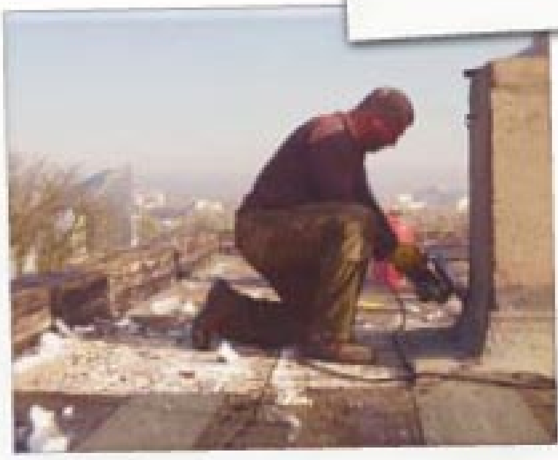
"A leaky roof! Now and then, every house needs a roof renovation. As a building professional, I'm there to do it right for our customers."

Mirko Schilde, Altan Bauträger-und Projektentwicklungs GmbH, Dresden, Germany

When there's loads to be done, you get up early. Work starts at sunrise. Frankfurt is where it's happening today.



First the old insulation has to come off. The corners by the chimney are especially tricky.

It costs blood, sweat and tears ...

GROUP MANAGEMENT REPORT

Even though it's dream weather, there's no time to be lost. Heiko Riel from HORNBACH coordinates the next steps.

… but just a few hours later the roof is topless.

GROUP MANAGEMENT REPORT

Macroeconomic Framework

Global economy thrown off course by financial crisis
For the global economy, 2008 turned into a nightmare. The economic outlook had deteriorated sharply since the summer due to the intensification in the financial crisis. More than anything, it was the insolvency of Lehman Brothers in September 2008 that brought the situation to a head. Media reports included talk of a meltdown in the financial system. Spiraling prices on stock markets, the freefall in prices of risky assets, and the temporary drying up of money markets meant that banks came under ever greater pressure. This led numerous countries to introduce massive state rescue packages for individual institutions and assistance worth billions for the financial sector as a whole.

Given the fundamental crisis of confidence in international financial markets and the negative development in asset prices, the downturn in the real economy gained further momentum in the fourth quarter of 2008, with no sign of the recession bottoming out since then. The sudden increase in risk aversion has led to a marked deterioration in financing terms for companies, and that in spite of energetic interest rate cuts by central banks. The downturn in global demand has hit economies heavily dependent on exports, such as Japan and Germany, especially hard, as well as a number of emerging markets. The effects of this have been felt particularly keenly in major sectors of the economy, such as the automobile and engineering industries. However, other sectors have also witnessed drastic reductions in capacity utilization rates since autumn 2008, and have reacted by massively scaling back new investment.

The corrections in the prices of commodities and oil due to economic developments, which have seen crude oil prices collapse by more than 70 % at times since peaking in July 2008, have been insufficient to compensate for the negative effects in terms of foreign trade. Having said this, the reduction in energy prices in particular at least led to a marked reduction in consumer price inflation at the end of 2008. This boosted purchasing power, thus lending a certain degree of stability to private consumer spending. At base, however, this was unable to cushion the downturn in the global economy to any significant extent.

Europe in recession
The strong start to the year meant that total economic output in the euro area still managed to grow by 0.8 % in the 2008 calendar year (2007: 2.6 %). In the second half of the year, however, the global recession cast an ever greater shadow over Europe. According to Eurostat, the statistics authority of the European Communities, real-term gross domestic product (GDP) adjusted for seasonal factors fell by 1.5 % in the fourth quarter compared with the previous quarter. That marked the third reduction in succession, and was also the most severe downturn since the introduction of the European Currency Union at the beginning of 1999. Economic output fell 1.3 % short of the previous year’s figure.

The decline in economic output was chiefly due to the drastic cutback in industrial production in response to the collapse in new orders. In December 2008, these were 22 % down on the previous year’s figure in the euro area. In terms of distribution, the economic downturn in the fourth quarter of 2008 was reflected most clearly in exports, which fell by 7.3 % on the previous quarter, and thus notably more rapidly than imports (minus 5.5 %). Capital investment decreased by 2.7 %. Growing uncertainty concerning future economic developments and the labor market outlook also weighed on private consumer spending in the final quarter of 2008. This decreased by 0.9 % compared with the third quarter. Within the euro area, Germany reported the sharpest drop in real-term GDP in the fourth quarter of 2008, followed by Portugal and Italy. Only Cyprus and Greece still managed to report growth. According to the European Commission, the downward economic course, which has also affected the economies of EU member states in Eastern Europe, is set to continue at least until mid-2009.

Economic and Sector Developments in Germany

Switching into reverse

Due to the disruptions caused by the financial crisis, German economic growth virtually halved to 1.3 % in 2008 (2007: 2.5 %). However, this positive figure conceals the increasingly negative course of events as the year progressed. Following a first quarter which was still robust, Germany switched into reverse gear, sliding into a severe recession in autumn 2008. As disclosed by the Federal Statistics Office, following adjustment for seasonal and calendar factors real-term GDP in the fourth quarter of 2008 (October to December) was 2.1 % lower than in the third quarter. This represented the sharpest quarterly decline in economic output since German reunification. Compared with the final quarter of 2007, price-adjusted GDP fell by 1.6 %.

This quarterly downturn was primarily attributable to the export sector, which shrank by 7.3 % and thus at almost twice the rate of imports. The export sector alone thus accounted for 2.0 percentage points of the decline in overall economic output. The lack of momentum from foreign trade, coupled with the drastic deterioration in financing terms and the ever more severe under-utilization of production capacities led German companies to significantly scale back their investments in equipment. They invested 4.9 % less in machinery, appliances and vehicles than in the third quarter. Prior to this, investments in equipment had risen for eight consecutive quarters, albeit only at low rates of growth in the second and third quarters of 2008.

Construction investments, which were 1.3 % lower in the fourth quarter than in the same period a year earlier, came off more lightly. Given companies' cautious approach to investment in view of economic developments, no positive momentum was recently to be expected from commercial construction. The promotion of public sector infrastructure projects included in the Federal Government's first economic stimulus package in November 2008 had no opportunity to take effect before the end of the year due to the customary time lags required for planning and project preparation. The extent to which investments in housing construction will benefit in 2009 from the state measures promoting modernization and maintenance measures remains to be seen. The economic stimulus package will also only impact on official building permit statistics, which decreased by 4.2 % in 2008, following a certain delay.

Notwithstanding the negative asset-price effect of the financial crisis, private consumer spending proved to be relatively robust in the fourth quarter of 2008, as did government consumption. Price-adjusted consumer spending almost matched the previous year's figure (minus 0.1 %). For the year as a whole, private household consumer spending remained virtually unchanged. In nominal terms, consumer spending grew year-on-year by 2.1 %. That consumer spending was unable to provide any greater growth impetus was largely the fault of the high rate of inflation in 2008. Together with higher collective pay increases agreed in 2008, the rise in employment totals in Germany through to November led private households' disposable income to grow by 2.5 %. However, this increase was devoured by the 2.6 % rise in consumer prices. What's more, the insecurity created by the financial and economic crisis led Germans to push up the savings rate from 10.8 % to 11.4 %.

Marked slowdown in inflation

The underlying framework for consumer spending has been characterized by opposing factors since autumn of last year. On the one hand, inflation has slowed significantly due to the sharp reduction in energy and food prices. The consumer prices index, which at an annual average of 2.6 % showed its highest increase for 14 years in 2008, was due to the high rates of inflation in the first half of the year. From its high of 3.3 % in the summer, the index returned to around 1 % by February 2009. This development has boosted purchasing power. On the other hand, consumer confidence deteriorated increasingly due to the reports on the implications of the financial crisis for the real economy. Not only that, real-term incomes can also be assumed to have suffered from the substantial reductions in prices on the financial markets. Overall, however, consumers seemed to have regained confidence at the beginning of the year. According to the monthly surveys carried out by the GfK Group, the consumer climate improved slightly in February thanks to stable prices and the government's old car scrapping incentive program. Consumers' expectations as to future developments in the economy and their personal income situation, which had previously been on the decline, began to make up some ground. The surprisingly large increase in consumers' propensity to spend in January 2009 has remained at a pleasing level – a positive omen for the retail sector.

Retail proves crisis-resistant

According to sector figures, German specialist construction materials retailers concluded 2008 with slight sales growth of 1.5%. This was due to business with commercial customers which, thanks mainly to demand in the field of energy-related modernization, grew by 2.5%. Business demand thus more than made up for the decline in sales in the private customer business (minus 2.3%), which continued to suffer from the ongoing downturn in owner-occupied housing construction.

The German retail sector has been valiant in the face of the economic crisis since September. According to the Federal Statistics Office, price-adjusted retail sales (excluding automobile retail and gas stations) were 0.4% lower in 2008 than in 2007. In nominal terms, the retail sector was able to boost its sales by 2.1%. Given the 0.6 percentage point rise in the savings rate, this represents a positive result, especially since the previous year's sales had still fallen in both nominal terms (minus 1.3%) and real terms (minus 2.3%) following the introduction of a higher sales tax rat as of January 1, 2007.

A glance at the individual segments within the retail sector reveals no uniform trend. Food retail sales fell by 2.9% in real terms as consumers reacted to the drastic rise in food prices in the first three quarters of 2008. Non-food retailers reported overall sales growth of 2.6% in nominal terms and 1.2% in real terms. Having said this, individual non-food segments also felt the effects of price sensitivity on the part of consumers, who were more reserved when it came to making larger-scale purchases, such as furniture and fitments.

DIY sector maintains ground having raced to catch up

The German DIY and garden center sector (DIY retail / DIY) maintained its ground well in a difficult economic climate in 2008. According to the Federal Association of German Home Improvement, DIY and Specialist Garden Stores (BHB), the sector was caught out by a sobering start to the year, but nevertheless managed to make up for this shortfall virtually in full in the second half of the year. Sales at large DIY stores with indoor sales areas of at least 1,000 m² per outlet amounted to € 17.55 billion at the end of the 2008 calendar year, and were thus 0.5% down on the previous year's figure (€ 17.64 billion). Including sales at DIY shops with sales areas of less than 1,000 m², the market volume of all DIY and home improvement stores in Germany based on the harmonized calculation undertaken by the BBE and BHB sector associations and the GfK Group also declined by 0.5% to € 21.6 billion in 2008 (2007: € 21.7 billion).

In terms of demand for DIY and garden articles, the consumer climate can best be measured by reference to the development in sales in the German DIY sector adjusted to exclude newly opened and closed stores. The unfavorable weather conditions compared with the spring season in 2007 severely impaired the garden business. Over and above this, DIY enthusiasts' desire to shop was cooled by high inflation rates. As is apparent from the findings of the BHB/GfK report, like-for-like sales slumped by 6.9% between January and March 2008. The turn for the better only came in May which, with growth of almost 18%, was the strongest month in terms of sales since the BHB/GFK panel was launched more than ten years ago. The downturn in sales for the six-month period thus reduced to 3.7%. In the third quarter, companies achieved like-for-like growth of just below one percent. The months of October to December 2008 did not bring any noteworthy impetus for sales. The German DIY sector concluded the 2008 calendar year with a 2.0% reduction in like-for-like sales. DIY retail thus proved resilient in spite of the sudden economic slowdown since the autumn.

As the data in the BHB/GfK report shows, products of a decorative nature had especially good turnover potential in 2008. Within the sanitary / heating product group, which with growth of 4.9 % had a clear head start over other product groups, the bathroom furnishings segment reported the strongest growth. Sales in the garden furniture and decoration product group rose by 1.9 %. The wallpaper / flooring / interior decoration product group improved, due in particular to increased demand for home textiles. Construction materials / construction chemicals and garden hardware were also slightly up on the previous year (0.1 % in each case). All other product ranges failed to match the level of sales seen in 2007. There remains a backlog of demand for some traditional DIY products which, like tools and machines (minus 4.7 %), came under pressure from competing sales formats. Not only that, DIY and home improvement stores also reported more drastic reductions in sales in the fields of leisure / handicrafts / handiwork (minus 13.4 %), as well as small and self-construction furniture (minus 4.1 %).

The BHB sector association sees the performance of the various product ranges as confirming the theory that people are particularly prone to withdraw into their private spheres in times of economic uncertainty, and thus to invest in embellishing their own four walls and gardens. As a result, decorative design ideas are thus coming even more sharply into the foreground, as are renovation projects such as “interior lifestyle”, “feel-good bathrooms”, and “garden paradise”.

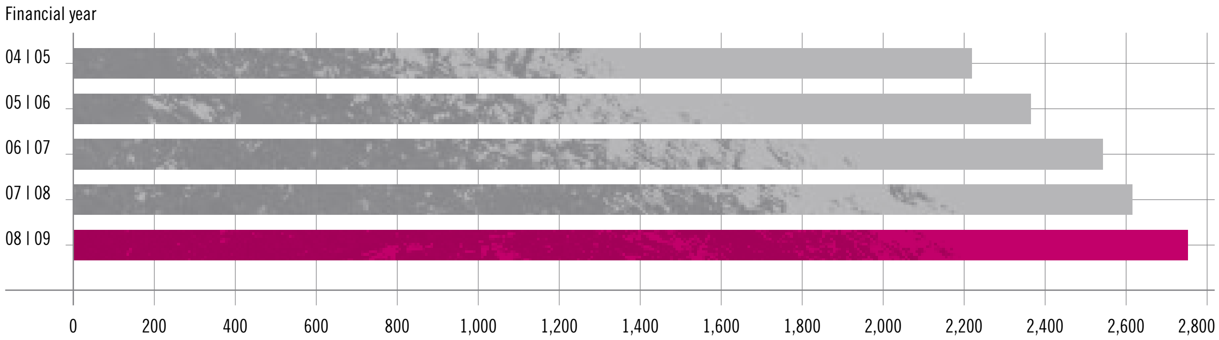
While the guys at the site are still disposing of the remains of the old roof …

… the first layer of the new roof is already on the way.

And that can take a bit of time in a city like Frankfurt.

We still manage to install the first sections of the vapor barrier on the bare roof before the end of the day.

Sales Performance of the HORNBACH Group
(net, € million)



Sales Performance

The HORNBACH HOLDING AG Group comprised the HORNBACH-Baumarkt-AG, HORNBACH Baustoff Union GmbH (HBU) and HORNBACH Immobilien AG subgroups at the reporting date on February 28, 2009. The HORNBACH Group increased its consolidated sales (excluding sales tax) by 5.1% from € 2,617 million to € 2,752 million in the 2008/2009 financial year (March 1, 2008 to February 28, 2009).

Sales at DIY megastores with garden centers grow by 5.2 %
The HORNBACH-Baumarkt-AG subgroup successfully defied the difficult economic climate in the past financial year (March 1, 2008 to February 28, 2009) and stepped up its rate of sales growth compared with the previous year. All in all, consolidated net sales grew by 5.2% from € 2,469 million to € 2,599 million.

Net sales in Germany countered the sector trend, rising by 1.8% to € 1,534 million (2007/2008: € 1,507 million). As in previous years, HORNBACH thus grew more rapidly than the DIY sector once again in 2008. Our international stores latched seamlessly onto their successful business performance in the previous year, boosting sales by 10.6% from € 962 million to € 1,065 million. The share of the subgroup's sales generated by the international stores exceeded the 40% mark for the first time in the year under report, amounting to 41.0% at the end of the year (2007/2008: 39.0%).

Like-for-like sales growth of 1.4 %
Like-for-like sales at the HORNBACH-Baumarkt-AG subgroup, i.e. excluding sales at newly opened stores, grew by 1.4% in the 2008/2009 financial year (2007/2008: minus 0.2%).

Unlike in the previous year, which was characterized by sharply contrasting performances in Germany and abroad, the German locations also contributed to this like-for-like growth in 2008/2009. In Germany, we maintained a clear head start over the overall DIY market. In other European countries, we managed yet again to increase the already high level of sales.

Like-for-like Sales Performance (DIY) by Quarter
(in percent)

2008/2009 financial year 2007/2008 financial year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Group	**1.5**	**3.0**	**2.3**	**(1.8)**	**1.4**
	4.6	(1.1)	(4.1)	(0.8)	(0.2)
Germany	**0.6**	**2.8**	**1.9**	**(0.9)**	**1.2**
	1.7	(4.2)	(8.3)	(4.3)	(3.6)
Other European countries	**3.0**	**3.2**	**3.0**	**(3.2)**	**1.7**
	10.1	4.5	3.5	5.6	6.0

Note: due to a retrospective correction in the calculation of like-for-like sales abroad, the percentage figures for other European countries and for the Group have increased in some cases compared with the figures stated in the interim reports in 2008/2009. The figures originally reported for other European countries were 2.9 % (Q1), 1.7 % (Q2) and 0.8 % (Q3). The figures originally reported for the Group were 2.4 % (Q2) and 1.5 % (Q3).

