

# HORNBACH HOLDING AG GROUP

ANNUAL REPORT  
2013/2014



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## Key Group, Financial and Operating Data

Amounts shown in € million unless otherwise stated	Change financial year 2013/2014 on previous year	IFRS									
		2013/2014	2012/2013	2011/2012	2010/2011	2009/2010	2008/2009	2007/2008	2006/2007	2005/2006	2004/2005
<b>Sales and earnings figures</b>											
Net sales	4.3%	3,369	3,229	3,204	3,017	2,853	2,752	2,617	2,544	2,367	2,220
of which in other European countries	4.3%	1,334	1,280	1,272	1,195	1,109	1,065	962	862	788	688
Sales growth as % of net sales		4.3	0.8	6.2	5.7	3.7	5.1	2.9	7.5	6.6	8.0
EBITDA <sup>1)</sup>	6.5%	236	221	247	229	222	251	181	197	180	181
as % of net sales		7.0	6.9	7.7	7.6	7.8	9.1	6.9	7.7	7.6	8.2
EBIT <sup>2)</sup>	10.0%	160	146	169	159	152	179	105	119	92	99
as % of net sales		4.8	4.5	5.3	5.3	5.3	6.5	4.0	4.7	3.9	4.5
Earnings before taxes and non-controlling interest	18.7%	128	108	132	127	116	144	68	83	53	62
as % of net sales		3.8	3.3	4.1	4.2	4.1	5.2	2.6	3.3	2.2	2.8
Net income for the year before non-controlling interest	11.3%	86	77	95	99	82	113	58	76	32	37
as % of net sales		2.6	2.4	3.0	3.3	2.9	4.1	2.2	3.0	1.4	1.7
Gross margin as % of net sales		36.6	36.5	36.6	36.6	36.1	36.0	35.7	35.3	35.2	35.9
Store expenses as % of net sales		27.3	27.7	27.1	27.4	27.7	27.3	27.7	27.4	28.1	27.5
Costs of central administration as % of net sales		4.4	4.5	4.2	4.1	4.0	4.2	4.2	4.0	4.3	4.1
Pre-opening expenses as % of net sales		0.3	0.3	0.2	0.2	0.2	0.3	0.3	0.2	0.5	0.5
<b>Cash flow figures</b>											
Cash flow from operating activities	37.1%	198	144	142	182	184	144	90	215	38	142
Investments	(22.7)%	116	149	163	113	97	130	201	123	208	135
Proceeds from divestments		12	6	13	48	9	83	46	55	193	28
Earnings potential <sup>3)</sup>	34.9%	207	154	148	187	188	153	97	220	49	153
as % of net sales		6.1	4.8	4.6	6.2	6.6	5.6	3.7	8.7	2.1	6.9
Dividend distribution		10.5	10.5	10.5	10.5	8.9	8.9	8.9	8.9	8.9	8.9
<b>Balance sheet and financial figures</b>											
Total assets	4.1%	2,362	2,270	2,267	2,233	2,033	1,996	1,902	1,842	1,794	1,762
Non-current assets	1.4%	1,286	1,268	1,202	1,125	1,070	1,010	1,000	983	959	1,045
Inventories	4.6%	539	515	507	489	451	516	498	463	512	444
Cash and cash equivalents	20.1%	429	357	422	474	335	275	196	265	161	162
Shareholders' equity <sup>4)</sup>	6.1%	1,164	1,097	1,041	962	861	780	688	630	559	536
as % of total assets		49.3	48.3	45.9	43.1	42.4	39.1	36.1	34.2	31.1	30.4
Return on shareholders' equity based on net income - in %		7.6	7.2	9.4	10.9	10.0	15.4	8.8	12.8	5.9	7.6
Net working capital	(2.2)%	397	406	416	375	368	398	387	346	457	354
Additions to non-current assets	(22.6)%	117	151	163	113	103	131	202	120	202	131
Inventory turnover rate per year		4.1	4.0	4.1	4.1	3.8	3.5	3.5	3.4	3.2	3.2
<b>Other information</b>											
Employees - annual average - converted into full-time equivalents	4.0%	13,825	13,289	12,778	12,066	11,881	11,542	11,078	10,622	10,595	9,979
Number of shares <sup>4) 5)</sup>		16,000,000	16,000,000	16,000,000	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000
Average earnings per share in € <sup>5)</sup>		4.55	4.06	4.77	10.14	8.32	11.41	6.00	7.89	3.37	3.47

1) Earnings before interest, taxes, depreciation and amortization; starting in the 2007/2008 financial year: excluding net currency result

2) Earnings before interest and taxes; starting in the 2007/2008 financial year: excluding net currency result

3) Cash flow from operating activities plus pre-opening expenses

4) Pursuant to IFRS; starting in the 2004/2005 financial year: including minority interests

5) Starting in the 2011/2012 financial year: change in number of shares following issue of bonus shares as of July 29, 2011

## COMPANY PROFILE

HORNBACH HOLDING AG is the parent company of the HORNBACH Group. It is not itself an operating company, but has a number of major subsidiaries. By far the largest and most important subsidiary is HORNBACH-Baumarkt-AG, which operates DIY megastores in Germany and abroad. The retail activities of the Group are supplemented by HORNBACH Baustoff Union GmbH, which is active in the builders' merchants business and mainly has commercial customers. The development and utilization of first-class retail real estate constitutes a further business activity of HORNBACH HOLDING AG. This is undertaken in part by HORNBACH Immobilien AG, which owns much of the extensive real estate portfolio of the HORNBACH Group.

The HORNBACH Group is characterized by its ability to respond to the challenges of trading in DIY, home improvement and garden products, and to set new standards in the process. Since the company was founded in 1877, five generations of the Hornbach family have been active in almost all areas of the construction sector – in the building trade, as manufacturers of prefabricated components and, for the first time in 1900, as builders' merchants. As one of the pioneers in Germany and Europe, HORNBACH opened its first DIY store in 1968 and combined it with a garden center – at its time unique in Europe. This combination has since developed into a European standard in the DIY sector today.

In the second half of the 1980s, HORNBACH added a new dimension to the market with its concept of large DIY and home improvement megastores with garden centers. Today, an impressively presented range of around 50,000 top quality DIY and gardening articles is available to DIY customers in spacious stores and at permanently low prices. Well-trained, service-oriented employees make project customers and DIY enthusiasts, especially those on the lookout for solutions for extensive renovation and construction projects, the focus of their activities. As of February 28, 2014, the HORNBACH-Baumarkt-AG subgroup was operating 141 DIY megastores with garden centers across Europe (92 of which in Germany). HORNBACH HOLDING AG generated (net) consolidated sales of € 3,369 million in the 2013/2014 financial year.

The consistent implementation of the company's concept, coupled with the high expectations it places in the quality of its locations, its stores, its product range and employees, have facilitated the dynamic growth witnessed by the company in recent years. Together, these factors form the basis for further expansion in the DIY megastore and garden center segment in Germany and Europe.

Following the company's successful entry into the Austrian market in August 1996, it has consistently pressed ahead with its expansion into neighboring European countries. Stores were subsequently opened in the Netherlands, Luxembourg and the Czech Republic. The company's international growth was maintained with its expansion to Switzerland, Sweden and Slovakia. The entry into the Romanian market followed in the summer of 2007. As of February 28, 2014, the company was operating a total of 49 DIY megastores with garden centers in eight countries outside Germany. Since December 1, 2010, the stationary retail business has been supplemented by HORNBACH's online shop, with which the Group is making targeted use of the opportunities presented by the internet.

Both HORNBACH HOLDING AG and HORNBACH-Baumarkt-AG are publicly listed stock corporations. The share capital of HORNBACH HOLDING AG is divided equally between ordinary and non-voting preference shares. Of the eight million preference shares (ISIN DE0006083439), 100 % are owned by independent shareholders (status: March 25, 2014). The preference shares are admitted to the subsection of official trading of the German Stock Exchange with additional admissions obligations (Prime Standard). HORNBACH HOLDING AG is a member of the SDAX index. Of the eight million unlisted ordinary shares, 100 % are owned by the Hornbach family (status: March 31, 2014).

The HORNBACH-Baumarkt-AG shares are also listed in the Prime Standard of the German Stock Exchange. Of around 31.8 million ordinary shares in the company, 76.4 % are held by HORNBACH HOLDING AG, and 23.6 % by independent shareholders (status: March 25, 2014).



## Sustainability

HORNBACH sets great store by values and appreciation, and respect, and responsibility, and reliability, and credibility, and honesty, and trust. And that for the past 137 years. All that makes for sustainability of thought and deed. It is the cornerstone of our entrepreneurial activities and a prerequisite for our business success – today just as back then.

In the image series in this Annual Report we would like to show you some of the ways we are meeting our responsibility towards the environment, our customers, our employees, and to society.







## Safety at work

Routine harbors the greatest risk. To make sure our old hands remain just as much in tiptop health as those still gaining their first experience, HORNBAACH has made occupational health and safety a top priority.

Fixed codes of conduct, organizational measures, and technical gadgets are in place to minimize risks, especially when heavy equipment is involved. And should concentration falter at the cutting machine or on high-level shelves, then modern security systems are there to offer an extra safety net.





# TO OUR SHAREHOLDERS



## TO OUR SHAREHOLDERS



Albrecht Hornbach

### Dear Shareholders,

Sustainability is a mindset that has characterized the HORN-BACH Group throughout its 137-year history. I see this catchword as having far more to it than you would believe from the media. I understand it as a way to describe responsible behavior, an approach that always involves respect and trust, reliability and credibility, as well as care and integrity. In some respects, the past 2013/2014 financial year and the news received from among our shareholders in March 2014 offer a shining example of just how seriously HORN-BACH takes sustainability.

### Sustainable commitment by founding family

In September 2013, our longstanding strategic partner Kingfisher plc decided to withdraw its representatives from the Supervisory Boards of HORN-BACH HOLDING AG and HORN-BACH-Baumarkt-AG. This precautionary move was intended to avoid conflicts of interest arising due to Kingfisher's amended expansion plans. Having taken over 15 Bricostore DIY stores in Romania in May 2013 and given the preparations underway for the market launch of the small-scale "Screwfix" retail format in Germany in summer 2014, Kingfisher was for the first

time in direct competition with HORN-BACH. At the end of March 2014, the British retail Group then announced its exit from all of its financial investments in the HORN-BACH Group – a move long expected by the capital market. I absolutely understand this consistent step, especially since it was apparent that Kingfisher had no option of assuming a more dominant position at HORN-BACH in the foreseeable future.

For our founding family there was no doubt that this was a situation where it was necessary to take responsibility. It therefore decided to buy back Kingfisher's stake in the unlisted ordinary shares in HORN-BACH HOLDING AG (25 % plus two shares). Upon the completion of this report, Hornbach Familien-Treuhandgesellschaft mbH, at which the family shareholdings are pooled, thus once again held 100 % of the voting capital in HORN-BACH HOLDING AG.

The family's commitment to upholding the autonomy of the HORN-BACH Group on a sustainable basis is unshakeable. It was therefore important to gain the possibility of determining the future use of the stake thereby bought back. The family's commitment is not linked to its level of shareholding. Other structures guaranteeing the family influence and the company's autonomy are certainly conceivable.

### Sustainability in a consolidating market

No-one could accuse the DIY store and garden center sector of being boring in 2013. The number one topic in the sector was the bankruptcy of the Praktiker Group in Germany. In the wake of this, the consolidation in the DIY market here in Germany has taken on unprecedented proportions. Ultimately, though, the failure of what was the country's second-largest DIY group did not come as any real surprise – not least because its strategy was incompatible with sustainability considerations.

The closure of 300 Praktiker and Max Bahr locations has triggered a takeover spree. By May 2014, around 135 locations had found new operators, mostly from within the DIY sector. The names of other major competitors were to be found far more frequently in the transaction lists than HORN-BACH. We have taken over six locations in total. That may have sur-



prised the odd sector observer. After all, there must have been plenty of options for HORNBACH to secure a larger slice of the location cake now up for grabs.

We have always stressed that we are not interested in investing in market share at any price and thus diluting the quality of our business model. Our greatest priority is rather to generate sustainable earnings growth. Potential HORNBACH locations have to satisfy strict decision criteria. Among other factors, they have to be excellently situated and meet certain minimum size criteria to enable us to implement our concept in line with our ideas. Above all, they have to meet our ambitious sales targets if they are to pay their way in the long term. We owe that to you, our shareholders, in the interests of a value-based growth strategy. Of the 164 Praktiker and 136 Max Bahr stores, only the locations in Kamen, Lüneburg, Saarbrücken, Schwabach, Trier, and Ulm ultimately met the high standards we set. During the 2014/2015 financial year, we will be converting these new locations into typical HORNBACH DIY megastores with garden centers and then launching operations. This will lend additional impetus to our future sales performance in Germany.

### **Sustainable business performance**

Let's cast a glance at the 2013/2014 financial year. Given the long winter, it began on an exceptionally weak note and then gained ever greater momentum as the quarters went by. Net sales at the HORNBACH HOLDING AG Group grew by 4.3 % to € 3,369 million. On the level of HORNBACH-Baumarkt-AG, our largest operating subgroup, we achieved the expected turnaround in terms of like-for-like sales, i.e. excluding sales at newly opened stores, in the year under report. Like-for-like sales in our DIY retail business thus rose by 2.7 %, as against minus 1.4 % in the previous year.

This success was largely driven by our DIY megastores with garden centers in Germany, which ended the 2013/2014 financial year with adjusted sales growth of 4.9% and significantly expanded their market share from 9.3 % to 10.0 %. More than anything, this success is due to our consistent focus on project customers, who are also increasingly attracted to HORNBACH

because of the sustainability of its product ranges. You can find further details about this in the Corporate Responsibility chapter from Page 74 onwards. Over and above that, we also acquired some of the sales redistributed among competitors in the wake of the Praktiker bankruptcy in the past financial year.

Following the botched spring season, our international DIY megastores with garden centers also succeeded in making up lost ground in 2013/2014. On a like-for-like basis, they regained positive growth territory in the second quarter and after twelve months matched the previous year's figure.

Thanks to this pleasing sales momentum and great cost discipline at stores and in administration departments, our consolidated operating earnings (EBIT) for the 2013/2014 financial year defied our original earnings forecast by showing disproportionate growth compared with sales and rising by 10.0 % to € 160.4 million. This increased earnings and financial strength gave the Board of Management and Supervisory Board grounds to propose a dividend increase of around 20 % to € 0.80 per preference share and € 0.77 per ordinary share in HORNBACH HOLDING AG for approval by the Annual General Meeting.

I would like to personally thank each of our now more than 16,000 employees. With their expertise and their passion for projects, they greatly contributed to the race to catch up and made our success in the 2013/2014 financial year possible in the first place. I would also like to thank our shareholders and business partners, who have supported our sustainable course. This is not always the easiest, but certainly the best way to ensure long-term success.

Albrecht Hornbach  
Chairman of the Board of Management  
HORNBACH HOLDING AG

## REPORT OF THE SUPERVISORY BOARD



Dr. Wolfgang Rupf

### Dear ladies and gentlemen,

In the past 2013/2014 financial year we dealt in great detail with the company's situation, strategic alignment and medium-term perspectives. We advised the Board of Management in its management of the company and monitored its conduct in accordance with the requirements of the law, the Articles of Association and the Code of Procedure. At our meetings, the Board of Management provided us with regular, prompt and extensive written and oral reports on the business performance and the economic situation of the company and its subsidiaries. The Supervisory Board was involved in decisions of major significance for the company. Moreover, the Supervisory Board Chairman was in regular contact with the Board of Management, and especially with its Chairman, outside the framework of meetings to discuss significant issues and also to hold a number of working meetings.

### Meetings of the Supervisory Board

Five Supervisory Board meetings were held in total in the 2013/2014 financial year. No member of the Supervisory Board attended fewer than half of the meetings. No conflicts of interest arose in the year under report.

At our meetings, we dealt in detail with the business performance and economic situation of the company on the basis of oral and written reports provided by the Board of Management. We also extensively addressed the strategic enhancement of the company's business, investment and financial policy, the compensation regulations for the Board of Management, and corporate governance. We informed ourselves in detail about the company's opportunity and risk situation, and the implementation of risk management, and discussed these matters with the Board of Management. The Board of Management also provided regular written and oral reports on the company's current situation, and in particular on the development in its sales, earnings and financial situation compared with the previous year and the budget. Budget variances were discussed and substantiated. Those actions of the Board of Management requiring our approval were discussed in detail. Following thorough examination and discussion of the proposals submitted by the Board of Management, the Supervisory Board approved all of the respective measures at its meetings.

At the meeting held on May 23, 2013 to approve the annual financial statements, we examined the annual and consolidated financial statements in great detail in the presence of the auditor, as was also the case on May 23, 2014. We also formally accepted the report from the Audit Committee on its work and the findings of its audit. All of the questions raised by Supervisory Board members were answered in detail by the auditors. The report of the Supervisory Board, the joint corporate governance report of the Board of Management and the Supervisory Board, the risk report, and the compliance report were also discussed and approved at this meeting. The agenda for the Annual General Meeting, including the proposed resolutions, was approved.

At the meeting held directly before the Annual General Meeting on July 5, 2013, the Board of Management reported on the current situation of the Group and on the developments then apparent for the current year.

At the constitutive meeting of the newly elected Supervisory Board required following the election of new members, which



was held directly after the Annual General Meeting, the Chairman, his Deputy, and committee members were elected. Moreover, dates for regular meetings up to and including the 2014/2015 financial year were also agreed.

On December 19, 2013, the Board discussed the Group's current business situation and the risk compliance reports. At the same meeting, the updated Declaration of Conformity with the German Corporate Governance Code was adopted pursuant to § 161 of the German Stock Corporation Act (AktG) and then made permanently available to shareholders on the company's homepage. Apart from a few exceptions, HORN-BACH HOLDING AG has complied with and continues to comply with the recommendations of the Code. Only the following recommendations have not been complied with for the reasons outlined in the Declaration of Conformity: the agreement of a deductible in the D&O insurance policy for Supervisory Board members, the setting of a cap on severance pay for members of the Board of Management, the individualized disclosure of compensation of the Board of Management and the use of model tables, that the Supervisory Board Chairman does not also chair the Audit Committee, the formation of a nomination committee, the individualized disclosure of compensation of Supervisory Board members, and the statement of targets for diversity and a commensurate representation of women. Further information about corporate governance at HORN-BACH HOLDING AG can be found in the joint report of the Board of Management and the Supervisory Board from Page 16 onwards.

At its final meeting in the past 2013/2014 financial year, held on February 27, 2014, the Supervisory Board discussed the Group's current business situation, and examined and approved the budget for the financial years 2014/2015 to 2018/2019.

#### **Committees and committee meetings**

The Supervisory Board has established two committees. The current composition of the committees can be found on Page 14 of this Annual Report.

The Audit Committee met five times in the year under report, namely in May, June, September, December, and February. In May 2013, the Audit Committee discussed the annual financial statements of HORN-BACH HOLDING AG and the consolidated financial statements, management reports, proposed appropriation of profits and audit reports, including the dependent company report, in the presence of the auditor and the Chairman of the Board of Management and CFO. Key focuses of discussion at this meeting also included the risk and compliance reports of the Board of Management, group internal audit reports, reports compiled by the Board of Management on the company's financial situation and the candidate to be proposed for election as auditor.

The financial report for the first quarter was discussed at the June meeting and on September 25, 2013 the half-year financial report was discussed in the presence of the auditors. In December 2013, key focuses for the audit of the annual financial statements were determined together with the auditors. At the same meeting, the Committee addressed the nine-month financial report, the risk and compliance reports, and the company's financial situation. In February 2014, the budget for the financial years 2014/2015 to 2018/2019 was discussed in detail and approved. The internal audit plan for the 2014/2015 financial year was adopted at the same meeting.

The Audit Committee Chairman reported in detail on the work of the committee to full Supervisory Board meetings.

The Personnel Committee did not hold any meetings.

#### **Personnel-related matters**

The regular term in office of all Supervisory Board members expired upon the conclusion of the Annual General Meeting on July 5, 2013. Otmar Hornbach, previously Deputy Chairman, no longer stood for election. Dr. Susanne Wulfsberg was newly elected to the Supervisory Board to succeed him.

Christoph Hornbach, Dr. Wolfgang Rupf, Joerg Walter Sost, David Paramor, and Kevin O'Byrne were re-elected. Dr. Wolfgang Rupf was elected as Chairman at the subsequent constitutive meeting of the newly elected Supervisory Board. Christoph Hornbach was elected as Deputy Chairman.

Kevin O'Byrne and David Paramor, both Kingfisher plc, stood down from their Supervisory Board positions as of September 11, 2013. Consistent with the respective submission, the local court in Landau appointed Dr. John Feldmann, Chairman of the Management Board of the Hertie Foundation, and Erich Harsch, CEO of dm-drogerie markt GmbH & Co. KG, as members of the Supervisory Board. The Supervisory Board would like to thank all retiring members for their longstanding commitment.

#### **Annual and consolidated financial statements**

KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG), Berlin and Frankfurt am Main, audited the annual financial statements and the consolidated financial statements of HORNBACH HOLDING AG as of February 28, 2014, as well as the combined management report and group management report of HORNBACH HOLDING AG for the 2013/2014 financial year and provided them each with an unqualified audit opinion. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Moreover, KPMG confirmed that the Board of Management had suitably implemented the measures required by § 91 (2) of the German Stock Corporation Act (AktG), particularly those concerning the establishment of a monitoring system, and that the monitoring system was suitable for the early detection of any developments that could threaten the company's continued existence.

Key focuses of the audit in the 2013/2014 financial year included the functionality of internal controls of key financial reporting processes, the audit of the ongoing value of non-current assets, the assessment of stores with negative store results, the audit of the existence and measurement of inven-

tories, the audit of the completeness and measurement of provisions, the audit of the recognition and measurement of deferred and current tax assets and liabilities, compliance with credit terms in connection with group financing, the delineation of the scope of consolidation, the correctness of the annual financial statements included in the consolidated financial statements, the consolidation of capital, the completeness and accuracy of (consolidated) note disclosures, and the completeness and accuracy of the disclosures made in the management report.

The financial statements and audit reports were provided to all Supervisory Board members in good time. They were examined in detail at the meeting of the Audit Committee on May 23, 2014 and at the subsequent meeting of the Supervisory Board held on the same day to approve the financial statements. The auditor took part in these discussions. He reported on the principal audit findings and was available to provide further information and to answer questions. Based on the findings of the preliminary audit performed by the Audit Committee and of our own examination of the documents provided by the Board of Management and the auditor, we do not raise any objections and endorse KPMG's audit findings. We approve the annual and consolidated financial statements of HORNBACH HOLDING AG prepared by the Board of Management as of February 28, 2014; the annual financial statements of HORNBACH HOLDING AG are thus adopted. We endorse the appropriation of profits proposed by the Board of Management.

Furthermore, the Supervisory Board reviewed the report from the Board of Management on relationships with associated companies pursuant to § 312 of the German Stock Corporation Act (AktG). Neither this review nor KPMG's audit gave rise to any objections. KPMG granted the following audit opinion:

"Based on the audit and assessment we have undertaken in accordance with professional standards, we confirm that

1. the factual disclosures made in the report are correct
2. the performance of the company in the transactions listed in the report was not incommensurately high."



Based on the conclusive findings of its audit, the Supervisory Board has no objections to the statement provided by the Board of Management at the end of its report pursuant to § 312 of the German Stock Corporation Act (AktG).

Following a difficult start to the 2013/2014 financial year due to weather conditions, HORNBAACH HOLDING AG defied the tough competitive climate to achieve very pleasing overall results while also gaining additional market share. The Supervisory Board would like to extend its thanks and appreciation to the Board of Management and to all employees, both in Germany and abroad, for their great commitment and very successful work in the past financial year.

Neustadt an der Weinstrasse, May 2014

The Supervisory Board

Dr. Wolfgang Rupf  
Chairman

## DIRECTORS & OFFICERS

### Supervisory Board

#### Dr. Wolfgang Rupf

Chairman  
Managing Partner, Rupf Industries GmbH  
and Rupf Engineering GmbH

#### Christoph Hornbach

Deputy Chairman since July 5, 2013  
School Principal

#### Otmar Hornbach

Deputy Chairman  
Businessman  
Managing Director, Wasgau Food Beteiligungsgesellschaft  
mbH and Delta Hornbach GmbH

#### Dr. John Feldmann

Supervisory Board member  
Former management board member at BASF SE

#### Erich Harsch

CEO  
dm-drogerie markt GmbH & Co. KG

#### Kevin O'Byrne

Kingfisher Divisional Chief Executive Officer  
B&Q and Koçtaş brands

#### David Paramor

Group Finance and Planning Director  
Kingfisher plc

#### Joerg Walter Sost

Managing Partner  
J. S. Sost Consulting GmbH

#### Dr. Susanne Wulfsberg

Veterinary Surgeon

### Supervisory Board Committees

#### Audit Committee

Dr. Wolfgang Rupf  
Chairman  
Christoph Hornbach  
Otmar Hornbach  
David Paramor  
until July 5, 2013  
May 23, 2013 until  
September 11, 2013

Joerg Walter Sost  
Dr. Susanne Wulfsberg

since December 19, 2013

#### Personnel Committee

Dr. Wolfgang Rupf  
Chairman  
Christoph Hornbach  
Otmar Hornbach  
Joerg Walter Sost  
until July 5, 2013  
since July 5, 2013



## Board of Management

### Members of the Board of Management and their areas of responsibility

#### **Albrecht Hornbach**

Chairman  
Graduate in Civil Engineering  
DIY Stores and Garden Centers (HORNBACH-Baumarkt-AG)  
Builders' Merchants (HORNBACH Baustoff Union GmbH)  
Real Estate (HORNBACH Immobilien AG)

#### **Roland Pelka**

Graduate in Business Administration  
Finance, Accounting and Tax,  
Group Controlling, Risk Management,  
Loss Prevention, Information Technology,  
Investor Relations, Public Relations (since March 1, 2014)

# CORPORATE GOVERNANCE

## Declaration on Corporate Governance with Declaration of Conformity

Our actions are guided by the principles of responsible, transparent corporate management and control (corporate governance). HORNBAACH has always accorded priority to high-quality corporate governance. It forms the basis for sustainable economic success and helps us enhance the trust placed in our company by our customers, business partners, investors, employees and the financial markets. The standards and guidelines we adhere to at the company over and above legal requirements are summarized below in the company's Declaration on Corporate Governance (§ 289a of the German Commercial Code – HGB), which also includes the Corporate Governance Report of the Board of Management and Supervisory Board.

### DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE PURSUANT TO § 161 AKTG DATED DECEMBER 19, 2013

The Board of Management and Supervisory Board of HORNBAACH HOLDING Aktiengesellschaft hereby declare pursuant to § 161 of the German Stock Corporation Act (AktG):

#### I. Future-related section

The recommendations of the “German Corporate Governance Code” in the version dated May 13, 2013 and published in the Federal Official Gazette on June 10, 2013 will basically be complied with in future. No application will be made of the recommendations in Points 3.8 (3), 4.1.5, 4.2.3 (4) and (5), 4.2.5 (3), 5.2 (2), 5.3.3, 5.4.1 (2) and (3) and 5.4.6 (3) Sentence 1.

These deviations from the recommendations are due to the following considerations:

#### a) Point 3.8 (3):

In Point 3.8 (3), the Code recommends agreeing a specified deductible in any D&O insurance policy taken out for supervisory board members. For supervisory board members as well, this should be based on the legal requirements for management board members arising due to the Act on the Appropri-

ateness of Management Board Compensation (VorstAG) dated July 31, 2009. No such deductible has been agreed at the expense of Supervisory Board members. This would reduce the attractiveness of Supervisory Board activities, and thus also the company's chances in the competition to attract qualified candidates. The recommendation made in Point 3.8 (3) is therefore not followed.

#### b) Point 4.2.3 (4) and (5):

No application is made of the recommendations in Point 4.2.3 (4) (“severance payment cap”) and (5) (“change of control compensation cap”) of the Code. The deviation to Point 4.2.3 (4) and (5) is due to competition-related factors. Apart from that, it still has to be definitively clarified whether and how the recommendations in Point 4.2.3 (4) are legally enforceable.

#### c) Point 4.2.5 (3):

The compensation paid to the Board of Management is not presented separately for each member. The Annual General Meeting held on July 8, 2011 resolved to uphold the more guarded approach towards reporting management board compensation. For the same reason, no use is made of the “model tables” included in the “German Corporate Governance Code”.

#### d) Point 5.2 (2):

In Point 5.2 (2), the Code recommends that the supervisory board chairman should not simultaneously chair the audit committee. We deviate from this recommendation. Given the outstanding expertise and industry experience of the Chairman and the fact that he also holds the same position in the Audit Committee of HORNBAACH-Baumarkt-Aktiengesellschaft, the largest subgroup, we deem this deviation appropriate.

#### e) Point 5.3.3:

In Point 5.3.3, the Code recommends that the supervisory board should form a nomination committee composed exclusively of shareholder representatives which proposes suitable candidates to the supervisory board for its election proposals to the Annual General Meeting. The company's Supervisory Board has not formed such a committee. Based on our experi-

ence to date, the establishment of such a committee would not appear to be necessary.

**f) Point 5.4.1 (2) and (3) and Point 4.1.5:**

The company deviates from the recommendations made in Points 5.4.1 (2) and (3) and in Point 4.1.5. In the interests of the company, in terms of the composition of its Board of Management and Supervisory Board, as well as of other management positions, HORNBAACH HOLDING Aktiengesellschaft accords priority above all to the knowledge, ability and expert experience of the individual in question.

**g) Point 5.4.6 (3) Sentence 1:**

In Point 5.4.6 (3) Sentence 1, the Code recommends that the compensation of supervisory board members be reported in the notes to the financial statements or the management report on an individual basis and broken down into its constituent components. Given that the amount of compensation paid to the Supervisory Board is governed by the Articles of Association, we see no need to disclose individual compensation packages.

## II. Past-related section

**Period since submission of previous Declaration of Conformity on December 20, 2012 through to publication of new version of Code on June 10, 2013:**

The recommendations of the “German Corporate Governance Code” in the version dated May 15, 2012 and published in the Federal Official Gazette on June 15, 2012 were complied with in the period since the submission of the previous Declaration of Conformity on December 20, 2012 through to publication of the new version of the Code on June 10, 2013 with the exception of the deviations already listed and substantiated for the future in Section I (apart from the deviation reported under c) (Point 4.2.5 (3)) – to the extent that such deviations refer to recommendations included in the version of the Code dated May 15, 2012.

**Period since publication of new version of Code on June 10, 2013:**

The recommendations of the “German Corporate Governance Code” in the version dated May 13, 2013 and published in the Federal Official Gazette on June 10, 2013 were complied with apart from the deviations already listed and substantiated for the future in Section I.

Neustadt an der Weinstrasse, December 19, 2013

HORNBAACH HOLDING Aktiengesellschaft

The Supervisory Board                      The Board of Management

The above Declaration of Conformity dated December 19, 2013 has been published on the internet together with all earlier Declarations of Conformity and is also available as a download [ [www.hornbach-group.com/Declaration/Holding](http://www.hornbach-group.com/Declaration/Holding) ].

**Relevant corporate governance practices**

We base our entrepreneurial activities on the legal frameworks valid in the various countries in which we operate. This places a wide variety of obligations on the overall HORNBAACH Group and its employees in Germany and abroad. As well as managing the company responsibly in accordance with the relevant laws, ordinances and other guidelines we have also compiled internal group guidelines setting out the system of values and management principles we adhere to at the Group.

**Compliance**

In a competitive climate, only those companies which manage to convince their customers with their innovation, quality, reliability, dependability and fairness on an ongoing basis will succeed in the long term. Here, we see compliance with legal requirements, internal company guidelines and ethical principles (compliance) as absolutely crucial. HORNBAACH's corporate culture is based on these principles, key aspects of which are also formulated in the company's Corporate Compliance Policy [ [www.hornbach-group.com/Compliance\\_Policy/Holding](http://www.hornbach-group.com/Compliance_Policy/Holding) ].



These focus above all on the integrity of our business dealings, protecting our internal expertise, compliance with antitrust law and all requirements governing international trade, correct documentation and financial communications, and equality of opportunity and the principle of sustainability.

At HORNBAACH, adherence with compliance requirements is consistently expected of employees and business partners and is also monitored, with sanctions being imposed where necessary. The Board of Management entrusted the coordination and documentation of compliance activities across the Group to a Chief Compliance Officer in October 2009. This manager is responsible for establishing and permanently optimizing the organizational structures necessary to enforce the Group's Corporate Compliance Policy. The group internal audit department audits compliance with the Corporate Compliance Policy at regular intervals.

#### **Our system of values: the HORNBAACH Foundation**

HORNBAACH is a forward-looking, family-managed company and is characterized by a clear system of values. The values on which this system is based are honesty, credibility, reliability, clarity and trust in people. This system of values, which had already been lived over many decades, was summarized in the so-called "HORNBAACH foundation" in 2004. This model forms the cornerstone for our corporate strategy, everyday behavior and responsibility towards society. It lays down the basic values governing how we behave towards our customers, as well how our employees behave towards each other. Moreover, this foundation helps our shareholders, customers and the general public, as well as our employees, to understand what the basis of our business success is [ **Internet:** [www.hornbach-group.com/Fundament](http://www.hornbach-group.com/Fundament) ].

