

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Explanatory notes on the principles and methods applied in the consolidated financial statements

Accounting principles

In line with Section 315a of the German Commercial Code (HGB), HORNBAACH HOLDING AG compiles consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The consolidated financial statements of HORNBAACH HOLDING AG are published in the electronic Federal Official Gazette (Bundesanzeiger).

HORNBAACH HOLDING AG is a publicly listed stock corporation whose legal domicile is in Neustadt an der Weinstrasse, Germany. HORNBAACH HOLDING AG and its subsidiaries develop and operate DIY megastores with garden centers on an international basis. In addition, HORNBAACH HOLDING AG and its subsidiaries are active on a regional level in the professional construction materials and builders' merchant business.

The financial year of HORNBAACH HOLDING AG and thus of the Group runs from March 1 of each year through to the final day of February of the following year.

Individual items in the income statement and the balance sheet have been grouped together in the interests of clarity. These items have been reported separately in the notes to the financial statements. In line with IAS 1 "Presentation of Financial Statements", a distinction has been made in the balance sheet reporting between non-current and current debt capital. Liabilities and provisions are treated as current if they are due within one year. Income items, such as rental income, interest income and dividends, are deferred accordingly. The consolidated financial statements have been compiled in euros. The figures have been rounded off to the nearest thousand or million. Such rounding up or down may result in minor discrepancies between the figures depicted in the various sections of these notes.

Assumptions and estimates have been made when preparing the consolidated financial statements which have an effect on the assets and liabilities reported and on the income and expenses as presented. These assumptions and estimates mainly relate to uniform procedures applied across the Group in respect of economic useful lives, the recognition and measurement of provisions, the calculation of current market values and the ability to obtain future tax relief. The principal assumptions and estimates which, due to their uncertainty, may result in discrepancies in the level of assets and liabilities reported have been outlined in the notes to the respective items. Changes are accounted for as a credit or charge to operations upon receipt of further information.

Amendments to accounting and valuation methods as a result of new standards

Account has been taken of all International Financial Reporting Standards and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) valid at the reporting date, to the extent that such are of relevance for the HORNBAACH HOLDING AG Group.

The following new standards, revised standards and interpretations required application for the first time in the 2008/2009 financial year:

- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" was published on July 4, 2007. The interpretation provides guidance in particular as to how the limit pursuant to IAS 19 "Employee Benefits" is to be determined for a surplus eligible for recognition as a defined benefit asset, as well as concerning the implications of any legal minimum funding requirements on the measurement of assets and liabilities in connection with defined benefit plans. The interpretation must be applied in financial years beginning on or after January 1, 2008. Its initial application has not impacted on the Group's net asset, financial or earnings position.

Standards and interpretations not applied prematurely

The IASB has issued the following standards, interpretations, and revisions to existing standards of relevance to the HORNBAACH Group which do not yet require mandatory application and which the HORNBAACH Group has also not applied prematurely:

- The IASB issued a revised version of IAS 1 "Presentation of Financial Statements" on September 6, 2007. The new version of this standard introduces amended designations for components of the financial statements. One material amendment is that all income and expenses, including income and expenses recognized directly in equity, must now be presented in a statement of comprehensive income. It is no longer possible solely to present such items together with owner-related changes in equity within a statement of changes in equity. Moreover, extended disclosures will be required for income and expenses recognized directly in equity (other comprehensive income). In future, the statement of changes in equity will therefore focus on the presentation of all owner changes in equity. The new version of IAS 1 must be applied in financial years beginning on or after January 1, 2009. Earlier application is permitted. HORNBAACH HOLDING AG has made no use of this possibility.
- The revised standard IAS 23 "Borrowing Costs (revised)" was published on March 29, 2007. The previous option of not capitalizing borrowing costs has been abolished. As of January 1, 2009, borrowing costs directly or indirectly attributable to the acquisition, construction or production of qualifying assets must be capitalized as a cost component. The revised version of IAS 23 requires mandatory application from January 1, 2009 for those qualifying assets whose production began after January 1, 2009. Premature application is permitted (IAS 23.29). It is possible to select an earlier production date (IAS 23.28). The initial application of this standard will not have any implications for the consolidated financial statements, as use was already made in the past of the option of capitalizing borrowing costs ("allowed alternative treatment").
- On February 14, 2008, the IASB published amendments to IAS 32 and IAS 1 in the document "Puttable Financial Instruments and Obligations Arising on Liquidation". The amendments mainly relate to the regulations governing the delineation of equity and debt capital. The revised version of the standard allows puttable instruments to be classified as equity in specified circumstances. The amendments must be applied in financial years beginning on or after January 1, 2009. The application in future of the amendments to IAS 32 and IAS 1 will not have any impact on the Group's net asset, financial or earnings position.
- On May 22, 2008, the IASB published amendments to IFRS 1 and IAS 27 in the document "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate". Among other areas, the amendments relate to the accounting treatment of the costs of an investment in a subsidiary upon initial application of IFRS as well as to the distribution of earnings prior to the date of acquisition of a group company. The amendments must be applied prospectively in financial years beginning on or after January 1, 2009. The

application of these amendments in future will not impact on the Group's net asset, financial or earnings position.