- **Germany**

Unlike the start to the season in the previous year, which benefited from favorable weather conditions, the comparatively cooler and damper weather in 2008 meant that the spring business failed to get going in March and April 2008. The sudden rise in demand for garden articles and plants in May 2008 then boosted sales sufficiently to more than compensate for the shortfall in the two previous months. As a result, like-for-like sales in Germany in the first quarter of 2008/2009 were 0.6 % up on the high level seen in the previous year.

Sales continued to show pleasing developments in the second and third quarters of the financial year as well, with growth rates of 2.8 % and 1.9 % respectively within a generally weak competitive climate. This was all the pleasing given that inflation reached long-term highs of more than 3 % in the summer months of 2008, thus severely encroaching on purchasing power. Having said this, the sharp rise in energy prices also had positive aspects for HORNBACH, as increasing numbers of consumers became open to the topic of energy saving in their houses and flats. In this area in particular, we are better positioned than any other DIY store in the sector in terms of a broad product range and professional advice for renovation projects such as building insulation, or replacing windows, doors and heating boilers. The above-average growth rates in energy-saving product ranges thus contributed to the Group's like-for-like sales growth.

Our retail format, with its focus on project customers, also proved its worth as the financial and economic crisis intensified. Sales in Germany maintained their growth course in the months of December 2008 and January 2009. The fact that like-for-like sales fell 0.9 % short of the previous year's figures in the fourth quarter was chiefly due to there being one shopping day fewer in February 2009, and to the significantly more severe winter weather in that month. We did not witness any crisis-driven reluctance on the part of consumers to make purchases by the end of the 2008/2009 financial year.

Notwithstanding the weaker final quarter, the Group's performance for the financial year as a whole was certainly respectable. By the end of the twelve months, we had improved our like-for-like sales in Germany by 1.2 %, compared with a decline of 3.6 % in the previous year. We thus further extended our head start over the competition compared with the 2007/2008 financial year. Based on the 2008 calendar year (January to December), gross like-for-like sales in the German DIY sector dropped by 2.0%, while HORNBACH bucked the negative trend by posting like-for-like growth of 2.2%. We thus outperformed the German sector average by a monthly average of more than four percentage points in the reporting period from March 2008 to February 2009. This underlines the strength of our DIY megastore and garden center retail format. Thanks to this above-average sales performance, HORNBACH further expanded its market share in Germany in 2008. As a percentage of the total sales of all German DIY stores and garden centers (€ 21.6 billion), our market share rose from 8.3% to 8.5%. If the calculation is based only on those DIY stores and garden centers in Germany with sales areas of more than 1,000 m² (market volume: € 17.55 billion), then our share of the market in this segment rose from 10.2% to 10.4%.

- **Other European countries**
  At our stores outside Germany, we succeeded in the overall 2008/2009 financial year in surpassing the high volume of sales achieved in the past for the tenth year in succession. Like-for-like sales at these stores rose by 1.7% (2007/2008: 6.0%). The performance in the first three quarters remained relatively unimpressed by the deterioration in the consumer climate throughout Europe triggered by the sharp rise in the cost of living and fears of recession. Comparable store sales thus improved at an average rate of around 3%. Given the unfavorable seasonal influences in February 2009, like-for-like sales outside Germany also declined in the fourth quarter (minus 3.2%). For 2008/2009 as a whole, however, our international activities were able to more than compensate for this weakness thanks to the pleasing growth rates in the first nine months.

Four new HORNBACH DIY megastores with garden centers

We pressed ahead with our expansion by opening four new HORNBACH DIY megastores with garden centers during the 2008/2009 reporting period. In July 2008, we opened our first location in the Swedish capital, **Stockholm** (Botkyrka). The same month also witnessed the launch of operations at the second HORNBACH store in **Bucharest**, Romania. In Switzerland, sales activities commenced at our new location in **Biel** in November 2008. These three international store openings were accompanied by a premiere in Germany, with the opening of our first DIY megastore with a garden center in **Hamburg**, in the Eidelstedt district, at the end of January 2009. Including the four stores newly opened, we were operating a total of 129 retail outlets across the Group as of February 28, 2009 (February 29, 2008: 125). The sales areas of our 92 stores in Germany (2007/2008: 91) amounted to around 971,000 m². The average store size in Germany is in excess of 10,500 m². Outside Germany, we operate a total of 37 DIY megastores with garden centers (2007/2008: 34) with total sales areas of around 476,000 m² and average sales areas of just under 12,850 m². The stores are located in Austria (11), the Netherlands (8), Luxembourg (1), the Czech Republic (6), Switzerland (4), Sweden (3), Slovakia (2), and Romania (2). With total sales areas of around 1,447,000 m² at the Group (2007/2008: 1,385,000 m²), the average sales area per store now amounts to around 11,200 m² (2007/2008: around 11,100 m²). We have thus further extended our unique position among European DIY store operators in the megastore segment involving sales areas of more than 10,000 m².

HORNBACH Baustoff Union GmbH subgroup

All in all, the business performance of the HORNBACH Baustoff Union GmbH (HBU) subgroup was satisfactory in the 2008/2009 financial year. Following a positive course of business in the first nine months, the long and severe winter significantly inhibited the sales performance in the final quarter. The (net) sales of the subgroup grew by 2.8% from € 148.6 million to € 152.8 million in the 2008/2009 financial year. HBU thus outperformed the builders' merchant segment in Germany, which reported growth of 1.5% in 2008. HBU operated 20 outlets at the reporting date on February 28, 2009 (2007/2008: 18).

HORNBACH Immobilien AG subgroup
The HORNBACH Immobilien AG subgroup develops first-class retail real estate for the operating companies in the HORNBACH HOLDING AG Group. The overwhelming share of property is let at customary market conditions to companies within the Group. Rental income rose by 13.3 % to € 58.8 million in the 2008/2009 financial year (2007/2008: € 51.9 million).

Earnings Performance

As expected, the earnings of the HORNBACH HOLDING AG Group showed markedly disproportionate year-on-year growth compared with sales in the year under report. More than anything, this was due to increased earnings power in the DIY store segment. This in turn was primarily driven by like-for-like sales growth in Germany and abroad, coupled with a slight increase in the gross margin and improved cost efficiency at stores. Earnings in the builders' merchant segment maintained their ground, virtually matching the previous year's figure in spite of the difficult economic climate.

Furthermore, significant non-operating earnings growth in the real estate segment also contributed to the growth in earnings at the Group, thus contrasting with the non-operating charges on earnings reported in the real estate segment in the previous year.

Consistent with our forecast, the operating earnings (EBIT) of the HORNBACH HOLDING AG Group for the overall 2008/2009 financial year rose far more rapidly than consolidated sales, surging by 69.8 % to reach € 179.1 million (2007/2008: € 105.5 million).

Key Earnings Figures of the HORNBACH HOLDING AG Group

Key figure (€ million, unless otherwise stated)	2.28.2009	2.29.2008	Change
Net sales	2,752	2,617	5.1 %
of which: in other European countries	1,065	962	10.6 %
Like-for-like sales growth	1.4 %	(0.2) %	
EBITDA	251.2	181.0	38.8 %
EBIT	179.1	105.5	69.8 %
Earnings before taxes	144.3	67.6	113.4 %
Consolidated net income	112.9	58.3	93.7 %
EBITDA margin	9.1 %	6.9 %	
EBIT margin	6.5 %	4.0 %	
Gross margin	36.0 %	35.7 %	
Store expenses as % of net sales	27.3 %	27.7 %	
Pre-opening expenses as % of net sales	0.3 %	0.3 %	
General and administration expenses as % of net sales	4.2 %	4.2 %	
Tax rate	21.8 %	13.8 %	

(Differences due to rounding up/down to € million)

Gross margin

As in the previous year, the slight improvement in the gross margin had a beneficial impact on the earnings performance of the HORNBACH HOLDING AG Group. As a percentage of net sales, the gross profit rose from 35.7% to 36.0%. This pleasing development was chiefly due to improved procurement terms, which also accounted for the decline in global commodity prices since summer 2008. Moreover, we also benefited from the successful international procurement cooperation with our strategic partner Kingfisher plc. Furthermore, changes in the product mix resulting in a higher share of sales being generated with high-margin product ranges, and success in reducing theft and breakages also contributed to the increase in the gross margin.

Pre-opening, selling and store, general and administration expenses

Selling and store expenses, which declined as a percentage of sales, were reported at € 752.3 million in the overall 2008/2009 financial year (2007/2008: € 726.3 million). The store expense ratio decreased from 27.7% to 27.3%. Within this item, the store personnel expense ratio remained constant, while rental expenses rose on budget. General operating expenses, which also account for extra measures to optimize our merchandise presentation, rose in line with sales. Advertising expenses fell slightly as a proportion of net sales.

Pre-opening expenses, mainly involving personnel expenses, rose from € 7.2 million to € 8.8 million in the past year. This increase, which arose in spite of there being one new opening fewer than in the previous year (four, as against five), was due to the different timings of openings within the given financial years. Three of the five new store openings in the previous year took place in the first quarter of 2007/2008. Part of the related expansion costs were thus already incurred in 2006/2007. In the 2008/2009 financial year, by contrast, the store opening program only began three months later. At 0.3%, pre-opening expenses remained virtually constant as a proportion of sales.

General and administration expenses at the overall Group rose from € 109.7 million to € 114.6 million. Among other factors, this increase was largely due to employee bonus payments, which are linked to the development in profits, the rollout of the merchandise system to our stores, which was continued in 2008/2009, and additional expansion-related expenses in Romania. As a proportion of net sales, however, the administration expense ratio remained constant at 4.2%.

The personnel expenses included under selling and store, general and administration, and pre-opening expenses (including miscellaneous personnel expenses) rose by 6.0% from € 427.3 million to € 452.7 million, thus increasing slightly as a proportion of sales. At € 73.4 million, depreciation and amortization of non-current assets was 2.8% lower than the previous year's figure (€ 75.5 million). This figure includes impairment losses of € 4.2 million (2007/2008: € 3.6 million), mainly relating to the potential relinquishment of a planned DIY store location, as well as to write-downs due to lower than expected proceeds on the sale of land no longer required for operations, and write-downs on other pieces of land no longer required for operations. Impairment losses are recognized under other income and expenses.

Other income and expenses

Other income and expenses jumped from € 14.4 million to € 65.0 million in the 2008/2009 financial year. This sharp increase was principally due to a net improvement in non-operating earnings in the real estate segment by € 54.2 million. The non-operating result reached € 45.5 million. This mainly consisted of accounting profits from the disposal of three DIY store properties by way of sale and leaseback transactions, accounting profits from the sale of three real estate companies in Austria and of land not required for operations, amounting to € 50.4 million in total. These were countered by impairment losses on non-current assets (€ 4.2 million) and on non-current assets held for sale (€ 0.5 million). In the previous 2007/2008 financial year, by contrast, we reported net charges on earnings of € 8.7 million. These were mainly caused by impairment losses on real estate (€ 3.6 million), the costs of renovating one DIY store location (€ 3.0 million), disposal losses on an investment project not subject to further development, increased construction expenses for a store already opened, and other charges in connection with real estate development. The income from advertising expense grants included under other income and expenses fell from € 11.4 million to € 10.5 million in the 2008/2009 financial year.

Earnings at the HORNBACH HOLDING AG Group

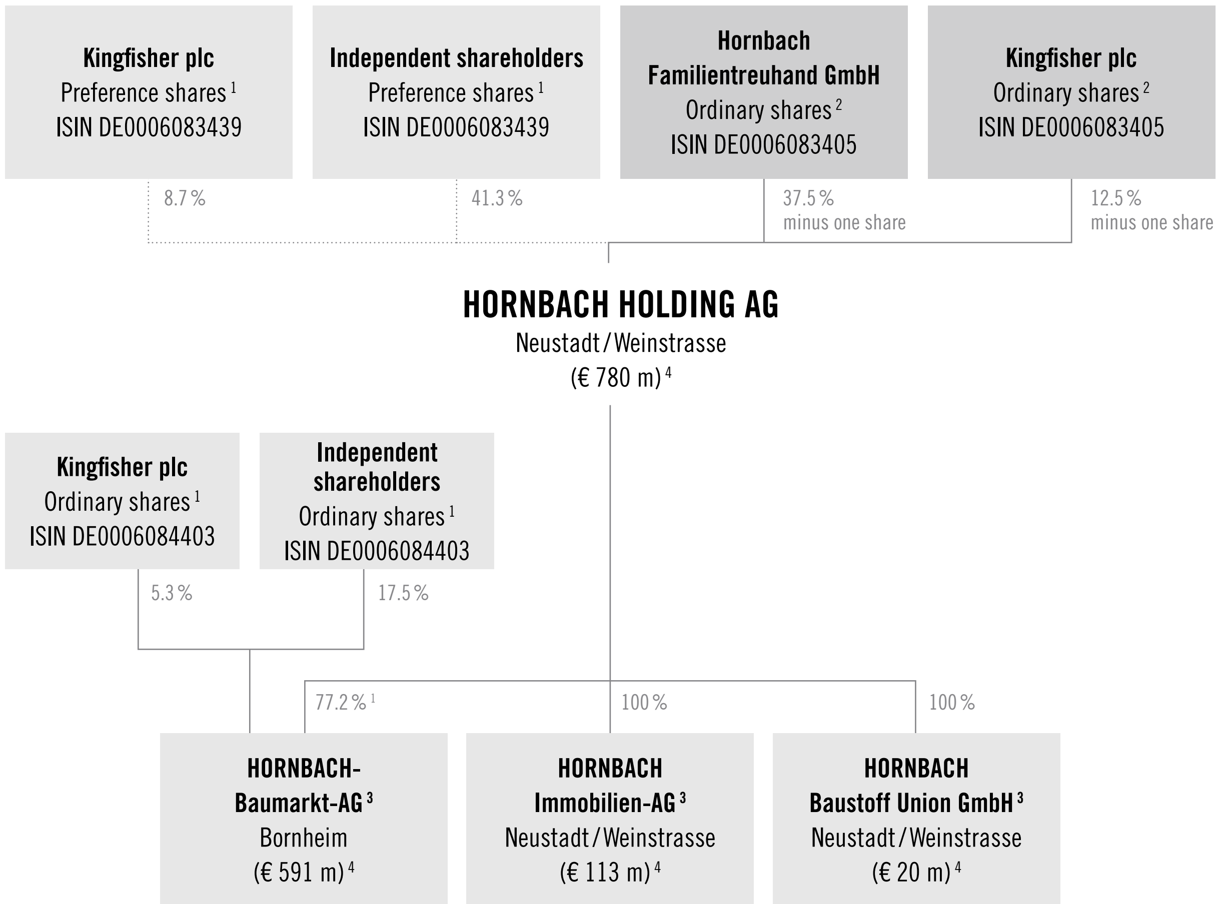
We achieved significant improvements in all key earnings figures in the past financial year. The earnings before interest, taxes, depreciation and amortization (EBITDA) of the HORNBACH HOLDING AG Group surged by 38.8% to € 251.2 million (2007/2008: € 181.0 million). The EBITDA margin thus rose (as a percentage of net sales) from 6.9% to 9.1%.

Operating earnings (EBIT) grew by 69.8% to € 179.1 million (2007/2008: € 105.5 million). The EBIT margin improved from 4.0% to 6.5%. All business segments contributed to this substantial earnings growth. Operating earnings (EBIT) in the DIY store segment grew by 26.1% to € 84.1 million (2007/2008: € 66.7 million). As a result, the EBIT margin in the DIY store segment increased from 2.7% to 3.2%. Operating earnings (EBIT) in the builders' merchant segment, which portrays the activities of the HORNBACH Baustoff Union GmbH subgroup, increased from € 0.2 million to € 1.2 million. Due mainly to the earnings growth reported under other income and expenses, operating earnings (EBIT) in the real estate segment jumped from € 56.2 million to € 114.6 million (plus 103.9%).

Net financial expenses improved from minus € 37.9 million in the previous year to minus € 34.8 million. This was chiefly due to significantly higher interest income (plus € 3.0 million). Moreover, net financial expenses also benefited from gains and losses from currency translation, which were reported under net financial expenses for the first time in the 2008/2009 financial year. Net gains from currency translation improved at the overall Group from minus € 3.6 million to minus € 0.8 million. Until the 2007/2008 financial year, this item was reported under other income and expenses. The previous year's figures have been adjusted accordingly (please also see the explanations in (6) and (7) of the notes to the financial statements). Due to the marginally disproportionate improvement in net financial expenses, consolidated earnings before taxes rose more sharply than EBIT. EBT thus soared by 113.4% to € 144.3 million (2007/2008: € 67.6 million), while the return on sales before taxes rose from 2.6% to 5.2%.