#### **Compliance with social, safety, and environment standards**

The development of company guidelines governing minimum social standards, environmental protection, product safety, and equality of opportunities forms an integral component of our corporate policy, as does monitoring compliance with such. Within our Corporate Social Responsibility (CSR) framework, we have issued group-wide guidelines to ensure that HORNBAACH

meets its responsibilities towards individuals, society at large and the environment. The CSR guidelines [ **Internet:** [www.hornbach-group.com/CSR-Guidelines](http://www.hornbach-group.com/CSR-Guidelines) ] cover four areas of responsibility:

- **Minimum social standards:** In our procurement activities we ensure that acceptable minimum social standards are complied with in the manufacture of our products. We base our standards here on the conventions of the International Labor Organization (ILO). With the assistance of standardized factory audits and targeted checks on location, we are actively working to ensure compliance with these standards. These efforts are continuing to focus above all on direct imports from non-EU countries. We are endeavoring to make sure that a continuously higher share of our suppliers and upstream suppliers commit to these regulations.
- **Protecting rainforests:** In our procurement of timber and related products we ensure that the timber is cultivated and felled in accordance with generally accepted rules, especially those governing rainforest protection. For all timber products sold by HORNBAACH we make sure that the timber does not stem from forest depletion, but rather from sustainable forestry and that social welfare and occupational safety standards are adhered to in the timber production process. To this end, we work together with WWF Woodgroup and other environmental protection organizations, such as Greenpeace, Robin Wood etc. HORNBAACH stocks a large number of articles bearing the Forest Stewardship Council (FSC) seal for sustainable forestry. We only offer tropical woods that are certified by the FSC.
- **Product safety:** We guarantee to our customers that all of our products meet the utmost safety standards. The company ensures this within the framework of an ongoing multistage process to assure the quality and audit the safety of its products. These checks are performed by employees in HORNBAACH's quality management department with support from internationally certified inspection institutes. Alongside extensive product tests (initial sample inspections), the company focuses on auditing suppliers in the

country of manufacture. The quality controllers also audit environmental and social welfare standards at the factories. This way, we ensure that no forced labor or child labor is involved in the production of our merchandise. Not only that, we also perform random checks to audit compliance with strict quality standards along the entire procurement chain – from production via transport to sale at our stores.

- **Equality of opportunity (diversity):** We ensure that our employees enjoy equal opportunities. We consistently oppose any kind of discrimination. HORNBAACH is committed to promoting a liberal and open society based on shared values both within and outside the company. It is in this spirit that we also signed the corporate “Diversity Charter” initiated by the Federal Government in 2008 and have worked with print campaigns dedicated to “Tolerance within Society” aimed at raising people’s awareness of this topic.

#### **Dualistic management structure**

HORNBAACH HOLDING AG, based in Neustadt an der Weinstrasse, is governed by the requirements of German stock corporation, capital market and codetermination law, as well as by the provisions of its own Articles of Association. Accordingly, HORNBAACH HOLDING AG has a dualistic management structure, which assigns management of the company to the Board of Management and supervision of the company to the Supervisory Board.

#### **Composition and modus operandi of Supervisory Board**

The Supervisory Board of HORNBAACH HOLDING AG consists of six members. The Supervisory Board Chairman coordinates the work of the Supervisory Board and attends to the affairs of the Supervisory Board externally. In the event of a parity of votes in the Supervisory Board, the Supervisory Board Chairman has the decisive vote.

The Board of Management and Supervisory Board work together closely in the interests of the company. The Supervisory Board monitors the management of the company and accompanies the Board of Management in an advisory capacity. It appoints members of the Board of Management, dismisses

them and is responsible for concluding, amending and terminating their employment contracts. Any actions by the Board of Management that could materially influence the company’s net asset, financial or earnings position require prior approval by the Supervisory Board. The Code of Procedure for the Supervisory Board contains a catalog of the transactions and actions requiring such approval. The Supervisory Board may at any time resolve to extend or reduce the list of such transactions.

Supervisory Board members are solely bound by the company’s best interests. They are not dependent on assignments or instructions. In their decisions, they may not pursue personal interests or exploit business opportunities available to the company for their personal benefit. Supervisory Board members are obliged to disclose conflicts of interest to the Supervisory Board Chairman, especially conflicts arising due to their performing any consultant or directorship function at customers, suppliers, lenders or other business partners of the company. Conflicts of interest on the part of a Supervisory Board member that are material and not only temporary should result in the termination of the mandate. No conflicts of interest arose in the year under report. Advisory and other service agreements and contracts for work between a Supervisory Board member and the company require approval by the Supervisory Board.

In one case, HORNBAACH HOLDING Aktiengesellschaft uses the possibility of drawing on the expertise of one former member of the Supervisory Board in specific areas. This cooperation is based on symbolic compensation. Other than this, there were no further contracts with Supervisory Board members requiring approval in the year under report.

The Supervisory Board has the following committees:

- Personnel Committee
- Audit Committee

The composition of the committees can be found on Page 14 of this report. Their activities are described in detail in the Report of the Supervisory Board (Page 10 onwards).

**Composition and modus operandi of Board of Management**

The Board of Management of HORNBAACH HOLDING AG comprises two members. Its composition and areas of responsibility can be found on Page 15 of this report. The Board of Management has a self-imposed Code of Procedure. The management of the company's business is the joint responsibility of all of its members. Compliance activities to ensure that the company adheres to laws, legal requirements and its own internal guidelines represent a key management task. The Board of Management usually meets once a week, or on an ad-hoc basis when necessary.

The Board of Management provides the Supervisory Board with regular, prompt and extensive information on all matters relevant to the company's corporate strategy, planning, business performance, financial and earnings position, risk situation and risk management. Furthermore, it presents the group investment, financial and earnings budgets to the Supervisory Board both for the forthcoming financial year and for the medium term (five years). The Chairman of the Board of Management provides immediate report to the Supervisory Board Chairman of any significant events of material relevance for assessing the situation, development and management of the company. Transactions and measures requiring Supervisory Board approval are submitted in good time. Members of the Board of Management are obliged to disclose conflicts of interest to the Supervisory Board without delay and to inform other members of the Board of Management. Members of the Board of Management may only pursue side-line activities, in particular Supervisory Board mandates outside the Group, with the approval of the Supervisory Board Chairman.

**Annual General Meeting**

Shareholders of HORNBAACH HOLDING AG exercise their rights, including their voting rights, at the Annual General Meeting. The Annual General Meeting resolves in particular on the appropriation of profits, the discharge of the acts of the Board of Management and Supervisory Board, and elects shareholder representatives to the Supervisory Board, as well as the auditor. Shareholders are regularly informed of all significant dates by means of the financial calendar published in the annual and quarterly reports and on the company's homepage. The Annual General Meeting is generally chaired by the Supervisory Board Chairman. HORNBAACH HOLDING AG provides its shareholders with the services of a voting proxy bound to vote in line with instructions.

**Reporting and audit of annual financial statements**

The HORNBAACH HOLDING AG Group prepares its financial reports in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The separate financial statements of HORNBAACH HOLDING AG are prepared in accordance with the German Commercial Code (HGB). In line with legal requirements, the auditor is elected by the Annual General Meeting. The Audit Committee prepares the Supervisory Board's proposal to the Annual General Meeting with regard to the auditor to be elected. The auditor is independent and is responsible for the audit of the consolidated and separate financial statements, as well as for the audit review of half-year financial reports.

HORNBAACH HOLDING AG has a risk management system which is continuously developed and updated to account for any changes in underlying conditions. The functionality of the early warning risk management system is reviewed by the auditors.

**Transparency**

The company's shareholders, all capital market participants, financial analysts, investors, shareholder associations and the media are regularly provided with up-to-date information about the company's situation and any material changes in its business situation. Here, the internet represents the main channel of communication. All individuals with access to



insider information in the course of their activities for the company are informed of the resultant obligations for them under insider law. HORNBACH Holding AG reports on its situation and results in its

- Quarterly reports
- Half-year financial report
- Annual report
- Annual results press conference
- Teleconferences with international financial analysts and investors
- Events with financial analysts and investors in Germany and abroad.

Dates of relevance to the company's regular financial reporting activities have been summarized in the financial calendar published at [www.hornbach-group.com](http://www.hornbach-group.com). Alongside this regular reporting, any information arising at HORNBACH HOLDING AG which is not publicly known and which is likely to influence the company's share price significantly is published in the form of ad-hoc announcements.

#### **Directors' dealings and shareholdings**

Members of the Board of Management and the Supervisory Board of HORNBACH HOLDING AG, as well as individuals closely related to such members, are required by § 15a of the German Securities Trading Act (WpHG) and Point 6.6 of the German Corporate Governance Code to disclose transactions involving shares in the company or related financial instruments. In the year under report, the company was not notified

of any transactions performed by persons in management positions or individuals closely related to such pursuant to § 15a of the German Securities Trading Act (WpHG) (Directors' Dealings).

In line with Point 6.3 of the German Corporate Governance Code, we report ownership of shares in the company by members of the Board of Management and Supervisory Board where these directly or indirectly exceed 1 % of the shares issued by the company. Where the entire holdings of all members of the Board of Management and Supervisory Board exceed 1 % of the shares issued by the company, we report the entire holdings in the Corporate Governance Report broken down by Board of Management and Supervisory Board.

#### **Share ownership by members of Board of Management**

Albrecht Hornbach, Chairman of the Board of Management, directly owned 52,778 ordinary shares and indirectly owned 52,778 ordinary shares in HORNBACH HOLDING AG at the balance sheet date on February 28, 2014. Furthermore, he directly owns 6,810 of the listed preference shares in the company. This simultaneously represents the entire holdings by members of the Board of Management.

#### **Share ownership by members of Supervisory Board**

Dr. Susanne Wulfsberg, Supervisory Board member, directly owned 63,334 ordinary shares and indirectly owned 253,332 ordinary shares in HORNBACH HOLDING AG at the balance sheet date on February 28, 2014. This simultaneously represents the entire holdings by members of the Supervisory Board.



## 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 (see Page 98) and, apart from the disclosure of individual compensation, is based on the recommendations of the German Corporate Governance Code.

### Compensation of the Board of Management

#### Compensation system at HORNBAACH HOLDING AG

The compensation of members of the Board of Management is determined in line with the requirements of stock corporation law and of the Act on the Appropriateness of Management Board Compensation (VorstAG), taking due account of levels of compensation customary in the market. Total compensation of members of the Board of Management comprises the components of fixed annual salary, annual variable compensation, plus ancillary benefits customary to the market and the company. Total compensation is regularly reviewed by the Supervisory Board in terms of its appropriateness.

#### ■ Fixed annual salary:

Members of the Board of Management receive a fixed annual salary laid down in their individual contracts, which is paid monthly in twelve equal portions at the end of each calendar month. Fixed salaries are graded at different levels for the Chairman and the regular member of the Board of Management.

#### ■ Variable compensation:

In addition to their fixed annual salaries, members of the Board of Management also receive annual variable compensation in line with the company's sustainable performance. This is based both on company targets and on targets agreed for individual members of the Board of Management. The key success factor used to determine variable compensation is average consolidated net income after taxes (IFRS) and minority interests at HORNBAACH HOLDING AG. The calculation of variable compensation is based on the three-year average level of

consolidated net income after taxes (IFRS) and minority interests at HORNBAACH HOLDING AG.

Individual variable compensation is separately graded at different levels for the Chairman and the regular member of the Board of Management. For no individual member of the Board of Management does it exceed 1% of the three-year average level of consolidated net income after taxes (IFRS) and minority interests at HORNBAACH HOLDING AG. Of variable compensation calculated on the basis of average consolidated net income after taxes (IFRS) and minority interests, up to 25 % is calculated and determined in several stages following achievement of the targets individually set for each member of the Board of Management for the respective financial year. This process is based on targets individually agreed in advance for each member of the Board of Management. To set these targets, the Supervisory Board of HORNBAACH HOLDING AG and the respective member of the Board of Management reach a target agreement before the beginning of each financial year in which the individual targets, their respective percentage weighting and the respective degree of target achievement are determined by the full Supervisory Board. Following completion of the financial year, the full Supervisory Board determines the degree of individual target achievement for the respective member of the Board of Management.

The remaining 75 % of variable compensation is determined on the sole basis of the average level of consolidated net income after taxes (IFRS) and minority interests at HORNBAACH HOLDING AG for the past three years. For all members of the Board of Management, the level of variable compensation is capped at a maximum of 150 % of the respective fixed salary of the individual member of the Board of Management. No further variable compensation is granted.

#### ■ Internal ratio of compensation components:

No specific ratio of fixed salary to variable compensation components has been stipulated. In particular, apart from the cap at a maximum of 150 % of the fixed salary, no



specific relationship has been determined for the amount of fixed annual salary compared with the amount of annual variable compensation. The structure of annual variable compensation ensures that the overwhelming share of such compensation (75 %) is based on long-term factors, thus complying with the predominantly multiyear nature of such compensation called for in the relevant legislation. In individual cases, the compensation system may be adapted by the full Supervisory Board, taking account of legal requirements, to the extent deemed necessary to account for the duties and performance of the member of the Board of Management.

#### Retirement and pension commitments

Members of the Board of Management of HORNBAACH HOLDING AG are granted individual contractually agreed pension commitments. These consist of a defined contribution pension scheme amounting to 25 % of their fixed salaries, payable in two equal shares of 50 % as of August 31 and February 28 of each year. The defined contribution pension scheme involves the following key aspects:

- Direct, defined contribution capital commitment executed by way of direct commitment
- Accumulation of policy reserve and netting with pension provisions in balance sheet
- Retirement pension payable upon retirement from age 65 or earlier if appropriate, but at the earliest from age 60 in line with the respective Supervisory Board resolution either as a one-off payment, in several annual installments or as a pension, one-off payment of pension capital upon death or invalidity
- Guaranteed return on pension capital of 2 % p.a. plus excess return on capital commitment
- The claims are vested for all current members of the Board of Management and after five years for future new members of the Board of Management, with the period of company affiliation being imputed
- Insurance against insolvency via the Pension Assurance Association (PSVaG), Cologne, with additional cover by recognizing trust assets for the pension contributions
- Annual 1 % indexing in current pensions

- Voluntary contributions permitted by members of Board of Management from fixed and variable compensation components due in future in unspecified amounts up to a maximum of one total annual compensation package.

#### Regulations governing premature departure from the company (severance pay regulations)

The employment contracts concluded with members of the Board of Management do not provide for the payment of compensation in the event of their activity on the Board of Management being terminated prematurely without compelling reason or due to a change of control. HORNBAACH HOLDING AG thus deviates from the recommendations made in Points 4.2.3 (4) and (5) of the German Corporate Governance Code. In individual cases, payments may nevertheless be made, based on a corresponding Supervisory Board resolution, to a member of the Board of Management retiring from the Board prematurely, particularly when the reasons for such retirement do not lie with the respective member.

#### Additional benefits

Members of the Board of Management of HORNBAACH HOLDING AG receive the following particular benefits to an extent customary to the market and the company. Some of these are deemed benefits in kind and are taxed accordingly:

- Reimbursement of travel and other expenses incurred in the interests of HORNBAACH HOLDING AG based on the actual amounts incurred
- Grants towards private health insurance, voluntary retirement pension scheme or alternatively contributions to a private life insurance policy
- Accident insurance covering fatality and invalidity
- Temporary continuation of payment of compensation in event of sickness or death
- Claim to provision of a company car for work-related and private use.

#### Compensation of the Board of Management for the 2013/2014 financial year

The total compensation of the Board of Management of HORNBAACH HOLDING AG for performing its duties on behalf of the

Group in the 2013/2014 financial year amounted to € 1,954k. Of this sum, € 945k constituted fixed compensation and € 1,009k involved performance-related components. Termination benefits of € 210k were incurred for active members of the Board of Management in the 2013/2014 financial year. These involve expenses to endow pension provisions. There are corresponding value credits.

Given the company's size and its market position, we believe that the total compensation of the Board of Management is appropriate. At the 2011 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 2015/2016 financial year (opting-out clause).

### **Compensation of the Supervisory Board**

Supervisory Board compensation is governed by § 16 of the Articles of Association of HORNBAACH HOLDING AG. As well as the reimbursement of his or her expenses, each Supervisory Board member receives fixed compensation of € 20,000 retrospectively payable on the day after the Annual General Meeting acknowledging the annual financial statements for the respective financial year. The Chairman receives two-and-a-half times and the Deputy Chairman twice the fixed compensation.

Supervisory Board members who also sit on a Supervisory Board committee receive additional fixed committee compensation of € 9,000 for the Audit Committee, € 6,000 for the Personnel Committee, and € 4,000 for the Mediation Committee, should this be convened. This compensation is retrospectively payable together with the fixed compensation. Supervisory Board members who chair a Supervisory Board committee receive two-and-a-half times the respective committee compensation.

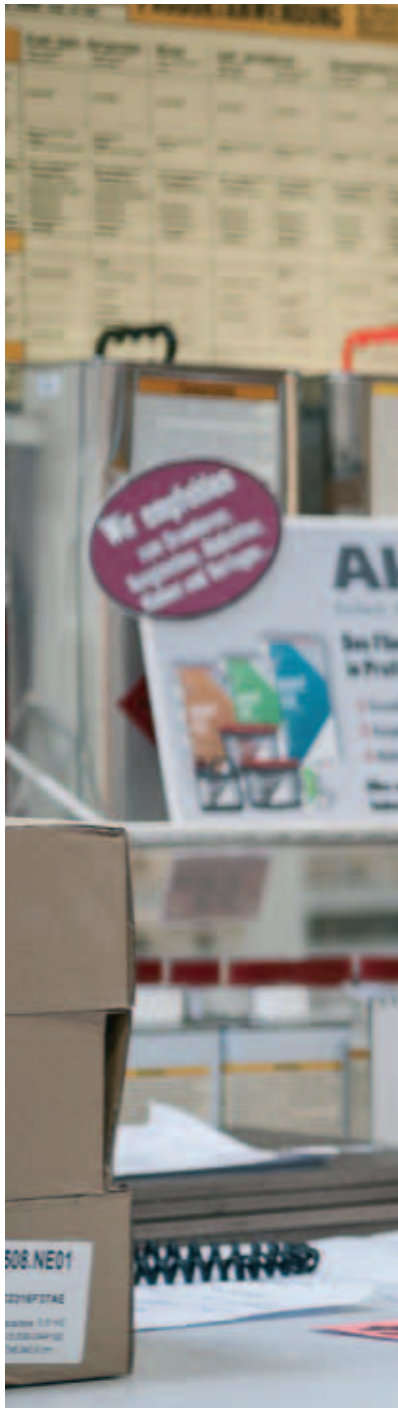
The compensation of the Supervisory Board for the 2013/2014 financial year totals € 382k. Of this total, € 242k relates to basic compensation and € 140k to committee activity.



## Diversity and equal opportunities

HORNBACH brings together people from 67 nations and four continents under one roof. Diversity and an international mindset are an enrichment for our corporate culture.

Ethnic origin, gender, age, sexuality, physical restrictions, and religious affiliation play no role in our dealings with employees. We accord top priority to equal opportunities and a discrimination-free workplace. What counts is specialist competence, willingness to learn, and team spirit.





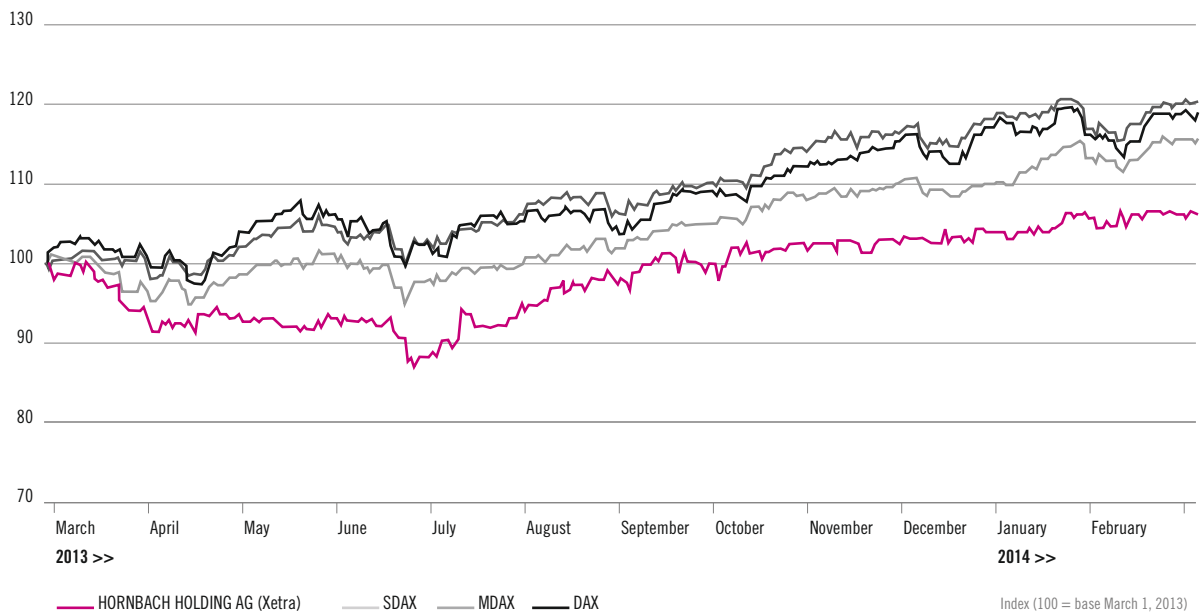
# THE HORNBAACH HOLDING SHARE





# HORNBACH HOLDING SHARE

## Share price performance: March 1, 2013 to February 28, 2014



### Stock markets chase new records

Stock exchange participants had much to celebrate once again in 2013. Persistently low interest rates, a factor that sent prices soaring in 2012 already, pushed stock indices relentlessly upwards. Shares were and are still seen as the most attractive asset class. Confidence is being driven by the expectation that the recovery in the global economy is gaining momentum and that company earnings will show strong growth. What's more, the sovereign debt crisis in Europe now seems far less threatening. As a result, investors are increasingly focusing on European stock markets. Based on global comparisons, the German stock market was once again among the major winners in the 2013 calendar year. The Dax, Germany's lead index, raced from one record high to the next as the year progressed and closed the trading year up 26 % at almost 9,600 points. Following growth of 29 % in 2012, the lead index thus offered further rich pickings for investors. By

the end of our financial year (February 28, 2014), the Dax had gone one step further, closing at 9,692 points.

The preference share of HORNBACH HOLDING AG (ISIN DE0006083439) moved in parallel with the overall market over large periods of our 2013/2014 financial year, albeit at a significantly lower performance level. The share was listed on Xetra at € 56.05 on March 1, 2013. Soon afterwards, the price slipped on account of the extremely unfavorable weather conditions for the spring season. The entire DIY store sector suffered from snow and frost until well into April 2013. It was thus clear to investors that the HORNBACH Group's sales and earnings performance in the first quarter of 2013/2014 (March 1 to May 31, 2013) would be far poorer than one year earlier. Weighed down by this factor, the preference share reached its annual low at € 46.15 on June 26, 2013. Publication of our quarterly results one day later and our financial communications

concerning further growth prospects in the current financial year clearly created optimism among investors. In July 2013, our preference share set out on an impressive rally, one further stimulated by the publication of HORNBACH's subsequent, highly positive quarterly figures.

#### **HORNBACH preference share at new all-time high**

Our stock received additional momentum from the news in the sector surrounding the insolvency of the Praktiker Group in July 2013. This triggered a substantial shake-up in the market, the first in the history of the German DIY sector. Equity analysts and sector observers assumed that HORNBACH would be among the winners in the restructured German DIY store landscape. When it also became clear that mild weather in the winter of 2013/2014 would allow construction and renovation work to continue without its customary winter break, then nothing could stop HORNBACH's preference share from reaching a new all-time high. The share closed at € 61.00 on January 23, 2014 and maintained this level of valuation through to the end of the financial year. The preference share of HORNBACH HOLDING AG then closed at € 60.85 in Xetra trading on the balance sheet date on February 28, 2014. Within twelve months, the value of our stock grew by 8.6 %. Since its annual low at the end of June 2013, the share generated growth of more than 30 %.

#### **In the focus of value investors**

In strong years on the stock exchanges, such as 2012 and 2013, the HORNBACH's share finds it difficult to keep up with the performance of the major stock indices. Its attractiveness is mainly apparent over a longer-term investment horizon. Anyone who bought the preference share at the beginning of March 2004, for example, and then kept it in the portfolio for ten years would have been pleased to see annual average share price growth of 7.2 %. By reinvesting the dividend, the value of the Holding preference share would have grown by 10.2 % a year. Given these figures, it is clear that our share is

mostly found in the portfolios of so-called value investors. This group of investors has accompanied our company over decades in some cases. They particularly trust the company's management, the quality and sustainability of its unmistakable business model, and our market position in Germany and eight other European countries. Not only that, HORNBACH can point to a stable financial structure, a further increase in its equity ratio and high cash holdings, factors that meet the investment needs of investors keen on safety and stability.

#### **Transparent financial communications**

Our investor relations activities once again provided shareholders, analysts, the financial media and the general public with prompt information on the business performance of the HORNBACH HOLDING AG Group in the past financial year. All quarterly reports, annual reports, press releases and additional financial information were published on the internet communications platform of the HORNBACH Group ([www.hornbach-group.com](http://www.hornbach-group.com)), where we pool all information and services, especially for shareholders and press representatives. This separate corporate communications site complements the product-related and marketing content available at HORNBACH's website at [www.hornbach.com](http://www.hornbach.com).

The Annual General Meeting, annual results press conference, analysts' conferences and meetings with investors in Germany and abroad give us opportunity to maintain our dialog with the capital markets. Moreover, we draw on personal contacts with investors and the media to present our company's objectives and strategy. Here, we outline the special features of our concept, our market position, and the HORNBACH Group's future growth prospects, as well as our current performance figures. One key topic of discussion in the talks held in the past 2013/2014 financial year was the market consolidation in Germany and the resultant opportunities and risks for our company.

Key data about the HORNBACH HOLDING share (IFRS)		2013/2014	2012/2013
Nominal value of the share	€	3.00	3.00
Dividend per preference share <sup>1)</sup>	€	0.77	0.67
Earnings per preference share	€	4.56	4.08
Total dividend payment	€ 000s	12,560	10,480
Shareholders' equity per share (including minority interests) <sup>2)</sup>	€	72.76	68.55
Market capitalization <sup>2)</sup>	€ 000s	973,600	884,480
Share price (Xetra) <sup>2)</sup>	€	60.85	55.28
12-month high	€	61.00	58.35
12-month low	€	46.15	50.41
Shares issued	Number	16,000,000	16,000,000
Price / earnings ratio <sup>2)</sup>		13.3	13.5

<sup>1)</sup> 2013/2014: subject to resolution by the Annual General Meeting

<sup>2)</sup> At the end of the financial year (the last day in February)

### Increased dividend proposed

The Board of Management and Supervisory Board of HORNBACH HOLDING AG are proposing an increase of around 20 % in the dividend for approval by the Annual General Meeting on July 10, 2014. The dividend per preference share (ISIN: DE0006083439) would thus rise from € 0.67 to € 0.80. For ordinary shares (ISIN: DE0006083405), the dividend is to be raised from € 0.64 to € 0.77. Following the unchanged distribution in the past four years, shareholders should be enabled to participate appropriately in the pleasing earnings performance in the 2013/2014 financial year.

### Changes in shareholder structure

The shareholder structure of HORNBACH HOLDING AG has witnessed significant changes since the balance sheet date on February 28, 2014. On March 25, 2014, the British retail group and longstanding strategic partner Kingfisher plc announced its exit from all of its financial investments in the HORNBACH Group. On the one hand, this involved its 17.4 % stake in the listed

preference shares of HORNBACH HOLDING AG (ISIN DE0006083439). The total of around 1.4 million no-par shares was sold to an international circle of investors within an accelerated private placement on March 25, 2014. Since then, the free float share of the eight million HOLDING preference shares in circulation has amounted to 100 %.

On the other hand, on March 31, 2014 HORNBACH Familien-Treuhandgesellschaft mbH bought back Kingfisher's minority stake in the unlisted ordinary shares in HORNBACH HOLDING AG, amounting to 25 % plus two shares of the total of eight million ordinary shares. The Hornbach family thus once again owns 100 % of the voting capital in HORNBACH HOLDING AG. Furthermore, Kingfisher also sold its capital investment in HORNBACH-Baumarkt-AG.

The preference share of HORNBACH HOLDING AG is admitted for trading in the Prime Standard and is listed in the SDax small-cap index at the German Stock Exchange.

**Basic data about the HORNBACH HOLDING share**

Type of share	Bearer shares (individual preference shares)
Stock exchanges	Frankfurt, Xetra
Market segment	Prime Standard
Security identification numbers	ISIN DE0006083439 WKN 608343
Stock market code	HBH3
Bloomberg	HBH3 GY
Reuters (Xetra)	HBHGP.DE

## Investor Relations

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**FINANCIAL CALENDAR 2014**

May 27, 2014	Annual Results Press Conference 2013/2014 Publication of Annual Report
June 26, 2014	Interim Report: 1 <sup>st</sup> Quarter of 2014/2015 as of May 31, 2014
July 10, 2014	Annual General Meeting Festhalle Landau, Landau/Pfalz
September 25, 2014	Half-Year Financial Report 2014/2015 as of August 31, 2014 DVFA Analysts' Conference
December 22, 2014	Interim Report: 3 <sup>rd</sup> Quarter of 2014/2015 as of November 30, 2014





## Relieving the environment

Our group logistics have made a sustainable contribution to protecting the environment for years now. With the help of large logistics centers we efficiently pool merchandise flows and thus reduce CO<sub>2</sub> emissions.

One example: containers from the import hub in Rotterdam are partly returned by inland waterway along the Rhine. Volumes that would require many truckloads, long distances, and routes through built-up areas can be loaded onto a single ship. This way, we ease the strain on roads and avoid CO<sub>2</sub> emissions of more than 400 tonnes of a year.



RETAIL AND REAL ESTATE





## HORNBAACH-BAUMARKT-AG

The Group's retail activities are pooled at HORNBAACH HOLDING AG. All of the HORNBAACH Group's sales concepts focus on retail with DIY, garden, and home improvement products. The DIY megastores with garden centers operated by HORNBAACH-Baumarkt-AG since 1968 are the cornerstone of the Group's activities. In addition to these, the HORNBAACH Group is also active on a regional level in the construction materials and builders' merchant business.

### Four new HORNBAACH DIY megastores with garden centers

The HORNBAACH-Baumarkt-AG subgroup opened four new DIY megastores with garden centers in the 2013/2014 year under report. In the first quarter of 2013 (April 2013), the second HORNBAACH DIY megastore with a garden center in the Slovakian capital opened its doors in Bratislava. In July 2013, we opened our fifth store in Sweden, in this case in Helsingborg. In November 2013, we expanded our network in the Netherlands to ten stores by opening a new location in Nieuwerkerk. Finally, in February 2014 we opened our new location in Heidelberg, which has replaced the former location dating from 1985. At the balance sheet date on February 28, 2014, the subgroup operated 141 retail outlets, of which 92 in Germany and 49 in other European countries. With total sales areas of around 1.65 million m<sup>2</sup>, the average size of a HORNBAACH DIY megastore with a garden center now amounts to around 11,700 m<sup>2</sup>.

### Successful race to catch up

The HORNBAACH-Baumarkt-AG subgroup can look back on a challenging 2013/2014 financial year. The exceptionally long winter severely impaired HORNBAACH's sales and earnings performance across its entire network in the first three months of the financial year (March 1 to May 31, 2013). However, we were absolutely successful in the subsequent race to catch up. Ultimately, this subgroup increased its net sales for the 2013/2014 financial year as a whole by 4.4 % to € 3,152 million. On a like-for-like basis, i.e. excluding new store openings, we achieved the forecast turnaround on group level in the year under report. Adjusted consolidated sales thus grew by 2.7 %, following a downturn of 1.4 % in the previous year's period.

This was due in particular to the strong performance shown by our DIY megastores with garden centers in Germany. The 5.8 % reduction in like-for-like sales in the first quarter was more than offset by growth of 7.7 % in the second quarter. Adjusted sales then grew by 7.0 % in the third quarter and even achieved double-digit growth of 14.1 % in the final quarter. We concluded the 2013/2014 financial year in Germany with like-for-like growth of 4.9 %, while also significantly expanding our market share from 9.3 % to 10.0 %. In this, we also benefited from the consolidation in the German DIY store sector in the wake of the Praktiker insolvency in 2013. Thanks to its attractive retail format, HORNBAACH was able to profit to an above-average extent from the restructuring of the German DIY landscape.

Sales momentum in the eight countries outside Germany also improved noticeably in the 2013/2014 financial year, benefiting from the more favorable macroeconomic framework. On a like-for-like basis, twelve-month sales at our international stores thus virtually matched the previous year's figure (minus 0.1 %).

Our project DIY store concept enabled us to outperform the DIY sector average in most countries in our European network in the 2013/2014 year under report.

Thanks to this pleasing sales performance and to great cost discipline at our stores and administration departments, we significantly exceeded our original earnings forecast. In spring 2013, we still assumed that our consolidated operating earnings (EBIT) for 2013/2014 would be unable to match the previous year's figure of € 99.3 million. In actual fact, EBIT showed slightly disproportionate growth compared with sales, rising by 5.8 % to € 105.1 million.

Further information can be found in the extensive annual report published by the HORNBAACH-Baumarkt-AG subsidiary, which is a publicly listed company in its own right.

# HORNBAACH BAUSTOFF UNION GMBH

Hornbach Baustoff Union GmbH (HBU), a regional builders' merchant company, was operating a total of 27 outlets at the balance sheet date. These are mainly located in Rheinland-Pfalz, Baden, and Saarland. Two outlets are located in Lorraine (France). The product range focuses on the needs of customers in the main and secondary construction trades. The target group also includes private building and renovation clients. Above all, these clients appreciate our extensive advice and delivery service. Alongside the retail activities at HORNBAACH-Baumarkt-AG and the real estate activities at HORNBAACH Immobilien AG, HORNBAACH Baustoff Union GmbH is the third group subsidiary within the HORNBAACH HOLDING AG Group.

## Business framework

Conditions for construction activity in Germany developed positively in 2013. Housing construction in particular has gained momentum once again. Among other factors, this has benefited from low mortgage interest rates and the great popularity of real estate as a secure, inflation-proof capital investment. The growth rate in apartment building permits showed pleasing year-on-year developments, rising by 12.9 % (2012: 4.8 %) to around 270,400 units.

Due to capricious weather conditions in 2013, many of the apartments approved were not completed. New orders in the main construction trade (surface construction) thus only grew by 2.2 % in real terms in 2013. Construction sales showed growth of 3.1 % in the year under report. These developments are reflected in the regional catchment areas of Hornbach Baustoff Union. While the number of housing construction measures approved in Rheinland-Pfalz grew by 22.5 %, housing construction sales only rose by 1.3 %. The disparity was even more marked in Saarland. Here, 41.2 % growth in the number of building permits stood in stark contrast to the 1.4 % reduction in construction sales. Against this mixed backdrop, the Hornbach Baustoff Union GmbH can report a successful performance for the past 2013/2014 financial year.