- On October 13, 2008, the IASB adopted amendments to IAS 39 and IFRS 7. These amendments were introduced in reaction to the financial market crisis and allow companies to reclassify financial instruments in specified circumstances. The amendments affecting reclassification may be applied retrospectively as of July 1, 2008. HORNBAACH HOLDING AG has not undertaken any reclassifications.
- On January 17, 2008, the IASB published amendments to IFRS 2 "Share-based Payment". The amendments mainly involve the definition of vesting conditions and the regulations governing the cancellation of a commitment by parties other than the company. The amendments must be applied retrospectively in financial years beginning on or after January 1, 2009. The future application of the amendments to IFRS 2 will not have any material impact on the Group's net asset, financial or earnings position.
- On November 30, 2006, the IASB published IFRS 8 "Operating Segments". IFRS 8 replaces IAS 14 and adapts the relevant regulations to those contained in SFAS 131. IFRS 8 is based on application of the management approach to segment reporting. The standard must be applied for the first time in financial years beginning on or after January 1, 2009. The future application of the standard is not expected to have any implications for the Group's net asset, financial or earnings position.
- IFRIC 13 "Customer Loyalty Programmes" was published on June 28, 2007. This interpretation addresses the recognition and measurement of customer loyalty programs. IFRIC 13 must be applied for the first time in financial years beginning on or after July 1, 2008. Initial application will not have any material implications for the consolidated financial statements.

Standards, interpretations and amendments published as of the reporting date, but not yet accepted into European law by the EU Commission

- The IASB published the revised version of IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements" on January 11, 2008. The extensive amendments to these standards include granting an option for the measurement of non-controlling interests (minority interests) in the case of step acquisitions (either at fair value, including allocable goodwill, or at the prorated share of net assets identified), the recognition through profit or loss of differences between the carrying amount and fair value of shares previously held and the expensing of ancillary costs of acquisition.
IFRS 3 must be applied prospectively to business combinations with acquisition dates on or after the beginning of financial years beginning on or after July 1, 2009. Earlier application is permitted for financial years beginning on or after June 30, 2007. The amendments to IAS 27 are applicable to financial years beginning on or after July 1, 2009. Earlier application is allowed, provided that the new version of IFRS 3 is applied simultaneously. Depending on the scope of any business combination, the application of the revised standards in future will have a corresponding impact on the net asset, financial and earnings position of the HORNBAACH HOLDING AG Group.
- IFRIC 12 "Service Concession Arrangements", an interpretation published by the IFRIC on November 30, 2006, addresses the question as to how companies offering public services, such as the construction of roads, airports, prisons or energy supply infrastructure on behalf of public sector authorities are required to recognize the rights and obligations resulting from the contractual arrangements. IFRIC 12 basically requires application in financial years beginning on or after January 1, 2008. IFRIC 12 was accepted into European law by the EU Commission on March 25, 2009. IFRIC 12 is not expected to have any impact on future consolidated financial statements of HORNBAACH HOLDING AG.
- The interpretations IFRIC 15 "Agreement for the Construction of Real Estate" and IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" were published on July 3, 2008. IFRIC 15 addresses accounting practice at companies which develop land and which sell units in this capacity, such as residential units or houses, prior to completion. IFRIC 15 sets out criteria determining whether the items involved should be

recognized under IAS 11 “Construction Contracts” or under IAS 18 “Revenue”. This interpretation must be applied in financial years beginning on or after January 1, 2009. IFRIC 15 is not expected to have any impact on future consolidated financial statements of HORNBAACH HOLDING AG.

IFRIC 16 addresses the hedging of net investments in foreign operations. The interpretation clarifies that hedges may only be recognized between the functional currency of the foreign operation and the functional currency of the parent company. It is permitted to hedge the amount of net assets of the foreign operation recognized in the consolidated financial statements. The hedging instrument may be held by any group company (apart from those whose currency risks have been hedged). Should the foreign operation be removed from the scope of consolidation, then the changes in the value of the hedging instrument recognized directly in equity and the exchange gains and losses of the foreign operation recognized in the foreign currency reserves must be reclassified to the income statement. The volume of accumulated exchange gains or losses resulting from the removal of the foreign operation from the scope of consolidation may be calculated using either the step-by-step or the direct consolidation method. IFRIC 16 must be applied in financial years beginning on or after October 1, 2008. IFRIC 16 is not expected to have any material impact on future consolidated financial statements of HORNBAACH HOLDING AG.