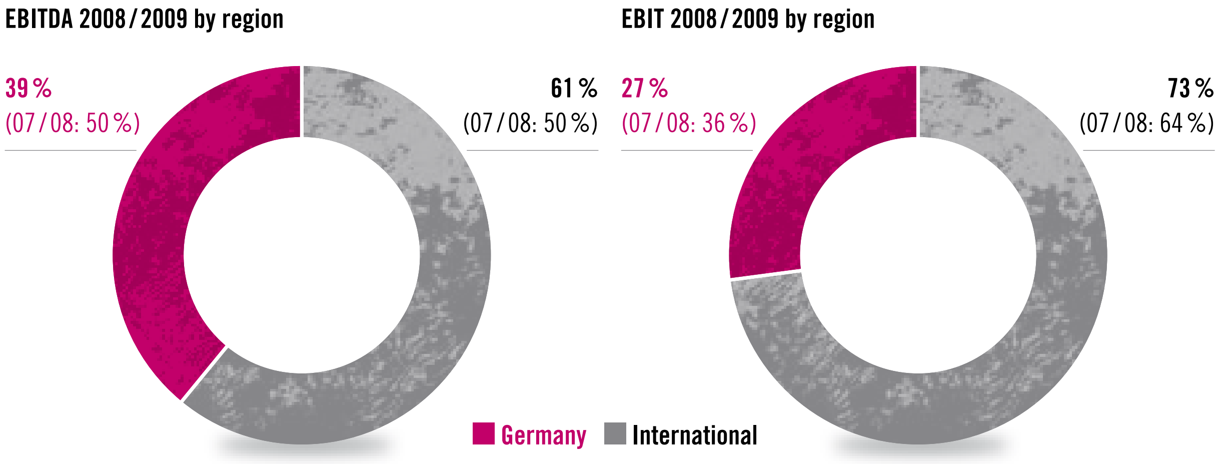
The consolidated net income of the HORNBACH HOLDING AG Group for the 2008/2009 financial year virtually doubled from € 58.3 million to € 112.9 million. The Group's tax rate rose from 13.8% to 21.8%. It should be noted in this respect that we reported one-off tax income of € 13.3 million in the 2007/2008 financial year due to the revaluation of deferred tax assets and liabilities in connection with the German corporate income tax reform. In the year under report, the disposal gains on the real estate transactions outlined above were tax-exempt in some cases, thus reducing tax expenses by around € 8.9 million. Due mainly to this factor, the effective tax rate was below the expected average tax rate of 30%. The return on sales after taxes grew from 2.2% to 4.1%. Earnings per share as per IFRS surged from € 5.97 to € 11.38 per ordinary share and from € 6.03 to € 11.44 per preference share.

Group Structure and Shareholders of HORNBACH HOLDING AG
as of February 28, 2009



- The share capital of HORNBACH HOLDING AG amounts to € 24,000,000 and is dividend into 4,000,000 ordinary shares (owned by the Hornbach families and Kingfisher plc) and 4,000,000 non-voting preference shares which are listed on the German stock exchange.
- The share capital of HORNBACH-Baumarkt-AG amounts to € 47,220,180 and is divided into 15,740,060 ordinary shares which are listed on the German stock exchange. HORNBACH HOLDING AG holds an asset investment of 12,140,000 ordinary shares in HORNBACH-Baumarkt-AG.
- Plus further direct and indirect subsidiaries pursuant to the complete overview provided in the notes to the financial statements from Page 107 onwards.

1) publicly listed
2) not publicly listed
3) plus further subsidiaries in Germany and abroad
4) shareholders' equity of the respective reporting entity on the reporting date on February 28, 2009



Earnings contributions by subsidiary

Earnings at the HORNBACH-Baumarkt-AG subgroup exceeded the previous year's figure by a considerable margin in the period under report. Operating earnings (EBIT) grew by 72.7 % to € 136.5 million (2007/2008: € 79.1 million).

We significantly improved the earnings performance of the HORNBACH Baustoff Union GmbH subgroup in the past financial year. Operating earnings (EBIT) grew from € 0.2 million to € 1.2 million. This pleasing earnings growth was mainly driven by sales growth, coupled with a reduction in store and administration expenses in absolute terms compared with the previous 2007/2008 financial year. This enabled us to clearly compensate for the slight decline in the gross margin.

The HORNBACH Immobilien subgroup increased its operating earnings (EBIT) by a substantial 53.8 % to € 46.7 million in the 2008/2009 financial year (2007/2008: € 30.4 million). This growth was primarily due to disposal gains on the sale of real estate (€ 13.1 million, as against € 0 million in 2007/2008) and to a year-on-year increase in rental income.

Earnings contributions by region

In the past 2008/2009 financial year we succeeded in increasing earnings contributions in absolute terms both in Germany and abroad. In terms of the geographical distribution, however, earnings contributions from Germany declined in percentage terms, while other European countries once again raised their share of earnings. Whereas the high international share of earnings in the 2007/2008 financial year had largely been due to the highly disparate sales performances in Germany and abroad, in the year under report it was the significant growth in earnings in the real estate segment which was mainly responsible for Germany's share of earnings failing to increase in spite of the improvement in earnings in absolute figures. Moreover, the segment report also reflects the more dynamic like-for-like sales performance and higher profitability in other European countries.

EBITDA in **Germany** grew from € 90.0 million to € 98.2 million, equivalent to a 39 % share of the Group's EBITDA (2007/2008: 50 %). EBIT in Germany improved from € 37.5 million to € 48.7 million. The domestic share of operating earnings thus decreased from 36 % to 27 %.

Earnings contributions from the international activities are pooled on the level of the HORNBACH International subgroup. As is apparent from the segment report, the absolute earnings contributions of the international business benefited from disposal gains in the real estate segment which were generated almost exclusively outside Germany (€ 50.4 million). At € 152.2 million (2007/2008: € 91.0 million), the EBITDA of the **international business** accounted for around 61 % (2007/2008: 50 %) of the EBITDA of the HORNBACH HOLDING AG Group in the period under report. The EBIT of the international business jumped from € 68.0 million to € 129.6 million, leading the international share of total EBIT to rise from 64 % to around 73 %.

If these figures are compared with the respective share of sales on the level of the overall HORNBACH HOLDING AG group (2008/2009: 39 %), the significance of the international HORNBACH stores for the Group's earnings performance becomes apparent. At the same time, this also reflects the success of the Group's international expansion strategy. HORNBACH has succeeded in rolling out its unmistakable retail format, which relies in particular on top-quality employee training and thus also on advising customers, in a wide variety of country markets and has gradually acquired market share.

In **Austria**, our HORNBACH DIY megastores with garden centers managed to maintain sales at the previous year's level in a hotly contested competitive climate. Operating earnings improved compared with the previous year. There were no changes in the store network in the 2008/2009 financial year. We operated eleven HORNBACH DIY megastores with garden centers with total sales areas of 139,000 m² in Austria as of February 28, 2009.

Our DIY stores with garden centers in the **Netherlands** maintained their growth course in the 2008/2009 financial year. EBIT showed disproportionate growth compared with sales. Over the past ten years, HORNBACH has successfully established itself as a brand among Dutch DIY enthusiasts, being voted "best DIY store in the Netherlands" in a renowned consumer survey for the fourth year in succession in 2008. HORNBACH's store network in the Netherlands comprised an unchanged total of eight stores with sales areas of 86,500 m² at the reporting date on February 28, 2009.

Our DIY megastore with a garden center in Bertrange in **Luxembourg** yet again managed to raise its sales in the past financial year. With sales areas in excess of 12,000 m², this, the country's largest DIY store, positioned itself successfully in an intensely competitive environment.

The **Czech Republic** and **Slovakia** were among the fastest-growing countries in HORNBACH's European network in the first three quarters. In the fourth quarter, however, they were no longer able to match the high level of sales seen in previous years. This was due on the one hand to the same difficult seasonal factors which led to a negative like-for-like sales performance in most other HORNBACH regions as well in February 2009. On the other hand, consumer confidence in these countries, which have been hit particularly hard by the drastic reduction in capacity in the European automobile industry, weakened more markedly than in many other EU countries. For the year as whole, however, these two countries, which are managed as a single region in operating terms, nevertheless posted sales growth and an increased EBIT margin. This is due to the great popularity enjoyed by our DIY megastores with garden centers, which have also successfully poached market share from traditional specialist retailers in the past. No new stores were opened in the year under report. The store network in the Czech Republic consists of six locations. In Slovakia, we operated an unchanged total of two locations at the reporting date. Sales areas in the two countries amounted to more than 110,000 m² at the end of the financial year. .

With the opening of a new store in Biel in November 2008, we extended our network of locations in **Switzerland** to four HORNBACH DIY megastores with garden centers with total sales areas of around 52,000 m² (2007/2008: 35,100 m²), while also increasing our net sales for the overall financial year. We are the absolute favorite for Swiss DIY enthusiasts, reaching top position for overall satisfaction for the second consecutive year in the Kundenmonitor Schweiz customer survey. We intend to build further on this success.

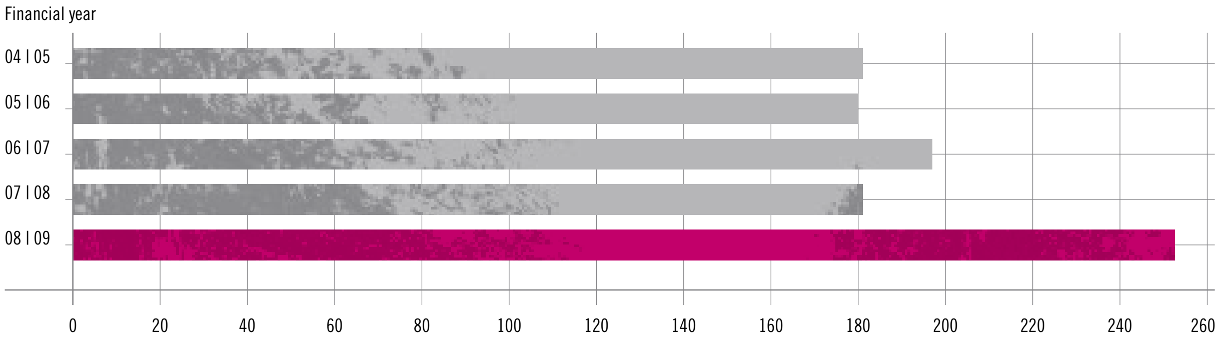
In **Sweden**, we opened our first location in the capital city of Stockholm in the past financial year and also significantly increased net sales at the total of three Swedish HORNBACH stores. We reported pleasing sales growth on a same-store basis, while the EBIT of existing stores showed markedly disproportionate growth compared with sales. The total sales areas of our stores in Sweden amounted to around 45,700 m² on February 28, 2009.

The dynamic growth seen in **Romania** was especially pleasing. In July 2008, we opened our second HORNBACH store in Bucharest with great success. Total sales areas in Romania amounted to around 30,500 m² at the end of the financial year. Great demand from customers for our extensive product range, our permanently low prices and professional advice led to high rates of growth in sales and EBIT. Having said this, the downturn in the economic climate due to the global economic crisis and resultant deterioration in consumer confidence in Romania have weighed on the sales performance of our HORNBACH stores there since the end of the 2008/2009 financial year. It remains to be seen how quickly the Romanian economy, greatly influenced by international investment as it is, will recover from the recession. In view of the substantial ongoing need to catch up in terms of new construction and renovation, however, we continue to see promising long-term growth potential in Romania.

Dividend proposal

The Board of Management and Supervisory Board of HORNBACH HOLDING AG will, as in the previous year, be proposing the distribution of a dividend of € 1.14 per preference share and of € 1.08 per ordinary share for approval by the Annual General Meeting on July 10, 2009. Due to the economic uncertainties resulting from the global recession, top priority is being accorded to safeguarding and ensuring the flexibility of our financial resources. We therefore deem it appropriate to uphold the long-term continuity of our dividend policy.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)
(€ million)



Next day, HORNBACH delivers the customized sections of the insulation layer ...

... and the goods hoist takes them up to the roof at maximum speed.

Like in a puzzle, the right place has to be found for every styrofoam component.

Financial Situation

Principles and objectives of financial management

Financing measures are undertaken by the central Group Treasury department at HORNBACH-Baumarkt-AG. Such measures also include granting assistance in the form of guarantees and letters of comfort to subsidiaries within the HORNBACH-Baumarkt-AG subgroup. Formal undertakings towards companies outside the HORNBACH-Baumarkt-AG subgroup are provided either by HORNBACH HOLDING AG or by HORNBACH Immobilien AG. The central organization of financial management activities enables the HORNBACH Group to maintain a uniform presence on the financial markets and to provide centralized liquidity management for the overall Group.

The information required for efficient liquidity management is provided by rolling group financial planning encompassing all relevant companies, which is updated on a monthly basis and has a budgeting horizon of twelve months, as well as by short-term financial forecasting which is updated on a daily basis. On the basis of the information available, the financing requirements of individual units within the Group are initially settled using surplus liquidity from other group companies by means of a cash pooling system. Such liquidity bears interest at market rates on the basis of internal group loan agreements.

External financing requirements are covered by taking up loans from banks and on the capital market. Furthermore, DIY store properties are sold to investors upon completion, with their subsequent utilization being secured by rental agreements (sale and leaseback). Efforts are made in this respect to meet the criteria set out in IAS 17 concerning classification as "Operating Leases".

Financial debt

At the reporting date on February 28, 2009, the net financial debt of the Group amounted to € 499.4 million (2007/2008: € 583.6 million) and was structured as follows:

Type of financing	Liabilities broken down into remaining terms						2.28.2009	2.29.2008
€ million	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	> 5 years	Total	Total
Short-term bank debt[1]	101.5						101.5	74.7
Mortgage loans	45.1	39.9	43.7	36.9	37.3	137.8	340.7	375.5
Other loans[2]	0.6		79.9				80.6	82.1
Bonds[3]						243.8	243.8	242.8
Liabilities in connection with bills of exchange	0.6						0.6	0.6
Negative fair values of derivative financial instruments	5.4						5.4	1.7
Finance leases	0.2	0.2	0.2	0.2	0.2	1.0	2.0	2.2
Total financial debt	**153.3**	**40.1**	**123.8**	**37.1**	**37.5**	**382.7**	**774.6**	**779.6**
Cash and cash equivalents							275.2	196.0
Net financial debt							**499.4**	**583.6**

(Differences due to rounding up or down to nearest € million)

[1] financing facilities with a nominal term of under one year (overdraft and short-term interim financing facilities) and interest provisions
[2] loans not secured by mortgages with nominal terms of more than one year
[3] the costs of € 10.7 million relating to the corporate bond of € 250 million have been proportionately spread over a term of 10 years

Permanent improvement in capital base

The inflow of funds from the bond of € 250 million issued by HORNBACH-Baumarkt-AG in November 2004 with a term of ten years and an interest coupon of 6.125 % was used to repay the short-term financing facilities of the HORNBACH-Baumarkt-AG subgroup and to provide additional liquidity for the further growth of the company.

The short-term financial debt (up to 1 year) amounting to € 153.3 million consists of short-term financing facilities at the subgroups HORNBACH-Baumarkt-AG (€ 7.0 million), HORNBACH Immobilien AG (€ 46.0 million) and HORNBACH Baustoff Union GmbH (€ 40.2 million), interest liabilities (€ 8.3 million), liabilities in connection with bills of exchange (€ 0.6m), liabilities relating to derivative financial instruments (€ 5.4 million) and the portion of long-term financing facilities maturing in the short term (€ 45.8 million).

The financing of the Group has been positively affected by structural changes in the committed credit lines. In the 2006/2007 financial year, various bilateral credit lines at HORNBACH-Baumarkt-AG were pooled into a syndicated credit line of € 200.0 million, which has a term of five years and can be extended on two occasions, in each case by a further year. Following the unanimous approval already provided for the first extension option in the 2007/2008 financial year, the second extension possibility was also exercised by all banks involved in the 2008/2009 financial year. The current final maturity date for the credit line is June 26, 2013. The covenants requiring compliance, such as EBITDA to interest expenses, are basically equivalent to the obligations governing the bond issued in 2004 and have been complied with at all times.

At the reporting date on February 28, 2009, the overall HORNBACH HOLDING AG Group had free credit lines, including the syndicated credit line referred to above, of € 429.1 million at customary market conditions (2007/2008: € 466.0 million). In order to provide the maximum possible degree of flexibility, all major group companies have credit lines denominated in their local currencies, in most cases from local banks.

Cash and cash equivalents amounted to € 275.2 million at the reporting date (2007/2008: € 196.0 million). As in the past, liquidity is managed in the form of fixed deposits with maximum investment horizons of three months. Furthermore, following the collapse of Lehman Brothers, the Group set maximum deposit totals per bank to enhance security by spreading liquidity holdings more widely.

The interest cover, net debt/EBITDA, equity ratio and company liquidity (cash and cash equivalents, plus unutilized committed credit lines) are monitored on a monthly basis as part of the company's internal risk management. Further key figures are calculated on a quarterly basis. Countermeasures are initiated at an early stage in the event of the values falling short of specific target levels.