## Earnings power boosted

HBU increased its sales by 4.1 % to € 215.7 million in the 2013/2014 financial year. This sales growth was driven in equal measure by all of its product ranges. The subgroup thus successfully made up for the weather-related fall in sales seen in the wintry first quarter.

Hornbach Baustoff Union GmbH pressed ahead with the successful implementation of measures aimed at boosting its earnings power in the 2013/2014 financial year as well. As in previous years, these measures to enhance efficiency in its sales, logistics, and administration activities helped to improve the subgroup's cost structures. Despite tough pressure on prices, HBU managed to improve its gross margin in the year under report. Operating earnings (EBIT) showed clearly disproportionate growth compared with sales, rising by 18.3 % to € 5.5 million.

The subgroup upheld its existing approach towards sales and logistics activities in the 2013/2014 financial year. The sale of private label products in the plaster, façade insulation, and garden design products ranges was successfully expanded. HBU also pressed ahead with restructuring its modern vehicle pool by working with specialist transport units. Decentralized availability of the vehicle pool has gradually been integrated into the overall merchandise system.

## HBU further expands its position in the region

HBU's top priority for the future is to further expand its strong position as one of the region's leading builders' merchant companies. To achieve this aim, the company is relying on ongoing optimizations in its outlet network and on professional field sales activities. These have benefited from extensive training measures for specialist advisors and great commitment to proprietary vocational training. HBU expects the further development of exclusive private label products to generate additional growth momentum. Not only that, by expanding and converting numerous presentation surfaces, HBU aims to offer its customers even more descriptive advice in future.



## REAL ESTATE ACTIVITIES AT THE HORNBACH GROUP

The business activities of the HORNBACH Group can basically be divided into two segments: its retail business and its real estate business. The Group's retail activities are primarily performed by the HORNBACH-Baumarkt-AG and HORNBACH Baustoff Union GmbH subgroups. Alongside these activities, the HORNBACH Group has an extensive real estate portfolio. This chiefly consists of retail properties mainly used by the operating units within the Group. The real estate is owned by HORNBACH-Baumarkt-AG, as well as by HORNBACH Immobilien AG and the subsidiaries of these companies.

The activities in the real estate sector result from the strategic decision that around half of the sales areas on which the company has retail operations should be in the hands of the Group. Given this decision, a team of first-class specialists in the field of real estate development has been built up over the years. All the requirements of real estate development in Germany and abroad are competently covered, from the search for suitable land to the complex process of obtaining building permits, to construction planning and awarding and supervising the execution of building contracts. This expertise built up over many years has become one of HORNBACH's key strategic competitive advantages.

The location development specialists and the employees responsible for the planning and execution of the construction of new stores, as well as for their fittings, are employed at the HORNBACH-Baumarkt-AG subgroup and also work on behalf of the associate company HORNBACH Immobilien AG.

As part of its strategy for financing the rapid expansion of the network of DIY megastores with garden centers; the Group began in 1998 already to use sale and leaseback transactions to free up funds where necessary. The liquid funds released this way are one of many sources for financing the Group's further growth. As in the previous year, the HORNBACH Group made no use of this financing instrument in the 2013/2014 financial year due to its ongoing strong liquidity resources.

Notwithstanding recurrent sale and leaseback transactions, the overriding strategy remains that of retaining ownership of around half of the real estate used for operating purposes, measured in terms of sales areas. At the balance sheet date on February 28, 2014, around 56 % (2011/2013: 55 %) of total sales areas used for retail (approx. 1.65 million m<sup>2</sup>) belonged to one of the group companies. The remaining 44 % (2012/2013: 45 %) of sales areas are rented from third parties (42 %). In individual cases (2 %), the land has been leased (hereditary lease).

The 56 % of sales areas owned by the Group are divided between the HORNBACH-Baumarkt-AG (27 %) and the HORNBACH Immobilien AG (29 %) subgroups. At the balance sheet date on February 28, 2014, the HORNBACH Immobilien AG subgroup had let or sublet 41 DIY megastores with garden centers in Germany and abroad, with sales areas totaling 484,693 m<sup>2</sup>, as well as one logistics center, to HORNBACH-Baumarkt-AG on a long-term basis.

A profit and loss transfer and control agreement is in place between HORNBACH Immobilien AG and HORNBACH HOLDING AG. A sum of € 26.2 million was thereby transferred for the past financial year (2012/2013: € 26.7 million).

The HORNBACH-Baumarkt-AG subgroup operated a total of 141 DIY megastores with garden centers in Germany and abroad at the balance sheet date. Of these, 39 locations with sales areas totaling 437,247 m<sup>2</sup> are owned by HORNBACH-Baumarkt-AG or one of its subsidiaries. The retail sales areas used as DIY megastores with garden centers across the HORNBACH HOLDING AG Group totaled 1,646,712 m<sup>2</sup> at the balance sheet date. Ownership of the sales areas was structured as follows at the balance sheet date on February 28, 2014:

	No. of stores	Sales area m <sup>2</sup>	Share %
<b>Property owned</b>			
HORNBACH-Baumarkt-AG subgroup	39	437,247	26.6
HORNBACH Immobilien AG subgroup	41	484,693	29.4
<b>Subtotal of property owned</b>	<b>80</b>	<b>921,940</b>	<b>56.0</b>
Land rented, buildings owned	4	34,968	2.1
Operating lease (rent)	57	689,804	41.9
<b>Total</b>	<b>141</b>	<b>1,646,712</b>	<b>100.0</b>

In Neustadt an der Weinstrasse, HORNBACH Immobilien AG has let an office building to HORNBACH HOLDING AG and various subsidiaries. A specialist retail center in Bornheim bei Landau with sales areas in excess of 4,700 m<sup>2</sup> has been let to well-known retail chains. In addition, HORNBACH Immobilien AG and HORNBACH-Baumarkt-AG both hold a number of purchase options entitling them to acquire further land at first-class locations in Germany and abroad. Moreover, group companies also already own pieces of land in Germany and abroad which are earmarked for use as retail locations.

#### Hidden reserves in real estate assets

The real estate owned by the HORNBACH Immobilien AG and HORNBACH-Baumarkt-AG subgroups includes a high volume of hidden reserves. The property already completed and rented out by HORNBACH Immobilien AG is reported at a carrying amount of around € 446 million in the balance sheet as of February 28, 2014. The application of an average multiplier of 13 based on the agreed rental income, as well as an age discount of 0.6 % p.a. in terms of the costs of acquisition,

produces a calculated yield value of € 771 million at the balance sheet date. The deduction of the carrying amount of the real estate in question (€ 446 million) leads to hidden reserves of € 325 million.

At the balance sheet date on February 28, 2014, the HORNBACH-Baumarkt-AG subgroup owned real estate in Germany and abroad used for proprietary purposes as DIY megastores with garden centers with a carrying amount of around € 499 million. On the basis of intra-company rental income at usual market rates and a multiplier of 13, as well as an age discount of 0.6 % p.a. in terms of the costs of acquisition, the calculated yield value for the real estate amounts to around € 754 million. Deducting the carrying amount (€ 499 million) leads to calculated hidden reserves of around € 255 million.

Based on this calculation method, the hidden reserves relating to the real estate used for operating purposes at the overall Group can be estimated as amounting to around € 580 million.

# COMBINED MANAGEMENT REPORT







## Education for all

It should be something to take for granted. But the fact is – not all young people have equal access to education and training opportunities.

To help change that, ten years ago the education association “Chancenwerk” was founded. What began as a small coaching project now helps more than 1,800 school pupils gain access to higher education qualifications – regardless of their origin, gender and religion. Students help older pupils and these in turn help younger pupils.

HORNBAACH is supporting this commendable learning project that is now available at 33 schools in 17 German towns.





# COMBINED MANAGEMENT REPORT

The new German Accounting Standard 20 (DRS 20) "Group Management Report" has been applied for the first time in this Annual Report. This has led to a number of changes in the Group Management Report. A new chapter – "Group Fundamentals" – has been added, in which we provide an overview of the Group's structure and business model. Furthermore, in the "Management System" section we list the key management figures relevant for the internal management of the HORNBAACH HOLDING AG Group. Pursuant to DRS 20, the most important key management figures form the basis for describing the company's business performance in the year under report and its forecast for the following financial year. The report for the following year includes a comparison of the forecast and actual business performance by reference to the most important key management figures (budget/actual comparison).

In this year's Management Report, the company has for the first time drawn on the option of integrating the Management Report of HORNBAACH HOLDING AG into the Group Management Report and thus of publishing a Combined Management Report. Alongside information about the Group, in a separate chapter – "Notes on the Annual Financial Statements of HORNBAACH HOLDING AG" – this includes the disclosures required by the German Commercial Code (HGB) for the standalone company HORNBAACH HOLDING AG.

## GROUP FUNDAMENTALS

### The Group at a glance

The HORNBAACH Group is one of Europe's leading operators of DIY stores and garden centers. Alongside HORNBAACH-Baumarkt-AG, its largest operating subgroup at which the European do-it-yourself (DIY) business with DIY megastores and garden centers and DIY online retail are pooled, the overall HORNBAACH HOLDING AG Group also comprises two further subgroups – HORNBAACH Baustoff Union GmbH (regional builders' merchants) and HORNBAACH Immobilien AG (real estate and location development). At the balance sheet date on February 28, 2014, the Group had a total of 15,712 employees (2012/2013: 14,913), of which 6,088 outside Germany (2012/2013: 5,788). In the 2013/2014 financial year (March 1, 2013 to February 28, 2014), the HORNBAACH Group generated net sales of around € 3.4 billion.

The diagram on Page 44 presents the current group structure and provides an overview of the most important shareholdings of HORNBAACH HOLDING AG. Complete details about the scope of consolidation and consolidated shareholdings have been provided in the notes to the consolidated financial statements.

### HORNBAACH-Baumarkt-AG subgroup

At the balance sheet date on February 28, 2014, the HORNBAACH-Baumarkt-AG subgroup operated 141 DIY megastores with garden centers with a uniform market presence in nine countries. Of these, 92 locations are in Germany. A further 49 stores are located in the following other European countries: Austria (11), the Netherlands (10), Luxembourg (1), the Czech Republic (8), Switzerland (6), Sweden (5), Slovakia (3), and Romania (5). With total sales areas of around 1.65 million m<sup>2</sup>, the average size of a HORNBAACH DIY megastore with a garden center amounts to almost 11,700 m<sup>2</sup>. With consolidated sales of around € 3.15 billion in the 2013/2014 financial year, HORNBAACH-Baumarkt-AG is the third-largest retail group in the German DIY sector and the fifth-largest player in Europe.

### HORNBAACH Baustoff Union GmbH subgroup

HORNBAACH Baustoff Union GmbH is active in the regional builders' merchant business. At the balance sheet date on February 28, 2014, it operated a total of 25 outlets in southwestern Germany and two locations close to the border in France. Its main target group involves professional customers in the main and secondary construction trades. The company also offers extensive services and advice to private

building clients. This subgroup generated sales of € 216 million in the 2013/2014 financial year.

#### **HORNBAACH Immobilien AG subgroup**

The HORNBAACH Immobilien AG subgroup mainly develops retail properties for the operating companies in the HORNBAACH HOLDING AG Group. The overwhelming share of these properties are let on within the Group on customary market terms. Of the rental income of € 77 million in the 2013/2014 financial year, 97 % resulted from the letting on of properties within the overall Group.

#### **Family-managed and publicly listed**

HORNBAACH HOLDING AG is a listed stock corporation. Its share capital is divided in equal shares into ordinary and non-voting preference shares. The eight million preference shares (ISIN DE0006083439) are fully owned by independent shareholders (status: March 25, 2014). The preference shares are listed in the Prime Standard and in the SDAX select index of the German Stock Exchange. The unlisted eight million ordinary shares with voting rights are in 100 % family ownership (status: March 31, 2014). The company was founded in 1877 and is still family-managed, now in the fifth generation.

#### **Group business model**

##### **Retail activities**

The business model is predominantly characterized by the retail activities at the HORNBAACH-Baumarkt-AG subgroup. The key focus here is on project customers. On the one hand, those are home improvement enthusiasts and professional customers wishing to implement extensive renovation and construction projects under their own steam in their houses, apartments, or gardens (do-it-yourself). On the other hand, they also include customers wishing to select their products themselves, but then to have all of the work involved in their project, including all services, performed by a competent partner (do-it-for-me). All of the company's activities are tailored to these target groups. HORNBAACH thus offers its customers easily accessible locations, a broad and deep product range stocked in sufficiently large quantities and meeting high quality standards, a reliable and transparent permanently low

price policy, and professional advice and project-related services. Thanks not least to its innovative advertising, HORNBAACH has successfully established itself as a brand among DIY customers and is regularly awarded the best customer satisfaction results in well-known consumer surveys.

The average product range stocked by HORNBAACH stores encompasses around 50,000 articles in the five following divisions: Hardware/Electrical, Paint/Wallpaper/Flooring, Construction Materials/Timber/Prefabricated Components, Sanitary/Tiles, and Garden.

HORNBAACH has decades of experience in operating DIY mega-stores with garden centers in major regional catchment areas. The company relies on the strengths offered by organic growth. The portfolio of 141 locations at the HORNBAACH-Baumarkt-AG subgroup (February 28, 2014) in Germany and abroad is highly homogenous. Most of the Group's stores have sales areas in excess of 10,000 m<sup>2</sup>. This enables HORNBAACH to benefit from economies of scale in its operations and conceptual store enhancement measures, as well as in its group logistics. The company is relying not just on its stationary retail business, but is dovetailing this with an ever more extensive e-commerce offering. As a high-performing virtual DIY store and garden center, HORNBAACH's online store is gradually being rolled out to all of the countries in which HORNBAACH operates stores. The guiding principle – HORNBAACH should offer customers all the channels they need to implement their projects.

The Group's retail activities are supplemented by the regional builders' merchant business, with which the HORNBAACH Group participates in the growth potential offered by the commercial construction industry.

##### **Real estate activities**

The HORNBAACH Group has a substantial portfolio of real estate. This predominantly involves retail properties put to proprietary use. At the balance sheet date on February 28, 2014, around 56 % of the total sales areas used for retail (around 1.65 million m<sup>2</sup>) were owned by group companies. The

HORNBAACH-Baumarkt-AG subgroup accounted for around 27 % of sales areas. Its associate HORNBAACH Immobilien AG owned a further 29 % of the DIY sales areas.

### Reporting segments

The allocation of segments corresponds to the internal reporting system used by the Board of Management of the HORNBAACH HOLDING AG Group for managing the company ("management approach"). This results in the following segments: "HORNBAACH-Baumarkt-AG subgroup", "HORNBAACH Immobilien AG subgroup", and "HORNBAACH Baustoff Union GmbH subgroup". The respective business activities of these three segments are outlined in the introductory chapter to this report – "Group at a glance". Administration and consolidation items not attributable to individual segments are pooled in the segment report in the "Headquarters and consolidation" reconciliation column.

### Management system

The key management figures outlined below are used to manage both the HORNBAACH HOLDING AG Group and HORNBAACH HOLDING AG.

### Most important key management figures

For a retail company like the HORNBAACH Group, sales growth is the central management figure for its operating business. **Sales** directly indicate our success with customers. Our sales performance is reported on the one hand as net total sales in euros. On the other hand, for our DIY megastores and garden centers we also present the change in like-for-like and currency-adjusted sales, which do not include sales at stores newly opened, closed or subject to major conversion work in the year under report. In the "Earnings situation" section, we voluntarily supplement this information by reporting on the change in like-for-like sales including currency items.

The development in the **gross margin** offers information about our gross trading performance. This margin is defined as gross profit (net balance of sales and cost of goods sold) as a percentage of net sales. This key management figure is chiefly influenced by developments in procurement and retail

prices, changes in the product mix, and currency items resulting from international procurement.

Selling and store, pre-opening, and administration expenses represent key parameters for assessing the Group's earnings strength. We use **cost ratios** calculated as a percentage of net sales as key management figures and also as indicators of trends.

**Operating earnings (EBIT)**, i.e. earnings before interest and taxes, are also one of the most important key management figures at the Group. In the income statement, this is calculated as gross profit in euros less costs (selling, store, pre-opening, and administration expenses) plus other income and expenses (net balance of other income and other expenses). EBIT represents the central management figure for planning, measuring and managing the Group's operating earnings performance. In the presentation of our earnings performance, we enhance the comparability of earnings between individual reporting periods by reporting on EBIT net of one-off items in cases where special factors have significantly influenced EBIT in the reporting or comparative period.

### Further key management figures

In managing its financial and asset position, the HORNBAACH HOLDING AG Group pursues the objective of safeguarding the Group's liquidity at all times and of covering the financing requirements for the Group's sustainable growth at the least possible expense.

Key management figures also include cash-effective **investments** in land, buildings, plant and operating equipment for new and existing DIY megastores with garden centers, and intangible assets. Here, we aim to achieve a balanced relationship between our operating cash flow and our budgeted investments.

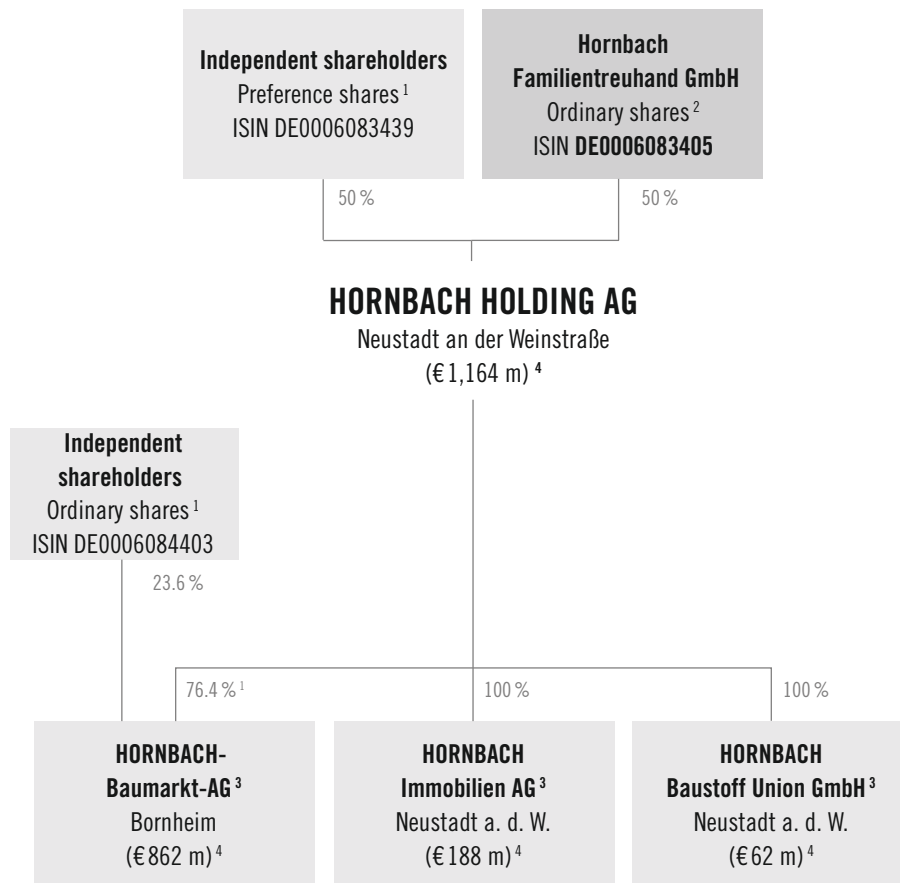
For retail companies, the **inventory turnover rate** is an important indicator of merchandising efficiency. We define inventory turnover as the ratio of material input costs to average inventories. The arithmetic mean of the period opening and

period closing balances is taken as the average volume of inventories. The higher the inventory turnover rate, the lower the inventories and thus the volume of liquidity committed. Our aim is therefore to sustainably improve our inventory turnover rate at an above-average high level compared with competitors while simultaneously ensuring product availability.

The Group has not set any defined target for its shareholders' equity. To safeguard our financial stability and independence, our basic objective is rather to permanently ensure a stable, high **equity ratio**.



**Group structure and shareholders of HORNBACK HOLDING AG**  
as of March 31, 2014



- The share capital of HORNBACK HOLDING AG amounts to € 48,000,000 and is divided into 8,000,000 ordinary no-par shares (100 % owned by the Hornbach families; status: March 31, 2014) and 8,000,000 non-voting preference shares which are listed on the German Stock Exchange.

- The share capital of HORNBACK-Baumarkt-AG amounts to € 95,421,000 and is divided into 31,807,000 ordinary shares which are listed on the German stock exchange. HORNBACK HOLDING AG holds an asset investment of 24,280,000 ordinary shares in HORNBACK-Baumarkt-AG.

- Plus further direct and indirect subsidiaries pursuant to the complete overview provided in the notes to the financial statements

<sup>1)</sup> Publicly listed

<sup>2)</sup> Not publicly listed

<sup>3)</sup> Plus further subsidiaries in Germany and abroad

<sup>4)</sup> Shareholders' equity of the respective consolidation group at the balance sheet date on February 28, 2014

## BUSINESS REPORT

### MACROECONOMIC AND SECTOR-SPECIFIC FRAMEWORK

#### International framework

##### Global economy

According to estimates compiled by the International Monetary Fund, global economic output grew by 3.0 % in 2013 (2012: 3.2 %). The **global economy** thus continued to fall short of its long-term growth trend of 3.5 % to 4.0 %. Global economic activity nevertheless gained momentum as the year progressed and is also thought to have retained this rate of growth at the beginning of the new year (2014).

#### Europe

In the second quarter of 2013, the **European economy** emerged from the recession it endured since the fall of 2011. Gross domestic product (GDP) returned to moderate growth rates once again in subsequent quarters. Based on figures released by the European Union statistics authority (Eurostat), GDP in the European Union as a whole (EU 28) grew by 0.1 % in the 2013 calendar year, not least as a result of strong growth contributions from countries such as Romania and the Czech Republic in the final quarter.

The **euro area** (EA 17) failed to regain positive growth territory in 2013 but nevertheless managed to limit the downward economic trend to minus 0.4 %. This compares with the 0.6 % average contraction in macroeconomic output still seen in 2012. What counts for economic developments looking forward, however, is the fact that GDP gained traction across the board in the fourth quarter of 2013, a development that can be expected to offer upward momentum in 2014 as well. Not only that, the discrepancies in growth rates seen in the euro area since 2010 and triggered in particular by the sovereign debt crisis in states on the periphery of the currency area have noticeably reduced.

The macroeconomic framework in the nine European countries covered by **HORNBAACH's network** gradually improved in the course of the calendar year, and in the fourth quarter of 2013 in particular. Based on the economic data available upon

completion of this report, price-adjusted (real-term) GDP in Germany grew by 0.4 % in 2013. The export-driven German economy was adversely affected by the recession in several European countries and the slower rate of global growth. Thanks to strong consumer demand, however, it managed to gain new ground.

The Netherlands and the Czech Republic posted reductions in GDP of 0.8 % and 0.9 % respectively, but nevertheless managed to slightly limit the rate of economic contraction compared with 2012. The growth rates seen in the fourth quarter of 2013 have fed hopes that these two economies will return to positive growth once again in 2014.

All other countries in which HORNBAACH operates across Europe outperformed the European average in the 2013 calendar year, in some cases substantially so. Like Germany, Austria reported moderate economic growth of 0.4 %. Macroeconomic output in Luxembourg, Sweden, Switzerland, and Slovakia grew at a rate of one to two percent. The highest growth momentum within HORNBAACH's group of countries was shown by Romania, where GDP rose by 3.5 % in 2013, benefiting above all from a sharp upturn in the second half of the year.

#### Construction industry, consumer spending, and retail

Domestic demand in Europe emitted mixed signals in 2013. Gross fixed capital investments acquired further momentum from quarter to quarter, improving by 1.1 % in the fourth quarter of 2013. Construction investments clearly had no positive impact in the period under consideration. Construction industry output in the euro area, for example, fell by 1.0 % in the period from October to December 2013. The volume growth previously seen in the second and third quarters (plus 1.8 % and plus 1.6 %) was in any case insufficient to make up for the weather-related contraction in the first quarter (minus 4.0 %). In 2013 as a whole, construction output fell by 2.9 % and thus for the sixth consecutive year. In terms of HORNBAACH's network, the 8.3 % downturn in construction output in the Czech Republic in 2013 was even more severe than in 2012 (minus 7.4 %). The downward trend in

the Netherlands and Slovakia slowed in 2013. At around minus five percent in each case, however, the figures for these countries still fell notably short of the euro area average.

This development is to be viewed in particular in connection with the Europe-wide fall in demand for new residential construction. In some countries, demand noticeably suffered from high personal debt and unsatisfactory developments in household incomes. The cold winter lasting well into April 2013 also took its toll on construction activity across Europe. Not only that, ongoing high levels of unemployment in many countries in the wake of the financial and sovereign debt crises also placed a damper on private households' willingness to invest and consume.

Against this backdrop and despite lower rates of inflation, private consumer spending only managed to generate marginally positive demand. In some countries, this failed to reach the retail sector. Real-term retail sales (excluding vehicle retail) thus declined by 0.8 % in the euro area in 2013 (2012: minus 1.7 %). For the European Union as a whole, the downturn amounted to 0.1 % (2012: minus 1.1 %). The picture in the countries in which HORNBAACH operates was somewhat better. According to Eurostat estimates, retailers in Germany, Austria, Romania, Slovakia, and the Czech Republic

managed to maintain real-term retail sales at the previous year's level or slightly higher. Statistical estimates show real-term sales growth of around two percent in Sweden and Switzerland, and even of more than eleven percent in Luxembourg.

Indicators based on sector association surveys show that in most European countries the DIY store and garden center sector, i.e. DIY retail, once again underperformed the overall retail sector. This particularly reflects the correlation, in some cases close, with developments in housing construction and the highly negative weather factor in the period from January to April 2013.

#### Business framework in Germany

Overall, the central macroeconomic factors affecting domestic demand and thus of key relevance for assessing the business framework for German DIY stores and garden centers, developed positively in 2013. The annual inflation rate determined with the assistance of the harmonized consumer price index (HVPI) eased from 2.1 % to 1.6 %, thus impacting positively on private households' spending potential. According to the Federal Statistical Office, Germans saved one tenth of their disposable income in 2013, and thus less than at any time since 2001. Consumer spending rose accordingly. With a price-adjusted increase of 0.9 %, private consumer spending

#### GDP growth rates in countries with HORNBAACH DIY megastores and garden centers

Percentage change on previous quarter Source: Eurostat (calendar year figures)	1 <sup>st</sup> Quarter 2013	2 <sup>nd</sup> Quarter 2013	3 <sup>rd</sup> Quarter 2013	4 <sup>th</sup> Quarter 2013	Calendar Year 2013 vs. 2012
<b>Germany</b>	<b>0.0</b>	<b>0.7</b>	<b>0.3</b>	<b>0.4</b>	<b>0.4</b>
Luxembourg	(0.8)	1.9	0.6	0.7	2.1
Netherlands	(0.3)	0.1	0.3	0.9	(0.8)
Austria	0.1	0.0	0.2	0.3	0.4
Romania	0.6	0.8	1.6	1.5	3.5
Slovakia	0.3	0.3	0.3	0.4	0.9
Sweden	0.8	0.0	0.5	1.7	1.5
Switzerland	0.6	0.5	0.5	0.2	2.0
Czech Republic	(1.3)	0.3	0.3	1.8	(0.9)
<b>Euro area</b>	<b>(0.2)</b>	<b>0.3</b>	<b>0.1</b>	<b>0.2</b>	<b>(0.4)</b>
<b>EU28</b>	<b>0.0</b>	<b>0.4</b>	<b>0.3</b>	<b>0.4</b>	<b>0.1</b>

was the key driver of economic growth in Germany and can be expected to continue to play a major role in the new year as well. This expectation is supported by rising real-term incomes and the further improvement in consumer confidence at an already high level. Low unemployment, ongoing employment growth, and favorable financing terms not only supported private consumer spending, but also boosted housing construction.

#### **Construction activity and housing construction**

Building permit totals in Germany showed further strong growth. The construction of almost 247,000 housing units was approved in the period from January to November 2013. According to the Federal Statistical Office, that represents a 12.9 % increase compared with the same period in the previous year. The positive development which began in 2010 thus continued. Particularly sharp growth was seen in the number of apartments in apartment blocks (plus 22.8 %) and in semi-detached houses (plus 13.5 %). Permits for detached houses rose by just under one percent.

New orders in the main construction trade grew by 3.8 % in nominal terms in 2013 (plus 1.9 % in real terms). Orders were driven in particular by dynamic growth in German housing construction, which generated nominal order book growth of 6.2 %. Aggregate sales in the main construction trade increased by 3.0 % to € 96.6 billion.

#### **Retail and DIY**

According to estimates from the Federal Statistical Office, the German retail sector (excluding vehicle retail) increased its sales by 1.4 % in nominal terms in 2013. On a price-adjusted basis, retail sales volumes were 0.1 % ahead of the previous year's figure. The retail sector was thus only able to profit to a marginal extent from the increase in private consumer spending.

High growth rates were reported once again for mail order and internet retail. According to figures released by the German E-Commerce and Distance Selling Trade Association (bvh), sales surged by 22.9 % to € 48.3 billion and thus accounted for a tax-adjusted share of 11.2 % of total retail sales (2012: 9.4 %). This was primarily due to the boom in internet retail. E-commerce volumes jumped 41.7 % to € 39.1 billion in 2013.

The German DIY retail sector had to absorb a reduction in sales in 2013. On the one hand, the exceptionally long winter encroached massively on the spring business. On the other hand, substantial shares of sales in Germany were no longer available for inclusion in the statistics for the second half of the year due to the insolvencies of Praktiker and Max Bahr, which had still generated domestic sales of almost € 2.2 billion in 2012. According to the BHB/GfK report (nominal) gross sales at DIY stores with sales areas of at least 1,000 m<sup>2</sup> per outlet thus fell by 2.9 % to € 18.1 billion in 2013 (2012: € 18.6 billion). On a like-for-like basis, i.e. excluding stores newly opened, closed or significantly renovated in the year under report, the DIY sector in Germany fell 2.6 % short of the previous year's sales; excluding Praktiker and Max Bahr, sales fell by 0.7 %. Gross sales at smaller-scale DIY stores (DIY shops) decreased by 2.0 % to € 3.7 billion. The market volume of all of Germany's DIY and home improvement stores contracted by 2.8 % to € 21.7 billion in 2013 (2012: € 22.4 billion).

By contrast, online stores in the German DIY sector posted strong growth in 2013. According to figures compiled by IFH Retail Consultants, stationary DIY players boosted their e-commerce sales by 18 % to € 405 million. Alongside internet stores operated by stationary DIY companies, other distribution channels are also participating in the online boom. Based on revised IFH calculations, German internet sales with core DIY products – across all distribution channels – grew by 12 % to € 2.05 billion in 2013.



## BUSINESS PERFORMANCE

### Impact of business framework on the business performance of the Group

The 2013/2014 financial year was extremely challenging. The disappointing start in the spring season was followed by a successful race to catch up. A number of factors had a considerable influence on the business performance of the HORN-BACH HOLDING AG Group in the year under report:

- **Weather:** The exceptionally long winter had a severe negative impact on the performance in sales and earnings in all of the countries in which HORN-BACH operates in the first three months of the financial year (March 1 to May 31, 2013). Sales at the HORN-BACH-Baumarkt-AG subgroup for the first quarter of 2013/2014 thus declined by 3.0 %, and even by 5.9 % on a like-for-like basis. In March 2013 alone, adjusted sales plummeted by more than a fifth. Against this backdrop, first-quarter EBIT at the overall Group fell by around € 24 million compared with the previous year's figure. Following this inauspicious start, a successful race to catch up enabled HORN-BACH to regain its growth course in the subsequent quarters. This was driven in particular by the highly dynamic sales performance in Germany.
- **Economic climate:** The European sovereign debt crisis continued to ensure a less favorable macroeconomic climate in some of the international markets in which we operate than in Germany, although the trend improved noticeably compared with the situation in the previous year. Due above all to the difficult situation on labor markets and subdued private consumer spending, the like-for-like sales performance of our HORN-BACH DIY megastores with garden centers in other European countries still fell short of their German counterparts. Following a two-year period of weakness, from the second quarter of 2013/2014 our adjusted sales in other European countries nevertheless posted an upward trend for the first time again. By the end of the financial year, DIY sales in the eight countries outside Germany thus virtually matched the previous year's figure (minus 0.1 %).

- **Market consolidation:** For the first time in the history of the German DIY sector, 2013 witnessed a significant shake-up in the market. This was triggered by the insolvency of the German DIY group Praktiker in July 2013, which affected both the Praktiker and the Max Bahr locations in Germany. Since then, massive location closures and customer migration in the catchment areas thereby affected have led to a redistribution of sales to the benefit of other competitors. HORN-BACH also benefited from this restructuring of the German DIY store landscape in individual regional catchment areas.

HORN-BACH asserted itself very well in this market climate. The HORN-BACH Group increased its net sales by 4.3 % to € 3,369 million in the 2013/2014 financial year. Consolidated operating earnings (EBIT) showed disproportionate growth of 10.0 % to reach € 160.4 million.

### Location development

#### HORN-BACH-Baumarkt-AG subgroup

HORN-BACH launched operations at four new DIY mega-stores with garden centers, of which three outside Germany, in the 2013/2014 financial year under report.

In April 2013, a new HORN-BACH DIY megastore with a garden center opened its doors in **Bratislava**, now the second store in the Slovakian capital. As of February 28, 2014, our store network in Slovakia thus comprised three locations with sales areas of around 46,000 m<sup>2</sup>.

By opening a new store in **Helsingborg** in July 2013, we have also increased our market presence in Sweden. Sales areas at the total of five HORN-BACH locations in Sweden now amount to more than 73,000 m<sup>2</sup>.