- IFRIC 17 “Distributions of Non-cash Assets to Owners” was published on November 27, 2008. This interpretation governs the measurement of assets used rather than cash to distribute profit to shareholders. IFRIC 17 enters effect in financial years beginning on or after July 1, 2009. The future application of the interpretation will not have any material implications for the Group’s net asset, financial and earnings position.
- On January 29, 2009, the IASB published the interpretation IFRIC 18 “Transfers of Assets from Customers”. This interpretation provides additional guidance concerning the recognition of the transfer of an asset from a customer. IFRIC 18 enters effect in financial years beginning on or after July 1, 2009. The future application of the interpretation will not have any implications for the Group’s net asset, financial or earnings position.

Consolidation principles

The annual financial statements of the companies included in the consolidated financial statements are based on uniform accounting and valuation principles. With the exception of three Romanian subsidiaries and of three companies to be viewed as special purpose entities pursuant to SIC 12, the separate financial statements of the companies included in the consolidated financial statements have been prepared as of the reporting date for the consolidated financial statements. Account has been taken of all major transactions up to and including the reporting date for the financial statements.

In the case of acquisitions based on contracts concluded prior to March 31, 2004, the capital consolidation was based on the purchase method by offsetting the relevant acquisition costs of the investment against the reassessed prorated shareholders' equity on the date of acquisition of the subsidiary. Any remaining debit differences were capitalized as goodwill following allocation of hidden reserves and hidden burdens and were subject to straight-line amortization in line with their anticipated useful lives up to the end of the 2004/2005 financial year, with a corresponding charge to operations. There were no remaining credit differences at the end of the 2004/2005 financial year.

In the case of acquisitions based on contracts concluded subsequent to March 31, 2004, application is made of IFRS 3 "Business Combinations", IAS 36 (2004 revision) "Impairment of Assets" and IAS 38 (2004 revision) "Intangible Assets". The capital consolidation of these acquisitions is thus based on the purchase method. Any resultant goodwill and the residual carrying amount as of March 1, 2005 of goodwill resulting from acquisitions undertaken prior to March 31, 2004 are not subject to scheduled amortization but are rather subject to an impairment test undertaken at least once per year pursuant to IAS 36.

Intercompany profits relating to non-current assets and inventories are eliminated by means of a charge to operations. Intercompany income and expenses and receivables and liabilities between the consolidated companies have been offset against each other.

Scope of consolidation

In addition to HORNBAACH HOLDING AG, the consolidated financial statements include 23 (2007/2008: 23) domestic and 43 (2007/2008: 45) foreign subsidiaries by way of full consolidation.

Two subsidiaries (2007/2008: two subsidiaries) not included in the consolidated financial statements are of immaterial significance for the presentation of the Group's net asset, financial and earnings position. The shares in these companies have been recognized in the consolidated balance sheet at amortized cost, as their fair value cannot be reliably determined.

In respect of the consolidated subsidiaries, HORNBAACH HOLDING AG has, either directly or indirectly, 100% of the voting rights as the sole shareholder in HORNBAACH Immobilien AG and HORNBAACH Baustoff Union GmbH, and has, either directly or indirectly, 77.2% (2007/2008: 77.4%) of the voting rights as the majority shareholder in HORNBAACH-Baumarkt-AG.

The scope of consolidation also includes investments held by HORNBAACH Immobilien AG as one of three limited partners in three special purpose companies which are to be regarded as special purpose entities (SPEs) in line with Interpretation 12 of the International Financial Reporting Interpretations Committee (SIC). HORNBAACH Immobilien AG holds 90% of the share capital in these three companies and has 19% of the voting rights. The financial year of these companies corresponds to the calendar year.

The HORNBACH-Baumarkt-AG subsidiary compiles its own consolidated financial statements together with its subsidiary companies. The companies consolidated at that subsidiary are included in the consolidated financial statements of HORNBACH HOLDING AG.

The scope of consolidation changed compared with the 2007/2008 financial year due to the initial consolidation of two newly founded real estate companies, HORNBACH Real Estate Breda B.V., Driebergen-Rijsenburg / Netherlands, and the Swedish real estate company HIAG Fastigheter i Karlstad AB, Hisings Backa. Moreover, the 100% shareholding acquired in the Czech real estate company InterCora – invest a.s., Plzen, as of 12.23.2008 was also included for the first time in the current financial year. The companies included for the first time contributed an amount of € -10k to consolidated earnings in the 2008/2009 financial year. Furthermore, two Dutch real estate companies, HORNBACH Real Estate Kerkrade B.V. and HORNBACH Real Estate Zaandam B.V., and three Austrian real estate companies were sold. The five companies thereby deconsolidated contributed € 709k to consolidated earnings.