Key Financial Figures of the HORNBACH HOLDING AG Group

Key figure	Definition		2.28.2009	29.2.2008
Net financial debt	Short-term financial debt + long-term financial debt – cash and cash equivalents	€ million	499.4	583.6
Interest cover	Adjusted(*) EBITDA / Gross interest expenses		4.4	4.2
Net debt / EBITDA	Net financial debt / Adjusted(*) EBITDA		2.4	3.2

* EBITDA excluding changes in non-current provisions and profits / losses incurred on the disposal of non-current assets as reported in the cash flow statement

No security in the form of assets has been provided to secure the credit lines or the bond.

Land charges amounting to € 517.6 million had been provided as security for mortgage loans as of February 28, 2009 (2007/2008: € 517.3 million). The value of the financing facilities secured by land charges amounted to € 340.7 million at the reporting date (2007/2008: € 375.5 million).

Since the issue of the bond, external financing facilities at the HORNBACH-Baumarkt-AG subgroup have exclusively taken the form of unsecured loans and the sale of real estate (sale and leaseback). The financing of the HORNBACH Immobilien AG subgroup has also included secured mortgage loans.

In accordance with the company's internal risk principles, derivative financial instruments are held solely for hedging purposes. The nominal values and valuation of existing derivative financial instruments have been depicted in the disclosures on the consolidated balance sheet in the notes to the financial statements.

Investments totaling € 131.4 million

The HORNBACH HOLDING AG Group invested a total of € 131.4 million in the 2008/2009 financial year (2007/2008: € 202.1 million), primarily in land, buildings, and plant and office equipment for existing DIY megastores with garden centers and for new stores under construction. The funds of € 129.8 million for the cash-effective investments (2007/2008: € 200.8 million) were financed in their entirety from the cash flow from operating activities, which amounted to € 144.3 million.

The decline in investment is due to the fact that four DIY megastores with garden centers were opened in the 2008/2009 financial year, as against five in the previous year.

Around 67% of total investments were channeled into new real estate, including properties under construction. Around 33% of total investments mainly involved the replacement and extension of plant and office equipment, as well as intangible assets (primarily IT software).

The most important investment projects related to the DIY megastores with garden centers opened during the 2008/2009 financial year in Bucharest (Romania), Stockholm (Sweden), Biel (Switzerland) and Hamburg, the expansion of the store in Wuppertal, investments in the builders' merchant business, and the acquisition of land for the Group's further expansion.

The store in Luxembourg and the stores in Kerkrade and Zaandam (both in the Netherlands) were sold to a real estate company in the period under report and leased back on a long-term basis. As in the past, the sale and leaseback transactions served to release funds to finance the Group's further growth. Long-term utilization rights were secured, with rental extension and purchase options also being agreed in most cases.

Due mainly to like-for-like sales growth in Germany and abroad, coupled with a slight rise in the gross margin, the inflow of funds from operating activities improved from € 90.1 million in the previous year to € 144.3 million in the 2008/2009 financial year. In addition to the impact of the year-on-year increase in annual net income by € 54.6 million, this development was also the result of reduced net working capital financing requirements (changes in inventories, trade receivables and other assets plus changes in trade payables and other liabilities). Whereas liquid funds of around € 36 million were required to stock up inventories in the previous year, the expansion-related increase in inventories in the year under report could be financed by extending current liabilities.

Cash Flow Statement

Cash flow statement (abridged) € million	2008/2009	2007/2008
Cash flow from operating activities	144.3	90.1
of which funds from operations[1)]	139.0	120.2
of which: change in working capital[2)]	5.3	(30.1)
Cash flow from investing activities	(46.9)	(154.4)
Cash flow from financing activities	(17.1)	(2.9)
Cash-effective change in cash and cash equivalents	**80.3**	**(67.2)**

1) consolidated earnings after taxes, plus depreciation and amortization of non-current assets, plus changes in provisions, minus profits on disposals of non-current assets, plus/minus other non-cash income/expenses
2) difference between “Changes in inventories, trade receivables and other assets” and “Changes in trade payables and other liabilities”

The outflow of funds for investment activities reduced from € 154.4 million to € 46.9 million. The reduction in investments by € 71 million to € 129.8 million was countered in this respect by higher receipts from disposals of non-current assets and from the disposal of non-current assets held for sale amounting to € 82.9 million in total (2007/2008: € 46.4 million). Three DIY megastores with garden centers were sold in the context of sale and leaseback transactions in the 2008/2009 financial year, compared with only one in the previous year. Moreover, three Austrian real estate companies were sold, as were other pieces of land not required for operations.

Due to the scheduled repayment of existing financial loans, the outflow of funds for financing activities amounted to € 17.1 million in the 2008/2009 financial year, compared with an outflow of funds for financing activities of € 2.9 million in the previous year. The repayment of long-term financial debt of € 59.9 million was countered by the taking up of new long-term credit facilities of € 25.2 million and short-term credit facilities of € 28.2 million. Financial debt was reduced from € 779.6 million in the previous year to € 774.6 million.

Rating

Since 2004, the creditworthiness of the HORNBACH-Baumarkt-AG Group has been rated as follows by the leading international rating agencies Moody’s Investors Service and Standard & Poor’s:

Moody’s:	Ba2
Standard & Poor’s:	BB

Both ratings include stable outlooks and were confirmed without amendment by Standard & Poor’s.

Asset Situation

Equity ratio rises to 39.1 %

Balance Sheet of the HORNBACH HOLDING AG Group (Abridged Version)

€ million	2.28.2009	2.29.2008	Change
Non-current assets	1,072.1	1,046.8	2.4 %
Current assets	923.7	855.2	8.0 %
Assets	**1,995.8**	**1,902.0**	**4.9 %**
Shareholders' equity	780.5	687.6	13.5 %
Non-current liabilities	712.9	735.6	(3.1) %
Current liabilities	502.4	478.8	4.9 %
Equity and liabilities	**1,995.8**	**1,902.0**	**4.9 %**

The total assets of the Group rose by € 93.8 million, or 4.9 %, compared with the previous year to reach € 1,995.8 million. The growth in total assets reflects the further moderate expansion of the HORNBACH HOLDING AG Group, which is mainly apparent in the increase in property, plant and equipment, including investment property, and increased inventories. In particular, the rise in cash and cash equivalents by € 79.2 million documents the increasingly important objective in the context of the international financial and economic crisis of securing and extending the Group's liquidity and financial scope.

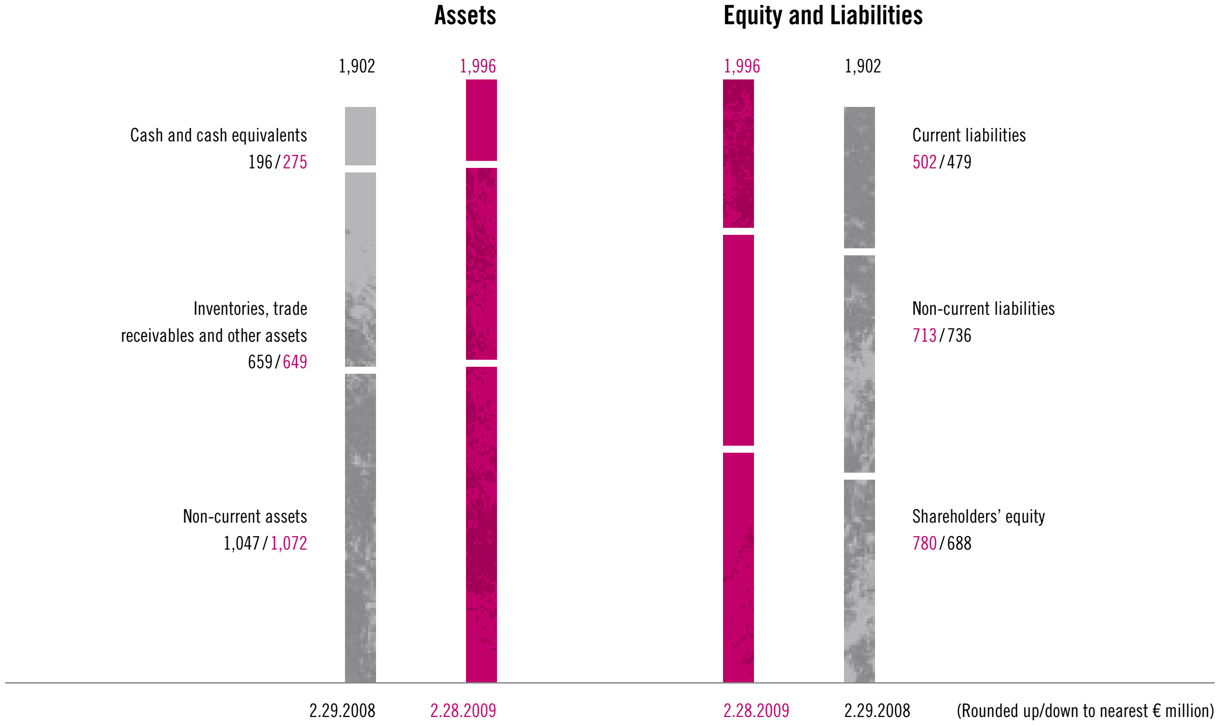
The equity of the Group as stated in the balance sheet amounted to € 780.5 million at the end of the financial year (2007/2008: € 687.6 million). At 39.1 %, the equity ratio thus once again increased on the previous year's figure (36.1 %).

Non-current and current assets

Non-current assets amounted to € 1,072.1 million at the reporting date (2007/2008: € 1,046.8 million) and thus accounted for around 54 % of total assets (2007/2008: 55 %). Property, plant and equipment and investment property rose by 1.0 % from € 975.0 million to € 985.0 million. In this respect, the additions to assets of € 125.1 million were countered by depreciation amounting to € 68.7 million, write-ups of € 1.3 million and disposals of assets amounting to € 1.3 million. Furthermore, the application of IFRS 5 required real estate held for sale or already sold as of the reporting date without simultaneous assignment of ownership, amounting to a net total of € 27.7 million, to be reclassified as current assets. This primarily involved the planned sale of one HORNBACH DIY megastore with a garden center outside Germany by way of a sale and leaseback transaction. This property had been reported under property, plant and equipment in the previous year. Due to developments in exchange rates, there was a reduction of € 18.7 million in the volume of property, plant and equipment and investment property as stated in the balance sheet.

Other non-current receivables rose from € 7.0 million to € 23.8 million, largely as a result of the deferral of portions of the purchase prices in connection with a sale and leaseback transaction executed in the year under report, the disposal of three real estate development companies, and the partial deferral of the loans granted to these companies.

Structure of Consolidated Balance Sheet
(€ million)



Non-current income tax receivables involve a claim to payment of corporate income tax credits with a present value of € 16.9 million. These were capitalized in previous years on account of legislative amendments (SEStEG).

Current assets rose by 8.0 % from € 855.2 million to € 923.7 million, equivalent to around 46 % of total assets (2007/2008: 45 %). Based on constant inventory turnover rates, inventories rose by 3.6 % (€ 18.1 million) from € 498.1 million to € 516.2 million, mainly as a result of the opening of four new DIY megastores with garden centers. Receivables and other assets (including receivables relating to taxes on income) decreased by € 1.0 million from € 82.3 million to € 81.3 million. Non-current assets held for sale and disposal groups pursuant to IFRS 5 reduced by € 27.7 million from € 78.7 million to € 51.0 million. In this respect, the reclassification of a HORNBACH DIY megastore with a garden center held for sale from non-current assets was countered by the derecognition following the disposal of three HORNBACH DIY megastores with garden centers by way of sale and leaseback transactions and the sale of three real estate companies in the current financial year. At the same time, cash and cash equivalents grew from € 196.0 million in the previous year to € 275.2 million. Further information can be found in the comments made on the financial situation.

Non-current and current liabilities

Liabilities, including provisions, amounted to € 1,215.4 million at the reporting date, compared with € 1,214.4 million in the previous year. Non-current liabilities declined from € 735.6 million to € 712.9 million. The reduction in non-current liabilities by € 22.7 million was mainly due to the scheduled repayment of long-term liabilities to banks. Non-current liabilities include deferred tax liabilities of € 71.7 million (2007/2008: € 71.1 million).

Current financial debt rose from € 130.7 million to € 153.3 million, mainly as a result of the increase in current liabilities to banks in connection with interim financing facilities. Trade payables and other liabilities amounted to € 248.2 million at the reporting date, and were thus more or less unchanged on the previous year (2007/2008: € 245.2 million).

The net debt of the HORNBACH HOLDING AG Group, i.e., financial debt less cash and cash equivalents, reduced markedly from € 583.6 million in the previous year to € 499.4 million at the reporting date.

Key Balance Sheet Figures of the HORNBACH HOLDING AG Group

Key figure	Definition		2.28.2009	2.29.2008
Equity ratio	Equity / Total assets	%	39.1	36.1
Return on equity	Annual net income before minority interests / Average equity	%	15.4	8.8
Return on total capital	NOPAT[1] / Average total capital[2]	%	9.8	6.1
Debt / equity ratio (gearing)	Net debt / Equity	%	64.0	84.9
Additions to non-current assets, including advance payments for land		%	131.4	202.1
Net working capital	Inventories and receivables less trade payables	€ million	398.4	387.3
Inventory turnover rate	Cost of goods sold / Average inventories	€ million	3.5	3.5

[1] net operating profit after tax; defined as EBIT minus standardized tax rate of 30 % for the HORNBACH Group
[2] average total capital; defined as average equity plus average net debt

Off-balance sheet financing instruments and rental obligations

In addition to the DIY megastores with garden centers owned by the HORNBACH HOLDING AG Group and the DIY megastores with garden centers used on the basis of finance lease agreements, there are 56 DIY megastores with garden centers which are let from third parties. Moreover, there are also a small number of additional leasehold, leasing and rental agreements for pieces of land.

The obligations under rental, hiring, leasehold and leasing contracts relate exclusively to rental agreements for which the companies of the HORNBACH HOLDING AG Group do not constitute the economic owners of the assets thereby leased pursuant to IFRS accounting standards (Operating Lease). The rental agreements principally relate to DIY megastores in Germany and other countries. The terms of the rental agreements amount to between 15 and 20 years, with subsequent rental extension options. The respective agreements include rent adjustment clauses.

At February 28, 2009, the obligations under rental, hiring, leasehold and leasing contracts amounted to € 911.2 million (2007/2008: € 891.0 million). The increase resulting from the rental agreements newly concluded for three DIY megastores with garden centers was countered by annual rental payments for the 2008/2009 financial year. All in all, this item showed a net increase of € 20.2 million.

Overall assessment of the earnings, financial and net asset situation

The HORNBACH HOLDING AG Group performed very well in a difficult climate in the 2008/2009 financial year and strengthened its market position. In spite of tough price competition and the emergence of the financial and economic crisis in the second half of the year, the company managed to increase its sales both in absolute terms and on a like-for-like basis, as well as achieving significantly disproportionate earnings growth in its operating business. Due to one-off factors, the real estate segment also reported high earnings growth. We outperformed the sector average by a clear margin once again, thus further extending our market position in Germany. Our international activities continued to develop well, further expanding their share of sales and earnings. The expansion outside Germany has thus broadened the foundation for further growth and made the performance of the overall Group more independent of the tough competitive situation in Germany. The restructuring program has further stabilized the HORNBACH Baustoff Union GmbH subgroup. The equity ratio has risen to 39.1%. The capital structure and liquidity situation remain at good levels. In view of the broad spectrum of financing sources, we have a high degree of security and flexibility to face the challenges presented by the international financial and economic crisis and to finance further moderate growth. Overall, the economic situation of the Group is satisfactory.

Non-Financial Performance Indicators

Employees at the HORNBACH Group

At the reporting date on February 28, 2009, there were 13,169 individuals (2007/2008: 12,710) in active fixed employment at HORNBACH HOLDING AG or at one of its subsidiaries. The Group thus created a total of 459 new jobs (plus 3.6 %). This increase was chiefly due to the four new store openings in the past financial year. As an annual average and converted into full-time equivalents, the overall HORNBACH HOLDING AG Group had 11,542 employees (2007/2008: 11,078).

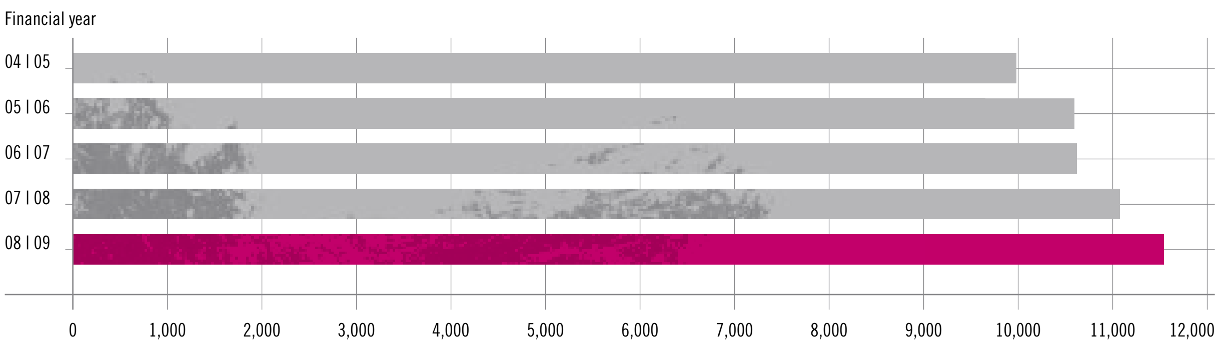
The Group had a total of 8,282 employees in Germany (2007/2008: 8,413). This reduction is due above all to a base effect – personnel capacities in Germany had been deliberately expanded, drawing especially on temporary employment contracts, due to the boom in demand in spring 2007. These contracts then expired on schedule in the course of the 2008/2009 financial year. Outside Germany, the workforce grew from 4,297 to 4,887. An average of 788 young people (2007/2008: 772) were provided with training positions in one of 13 different vocations during the year under report. The largest share of these were the 403 trainees aiming to qualify as retail sales personnel (2007/2008: 411).