We continued our expansion program with a further new store opening in the third quarter of 2013/2014. In November 2013, operations began at the tenth HORN-BACH DIY megastore with a garden center in the Netherlands, in this case with sales areas of around 14,000 m<sup>2</sup> in **Nieuwerkerk**. After Austria, where we continue to operate eleven stores with sales areas of

around 140,000 m<sup>2</sup>, our store network in the Netherlands, with total sales areas of around 115,000 m<sup>2</sup>, is the second-largest outside Germany.

We completed the expansion program for the year under report by opening a newly built store at our **Heidelberg** location in February 2014. This store replaced the nearby existing location from 1985.

Including the three stores newly opened and the replacement location, we were operating 141 retail outlets across the group as of February 28, 2014 (February 28, 2013: 138). Sales areas at the 92 stores in Germany amounted to around 994,000 m<sup>2</sup>. The 49 DIY megastores with garden centers in other European countries had sales areas of around 653,000 m<sup>2</sup>. The international stores are located in Austria (11), Netherlands (10), Czech Republic (8), Switzerland (6), Romania (5), Sweden (5), Slovakia (3), and Luxembourg (1).

Total sales areas at the HORNBAACH-Baumarkt-AG subgroup amounted to around 1,647,000 m<sup>2</sup> as of February 28, 2014. The average size of a HORNBAACH DIY megastore with a garden center amounts to around 11,700 m<sup>2</sup>.

#### **HORNBAACH Baustoff Union GmbH subgroup**

The two French builders' merchant outlets in Phalsbourg and Thal-Drulingen were consolidated for the first time at the beginning of the 2013/2014 financial year. These outlets operate under the name Holtz SA. In Germany, the HORNBAACH Baustoff Union GmbH subgroup operates an unchanged total of 25 outlets. At the balance sheet date on February 28, 2014, we thus offered our extensive builders' merchant product range and professional services to commercial and private customers at a group-wide total of 27 locations.

### **Comparison of actual and forecast business performance**

#### **Expansion**

In the Outlook section of last year's 2012/2013 Annual Report, we forecast that we would open up to four new HORNBAACH DIY megastores and garden centers in the 2013/2014 financial year. Three new locations were planned outside Germany, namely in Slovakia, Sweden, and the Netherlands, while in Germany one replacement location was planned in Heidelberg. These plans have been successfully implemented. As planned, the HORNBAACH Baustoff Union GmbH subgroup optimized its regional market position in the 2013/2014 financial year by relocating two outlets and also consolidating two French outlets.

#### **Investments**

Total investments in a range of € 150 million to € 200 million were originally budgeted at the HORNBAACH HOLDING AG Group for the 2013/2014 financial year. Given the postponement of land purchases and utilization of rental options, our actual investments of € 116 million mean that we did not exhaust this investment framework.

#### **Sales performance**

##### **HORNBAACH HOLDING AG Group**

In the Outlook section of our 2012/2013 Annual Report, we predicted that consolidated sales for the 2013/2014 financial year would slightly exceed the figure for the 2012/2013 financial year. This sales forecast also remained unchanged during the financial year. Due not least to a final sprint in the fourth quarter, our actual consolidated sales for the 2013/2014 year under report grew by 4.3 %.

##### **HORNBAACH-Baumarkt-AG subgroup**

This pleasing development was largely driven by the HORNBAACH-Baumarkt-AG subgroup, where we achieved the forecast turnaround in like-for-like sales in the 2013/2014 financial year. Adjusted consolidated sales thus grew by 2.7 % following the downturn of 1.4 % in the previous year's period. We thus more than met our targets.

For **Germany**, we had forecast like-for-like sales growth ahead of the group average in our Outlook. Given the expected short-fall in sales in the first quarter (March 1 to May 31, 2013), we nevertheless at that time saw increased likelihood that like-for-like sales would only match or fall short of the previous year's figure. Our actual like-for-like sales in Germany improved by 4.9 %. We thus surpassed our forecast and outperformed the sector average even more clearly than expected.

For **other European countries**, we had forecast a lower rate of like-for-like sales growth than in Germany due to the more fragile overall macroeconomic framework. Moreover, we also did not expect like-for-like sales net of currency items in other European countries to match the figure for the 2012/2013 financial year. Driven by a strong recovery in the second half of the year, adjusted sales for the 2013/2014 reporting period more or less matched the previous year's figure (minus 0.1 %) and performed better than forecast.

#### **HORNBACH Baustoff Union GmbH subgroup**

According to our Outlook, net sales at the HORNBACH Baustoff Union GmbH subgroup would slightly exceed the previous year's figure in the 2013/2014 financial year. With growth of 4.1 % to € 215.7 million, we surpassed this target.

#### **Earnings performance**

##### **HORNBACH HOLDING AG Group**

In terms of operating earnings (EBIT), in our previous Annual Report we forecast that the HORNBACH HOLDING AG Group would more or less match or fall slightly short of the figure for the 2012/2013 financial year (€ 145.9 million). Due to the successful process of making up lost ground after the first quarter (March 1 to May 31, 2013), in our half-year financial report we issued a slight upward revision in our original earnings forecast and predicted that Group EBIT for 2013/2014 would at least match the previous year's figure. With actual growth of 10.0 % to € 160.4 million, we significantly exceeded the original forecast in the 2012/2013 Annual Report and slightly surpassed the slight upward revision in the forecast issued during the financial year.

#### **HORNBACH-Baumarkt-AG subgroup**

EBIT on the level of the HORNBACH-Baumarkt-AG subgroup rose by 5.8 % to € 105.1 million in the 2013/2014 year under report. This figure was also well ahead of the more defensive original annual forecast in the 2012/2013 Annual Report and slightly above the expectations in the revised forecast issued within the financial year.

#### **HORNBACH Baustoff Union GmbH subgroup**

The HORNBACH Baustoff Union GmbH subgroup segment improved its operating earnings for the 2013/2014 financial year by 18.3 % to € 5.5 million. Thanks largely to a slightly improved gross margin, we thus met our target of increasing our earnings compared with the previous 2012/2013 financial year.

#### **HORNBACH Immobilien AG subgroup**

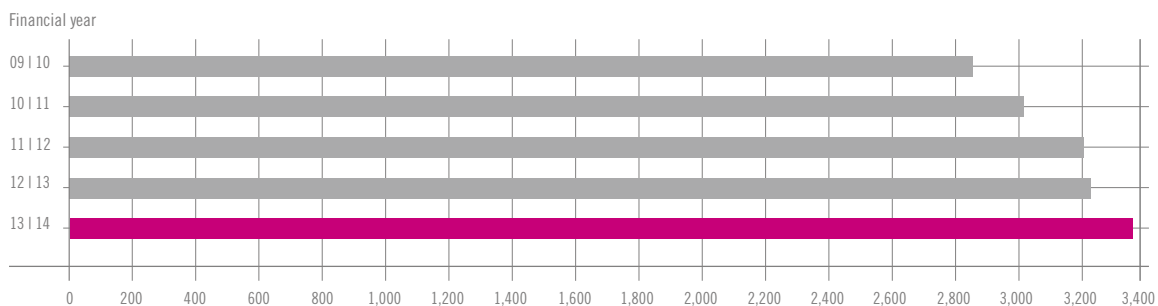
Based on stable rental income growth, we expected EBIT ahead of the previous year's figure at the HORNBACH Immobilien AG subgroup segment. We met this target, posting operating earnings growth of 10.3 % to € 51.1 million. As expected, there were no sale and leaseback transactions and no significant gains from the disposal of real estate not required for operations in the 2013/2014 financial year.

#### **HORNBACH HOLDING AG**

The earnings performance at HORNBACH HOLDING AG is closely linked to developments on the level of its shareholders and thus to the level and rate of change in its income from investments. For the 2013/2014 financial year it was expected that the result from ordinary operations would fall short of the previous year's figure. Due to higher income from investments, the result from ordinary operations improved by 5.4 % to € 39.0 million in the year under report.

## Earnings Performance

### Sales performance of the HORNBACH Group (net, € million)



### Sales performance

As of the balance sheet date on February 28, 2014, the HORNBACH HOLDING AG Group comprised the HORNBACH-Baumarkt-AG, HORNBACH Baustoff Union GmbH (HBU), and HORNBACH Immobilien AG subgroups. In the 2013/2014 financial year (March 1, 2013 to February 28, 2014), the HORNBACH Group increased its consolidated sales (excluding sales tax) by 4.3% to € 3,369 million (2012/2013: € 3,229 million).

#### HORNBACH-Baumarkt-AG subgroup

Net sales at the HORNBACH-Baumarkt-AG subgroup increased by 4.4% to € 3,152 million (2012/2013: € 3,020 million). Net sales in Germany for the same period grew 5.0% to € 1,827 million (2012/2013: € 1,741 million). Accounting for three newly opened stores, sales outside Germany (Other European countries) increased by 3.5% to € 1,325 million (2012/2013: € 1,279 million). Due to the higher growth rate in Germany, the international stores' share of consolidated sales slipped from 42.4% to 42.0%.

The Group's business performance in 2013/2014 was shaped on the one hand by substantial weather-related downturns in sales in the first quarter and on the other hand by a success-

ful race to catch up, with sales growth in the three subsequent quarters. These factors are reflected above all in the development in like-for-like sales.

The following comments refer to the development in like-for-like sales at the HORNBACH-Baumarkt-AG subgroup, which thus take no account of stores newly opened or closed in the past twelve months. The subgroup's like-for-like sales performance continued to be divided along geographical lines in the 2013/2014 financial year. Having said this, sales momentum improved significantly compared with 2012/2013, and that both in the Germany segment and in the Other European countries segment.

Like-for-like sales net of currency items grew by 2.7% across the subgroup in the 2013/2014 financial year, thus contrasting with the downturn of 1.4% in the previous year. Including currency items, the subgroup's adjusted sales rose by 2.3% (2012/2013: minus 1.4%). On average, the number of business days in 2013/2014 was largely the same both at the subgroup and in terms of geographical segmentation. Seasonal influences on the subgroup's sales performance and the base effects from the previous year's periods are clearly apparent in the presentation by quarter (please see table below).



**Like-for-like sales performance\* (DIY) at the HORNBACH-Baumarkt-AG subgroup by quarter**

(in percent)

2013/2014 financial year 2012/2013 financial year	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter	Total
<b>Group</b>	<b>(5.9)</b>	<b>4.6</b>	<b>4.6</b>	<b>10.6</b>	<b>2.7</b>
	(1.1)	0.7	(2.0)	(3.9)	(1.4)
<b>Germany</b>	<b>(5.8)</b>	<b>7.7</b>	<b>7.0</b>	<b>14.1</b>	<b>4.9</b>
	(0.1)	2.8	(0.6)	(2.6)	0.0
<b>Other European countries</b>	<b>(6.1)</b>	<b>0.5</b>	<b>1.5</b>	<b>5.9</b>	<b>(0.1)</b>
	(2.4)	(1.8)	(3.8)	(5.7)	(3.2)

\* Excluding currency items

The first quarter (March 1 to May 31, 2013) was influenced by exceptional weather factors to an extent rarely seen before. Wintry weather persisting through to mid-April literally froze customer demand in Germany and other European countries. In March and April 2013, this had a particularly adverse effect on our garden business. By contrast, May showed a pleasing sales performance once again, but this was far from enough to make up for the loss of sales in the two preceding months. Cumulative consolidated like-for-like sales net of currency items fell by 5.9 % in the first three months (previous year's quarter: minus 1.1 %).

In the following months we managed to gradually make up for this shortfall. We increased our group-wide adjusted sales by 4.6 % in each of the second and third quarters. By the end of the first nine months, our sales had returned to positive growth territory. Given an extremely dynamic business performance in the fourth quarter (plus 10.6 %), one which when compared with the exceptional conditions in the previous year's quarter benefited additionally from the mild winter in 2013/2014, we were able to increase our adjusted sales growth to 2.7 % by the end of the financial year. The geographical segmentation figures clearly show that the Group's bedrock of sales rose both in Germany and in other European countries compared with the previous year.

#### ■ Germany

HORNBACH's locations in Germany reported very pleasing sales growth in the 2013/2014 financial year. They performed significantly better than our stores in other European countries for the fifth consecutive year, also benefiting in this respect from the more robust macroeconomic framework by European standards and from one-off factors within the DIY sector.

Having said this, the important spring season began on an inauspicious note. Frost and snow led like-for-like sales in March 2013 to drop by around one fifth compared with the same month in the previous year. After this setback, developments in the following months pointed sharply upwards, with double-digit growth rates in some cases. The like-for-like downturn of 5.8 % in the first quarter was more than offset by sales growth of 7.7 % in the second quarter. Developments continued at a similar pace in the second half of the financial year. HORNBACH's DIY megastores with garden centers in Germany grew by 7.0 % in the third quarter, and even notched up double-digit growth of 14.1 % in the final quarter. We thus ended the 2013/2014 financial year in Germany with like-for-like sales growth of 4.9 %.

Our consistent focus on project customers enabled us to draw above-average benefit from high demand in the residential construction and renovation markets in the year under report. This was particularly true of the second business quarter, in which consumers caught up with various house, apartment and garden-related projects originally planned for the spring. Our combination of large-scale retail locations and a high-performing online store has become firmly established among private and professional customers. Not only that, individual regional locations secured part of the sales volumes redistributed among competitors from summer 2013 onwards in the market consolidation triggered by the Praktiker and Max Bahr insolvency. Finally, mild weather conditions in the final quarter (December 2013 to February 2014) compared with the previous year favored the implementation of construction and renovation projects usually put on hold in average winters.

Against this backdrop, HORNBACH posted a highly positive performance in Germany in the 2013/2014 year under report and extended its head start over the DIY sector as a whole.

According to the BHB/GfK Panel, like-for-like sales in the German DIY sector declined by 2.6 % in the period from January to December 2013. Excluding the share of sales attributable to the insolvent Praktiker Group, according to GfK Germany's DIY stores witnessed a 0.7 % downturn in like-for-like sales. By contrast, our domestic stores generated substantial sales growth of 2.3 % in the 2013 calendar year. This outperformance by around five percentage points (around three percentage points excluding Praktiker/Max Bahr) means that we have significantly extended our lead over the sector average compared with the previous year, in which our head start only amounted to one-and-a-half percentage points.

HORNBACH thus further expanded its market position. As a percentage of aggregate sales at all German DIY stores and garden centers (€ 21.7 billion), HORNBACH's market share

grew from 9.3 % to 10.0 %. If the calculation is based only on those DIY stores and garden centers with sales areas of more than 1,000 m<sup>2</sup> in Germany (market volume: € 18.1 billion), then our market share in this segment improved from 11.1 % to 12.0 %.

#### ■ Other European countries

Our sales outside Germany also gained noticeable momentum compared with the previous year. The severe, prolonged winter resulted in a 6.1 % downturn in like-for-like sales net of currency items at HORNBACH's locations in other European countries in the first quarter of 2013/2014. From the summer months of 2013, however, we made good progress with our race to catch up in our international business as well. The growth of 0.5 % reported for the Other European countries segment for the second quarter represented the first increase in like-for-like sales net of currency items since spring 2011. By the end of the first six months, the shortfall from the first quarter had more than halved to minus 2.9 %.

While sales in the second half of the previous financial year still suffered noticeably from the implications of the sovereign debt crisis, in the third and fourth quarters of 2013/2014 we were able to gain further ground, with adjusted sales growth of 1.5 % and 5.9 % in other European countries. The 0.1 % downturn remaining at the end of the twelve-month period meant that our stores outside Germany more or less regained the previous year's level. Including currency items, the downturn in adjusted sales amounted to 1.1 %. All in all, it is apparent that since summer 2013 like-for-like sales outside Germany benefited from a pleasing upward trend, but that the sales performance of the international business continues to lag behind the domestic business.

The figures for other European countries also reflect the economic recovery that began in the second calendar quarter of 2013 after the end of the recession lasting since the fall of 2011. Key confidence indicators, such as the consumer confidence statistics published by the European

Commission, have since improved noticeably in most countries in which we operate, even though the index figures still show room for improvement compared with confidence levels in Germany. This is due to the ongoing tougher macro-economic framework outside Germany. In particular, in some countries private households' purchasing power continues to be held back by the ongoing tense situation on labor markets and the painstaking process of consolidating government spending. What's more, some countries, such as the Netherlands, the Czech Republic, and Slovakia, have witnessed a further sharp drop in construction demand, a factor that also left its mark on our sales performance. Having said this, the number of countries reporting adjusted sales growth has notably increased since the previous year.

Alongside our own sales performance, comparison with the sector is also of key significance for the performance capacity of our stores. Based on information available to us for the 2013 calendar year, we were virtually eye-to-eye with competitors in two countries. In five out of seven countries outside Germany HORNBAACH was significantly ahead of the DIY sector average. This is particularly true for our activities in Eastern Europe.

#### **HORNBAACH Baustoff Union GmbH subgroup**

The HORNBAACH Baustoff Union GmbH (HBU) subgroup can also report a pleasing business performance for the 2013/2014 financial year. This subgroup's (net) sales grew by 4.1% to € 215.7 million.

#### **HORNBAACH Immobilien AG subgroup**

Rental income rose by 6.6% to € 76.9 million in the 2013/2014 financial year (2012/2013: € 72.2 million). Of this sum, € 74.3 million (2012/2013: € 69.6 million) involved rental income from the rental of properties within the overall Group.

**Key earnings figures of the HORNBAACH HOLDING AG Group**

Key figure (€ million, unless otherwise stated)	2013/2014	2012/2013	Change
Net sales	3,369	3,229	4.3%
of which: in Germany	2,035	1,949	4.4%
of which in other European countries	1,334	1,280	4.2%
Like-for-like sales growth	2.7%	(1.4)%	
EBITDA	235.7	221.3	6.5%
EBIT	160.4	145.9	10.0%
Earnings before taxes	127.8	107.6	18.7%
Consolidated net income	86.2	77.4	11.3%
EBITDA margin	7.0%	6.9%	
EBIT margin	4.8%	4.5%	
Gross margin	36.6%	36.5%	
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	4.4%	4.5%	
Tax rate	32.6%	28.1%	

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

**Earnings performance of the HORNBAACH HOLDING AG Group**

The earnings of the HORNBAACH Group for the 2013/2014 financial year developed more positively than expected one year ago. Consolidated operating earnings (EBIT) showed disproportionate growth compared with sales, rising by 10.0 % to € 160.4 million (2012/2013: € 145.9 million).

This was mainly due to the company's success in making up lost ground after the first quarter, a process chiefly driven by accelerated like-for-like sales growth in the DIY store segment at the HORNBAACH-Baumarkt-AG subgroup in conjunction with a stable gross margin and improved cost ratios. The HORNBAACH Immobilien AG and HORNBAACH Baustoff Union GmbH subgroups each posted clearly disproportionate operating earnings growth, thus contributing positively to the earnings performance of the overall Group.

**Gross margin**

The gross margin showed a slight improvement in the 2013/2014 year under report. As a percentage of net sales, the gross profit amounted to 36.6 % (2012/2013: 36.5 %). This moderate increase in the gross margin was due among other factors to more favorable procurement terms, which more than offset opposing items resulting from risks and changes in the product mix. Currency items once again played a negligible role in our international procurement activities in the year under report.

**Selling and store, pre-opening and administration expenses**

Selling and store expenses at the overall Group grew by 2.9 % to € 920.7 million (2012/2013: € 894.5 million), and thus decreased as a percentage of sales. Personnel expenses (excluding bonuses), the largest cost block within selling and store expenses, increased by 4.1 %. Apart from bonuses, all



other items within selling and store expenses grew less rapidly than sales. Advertising expenses fell short of the previous year's figure. As a percentage of net sales, selling and store expenses eased from 27.7% to 27.3%.

At € 9.2 million, pre-opening expenses largely matched the previous year's figure in the 2013/2014 financial year (please also see Note 4). They include the pre-opening expenses for four new store openings in the period under report and two new stores (Lübeck and Prague-Čestlice) opened at the beginning of the 2014/2015 financial year. The pre-opening expense ratio remained unchanged at 0.3%.

The earnings performance of the HORNBACH Group benefited from increased cost discipline in administration departments. Administration expenses thus grew by a mere 0.8% to € 147.5 million (2012/2013: € 146.4 million). As a result, the administration expense ratio declined from 4.5% to 4.4%.

#### Other income and expenses

Other income and expenses fell sharply from € 16.5 million to € 4.0 million in the year under report.

Other operating income and expenses were adversely affected to a significant extent by a base effect from the previous year. In the 2012/2013 financial year, we posted a positive one-off operating item of € 5.5 million due to the conclusive clarification of outstanding issues in connection with the supply of utility energies in Germany. Furthermore, the figure for the 2013/2014 financial year was negatively affected by the reduction in advertising cost grants from € 3.1 million to € 0.6 million.

Other non-operating income and expenses deteriorated significantly from minus € 0.4 million in the previous year to minus € 4.1 million in the year under report. This was mainly due to provisions recognized in connection with real estate development and to a marked increase in other expenses, in particular for the abandonment of location projects.

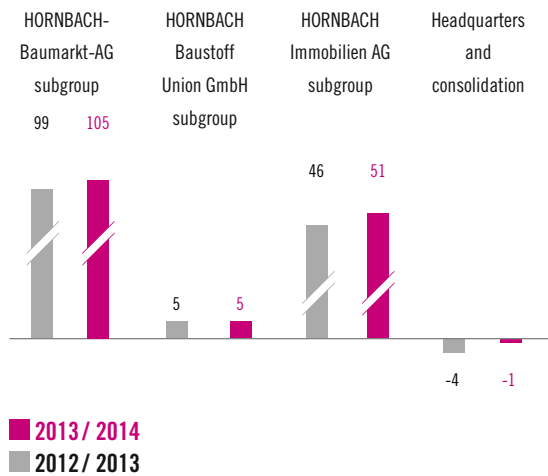
#### Earnings performance

Consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) grew by 6.5% to € 235.7 million (2012/2013: € 221.3 million). The EBITDA margin (as a percentage of net sales) increased slightly from 6.9% in the previous year to 7.0%. Consolidated operating earnings (EBIT) showed disproportionate growth compared with sales, rising by 10.0% to € 160.4 million (2012/2013: € 145.9 million). The EBIT margin, a key indicator of earnings strength, improved from 4.5% to 4.8%, and that despite a significant reduction in other income and expenses.

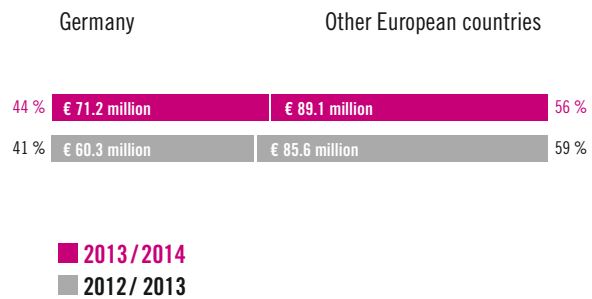
Consolidated earnings before taxes (EBT) grew significantly faster than operating earnings, surging by 18.7% to € 127.8 million (2012/2013: € 107.6 million). This was largely due to the positive change in net interest expenses, which improved from minus € 38.6 million to minus € 29.6 million. This in turn resulted above all from the more favorable refinancing of the former corporate bond at HORNBACH-Baumarkt-AG with the new 3.875% bond in February 2013, as well as from the redemption of non-current loans. This was countered by a deterioration in currency items (including forward exchange transactions) from plus € 0.4 million to minus € 2.9 million. Net financial expenses improved by 14.8% to minus € 32.6 million (2012/2013: minus € 38.2 million).

Consolidated net income rose by 11.3% to € 86.2 million (2012/2013: € 77.4 million). The Group's tax rate increased significantly from 28.1% to 32.6%. This was mainly attributable to the write-down of deferred tax assets of € 4.9 million recognized on losses carried forward from previous years in connection with the operating business in Sweden. Unlike the original positive assessment, it is now no longer expected to be possible to use these losses carried forward within the budgeting horizon. The return on sales after taxes rose from 2.4% to 2.6%. Earnings per share are reported at € 4.53 per ordinary share (2012/2013: € 4.05) and at € 4.56 per preference share (2012/2013: € 4.08) (please see Note 9).

**EBIT by segment**  
(€ million)



**EBIT by region**  
(share in %)



**Earnings performance by segment**

**HORNBAACH-Baumarkt-AG subgroup**

The increase in earnings at HORNBAACH-Baumarkt-AG, the largest operating subgroup, shaped the earnings performance of the HORNBAACH Group. Marked earnings growth in the subgroup's real estate segment more than offset the slight downturn in earnings in the DIY store segment.

Like-for-like sales growth at the HORNBAACH DIY megastores with garden centers in conjunction with a slightly improved gross margin and more favorable cost ratios in store operations and administration departments created a strong basis for earnings growth in the DIY store segment. This resultant positive net earnings item of € 12.6 million was nevertheless offset by a significant reduction in other income and expenses by € 20.5 million to € 5.2 million (please also see comments on Page 56). This meant that the pleasing performance of the operating retail business was not reflected to a correspondingly positive extent in the key earnings figures of the DIY store segment. Driven mainly by higher rental income in conjunction with lower real estate expenses and lower charges

on earnings due to real estate development, the real estate segment generated pleasing earnings growth in the period under report.

The subgroup's EBIT showed slightly disproportionate growth compared with sales, rising by 5.8 % to € 105.1 million (2012/2013: € 99.3 million). Notwithstanding the increase in the group tax rate from 29.7 % to 35.5 %, annual net income grew by 7.7 % to € 56.4 million (2012/2013: € 52.3 million). Earnings per Baumarkt share improved to € 1.77 (2012/2013: € 1.64).

**HORNBAACH Baustoff Union GmbH subgroup**

The earnings performance of this subgroup improved further in the period under report. Operating earnings (EBIT) increased by 18.3 % from € 4.6 million to € 5.5 million. Alongside the subgroup's sales growth, this was due above all to the improvement in the gross margin and cost savings in administration departments, which significantly overcompensated for higher outlet costs.

### HORNBAACH Immobilien AG subgroup

EBIT at the HORNBAACH Immobilien AG subgroup rose by 10.3 % to € 51.1 million in the 2013/2014 financial year (2012/2013: € 46.4 million). This was mainly due to higher rental income in conjunction with a year-on-year reduction in real estate expenses.

### Earnings performance by geographical region

Our German retail business gained further significance in terms of the HORNBAACH Group's earnings performance in the 2013/2014 financial year. As is apparent from the breakdown by geographical regions in the segment report, the weighting of earnings contributions has shifted slightly in favor of the Germany segment. This is primarily the result of the more dynamic like-for-like sales performance in the domestic business compared with other European countries. Furthermore, cost savings in administration departments (excluding innovation projects) impacted positively on the earnings strength of the German business.

EBITDA in **Germany** grew by 7.3 % from € 110.2 million to € 118.3 million, and thus slightly more rapidly than on group level (plus 6.5 %). The domestic share of the Group's EBITDA remained unchanged at 50 %. EBIT in the Germany segment increased from € 60.3 million to € 71.2 million (plus 18.1 %). The domestic share of operating earnings thus improved from 41 % to 44 % in the 2013/2014 financial year. The EBIT margin amounted to 3.5 % in Germany, as against 3.1 % one year earlier.

In the 2013/2014 financial year as well, the domestic share of operating earnings included substantial expenses for sustainable innovation projects. A major portion of the project-related administration expenses of around € 25 million (2012/2013: around € 22 million) related to the further expansion in our online store. The costs attributable to the international rollout of e-commerce have been charged on within group allocations. Alongside these projects, we also worked on a series of other development projects in the fields of procurement, logistics, and operations at DIY megastores with garden centers which are intended to promote the Group's

further growth. Despite higher project expenses, we managed to reduce our administration expenses in the Germany segment slightly in the year under report. This was possible on account of the reduction achieved in expenses for purely administrative activities by around four percent compared with the previous year.

Earnings contributions from our **international activities** increased compared with the 2012/2013 financial year, albeit less sharply than our domestic earnings contributions. With EBITDA of € 117.4 million in the period under report (2012/2013: € 111.1 million), the international business accounted – as in the previous year – for around half of EBITDA at the HORNBAACH HOLDING AG Group. EBIT in the international business grew from € 85.6 million to € 89.1 million. As a result, the international share of EBIT decreased from 59 % to 56 %. With an unchanged EBIT margin of 6.7 %, the other European countries segment remains more profitable than the Germany segment.

### Dividend proposal

The Board of Management and Supervisory Board of HORNBAACH HOLDING AG will propose an increase in the dividends from € 0.64 to € 0.77 (plus 20 %) per ordinary share (ISIN: DE0006083405) and from € 0.67 to € 0.80 per preference share (ISIN: DE0006083439) for approval by the Annual General Meeting on July 10, 2014. Following the unchanged distribution in the past four years, shareholders should thus be enabled to participate appropriately in the pleasing earnings performance in the 2013/2014 financial year.

## Financial Situation

### Principles and objectives of financial management

Financing measures are performed by Group Treasury at HORNBAACH-Baumarkt-AG. Central organization of financial management enables the HORNBAACH Group to maintain a uniform presence on financial markets and to provide centralized liquidity management for the overall Group. HORNBAACH-Baumarkt-AG grants financial assistance in the form of guarantees and letters of comfort only for subsidiaries within the subgroup. Formal undertakings towards companies outside the HORNBAACH-Baumarkt-AG subgroup are provided either by HORNBAACH HOLDING AG or by HORNBAACH Immobilien AG.

The information required for efficient liquidity management is provided by rolling group financial planning covering all relevant companies, which is updated monthly and has a budgeting horizon of twelve months, as well as by short-term financial forecasting which is updated daily. Based on 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. Moreover, to date DIY store properties have been sold to investors upon completion, with utilization secured by rental agreements (sale and leaseback). Here, efforts have been made to meet the IAS 17 criteria governing classification as "Operating Leases". Due to the amendments expected in IAS 17 lease accounting and the expected discontinuation of the "operating lease" classification, future transactions will be reviewed in terms of their advantageousness. At the HORNBAACH-Baumarkt-AG subgroup, external financing generally takes the form of unsecured loans and real estate sales (sale and leaseback), while the HORNBAACH Immobilien AG subgroup has additionally financed itself with secured mortgage loans. Consistent with HORNBAACH's forward-looking financial policy, financial liabilities due to mature are refinanced at the earliest opportunity.

In line with internal risk principles, derivative financial instruments are held solely for hedging purposes. The nominal values and measurement of existing derivative financial instruments are presented in the notes on the consolidated balance sheet in the notes to the financial statements.

### Financial debt

At the balance sheet date on February 28, 2014, the net financial debt of the overall Group amounted to € 280.2 million (2012/2013: € 370.9 million). Its composition has been presented in detail in the table on Page 60.

The current financial debt (up to 1 year) of € 94.3 million (2012/2013: € 96.6 million) mainly consists of short-term financing facilities of € 16.7 million at the HORNBAACH Immobilien AG subgroup (2012/2013: € 17.9 million) and of € 34.9 million at the HORNBAACH Baustoff Union GmbH subgroup (2012/2013: € 35.3 million), interest deferrals of € 2.3 million (2012/2013: € 2.3 million), and the portion of long-term financing facilities maturing in the short term, amounting to € 40.3 million (2012/2013: € 40.9 million).

### Solid capital structure

HORNBAACH enjoys great flexibility in its financing and draws on a wide range of different financing instruments.

HORNBAACH-Baumarkt-AG thus exploited the favorable capital market climate to place a seven-year corporate bond of € 250 million on the market on February 15, 2013. The proceeds from the issue were used to prematurely redeem the existing bond, issued in November 2004 with an interest coupon of 6.125 %, on February 25, 2013. This significantly improved the maturity profile of the Group's financial liabilities. The issue was several times oversubscribed, with great demand from both private and institutional investors. The new bond has an interest coupon of 3.875 %.



### Financial debt of the HORNBAACH HOLDING AG Group

Type of financing € million	Liabilities broken down into remaining terms						2.28.2014	2.28.2013
	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	> 5 years	Total	Total
Short-term bank debt <sup>1)</sup>	53.9						53.9	55.5
Mortgage loans	40.0	29.1	23.2	21.8	19.6	98.6	232.4	244.4
Other loans <sup>2) 3)</sup>	0.1	18.2	79.8	69.8	0.0	0.0	167.9	168.9
Bonds <sup>3)</sup>						246.4	246.4	245.8
Negative fair values of derivative financial instruments	0.0	0.5	3.2	2.8	0.5	0.5	7.4	11.9
Finance leases	0.2	0.3	0.3	0.3			1.0	1.3
<b>Total financial debt</b>	<b>94.3</b>	<b>48.0</b>	<b>106.4</b>	<b>94.6</b>	<b>20.2</b>	<b>345.5</b>	<b>709.0</b>	<b>727.8</b>
Cash and cash equivalents							428.8	356.9
<b>Net financial debt</b>							<b>280.2</b>	<b>370.9</b>

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

<sup>1)</sup> Financing facilities with nominal terms of under one year (overdraft and short-term interim financing facilities) and interest deferrals

<sup>2)</sup> Loans not secured by mortgages

<sup>3)</sup> The costs relating to the taking up of the corporate bond and the promissory note bonds have been spread pro rata temporis over the respective terms.

The value of the financing facilities secured by land charges at the overall Group amounted to € 232.4 million at the balance sheet date (2012/2013: € 244.4 million). Land charges of € 480.7 million had been provided as of February 28, 2014 as security for mortgage loans (2012/2013: € 491.4 million).

As of June 30, 2011, HORNBAACH-Baumarkt-AG took up an unsecured promissory note bond of € 80.0 million with a term running until June 30, 2016. The funds served to redeem the promissory note bond of the same amount maturing on June 30, 2011. In addition, the Group still has the promissory note bond concluded by HORNBAACH Baumarkt CS spol s.r.o. in CZK in the 2010/2011 financial year with an original volume of € 20 million and a term running until August 31, 2015.

As of June 29, 2012, the HORNBAACH Immobilien AG subgroup took up a promissory note bond of € 70 million with a term running until June 30, 2017. The inflow of funds was used to redeem a promissory note bond of € 60 million maturing as of the same date.