The composition and development of the scope of consolidation was as follows:

	2008/2009	2007/2008
March 1	69	68
Companies consolidated for the first time	3	2
Companies sold	(5)	0
Companies merged	0	(1)
February 28/29	67	69

The changes in the scope of consolidation in the 2008/2009 financial year resulted in the following aggregate changes in individual asset and liability items:

€ 000s	Additions 2008/2009	Disposals 2008/2009	Additions 2007/2008
Property, plant, and equipment	7,313	0	13,411
Other assets	0	(37,014)	48
Non-current liabilities	992	0	5,483
Current liabilities	0	(22,788)	1,987

There were no material implications for the income statement.

Consolidated subsidiaries

Company Name and Domicile	Equity ¹⁾ € 000s	Shareholding in %
Germany		
HORNBACH-Baumarkt-AG, Bornheim	386,539	77.2 ²⁾
HORNBACH Immobilien AG, Neustadt/Weinstrasse	67,130	100
HORNBACH International GmbH, Bornheim	25,584	77.2 ²⁾
AWV-Agentur für Werbung und Verkaufsförderung GmbH, Bornheim	214	77.2 ²⁾
HORNBACH Baustoff Union GmbH, Neustadt/Weinstrasse	10,156	100
Union Bauzentrum Hornbach GmbH, Neustadt/Weinstrasse	4,801	100
Ruhland-Kallenborn & Co. GmbH, Neustadt/Weinstrasse	5,321	100
Ruhland-Kallenborn Grundstücksverwaltungsgesellschaft mbH, Neustadt/Weinstrasse	(242)	100
Robert Röhlinger GmbH, Neustadt/Weinstrasse	1,449	100
Ollesch & Fitzner GmbH, Bornheim	554	77.2 ²⁾
BM Immobilien Gamma GmbH, Bornheim	-3	77.2 ²⁾
HB Reisedienst GmbH, Bornheim	6,900	77.2 ²⁾
BM Immobilien Lambda GmbH, Bornheim	21	77.2 ²⁾
HB Services GmbH, Bornheim	21	77.2 ²⁾
HORNBACH Versicherungs-Service GmbH, Bornheim	343	77.2 ²⁾
HORNBACH Solar-, Licht- und Energiemanagement GmbH, Bornheim	(33)	77.2 ²⁾
HIAG Immobilien Jota GmbH, Bornheim	6,842	100
HIAG Immobilien Beta GmbH, Bornheim	(63)	100
HIAG Immobilien Gamma GmbH, Bornheim	21	100
HIAG Immobilien Delta GmbH, Bornheim	22	100
SULFAT GmbH & Co. Objekt Bamberg KG, Pöcking	(895)	90
SULFAT GmbH & Co. Objekt Düren KG, Pöcking	(981)	90
SULFAT GmbH & Co. Objekt Saarbrücken KG, Pöcking	(891)	90
Other European countries		
HORNBACH Baumarkt GmbH, Wiener Neudorf, Austria	33,701	77.2 ²⁾
EZ Immobilien Beta GmbH, Wiener Neudorf, Austria	2,618	77.2 ²⁾
SM Immobilien Delta GmbH, Wiener Neudorf, Austria	(508)	77.2 ²⁾
SZ Immobilien Zeta GmbH, Wiener Neudorf, Austria	(43)	77.2 ²⁾
HK Immobilien Kappa GmbH, Wiener Neudorf, Austria	(197)	77.2 ²⁾
HL Immobilien Lambda GmbH, Wiener Neudorf, Austria	(594)	77.2 ²⁾
HO Immobilien Omega GmbH, Wiener Neudorf, Austria	(263)	99.8
HO Immobilien Omikron GmbH, Wiener Neudorf, Austria	2,503	77.2 ²⁾
HS Immobilien Sigma GmbH, Wiener Neudorf, Austria	(254)	77.2 ²⁾
HR Immobilien Rho GmbH, Wiener Neudorf, Austria	(149)	99.8
HD Immobilien Dora GmbH, Wiener Neudorf, Austria	(10)	77.2 ²⁾
HC Immobilien Chi GmbH, Wiener Neudorf, Austria	(32)	99.8