Training focuses on quality

Training employees at our stores and in our administrative departments plays a key role in our concept. In this, we aim on the one hand to provide top quality advice for complex construction and DIY projects, while on the other hand also organizing work processes as efficiently as possible. To this end, numerous training and development measures were organized in the past financial year. In the context of promoting the next generation of managers, 341 men and women took part in the period under report in training measures preparing them to become section managers, assistant store managers or store managers. One of the priorities here was the increased focusing of all measures on the strategic alignment of HORNBACH-Baumarkt-AG.

Specialist training was attended by more than 4,100 employees in the past financial year. This involved our sales teams being trained by certified trainers in various areas of our product range with the assistance of customized programs. Customer-based sales promotion focused on specialist competence, the latest trends and product novelties. Not only that, for especially complex project topics we have begun to have our sales specialists trained in programs certified by the Chamber of Industry and Commerce (IHK).

Number of employees
(annual average converted into full-time equivalents)



Our Training / Multimedia department ensures that all HORNBACH employees are familiar at all times with the latest expertise in terms of working processes and IT systems. During the year under report, almost 1,950 one or two-day training sessions were held with more than 15,000 participants. In the past financial year, these focused on the training rollout accompanying the launch of the new merchandise system. With a combination of seminars and e-learning modules (blended learning), employees at all HORNBACH stores thus acquired the skills required for their specific tasks. New IT training rooms were set up specifically for this purpose in all regions across Europe. Not only that, we also made use of our two training trucks. These are trailer trucks enabling a fully equipped mobile high-tech training room with space for ten participants to be available directly on location.

To be able to implement its blended learning concept even more efficiently, in the context of this rollout HORNBACH also introduced a group-wide Learning Management System (LMS). All HORNBACH training programs now run on this platform.

In second position once again in terms of volume were the training activities for HORNBACH's Project Shows. These involve special sales and advice campaigns on topics such as "attic conversion", "world of orchids", "children's dream rooms" or "building a wood terrace". For each Project Show, we developed a special training session enabling several hundred specialist sales staff to be specifically prepared for the advisory situations likely to arise.

Homogenous store network

HORNBACH has longstanding experience built up over several decades in operating large-scale DIY stores with garden centers. This is also reflected in the average store size, which rose last year to almost 11,200 m² (2007/2008: 11,100 m²). This figure has not been matched by any other leading DIY player in Europe. At the same time, our store network is highly homogenous, with 83 % of sales areas as of the reporting date at stores which are larger than 10,000 m². This facilitates the rapid rollout of universal and/or innovative concepts to old and new sales areas alike (best practice approach). What's more, the combination of homogeneity and large surfaces generates substantial logistical benefits, thus providing us with an advantage over our competitors.

During the year under report, we enlarged our network with four new stores, thus adding around 60,000 m² of new sales areas. Three of the new locations are stores with combined drive-in builders' merchant facilities. The drive-in concept is intended to enable customers to load cumbersome and heavy goods, such as construction materials, conveniently and directly into their vehicles, to combine this with purchases in the DIY store, and to pay for all these goods at a single checkout. HORNBACH has thus underlined its traditional competence in the retail of construction materials. Thanks to the stocking of the quantities also required for large projects, numerous service measures, attractive opening hours and easy accessibility, this is increasingly attracting professional customers as well.

Moreover, we are also working continuously on gradually bringing the design of older stores in line with the latest standards, and on enhancing operating processes to enable customers' wishes to be met even more closely. These measures include signs, shelving measures, adjustments to the layout of the stores, through to store extensions and the further enhancement of the product range.

Customers appreciate HORNBACH's concept

The guiding principle underlying the ongoing enhancement of the HORNBACH concept is the focus on the needs of our project customers. The key criteria for our customers include the easy accessibility of the stores, the stocking of large quantities of articles, the attractive presentation of the merchandise, the highest levels of competence in the composition of the product ranges and in the provision of specialist advice, and not least a reliable pricing strategy. Customers attach great importance to reliability and quality, especially in difficult economic times.

A whole series of consumer surveys and sector studies proved once again in the past year that HORNBACH is the preferred

DIY store and garden center particularly for those customers intending to implement extensive home improvement and construction projects in their houses, apartments and gardens. Our competent project focus and clear quality profile have enabled us to differentiate ourselves successfully from the competition.

HORNBACH thus occupied one of the top positions in the favor of German DIY customers once again in the "Kundenmonitor Deutschland 2008" consumer survey. Around 6,000 DIY customers were surveyed within this, the most important consumer survey in the German retail sector, which has been compiled on annual basis since 1992. As in the previous year, we came a close second, with only a minimal difference in points to the company awarded first position. We also feel vindicated by our superb performance in important individual criteria. HORNBACH thus defended its top position for the fourth consecutive year as the best DIY store in terms of product selection and variety and product quality, as well as in the comparison of the product range with those offered by competitors. Particularly important to us is that the Kundenmonitor survey has documented that HORNBACH offers the best value for money to DIY enthusiasts, garden lovers and construction clients.

In the "Retailer of the Year" study carried out in Germany for the first time, HORNBACH was singled out by customers as Germany's most popular DIY store chain. This study was compiled by the Dutch research institute Q&A Research & Consultancy. Participants in the study were requested via the internet to name their "favorite store chain" for 16 different sectors. As the reason for their choice, consumers could state competent specialist advice, value for money, customer friendliness or other criteria. Around 33,000 consumers took part in the study.

Top marks abroad as well

Outside Germany, HORNBACH also achieved top scores in a series of customer satisfaction surveys. The "Retailer of the Year" survey referred to above was carried out in the Netherlands for the sixth time. In this, HORNBACH was voted "Best DIY store in the Netherlands" for the fourth year in succession. In Switzerland, we matched the previous year's success in the Kundenmonitor 2008 consumer survey performed by analogy with its German counterpart, securing top position in terms of overall satisfaction. A similar picture was seen in Scandinavia, where HORNBACH reached top position in the DIY store section of the "Swedish Quality Index". With 3,500 consumers interviewed, this quality index is one of the most important consumer surveys in Sweden. Participants in the survey were required to pass judgment on criteria such as product and service quality, price and image.

The recurrent theme running through all of the studies mentioned is the great appreciation shown by customers for individual performance areas, such as the breadth and depth of our product range or pricing policies. In the Netherlands, for example, HORNBACH was ranked first in the "product range" and "product variety" categories. Not only that, our company was also named as the sector's "innovation leader". However, the best product range is of little use if the price is not right. According to the findings, customers have accepted our permanent low price strategy. Home improvement customers singled out HORNBACH as the DIY store offering the best value for money both in the Swiss Kundenmonitor survey and in the Retailer of the Year survey in the Netherlands.

When making purchases, DIY store customers are also according ever greater priority to services, especially when the products are to be installed by a specialist. Our tradesman service has contributed significantly to customers' positive assessment of HORNBACH. This enables customers at our stores to commission the laying of flooring or fitting of garage, interior, and house doors, windows, awnings, and wood-burning stoves etc. Customers deal with a central contact partner, thus benefiting from a standardized order process with a clearly structured price list. In the 2008/2009 financial year, we extended the range of services on offer with two further major modules. Customers in Germany can now also commission the installation of solar energy equipment and the fitting of stainless steel chimney pipes either as part of a chimney shaft renovation or when incorporating stoves into outer walls. Both new services offer useful alternative solutions for house renovations or refurbishments. Thanks to the ongoing enhancement of the services on offer and of the relevant handling processes, our tradesman service achieved double-digit sales growth in the year under report. Around 30 % of the Group's tradesman service sales are generated in other European countries, where the catalog of services is to be gradually introduced and extended.

Cases where customers are not satisfied with their shopping experience at HORNBACH are handled by our complaints management system. This provides us with important indications as to the strengths and weaknesses of operations at our stores and thus acts as a management instrument for optimizing customer satisfaction levels. Each problem is solved in cooperation with the HORNBACH stores in a maximum of one to two days. In the case of product complaints, the procurement department and the supplier are also informed. Complaints are evaluated on a monthly basis. A total of 691 cases were handled in 2008 (2007/2008: 693).

Permanent low price policy

Competition in the European DIY sector is not only carried out via differing retail concepts. It is also accompanied by price competition, which was fought out with unrelenting intensity in the past year as well, especially in saturated markets such as Germany and Austria. In this competitive climate, we were uncompromising in our adherence to our credible permanent low price strategy, by means of which we differentiate ourselves from the discount campaigns undertaken by competitors. We see this as providing the best foundation for achieving sustainable, above-average growth and high earnings power in the long term. Our aim is to retain customers at HORNBACH on a permanent basis by offering the highest possible degree of transparency, reliability and honesty in our pricing policies. The price guarantee accompanying the permanently low prices is intended to provide our customers with the certainty that they can focus all of their energies at all times on solving their projects.

Logistics cuts costs and CO_2 emissions

One key success factor in the operation of DIY megastores with garden centers across Europe is our sophisticated merchandise management system in conjunction with our homogenous store network. By developing its own group logistics system, HORNBACH has over the years built up a competitive advantage in terms of procuring transport services. Its logistics system combines direct supplies to stores, indirect deliveries via central warehouses and cross docking.

In the past year as well, our logistics infrastructure actively supported our expansion within Europe, also laying a foundation for further growth. Many suppliers, for example, have opted for this distribution channel for Eastern Europe. Not all manufacturers are able to assemble cost-effective complete deliveries, particularly for Romania. Connecting these suppliers to HORNBACH's logistics structures enabled transport costs to be optimized. We created additional cost-cutting potential following the successful launch of the new warehouse management system at our three logistics centers in Essingen, Lehrte and Vilshofen in the two previous years. In the 2008/2009 financial year, we further enhanced the productivity of our logistics processes.

With its logistics centers, HORNBACH is also making a sustainable contribution towards protecting the environment (catchword: green logistics). The aim is to reduce CO_2 emissions along the merchandise value chain. Pooling supplier deliveries enables thousands of truck journeys to be avoided. Not only that, with the assistance of tour plans optimized on a daily basis, we reduce the volume of empty runs to and from our locations, thus avoiding unnecessary miles on the road. Group logistics also only makes use of trucks with modern low-emission engines. Moreover, inland waterways and the railroads are used for transportation, for example to transport imported goods from Hamburg and Rotterdam to the logistics centers.

And even before the final part is put in place in the evening …

… work can begin on the penultimate layer of the new roof.

Next day, the wood is delivered for the new edges. While the sawing work is still underway …

… the final layer is already being welded onto the new roof.

IT focuses on merchandise management

The focal point of the Group's IT activities in the 2008/2009 financial year was the internationalization of the integrated merchandise management system. Alongside the German stores, stores in Austria, Switzerland, Luxembourg, the Netherlands and the Czech Republic are now also working with the new system. A total of 59 HORNBACH locations in Germany and abroad were converted in the past year. To date, the new merchandise management system has been rolled out to 99 stores. Slovakia, Sweden and Romania are set to follow in the current financial year.

IT is also making a contribution to sustainability. The investments made in the computer center infrastructure in the past year have, as expected, impacted positively on the company's energy balance. This is underlined by the good Power Usage Effectiveness (PUE) value compared with benchmark figures. The optimization of the air conditioning system at the computer center using free cooling had an especially positive impact on electricity consumption in the winter of 2008/2009, thus helping to reduce CO_2 emissions.

HORNBACH deploys an electronic network (WAN) for data transfers with international locations. Following conceptual development, more than 50 locations were already converted to a new, higher-performance technological platform in the 2008/2009 financial year. As well as significantly reducing costs, this will also enable better use to be made of the available bandwidths in future. A foundation has been laid for the further flexible expansion of the network. This is expected to lead to a further enhancement in availability, especially in HORNBACH's eastern operating regions. The rollout across Europe should be completed in the current financial year. Slovakia introduced the euro as of January 1, 2009. The resultant conversion of all IT systems ran smoothly.

HORNBACH – "the hands-on DIY store pioneer"

HORNBACH's campaigns celebrated do-it-yourself once again in the past financial year, focusing on topics such as "self-fulfillment", "a matter of trust" and "imagination". In the spring, we encouraged people to live out their individuality and creativity with our "Do it the way you want! But get it done!" campaign, thus whetting consumers' appetite for large-scale projects in their apartments, houses and gardens. In the summer, the focus was on competent advice, a factor which, according to a forsa study, plays a decisive role in consumers' choice of DIY store. The slogan "If you can trust them with your project, you can trust them with anything" underlined HORNBACH's position as a DIY store for projects, as well as its commitment to provide the best advice. In the autumn, we called on consumers to put their own dreams and ideas into action, and not to set any limits to their creative powers.

One highlight of our communications in the past financial year was the unique extension to the campaign "If you can imagine it, you can also build it." Alongside traditional media, this campaign was also implemented with an art exhibition in Berlin – "Das Haus der Vorstellung" (house of the imagination). Renowned German and international artists staged the widest conceivable variety of interpretations of the concept underpinning this campaign. The aim was to allow visitors to experience room installations with all of their senses, and thus to stimulate their imaginations as to what they might make of their own four walls.

Alongside TV commercials, we draw on all other kinds of media, such as radio, print, posters and the internet, as a platform for HORNBACH's campaigns. Further key components of our communications are the advertising booklets and "HORNBACH Aktuell" booklets. As well as presenting the breadth and depth of our product range, these also provide project guidance, information about our services, and tips as to our monthly Project Shows. Our advertising campaigns and individual measures yet again won numerous national and international prizes in the 2008/2009 financial year, ranging from the Eurobest Award to the "Megaphone" of the German Advertising Yearbook for the best integrated campaign.

HORNBACH continues to enjoy the highest level of advertising acceptance in the sector. Broad-based market research into the HORNBACH brand has also confirmed the company's unique position as "The hands-on DIY store pioneer", one which differentiates it from competitors. By communicating both rationally and emotionally with DIY enthusiasts on their own terms for many years now, HORNBACH has established itself among consumers as an unmistakable DIY store player with unique selling points. Our aim is to press further ahead with establishing the HORNBACH brand in our European network of locations, taking due account of individual regional needs in the process.

Corporate responsibility

The HORNBACH Group is committed to responsible, socially-oriented corporate behavior over and above its actual business activities.

Environmental protection

Reducing energy consumption in order to cut CO_2 emissions has become a prime topic, especially in the area of building and renovation. HORNBACH – the DIY store for projects – has been a competent partner in this area for years now, and can offer a suitable product range and qualified advice. During the year under report, project shows and advertising brochures once again provided our customers with extensive information about the potential savings resulting, for example, from all-round insulation, roof insulation, replacement doors and windows, using rainwater and energy-saving lamps.

One particular focus remained that of informing customers about the fight against illegal felling - "**No tropical wood from forest depletion**" - advising customers to buy timber products bearing the Forest Stewardship Council (FSC) quality seal. Back in 1996, HORNBACH already provided the WWF and Greenpeace with a voluntary undertaking not to import any uncertified tropical timber – thus pioneering this issue in the DIY store sector. We set up our own quality management and environmental department in 2001. One focus of its activities involves working to protect rainforests and promote sustainable forestry which also meets social and work safety standards.

In 2007, HORNBACH became the first international DIY chain to be awarded the FSC Chain of Custody certificate GFA-COC-002007. All HORNBACH stores now offer ecologically-minded trade companies which are themselves certified and environmentally-aware DIY enthusiasts a total of around 1,400 timber products bearing the FSC seal, the most extensive range on offer anywhere in the DIY sector. Not only that, the company is also involved in international projects aiming to protect species and to maintain their natural habitats and forest stocks.

A further focus of the company's quality management involves implementing EU environmental legislation (catchwords: RoHs, WEEE, REACH). The aim is to identify hazardous heavy metals and chemicals in products, to avoid them where possible and to dispose of potentially recyclable resources intelligently. HORNBACH benefits here from its close international links with suppliers and specialist DIY associations.

Given the increasing scarcity of resources, a commitment to the environment in today's world would be unthinkable without recycling. To minimize the number of journeys required, HORNBACH stores use compressors for high-volume waste, such as paper and plastics. A comprehensive waste concept promotes the separation, and thus recycling, of other waste.