At the balance sheet date on February 28, 2014, the overall HORNBAACH HOLDING AG Group had free credit lines amounting to € 349.0 million (2012/2013: € 418.0 million) at customary market conditions. These include a syndicated credit line of € 250 million with a term running until December 14, 2016. The credit line may also be drawn down in foreign currencies, particularly CHF, SEK and CZK, up to an amount of € 25 million. Furthermore, supplementary bilateral loan agreements of up to € 50 million may also be concluded within the credit framework (also in foreign currencies). Upon utilization of the credit line, the interest is based on the 3-month or 6-month Euribor, or the equivalent Ibor, plus an interest margin. The applicable interest margin is determined by reference to the company rating granted to HORNBAACH-

Baumarkt-AG by an internationally recognized rating agency. Margin premiums apply should the level of utilization exceed specified threshold values and when the facility is drawn down in foreign currencies. A provision fee dependent on the respective interest margin is charged for the unutilized portion of the credit line. To ensure the maximum possible degree of flexibility, all major group companies have credit lines denominated in their local currencies, generally at local banks.

No assets have been provided as security for the credit lines, the promissory note bonds, or the bond. The relevant contractual arrangements nevertheless require compliance with customary bank covenants, non-compliance with which could lead to a premature repayment obligation. These regularly involve pari passu clauses and negative pledge declarations, as well as cross default arrangements for major financing facilities. In the case of the syndicated credit line at HORN-BACH-Baumarkt-AG and the promissory note bond agreements at the HORN-BACH-Baumarkt-AG subgroup, they also require compliance with specific financial ratios. These key financial ratios are based on consolidated figures at the HORN-BACH-Baumarkt-AG subgroup and require interest cover of at least 2.25 times and an equity ratio of at least 25 %.

Maximum limits for financing facilities secured by land charges and financing facilities taken up by subsidiaries were also agreed. The conditions governing the promissory note bond at HORN-BACH Immobilien AG require the maintenance of a specified volume of unencumbered property, plant and equipment. The interest cover, net debt/EBITDA ratio, equity ratio, agreed financing limits, unencumbered property, plant and equipment, and company liquidity (cash and cash equivalents, plus unutilized committed credit lines) are regularly monitored within the internal risk management framework. Further key figures are calculated on a quarterly basis. Should the values fall short of certain target levels, then countermeasures are initiated at an early stage. All covenants were complied with at all times in the year under report. Further information about financial debt can be found in Note 22 of the notes on the consolidated balance sheet.

Cash and cash equivalents amounted to € 428.8 million at the balance sheet date (2012/2013: € 356.9 million). As in the past, liquidity is managed in the form of fixed deposits on the money market with maximum investment horizons of three months. To enhance security, the Group has also set maximum deposit totals per bank.

### Key financial figures of the HORN-BACH HOLDING AG Group

Key figure	Definition		2.28.2014	2.28.2013
Net financial debt	Current financial debt + non-current financial debt – cash and cash equivalents	€ million	280.2	370.9
Interest cover	Adjusted(*) EBITDA / Gross interest expenses		7.8	5.4
Net debt / EBITDA	Net financial debt / Adjusted(*) EBITDA		1.2	1.7

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

### Investments of € 115.6 million

The HORNBAACH HOLDING AG Group invested a total of € 115.6 million in the 2013/2014 financial year (2012/2013: € 149.5 million), mainly in land, buildings and plant and office equipment at existing DIY stores with garden centers, and at stores under construction. The funds of € 115.6 million (2012/2013: € 149.5 million) required for cash-effective investments were fully acquired from the cash flow of € 197.9 million from operating activities (2012/2013: € 144.3 million). Around 59 % of total investments were channeled into new real estate, including properties under construction. Around 41 % of total investments mainly involved replacing and extending plant and office equipment. The HORNBAACH-Baumarkt-AG segment accounted for € 72.0 million, the HORNBAACH Immobilien AG segment for € 35.6 million, and the HORNBAACH Baustoff Union GmbH segment for € 8.0 million.

The most significant investment projects related to the DIY megastores with garden centers opened in the 2013/2014 financial year in Nieuwerkerk (Netherlands), Heidelberg (Germany) and Helsingborg (Sweden), construction work on DIY megastores with garden centers due to be opened in subsequent financial years, the conversion and extension of existing stores, investments in the builders' merchant business, the acquisition of land for the Group's further expansion, invest-

ments in plant and office equipment, and in intangible assets, especially software.

The inflow of funds from operating activities increased from € 144.3 million in the previous year to € 197.9 million in the 2013/2014 financial year. Here, the inflow of funds from operations rose from € 150.0 million to € 173.6 million. This increase was chiefly due to like-for-like sales growth in Germany and improved cost ratios. The change in working capital (changes in inventories, trade receivables and other assets plus changes in trade payables and other liabilities) resulted in an inflow of funds of € 24.2 million, as against an outflow of funds of € 5.7 million in the previous year. The higher inflow of funds largely resulted from increased trade payables due to the weather-related pleasing operating business performance in the fourth quarter.

The outflow of funds for investing activities reduced from € 143.1 million to € 103.5 million. Here, the decrease in investments by € 33.9 million to € 115.6 million was opposed by a higher volume of proceeds from disposals of non-current assets and from non-current assets held for sale, amounting to € 12.2 million in total (2012/2013: € 6.4 million). As in the previous year, no DIY megastores with garden centers were disposed of within sale and leaseback transactions in the 2013/2014 financial year.

### Cash flow statement

Cash flow statement (abridged) € million	2013/2014	2012/2013
Cash flow from operating activities	197.9	144.3
of which: funds from operations <sup>1)</sup>	173.6	150.0
of which change in working capital <sup>2)</sup>	24.2	(5.7)
Cash flow from investing activities	(103.5)	(143.1)
Cash flow from financing activities	(22.0)	(66.6)
<b>Cash-effective change in cash and cash equivalents</b>	<b>72.5</b>	<b>(65.3)</b>

<sup>1)</sup> Consolidated earnings after taxes, plus depreciation of non-current assets and changes in provisions, minus gains/plus losses on the disposal of non-current assets, plus/minus other non-cash expenses/income

<sup>2)</sup> Difference between "Change in inventories, trade receivables and other assets" and "Change in trade payables and other liabilities"

The outflow of funds for financing activities totaled € 22.0 million in the 2013/2014 financial year, compared with an outflow of € 66.6 million in the previous year. Here, the scheduled and premature redemption of non-current financial debt amounting to € 44.7 million was countered by the taking up of new non-current loans of € 37.7 million. Current financial loans decreased by € 0.3 million, following a reduction of € 12.3 million in the previous year. Gross financial debt reduced from € 727.8 million in the previous year to € 709.0 million in the year under report.

**Rating**

Since 2004, the creditworthiness of the HORNBACH-Baumarkt-AG Group has been rated by the leading international rating agencies Standard & Poor's and Moody's Investors Service. Upon completion of this report, both agencies had in their most recent publications confirmed their ratings at "BB+" with a stable outlook in the case of Standard & Poor's and "Ba2" with a positive outlook at Moody's.



## Asset Situation

### Equity ratio rises to 49.3 %

#### Balance sheet of the HORNBACH HOLDING AG Group (abridged version)

€ million	2.28.2014	2.28.2013	Change
Non-current assets	1,310.4	1,303.7	0.5%
Current assets	1,051.9	966.1	8.9%
<b>Assets</b>	<b>2,362.3</b>	<b>2,269.8</b>	<b>4.1%</b>
Shareholders' equity	1,164.1	1,096.9	6.1%
Non-current liabilities	698.5	720.4	(3.0)%
Current liabilities	499.7	452.6	10.4%
<b>Equity and liabilities</b>	<b>2,362.3</b>	<b>2,269.8</b>	<b>4.1%</b>

Total assets at the Group rose year-on-year by € 92.5 million, or 4.1 %, to € 2,362.3 million. This growth in total assets reflects the further expansion of the HORNBACH HOLDING AG Group, which is mainly apparent in the increase in property, plant and equipment and, inventories, and in cash and cash equivalents from € 356.9 million to € 428.8 million. The equity of the Group as stated in the balance sheet amounted to € 1,164.1 million at the end of the financial year (2012/2013: € 1,096.9 million). At 49.3 %, the equity ratio was once again higher than in the previous year (48.3 %).

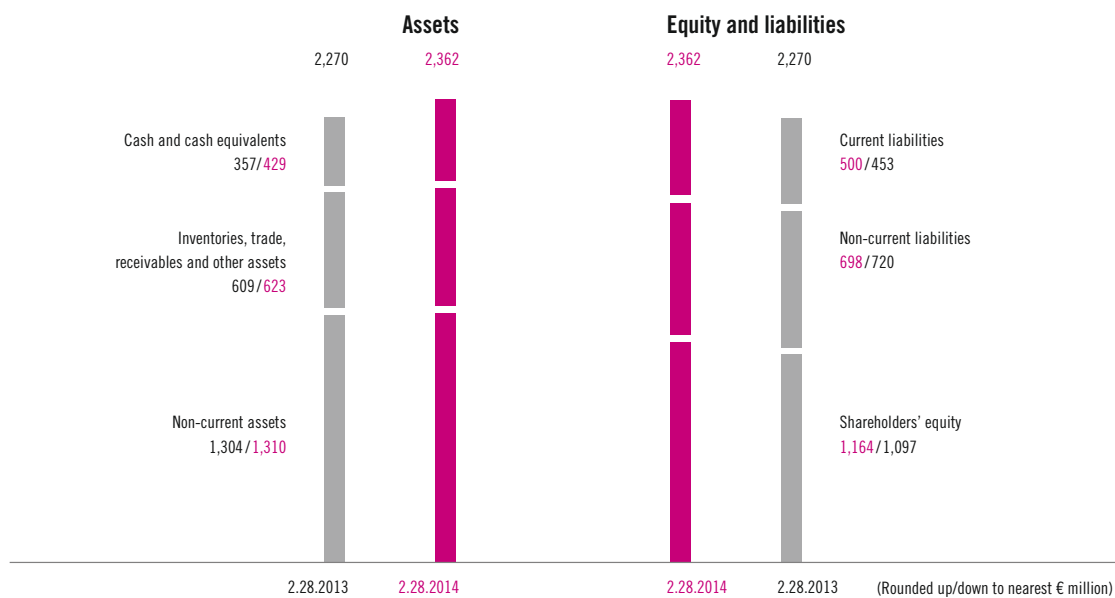
#### Non-current and current assets

Non-current assets amounted to € 1,310.4 million at the balance sheet date (2012/2013: € 1,303.7 million), and thus accounted for around 55 % of total assets (2012/2013: 57 %). Property, plant and equipment and investment property grew by 1.7 % from € 1,252.0 million to € 1,273.8 million. Additions of € 115.0 million to assets were countered by depreciation of € 72.1 million and disposals of assets amounting to € 6.0 million. Exchange rate movements led to a € 15.1 million reduction in the value of property, plant and equipment.

Non-current income tax receivables involve a claim to payment of a corporate income tax credit with a present value of € 10.6 million (2012/2013: € 14.4 million). This item was capitalized in the 2007/2008 and 2010/2011 financial years due to legislative amendments (SEStEG).

Current assets increased by 8.9 % from € 966.1 million to € 1,051.9 million, equivalent to around 45 % of total assets (2012/2013: 43 %). Here, the expansion-related increase in inventories and cash and cash equivalents was countered by a payment-related reduction in receivables and other assets. The investments of € 115.6 million were fully financed from the inflow of cash from operating activities. Cash and cash equivalents rose by € 71.9 million to € 428.8 million. The HORNBACH HOLDING AG Group can thus still report a very high level of liquidity, and a good foundation for future growth. Inventories rose, mainly due to the Group's growth, from € 515.4 million to € 539.1 million, but the inventory turnover rate could nevertheless be raised slightly from 4.0 in the previous year to 4.1 in the 2013/2014 financial year.

### Structure of consolidated balance sheet (€ million)



### Key balance sheet figures of the HORNBAACH HOLDING AG Group

Key figure	Definition		2.28.2014	2.28.2013
Equity ratio	Equity / Total assets	%	49.3	48.3
Return on equity	Annual net income before minority interests / Average equity	%	7.6	7.2
Return on total capital	NOPAT <sup>1)</sup> / Average total capital <sup>2)</sup>	%	7.7	7.2
Debt / equity ratio (gearing)	Net debt / Equity	%	24.1	33.9
Additions to non-current assets, including advance payments for land		€ million	116.7	150.8
Net working capital	Inventories and receivables less trade payables	€ million	397.1	406.1
Inventory turnover rate	Cost of goods sold / Average inventories		4.1	4.0

<sup>1)</sup> Net operating profit after tax, defined as EBIT minus standardized tax rate of 30 % for the HORNBAACH Group.

<sup>2)</sup> Average total capital, defined as average equity, plus average net debt.

Receivables and other assets (including income tax receivables) decreased from € 91.3 million to € 83.9 million. The assets of € 2.5 million recognized in the previous year under non-current assets held for sale pursuant to IFRS 5 were fully disposed of in the 2013/2014 financial year. No other assets have been recognized in this item.

#### **Non-current and current liabilities**

Including provisions, liabilities amounted to € 1,198.2 million at the balance sheet date, as against € 1,172.9 million in the previous year. Non-current liabilities fell from € 720.4 million to € 698.5 million. Non-current liabilities include deferred tax liabilities of € 57.4 million (2012/2013: € 60.7 million).

Due to scheduled repayments of loan liabilities, current financial debt fell from € 96.6 million to € 94.3 million. Trade payables and other liabilities were reported at € 300.0 million at the balance sheet date, and thus € 37.1 million higher than in the previous year (2012/2013: € 262.9 million).

Other provisions and accrued liabilities amounted to € 73.6 million (2012/2013: € 63.3 million).

The net debt of the HORNBACH HOLDING AG Group, i.e. financial debt less cash and cash equivalents, reduced to € 280.2 million at the balance sheet date, down from € 370.9 million in the previous year.

#### **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 those used on the basis of finance lease agreements, there are 57 DIY stores with garden centers that are let from third parties. Moreover, the Group also has a small number of additional land leasehold, leasing and rental agreements.

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

As of February 28, 2014, obligations under rental, hiring, leasehold and leasing contracts totaled € 1,738.8 million (2012/2013: € 678.3 million). This increase is mainly due to various rental adjustments and rental extensions implemented in the 2013/2014 financial year. Furthermore, the amount already includes future rental obligations to be paid for former Praktiker/Max Bahr locations from when they are opened in the 2014/2015 financial year.

## Overall Assessment of Group Earnings, Financial and Asset Situation

The HORNBACH HOLDING AG Group showed pleasing developments in the 2013/2014 financial year and strengthened its market position as one of Europe's leading DIY retailers. Despite the inauspicious start due to weather conditions in the first quarter, a successful race to catch up enabled HORNBACH to regain its growth course in subsequent quarters.

Sales at the HORNBACH-Baumarkt-AG subgroup for the period from March 1, 2013 to February 28, 2014 grew by 4.4 % to € 3,152 million. This was due in no small part to the highly dynamic sales performance in Germany, which in turn was partly attributable to consolidation factors within the sector. On a like-for-like basis, HORNBACH's German locations defied the negative sector trend and posted significant growth in the year under report, thus also substantially expanding their market share. The store network in other European countries also clearly gained ground in the course of the financial year, benefiting from an economic upturn in the European context. Net of currency items, like-for-like sales outside Germany in the twelve months under report more or less matched the previous year's figure once again.

Particularly remarkable is the fact that the subgroup managed to boost its earnings power in the 2013/2014 financial year despite the severe setback in the first quarter. At € 105 million, consolidated operating earnings (EBIT) at the HORNBACH-Baumarkt-AG subgroup showed slightly disproportionate growth compared with sales. This was largely driven by like-for-like sales growth in conjunction with a stable gross margin and improved cost ratios. The HORNBACH Baustoff Union GmbH and HORNBACH Immobilien AG subgroups posted even higher percentage earnings growth rates in the year under report.

HORNBACH pressed ahead with its sustainable innovation projects in the year under report. A large share of the project-related administration expenses were incurred for consistently expanding our e-commerce activities. What's more, further development projects also helped improve the foundations for the HORNBACH Group's long-term growth.

The equity ratio has risen to 49.3 %. The capital structure and liquidity remain at good levels. In view of our broad spectrum of financing sources, we enjoy a high degree of security and flexibility to finance our further growth. Overall, the economic situation of the HORNBACH Group is pleasing.

## Notes on the Annual Financial Statements of HORNBACH HOLDING AG (HGB)

HORNBACH HOLDING AG, whose legal domicile is in Neustadt an der Weinstrasse, Germany, does not prepare its annual financial statements in accordance with international accounting standards (IFRS), but rather in accordance with the requirements of the German Commercial Code (HGB) and the supplementary provisions of the German Stock Corporation Act (AktG).

HORNBACH HOLDING AG is the parent company of the HORNBACH Group. It is not itself active in the operating retail business, but rather has a number of material shareholdings. By far the most important operating shareholding is HORNBACH-Baumarkt-AG, which operates DIY megastores with integrated garden centers in Germany and abroad. Further retail activities are located at HORNBACH Baustoff Union GmbH (construction materials and builders' merchants). Furthermore, the development of retail locations for the operating subsidiaries within the HORNBACH HOLDING AG Group is pooled at the HORNBACH Immobilien AG shareholding. Around 53 % of the sales areas owned by the HORNBACH Group are held by HORNBACH Immobilien AG.

As in previous years, in the 2013/2014 financial year HORNBACH HOLDING AG performed important services on behalf of

its subsidiaries within the overall Group. The Chairman of the Board of Management is thus also Managing Director at HORNBACH Baustoff Union GmbH and its subsidiaries. The Chief Financial Officer simultaneously holds this function for HORNBACH HOLDING AG and HORNBACH-Baumarkt-AG. The employees responsible for financial market communications (Investor Relations) have been located at HORNBACH HOLDING AG since October 1, 2009 and also work on behalf of its HORNBACH-Baumarkt-AG subsidiary. A control and profit transfer agreement is in place between HORNBACH HOLDING AG and its wholly-owned subsidiary HORNBACH Immobilien AG.

### Business framework

The macroeconomic and sector-specific framework also relevant for HORNBACH HOLDING AG is described in detail in the Business Report from Page 45 onwards.

### Business performance of shareholdings

The retail and real estate activities and the business performance of the HORNBACH-Baumarkt-AG, HORNBACH Baustoff Union GmbH, and HORNBACH Immobilien AG subgroup in the 2013/2014 reporting period are presented in detail in the Business Report in this Annual Report.

### Income statement of HORNBACH HOLDING AG pursuant to HGB (abridged version)

€ 000s	2013/2014	2012/2013
Income from investments	40,815	38,811
Other operating income	554	635
Personnel expenses	1,664	1,697
Depreciation and amortization	37	42
Other operating expenses	1,840	1,760
Interest result	1,156	1,037
<b>Result of ordinary operations</b>	<b>38,984</b>	<b>36,984</b>
Taxes on income	8,031	7,786
<b>Annual net surplus</b>	<b>30,953</b>	<b>29,198</b>
Allocation to other revenue reserves	15,400	14,500
<b>Net profit</b>	<b>15,553</b>	<b>14,698</b>



**Earnings situation**

HORNBACH HOLDING AG does not itself have any operations and therefore does not report any sales. At minus € 3.0 million, earnings before interest and income from investments (net balance of other income less personnel expenses, depreciation and amortization, and other expenses) were at the same level as in the previous year.

Income from investments increased from € 38.8 million in the previous year to around € 40.8 million. This was chiefly due to the € 2.5 million increase in income from HORNBACH-Baumarkt-AG. Due to the higher proposed dividend, income from this shareholding rose from € 12.1 million in the previous year to € 14.6 million in the year under report. At € 26.2 million, the income from the profit transfer agreement with HORNBACH Immobilien AG virtually matched the previous year's figure (2012/2013: € 26.7 million). Net financial expenses rose slightly from € 1.0 million to € 1.2 million.

Overall, the result of ordinary operations at HORNBACH HOLDING AG grew from € 37.0 million to € 39.0 million in the period under report. The increase in taxes on income was chiefly due to additions to income tax provisions in the 2013/2014 financial year. The annual net surplus of HORNBACH HOLDING AG is reported at € 31.0 million (2012/2013: € 29.2 million).

**Asset situation**

Total assets amounted to € 276.4 million as of February 28, 2014 (2012/2013: € 254.5 million). This increase in total assets by € 21.9 million mainly resulted from increased investment values and higher receivables from affiliated companies accompanied by a reduction in other assets and cash and cash equivalents. The investment held in HORNBACH Immobilien AG was increased by € 23 million by way of a capital increase in the year under report (2012/2013: € 20.0 million). The deferred tax assets recognized reduced from € 1.6 million to € 1.3 million. The shareholders' equity of HORNBACH HOLDING AG grew from € 246.4 million to € 266.9 million at the balance sheet on February 28, 2014.

**Balance sheet of HORNBACH HOLDING AG pursuant to HGB (abridged version)**

Assets	2.28.2014 € 000s	2.28.2013 € 000s
<b>Non-current assets</b>	<b>203,194</b>	<b>180,231</b>
Receivables and other assets	62,782	62,710
Securities	107	109
Cash holdings and credit balances at banks	8,618	9,601
<b>Current assets</b>	<b>71,507</b>	<b>72,420</b>
Deferred expenses and accrued income	392	235
Deferred tax assets	1,332	1,605
<b>Total assets</b>	<b>276,425</b>	<b>254,491</b>
<b>Equity and liabilities</b>		
Shareholders' equity	266,888	246,416
Provisions	8,338	7,383
Liabilities	1,199	692
<b>Total equity and liabilities</b>	<b>276,425</b>	<b>254,491</b>

### Financial situation

Information about the principles and objectives of financial management, an explanation of financial liabilities and the capital structure can be found in the Financial Situation of the HORNBACH HOLDING AG Group (Page 59 onwards).

The inflow of € 34.5 million from operating activities was slightly ahead of the previous year's figure (€ 31.1 million). Including the outflow of funds of € 23.0 million for investing activities resulting from the capital increase at HORNBACH Immobilien AG (2012/2013: inflow of € 0.4 million) and the outflow of funds of € 12.5 million for financing activities (2012/2013: € 34.2 million), cash and cash equivalents reduced by € 1.0 million to € 8.6 million. Further information about financing activities can be found in the cash flow statement in the notes to the separate financial statements of HORNBACH HOLDING AG.

### Overall assessment of earnings, financial and asset situation

HORNBACH HOLDING AG performed satisfactorily in the 2013/2014 financial year. Thanks to higher income from investments, the result of ordinary operations improved by 5.4 % to € 39.0 million. Moreover, following a renewed increase in the year under report shareholders' equity reached a pleasing level of € 266.9 million.

### Proposed appropriation of net profit

HORNBACH HOLDING Aktiengesellschaft concluded the 2013/2014 financial year with an annual net surplus of € 30,952,522.91. Following the allocation of € 15,400,000.00 to other revenue reserves, the Board of Management and Supervisory Board propose to appropriate the net profit of € 15,552,522.91 as follows:

- € 0.77 dividend per share with a nominal value of € 3.00 on 8,000,000 ordinary shares
- € 0.80 dividend per share with a nominal value of € 3.00 on 8,000,000 preference shares
- Dividend distribution: € 12,560,000.00
- Further allocation of € 2,992,522.91 to revenue reserves

## EVENTS AFTER THE BALANCE SHEET DATE

### Changes in the shareholder structure

On March 25, 2014, the British retail group Kingfisher plc announced its exit from all of its financial investments in the HORNBACH Group. On the one hand, this involved its 17.4 % stake in the listed preference shares of HORNBACH HOLDING AG (ISIN DE0006083439). The total of around 1.4 million no-par shares was sold to an international circle of investors within an accelerated private placement on March 25, 2014. On the other hand, on March 31, 2014 HORNBACH Familien-Treuhand-gesellschaft mbH, Annweiler, bought back Kingfisher's minority stake in the unlisted ordinary shares in HORNBACH HOLDING AG, amounting to 25 % plus two shares of the total of 8,000,000 ordinary shares. The Hornbach family thus once again owns 100 % of the voting capital in HORNBACH HOLDING AG. Furthermore, Kingfisher also sold its capital investment in HORNBACH-Baumarkt-AG.

The exit of Kingfisher plc, our former strategic alliance partner, was linked to its withdrawal from the Supervisory Boards of HORNBACH HOLDING AG and HORNBACH-Baumarkt-AG in September 2013. This move was made to avoid any conflicts of interest arising on account of Kingfisher's amended expansion plans. Having taken over 15 Bricostore DIY stores in Romania in May 2013 and given the preparations underway for the market launch of the small-scale retail format "Screwfix" in Germany in summer 2014, Kingfisher was for the first time in direct competition with its German cooperation partner.

Other than this, no events that 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 occurred between the balance sheet date on February 28, 2014 and the date of preparation of this Annual Report.



## Responsible forestry

As a natural material, wood has one unique property: it grows back again. The most important factor for this growth is time. A beech tree requires around 90 years before it is felled. A common oak tree even needs 120 years to become strong and large enough for processing as high-quality timber.

Boppard on the Rhine is pioneering sustainable forestry in its municipal woods. It gives all its trees the space, care and time they need before they are felled and processed. Certified in line with strict FSC® requirements, this is the way first-class timber is produced for the processing companies where HORNBAACH procures its FSC-certified timber products.





# CORPORATE RESPONSIBILITY





## CORPORATE RESPONSIBILITY

In the interests of corporate responsibility, the HORN BACH Group has imposed a set of rules governing its entrepreneurial activity [ **Internet:** [www.hornbach-group.com/CSR-Guidelines](http://www.hornbach-group.com/CSR-Guidelines) ]. These ensure that the company meets its responsibilities towards the environment, its employees, and society as a whole.

### Responsibility for the environment

#### Timber only from responsible forestry

We are committed to attracting customers' attention to timbers bearing the quality seal of the Forest Stewardship Council® (FSC®). Back in 1996, our company already provided the WWF and Greenpeace with a voluntary undertaking not to import any uncertified tropical timber. HORN BACH guarantees that all of the timber products it offers come from certified sources. One focus of the activities of our quality management and environmental department involves working to protect rainforests and promote responsible forestry which also meets social and work safety standards. Given this focus, HORN BACH was well-prepared for the European Timber Regulation (995/2010) that took effect as of March 3, 2013. Among other requirements, this regulation includes a duty of care for all timbers and timber products imported from outside the European Union and also bans the import of illegally felled timbers.

#### Most extensive FSC-certified product range

Many consumers see DIY stores as having a particular obligation to ensure that only products from responsible forestry are on offer. To meet our customers' expectations in this area while also doing justice to our own commitment to sustainability, in 2007 HORN BACH became the first international DIY chain to be awarded the FSC Chain of Custody certificate GFA-COC-002007. This enables the timber supply chain to be checked from the place of origin through to the end product. The company's entitlement to this certificate is reviewed in annual audits performed by an independent testing institute. At all HORN BACH stores, trade companies and DIY enthusiasts can now choose from a range of now more than 8,000 timber products bearing the FSC seal.

As part of our commitment to protecting the forests, HORN BACH participated in developing an information platform showing how forests can be put to rational use. Here, HORN BACH is cooperating with the Swiss company Papiliorama and the FSC Switzerland. Within this cooperation, HORN BACH also acts as official sponsor to the Papiliorama nature reserve in Shipstern in Belize (Central America) and thus covers a major share of the necessary budget.

#### Against hand-hewn natural stone

Stone is often hewn by hand in inhumane conditions. HORN BACH rejects this practice. By consistently delisting these products, we aim to set an example. Since spring 2013, HORN BACH can guarantee that only stone from responsible sources is on offer. All direct import suppliers and their manufacturing sites are audited by accredited, certified audit institutes at regular intervals, and at least every 12 months. We have based the audit scope and contents on the accepted BSCI, ISA 9001ff, ILO, ISO 14001, and SA 8000 standards and adapted these to our requirements. Upstream suppliers of our own suppliers – in this case quarries – have been directly instructed by our suppliers to comply with our guidelines.

#### HORN BACH relies on "Healthy Living" quality seal

Consumers' sensitiveness towards contaminants in the air and in products has increased sharply. DIY enthusiasts and construction clients are paying increasing attention to the composition of the materials used. In terms of housing construction and renovation, energy efficiency became the top priority at the latest upon the introduction of the Energy Savings Ordinance. The problem here is that insulation and suitably built windows mean that rooms are now virtually airtight. The climate in the room remains constant, but it is difficult for harmful substances in the air to escape. The "Healthy Living" project aims to help consumers avoid contaminant substances when building and designing their interiors. To enable our customers to recognize at first glance which products are especially low in pollutants, HORN BACH has introduced its own seal of approval. The quality of the articles thereby certified is checked in careful tests performed by independent institutes, such as the Sentinel-Haus Institut

in Freiburg and the eco-Institut in Cologne, and subsequently awarded the "Healthy Living" seal of approval. These products stand for less polluted ambient air and permanently better quality of living. A separate website provides detailed information and answers frequently asked questions. We will be continually expanding our "Healthy Living" product range in the coming years.

**Expanded: all-round waste concept with customer service**

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, HORNBAACH's stores use compressors for high-volume waste, such as paper and plastics. An all-round waste concept promotes the separation, and thus recycling, of recyclable fractions as secondary commodities, while also helping to reduce the volume of non-recyclable waste.

Since the 2012/2013 financial year, customers in Germany have been able to deposit broken energy-saving light bulbs, LEDs, and luminescent tubes free of charge in suitable containers at the stores. With this voluntary service, HORNBAACH is making it easier for consumers to dispose of these items during its usual opening hours, which are significantly more generous than at municipal collection points. Since November 2013, HORNBAACH has played a leading role in the framework negotiated by the BHB DIY sector association and the VKU municipal company association for the voluntary acceptance of all old electrical appliances. This involves voluntarily accepting broken small electrical appliances, such as drills, fret saws, and battery-powered drills as previously, as well as non-DIY products such as shavers and toasters. The old appliances accepted are then collected free of charge by municipal disposal companies. The aim here also involves helping to protect the environment and avoid such products being illegally disposed of in normal household waste.

**Logistics: fewer miles, less packaging**

With its logistics centers, HORNBAACH is also making a sustainable contribution towards protecting the environment. In its logistics activities, the Group continued to work on reducing its CO<sub>2</sub> emissions in the year under report as well. Enhanced tour planning and optimal use of available freight capacities have enabled us to reduce the number of miles traveled, and thus also our truck requirements. The use of specialist equipment to bundle recyclable materials has also saved further freight space upon collection. This has been accompanied by a reduction in the volume of emissions per loading unit. The company also checks whether the haulers have engines corresponding as a minimum to the Euro 5 standard, in which the Emissions Directive governing pollutant emissions has been set out since 2009.

Having said this, group logistics by no means rely solely on truck-based transport. Heavy goods, such as tiles, are transported across the Alps by rail. Containers from the import hubs of Rotterdam and Hamburg are also returned not by truck, but by inland waterway and rail.

A further field of action involves freeing the merchandise delivered from unnecessary packaging material. This is achieved, for example, by working with reusable, durable transport containers in circuits between suppliers, our stores and logistics centers. One of our logistics locations is also piloting the use of modern central building control technology, which has achieved energy savings.

By consistently managing time slots at incoming merchandise gateways at the logistics centers, we have managed to reduce truck waiting times, thus enhancing working conditions for drivers and employees alike.

**Renewed reduction in car pool CO<sub>2</sub> statistics**

The Group's car pool continues to account for ecological and economic factors. CO<sub>2</sub> limits for the three vehicle classes listed range between 140 and 170 grams per kilometer. In the ongoing process of updating the portfolio, priority is being given to models using up-to-date, low-consumption engine

technologies. Alongside the hybrid vehicles already listed, a first electrical vehicle has also been included in the vehicle portfolio. This has already been ordered by some drivers. By accounting for fuel consumption in the calculation of the monthly mobility installment, drivers are incentivized to select lower consumption vehicles.

For the vehicles ordered in the year under report, average consumption reduced by 4.7 % and CO<sub>2</sub> emissions by 6.9 % compared with the previous year. The average consumption of the vehicles ordered currently amounts to 4.4 liters per 100 kilometers, while average CO<sub>2</sub> emissions amount to 112.5 grams per kilometer.

#### **Energy-saving measures at stores**

The company also actively takes account of environmental protection factors when building and operating its stores. The new lighting technology introduced in 2009 has benefited not only all new stores - further existing stores were upgraded in the year under report, so that 122 stores now have the new technology (2012/2013: 117). The rollout of this new lighting technology was completed in the year under report. At its core, this sustainable lighting technology involves introducing electronic control gear for the operation of halogen metal vapor lamps. Central lighting control now allows the lighting to be dimmed and means that only that volume of light actually required in a given area is used. What's more, the lighting system is tailored to make optimal use of daylight. The installation of large light domes and long light bands in the roofs of new stores also assists in using natural light. The new lighting technology not only increases the operating lifetime of the lighting equipment by around 50 %, but also helps reduce annual energy costs. Not only that, it has also noticeably improved lighting quality in the shelves.

A further contribution towards saving energy is due to the Building Control Technology (BCT) that we included in our new building standards in 2008. This system manages the operating times of energy-consuming systems in line with requirements, thus optimizing energy consumption volumes. The

system has so far been installed in 22 new DIY stores and rolled out to 104 existing stores. A total of 126 of our stores are thus equipped with the latest technological standard (2012/2013: 105). The rollout was completed in the year under report.

Efficiency is also the top priority in terms of heating energy. Here, consistent waste heat recovery in the ventilation system ensures a lower volume of consumption. This technology is used when building new stores, as is enhanced heat insulation based on a new façade system. This has benefited the new stores opened in the year under report.

Based on weekly consumption statistics, each HORNBAACH store is able to gain a precise picture of its own energy efficiency. By drawing on various energy-saving technologies, we managed to further reduce the annual CO<sub>2</sub> emissions of our group-wide store network in the year under report.