¹⁾ the shareholders' equity is equivalent to the local equity

²⁾ of which: 0.037% under current assets

Company Name and Domicile	Equity ¹⁾ € 000s	Shareholding in %
HM Immobilien My GmbH, Wiener Neudorf, Austria	(35)	100
HB Immobilien Bad Fischau GmbH, Wiener Neudorf, Austria	35	100
HORNBACH Baumarkt Luxemburg SARL, Bertrange, Luxembourg	9,043	77.2 ²⁾
HORNBACH Holding B.V., Amsterdam, Netherlands	63,651	77.2 ²⁾
HORNBACH Bouwmarkt (Nederland) B.V., Driebergen-Rijsenburg, Netherlands	11,637	77.2 ²⁾
HORNBACH Real Estate Tilburg B.V., Tilburg, Netherlands	284	77.2 ²⁾
HORNBACH Real Estate Groningen B.V., Groningen, Netherlands	338	77.2 ²⁾
HORNBACH Real Estate Wieringen B.V., Wieringen, Netherlands	566	77.2 ²⁾
HORNBACH Real Estate Alblisserdam B.V., Alblisserdam, Netherlands	(2,927)	77.2 ²⁾
HORNBACH Real Estate Nieuwegein B.V., Nieuwegein, Netherlands	507	77.2 ²⁾
HORNBACH Real Estate Nieuwerkerk B.V., Nieuwerkerk, Netherlands	296	77.2 ²⁾
HORNBACH Real Estate Geleen B.V., Geleen, Netherlands	133	77.2 ²⁾
HORNBACH Reclame Activiteiten B.V., Nieuwegein, Netherlands	14	77.2 ²⁾
Hornbach Real Estate Breda B.V., Driebergen-Rijsenburg, Netherlands	10	77.2 ²⁾
HORNBACH Real Estate Nederland B.V., Amsterdam, Netherlands	8,349	100
HORNBACH Baumarkt CS spol s.r.o., Prague, Czech Republic	49,628	77.2 ²⁾
HORNBACH Immobilien HK s.r.o., Prague, Czech Republic	3,596	100
InterCora - invest a.s., Plzen, Czech Republic	(97)	77.2 ²⁾
HORNBACH Baumarkt (Schweiz) AG, Oberkirch, Switzerland	20,663	77.2 ²⁾
HORNBACH Byggmärnad AB, Gothenburg, Sweden	(8,453)	77.2 ²⁾
HIAG Fastigheter i Göteborg AB, Gothenburg, Sweden	(96)	100
HIAG Fastigheter i Helsingborg AB, Gothenburg, Sweden	48	100
HIAG Fastigheter i Göteborg Syd AB, Gothenburg, Sweden	(172)	100
HIAG Fastigheter i Stockholm AB, Gothenburg Sweden	(79)	100
HIAG Fastigheter i Botkyrka AB, Botkyrka, Sweden	(551)	100
HIAG Fastigheter i Karlstad AB, Hisings Backa, Sweden	52	77.2 ²⁾
HORNBACH Immobilien SK-BW s.r.o., Bratislava, Slovakia	5,847	100
HORNBACH-Baumarkt SK spol. s.r.o., Bratislava, Slovakia	11,749	77.2 ²⁾
HORNBACH Centrala SRL, Bucharest, Romania	1,800	77.2 ²⁾
HORNBACH Imobiliare SRL, Bucharest, Romania	(11,273)	100
HMC Development SRL, Bucharest Romania	5,612	100

¹⁾ the shareholders' equity is equivalent to the local equity; in the case of HORNBACH Centrala SRL and HORNBACH Imobiliare SRL, however, equity corresponds to IFRS

²⁾ of which: 0.037% under current assets

A complete list of shareholdings pursuant to Section 285 Sentence 1 No. 11 and Section 313 (2) and (3) of the German Commercial Code (HGB) has been disclosed in the electronic Federal Official Gazette (Bundesanzeiger).

Subordination and profit and loss transfer agreements have been concluded between HORNBACH HOLDING AG and HORNBACH Immobilien AG and between HORNBACH HOLDING AG and HORNBACH Baustoff Union GmbH. These took effect in the 2000/2001 financial year. HORNBACH Baustoff Union GmbH has itself concluded a subordination and profit and loss transfer agreement with Union Bauzentrum HORNBACH GmbH which also came into effect in the 2000/2001 financial year. Moreover, a subordination agreement and a profit and loss transfer agreement have been in place between Ruhland-Kallenborn Grundstücksverwaltungs-gesellschaft mbH and Ruhland-Kallenborn & Co. GmbH since March 1, 2004.

Furthermore, subordination and profit and loss transfer agreements have been concluded between HORNBACH-Baumarkt-AG on the one hand and HORNBACH International GmbH and Ollesch & Fitzner GmbH on the other.