The company also proactively accounts for environmental protection factors when building and operating its stores. The introduction of new central building control systems allows the technical equipment to be managed more efficiently. Consistent retrieval of the heating energy in ventilation systems reduces heating energy consumption. Electricity is saved by using intelligent controls and switches, as well as by basically only using optimized lighting. What's more, the installation of natural light strips and roof-light domes enables natural light to be drawn on. The lamp departments are equipped with light optimization systems enabling the energy consumed by these departments to be cut by around half. All in all, by combining the technologies referred to above, stores save up to 30 % of their total current electricity consumption.

Employees

In its behavior towards its employees, HORNBACH accords absolute priority to ensuring equality of opportunity and rejecting any kind of discrimination. Ethnic origin, gender, age, physical restrictions and religious affiliation play no role in the assessment of applicants. The only qualities which count are specialist competence and team spirit. By signing the "Diversity Charter" in 2008, the company underlined its commitment to a working environment which is free of prejudice.

HORNBACH has responded to the challenges presented by future pension provision by introducing a company pension model. This consists of four modules including both collectively agreed retirement provision contributions and the option of converting voluntary bonus payments and collectively agreed remuneration claims, such as vacation allowances. Building on the existing offer of part-time early retirement, a further retirement provision model has also been introduced. Via "working time accounts", this enables employees to structure their retirement age individually, i.e. to retire early.

The company's success is closely linked to the competence and motivation of its employees. Their willingness to roll up their sleeves and thus to improve the Group's earnings is honored by HORNBACH's bonus model. A further module enabling employees to participate in the company's success is the possibility of acquiring employee shares.

One particular sign of the company's social responsibility towards its employees was the establishment of the HORNBACH Foundation "People in Need" in 2002. The Foundation has since offered assistance in cases of fatality, accidents, and severe illness. The employees in turn demonstrated their solidarity with the Foundation with their "Employees help Employees" campaign. The company subsequently doubled the donations made by the employees.

Society

The work performed by the HORNBACH Foundation is based on two pillars. The Foundation is thus also a contact point for people outside the company who are in situations of dire need. All in all, the Foundation supported 85 people, both within the company and from outside, with a total of around € 120,000 in the year under report.

The company's commitment towards society, which extends beyond the work of the Foundation, has a preference in terms of its donations for social welfare projects, especially those benefiting children and young people. In this spirit, the stores also became involved on location and had an open ear for requests from local organizations.

As a member of the Rhine/Neckar European Metropolitan Region, HORNBACH continues to support Mannheim Business School in undertaking extensive renovation work on its listed building. To help boost scientific excellence in the region, over the next five years HORNBACH-Baumarkt-AG is also supporting a research project in the field of molecular neurobiology at the German Cancer Research Center (DKFZ) in Heidelberg with half a million euros. The parent company HORNBACH HOLDING AG is providing a donation of the same amount. Among other measures, this will enable a professorship to be established for a young female scientist of international standing.

Over and above this, the basic rules of social responsibility as practiced by HORNBACH include recognizing the international standards set out in the conventions of the International Labor Organization. The company thus only procures its products from factories meeting minimum standards, such as exclusion of child and forced labor, no intimidation of employees through maltreatment or verbal threats, adherence to work safety regulations, and compliance with environmental legislation. Suppliers have to ensure that these standards are also met by their upstream suppliers. Standardized factory audits are used to monitor compliance with these regulations.

Events After the Balance Sheet Date

There have been no events between the conclusion of the 2008/2009 financial year and this annual report going to print which could be of material significance for the assessment of the net asset, financial or earnings position of HORNBACH HOLDING AG or of the HORNBACH HOLDING AG Group.

Dependent Company Report

A report has been compiled for the 2008/2009 financial year pursuant to Section 312 of the German Stock Corporation Act (AktG) in respect of relationships to associated companies. With regard to those transactions requiring report, the report states: “Our company has received adequate counterperformance for all legal transactions executed with associate companies in accordance with the circumstances known to us at the time at which the legal transactions were performed and has not been disadvantaged by such transactions. No measures requiring report arose during the financial year.”

Compensation Report

The compensation report presents the basic features and structure of the compensation of the Board of Management and the Supervisory Board. It forms a constituent component of the group management report and, with the exception of the disclosure of individual compensation, is based on the requirements of the German Corporate Governance Code.

Compensation of the Board of Management

The level and structure of the compensation of the Board of Management are based on the size of the company, its economic and financial situation and the performance of the company within its competitive environment. Moreover, the overall compensation and individual components of such compensation should stand in an appropriate relationship to the responsibilities of the respective member of the Board of Management, his or her personal performance and the performance of the Board of Management as a whole.

The compensation of the Board of Management consists of fixed and variable components. The compensation system comprises an agreed fixed annual salary, which is paid in equal monthly installments. Furthermore, the members of the Board of Management receive an annual bonus which is paid upon the consolidated financial statements being approved by the Supervisory Board. The level of the annual bonus is based on the consolidated net income.

Within the framework of the 2001 share option plan, the members of the Board of Management were allocated share options as components of a long-term incentive nature. The share option program is based on the achievement of ambitious target prices for the share of HORNBACH-Baumarkt-AG. In the 2008/2009 financial year, all tranches had exceeded their respective exercise hurdles. Details of the share option plan have been provided under Note 34 of the notes to the consolidated financial statements.

The total compensation paid to the Board of Management of HORNBACH HOLDING AG for the performance of its duties for the Group in the 2008/2009 financial year amounted to € 2,353k (2007/2008: € 2,029k). Of this total, € 658k (2007/2008: € 728k) constituted fixed compensation and € 1,695k (2007/2008: € 1,301k) involved performance-related components. As of the reporting date on February 28, 2009, the members of the Board of Management held a combined total of 158,334 ordinary shares (2007/2008: 158,334) and 3,405 publicly listed preference shares (2007/2008: 3,405) in HORNBACH HOLDING AG. Given the size and market position of the company, we believe that the total compensation of the Board of Management is appropriate. At the 2006 Annual General Meeting, shareholders voted with a three-quarters majority to forego the disclosure of the compensation of members of the Board of Management on an individual basis up to and including the 2010/2011 financial year (opting-out clause).

Former members of the Board of Management were granted compensation of € 2,090k in the 2008/2009 financial year in connection with the conclusion of their activities for the company (2007/2008: € 0k).

The employment contracts of members of the Board of Management do not include any pension commitments or any severance pay clauses.

Compensation of the Supervisory Board

The compensation of the Supervisory Board is governed by Section 16 of the Articles of Association of HORNBACH HOLDING AG.

In line with the Articles of Association, the compensation of the members of the Supervisory Board consists of a fixed component and a variable component based on the dividend. In addition to the reimbursement of his or her expenses, each member of the Supervisory Board receives annual fixed compensation of € 6,000 payable upon the conclusion of the Annual General Meeting and a performance-related component depending on the resolution adopted by the Annual General Meeting in respect of the appropriation of profits and thus on the dividend distribution.

The Chairman receives three times and the Deputy Chairman twice the fixed and performance-related compensation. Members of the Supervisory Board who also sit on the Audit Committee receive an additional sum of € 3,000. Members of the Supervisory Board who sit on another committee or on several other committees of the Supervisory Board receive an additional sum of € 1,500 per committee. Members of the Supervisory Board acting as the chairman of a Supervisory Board committee receive three times the respective committee remuneration. Members of the Supervisory Board who are only members of the Supervisory Board for part of the financial year receive proportionately lower compensation.

The compensation of the Supervisory Board for the 2008/2009 financial year amounted to € 213k (2007/2008: € 182k). Of this total, € 134k (2007/2008: € 114k) constituted fixed compensation and € 79k (2007/2008: € 68k) involved performance-related components. The members of the Supervisory Board did not hold any ordinary shares or any preference shares at the reporting date on February 28, 2009. Former members of the Supervisory Board who retired from their positions during the 2008/2009 financial year did not hold any ordinary shares (2007/2008: 158,333) or, as in the previous year, any publicly listed preference shares in HORNBACH HOLDING AG at the reporting date.

The compensation of the individual members of the Supervisory Board can be derived from the Articles of Association and from the disclosures made in the notes to the consolidated financial statements and has therefore not been reported separately.

Risk Report

Risk management at the HORNBACH Group

The Board of Management of HORNBACH HOLDING AG is committed to risk-conscious corporate management which accords top priority at all times to safeguarding the continued existence of the overall company and its subsidiaries. The risk management implemented by the Board of Management is intended to achieve ongoing enhancements in the early identification of risks with the aim of proactively managing such risks, as well as continuously optimizing the company's opportunity/risk profile.

Principles underlying risk policy

The generation of economic profit necessarily involves the taking of risks. Nonetheless, no action or decision may entail any threat to the continued existence of the company or any of its operations. As a matter of principle, the Group does not enter into any risks which relate neither to its core processes nor to its support processes. Core processes involve developing and implementing the respective business models, procuring merchandise and services, location decisions, safeguarding liquidity and developing specialist and management personnel. Any earnings risks entered into have to be justified by an appropriate level of expected return. The relevant key figures are based on the return on the capital committed. Risks which cannot be avoided have to be insured against, to the extent that this is economically expedient. Residual risks have to be controlled by means of a range of risk management instruments.

Organization and process

Responsibility for risk management lies with the overall Board of Management, which is supported by the Director of Risk Management.

The risk managers at the Group's operations in Germany and other countries are responsible for taking suitable measures to manage the risks in their area of responsibility. Risk managers are supported by a central risk controller when identifying and evaluating risks and determining appropriate measures to manage such risks.

Risks are evaluated in terms of their implications and their probability of occurrence. In cases where they cannot be quantified, they are assessed in terms of their qualitative implications. The target figures used at the Group (including EBIT) serve as basis for reference in this respect.

The risks are updated on a quarterly basis and reported to the Board of Management. The Supervisory Board and the Audit Committee discuss the current risk situation on a half-yearly basis.

In addition to this scheduled reporting, ad-hoc reporting structures are also in place for risks arising unexpectedly and have been implemented in the risk management process.

Financial risks

Financial risks comprise foreign exchange risks, interest rate risks, liquidity risks and credit risks.

Foreign exchange risks

In general, HORNBACH is exposed to foreign exchange risks on account of its activities in countries with currencies other than the euro. Specifically, these involve Swiss francs, Czech crowns, Swedish crowns, and Romanian lei. Any depreciation in a foreign currency against the euro leads to a reduction in consolidated earnings. Furthermore, the increasingly international business activities of the HORNBACH Group result in rising foreign currency requirements both for handling international procurement and for financing of objects of investment in foreign currencies. Any change in the exchange rate between the euro and the procurement currencies (chiefly the US dollar) could have a direct negative impact on earnings. Open foreign currency positions with a significant influence on the annual earnings of the Group are therefore largely secured by hedging transactions (forward exchange contracts). Risks relating to foreign currency loans are hedged via the operating cash flow of country companies operating in the same currency (natural hedging).

Interest rate risks
Interest rate exchange agreements (interest swaps) have been concluded to secure the interest rates on existing liabilities. The interest swaps enable floating interest rates on loans to be exchanged for fixed interest rates, thus securing the interest payments on loans which could have a significant influence on the annual earnings of the Group.

Liquidity risks
The acquisition of land, investments in DIY megastores with garden centers and procurement of large quantities of merchandise require liquidity to be permanently available. The financing of the company's further expansion is secured by the inflow of funds from the operating cash flow and sale and leaseback transactions, as well as by bilateral bank loans, a syndicated credit line amounting to € 200 million and not least by the issue by HORNBACH-Baumarkt-AG of a bond amounting to € 250 million in the 2004/2005 financial year. HORNBACH is countering the risk of no longer being able to obtain longer-term financing for new locations from banks or via sale and leaseback transactions due to the financial market crisis by temporarily cutting back its investments and by drawing on short-term financing based on existing credit lines. The HORNBACH Group committed itself to comply with specific key financial figures in the context of the bond issue and the agreement of a syndicated credit line. Any failure to do so may possibly result in the immediate repayment of the bond or the termination of the credit line. These key financial figures are monitored on an ongoing basis. The information required for efficient liquidity management is provided by rolling group financial planning with a twelve-month budgeting horizon, which is updated on a monthly basis, as well as by a daily financial forecast. At present, no liquidity risks are discernible.

Credit risks
The company limits the risk of any financial loss in connection with financial investments and derivative financial instruments by working exclusively with partners of good creditworthiness and by selecting banks covered by collective deposit security arrangements. Moreover, bank deposits have been distributed among several financial institutions in order to counter the increase in the risk of bank deposit default in the context of the financial market crisis. The company's retail format (cash and carry) means that the risk of receivables defaults in its operating divisions is already considerably reduced. Default risks in the builders' merchant business are managed using active debtor management procedures governing the application of creditworthiness-based limits for customer loans.

Further detailed information concerning financial risks can be found under Note 33 in the notes to the consolidated financial statements.

External risks

Macroeconomic and sector-specific risks
The dependency of HORNBACH DIY megastores with garden centers on general macroeconomic developments and levels of disposable household income could become apparent in the form of unwillingness on the part of customers to make purchases in periods of low economic growth. In particular, the global economic crisis emerging on account of the financial market crisis has created new risks in terms of stagnating or declining DIY sales in the European countries in which HORNBACH operates. Irrespective of this, a major dependency on economic developments in Germany has been identified. The further expansion into other European countries is intended to achieve an ongoing diversification of risk. Furthermore, the company generates a substantial share of its sales with seasonal articles, whose turnover is significantly affected by external factors, such as weather conditions.

Natural hazards
The climate change observed around the world also directly affects HORNBACH locations in Germany and other European

countries. In addition to natural catastrophes (e.g. flooding), the HORNBACH Group is also exposed to risks resulting from fire and explosions. The principal natural hazards and any potential interruption to operations arising as a result are covered by group-wide insurance policies.

Operating risks

Location and sales risks

Investments in unsuitable locations could have a significant negative impact on the earnings power of the Group. To minimize such risks, investments in new locations are therefore prepared on the basis of detailed market research analysis, with investment decisions being taken on the basis of dynamic investment calculations and sensitivity analyses. The risk of unsatisfactory sales performance due to additional factors, such as customer behavior and the local competitive situation, can nevertheless not be excluded entirely. Ongoing investments have to be made in locations and in enhancing customer service levels in order to maintain the company's competitiveness, especially in countries with low market growth and intense competition.

Procurement risks

An efficient early warning system has been developed to avoid the loss of major suppliers. The overall Group has a total of three central warehouses in order to reduce the risk of any interruption to the logistics chain and to optimize the supply of merchandise. In its procurement of merchandise, HORNBACH is subject, among other risks, to increasing purchasing prices for articles involving a high share of crude oil, copper or steel as a result of volatile prices on the international commodities markets. Due to the current decline in commodity prices, this risk has substantially declined, but is still latently present in terms of the future. Moreover, should the procurement cooperation in place with Kingfisher be terminated as a result of a sale of the shareholding held by Kingfisher, then an overall deterioration is to be expected in the procurement terms for certain goods previously purchased in cooperation with Kingfisher.

Legal risks

Legislative and regulatory risks

As a result of its business activities in various countries, the HORNBACH Group is subject to various national legislative frameworks and regulations. Legislative amendments may therefore lead to higher compliance costs. Alongside risks such as those relating to damages claims due to infringements of patents or industrial property rights, or of damages resulting from environmental or product liability, the future earnings situation of the Group may also be negatively affected in particular by any tightening up of national construction laws or regulations governing the acquisition of land.

Risks relating to legal disputes

In the course of their business operations, the companies of the HORNBACH HOLDING AG Group are inevitably confronted with legal claims on the part of third parties, both in court and out of court. At present, HORNBACH is not involved in any current or foreseeable court or arbitration proceedings which could have any significant impact on the economic situation of the Group.

Management and organization risks

IT risks

The management of the HORNBACH Group is heavily dependent on high-performance information technology (IT). The ongoing maintenance and optimization of the IT systems is undertaken by highly qualified internal and external experts. Unauthorized data access, and the misuse or loss of data are averted by using appropriate up-to-date virus software, firewalls, adequate access and authorization concepts and by maintaining backup systems. Appropriate emergency plans are in place for unexpected breakdowns in IT systems.

Personnel risks

The deployment of highly motivated and qualified employees represents one of the foundations for HORNBACH's success. This pillar of the corporate culture is therefore of great significance for the overall Group. Ongoing employee satisfaction levels are evaluated in regular employee surveys carried out by external service providers, while employee qualification levels are continually improved by means of appropriate training and development measures. In its retention of highly qualified specialist and management personnel, however, HORNBACH is dependent on a variety of external factors, such as overall developments on the labor markets or in the sector.

Overall assessment of the risk situation

There were no risks to the continued existence of the HORNBACH HOLDING AG Group in the 2008/2009 financial year. Taking due account of what we believe to be the most probable implications of the financial crisis, no risks have currently been identified which could threaten the continued existence of the company or sustainably impair its earnings, financial or net asset position.