#### **Responsibility for our employees**

##### **Diversity and equality of opportunity in our workforce**

The rejection of any kind of discrimination is an absolute priority in our behavior toward our employees. Ethnic origin, gender, age, sexuality, physical restrictions and religious affiliation play no role in the assessment of applicants. The only qualities that count are specialist competence, a willingness to learn, and team spirit. By signing the "Diversity Charter" in 2008, the company clearly underlined its commitment to a working environment that is free of prejudice. People from a total of 67 countries across four continents work together in the nine countries in which HORNBAACH operates.

In the year under report, HORNBAACH supported the CHANCENWERK project, thus underpinning its claim to offer the same training opportunities to young people irrespective of their origins, gender, or religion. The aim of the project is to promote young people from different, in some cases difficult social backgrounds. In cooperation with CHANCENWERK, HORNBAACH is supporting school pupils in three towns. Among other measures, our employees offer active job application training, our own trainees report to schools on their day-to-

day work, and the DIY stores on location offer work experience and – in the best case – training posts.

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 our bonus model. The possibility of acquiring employee shares represents another way of enabling employees to participate in the company's success.

#### **Key focus on employee satisfaction**

Even in a positive working environment, the possibility of conflicts arising between employees or with their superiors cannot be excluded. To provide a neutral point of contact, one which may also be initially approached without involving the opponent in the conflict, the company has created the position of ombudsman. His job is to listen to both sides, moderate and if possible solve the problem without this resulting in any disadvantage for the employee. This point of contact is used by employees from across the Group and has met with high acceptance levels.

#### **Responsibility for society**

##### **Focus on children and young people**

One particular sign of our social responsibility towards our employees was the establishment in 2002 of the HORNBAACH Foundation "People in Need". This has since offered assistance in cases of fatality, accidents and severe illness. Employees in turn document their solidarity with the Foundation with their "Employees help Employees" campaign, in which HORNBAACH-Baumarkt-AG doubles the donations collected. Moreover, the Foundation is also a contact point for people outside the company who are in situations of dire need. All in all, the Foundation supported 127 individuals with a total of more than € 180,000 in the year under report.

However, our commitment to society is not limited to the work performed by the Foundation. HORNBAACH supports the work of

many local associations and organizations at our locations. When selecting projects, priority is generally accorded to projects benefiting children and young people. Environmental protection and heritage conservation are two other areas in which the company is active to the benefit of society.

As a member of the Rhine-Neckar European Metropolitan Region, our Group is helping promote our region. The aim is to communicate the attractiveness, power of innovation, and economic strength of the region to the outside world.

##### **Compliance with minimum social standards**

For more than ten years now, HORNBAACH has voluntarily ensured that minimum social standards are complied with at factories producing goods for the company. To this end, HORNBAACH commissions independent audit institutes to check and evaluate factories' compliance with international standards at regular intervals. The institutes audit and assess aspects such as child labor, inhumane working conditions, inadequate safety standards, e.g. too small escape routes or inadequate fire protection, as well as compliance with local laws and suitability of accommodation.

##### **No products from child labor**

Over and above this, our basic rules of social responsibility include recognizing the international standards set out in the conventions of the International Labor Organization (ILO). 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, no depositing of ID papers with employers, adherence to work safety regulations, and compliance with environmental legislation. Where accommodation is provided, it must be located outside production and materials storage areas. Suppliers have to ensure that these standards are also met by their upstream suppliers. Compliance with these regulations is checked with annual factory audits.







## RISK REPORT

### Risk management at the Group

All entrepreneurial activity directly involves opportunities and risks. Effectively managing opportunities and risks therefore represents a critical success factor in sustainably securing the company's value. The Board of Management of HORNBAACH 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 system (RMS) 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. On this basis, the Board of Management has adopted the following principles.

### Risk policy principles

The generation of economic profit necessarily involves risk taking. Nonetheless, no action or decision may entail any existential risk, i.e. 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 capital committed. Risks which cannot be avoided have to be insured against, where this is economically expedient. Residual risks have to be controlled by means of a range of risk management instruments.

### Company risk assessment categories in ascending order

Probability of occurrence		Potential implications (in €)	
low	≤ 25%	low	≤ 2.0 million
medium	25% - 50%	medium	2.0 million - 5.0 million
high	50% - 75%	high	> 5.0 million
very high	>75%		

### Organization and process

The risk management system in place at the HORNBAACH HOLDING AG Group forms an integral part of the company's management structure. It consists of the central components of early risk identification, controlling and planning processes, reporting and an internal control system, and is continually enhanced and optimized.

Responsibility for establishing, organizing and maintaining a suitable, target-based risk management system, and the internal control system in particular, lies with the Board of Management. In terms of the organization and maintenance of the system, the Board of Management is supported by the Director of Group Controlling / Risk Management.

Risk managers at the Group's operations in Germany and abroad are responsible for taking suitable measures to manage risks in their area of responsibility. When identifying and evaluating risks and determining appropriate measures to manage such risks, risk managers are supported by a central risk controller responsible for coordinating risk management processes and aggregating the risks thereby reported.

Earnings risks are analyzed with the assistance of a risk matrix. This records both the probability of occurrence and the potential level of damages of the relevant risks. This way, we can assess the existence and extent of any need for action. Where risks cannot be quantified, they are assessed in terms of their qualitative implications.

The principles and regulations underlying the risk management system are documented in a risk management handbook. This sets out uniform principles for the overall Group concerning the structures and processes necessary for the early detection of risks. To support the risk management process, a standard software solution has been implemented across the Group which offers assistance in recording and documenting risks and the relevant risk management measures.

Risks are updated quarterly and reported to the Board of Management. The Supervisory Board and Audit Committee discuss the current risk situation on a half-yearly basis. Alongside this scheduled reporting, ad-hoc reporting structures are also in place and have been implemented in the risk management process for risks arising unexpectedly.

The internal control system currently in place is based on standardized documentation requirements at the Group for all processes and related risks which could have a material impact on the financial reporting process. The internal control system is supported in this respect by the relevant work instructions and handbooks available on the Group's intranet.

Within the framework of its activities, the Group Internal Audit Department regularly audits the functionality of the existing risk management system. When auditing the annual financial statements, the external auditor also assesses whether the early warning risk identification system is suitable to provide early warning of any developments that could threaten the continued existence of the company.

#### **Internal control and risk management system in respect of the group financial reporting process (report and explanatory comments pursuant to § 315 (2) No. 5 HGB)**

The objective of the internal control and risk management (IKS) system in respect of the financial reporting process is to identify and evaluate those risks which could prevent the consolidated financial statements from conforming to the relevant requirements. Corresponding control measures and clear responsibilities are allocated for the risks thereby identified. These are intended to provide reasonable assurance of the possibility of preparing financial statements for the overall Group and those subsidiaries requiring consolidation that conform to the relevant requirements in spite of the risks thereby identified.

At the HORNBAACH HOLDING AG Group, the group-wide process of structuring and documenting the existing internal control (IKS) system in respect of the financial reporting process and compilation of a group-wide uniform risk matrix was largely completed in the 2013/2014 financial year. To this end, subsidiaries supplemented the group-wide documentation to account for country-specific features. These additions to the documentation by the subsidiaries have now virtually been finalized. The appointment of IKS managers at the country companies and the parent company will ensure that future process changes are documented and suitable checks implemented. In this respect, IKS managers will be required to submit annual declarations of conformity.

Alongside defined control mechanisms, such as technical system and manual agreement processes, key elements of the internal control system include the separation of functions and the existence of guidelines and work instructions, and compliance with such. The principle of dual control is applied throughout the financial reporting process, and compliance is required with specified approval processes. Clearly defined company and management structures, clearly allocated responsibilities and adequate regulations governing access to the information and accounting systems relevant to the financial statements based on a standard authorization concept valid for the entire Group serve to further manage and

control risks. These principal control measures are integrated into financial reporting processes.

Group companies prepare their financial statements locally. They are responsible for taking due account of local requirements and compliance with group-wide guidelines in the form of work instructions and accounting and organization handbooks, as well as for the correct reconciliation of local separate financial statements with the IFRS financial statements prepared in accordance with group-wide uniform accounting policies. The accounting handbook in particular sets out clear instructions limiting employees' discretionary scope in terms of the recognition, measurement and disclosure of assets and liabilities, thus reducing the risk of accounting inconsistencies within the Group. The managers responsible for the accounting treatment of the relevant items at individual group companies submit quarterly group-internal declarations of completeness confirming the correctness and completeness of the respective separate financial statements. On group level, the Group Accounting Department and Group Controlling Department perform further checks on the plausibility and correctness of the accounting data input into the financial statements. The process of preparing consolidated financial statements is centrally coordinated by way of a specified deadline and activity plan and monitored both centrally and locally. Subsidiaries are supported by central contact partners throughout the entire financial reporting process.

Major changes to financial reporting processes due to new laws, legislative amendments or changes in internal processes are discussed prior to implementation at international finance conferences for all managers with significant involvement in the group financial reporting process. Specialist accounting or financial reporting issues and complex matters either involving particular risks or requiring special expertise are monitored and processed centrally. External experts, such as chartered surveyors, are drawn on in particular to assess

the fair values of real estate for impairment tests or to measure pension provisions.

All significant processes relevant to financial reporting are uniformly portrayed across the Group in a common IT system for the overall Group. This complete integration of all major finance systems within a uniform IT system ensures the integrity of the data on which the separate and consolidated financial statements are based. In conjunction with the accounting handbook valid for the whole Group, the use of uniform account codes across the Group and central management of the account system ensure uniform accounting treatment of transactions of the same nature.

This also serves as a basis for group consolidation in accordance with the relevant requirements. Consolidation measures and the necessary agreement activities are performed centrally by a consolidation department. The checks to be undertaken in the consolidation processes, such as the consolidation of liabilities, expenses or revenues, are performed both automatically by the system and manually. The risk of any system breakdown or loss of data is minimized by centrally managing and monitoring all significant IT systems involved in the financial reporting process and regularly performing system backups.

As an integral component of the internal control system, within the framework of its activities the Group Internal Audit Department regularly audits the effectiveness of the internal control system in respect of the financial reporting process on the basis of trial samples reviewed in line with a risk-oriented audit plan. Alongside these internal audits, the external auditor also assesses the effectiveness of internal checks of relevance to the financial reporting process within the framework of its audit. Having said this, even suitable, functional systems cannot provide absolute certainty concerning the identification and management of risks.

## Overview of overall risks

	Probability of occurrence	Potential implications
<b>Financial risks</b>		
Foreign currency risks	medium	medium
Interest rate risks	low	low
Liquidity risks	low	high
Credit risks	low	high
<b>External risks</b>		
Macroeconomic and sector-specific risks	high	high
Natural hazards	low	high
<b>Operating risks</b>		
Location and sales risks	high	high
Procurement risks	medium	high
<b>Legal risks</b>		
Legislative and regulatory risks	low	high
Risks relating to legal disputes	low	low
<b>Management and organizational risks</b>		
IT risks	low	high
Personnel risks	medium	low

### Financial risks

The Group's financial risks comprise foreign currency, interest rate, liquidity, and credit risks. Responsibility for managing these risks lies with the treasury department.

#### Foreign currency risks

In general, HORNBAACH is exposed to foreign currency 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 leis. Any depreciation in a foreign currency against the euro can lead to a reduction in consolidated earnings when translating the separate financial statements of foreign subsidiaries into euros, the Group's currency. These risks are not hedged at the Group.

Furthermore, the increasingly international business activities of the Group result in rising foreign currency requirements both for handling international merchandise procurement and for financing objects of investment in foreign currencies. Any change in the exchange rate between the respective national currency and the procurement currencies (chiefly EUR and USD) could have a direct negative impact on earnings. Open foreign currency positions in USD are largely secured by hedging transactions (forward exchange contracts and USD fixed-term deposits). Where possible, investments are financed in the functional currency of the respective country company (natural hedging). Open foreign currency positions arising at the Group in EUR, which mainly relate to intragroup deliveries and services invoiced in EUR and intragroup EUR loans, are not hedged.

### Interest rate risks

Fixed-rate agreements or interest rate exchange agreements (interest swaps) have been concluded to secure the interest rates on existing non-current 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 Group's annual earnings.

### Liquidity risks

The acquisition of land, investments in DIY megastores with garden centers and procurement of large quantities of merchandise require high volumes of 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 where necessary by sale and leaseback transactions, as well as by bilateral bank loans and credit lines, a syndicated credit line of € 250 million at HORNBAACH-Baumarkt-AG with a term running until December 14, 2016, a promissory note bond at HORNBAACH-Baumarkt-AG with a volume of € 80 million and a term running until June 30, 2016, a promissory note bond taken up in local currency by a subsidiary of HORNBAACH-Baumarkt-AG with an equivalent volume of € 20 million and a term running until August 31, 2015, a promissory note bond at HORNBAACH Immobilien AG with a volume of € 70 million and a term running until June 30, 2017, and not least the € 250 million bond issued by HORNBAACH-Baumarkt-AG in February 2013, which has a term running until February 15, 2020.

HORNBAACH counters 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 financing conditions on the capital markets by flexibly adjusting its investments, maintaining a substantial liquidity cushion, and with short and medium-term financing based on existing credit lines. No security in the form of assets was granted in connection with the bond and the syndicated credit line at HORNBAACH-Baumarkt-AG, the promissory note bonds at the HORNBAACH-Baumarkt-AG subgroup, or the promissory note bond at HORNBAACH Immobilien AG. The contractual terms neverthe-

less require compliance with specified customary covenants. Failure to do so may possibly result in immediate repayment being required for the funds drawn down. This would necessitate follow-up financing, which would only be possible on stricter refinancing terms.

Alongside general covenants, such as *pari passu*, negative pledge, and cross default covenants, specific financial covenants were also agreed for the promissory note bonds at the HORNBAACH-Baumarkt-AG subgroup and the syndicated credit line at HORNBAACH-Baumarkt-AG. These require compliance with an equity ratio of at least 25 % and interest cover (adjusted EBITDA / gross interest expenses) of at least 2.25 on the level of the HORNBAACH-Baumarkt-AG subgroup. Furthermore, maximum limits have been set for financial liabilities secured by land charges and for financial liabilities at subsidiaries of HORNBAACH-Baumarkt-AG. The bond at HORNBAACH-Baumarkt-AG is only governed by general covenants, such as *pari passu*, negative pledge, and cross default covenants, but not by financial covenants. As of February 28, 2014, the equity ratio of the HORNBAACH-Baumarkt-AG subgroup amounted to 51.6 % (2012/2013: 51.5 %) and its interest cover amounted to 10.0 (2012/2013: 6.0).

In connection with the promissory note bond at HORNBAACH Immobilien AG, this subgroup is required to ensure that a specified level of unencumbered property, plant and equipment is maintained.

Compliance with these covenants is monitored on an ongoing basis. All covenants were complied with at all times during the 2013/2014 financial year.

The information required for efficient liquidity management is provided by rolling group financial planning with a twelve-month budgeting horizon, which is updated monthly, as well as by a daily financial forecast. The Group currently faces no risks in connection with any follow-up financing necessary to cover maturing financial liabilities. 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 contractual partners of strong creditworthiness and selecting banks covered by collective deposit security arrangements. Moreover, bank deposits have been distributed among several financial institutions in order to counter the increased risk of bank deposit default in the context of the financial market crisis and the subsequent European credit and sovereign debt crisis. This approach was also maintained in the 2013/2014 financial year. 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 about financial risks and sensitivity analyses can be found in 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 may become apparent in the form of unwillingness on the part of customers to make purchases in periods of low economic growth. Not only that, the positive overall economic trend in Europe may also turn out weaker than expected due to the influence of negative developments in the global political and economic framework.

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. Prolonged winter weather, for example, might shorten the spring season and result in

lower sales in the gardening division in the important 1<sup>st</sup> quarter of the financial year.

### Natural hazards

The climate change observable around the world also directly affects HORNBACH locations in Germany and other European countries. In addition to potential natural catastrophes (e.g. flooding), the Group is also exposed to risks resulting from fire and explosions. The principal insurable 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 Group's earnings power. 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 existing factors, such as customer behavior and the local competitive situation, can nevertheless not be excluded entirely. Ongoing investments therefore have to be made in locations, enhancing customer service levels, and in new concepts in order to maintain the company's competitiveness, especially in countries with low market growth and intense competition.

#### Procurement risks

To avoid the loss of major suppliers, the Group has developed an efficient early warning system that monitors suppliers continuously on the basis of various quantitative and qualitative criteria. The implications of any potential supplier loss are further reduced by probing the market for alternative substitutes at an early stage and maintaining a multi-supplier strategy. Should there be any deterioration in the macroeconomic situation, however, then the risk of the Group losing suppliers and being unable to procure such products elsewhere at short notice cannot be excluded entirely.

The overall Group has a total of four central warehouses in order to reduce the risk of any interruption to the logistics chain and optimize the supply of merchandise. In its procurement of merchandise, HORNBAACH 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. Furthermore, higher prices for products involving energy-intensive manufacturing processes could lead to an increase in overall procurement costs, one which it might not be possible to pass on to customers, or only following a certain delay.

### **Legal risks**

#### **Legislative and regulatory risks**

As a result of its business activities in various countries, the HORNBAACH HOLDING AG 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 Group's future earnings situation may also be negatively affected in particular by any tightening up of national construction laws or regulations governing the acquisition of land. To help avert fraudulent actions, the Board of Management adopted a group-wide Corporate Compliance Policy in the 2010/11 financial year already.

#### **Risks relating to legal disputes**

In the course of their business operations, the companies of the HORNBAACH HOLDING AG Group are inevitably confronted with legal claims on the part of third parties, both in court and out of court. Precautionary accounting measures are taken by recognizing a suitable level of provisions for existing risks in connection with legal disputes. At present, HORNBAACH is not involved in any current or foreseeable court or arbitration proceedings which could have any significant impact on the Group's economic situation.

### **Management and organizational risks**

#### **IT risks**

The management of the Group is heavily dependent on high-performance information technology (IT). The ongoing maintenance and optimization of IT systems is performed 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 existing 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 HORNBAACH's success. This pillar of the corporate culture is therefore of great significance for the overall Group. The maintenance of employee satisfaction is therefore evaluated in regular employee surveys carried out by external service providers, while employee qualification levels are continually improved with appropriate training and development measures. Performance-based bonus models support the company in reaching this objective. In its retention of highly qualified specialist and management personnel, however, HORNBAACH is dependent on a variety of external factors, such as overall developments on the labor market or in the sector, and is also subject to the country-specific impact of demographic changes.

#### **Overall assessment of risk situation**

There were no risks to the continued existence of the HORNBAACH HOLDING AG Group in the 2013/2014 financial year. From a current perspective, there are also no discernible risks that could endanger the continued existence of the company in future or sustainably impair its earnings, financial or net asset position.

## OPPORTUNITY REPORT

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 and the evaluation of the future macroeconomic framework provided in the Outlook.

The business performance of DIY and garden stores may be affected in the coming years by a series of sector-specific development trends (megatrends). Against this backdrop, the company is consistently enhancing its retail format and corporate strategy, aiming to ensure continuity, reliability and sustainability so as to make optimal use of potential opportunities for future growth.

### Sector-specific opportunities

Megatrends play a key role for DIY store and garden center operators. These harbor various degrees of potential in individual country markets in terms of rising demand for products and services relating to construction, renovation and gardens.

In the hunt for growth factors, one key aspect of relevance to the entire European construction and modernization sector is the great need for solutions in terms of energy-saving building technology and energy efficiency and of contemporary interior fittings. Overall, we believe that the outlook is favorable for increasing sales and earnings in the DIY sector in Germany and abroad. These growth prospects are backed up by, among other factors, the opportunities briefly described below.

### Opportunities due to sustainability

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. The share of construction work involving new housing, by contrast, is declining across Europe and most recently accounted for significantly less than half of total housing construction investments. In Germany, sales in the modernization market have exceeded new construction volumes since 1998. Due to favorable financing terms, the share of new construction work has risen slightly once again since

2011. Nearly three quarters of the total construction volumes of around € 170 billion nevertheless involved modernization projects. Three key trends are responsible for this development:

- The **age structure of existing real estate** indicates an increasing need for maintenance and modernization. In Germany, for example, three quarters of all apartments are more than 30 years old. 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 comprehensively renovated and no longer meet current technology standards in terms of energy efficiency. Given that the property will decline in value and attractiveness on the housing market unless renovation measures are undertaken, the need for construction services and materials can be expected to increase. Interest rates, still at record lows, have improved private households' financing opportunities here.
- Given the long-term increase in energy costs and climate protection, renovating buildings in terms of their energy efficiency is becoming an ever more important factor – one promoted not least by numerous laws, directives, ordinances and subsidies on European and national levels. **Energy-efficient construction and renovation** enable a residential property's energy costs to be cut by up to three quarters and the property's operating costs to be sustainably reduced over its lifecycle. Energy-efficiency renovation also makes a major contribution towards cutting CO<sub>2</sub> emissions. Energy efficiency is therefore one of the top themes in the European DIY sector.
- Given demographic developments in Europe, **barrier-free construction** involves the challenge of adapting existing living space and urban infrastructure to enable elderly people to retain their freedom and live independently in their familiar surroundings for as long as possible. Demand for senior citizen-friendly construction solutions, such as barrier-free access to buildings and apartments, the installation of elevators, and doorway-widening and

sanitary conversion measures, will therefore continue to rise.

These trends can also be summarized under the heading of "sustainability". The ecological, economic and social dimension of sustainable construction is ever more important as a key competitive factor, not only in the real estate market. At the same time, by offering the right range of products and services, high-performing industrial and retail players, as well as tradesmen, stand to benefit from the ever greater sales potential resulting from this development.

#### **Opportunities due to consumer trends**

Past experience shows that people are more likely to withdraw into their private sphere during periods of uncertainty than at other times ("homing"). Consumers spend more time at home again and are prepared to invest in decorating and equipping their own four walls. This is not just a German phenomenon but also a key international motivation for home improvement as a popular leisure activity. This is all the more relevant at present, as consumers in numerous regions across Europe are benefiting from low mortgage interest rates and prefer to channel their resources into private house construction or renovation projects than into alternative capital investments that are increasingly viewed as unsafe or unattractive.

The realization of "living worlds" is playing an ever greater role in modernization projects in consumers' houses, apartments and gardens. Consumers are showing growing awareness of trends and influences from the realms of fashion, art, architecture and the media. Consumers' desire to map these living trends onto their own four walls is socially motivated by a desire for durable values, quality (of living), individualism and emotional flair. Compared with specialist retailers, the DIY store sector still has great potential for development, and thus new opportunities, in terms of addressing its target groups in ways which arouse their emotions, presenting "living worlds", and advising consumers on complex interior design projects.

#### **Opportunities due to new market potential**

Numerous different sales formats are competing for the favor of DIY enthusiasts, construction clients and garden lovers in the European DIY market. By offering suitable customer focus and specialist retail concepts, DIY store operators have the opportunity to acquire additional market share at the cost of other sales formats. This growth potential is inversely proportionate to the share of the total DIY market accounted for by DIY stores in a given country.

Germany is the largest DIY market in Europe. Having said this, DIY and home improvement stores in Germany have so far only exhausted part of their customer potential. In Germany, this distribution channel only covers around half of the core DIY market, which has a market volume of around € 44 billion. The other half of the market is accounted for by specialist retailers (e.g. specialist tile, interior decoration, lighting or sanitary stores), builders' merchants, and timber merchants. In other European countries, DIY stores account for a higher share of the market, in some cases considerably so.

Alongside activities to boost competitiveness in stationary retail formats, since 2010 the DIY store and garden center sector has also increasingly relied on the internet as a distribution channel. Online retail has reported by far the strongest growth rates within the overall retail sector. E-commerce with DIY product ranges has so far posted an above-average performance in this respect. According to forecasts compiled by IFH Retail Consultants, online sales in Germany involving typical DIY store product groups are set to grow by more than 11 % to around € 2.3 billion in 2014. The experts expect online sales with all DIY and home improvement formats available in the stationary retail sector to shown even more dynamic developments, with forecast growth 14 % to around € 460 million.

Specialists see multichannel retailing, in which the stationary business is closely dovetailed with online retail, as representing one of the most promising sales formats within e-commerce. Not only that, e-commerce is also set to become even more sociable. Social media offer innumerable platforms

for consumers to share their experience with projects, products, and prices, as well as with providers and their service and quality standards. Ever more companies in the DIY sector are dealing closely with these networks and entering into active dialog with their customers.

#### Opportunities due to 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. Outside Germany, they hope to benefit from greater sales potential and higher profitability than in the saturated German market. Not only that, internationalization also helps companies spread their market risks more widely. It should be noted, however, that regional DIY markets are increasingly gaining in maturity and that some EU countries are having trouble recovering from the downstream impact of the financial and sovereign debt crisis on employment and income levels. These factors increase the strategic, as well as the equity requirements placed in DIY retail players if they wish to generate attractive sales and earnings growth in their international businesses in the longer term as well.

#### Strategic opportunities

Our aim is to continually expand HORNBAACH'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 offering above-average growth potential in Germany and abroad.

- The company's strategy focuses on the concept of projects. HORNBAACH is increasingly able to differentiate itself from its competitors with this approach, which is reflected in its product range, service and pricing policies. 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 HORNBAACH's format** in future as well.
- 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 HORNBAACH 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 not possible with temporary discount campaigns.
- DIY customers are increasingly according priority not only to competitive prices, but also to the **quality and sustainability** of the products and advisory services on offer. Above all the lifestyle-driven customer target group, who base their lifestyles on health and sustainability factors, is playing an increasingly important role in this respect. These so-called "LOHAS" (lifestyle of health and sustainability) mostly have above-average incomes, and are conscious, critical consumers. They accord great value to quality, brand and design. With our focus on the quality and sustainability of our product ranges, accompanied by professional advice, we are particularly well-placed to meet the high standards of these target groups. We are the DIY sector leaders, for example, in trading FSC-certified timber products.
- We believe that we are excellently positioned in the sector with regard to the ever more important **modernization market** and, within this market, especially with regard to the increasingly strict legal requirements governing building **energy efficiency**. We will in future continue to present 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 accompanied by service packages from our tradesman service. Moreover, further sales momentum may also be



provided by public sector programs subsidizing the renovation of old properties in terms of energy efficiency or to make them senior citizen-friendly. Here, we offer an extensive database of subsidy opportunities on our homepage.

- Furthermore, we are expanding our range of services, information and advice in order to attract **new customer groups** to HORNBAACH. These include home improvement demonstrations at the stores intended to motivate customers to do it themselves, and special workshops for women. These measures are backed up by the promotion of specialist 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 HORNBAACH an attractive alternative to traditional specialist retail or wholesale procurement sources.
- We see the **Buy-it-yourself** (BIY) or Do-it-for-me market segment as offering promising growth opportunities. 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. Our tradesman service aims to tap this potential.
- For many of our project customers, it has become absolutely normal to plan construction and renovation projects and the related purchases in detail on the internet. Since its launch in December 2010, our online store ([www.hornbach.de](http://www.hornbach.de)) has grown into a high-performance virtual DIY megastore and garden center. The internet plays a key role in flanking our stationary retail business.

To account for this, we now offer this opportunity to prepare purchases at our stores with the assistance of our website not only to customers in Germany, but also to those in Switzerland and Austria.

One core aspect of our internet presence is the direct relationship our customers have to their preferred HORNBAACH store. This way, our customers can inform themselves online about our current products, prices and availability and also compare articles. Numerous text and image guidelines offer ideas and assistance in preparing and implementing projects. Customers in Germany and Austria can have articles delivered directly to their homes by mail order. Here and in Switzerland, customers can also opt for our "Reserve online and pick up at the store" service. From just four hours after the reservation, all of the articles in stock are ready to be collected from the desired HORNBAACH store. This service is a real timesaver, especially for our professional customers. Not only that, the online shop offers us the opportunity of acquiring new customers outside our store network catchment areas and arousing their interest in the HORNBAACH brand.

- 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.
- The **internationalization** of group procurement provides us with broad-based access to global procurement markets, and enables us to forge strategic, long-term partnerships with suppliers and industry. These partnerships benefit both sides. We offer each supplier the opportunity to supply all of our stores as efficiently as possible. Suppliers are able to make large-scale logistical deliveries directly to each location, or to supply the merchandise indirectly via our central logistics hubs. We thus provide regional manufac-

turers as well with the opportunity of growing outside their existing sales regions and supplying goods to additional countries. 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 our 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 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 competitors.

- HORNBACH is committed to **organic growth**. We will continue to track down opportunities in our expansion across Europe in future as well. In the densely occupied German DIY market, we are relying on selective growth in attractive catchment areas. Here, we can draw on our structural advantages and benefits of scale, especially our high surface productivity together with the largest average store size in the market. In our expansion, we will be focusing on countries outside Germany. Due to their lower degree of market saturation in the DIY megastore and garden center segment compared with Germany, most other European regions harbor above-average growth opportunities.

#### **Explanatory comments on risk and opportunity report of HORNBACH HOLDING AG**

The risks and opportunities at HORNBACH HOLDING AG are largely consistent with those presented for the HORNBACH HOLDING AG Group.

## OUTLOOK

### FORECAST MACROECONOMIC AND SECTOR-SPECIFIC FRAMEWORK

Upon completion of this report, the future macroeconomic framework for the retail activities of the HORNBAACH HOLDING AG Group still involved great uncertainties. On the one hand, these relate to the question as to how sustainably Europe is able to master the sovereign debt crisis and whether the economic recovery in the EU will gain in strength and breadth. On the other hand, geopolitical risks, such as the Crimean crisis and the surrounding turbulence in and around the Ukraine, are increasingly relevant to the forecast basis. A high volume of risk factors thus continue to apply. Market volatility has generally increased. Short and medium-term developments on sales, procurement, and refinancing markets remain difficult to predict.

One key factor for the business prospects of the HORNBAACH HOLDING AG Group is the future development in consumer demand in those countries in which we operate. Private consumer spending is crucially dependent on developments in employment and disposable incomes, factors that are also influenced not least by developments in inflation, austerity measures to consolidate public finances, or reforms to welfare and healthcare systems. Forward-looking parameters, such as economic and income expectations, or consumers' propensity to spend, provide early indications of developments in consumer confidence ahead of the real macroeconomic data. Not only that, exceptional weather conditions can severely impact on consumer behavior and our seasonal business, even though this factor cannot be accounted for in our advanced planning.

#### Macroeconomic framework in Europe

The IMF sees the global economy as gaining additional momentum. According to the Global Economic Outlook published in April, global growth should amount to 3.6 % in 2014, following growth of 3.0 % in 2013. Industrialized economies are the main sources of growth momentum. This macroeconomic overview also accounts on the one hand for the signs of weakness recognizable in China and other emerging econo-

mies in spring 2014 and on the other hand for the comeback in the euro area forecast by economists.

The development in early indicators at the beginning of 2014 pointed to a continuing revival in economic activity in the euro area. In the median forecast issued by the Centre for European Economic Research (ZEW), economists and bank analysts expect to see GDP growth of 1.2 % in the euro area in 2014. This forecast, which is consistent with the expectations of the European Commission, would represent a comparatively strong burst of growth following the downturns in economic output in previous years. According to the ZEW, the rising volume of capital investment is the key harbinger for more dynamic economic activity. Private consumer spending in the currency area, by contrast, is only expected to show slight growth of 0.6 %. The main reason here is presumably the ongoing high level of unemployment in Europe. The upward trend seen since the fall of 2012 in consumer confidence as calculated by the European Commission nevertheless continued in spring 2014.

The Commission's forecasts for most countries in which HORNBAACH operates its DIY megastores with garden centers are significantly more positive than the EU average. The respective estimates range from plus 1.5 % (Austria) to plus 2.5 % (Sweden). In Germany and the Czech Republic, real-term GDP is set to grow by 1.8 % in 2014. Luxembourg, Slovakia, and Romania are forecast to achieve growth rates of 2.2 % to 2.3 %. Only in the Netherlands is the forecast GDP growth of plus 1.0 % slightly lower than the euro area average. That would nevertheless be a welcome turnaround following the downturn of 0.8 % in 2013.

In 2014, the European retail and construction sectors can hope to emerge from the downturn arising in the wake of the financial and debt crisis. By analogy with the moderate outlook for private consumer spending, both sectors can expect slight sales growth in the forecast period covering the 2014 calendar year. According to Eurostat figures, the retail sector in the euro area (EA 18) posted price-adjusted sales growth of 1.0 % and 0.4 % in January and February 2014 compared

with the previous month. The equivalent figures for the EU 28 countries are 0.6 % and 0.5 %.

After two years of declining construction activity, European housing construction volumes are expected to show slight growth once again in 2014. This is the conclusion reached by the Euroconstruct research and consulting network in its forecast dated February 2014. Following price-adjusted contractions in housing construction output in the 19 EU countries analyzed of more than 4 % in 2013 and slightly above 2 % in 2012, the construction experts now expect to see growth of almost 1.5 % in 2014. Great regional disparities can nevertheless still be expected. While Euroconstruct has forecast a noticeable revival in new housing construction in Germany, Switzerland, and Sweden, for example, the number of apartments completed in the Netherlands and the Czech Republic in 2014 is set to fall compared with the previous year.

The extent to which further geopolitical developments in the Crimea and Ukraine will impact on confidence indicators as 2014 progresses remains to be seen. Should there be any further intensification in the crisis, then economists see substantial downside risks for the economic outlook for Germany and Europe.

#### **Macroeconomic framework in Germany**

Economists surveyed by the ZEW in April forecast economic growth of 1.8 % for Germany in 2014. In their home economy, German consumers and investors are expected to ensure dynamic growth in domestic demand, which could replace exports as the most important growth driver in 2014. Economists have forecast an average rise in real-term private consumer spending by 1.3 % (2013: plus 0.9 %). Average forecasts for capital investment predict strong growth of 4.3 %, compared with minus 0.7 % in 2013. Consumer confidence as measured in Germany by the GfK in March 2014 – before the escalation in the Crimea crisis – remained buoyant. In particular, German consumers' propensity to spend continued on its high. The GfK saw this as being due above all to the stable labor market, pleasing developments in incomes, low

interest rates, and low inflation. According to the GfK, only part of this strong propensity to spend will arrive in the retail sector. The services sector, such as in the renovation market, stands to benefit far more clearly. Not only that, ongoing high numbers of building permits lead the GfK to conclude that substantial sums will continue to flow into the real estate sector.

