,132	18	0	357,492
Other financial assets	435,402	– 327,005	0	0	108,398
Miscellaneous other assets	328,204	– 79,127	18	0	249,095
Securities	942	– 90	0	0	852
Cash and cash equivalents	379,042	– 92,236	0	0	286,807
	<b>4,222,762</b>	<b>– 1,282,242</b>	<b>744,821</b>	<b>– 563,251</b>	<b>3,122,089</b>
<b>Total assets</b>	<b>8,466,395</b>	<b>– 2,737,256</b>	<b>859,259</b>	<b>556,483</b>	<b>7,144,882</b>

28.02.2017

	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
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Equity attributable to the owners of Otto (GmbH & Co KG)	434,121	– 266,873	0	266,873	434,121
Capital provided by the limited partners in Otto (GmbH & Co KG)	820,000	0	0	0	820,000
Consolidated retained earnings	353,839	– 123,617	0	123,617	353,839
Net cost in excess of net assets acquired in step acquisitions	– 217,097	– 155,053	0	155,053	– 217,097
Accumulated other comprehensive income	– 537,903	12,761	0	– 12,761	– 537,903
Accumulated other equity	15,282	– 964	0	964	15,282
Non-controlling interests	756,832	– 601,380	0	587,722	743,175
Participation certificates	116,984	– 45,394	0	0	71,590
	<b>1,307,937</b>	<b>– 913,647</b>	<b>0</b>	<b>854,595</b>	<b>1,248,886</b>
<b>Financing the investments outside the segment</b>	<b>0</b>	<b>– 406,235</b>	<b>0</b>	<b>406,235</b>	<b>0</b>
<b>Non-current provisions and liabilities</b>					
Profit and loss participation rights	23,900	0	0	0	23,900
Pensions and similar obligations	1,357,436	– 60,148	0	0	1,297,288
Other provisions	141,452	– 4,352	0	0	137,099
Bonds and other notes payable	884,238	0	0	– 262,137	622,100
Bank liabilities	569,593	– 110,200	0	– 136,190	323,203
Other financing liabilities	114,821	– 65,000	0	0	49,821
Trade payables	39,707	0	0	0	39,707
Liabilities to related parties	16,441	– 107,412	94,555	– 3,120	464
Other liabilities	356,958	– 2,249	0	0	354,709
Other financial liabilities	235,339	– 2,208	0	0	233,131
Miscellaneous other liabilities	121,619	– 41	0	0	121,578
	<b>3,504,546</b>	<b>– 349,361</b>	<b>94,555</b>	<b>– 401,447</b>	<b>2,848,292</b>
<b>Deferred tax</b>	<b>84,626</b>	<b>– 40,209</b>	<b>19,882</b>	<b>0</b>	<b>64,299</b>
<b>Current provisions and liabilities</b>					
Profit and loss participation rights	3,476	0	0	0	3,476
Other provisions	142,158	– 28,212	0	0	113,946
Bonds and other notes payable	367,188	0	0	– 108,855	258,333
Bank liabilities	539,435	– 35,109	0	– 149,510	354,816
Other financing liabilities	205,151	– 93,314	0	0	111,836
Trade payables	1,335,904	– 70,985	319	0	1,265,238
Liabilities to related parties	17,093	– 703,545	746,913	– 44,535	15,926
Income tax liabilities	47,564	– 16,341	0	0	31,223
Other liabilities	876,904	– 80,297	– 2,411	0	794,196
Other financial liabilities	414,989	– 58,802	– 2,411	0	353,775
Miscellaneous other liabilities	461,916	– 21,495	0	0	440,421
Liabilities classified as held for sale	34,414	0	0	0	34,414
	<b>3,569,286</b>	<b>– 1,027,804</b>	<b>744,822</b>	<b>– 302,900</b>	<b>2,983,405</b>
<b>Total equity and liabilities</b>	<b>8,466,395</b>	<b>– 2,737,256</b>	<b>859,259</b>	<b>556,483</b>	<b>7,144,882</b>

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.



## (39) 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:

	2016/17	2015/16
	EUR 000	EUR 000
<b>Income Statement</b>		
Revenue	22,245	30,160
Other operating income	52,882	46,669
Purchased goods and services	3,928	2,202
Personnel expenses	13,085	12,314
Other operating expenses	15,412	18,878
Net financial income (expense)	– 12,301	10,721
	28.02.2017	29.02.2016
	EUR 000	EUR 000
<b>Balance Sheet</b>		
Receivables from related parties	106,242	100,090
Cash and cash equivalents	7,246	8,469
Pension obligations to related parties	55,733	50,806
Liabilities to related parties	33,535	27,530

### (a) TRANSACTIONS WITH ASSOCIATED COMPANIES AND JOINT VENTURES

Revenues from associated companies and joint ventures in the 2016/17 financial year amount to EUR 10,428 thousand (2015/16: EUR 6,313 thousand). They result primarily from income from receivables collection with the Cofidis Group amounting to EUR 9,518 thousand (2015/16: EUR 4,927 thousand).