Foreign currency translation

Transactions executed in foreign currencies have been translated at the respective transaction rate. All receivables and liabilities denominated in foreign currencies have been valued using the closing rates on the reporting date regardless of whether they have been hedged or not. The resultant exchange gains and losses have generally been included in the income statement. Forward exchange transactions have been recognized at fair value.

In line with IAS 21, the annual financial statements of foreign group companies have been translated into euros on the basis of the functional currency concept. This is the local currency for all of the companies in view of the fact that the foreign companies conduct their business independently from a financial, economic and organizational point of view. Accordingly, non-current assets, other assets and liabilities have been translated at the median rate on the reporting date. Income and expense items have been translated using average rates. Exchange rate differences arising from the translation of the annual financial statements of foreign subsidiaries are recognized directly in equity in a separate item within retained earnings.

The most important foreign exchange rates applied are as follows:

Country	Rate on reporting date		Average rate	
	2.28.2009	2.29.2008	2008/2009	2007/2008
CZK Czech Republic	28.0900	25.2280	25.30182	27.35612
SEK Sweden	11.4524	9.3948	9.85069	9.29607
CHF Switzerland	1.4841	1.5885	1.56678	1.64197
SKK Slovakia	n.a.	32.3750	30.12600 ¹⁾	33.53355
USD USA	1.2644	1.5167	1.55386	1.39846
RON Romania	4.3025	3.7435	3.78071	3.38464

¹⁾ official conversion rate upon conversion to the euro as of January 1, 2009

Accounting Policies

Assets have generally been measured at amortized cost. Derivative financial instruments, assets measured at fair value through profit and loss, and cash-settled liabilities in connection with share option plans have been recognized at fair value.

Goodwill

Since March 1, 2005, goodwill has no longer been subject to scheduled amortization, but rather undergoes an annual impairment test. Should any events or changes in circumstances indicate any impairment in value, then such impairment test must be performed more frequently. Pursuant to IAS 36, the carrying amounts of the smallest cash generating units, including the goodwill proportionately allocated to such units, are compared with the higher of the net sale price and the value in use (so-called recoverable amount) of such units.

If the carrying amount of the cash generating unit exceeds its recoverable amount, then a write-down is required. The impairment loss for a cash generating unit is initially allocated to goodwill. Any remaining impairment loss is subsequently recognized for the other assets in the cash generating unit. However, assets may only be written down at maximum to the recoverable amount of the individual asset identified. No write-ups of goodwill are undertaken.

In line with internal management reporting structures, the cash generating units are equivalent to the smallest strategic reporting levels within the HORNBAACH HOLDING AG Group. The value in use is calculated on the basis of the discounted future cash flows of a cash generating unit expected on the basis of the detailed financial budget for the coming financial year and in the strategic five-year plan. As in the previous year, periods reaching further into the future have been based on a growth factor of 0.5%. The strategic five-year plan is largely based on the developments expected in consumer spending as stated in economic forecasts published by economic research institutes. A detailed financial budget for the coming financial year is then compiled on this basis.

The discounting is based on average equity and debt capital costs (WACC= Weighted Average Cost of Capital). The calculation of the costs of equity is based on the yield expected on long-term risk-free federal bonds. The costs of debt capital are based on the financing costs of the ten-year bond issued by HORNBAACH-Baumarkt-AG during the 2004/2005 financial year. Discount rates ranging from 8.8% to 9.2% were applied in the 2008/2009 financial year (2007/2008: 8.3% to 9.8%).

Intangible assets

Intangible assets with finite useful lives are recognized at cost less accumulated straight-line amortization, taking due account of any impairment. Pursuant to IAS 23 "Borrowing Costs", financing costs which can be directly allocated to an asset ("qualifying asset") over the period of the establishment of the utility of such asset are capitalized as a component of the costs of acquisition or manufacture.

Amortization is determined using the straight-line method based on the following economic useful lives:

	Years
Software and licenses	3 to 8
Other intangible assets	3 to 13

There are no intangible assets with indefinite useful lives.

Property, plant and equipment

Property, plant and equipment, including real estate held to generate rental income, is recognized at cost less accumulated depreciation.

Scheduled depreciation is undertaken on a straight-line basis. If there are indications of any impairment in value and if the recoverable amount is less than the amortized cost, then impairment losses are recognized for the respective items of property, plant and equipment. Corresponding write-ups are undertaken if the reason for impairment in previous years no longer applies.

Scheduled depreciation is uniformly based on the following economic useful lives across the Group:

	Years
Buildings and outdoor facilities (including rented property)	15 to 33
Other equipment, plant, and office equipment	3 to 21

Should major components of property, plant and equipment have different useful lives, then these components are recognized and measured separately.