The German construction industry has forecast nominal sales growth of 3.5 % for 2014. The sector still sees housing construction, where sales are expected to show nominal growth of 5 %, as the driving force behind construction activity. Having said this, according to the sector association forecast commercial and public sector construction are also set to perform positively, with nominal sales growth rates of 2.5 % and 3.5 % respectively.

Based on figures released by the Federal Statistical Office, turnover in the German retail sector grew by 1.5 % in real terms and by 2.6 % in nominal terms in the first two months of 2014 compared with the period from January to February 2013. For the 2014 calendar year, the Association of German Retailers (HDE) expects nominal sales growth of 1.5 % to around € 440 billion. Online retail is set to maintain its double-digit growth. The HDE expects sales here to grow by 17 % to around € 39 billion in 2014.

The BHB sector association is optimistic in its outlook for DIY retail in 2014. It would be necessary to make up for the previous year's downturn in sales by around 3 %. Given the stable economic situation and positive consolidation factors following the Praktiker/Max Bahr era, however, DIY store operators are expected to be able to achieve positive growth rates, in some cases substantial, in the German market in 2014.

## FORECAST BUSINESS PERFORMANCE OF THE HORNBACH HOLDING AG GROUP IN 2014/2015

The statements made concerning the expected business performance in the 2014/2015 financial year are based on the company's medium-term planning, which has a budgeting horizon of five years and is extrapolated annually. The budget for the financial years 2014/2015 to 2018/2019, into which the annual budget for 2014/2015 is integrated, was approved by the Supervisory Board at the end of February 2014.

### Expansion

The HORNBACH-Baumarkt-AG subgroup still has not planned any market entry in a new country for the one-year forecast period, but will rather focus on expanding and modernizing its store network in existing country markets, i.e. in Germany and eight other European countries. Depending on the progress made in the building permit and construction planning stages, store openings may be rescheduled between individual years.

The focus of our expansion activities in the 2014/2015 financial year will shift to Germany. This is due to the takeover of former locations from the German store network of the Praktiker Group, which has been broken up. HORNBACH has secured a total of six locations that are due to be added to its network during the forecast period. Between June 2014 and January 2015, we will thus gradually be launching operations as the new lessee and following several months of conversion work at the former Praktiker or Max Bahr outlets in Trier (replacement location), Schwabach, Ulm, Lüneburg, and Kamen. Furthermore, we intend to open the former Praktiker store in Saarbrücken, acquired by our associate HORNBACH Immobilien AG, most probably by the end of February 2015 and at a later date to merge this with the directly adjacent HORNBACH location to form a large project DIY megastore.

Two new HORNBACH DIY megastores with garden centers were opened in Lübeck and in Prague-Čestlice (Czech Republic) in March 2014 already. Including the replacement location in Trier, which has a larger sales area and is better located than the existing store opened in 1990, the group-wide total num-

ber of HORNBACH DIY megastores with garden centers is expected to increase to up to 147 by February 28, 2015 (February 28, 2014: 141), of which up to 97 in Germany and 50 in other European countries.

The HORNBACH Baustoff Union GmbH subgroup plans to relocate one outlet and thus optimize its regional market position in the 2014/2015 financial year.

### Investments

Gross investments of € 130 million to € 160 million have been budgeted at the HORNBACH HOLDING AG Group for the 2014/2015 financial year. This increase compared with the 2013/2014 financial year (€ 116 million) is chiefly due to the accelerated expansion program. Whereas four new stores launched operations in the 2013/2014 financial year, nine new store openings (including two replacement locations and one location extension) are on the agenda for the forecast period. Not only that, advance work will also already be performed on the expansion program for the following 2015/2016 financial year. The overwhelming share of these funds will be channeled into building new stores, equipping new and existing stores, converting and extending existing stores, and IT infrastructure.

HORNBACH enjoys maximum flexibility in terms of financing its investments. Alongside the free cash flow from operating activities, the company's cash resources and free credit lines mean that a large volume of disposable liquidity is available. Furthermore, if need be there is the possibility of financing investment projects, for example by taking up long-term mortgage loans and additional promissory note bonds. No sale and leaseback transactions have been budgeted for the forecast period.



### Sales performance

Our ongoing objective is that of achieving sustainable growth in our core operating business. The sales performance of the HORNBAACH Group is chiefly shaped by developments at the HORNBAACH-Baumarkt-AG subgroup.

The base scenario for the 2014/2015 budget year assumes that sales at the **HORNBAACH-Baumarkt-AG subgroup** will significantly exceed the figure for the 2013/2014 financial year under report. Given the macroeconomic and sector-specific framework outlined above, the base scenario also assumes that the subgroup's like-for-like sales will be ahead of the previous year's figure. This reflects the broad-based economic recovery with a further improvement in consumer confidence assumed for the countries in our European sales network in 2014.

The start to the 2014/2015 financial year, which began on March 1, 2014 after completion of the budgeting process, was thoroughly successful, thus contrasting starkly with the disastrous overture one year earlier. While sales at the HORNBAACH-Baumarkt-AG subgroup in March 2013 plummeted by 18.5 % due to the exceptionally severe winter, sales in the mild month of March 2014 virtually exploded, with growth of 34.5 %. April 2014 also witnessed group-wide double-digit sales growth well ahead of budget expectations. Upon the completion of this report, it was apparent that the first quarter of 2014/2015 (March 1 to May 31, 2014) would prove significantly better than the previous year's period, and that both in Germany and in other European countries.

Against this backdrop, in April 2014 the Board of Management made an upward revision to the 2014/2015 base scenario and is now more optimistic in its assessment of the sales performance of the HORNBAACH-Baumarkt-AG subgroup.

In conjunction with the higher number of new store openings, the revival in consumer demand and residential construction activity forecast for 2014 should lead to a further increase in sales momentum at the HORNBAACH-Baumarkt-AG subgroup in the 2014/2015 financial year. By introducing numerous meas-

ures and concepts, we aim to achieve ongoing improvements in operating processes at our stores and in our logistics activities, sustainably enhance our products and services, and consistently boost customer satisfaction both in our stationary business and at our online store.

### Germany

In Germany, we expect to see like-for-like sales growth ahead of the group average once again in the 2014/2015 financial year. Due to the expected jump in sales in the important first quarter business, the likelihood that like-for-like sales will exceed the growth target originally set for the financial year as a whole has risen significantly. Given our strong competitive position, we are confident that HORNBAACH will significantly outperform the German sector average and thus acquire further market share in future as well.

We expect HORNBAACH's DIY megastores with garden centers to continue benefiting in the forecast period as well from the shake-up in the German DIY market in the wake of the departure of the competitor Praktiker. We have been able to attract numerous new customers to the HORNBAACH brand and thus acquire additional shares of sales. Having said this, we do not expect the positive consolidation factors, which led to substantial sales growth in some catchment areas in the 2013/2014 financial year, to simply continue at the same rate. Following the takeover of former Praktiker and Max Bahr locations by high-performing DIY store operators, a counter-reaction in the form of increased competition can be expected in individual regional HORNBAACH catchment areas following the rebranding process, and at the latest from summer 2014. These structural factors can, on the whole, be expected to slow down the company's sales performance in Germany in the second half of the financial year. Moreover, the pressure from seasonal and weather-related base effects in the 2013/2014 financial year is set to intensify as the year progresses. Our sales performance for the third and fourth quarters in particular will have to stand up to comparison with the high standards set in the previous year.

Our forecast is based on the assumption that the consumer climate in Germany will largely remain stable and continue to be supported by robust developments in employment and income levels. However, any significant macroeconomic disruptions during the forecast period, for example as a result of geopolitical crises such as any unexpected intensification in the Ukraine conflict or exogenous price shocks on commodity or energy markets, would lead to a deterioration in consumer confidence and thus also to downside risks for the development in our like-for-like sales.

#### Other European countries

We believe that the sales performance at our stores in other European countries will improve further in the 2014/2015 forecast period compared with the 2013/2014 financial year. This expectation is also backed up by the economic revival in Europe forecast by economists for 2014. Given the more difficult situation in terms of labor markets, the construction industry, the real estate sector and consumer confidence in some EU countries compared with Germany, we still expect the international business to show a lower rate of like-for-like sales growth than Germany.

We have also raised our sales expectations for other European countries to account for substantially above-budget growth rates at our international HORNBAACH stores in March 2014 and the positive trend already apparent for the first quarter of 2014/2015. We see this revision to our forecast scenario as appropriate not only because of the positive economic outlook for 2014 in the countries in which we operate, but also due to the ongoing substantial backlog of work in the European construction and modernization market. Thanks to our focus on project and professional customers, we have above-average growth potential in this regard compared with our competitors.

Any significant deterioration in the macroeconomic framework would also involve a downside risk to the adjusted sales performance at HORNBAACH locations in other European countries.

#### Sales forecast

We expect sales, i.e. net sales including new openings, closures and extensions of stores, at the **HORNBAACH-Baumarkt-AG subgroup** to show growth in a medium single-digit range in the 2014/2015 financial year and probably at a higher rate than in the previous 2013/2014 financial year (plus 4.4 %). For like-for-like sales, we expect to see group-wide growth in a low to medium single-digit percentage range.

Net sales at the **HORNBAACH Baustoff Union GmbH subgroup** are expected to slightly exceed the previous year's figure in the 2014/2015 financial year.

Consistent with developments at the largest operating subgroup, HORNBAACH-Baumarkt-AG, we also expect consolidated sales on the level of the **overall HORNBAACH HOLDING AG Group** to show growth in a medium single-digit rate in the 2014/2015 financial year and probably at a higher rate than in the previous 2013/2014 financial year (plus 4.3 %).

#### Earnings performance

Our indications for the future earnings performance of the HORNBAACH Group are based on developments expected at the HORNBAACH-Baumarkt-AG subgroup, HORNBAACH Baumarkt Union GmbH subgroup, and HORNBAACH Immobilien AG subgroup segments.

#### HORNBAACH-Baumarkt-AG subgroup

Within the **HORNBAACH-Baumarkt-AG subgroup**, we make a distinction between earnings contributions from the DIY store segment and the real estate segment.

#### DIY store segment

The operating earnings performance of the DIY store segment is principally determined by the rate of change in like-for-like sales. A further key factor is the gross margin, which we expect to match the level seen in the previous year (37.4 %) in the 2014/2015 financial year. Positive and negative margin items should more or less balance each other out. We foresee ongoing high pressure on prices in the competitive climate for stationary DIY. We believe that the rapid growth in online

retail and resultant increase in price transparency in the DIY store sector will tend to raise pressure on margins in future. We intend to counter the negative impact on prices largely with positive volume effects and with the targeted expansion of our share of private labels.

According to our 2014/2015 annual budget, selling and store expenses are set to rise less rapidly than sales. As a result, the store expense ratio should fall slightly short of the previous year's figure (31.0 %). Due to collectively agreed pay rises and the expansion-related increase in staff totals, personnel expenses will exceed the previous year's figure but should nevertheless grow less rapidly than sales. Following the reduction seen in the 2013/2014 financial year, advertising expenses are expected to grow, albeit less rapidly than sales due to increasing use of innovative advertising formats. The energy optimization measures implemented in recent years (building control and lighting technology) should help enable utility expenses in the DIY store segment to rise less sharply than sales. By contrast, we expect to see a disproportionate increase in general operating expenses. Maintenance measures on land and buildings will be significantly extended. Some of the properties used for DIY retail are already more than 20 years old. To maintain their substance while also ensuring up-to-date store appearance, it will be necessary to make more funds available to renovate our properties in the forecast period than in previous years. Moreover, we have budgeted higher outlays to modernize our sales areas and for the innovative enhancement of our merchandise presentation.

Pre-opening expenses will rise significantly in 2014/2015. Four new store openings in the 2013/2014 financial year are set to be followed by nine planned new store openings in the forecast period. Moreover, costs for store openings planned for the first months of the subsequent 2015/2016 financial year have already been included in the budget.

The budget for the 2014/2015 financial year accounts for a disproportionate rise in administration expenses. Project-driven expenses are set to play a key role in this respect. We will channel targeted resources into strategic forward-looking

projects, and in particular into consistently further expanding our online activities in Germany and other European countries. In view of this, the administration expense ratio will increase significantly in the 2014/2015 financial year.

EBIT in the DIY store segment is expected to show disproportionate growth compared with sales in 2014/2015.

#### **Real estate segment**

In the real estate segment, rental income is set to maintain its stable increase in line with the Group's expansion in the forecast period from March 1, 2014 to February 28, 2015. Earnings will be negatively affected, by contrast, by a significantly disproportionate increase in real estate expenses. These will mainly be attributable to expenses incurred to refit the stores taken over from the Praktiker/Max Bahr portfolio. The one-off conversion costs budgeted for this purpose are in some cases not eligible for capitalization and will thus adversely affect the budget for the forecast year.

The EBIT of the real estate segment for the 2014/2015 financial year is expected to match the previous year's level.

### Earnings forecast

#### **HORNBACH-Baumarkt-AG subgroup**

The earnings forecast is based on the assumption that there will not be any unexpected macroeconomic downturn or significant deterioration in consumer confidence in the forecast period.

The earnings performance of the Group will be determined by the development in earnings in the DIY store segment. We expect operating earnings (EBIT) at the HORNBACH-Baumarkt-AG Group to grow disproportionately compared with sales in the 2014/2015 financial year.

#### **HORNBACH Baustoff Union GmbH subgroup**

The earnings performance of the HORNBACH Baustoff Union GmbH subgroup segment for the 2014/2015 financial year is mainly expected to benefit from improved store and administration expense ratios, which should more than make up for the slightly lower level of gross margin budgeted. The subgroup's EBIT is expected to show slight growth in the forecast period.

#### **HORNBACH Immobilien AG subgroup**

We have budgeted stable rental income growth at the **HORNBACH Immobilien AG subgroup** segment in the forecast period. No sale and leaseback transactions or material disposal gains from the sale of real estate not required for operations have been budgeted for the 2014/2015 financial year. Operating earnings should slightly exceed the previous year's figure.

#### **Earnings forecast for the HORNBACH HOLDING AG Group**

Our earnings forecast is based on the assumption that there will not be any unexpected economic downturn or substantial deterioration in consumer confidence in the forecast period. At the overall HORNBACH HOLDING AG Group, we expect operating earnings (EBIT) for the 2014/2015 financial year to show disproportionate growth compared with sales.

### Separate financial statements (HGB)

The earnings performance of HORNBACH HOLDING AG in the forecast period is closely linked to the respective outlooks on the level of its shareholdings. The forecast development in earnings at the HORNBACH-Baumarkt-AG, HORNBACH Immobilien AG, and HORNBACH Baustoff Union GmbH subgroups can be expected to impact accordingly on the level and rate of change in income from investments. Overall, the result of ordinary operations in the 2014/2015 financial year is expected to significantly exceed the figure for the 2013/2014 financial year.

## OTHER DISCLOSURES

### Compensation report

The compensation report sets out the basic features and structure of the compensation paid to the Board of Management and Supervisory Board. It is a constituent component of the Group Management Report and has been presented in the Corporate Governance chapter from Page 23 onwards of this Annual Report.

### Disclosures under § 315 (4) and § 289 (4) HGB and explanatory report of Board of Management

§ 315 (4) and § 289 (4) of the German Commercial Code (HGB) require specific disclosures to be made in the Group Management Report in the event of a stock corporation participating in an organized market as defined in § 2 (7) of the German Securities Acquisition and Takeover Act (WpÜG) by means of the shares with voting rights thereby issued. However, this is not the case at HORNBACH HOLDING AG, as only non-voting preference shares are publicly listed.

### Dependent company report

A report on relationships with associate companies has been compiled for the 2013/2014 financial year pursuant to § 312 of the German Stock Corporation Act (AktG). 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."



*DISCLAIMER*

*Our combined management report should be read in conjunction with the audited financial data of the HORNBAACH HOLDING AG Group and the disclosures made in the notes to the consolidated financial statements which can be found in other sections of this Annual Report. It contains statements referring to the future based on assumptions and estimates made by HORNBAACH's Board of Management. Forward-looking statements are always 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 also turn out to be accurate. The assumptions may involve risks and uncertainties which could result in actual results 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 HORNBAACH. Furthermore, they include a lack of acceptance of new sales formats or new product ranges, as well as changes to the corporate strategy. HORNBAACH has no plans to update the forecast statements, neither does it accept any obligation to do so.*



## Urban garden

Where glass, steel and concrete dominate the landscape, the countryside often feels far away. The organizers and gardeners at this garden on Danziger Platz in Frankfurt have reconquered nature – with support from sponsors like HORNBAACH – and are celebrating those values that mark out country life.

A close community sows, harvests and spends time together. The fruits of these labors are regularly offered on a proprietary market. Anyone who does not just think of numbers when they hear the word «growth» is warmly invited to come along and help.





# CONSOLIDATED FINANCIAL STATEMENTS



# CONSOLIDATED FINANCIAL STATEMENTS

## Income Statement of the HORNBAACH HOLDING AG Group

for the Period from March 1, 2013 to February 28, 2014

	Notes	2013/2014 € 000s	2012/2013 € 000s	Change %
Sales	1	3,369,271	3,228,973	4.3
Cost of goods sold	2	2,135,429	2,049,486	4.2
<b>Gross profit</b>		<b>1,233,842</b>	<b>1,179,487</b>	<b>4.6</b>
Selling and store expenses	3	920,675	894,495	2.9
Pre-opening expenses	4	9,222	9,268	(0.5)
General and administration expenses	5	147,547	146,364	0.8
Other income and expenses	6	3,972	16,490	(75.9)
<b>Earnings before interest and taxes (EBIT)</b>		<b>160,370</b>	<b>145,850</b>	<b>10.0</b>
Other interest and similar income		874	2,226	(60.7)
Other interest and similar expenses		30,513	40,860	(25.3)
Other financial result		(2,943)	406	(824.9)
<b>Net financial expenses</b>	<b>7</b>	<b>(32,582)</b>	<b>(38,228)</b>	<b>(14.8)</b>
<b>Consolidated earnings before taxes</b>		<b>127,788</b>	<b>107,622</b>	<b>18.7</b>
Taxes on income	8	41,620	30,195	37.8
<b>Consolidated net income</b>		<b>86,168</b>	<b>77,427</b>	<b>11.3</b>
of which: income attributable to shareholders of HORNBAACH HOLDING AG		72,737	64,977	11.9
of which: non-controlling interest		13,431	12,450	7.9
<b>Basic/diluted earnings per share (€)</b>	<b>9</b>	<b>4.53</b>	<b>4.05</b>	<b>11.9</b>
<b>Basic/diluted earnings per preference share (€)</b>	<b>9</b>	<b>4.56</b>	<b>4.08</b>	<b>11.8</b>

## Statement of Comprehensive Income of the HORNBAACH HOLDING AG Group

for the Period from March 1, 2013 to February 28, 2014

	Notes	2013/2014 € 000s	2012/2013 € 000s
<b>Consolidated net income</b>		<b>86,168</b>	<b>77,427</b>
Actuarial gains and losses on defined benefit plans <sup>1)</sup>	23	1,827	(3,437)
Deferred taxes on actuarial gains and losses <sup>1)</sup>		(369)	674
<b>Other comprehensive income that will be recycled at a later date</b>		<b>1,458</b>	<b>(2,763)</b>
Measurement of derivative financial instruments (cash flow hedge)			
Measurement of derivative hedging instruments directly in equity		(1,324)	(7,972)
Gains and losses from measurement of derivative financial instruments transferred to profit or loss		4,093	4,545
Exchange differences arising on the translation of foreign subsidiaries		(8,158)	(3,312)
Deferred taxes on gains and losses recognized directly in equity	8	(728)	989
<b>Other comprehensive income that will be recycled at a later date</b>		<b>(6,117)</b>	<b>(5,750)</b>
<b>Total comprehensive income</b>		<b>81,510</b>	<b>68,914</b>
of which: attributable to shareholders of HORNBAACH HOLDING AG <sup>1)</sup>		68,498	57,897
of which: attributable to non-controlling interest <sup>1)</sup>		13,012	11,017

<sup>1)</sup> Previous year's figures adjusted due to IAS 19R.

## Balance Sheet of the HORNBACK HOLDING AG Group

as of February 28, 2014

	Notes	2.28.2014 € 000s	2.28.2013 € 000s
<b>Non-current assets</b>			
Intangible assets	11	11,980	13,666
Property, plant, and equipment	12	1,235,366	1,214,996
Investment property	12	38,450	37,015
Financial assets	13	22	2,631
Non-current receivables and other assets	14/23	5,071	6,012
Non-current income tax receivables	26	10,581	14,419
Deferred tax assets	15	8,940	14,980
		<b>1,310,410</b>	<b>1,303,719</b>
<b>Current assets</b>			
Inventories	16	539,142	515,363
Other receivables and assets	17	72,923	80,426
Income tax receivables	26	10,984	10,829
Cash and cash equivalents	18	428,849	356,935
Non-current assets held for sale and disposal groups	19	0	2,518
		<b>1,051,898</b>	<b>966,071</b>
		<b>2,362,308</b>	<b>2,269,790</b>
	Notes	2.28.2014 € 000s	2.28.2013 € 000s
<b>Shareholders' equity</b>	<b>20</b>		
Share capital		48,000	48,000
Capital reserve		130,373	130,373
Revenue reserves <sup>1)</sup>		781,855	723,832
<b>Equity of shareholders of HORNBACK HOLDING AG</b>		<b>960,228</b>	<b>902,205</b>
Non-controlling interest <sup>1)</sup>		203,912	194,661
		<b>1,164,140</b>	<b>1,096,866</b>
<b>Non-current liabilities</b>			
Non-current financial debt	22	614,711	631,227
Provisions for pensions <sup>1)</sup>	23	757	2,027
Deferred tax liabilities <sup>1)</sup>	15	57,352	60,697
Other non-current liabilities	24/27	25,634	26,409
		<b>698,454</b>	<b>720,360</b>
<b>Current liabilities</b>			
Current financial debt	22	94,257	96,620
Trade payables and other liabilities	25	300,013	262,935
Income tax liabilities	26	31,846	29,750
Other provisions and accrued liabilities	27	73,598	63,259
		<b>499,714</b>	<b>452,564</b>
		<b>2,362,308</b>	<b>2,269,790</b>

<sup>1)</sup> Previous year's figures adjusted due to IAS 19R.



## Statement of Changes in Equity of the HORNBAACH HOLDING AG Group

2012/2013 financial year € 000s	Notes	Share capital	Capital reserve	Hedging reserve	Cumulative currency translation	Other revenue reserves	Equity attributable to share- holders	Non- controlling interest	Total group equity
<b>Balance at March 1, 2012</b>		48,000	130,373	(3,720)	21,179	658,339	854,171	187,147	1,041,318
Changes in accounting policy because of IAS 19R						630	630	195	826
<b>Balance at March 1, 2012 (adjusted)</b>		48,000	130,373	(3,720)	21,179	658,969	854,801	187,342	1,042,144
Consolidated net income						64,977	64,977	12,450	77,427
Actuarial gains and losses on defined benefit plans, net after taxes <sup>1)</sup>	23					(2,109)	(2,109)	(654)	(2,763)
Measurement of derivative financial instruments (cash flow hedge), net after taxes				(2,319)			(2,319)	(119)	(2,438)
Foreign currency translation					(2,652)		(2,652)	(660)	(3,312)
<b>Total comprehensive income</b>				(2,319)	(2,652)	62,868	57,897	11,017	68,914
Dividend distribution	21					(10,480)	(10,480)	(3,764)	(14,244)
Transactions with other shareholders						(13)	(13)	0	(13)
Changes in scope of consolidation							0	65	65
<b>Balance at February 28, 2013</b>		48,000	130,373	(6,039)	18,527	711,344	902,205	194,661	1,096,866

2013/2014 financial year € 000s	Notes	Share capital	Capital reserve	Hedging reserve	Cumulative currency translation	Other revenue reserves	Equity attributable to share- holders	Non- controlling interest	Total group equity
<b>Balance at March 1, 2013 <sup>1)</sup></b>		48,000	130,373	(6,039)	18,527	711,344	902,205	194,661	1,096,866
Consolidated net income						72,737	72,737	13,431	86,168
Actuarial gains and losses on defined benefit plans, net after taxes	23					1,113	1,113	345	1,458
Measurement of derivative financial instruments (cash flow hedge), net after taxes				1,730			1,730	312	2,042
Foreign currency translation					(7,082)		(7,082)	(1,076)	(8,158)
<b>Total comprehensive income</b>				1,730	(7,082)	73,850	68,498	13,012	81,510
Dividend distribution	21					(10,480)	(10,480)	(3,764)	(14,244)
Transactions with other shareholders						5	5	3	8
<b>Balance at February 28, 2014</b>		48,000	130,373	(4,309)	11,445	774,719	960,228	203,912	1,164,140

<sup>1)</sup> Previous year's figures adjusted due to IAS 19R.

## Cash Flow Statement of the HORNBAACH HOLDING AG Group

	Notes	2013/2014 € 000s	2012/2013 € 000s
<b>Consolidated net income</b>		<b>86,168</b>	<b>77,427</b>
Depreciation and amortization of non-current assets	10	75,356	75,400
Change in provisions		4,318	2,439
Gains/losses on disposals of non-current assets and of non-current assets held for sale		(525)	(1,878)
Change in inventories, trade receivables and other assets		(24,094)	293
Change in trade payables and other liabilities		48,321	(5,984)
Other non-cash income/expenses		8,321	(3,409)
<b>Cash flow from operating activities</b>		<b>197,865</b>	<b>144,288</b>
Proceeds from disposal of non-current assets and of non-current assets held for sale		12,160	6,443
Payments for investments in property, plant, and equipment		(113,918)	(145,055)
Payments for investments in intangible assets		(1,590)	(2,758)
Payments for investments in financial assets		(104)	(1,170)
Payments for acquisitions of shareholdings and other business units		0	(515)
<b>Cash flow from investing activities</b>		<b>(103,452)</b>	<b>(143,055)</b>
Dividends paid	21	(14,244)	(14,244)
Proceeds from taking up long-term debt and bond issue	22	37,714	350,521
Repayment of long-term debt and bond		(44,721)	(387,072)
Payments for transaction costs		(452)	(3,524)
Change in current financial debt		(271)	(12,258)
<b>Cash flow from financing activities</b>		<b>(21,974)</b>	<b>(66,577)</b>
Cash-effective change in cash and cash equivalents		72,440	(65,344)
Change in cash and cash equivalents due to changes in scope of consolidation		0	38
Change in cash and cash equivalents due to changes in exchange rates		(526)	(100)
Cash and cash equivalents at March 1		356,935	422,341
<b>Cash and cash equivalents at balance sheet date</b>		<b>428,849</b>	<b>356,935</b>

Cash and cash equivalents include cash on hand, credit balances at banks, and other short-term deposits.

The other non-cash income/expenses item mainly relates to deferred taxes and unrecognized exchange rate gains/losses.

The cash flow from operating activities was reduced by income tax payments of € 30,882k (2012/2013: € 36,755k) and interest payments of € 31,777k (2012/2013: € 46,821k) and increased by interest received of € 874k (2012/2013: € 2,226k).

The proceeds from disposal of non-current assets and of non-current assets held for sale include proceeds of € 4,990k from disposals in previous years (2012/2013: € 1,790k).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### Basis of preparation

In line with § 315a of the German Commercial Code (HGB), HORNBACH HOLDING AG prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as requiring mandatory application in the European Union. The consolidated financial statements and group management report of HORNBACH HOLDING AG are published in the electronic Federal Official Gazette (Bundesanzeiger).

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

The financial year of HORNBACH 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.

To enhance clarity, individual income statement and balance sheet items have been grouped together. These items are reported separately in the notes. In line with IAS 1 "Presentation of Financial Statements", a distinction is made in balance sheet reporting between non-current and current debt capital. Debt items are treated as current if they are due within one year. The consolidated financial statements have been compiled in euros. This represents the functional currency at HORNBACH HOLDING AG. The figures have been rounded off to the nearest thousand or million euros. Such rounding up or down may result in minor discrepancies between the figures depicted in the various sections of these notes.

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

The Board of Management of HORNBACH HOLDING AG prepared the consolidated financial statements and approved them for publication on May 23, 2014. The period in which adjusting events could be accounted for thus expired as of this date.

### Amendments to recognition and measurement methods as a result of new standards

Application has been made of all International Financial Reporting Standards and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) valid and requiring mandatory application at the balance sheet date, to the extent that such are relevant for the HORNBAACH HOLDING AG Group.

The following new standards, revised standards and interpretations required application for the first time in the 2013/2014 financial year:

- IAS 19 (revised 2011) "Employee Benefits": Due to the first-time application of IAS 19 (revised 2011), the option of using the so-called corridor method is no longer available. The elimination of this option has no implications for the level of shareholders' equity, as actuarial gains and losses were recognized in equity in full and in line with their respective periods in the past already. The amendment requiring any future retrospective service cost to be recognized through profit or loss directly in the year in which the plan is adjusted also has not had any implications for the current or past consolidated financial statements.

As a result of the amended definition of termination benefits, the top-up payments committed in the context of part-time early retirement agreements now constitute other long-term employee benefits requiring accrual by installment. Moreover, when determining the net interest expense for the return on plan assets, reference now has to be made to the rate used to discount pension obligations. The Group has analyzed the implications of the aforementioned amendments to IAS 19 (revised 2011) for its current and past consolidated financial statements and has concluded that these amendments have no material impact on its consolidated financial statements.

Material implications have resulted in respect of the pension commitments in Switzerland. The recognition of risk sharing between the employer and the employees has given rise to the following items not affecting earnings:

€ 000s	February 28, 2013	March 1, 2012
<b>Assets</b>		
<b>Non-current assets</b>		
Other non-current receivables and assets	0	1,027
<b>Equity and liabilities</b>		
<b>Shareholders' equity</b>		
Revenue reserves	1,140	630
Non-controlling interest	353	195
<b>Non-current liabilities</b>		
Provisions for pensions	-1,857	0
Deferred tax liabilities	364	201

Earnings-effective items that arose in the comparative period had no material implications for the consolidated financial statements for the comparative period and were thus already recognized in full as of March 1, 2012.

Alongside the aforementioned change in recognition, these amendments have also resulted in extended note disclosures.

- IFRS 13 (2011) "Fair Value Measurement": This standard has introduced a uniform definition of fair value applicable to all standards and governs the calculation of fair value and the respective disclosure obligations. Application has led to extended note disclosures.
- Amendments to IAS 1 (2011) "Presentation of Items of Other Comprehensive Income": This amendment affects the structure of the statement of comprehensive income. Items reclassified at a later date to the income statement (recycling) must be presented separately from items that will never be reclassified. Application has led to an extension in the statement of comprehensive income. The comparative information has been adjusted accordingly.

The following standards, revisions, and interpretations requiring mandatory application from the 2013/2014 financial year have no material implications for the consolidated financial statements of HORNBAACH HOLDING AG:

- Annual Improvements to IFRSs, 2009 – 2011 Cycle
- Amendments to IFRS 1 (2012) "Government Loans"
- Amendments to IFRS 1 (2010) "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters"
- Amendments to IFRS 7 (2011) "Disclosures: Offsetting Financial Assets and Financial Liabilities"
- Amendments to IAS 12 (2010) "Recovery of Underlying Assets"
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"

Premature application was made in the 2013/2014 financial year of the following amendment:

- Amendments to IAS 36 (2013) "Recoverable Amount Disclosures for Non-Financial Assets": This amendment has adjusted the unintended disclosure obligations introduced by IFRS 13 in respect of the recoverable amount for non-financial assets. On the other hand, the scope of disclosures has been extended in cases where write-downs or write-ups are recognized during the reporting period for an individual asset or a cash-generating group. Premature application of this amendment has averted the mandatory disclosure of the recoverable amount for cash-generating units.

#### **Standards and interpretations not applied prematurely**

The IASB has issued the following standards, interpretations, and revisions to existing standards of relevance to the HORNBAACH HOLDING AG Group which only require mandatory application in later financial years and which the HORNBAACH HOLDING AG Group has also not applied prematurely:

- Amendments to IAS 27 "Separate Financial Statements": Upon the adoption of IFRS 10 "Consolidated Financial Statements", the requirements governing the principle of control and preparation of consolidated financial statements will be transferred out of IAS 27 and definitively treated in IFRS 10 (please see comments on IFRS 10). As a result, IAS 27 will in future only include those requirements governing the accounting treatment of subsidiaries, joint ventures and associates in IFRS separate financial statements. The amendment requires first time application in financial years beginning on or after January 1, 2014.



The amendments to IAS 27 will not have any implications for the net asset, financial and earnings position of the HORNBAACH HOLDING AG Group.

- Amendments to IAS 28 "Investments in Associates and Joint Ventures": The adoption of IFRS 11 "Joint Arrangements" also resulted in adjustments being made to IAS 28. As previously, IAS 28 governs application of the equity method. However, its scope of application will be significantly extended due to the adoption of IFRS 11. In future, not only investments in associates, but also investments in joint ventures will have to be measured using the equity method (please see IFRS 11). Application of proportionate consolidation for joint ventures will thus become obsolete. In future, potential voting rights and other derivative financial instruments will also have to be accounted for when assessing whether a company has significant influence and/or when determining the share held by an investor in the company's assets.

A further amendment relates to recognition pursuant to IFRS 5 in cases where only part of the investment in an associate or a joint venture is intended for sale. IFRS 5 should then be partially applied when only one share or part of an investment held in an associate (or in a joint venture) meets the "held for sale" criterion. The amendment requires first time application in financial years beginning on or after January 1, 2014. The amendments to IAS 28 are not expected to have any implications for the net asset, financial, or earnings position of the HORNBAACH HOLDING AG Group.

- IFRS 10 "Consolidated Financial Statements": In this standard, the concept of control is provided with a new, comprehensive definition. If one company controls another company, then the parent company must consolidate the subsidiary. Under the new concept, control exists when voting or other rights mean that the potential parent company can exercise power over the potential subsidiary, when it participates in positive or negative variable returns from the potential subsidiary, and when it can influence these returns on account of its power over the potential subsidiary. This new standard might have implications for the scope of consolidation, such as for special purpose entities. Where differing qualifications in terms of subsidiary status are ascertained under IAS 27/SIC-12 and IFRS 10, retrospective application must be made of IFRS 10. Early application is only permitted if undertaken in parallel with the application of IFRS 11 and IFRS 12, as well as with the amendments to IAS 27 and IAS 28 introduced in 2011. The new standard requires first-time application in financial years beginning on or after January 1, 2014.