Other operating income amounts to EUR 43,541 thousand in the 2016/17 financial year (2015/16: EUR 37,887 thousand) and results as to EUR 41,266 thousand (2015/16: EUR 36,458 thousand) from income from factoring settlements with Hanseatic Bank GmbH & Co KG, Hamburg, and as to EUR 1,103 thousand (2015/16: EUR 332 thousand) from financing relationships with the Cofidis Group, primarily consisting of commission for marketing credit cards, income from leasing activities.

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 2016/17 financial year, receivables totalling EUR 1,504,956 thousand (2015/16: EUR 1,400,224 thousand) were sold. As at 28 February 2017 the cash and cash equivalents held at Hanseatic Bank GmbH & Co KG, Hamburg, amount to EUR 7,246 thousand (29 February 2016: EUR 8,469 thousand).

Information regarding the amount of the receivables and liabilities from associates 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 associates and joint ventures, and from short-term financing between companies.

### **(b) RELATED PARTY TRANSACTIONS WITH PARTNERS**

As at 28 February 2017 and as at 29 February 2016, 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 owned by subsidiaries of ECE Projektmanagement G.m.b.H. & Co. KG, Hamburg, or managed by the latter.

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 2016/17 financial year amounts to EUR 7,541 thousand (2015/16: EUR 8,807 thousand) and is payable in the short term. Of this, EUR 4,325 thousand relates to fixed components (2015/16: EUR 4,185 thousand) and EUR 3,216 thousand relates to variable components (2015/16: EUR 4,622 thousand). The pension obligations to members of the Executive Board amount to EUR 15,039 thousand (29 February 2016: EUR 15,217 thousand). Allocations to pension provisions amount to EUR 3,266 thousand (2015/16: EUR 1,205 thousand).

The remuneration of former members of the Executive Board and their survivors amounts to EUR 2,278 thousand (2015/16: EUR 2,302 thousand). Provisions of EUR 40,694 thousand (29 February 2016: EUR 35,589 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 2016/17 financial year amounts to EUR 280 thousand (2015/16: EUR 277 thousand).

## **(40) CONTINGENT LIABILITIES**

The Otto Group's contingent liabilities consist of guarantees and other obligations to the amount of EUR 16,277 thousand (29 February 2016: EUR 14,758 thousand).

## **(41) OPERATING LEASES**

The lease instalments paid under operating leases during the year under review amounting to EUR 360,057 thousand (2015/16: EUR 357,218 thousand) were recognised in the income statement. Of this, EUR 3,196 thousand relates to contingent rent payments (2015/16: EUR 2,918 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	320,052	872,100	502,507	<b>1,694,659</b>

Receipts of EUR 358 thousand (2015/16: EUR 623 thousand) are expected from sublease agreements.

Future operating lease payments of EUR 1,577,377 thousand (2015/16: EUR 1,597,776 thousand) relate to the renting of properties.

The present value of future operating lease payments amounts to EUR 1,464,157 thousand. A term- and country-specific incremental borrowing interest rate of between 1.40% and 3.89% was used to calculate the present value as at the closing date.

Operating leases relating to discontinued operations are explained in Note (5)(c).

## (42) AUDITORS' FEES

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

	2016/17	2015/16
	EUR 000	EUR 000
Fees for auditing the financial statements	2,146	2,165
Fees for other auditing services	52	50
Fees for tax consultancy services	371	400
Fees for other services	152	1,262
<b>Auditors' fees</b>	<b>2,721</b>	<b>3,877</b>

Of other services, EUR 74 thousand (2015/16: EUR 440 thousand) relate to the previous year.

## (43) LIST OF SHAREHOLDINGS

The list of Otto Group shareholdings as at 28 February 2017, 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](http://www.ottogroup.com/konzerngesellschaften). Otto (GmbH Co KG) makes use of the exemptions stipulated in § 264b HGB.