Financing costs incurred in connection with real estate development ("building interest") which can be directly allocated to the acquisition, construction or establishment of land and buildings ("qualifying assets") are capitalized as a component of costs in accordance with IAS 23 "Borrowing Costs".

Leasing contracts

Leased items of property, plant and equipment which in economic terms constitute asset purchases with long-term financing (finance leases) are recognized pursuant to IAS 17 "Leases" at fair value at the beginning of the leasing relationship, unless the present value of the leasing payments is lower. The relevant assets are depreciated over their economic useful lives or over the term of the contract if shorter. Application is made of the same method of depreciation applicable to comparable assets acquired or manufactured. Moreover, an equivalent financial liability is capitalized at the amount of the fair value of the asset or the present value of the minimum leasing payments, if lower.

Inventories

Inventories are carried at cost or at net sale value. The net sale value is taken to be the expected realizable sales proceeds less the costs incurred up to disposal. The acquisition costs of inventory holdings are determined using weighted average prices. Account is taken of the principle of loss-free valuation. In addition to direct costs, the costs of manufacture for unfinished services in the builders' merchant business also include an appropriate share of production and materials overheads.

Non-current assets held for sale and disposal groups

Land, buildings and other non-current assets and disposal groups which are very likely to be sold in the coming financial year are measured at fair value less related disposal expenses if such is lower than the carrying amount.

Pensions and similar obligations

Consistent with legal requirements in the respective countries, the group companies of HORNBAACH HOLDING AG have obligations relating to defined contribution and defined benefit pension plans. In the case of defined benefit plans, provisions have been calculated using the projected unit credit method in accordance with

IAS 19 “Employee Benefits”. When determining the pension obligation in accordance with actuarial principles, this method accounts for the pensions known of and claims vested as of the reporting date, as well as for the increases in salaries and pensions to be expected in future. The plan assets are deducted at fair value from the obligations. Should this result in a net asset, then this is recognized, provided that it does not exceed the present value of future reductions in contributions or repayments or any retrospective service costs. Actuarial gains or losses are recognized directly in equity, having accounted for any deferred taxes. In the case of defined contribution plans, the contributions are recognized as expenses upon becoming due for payment.

Provisions and accrued liabilities

Provisions are recognized for uncertain obligations to third parties where such are likely to result in a future outflow of resources. Provisions are stated at the expected performance amount, having accounted for all identifiable risks, and are not offset against recourse claims. If the overall effect is material, non-current provisions are measured at present value discounted to the end of the respective terms. Provisions for pending losses are recognized if the contractual obligations in connection with stores rented from third parties are higher than the expected economic benefits. In the case of accrued liabilities, the date and level of the respective liability are no longer uncertain.

Financial instruments

Financial instruments are contracts which result in a financial asset at one company and a financial liability or equity instrument at another company. On the one hand, these include primary financial instruments such as trade receivables, financial receivables and financial liabilities. On the other hand, they also include derivative financial instruments, such as options, forward exchange transactions, interest swaps and currency swaps. Customary purchases and sales of financial assets are generally recognized as of the performance date, i.e. on the date at which the asset is delivered. Upon initial recognition, financial instruments are recognized at cost. This corresponds to their fair value.

Financial assets are derecognized once the contractual rights to payment have lapsed or been assigned. There are no cases of financial assets having been sold and continuing to be recognized either in full or in part at the HORNBAACH HOLDING AG Group (continuing involvement). Financial liabilities are derecognized once they have been settled, i.e. once the liability has been repaid, cancelled or has expired.

Primary financial instruments

In accordance with IAS 39 “Financial Instruments: Recognition and Measurement”, asset-side financial instruments are subsequently measured at cost or at fair value. Primary financial instruments constituting liabilities are measured at amortized cost. The HORNBAACH HOLDING AG Group has so far not made any use of the option of classifying financial assets or financial liabilities as measured at fair value through profit or loss.

Financial assets are classified as available for sale pursuant to IAS 39. They are measured at fair value, where this can be reliably determined, and otherwise at cost. Interests in non-consolidated subsidiaries and investments are also deemed to represent financial assets as available for sale; however, these are basically measured at cost, as there is no active market for these companies and their respective fair values cannot be reliably determined at reasonable expense.

Trade receivables and other assets are carried at amortized cost or at present value, if lower. Value reductions are stated to account for all identifiable individual risks and general credit risk based on empirical

figures. Specific cases of default lead to the receivable in question being derecognized. Non-current assets recognized at present value are not exposed to any significant interest rate risk.