Outlook

The European DIY sector will continue to provide HORNBACH with growth opportunities in future as well. These are to be assessed in conjunction with the risks outlined in the risk report. Given the massive disruption to the global economy in the course of the financial and economic crisis, the macroeconomic framework has deteriorated significantly compared with the previous year. Major economies are attempting to counter the effects of the crisis with government economic stimulus programs. Consumer behavior is changing in response, a factor from which the DIY sector could nevertheless potentially stand to benefit. What's more, the business performance of DIY and garden stores could be positively affected in the coming years by a series of sector-specific development trends (megatrends). Against this backdrop, we are consistently enhancing our corporate strategy, aiming to ensure continuity, reliability and sustainability, in order to make optimal use of potential opportunities for future growth.

Macroeconomic opportunities

Hardly a day went by in March 2009 without one forecast or another being corrected downwards. For the current year, the International Monetary Fund (IMF) has forecast that the global economy will shrink for the first time since World War Two. Global economic output is thus expected to decline by 0.5% to 1.0% in 2009. According to the IMF, the ongoing financial crisis has impacted far more severely on the overall economy than assumed even at the beginning of this year, when the Fund had still predicted slight growth of 0.5%. Forecasts concerning developments in the industrial economies have been reduced correspondingly.

For the world's largest economy, the USA, the IMF now expects GDP to decrease by 2.6% in 2009 (previously: minus 1.6%). For the euro area, the estimate was corrected downwards from minus 2.0% to minus 3.2%. The World Bank has also warned of a recession in the global economy this year and sees the drop in industrial output as the main reason for this development. Moreover, global trade threatens to decline more dramatically in 2009 than at any time since the end of World War Two. According to forecasts issued by the World Trade Organization (WTO), global trade volumes could drop by 9% due to flagging demand in the context of the worst economic crisis for decades. Export-dependent economies will be affected particularly severely.

In the euro area, industry increasingly curtailed its production at the beginning of the year in response to ever more depleted order books. According to the Eurostat, output in January 2009 was 3.5% down on December 2008 and 17.3% lower than a year earlier. The sharpest reductions in production were seen at manufacturers of capital goods. Against this backdrop, economic experts expect real-term gross domestic product in the single currency area to have shrunk at least as fast in the first quarter of 2009 as in the previous quarter (minus 1.5%).

Major industrial economies and some emerging economies have made efforts to cushion the crisis with extensive rescue measures for the financial sector, expansive monetary policies and economic stimulus programs born of necessity to attempt to stabilize the global economy once more. The economic stimulus programs in some cases include measures intended to improve household incomes directly, and thus to boost consumer demand. On an indirect level, infrastructure projects worth billions are intended to help improve employment levels and consumers' disposable incomes. The European retail sector can therefore be expected to be affected less severely by the recession than other sectors. The uncertainty on the markets and downside macroeconomic risks nevertheless remain very substantial. The majority of research institutes and bank economists only see chances of a slight economic recovery from 2010 onwards.

The downturn in the global economy has hit Germany, the world's largest exporter, especially hard. Based on assessments by economic experts, in 2009 the German economy will plunge into the deepest recession since the founding of the Federal Republic. The extent and duration of this downturn in macroeconomic output are as yet unclear. The more data which became available on the first months of the year, the bleaker economic researchers' forecasts also became. Following repeated downward corrections, the estimates issued by research institutes and banks for 2009 recently settled down at between minus four and five percent. The forecast issued by Commerzbank in March, predicting a fall in gross domestic product of even six to seven percent, was especially gloomy. This pessimism is fed in particular by the sharp drop in industrial production. Having been severely hit by the collapse in new orders and exports in January, the manufacturing sector cut back its production by an unexpectedly high level of 7.5% compared with the previous month.

By the spring, no turnaround was yet in sight in terms of the development in new orders in German industry. The labor market can therefore also not be expected to show any speedy recovery. Unemployment figures can rather be expected to track the development in GDP following a lag of several months. Government-subsidized short-time work has delayed the recession spilling over onto the labor market. According to forecasts, however, the expiry of short-time work in 2010 could be followed by a sharp rise in unemployment totals to well over four million. This factor increases the downside risk for domestic demand, which also cannot expect to receive any assistance from business investment in 2009.

Signs of hope were few and far between at the end of the first quarter of the calendar year. One small consolation in March was the surprising increase in the ZEW indicator of economic sentiment and in European procurement manager indices. The reduced rate of economic decline reflected in these figures meant that the prospect of the recession bottoming out in the second half of 2009 is now at least within the realm of the possible. According to the Ifo business climate index for the same month, the business climate may have fallen to the lowest level since the early eighties, but business expectations nevertheless improved for the third consecutive month. According to one rule of thumb, this provides an indication of a forthcoming economic turnaround.

Hopes that the German economy might stabilize as the year progresses are pinned on the Federal Government's economic stimulus programs, falling interest rates and low commodity and consumer prices. Government investment and consumer spending can be expected to act as important anchors in this respect.

Sector-specific opportunities

The greatest uncertainty for 2009 and 2010 involves consumer spending. Many economic observers assume that private household consumer spending, which accounts for almost 60 % of German GDP and is traditionally not subject to any significant rates of change, could cushion, if not entirely avert, any downturn in the overall economy precisely because of its inertia. Unlike companies, consumers should not yet feel any major effects of the crisis during 2009. According to the GfK Group, the issue of unemployment is only expected to affect consumer spending towards the end of the year. In February, this Nuremberg-based consumer research company forecast consumer spending growth of up to 0.5 % in 2009.

Consumer sentiment has received support since the end of 2008 from the marked decline in inflation and substantial reduction in gas and energy prices. This has boosted purchasing power, which has also benefited from the pay rises agreed in the past year. Not only that, the government's old car scrapping incentive program and the prospect of commuter tax relief repayments have also helped shield consumer confidence from the effects of the crisis. The GfK consumer confidence index thus brightened up slightly in March and also remained stable in April in spite of daily crisis reports.

In its forecast for 2009, the Association of German Retailers (HDE) expects retail sales to range between zero and minus 1 % in nominal terms. Adjusted for prices, that would be equivalent to growth of minus 1 % to 2 %. Given the bleak economic outlook, the German retail sector would thus post a creditable performance. According to HDE, the results are primarily dependent on developments on the labor market in the second half of the year.

The construction industry could play a key role in overcoming the recession in 2009. The financial crisis will only hit the construction sector in the medium term, as a backlog of non-residential construction work from 2008 has cushioned the order situation. At the beginning of the year, the Germany's Central Construction Industry Association expected the recession in the overall economy only to reach the construction industry from the summer of 2009 onwards, following a stable first half to the year. Business construction sales are expected to decline by 5 % in nominal terms, while government construction and construction work on existing residential property should benefit from government economic stimulus programs. All in all, based on an optimistic assessment, sales in the main construction sector could match those in the previous year in nominal terms.

The extent to which the German DIY and garden store sector would be affected by macroeconomic developments in 2009 could not yet be foreseen at the beginning of the year. The first calendar quarter of 2009, for which no data was publicly available upon completion of this report, can be expected to have been characterized by a weak sales performance in February and March. The prolonged severe winter, which extended far into the spring, delayed the kick-off to the crucial spring season. The BHB sector association has underlined that it will be necessary to wait for the results of at least the first three months before any reliable forecast can be issued for the year as a whole, and has also pointed to the considerable degree of forecasting uncertainty due to the economic crisis. However, while other retail segments can expect to see falling sales, sector observers also see opportunities for growth at German DIY players – even in the crisis.

Capital resources and solid concept as decisive factors

Since the intensification in the financial crisis in 2008, there has been a marked increase in consolidation pressure within the DIY and garden store segment. Alongside the unrelentingly tough competition in terms of price and quality in the German DIY market, with its excess capacity, some players have now also witnessed a dramatic reduction in their financing options. Expansion and modernization projects have had to be scaled down or even cancelled for reasons of necessity, as have maintenance investments. This is particularly the case at players with thin equity cover, low liquidity, less competitive cost structures and conceptual deficits.

Thanks to our clear market position and the consistency with which we have continuously enhanced our large-scale retail format in Germany and abroad, we continue to see further growth potential in the German and European DIY market even in the more difficult economic climate. Based on our solid equity resources, high volume of company liquidity and broad and flexible financing portfolio, we are in a position to exploit expansion opportunities in a targeted manner and to invest in the future in spite of the turbulence on the international financial markets.

Exploit customer potential and structural advantages

Germany is the largest DIY market in Europe. In no other EU country do consumers spend more on DIY, home improvement and garden products. Its size alone makes the German DIY market interesting. However, the challenge facing players in the market is that German DIY and home improvement stores have not yet fully exhausted their customer potential. In Germany, this distribution channel covers less than half of the estimated DIY market volume. Unlike in the UK and France, the majority of DIY products are purchased in specialist retail stores, at builders' merchants outlets or via other distribution channels. This indicates that there is potential for DIY stores if they succeed in gaining further market share from competing sales formats by offering appropriate customer focus and concepts. With our large-scale concept, which enables us to compete on equal terms with established specialist retailers, we believe that we are well positioned in this respect.

One general problem relates to excess surface capacity in the densely occupied German market. However, the question of overcapacity has to be viewed from a variety of angles. Much depends on competitive conditions in the respective catchment areas. On a local and regional level within Germany, there are still conurbations with below-average coverage with DIY stores and garden centers. We are exploiting these "gaps" to achieve selective growth. Within the respective local competitive situation, we are able to draw on our structural advantages and benefits of scale, factors reflected in particular in the attractiveness of our locations and the highest surface productivity of any leading German DIY store operator. Taken together with the largest average store size in Europe, this means that HORNBACH has enormous crowding-out potential.

Renewed focus on house and garden

Past experience shows that people are more prone to withdraw into their own private spheres in times of uncertainty (cocooning). Consumers pay greater attention to their own four walls once again and are willing to invest in embellishing and equipping their homes. Home improvement and the pleasure consumers derive from designing their own living space is becoming ever more popular as a leisure activity. Market researchers agree that the garden market will be among the more dynamic sectors of the economy in future as well. Consumers accord great importance to gardening and designing open-air spaces adjacent to their homes. According to studies performed by BBE Retail Experts, the garden market has returned to its growth course once again following several weaker years. The market volume is expected to grow by four percent in the period from 2009 to 2013. The DIY market stands to benefit from these developments. With its concept, HORNBACH focuses in particular on the needs of project customers, regardless of whether the projects involved relate to consumers' houses, apartments or gardens.

Ray of hope in declining housing construction market

The number of building permits issued in Germany hit a new low in 2008. Compared with the previous year, 5.6% fewer apartments were approved. Homes in detached and semi-detached houses were especially hard hit, with downturns of 6.9% and 6.0% respectively. Consumers' changing attitudes towards home ownership triggered by the economic crisis and demographic trends might nevertheless compensate for the declining trend in new housing construction at least in part.

In view of the massive destruction of value on the capital markets in the course of the financial and economic crisis, many investors have rethought their approach. In the hunt for safe havens for cash investments and retirement savings, owner-occupied property, in conjunction with the relevant government subsidies ("Wohn-Riester"), may well become increasingly attractive as a resilient asset. At the same time, based on estimates compiled by LBS Research, the total number of private households should continue to rise for at least the next ten to 15 years. The main reason stated for this development is the ongoing trend towards smaller households. Changing lifestyles are leading to higher numbers of single-person households, especially among younger and middle-aged members of the population. Increasing life expectancy is leading to further growth in the number of smaller-scale households among senior citizens as well. LBS estimates that one and two-person households will already account for 77 % of all households by 2020, five percentage points higher than in 2005. This could provide new construction activity with positive momentum, a development which could also generate increased demand for construction materials in the DIY sector.

Growth in the core business of modernization

Construction work on existing buildings (the modernization and renovation market) has become an ever more important factor in the business performance of DIY and garden stores in recent years. Since 1998, sales in the modernization market have exceeded new construction volumes. More than 70 % of the total construction volumes of almost € 130 billion now involve modernization projects, while new construction only accounts for just under 30 %. According to figures released by the market research company Heinze, construction volumes should remain stable through till 2020, as the modernization market will be able to make up for the loss of sales in the declining new construction business. This means that the DIY sector can justifiably expect to see a certain degree of stability in terms of construction investments, all the more so since experts view the modernization of residential property as being relatively crisis-immune. Notable growth drivers in this respect include the age structure of apartments and houses, building energy efficiency, senior-friendly renovation work and the positive impact of inheritance between generations.

- The age structure of apartments and houses in Germany indicates an increasing need for maintenance and modernization work. Of all apartments, 75 % are more than 30 years old, while only around 3 % have been built since 2000. According to a study by Dekra, almost one in three detached houses in Germany is in need of renovation. Half of the owner-occupied houses built between 1949 and 1960 have not yet been extensively renovated and do not meet current technology standards in terms of energy efficiency. Given that the property will decline in value unless renovation measures are undertaken, the need for construction services and products can be expected to increase. There is a great need for investment in heating technology and heat insulation. Merely to safeguard the utility value of owner-occupied properties via maintenance work, home owners would have to invest between € 5,000 and € 20,000 each, according to Dekra.

- The long-term increase in energy costs and climate protection mean that energy efficiency is increasingly gaining in significance. Energy-saving measures in and around the house enable energy consumption to be cut by up to 70 %. In the first economic stimulus package adopted at the beginning of December 2008, the Federal Government stocked up the CO_2 building renovation program at the Kreditanstalt für Wiederaufbau (KfW) with a further three billion euros for the period 2009 to 2011. This KfW program enables homeowners to obtain low-interest loans or grants for environmentally-friendly investments in energy-saving measures in their houses and apartments. The Federal Ministry of Transport, Building and Urban Affairs drew a positive balance for the first two months of 2009. In spite of the crisis and the severe winter, more than 12,000 subsidy applications, corresponding to an investment volume of around € 1.2 billion, were approved – around 20 % more than in the equivalent period in the previous year. The improved tax deductibility of work performed by tradesmen has also provided an additional incentive for maintenance and modernization projects. These measures can be expected to benefit the DIY business, as many private building clients, professional housing companies and tradesmen will also cover their need for construction materials via the DIY sector.

The final lap. Important – the hole for the drain also needs some attention.

The first snow and the final check. The new roof passes the test.

- The gradual introduction of the energy pass starting in 2008 should also provide positive momentum for high-performance, service-driven DIY store operators. Following the entry into force of the Energy Saving Ordinance (EnEV), house owners have to present new tenants and owners with a pass concerning energy consumption levels at their property. The needs-based energy pass is obligatory for buildings with up to four apartments built before 1978. The pass provides tenants and buyers of apartments and houses with information on the condition of the building, oil or gas consumption levels, heat insulation and incentives for renovation. Individuals hoping to obtain support from state subsidy programs in future will be required to present their needs-based energy pass.

- In 30 years, around 7.5 million people in Germany, and thus almost twice as many as today, will be more than 80 years old. 23.7 million people in Germany will then be older than 65. Given these demographic developments, senior-friendly construction involves the challenge of adapting existing living space to enable elderly people to retain their freedom and live independently in their familiar surroundings for as long as possible. Demand for senior-friendly construction solutions, such as barrier-free access to buildings and flats, the addition of elevators, and door-widening and sanitary conversion measures, will therefore continue to rise. The government promotes investments in senior-friendly renovation work by offering KfW loans with subsidized interest rates. Additional funds of around € 240 million will be made available as part of the economic stimulus package for the period from 2009 to 2011.

- Experts estimate that assets totaling around € 3.3 trillion will be bequeathed between generations in Germany between 2009 and 2020. Almost half of all inheritances also involve property. The transfer of such property to the new generation in many cases also triggers a decision to undertake renovation work or refurbishment.

The modernization market, and in particular senior-friendly construction and investments in energy efficiency, will play an ever more important role for the DIY and garden store sector in future. With the competence of its range of products and services, HORNBACH has already prepared for this growth market at an early stage.

Opportunities offered by internationalization

Over and above the opportunities available in the German DIY market, the company's expansion into other countries offers additional growth prospects. Numerous leading German DIY store players already took the decision to expand outside their own borders years ago. We continue to see promising growth opportunities for HORNBACH outside Germany. Since our market entry in Austria in 1996 and gradual expansion into eight further European countries, the like-for-like growth of our international business has averaged more than 5 % per year. In view of the increasing maturity of regional DIY markets, as well as of the negative impact of the global economic crisis on consumers, the annual rates of growth in coming years can be expected to fall short of this long-term average. We nevertheless still see potential for generating higher rates of sales growth abroad than in Germany. We believe that this is also the case for East European markets, which are suffering badly from the current recession due to their high degree of dependence on the international automobile industry in some cases, falling rates of foreign investment and inflation driven by exchange rate movements. The higher level of construction activity compared with Germany, a greater need to catch up in terms of renovation and modernization work, and widespread enthusiasm for home improvement provide our DIY megastores with garden centers in Eastern Europe with good prospects for long-term sales and earnings growth.