## (44) 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

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
Karl-Heinz Grussendorf, Hamburg*	Deputy Chairman, Chairman of the Works Council, until 22 March 2017, Works Council as of 23 March 2017, 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
Dr. Richard Gottwald, Hamburg*	Executive employee/Marketing and Sales, until 30 September 2016
Herta Heuberger, Sauerlach/Arget*	Chairwoman of the General Works Council, SportScheck GmbH, until 31 March 2016
Heike Lattekamp, Hamburg*	ver.di Trade Union Secretary Commerce
Dr. Wolfgang Linder, Hamburg	General Manager (retired)
Anja Marreck, Holzkirchen*	Works Council SportScheck GmbH, as of 1 April 2016, 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 12 April 2017
Sandra Widmaier-Gebauer, Hamburg*	Executive employee/Human Resources, as of 1 October 2016
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 Otto Group (CEO), as of 1 January 2017 Member of the Executive Board, Multichannel Distance Selling Otto Group, Spokesman OTTO, until 31 December 2016
Hans-Otto Schrader, Hamburg	Chairman of the Executive Board and Chief Executive Officer Otto Group (CEO), until 31 December 2016
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, as of 1 January 2017
Neela Montgomery, Hamburg	Member of the Executive Board, Multichannel Retail Otto Group
Petra Scharner-Wolff, Hamburg	Member of the Executive Board, Chief Financial Officer (CFO), Controlling, Human Resources Otto Group
Hanjo Schneider, Hamburg	Member of the Executive Board, Services Otto Group
Dr. Winfried Zimmermann, Hamburg	Member of the Executive Board, Projects, Corporate Audit, Transformation and IT Otto Group

**(45) EVENTS AFTER THE REPORTING PERIOD**

In March 2017, the Otto Group signed a contract with private equity companies Advent International and Bain Capital Private Equity relating to the sale of all shares in RatePAY GmbH, Berlin, Germany. The sale is subject to the approval of the regulatory authorities.

No further events of major significance to the Otto Group occurred after the balance sheet date of 28 February 2017.

Hamburg, 26 April 2017

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 2016 to 28 February 2017. 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 315a (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.



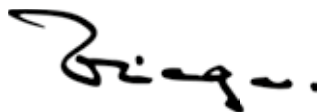
In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code [HGB] and full IFRS and give a true and fair view of the net 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 27 April 2017

KPMG AG  
Wirtschaftsprüfungsgesellschaft



Becker  
Wirtschaftsprüfer  
[German Public Auditor]



Prof. Dr. Zieger  
Wirtschaftsprüfer  
[German Public Auditor]

S

T

I

D

E

R

U

**PUBLISHED BY**

Otto Group | Otto (GmbH & Co KG)  
 Werner-Otto-Straße 1–7  
 22179 Hamburg, Germany  
[www.ottogroup.com](http://www.ottogroup.com)

**RESPONSIBILITY**

Thomas Voigt  
 Head of Corporate Communications  
 Phone: +49 (0)40 6461-4010  
 Fax: +49 (0)40 6461-4490  
 Email: [thomas.voigt@ottogroup.com](mailto:thomas.voigt@ottogroup.com)

**EDITORIAL TEAM – IMAGE**

Robert Hägelen, Jennifer Buchholz,  
 Kristina Drews, Maren Liesegang

**EDITORIAL TEAM – CORPORATE RESPONSIBILITY**

Dr Johannes Merck, Vice President Corporate Responsibility Otto Group,  
 Daniel Hußmann, Hannah Frieda Gronwald, Annika Kettenburg,  
 Akzente Kommunikation und Beratung GmbH, Munich

**EDITORIAL TEAM – FINANCE**

Peter Krohn, Vice President Group Accounting Otto Group,  
 Andre Karowski, Doris Büch, Petra Grote, Tom Klimkeit

**CONCEPTION AND DESIGN**

Strichpunkt GmbH, Stuttgart/Berlin

**PHOTOGRAPHY**

Anna Thut, Berlin  
 Isadora Tast, Hamburg

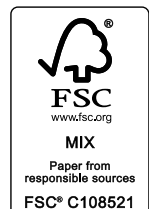
**TRANSLATION**

United Language Group

**Disclaimer**

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

The wood used to make this printing paper was harvested in an environmentally friendly way, certified in accordance with the standards of the Forest Stewardship Council®.



[ottogroupunterwegs.com](http://ottogroupunterwegs.com)

[instagram.com/ottogroupcom](http://instagram.com/ottogroupcom)

[facebook.com/ottogroupcom](http://facebook.com/ottogroupcom)

[xing.com/  
companies/  
ottogroup](http://xing.com/companies/ottogroup)



[jobfinder.ottogroup.com](http://jobfinder.ottogroup.com)

[ottogroup.com](http://ottogroup.com)

[ottogroup.com/  
hellofuture](http://ottogroup.com/hellofuture)



[youtube.com/c/  
ottogroup\\_com](http://youtube.com/c/ottogroup_com)

[linkedin.com/  
company/ottogroup](http://linkedin.com/company/ottogroup)

[@OttoGroup\\_Com](https://twitter.com/OttoGroup_Com)