Cash and cash equivalents include cash on hand and short-term deposits with maturity dates of less than three months. These items are measured at amortized cost.

Financial debt (bank loans, bonds) are recognized at the respective loan amount, less transaction costs, and subsequently measured at amortized cost. The difference to the repayment amount is recognized as an expense over the term of the bond using the effective interest method. Other debt is recognized at its respective repayment amount.

Derivative financial instruments

Derivative financial instruments, such as forward exchange transactions and interest swaps, are used to hedge exchange rate and interest risks. In line with the Group's risk principles, no derivative financial instruments are held for trading purposes. Upon addition, derivative financial instruments are recognized in the balance sheet at fair value. Any transaction costs incurred are immediately recognized as expenses.

Derivatives which are not integrated into an effective hedging relationship as defined in IAS 39 are subject to mandatory classification as held for trading (financial assets/liabilities held for trading) and are thus measured at fair value through profit or loss. The fair values of forward exchange transactions (including the embedded forward exchange transactions) are determined on the basis of market conditions at the reporting date. The fair value of interest swaps is determined by the financial institutions with which they were concluded. In the case of interest-bearing derivative financial instruments, a distinction is made between the "clean price" and the "dirty price". Unlike the "clean price", the "dirty price" also includes accrued interest. The fair values recognized for interest-bearing financial instruments correspond to the "dirty price".

Upon entering into a hedging transaction, the HORNBACH HOLDING AG Group classifies certain derivatives as hedging future cash flows or planned transactions (cash flow hedge). Changes in the fair value of those cash flow hedges viewed as effective are recognized directly in equity under retained earnings, taking due account of deferred taxes, until the result of the hedged item is recognized. Non-effective gains and losses are recognized through profit or loss.

Impairment of assets

With the exception of inventories, deferred tax assets and assets measured at fair value, all assets are reviewed on each reporting date to ascertain whether there are any indications of impairment. An impairment loss is recognized in the income statement if the recoverable amount is lower than the carrying amount. Should the reasons for the impairment no longer apply, then the asset is written back to amortized cost, except in the case of unlisted equity instruments measured at cost and of goodwill.

Sales

Income from the sale of goods is recognized upon transfer of ownership.

Cost of goods sold

As well as the direct acquisition costs of the merchandise in question, the cost of goods sold also includes ancillary acquisition costs, such as freight charges, customs duties and other services rendered, as well as write-downs on inventories.

Rental income

Rental income is recognized on a straight-line basis under sales over the term of the rental contract.

Government grants

Government grants awarded to cover expenses incurred and for assistance purposes are recognized as income in the income statement. Grants awarded for non-current assets reduce the cost of such assets accordingly.

Expenses

Rental expenses are recognized on a straight-line basis as expenses over the term of the rental contract.

Advertising expenses for commercials are produced for image advertising purposes and are generally broadcast directly following their production. The broadcasting costs are recognized as expenses upon receipt of the service (broadcasting by the broadcaster).

Expenses relating to advertising leaflets are deferred until distribution and then reported under raw materials and supplies.

Interest expenses and interest income are recognized in accordance with the period for which the loan was granted or the bond issued.

Tax expenses include current and deferred taxes unless they relate to facts or circumstances accounted for directly in equity.

In line with IAS 12, deferred taxes are recognized and measured using the balance sheet liability method based on the tax rate expected to be valid at the realization date. Deferred tax assets are recognized for the tax benefits expected to arise from future realizable losses carried forward. Deferred tax assets arising from deductible temporary differences and tax losses carried forward which exceed temporary taxable differences are only recognized to the extent that it can be assumed with reasonable certainty that the company in question will achieve an adequate level of taxable income.

With regard to options issued prior to November 7, 2002 in connection with existing share option plans, no expenses have been recognized for the difference between the exercise price and the market value of shares or the intrinsic value of the share options granted as long as the options have not been exercised.

The 1999 share option plan of HORNBACH-Baumarkt-AG involves equity-settled share-based payments. With regard to the fourth tranche of the share option plan, which was issued subsequent to November 7, 2002, the current market value of the options expected to be convertible was calculated for the time of their issue. This amount is distributed as an expense over the period up to the non-forfeitability of such options and is recognized as a corresponding increase in shareholders' equity.

The HORNBACH phantom stock plan at HORNBACH-Baumarkt-AG and the stock option plan at HORNBACH HOLDING AG involve cash-settled share-based payments. The expenses for the phantom stock plan and for the 4th tranche of the stock option plan at HORNBACH HOLDING AG, which was issued after November 7, 2002, are distributed over the qualifying period on a prorated basis. The resultant obligation as of the reporting date has been recognized under other liabilities.