Not only that, the intensity of competition in the large DIY and home improvement store segment is considerably lower in some countries than in Germany or Austria. Thanks to their attractive product ranges and price structures, players operating DIY megastores with garden centers have in recent years successfully expanded their market share at the expense of small and medium-sized domestic retailers. The success of our business performance in Europe justifies our further international expansion and, by diversifying risks, will make us more independent of market conditions in Germany.

Strategic opportunities

Our aim is to continually expand HORNBACH's position in the European DIY market by means of organic growth. Our sales and profitability are to be sustainably increased by expanding our internationally successful retail format. This involves focusing on the strategic enhancement of our concept and the expansion of our store network at locations with above-average growth potential in Germany and abroad. Account will also be taken of the opportunities resulting from the changes in the underlying economic and sector conditions referred to above.

- The company's strategy is focused on the concept of projects. HORNBACH is increasingly able to differentiate itself from its competitors with this approach, which is reflected in its product range, service and pricing policies. This **unmistakable differentiation** is necessary for the active promotion of the consolidation process, especially in Germany. Our solid financial resources, public corporate rating and the flexibility available to us in refinancing the business on the capital market will enable us to invest considerable sums in differentiating HORNBACH's format in future as well. This factor is all the more important in the light of the financial and economic crisis. At the same time, we will be closely monitoring which corporate strategy options arise on account of the process of further consolidation in the DIY sector in Germany and on a European level.

- One unshakable component of our uniform strategy across the Group is our reliable **permanent low price policy**. We believe that we are better able to retain customers at HORNBACH in the long term by offering and guaranteeing the best market price on a permanent basis. In particular, our main target group of project customers, who often undertake large-scale renovation work, needs to be able to budget in the long term. This is hardly possible with temporary discount campaigns.

- DIY customers accord priority not only to competitive prices, but also to the **quality** of the products and advisory services on offer. By focusing on the quality of our product ranges and professional advice for all DIY and home improvement projects, we were able to boost customer demand significantly in the 2008/2009 financial year. We see our quality-driven concept as being confirmed by a representative survey commissioned by HORNBACH from forsa. According to this survey, advice from competent personnel and high quality goods play the decisive role for three quarters of the customers interviewed in their evaluation of DIY stores.

- We believe that we are excellently positioned in the sector with regard to the ever more important **market for modernization** and, within this market, with regard to the increasingly strict legal requirements governing the **energy efficiency of buildings**. We will continue in future to launch complex projects, such as the insulation of facades or the replacement of windows and doors, as "Project Shows" at the stores. The "Project Show" is an innovative marketing instrument aimed at intensifying the project concept. Presentations held in special event sections at the stores provide customers with specialist advice, information and suggestions as to how they can undertake renovation projects or realize their dream living space either under their own steam or with specialist support. These activities are to be extended to cover the entire building shell and will be accompanied by service packages from our tradesperson service. Moreover, considerable sales potential is also provided by public sector programs subsidizing the renovation of old properties in terms of energy efficiency or to make them senior-friendly. In view of this, we offer an extensive database on our homepage (www.hornbach.de) enabling customers to research subsidy programs provided on federal, state and district levels, as well as by energy supply companies. The public sector subsidizes new construction projects and the renovation of existing building stock, as well as projects relating to listed buildings and ensembles.

- We see the **Buy-it-yourself** (BIY) or Do-it-for-me market segment as harboring promising growth potential. This segment includes the target group of those customers who are on the lookout for solutions for their home improvement projects and who wish to purchase the product ranges themselves, but who then prefer to have the work undertaken by a specialist. We also view this market segment within the broader context of the ageing population in Germany and other parts of Europe. To tap this potential, we have, among other measures, extended our range of tradesperson services. It is possible, for example, to have an entire bathroom renovation or the fitting of doors, garage doors, or awnings conveniently handled with HORNBACH acting as the general contractor guaranteeing that the work is carried out on time, correctly and at the agreed fixed price, as well as assuming responsibility for the warranty.

- Furthermore, we are expanding our range of services, information and advice in order to attract **new customer groups** to HORNBACH. This range includes home improvement demonstrations at the stores intended to motivate customers to do it themselves, special workshops for women, and the targeted use of step-by-step displays. These measures are backed up by the promotion of skills on the part of the store personnel with the aim of achieving a further increase in product expertise and advisory competence, and thus in customer satisfaction. Our DIY megastores with garden centers are also increasingly of interest to professional customers. Generous opening hours, the stocking of large quantities, the rapid handling of purchases at our drive-in stores and builders' merchant centers, and the uncomplicated acceptance of residual volumes no longer required make HORNBACH an attractive alternative to traditional retail or wholesale procurement sources.

- The exploitation of opportunities is not limited to further enhancing our concept or accessing market segments. We are also focusing on **optimizing our operating processes**. The processes involved in store organization, sales and the links to procurement and logistics are subject to a process of ongoing enhancement. This is expected to have a sustainable positive impact on the Group's sales and earnings performance.

- We will press further ahead with **internationalizing group procurement**. Broad access to global procurement markets and our strategic, long-term partnership with suppliers and industry are of key significance in this respect. This partnership is of benefit to both sides. We provide each supplier with the opportunity of supplying all of our stores as efficiently as possible. Our ingenious logistics infrastructure plays the key role in this respect. Suppliers are able make large-scale logistical deliveries directly to each location, or to supply the merchandise indirectly via one of our three central logistics hubs, where large numbers of individual deliveries are pooled using the cross docking function. We thus also provide regional manufacturers with the opportunity of growing with HORNBACH outside their existing sales regions, i.e. of supplying goods to additional countries or to the entire Group should their capacity permit. The fact that our retail format is increasingly attracting professional customers to HORNBACH has enabled us to acquire production specialists who would otherwise only supply professional specialist retailers. The flexible dovetailing of our suppliers with the company's logistics structures optimizes the value chain and secures a significant competitive advantage for us. The proximity of our suppliers to procurement structures in the individual countries enables us to optimally adapt our project-based product selection to regional requirements in those countries and to improve our margins due to benefits of scale. We are tapping further earnings potential by increasingly developing private labels in cooperation with partners. These provide our customers with attractive value for money, while at the same time differentiating us from the competition.

Outlook for the Group

The medium-term company planning has a budgeting horizon of five years and is updated and extrapolated annually. The basis for forecasting developments in the 2009/2010 to 2013/2014 financial years involves substantial uncertainties. These have intensified still further since the completion of the strategic planning process at the end of 2008 on account of increased downside macroeconomic risks. It is difficult to predict the short and medium-term implications of the global economic crisis on the sales, procurement and refinancing markets in those countries in which HORNBACH operates. The meaningfulness of forecasts is severely limited, as no past empirical figures are available to assess key aspects of the financial crisis and the chances of success for the state aid programs intended to counter the effects of the crisis. It is particularly difficult to predict whether, when and to what extent any possibly drastic reduction in employment will impact on consumer demand. We are reacting to these uncertainties by planning more defensively than in the past. Utmost priority is accorded to flexibility in managing the company and to safeguarding the liquidity and earnings power of the HORNBACH HOLDING AG Group.

Expansion

While our five-year planning was based on an average of seven new store openings per year in the past, in the 2009/2010 and 2011/2012 financial years we will be reducing the pace of our expansion in favor of maintaining a higher liquidity cushion and will be managing our investment planning on a short-term basis. This will enable us to cut back or postpone investments at short notice should our business performance fall short of our expectations. Assuming that the business performance remains within the range we expect, however, then we also aim to exploit financial scope for investments in the future. Alongside new store openings, this also includes store extensions and the acquisition of reserve land, for which the supply and purchase prices may in some cases be more attractive than in the past due to the financial crisis.

Only by the end of the budgeting horizon, i.e. in the 2012/2013 and 2013/2014 financial years, do we expect the macroeconomic framework to normalize. We then plan to open new stores at an average rate of seven a year once again. Depending on the progress made in the building permit and construction planning stages, store openings may be rescheduled between individual years. The majority of new stores are to be opened outside Germany. The HORNBACH Immobilien AG subgroup will continue to make a major contribution to the development of real estate within the framework of the expansion planned in Germany and abroad.

Two new HORNBACH DIY megastores with garden centers are due to be opened in the current 2009/2010 financial year. Both locations are abroad. Alongside our third store in Romania, which was opened in Brasov in March 2009 already, the opening of our fifth store in Switzerland is also planned. This DIY megastore with a garden center in Galgenen (Schwyz canton) is expected to commence sales at the end of 2009. Provided that sales and earnings expectations are met and that financing terms permit, HORNBACH plans to open up to five new stores outside Germany in the 2010/2011 financial year. One existing store is expected to be closed in the same year and should be replaced in the following year by the construction of a modern DIY megastore with a garden center. All in all, based on the expansion planned for the current and next financial years, the number of HORNBACH DIY megastores with garden centers across the Group is set to increase to up to 136 by February 28, 2011 (February 28, 2009: 129).

The HORNBACH Baustoff Union GmbH does not plan to make any amendments to its network of outlets.

Investments

Assuming that sales and earnings develop as expected, the gross investment volume budgeted for the HORNBACH HOLDING AG Group in the 2009/2010 and 2010/2011 financial years should exceed the level seen in 2008/2009 (€ 131 million). The overwhelming share of these funds will be channeled into building new stores, equipping new and existing stores, and acquiring land. Investments will mainly be financed by drawing on the free cash flow from operating activities, mortgage loans, and the funds released by sale and leaseback transactions.

Sales performance

The sales performance of the HORNBACH Group depends to a very great extent on the performance of the HORNBACH-Baumarkt-AG subgroup. We have based our forecast for the current and next financial years on the expectation that the rate of sales growth in those European countries in which we operate HORNBACH stores will slow compared with average rates of growth in the past. Consolidated sales growth will also be dampened by the deliberate reduction in the pace of expansion.

Accounting for the opportunities and risks involved in future developments outlined above, we nevertheless continue to believe that the **HORNBACH-Baumarkt-AG subgroup** has realistic prospects of generating sales growth over the two-year forecast period both in Germany and in other European countries.

- In view of the robust consumer climate to date and given the measures cushioning developments on the labor market (catchwords: government-subsidized reduction in working hours and social security systems), we expect Germany to show less volatility overall than other countries in terms of its sales performance in the current financial year. Should positive macroeconomic forces gain the upper hand once again in the second half of 2009, then we expect to see further sales growth, also on a like-for-like basis. However, should the recession continue well into 2010, thus impairing the consumer climate more severely than expected, then the possibility of a reduction in like-for-like sales cannot be excluded. Irrespective of the given scenario, our strong market position makes us confident that our sales performance will continue to exceed average growth rates in the sector in future as well, enabling us to consistently increase our share of the German market.
- In other European countries, we aim to raise our sales from year to year, thus continually increasing the international share of sales at the HORNBACH-Baumarkt-AG subgroup (2008/2009: 41%). At present, we see our sales performance as being more exposed to risks of fluctuation in other European countries than in Germany. This mainly involves those countries especially hard hit by the drastic downturn in production in the global automotive industry, such as Sweden, Slovakia and the Czech Republic. The economic crisis can be expected to leave its mark on these countries' labor markets both earlier and more severely than in Germany. In some countries outside the euro area, such as Romania, private households' income situation has been additionally burdened by rising prices due to significant depreciation in the respective national currency against the euro. Thanks to the distribution of risks across our European store network, we are able to compensate at least in part for reductions in sales in individual regions with above-average sales growth in other regions. Should the economy slide into an even more severe recession, then a downturn in like-for-like sales also has to be expected at the international stores.

We expect net sales at the **HORNBACH-Baumarkt-AG subgroup**, i.e. net sales including newly opened stores, to show growth in a low to medium single-digit percentage range in the current 2009/2010 financial year and to exceed this figure in the 2010/2011 financial year.

Sales at the **HORNBACH Baustoff Union GmbH subgroup** are also expected to continue to outperform the sector in the 2009/2010 and 2010/2011 financial years and to show year-on-year growth in each case.

On the level of the overall **HORNBACH HOLDING AG Group**, we also expect consolidated sales to show growth in a low to medium single-digit percentage range in the 2009/2010 financial year and to exceed this figure in the subsequent 2010/2010 financial year.

Earnings performance

Given the macroeconomic imponderables, it is not possible to formulate any specific earnings forecast for the current and next financial years. We will therefore conclude this report by providing some indications for the business segments, namely "DIY stores", "Builders' Merchant" and "Real estate". These form the basis for the future earnings performance of the overall Group.

- The development in operating earnings in the **DIY store segment** is crucially dependent on the as yet unforeseeable rate of change in like-for-like sales. Based on our expectations, the gross margin should remain stable over the two-year forecast period. We expect to be able to balance out potential risks resulting from any intensification in price competition on the one hand by exploiting opportunities for lower prices on procurement markets due to macroeconomic and commodity-related factors, and changes in the product mix on the other hand. We aim to counter the risk of sales slowing due to macroeconomic factors by enhancing the productivity of our store operations and administration processes, i.e. by reducing store and administration expenses as a percentage of net sales. Pre-opening expenses will decrease as a percentage of sales in the 2009/2010 financial year due to the lower number of new store openings compared with the previous year and will then in all likelihood rise once again in the following 2010/2011 financial year.

- In the **builder's merchant segment**, store and administration expenses are expected to decline as a proportion of sales due to improved operating processes and cost savings.

- The **real estate segment** includes the retail properties owned by the HORNBACH-Baumarkt-AG subgroup and by HORNBACH Immobilien AG, which are let or charged on at customary market conditions to the respective DIY megastores with garden centers within the Group. Furthermore, gains and losses incurred in connection with the operating land development business of the HORNBACH Immobilien AG subgroup are also reported in the real estate segment, as are gains and losses generated by sale and leaseback transactions.

  On the level of the HORNBACH-Baumarkt-AG subgroup, we expect to see considerably lower earnings contributions from the real estate segment in 2009/2010. While disposal gains of around € 37 million were generated from real estate transactions in the 2008/2009 financial year, no significant disposal gains are budgeted for the current 2009/2010 financial year. Two sale and leaseback transactions are still outstanding in connection with the completion of the sale of a total package of five DIY store properties initiated in the previous year. Assuming that these are successfully completed in the current financial year, we expect to post disposal gains of around € 1 million. The predominant share of the budgeted inflow of funds of around € 52 million is to be reinvested into the construction of new stores owned by the HORNBACH-Baumarkt-AG subgroup.

  No significant disposal gains from real estate transactions have been budgeted on the level of the HORNBACH Immobilien AG subgroup either in the 2009/2010 financial year. In 2008/2009, by contrast, we recorded disposal gains totaling around € 13 million from successful land development in Austria and the sale of land not required for operations.

Due mainly to the significantly lower earnings contribution from the real estate segment, the operating earnings (EBIT) of the overall HORNBACH HOLDING AG Group will decline in the current financial year (2009/2010) to a positive figure substantially lower than the earnings posted for the 2008/2009 financial year. Earnings in the 2010/2011 financial year are budgeted to exceed the previous year's figure.

Since its IPO in 1987, the challenges involved in the future development of the HORNBACH Group have never been as great as they are in the current financial and economic crisis. The macroeconomic insecurity merely serves to raise the expectations we place in the continuous enhancement of our business model. To strengthen the earnings power of the overall Group on a sustainable basis, we aim to focus even more closely than in previous years on optimizing merchandise input costs, and on structuring the operating processes involved in our store operations, logistics and administration with the maximum possible degree of cost efficiency and customer focus. In this, we stand to benefit from, among other factors, the structural advantages of our DIY megastores with garden centers, our uniform systems landscape across Europe, and the competitive advantages offered by our international procurement organization.

Report pursuant to Section 315 (4) HGB

Section 315 (4) of the German Commercial Code (HGB) requires specific disclosures to be made in the group management report in the case of stock corporations which participate in an organized market as defined in Section 2 (7) of the German Securities Acquisition and Takeover Act (WpÜG) by means of the shares with voting rights thereby issued. This is not the case at HORNBACH HOLDING AG, however, as only non-voting preference shares are publicly listed.

DISCLAIMER

This annual report is to be read in the context of the audited financial data of the HORNBACH HOLDING AG Group and the disclosures made in the notes to the consolidated financial statements contained in the annual report. It contains statements relating to the future based on assumptions and estimates made by the Board of Management of HORNBACH. Statements referring to the future are only valid at the time at which they are made. Although we assume that the expectations reflected in these forecast statements are realistic, the company can provide no guarantee that these expectations will turn out to be accurate. The assumptions may involve risks and uncertainties which could result in actual events differing significantly from the forecast statements. The factors which could produce such variances include changes in the economic and business environment, particularly in respect of consumer behavior and the competitive environment in those retail markets of relevance for HORNBACH. Furthermore, they include a lack of acceptance of new sales formats or new product ranges, as well as changes to the corporate strategy. HORNBACH has no plans to update the forecast statements, neither does it accept any obligation to do so. The diagrams and charts, as well as the comments relating to such, have been provided for illustrative purposes and do not form part of the management report.