HORNBAACH HOLDING AG directly or indirectly holds the majority of the capital in its subsidiaries. This share of capital generally corresponds to the share of voting rights with which "control" as defined in IFRS 10 can be exercised. No other legal arrangements are in place that could influence "control" as defined in IFRS 10.

Deviating from this assessment, at the three special purpose entities (SPEs) the share of capital does not correspond to the share of voting rights. The share of capital in this case amounts to 90 %, while the share of voting rights amounts to 19 %. Irrespective of this, further arrangements concluded with the HORNBAACH Group assign substantial rights to the Group to influence key activities and the level of returns at these companies.

As a result, first-time application of IFRS 10 will not have any implications for the future presentation of the consolidated financial statements of HORNBAACH HOLDING AG.

- IFRS 11 "Joint Arrangements": This standard provides new requirements for the accounting treatment of joint arrangements. The decisive criterion under the new concept is whether the entity constitutes a joint operation or a joint venture. A joint operation exists when the parties exercising joint control have direct

rights over the assets and obligations for the liabilities. The individual rights and obligations are recognized on a prorated basis in the consolidated financial statements. In a joint venture, by contrast, the parties exercising joint control have rights over the net asset surplus. This right is presented in the consolidated financial statements by application of the equity method. The option of proportionate consolidation in the consolidated financial statements is thus obsolete. The new standard requires first-time application in financial years beginning on or after January 1, 2014. Specific transitional requirements have been laid down for the transition, e.g. from proportionate consolidation to the equity method. Premature application is only permitted in parallel with IFRS 10 and IFRS 12, as well as with the amendments to IAS 27 and IAS 28 introduced in 2011.

Given the share of capital and voting rights held by HORNBAACH HOLDING AG in its subsidiaries, these do not constitute joint operations as defined in IFRS 11. There are also no other contractual arrangements that could result in a joint operation. The first-time application of IFRS 11 will therefore not have any implications for the future presentation of the consolidated financial statements of HORNBAACH HOLDING AG.

- IFRS 12 "Disclosure of Interests in Other Entities": This standard governs the disclosure obligations for interests held in other entities. The disclosures required are considerably more extensive than those required to date under IAS 27, IAS 28 und IAS 31. The new standard requires first-time application in financial years beginning on or after January 1, 2014. First-time application of the amended standard is expected to lead to extended note disclosures in the consolidated financial statements of HORNBAACH HOLDING AG.
- Amendments to IFRS 10, IFRS 12 and IAS 27 "Investment Entities": The amendments include a definition of the concept of investment entities and remove such companies from the scope of IFRS 10 "Consolidated Financial Statements". Accordingly, investment entities do not consolidate the companies they control in their IFRS consolidated financial statements. This exception to general principles is not to be viewed as an option. Rather than fully consolidating participating interests held for investment purposes, investment entities recognize such interests at fair value and recognize period-based fluctuations in value through profit or loss. The amendments require first-time application in financial years beginning on or after January 1, 2014. First-time application of these amendments will not have any implications for the future presentation of the consolidated financial statements of HORNBAACH HOLDING AG.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 "Transition Guidance": These amendments include clarification and offer additional relief upon the transition to IFRS 10, IFRS 11, and IFRS 12. Adjusted comparative information is thus only required for the preceding comparative period. Furthermore, in connection with note disclosures on non-consolidated structured entities, the obligation to disclose comparative information for periods prior to first-time application of IFRS 12 has also been waived. The amendments to IFRS 10, IFRS 11 and IFRS 12 require first-time application in financial years beginning on or after January 1, 2014. First-time application of these amendments will not have any implications for the future presentation of the consolidated financial statements of HORNBAACH HOLDING AG.
- Amendments to IAS 32 "Financial Instruments Presentation – Offsetting Financial Assets and Financial Liabilities": This supplement to IAS 32 clarifies the requirements in place for offsetting financial instruments. The supplement explains the significance of the current legal right to set-off and clarifies which methods involving gross settlement may be deemed to constitute net settlement pursuant to the standard. The amendment to IAS 32 requires first-time application in financial years beginning on or after Janu-

ary 1, 2014. First-time application of the amended standard is not expected to have any implications for the future consolidated financial statements of HORNBAACH HOLDING AG.

- Amendments to IAS 39 (2013) "Novation of Derivatives and Continuation of Hedge Accounting": This amendment introduces relief in respect of the continuation of hedge accounting. Under the new requirements, the novation of the counterparty to a designated hedging instrument is permitted when such novation results in particular from laws or regulations. The amendment requires first-time application in financial years beginning on or after January 1, 2014. Premature application is permitted. First-time application of this amendment is not expected to have any implications for the future consolidated financial statements of HORNBAACH HOLDING AG.

#### **Standards, interpretations and amendments published as of the balance sheet date, but not yet adopted into European law by the EU Commission**

The following requirements had been published in English by the IASB and the IFRIC but not yet endorsed by the EU as of the balance sheet date:

- IFRS 9 "Financial Instruments": The recognition and measurement of financial instruments in line with IFRS 9 is set to replace IAS 39. In future, financial assets will be classified and measured in only two groups: "at amortized cost" and "at fair value". The group of financial assets measured "at amortized cost" consists of those financial assets which only provide for a right to payment of interest and principal amounts at specified dates and which are also held within a business model whose objective is the holding of assets. All other financial assets belong to the group measured at fair value. As previously, financial assets in the first category may be redesignated to the fair value category in specific circumstances ("fair value option"). Changes in the value of financial assets in the fair value category must basically be recognized through profit or loss. For specific equity instruments, however, use may be made of the option of recognizing changes in value under other comprehensive income; dividend claims relating to these assets must nevertheless be recognized through profit or loss. The requirements for financial liabilities have basically been taken over from IAS 39. The main difference relates to the recognition of value changes for financial liabilities measured at fair value. In future, these will have to be broken down. The portion allocable to a company's proprietary credit risk must be recognized under other comprehensive income, while the remaining portion of the change in value must be recognized through profit or loss.

The date of first-time application for IFRS 9 is still unclear, but is not expected before January 1, 2017.

- IFRS 9 "Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39": The additions to IFRS 9 published in November 2013 have extended the standard to include the hedge accounting chapter and introduced amendments to IFRS 9, IFRS 7, and IAS 39. The new hedge accounting model provided for under IFRS 9 is intended to achieve closer links between companies' risk management systems and hedge accounting presentation. The hedge relationships still permitted are "cash flow hedge accounting", "fair value hedge accounting", and "hedge of a net investment in a foreign operation". First-time application of the new hedge accounting requirements is consistent with the requirements governing first-time application of IFRS 9. Hedge relationships do not have to be terminated due to the transition from IAS 39 to IFRS 9, provided that the relevant requirements and qualitative characteristics continue to be met. The existing requirements under IAS 39 remain applicable as an option under IFRS 9 as well. The date of first-time application of the new hedge accounting requirements is based on the requirements governing first-time application of IFRS 9.

- Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date and Transition Disclosures”: These amendments enable users to forego stating adjusted previous year’s figures upon the first-time application of IFRS 9. Originally, this relief was only possible if premature application was made of IFRS 9 prior to January 1, 2012. This relief involves additional note disclosures for IFRS 7 upon the date of transition. By analogy with the IFRS 9 requirements, the date of first-time application of these amendments is still unclear, but is not expected before January 1, 2017.
- IFRIC 21 “Levies”: This interpretation deals with the accounting treatment of public dues (levies) and clarifies when such obligations have to be recognized as liabilities in the financial statements. The scope of the interpretation specifically does not include fines, duties resulting from public law contracts or duties covered by the scope of other IFRS standards, such as IAS 12 “Income Taxes”. Subject to adoption into EU law, which is still outstanding, this interpretation requires first-time application in financial years beginning on or after January 1, 2014. Premature application is permitted.
- Amendments to IAS 19 (revised 2011) “Employee Contributions”: This amendment allows companies to recognize contributions made by employees or third parties to defined benefit plans as a reduction in current service cost in the period in which the associated work is performed. This approach is conditional on the contributions being independent of the number of service years. Subject to adoption into EU law, which is still outstanding, this amendment requires first-time application in financial years beginning on or after July 1, 2014. Premature application is permitted.
- Annual Improvements to IFRS 2010 – 2012 Cycle and Annual Improvements to IFRSs 2011 – 2013 Cycle: Within the IASB’s annual improvements process, amendments are introduced within individual IFRS standards in order to eliminate inconsistencies with other standards or to specify their content in greater detail. Unless otherwise stipulated in individual cases, these amendments require first-time application in financial years beginning on or after July 1, 2014. Their adoption into EU law is still outstanding.
- IFRS 14 “Regulatory Deferral Accounts”: This standard allows first-time adopters of IFRS to continue recognizing regulatory deferral accounts under national law in their IFRS financial statements as well where specific conditions are met. Subject to adoption into EU law, which is still outstanding, this standard will require first-time application in financial years beginning on or after January 1, 2016. Premature application is permitted.

The implications of IFRS 9, which is expected to require application from 2017, for the consolidated financial statements are currently being investigated. From a current perspective, the other new requirements are not expected to have any material implications.

**Consolidation principles**

The annual financial statements of the companies included in the consolidated financial statements are based on uniform recognition and measurement principles.

Apart from 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 balance sheet date for the consolidated financial statements. The financial year of these special purpose entities corresponds to the financial year of the holder of the majority of their voting rights. Accordingly, their separate financial statements have been prepared as of December 31, 2013. Account has been taken of all major transactions up to and including the balance sheet date.

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 tested for impairment at least once a 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 22 domestic and 43 foreign subsidiaries by way of full consolidation.

HORNBAACH HOLDING AG is the sole shareholder in HORNBAACH Immobilien AG and Hornbach Baustoff Union GmbH and the majority shareholder with a 76.4 % stake in HORNBAACH-Baumarkt-AG (2012/2013: 76.4 %). Further information about direct and indirect voting rights has been presented in the "Consolidated Shareholdings" overview.

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 companies and has 19 % of the voting rights. The financial year of these companies corresponds to the calendar year.



The HORNBAACH-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 HORNBAACH HOLDING AG.

The real estate companies HORNBAACH Real Estate Almelo B.V., Almelo (Netherlands), HORNBAACH Real Estate Den Haag B.V., Den Haag (Netherlands), and HORNBAACH Real Estate Zwolle B.V., Zwolle (Netherlands), have been included for the first time in the consolidated financial statements. These companies were founded in the 2013/2014 financial year.

Furthermore, TIM HB SRL, Timisoara Bd. (Romania), was merged into HORNBAACH Centrala SRL, Domnesti (Romania), and Ollesch & Fitzner GmbH, Bornheim (Germany), was merged into HORNBAACH-Baumarkt-AG, Bornheim (Germany). The real estate company PCQ Czech a.s., Prague (Czech Republic), which was acquired in June 2013, was also merged into HORNBAACH-Immobilien H.K. s.r.o., Prague (Czech Republic). The acquired company is operationally inactive as defined in IFRS 3. The acquisition process therefore does not constitute a business combination. The purchase price amounted to € 12.4 million. Of this sum, € 1.2 million was already paid in the previous year.

The changes in the scope of consolidation in the 2013/2014 financial year had no implications for the net asset, financial, and earnings position.

The development in the scope of consolidation was as follows:

	2013/2014	2012/2013
<b>March 1</b>	<b>65</b>	<b>63</b>
Companies consolidated for the first time	3	2
Companies merged	2	0
<b>February 28</b>	<b>66</b>	<b>65</b>

The changes resulted in the following aggregate changes in individual asset and liability items.

€ 000s	Additions 2013/2014	Additions 2012/2013
Property, plant, and equipment	0	2,822
Other assets	0	3,406
Non-current liabilities	0	215
Current liabilities	0	3,915

## Consolidated shareholdings

Company name and domicile	Shareholding in %	Equity <sup>1)</sup> in thousands, local currency	Local currency
<b>Germany</b>			
HORNBACH-Baumarkt-AG, Bornheim	76.4 <sup>2)4)</sup>	506,383	EUR
HORNBACH Immobilien AG, Bornheim	100 <sup>4)</sup>	136,132	EUR
HORNBACH International GmbH, Bornheim	76.4 <sup>2)</sup>	106,019	EUR
AWV-Agentur für Werbung und Verkaufsförderung GmbH, Bornheim	76.4 <sup>2)</sup>	276	EUR
HORNBACH Baustoff Union GmbH, Neustadt/Weinstrasse	100 <sup>4)</sup>	59,595	EUR
Union Bauzentrum Hornbach GmbH, Neustadt/Weinstrasse	100	4,820	EUR
Ruhland-Kallenborn & Co. GmbH, Neustadt/Weinstrasse	100	11,279	EUR
Ruhland-Kallenborn Grundstücksverwaltungsgesellschaft mbH, Neustadt/Weinstrasse	100	26	EUR
Robert Röhlinger GmbH, Neustadt/Weinstrasse	100	3,141	EUR
BM Immobilien Gamma GmbH, Bornheim	76.4 <sup>2)</sup>	(5)	EUR
HB Reisedienst GmbH, Bornheim	76.4 <sup>2)</sup>	7,316	EUR
BM Immobilien Lambda GmbH, Bornheim	76.4 <sup>2)</sup>	19	EUR
HB Services GmbH, Bornheim	76.4 <sup>2)</sup>	19	EUR
HORNBACH Versicherungs-Service GmbH, Bornheim	76.4 <sup>2)</sup>	96	EUR
HORNBACH Solar-, Licht- und Energiemanagement GmbH, Bornheim	76.4 <sup>2)</sup>	(35)	EUR
HIAG Immobilien Jota GmbH, Bornheim	100	6,806	EUR
HORNBACH Baustoff Union Grundstücksentwicklungs GmbH, Neustadt	100	(157)	EUR
HIAG Immobilien Gamma GmbH, Bornheim	100	19	EUR
HIAG Immobilien Delta GmbH, Bornheim	100	20	EUR
SULFAT GmbH & Co. Objekt Bamberg KG, Pullach	90	(805) <sup>3)</sup>	EUR
SULFAT GmbH & Co. Objekt Düren KG, Pullach	90	(654) <sup>3)</sup>	EUR
SULFAT GmbH & Co. Objekt Saarbrücken KG, Pullach	90	(920) <sup>3)</sup>	EUR
<b>Other European countries</b>			
HORNBACH Baumarkt GmbH, Wiener Neudorf, Austria	76.4 <sup>2)</sup>	70,959	EUR
EZ Immobilien Beta GmbH, Wiener Neudorf, Austria	76.4 <sup>2)</sup>	7,285	EUR
HL Immobilien Lambda GmbH, Wiener Neudorf, Austria	76.4 <sup>2)</sup>	(206)	EUR
HO Immobilien Omega GmbH, Wiener Neudorf, Austria	99.8	(307)	EUR
HS Immobilien Sigma GmbH, Wiener Neudorf, Austria	76.4 <sup>2)</sup>	(748)	EUR
HR Immobilien Rho GmbH, Wiener Neudorf, Austria	99.8	(188)	EUR
HC Immobilien Chi GmbH, Wiener Neudorf, Austria	99.8	(68)	EUR

<sup>1)</sup> Shareholders' equity corresponds to the local equity; in the case of HORNBACH Centrala SRL and HORNBACH Imobiliare SRL, however, equity has been determined in accordance with IFRS.

<sup>2)</sup> Of which: 0.0199% in current assets.

<sup>3)</sup> Shareholders' equity as of 12.31.2013.

<sup>4)</sup> Direct shareholdings of 76.4% and 100%.

<sup>5)</sup> Of which: 1% direct shareholding.

Company name and domicile	Shareholding in %	Equity <sup>1)</sup> in thousands, local currency	Local currency
HM Immobilien My GmbH, Wiener Neudorf, Austria	100	(71)	EUR
HB Immobilien Bad Fischau GmbH, Wiener Neudorf, Austria	100 <sup>5)</sup>	(280)	EUR
HORNBACH Baumarkt Luxemburg SARL, Bertrange, Luxembourg	76.4 <sup>2)</sup>	10,268	EUR
HORNBACH Holding B.V., Amsterdam, Netherlands	76.4 <sup>2)</sup>	79,552	EUR
HORNBACH Bouwmarkt (Nederland) B.V., Driebergen-Rijsenburg, Netherlands	76.4 <sup>2)</sup>	9,197	EUR
HORNBACH Real Estate Tilburg B.V., Tilburg, Netherlands	76.4 <sup>2)</sup>	582	EUR
HORNBACH Real Estate Groningen B.V., Groningen, Netherlands	76.4 <sup>2)</sup>	574	EUR
HORNBACH Real Estate Wateringen B.V., Wateringen, Netherlands	76.4 <sup>2)</sup>	1,077	EUR
HORNBACH Real Estate Alblasserdam B.V., Alblasserdam, Netherlands	76.4 <sup>2)</sup>	523	EUR
HORNBACH Real Estate Nieuwegein B.V., Nieuwegein, Netherlands	76.4 <sup>2)</sup>	1,121	EUR
HORNBACH Real Estate Nieuwerkerk B.V., Nieuwerkerk, Netherlands	76.4 <sup>2)</sup>	527	EUR
HORNBACH Real Estate Geleen B.V., Geleen, Netherlands	76.4 <sup>2)</sup>	129	EUR
HORNBACH Reclame Activiteiten B.V., Nieuwegein, Netherlands	76.4 <sup>2)</sup>	(54)	EUR
HORNBACH Real Estate Breda B.V., Breda, Netherlands	76.4 <sup>2)</sup>	2,065	EUR
HORNBACH Real Estate Amsterdam-Sloterdijk, Amsterdam, Netherlands	76.4 <sup>2)</sup>	(40)	EUR
HORNBACH Real Estate Nederland B.V., Amsterdam, Netherlands	100	105	EUR
HORNBACH Real Estate Best B.V., Nieuwegein, Netherlands	76.4 <sup>2)</sup>	12	EUR
HORNBACH Real Estate Den Haag B.V., Den Haag, Netherlands	76.4 <sup>2)</sup>	7	EUR
HORNBACH Real Estate Zwolle B.V., Zwolle, Netherlands	76.4 <sup>2)</sup>	11	EUR
HORNBACH Real Estate Almelo B.V., Almelo, Netherlands	76.4 <sup>2)</sup>	18	EUR
HORNBACH Baumarkt CS spol s.r.o., Prague, Czech Republic	76.4 <sup>2)</sup>	1,775,651	CZK
HORNBACH Immobilien H.K. s.r.o., Prague, Czech Republic	97.6	125,053	CZK
HORNBACH Baumarkt (Schweiz) AG, Oberkirch, Switzerland	76.4 <sup>2)</sup>	103,909	CHF
HORNBACH Byggmärknad AB, Gothenburg, Sweden	76.4 <sup>2)</sup>	(10,505)	SEK
HIAG Fastigheter i Göteborg AB, Gothenburg, Sweden	100	17,325	SEK
HIAG Fastigheter i Helsingborg AB, Gothenburg, Sweden	100	1,430	SEK
HIAG Fastigheter i Göteborg Syd AB, Gothenburg, Sweden	100	607	SEK
HIAG Fastigheter i Stockholm AB, Gothenburg, Sweden	100	92,337	SEK
HIAG Fastigheter i Botkyrka AB, Gothenburg, Sweden	100	37,400	SEK
HIAG Fastigheter i Sisjön AB, Gothenburg, Sweden	76.4 <sup>2)</sup>	1,886	SEK
HORNBACH Immobilien SK-BW s.r.o., Bratislava, Slovakia	100	7,675	EUR
HORNBACH-Baumarkt SK spol. s.r.o., Bratislava, Slovakia	76.4 <sup>2)</sup>	17,645	EUR
HORNBACH Centrala SRL, Domnesti, Romania	76.4 <sup>2)</sup>	68,292	RON
HORNBACH Imobiliare SRL, Domnesti, Romania	100	116,057	RON
Etablissement Camille Holtz et Cie S.A., Phalsbourg, France	99.92	1,078	EUR
Saar-Lor Immobilière S.C.L., Phalsbourg, France	60	160	EUR

<sup>1)</sup> Shareholders' equity corresponds to the local equity; in the case of HORNBACH Centrala SRL and HORNBACH Imobiliare SRL, however, equity has been determined in accordance with IFRS.

<sup>2)</sup> Of which: 0.0199 % in current assets.

<sup>3)</sup> Shareholders' equity as of 12.31.2013.

<sup>4)</sup> Direct shareholdings of 76.4 % and 100 %.

<sup>5)</sup> Of which: 1 % direct shareholding.

Control and profit and loss transfer agreements have been concluded between HORNBACH HOLDING AG and HORNBACH Immobilien AG and between HORNBACH Baustoff Union GmbH and Union Bauzentrum HORNBACH GmbH on the one hand, and Robert Röhlinger GmbH on the other hand. A control and profit and loss transfer agreement is also in place between Ruhland-Kallenborn & Co. GmbH and Ruhland-Kallenborn Grundstücksverwaltungsgesellschaft mbH. Furthermore, a control and profit and loss transfer agreement is in place between HORNBACH-Baumarkt-AG and HORNBACH International GmbH.

### Currency translation

In the separate financial statements of HORNBAACH HOLDING AG and its consolidated subsidiaries, transactions in currencies other than the respective company's functional currency have been translated into the relevant functional currency at the transaction rate. All receivables and liabilities in currencies other than the respective company's functional currency have been measured, irrespective of any currency hedges, at the reporting date rate. 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 revenue reserves.

The most important foreign exchange rates applied are as follows:

Country	Rate on reporting date		Average rate	
	2.28.2014	2.28.2013	2013/2014	2012/2013
RON Romania	4.5018	4.3588	4.43973	4.46426
SEK Sweden	8.8525	8.4475	8.69850	8.66173
CHF Switzerland	1.2153	1.2209	1.23045	1.20870
CZK Czech Republic	27.3440	25.6370	26.31141	25.18442
USD USA	1.3813	1.3129	1.33332	1.28992

**Accounting policies**

Assets and liabilities have generally been measured at amortized cost. Derivative financial instruments and assets measured at fair value through profit and loss have been recognized at fair value. Revenues such as rental income, interest income and dividends have been deferred.

**Goodwill**

Goodwill is tested for impairment once a year. 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 share of goodwill allocated to such units, are compared with the higher of the fair value less costs to sell 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 identifiable asset. Goodwill is not written up.

Individual DIY stores are viewed as cash generating units at the HORNBAACH HOLDING AG Group. The HORNBAACH Baustoff Union GmbH subgroup in its entirety is viewed as a cash generating unit. 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 within the strategic five-year plan. Periods reaching further into the future have been based on a growth factor of 1.0 % to 1.5 % (2012/2013: 1.0 %). 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.

Discounting is based on average equity and debt capital costs after taxes (WACC= Weighted Average Cost of Capital). The calculation of the costs of equity is based on the yield expected on a long-term risk-free federal bond. The costs of debt capital are based on the aforementioned base rate and include a risk premium. This risk premium is appropriate to the rating of HORNBAACH-Baumarkt-AG or of a relevant peer group. The discount rates applied for the respective cash generating units take account of the specific equity capital structures of a peer group, and of country risk. Discount rates of between 5.4 % and 6.7 % were applied in the 2013/2014 financial year (2012/2013: 5.1 % to 7.2 %). The company basically assumes that those changes in key assumptions that are deemed possible would not lead to the carrying amounts of the cash generating units exceeding their respective recoverable amounts.

**Intangible assets (except goodwill)**

Intangible assets with finite useful lives are recognized at amortized cost.



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 15

Impairment losses are recognized when there are indications of impairment and the recoverable amount falls short of the carrying amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. Corresponding write-ups are recognized when the reasons for impairment losses recognized in previous years no longer apply.

There are no intangible assets with indefinite useful lives.

#### Property, plant and equipment and investment property

Property, plant and equipment and investment property are recognized at amortized cost.

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 recognized when the reasons for impairment losses recognized in previous years no longer apply.

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 15

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 (revised)".

#### Leases

Leased items of property, plant and equipment which are to be viewed in economic terms as 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. Where group companies act as lessees within an operating lease, i.e. when all significant risks and rewards remain with the lessor, then the leasing expenses are recognized on a straight-line basis in the income statement.

**Inventories**

Inventories are carried at cost or at their net sale value, if lower. 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. Costs of unfinished services in the builders' merchant business and customer orders for merchandise deliveries, including services provided, with tradesmen commissioned by HORNBAACH, include directly allocable costs and a commensurate share of production and material overhead costs.

**Taxes**

Taxes levied by the respective countries on taxable income and changes in deferred tax items are recognized as taxes on income. These are calculated in accordance with the relevant national legislation on the basis of the tax rates applicable at the balance sheet date, or due to be applicable in the near future.

Other taxes are allocated to the respective functional divisions and recognized under the corresponding expenses for the relevant function.

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 generate sufficient taxable income in future.

Deferred tax assets and liabilities are netted for each company or fiscal unity provided that such are due to or from the same tax authority.

**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 costs to sell, if such is lower than the carrying amount.

**Pensions and similar obligations**

Consistent with legal requirements in the respective countries and with individual commitments made to members of the Board of Management, 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 (revised 2011) "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 balance sheet 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 settlement 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 and onerous contracts 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 and payables, 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. Derivative financial instruments are recognized at fair value as of the transaction date. Primary financial instruments are basically recognized at the time at which the company becomes a contractual party. Upon initial recognition, these are recognized at fair value. This generally corresponds to the transaction price. Where there are indications that the fair value deviates from the transaction price, the fair value is determined in accordance with the logic outlined in "Fair Value Measurement" and then used as the basis for initial recognition.

Financial assets are basically derecognized once the contractual rights to payment have expired. Furthermore, financial assets are derecognized when the contractual rights to payment, and thus all significant risks and rewards or powers of disposal over these assets, have been assigned. 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 amortized cost, 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 pursuant to IAS 39 as available for sale, as they cannot be allocated to any other of the IAS 39 categories. They are measured at fair value, where this can be reliably determined, and otherwise at cost. Interests in unconsolidated subsidiaries, investments and prepayments for financial assets are recognized at cost, as there is no active market for these companies and their fair values cannot be reliably determined at reasonable expense. These exclusively relate to equity instruments.

**Receivables and other assets** (except derivatives) are carried at amortized cost or at present value, if lower. Value reductions are stated to account for all identifiable risks. These are determined on the basis of individual risk assessments and depending on the maturity structure of overdue receivables. Specific cases of default lead to the receivable in question being derecognized. Impairment accounts are maintained for trade receivables and the financial assets recognized under other receivables and assets. Amounts from impairment accounts are derecognized, with a corresponding charge to the carrying amount of the impaired assets, in cases such as when insolvency proceedings against the debtor have been completed, or when the receivable is deemed irretrievably lost.

**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) is 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 and the promissory note bonds using the effective interest method. All other debt items are also recognized at amortized cost. This mostly corresponds to the respective repayment amount.

#### **Derivative financial instruments**

Derivative financial instruments, such as forward exchange transactions and interest and interest-currency 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 speculative 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 balance sheet date. The fair value of interest and interest-currency swaps is determined by the financial institutions with which they were concluded. The financial institutions use customary market valuation models (e.g. discounted cash flow method) that refer to the interest and currency information available on the market. This corresponds to Level 2 input factors in the fair value hierarchy.

Upon entering into a hedging transaction, the HORNBAACH HOLDING AG Group classifies certain derivatives as hedging future cash flows or planned transactions (cash flow hedges). Changes in the fair value of those cash flow hedges viewed as effective are recognized directly in equity under revenue reserves, 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.

#### **Fair value measurement**

Fair value represents the price on a given valuation date which a company would receive to sell an asset or to transfer a liability (exit price). Fair value is determined in line with the three-level measurement hierarchy set out in IFRS 13. Based on the availability of information, fair value is determined by reference to the following hierarchy.

Level 1 information –	current market prices on an active market for identical financial instruments
Level 2 information –	current market prices on an active market for comparable financial instruments or using valuation methods whose key input factors are based on observable market data
Level 3 information –	input factors not based on observable market prices

The level of information and/or valuation methods used to determine the fair value of assets and liabilities is explained in the respective chapter.

**Sales**

Income from the sale of goods is recognized upon transfer of ownership, taking due account of the expected level of goods returned.

**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 from operating lease arrangements 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 for operating lease arrangements are recognized on a straight-line basis as expenses over the term of the rental contract.

Outlays on advertising campaigns and sales promotion measures are recognized as expenses once the relevant powers of disposal have been granted or the respective service received.

The reversal of provisions and accrued liabilities has generally been recognized as a reduction in expenses within the functional expense group in which the costs of recognizing the corresponding provision or accrued liability were originally presented.

Interest expenses and interest income are recognized in accordance with the period of the respective financial debt.

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



## Segment Report

Segment reporting is consistent with the accounting policies applied in the consolidated financial statements (IFRS). Sales to external third parties represent net sales. Transfer prices between the segments are equivalent to those applied to external third parties.

### Segment delineation

The allocation of segments corresponds to the internal reporting system used by the Board of Management of the HORNBACH HOLDING AG Group for managing the company ("management approach"). Based on the management approach, the Group has the following segments: "HORNBACH-Baumarkt-AG subgroup", "HORNBACH Immobilien AG subgroup", and "HORNBACH Baustoff Union GmbH subgroup". The cornerstone of the HORNBACH HOLDING AG Group is the HORNBACH-Baumarkt-AG subgroup, which operates DIY megastores with garden centers in Germany and abroad. The retail activities of the HORNBACH HOLDING AG Group are rounded off by the HORNBACH Baustoff Union GmbH subgroup, which operates in the construction materials and builders' merchant business and mainly has business customers. The HORNBACH Immobilien AG subgroup develops retail real estate and lets this out, mostly to operating companies within the HORNBACH HOLDING AG Group. The "Headquarters and consolidation" reconciliation column includes administration and consolidation items not attributable to the individual segments.

### Segment earnings

Earnings before interest and taxes (EBIT) have been taken to represent the segment earnings.

### Segment assets and liabilities

Apart from income tax receivables, income tax liabilities and deferred taxes, asset and liability items in the consolidated balance sheet have been directly allocated to the individual segments as far as possible. Remaining assets and liabilities have been allocated as appropriate. Liabilities in the consolidated balance sheet have been increased by liabilities to group companies in the individual segments and have been allocated to the individual segments in line with their causation. The resultant adjustments have been eliminated in the "Headquarters and consolidation" reconciliation column. Investments relate to the non-current assets allocable to the respective segment.

2013/2014 in € million 2012/2013 in € million	HORNBACH- Baumarkt-AG subgroup	HORNBACH Baustoff Union GmbH subgroup	HORNBACH Immobilien AG subgroup	Headquarters and consolidation	HORNBACH HOLDING AG Group
<b>Segment sales</b>	<b>3,152.0</b>	<b>215.7</b>	<b>76.9</b>	<b>(75.3)</b>	<b>3,369.3</b>
	3,020.0	207.3	72.2	(70.5)	3,229.0
Sales to third parties	3,150.9	214.7	0.0	0.0	3,365.6
	3,018.9	206.5	0.0	0.0	3,225.4
Sales to affiliated companies	0.1	0.9	0.0	(1.0)	0.0
	0.1	0.8	0.0	(0.9)	0.0
Rental income from third parties	1.0	0.1	2.6	0.0	3.7
	1.0	0.0	2.6	0.0	3.6
Rental income from affiliated companies	0.0	0.0	74.3	(74.3)	0.0
	0.0	0.0	69.6	(69.6)	0.0
<b>Segment earnings (EBIT)</b>	<b>105.1</b>	<b>5.5</b>	<b>51.1</b>	<b>(1.3)</b>	<b>160.4</b>
	99.3	4.6	46.4	(4.4)	145.9
of which: depreciation and amortization	55.9	5.2	14.6	(0.3)	75.4
	56.5	4.8	14.1	0.0	75.4
<b>Segment assets</b>	<b>1,656.8</b>	<b>128.4</b>	<b>539.6</b>	<b>7.1</b>	<b>2,331.9</b>
	1,577.8	124.6	518.6	8.6	2,229.6
of which: credit balances at banks	349.8	1.0	48.0	8.6	407.4
	300.8	1.1	28.9	9.6	340.4
<b>Investments</b>	<b>72.0</b>	<b>8.0</b>	<b>36.7</b>	<b>0.0</b>	<b>116.7</b>
	116.6	13.7	36.4	(14.5)	152.2
<b>Segment liabilities <sup>1)</sup></b>	<b>753.7</b>	<b>64.2</b>	<b>334.1</b>	<b>(42.9)</b>	<b>1,109.1</b>
	718.9	64.7	339.9	(41.1)	1,082.4
of which: financial debt	371.7	37.5	300.1	0.0	709.3
	382.1	39.3	306.5	0.0	727.9

Reconciliation in € million	2013/2014	2012/2013
<b>Segment earnings (EBIT) before "Headquarters and consolidation"</b>	<b>161.7</b>	<b>150.3</b>
Headquarters	(3.0)	(2.9)
Consolidation adjustments	1.7	(1.5)
Net financial expenses	(32.6)	(38.2)
<b>Consolidated earnings before taxes</b>	<b>127.8</b>	<b>107.6</b>
<b>Segment assets</b>	<b>2,331.9</b>	<b>2,229.6</b>
Deferred tax assets	8.9	15.0
Income tax receivables	21.6	25.2
<b>Total assets</b>	<b>2,362.4</b>	<b>2,269.8</b>
<b>Segment liabilities <sup>1)</sup></b>	<b>1,109.1</b>	<b>1,082.4</b>
Deferred tax liabilities <sup>1)</sup>	57.4	60.7
Income tax liabilities	31.8	29.8
<b>Total liabilities <sup>1)</sup></b>	<b>1,198.3</b>	<b>1,172.9</b>

<sup>1)</sup> Previous year's figures adjusted due to IAS 19R.

### Geographical disclosures

In the interests of comprehensibility, the mandatory geographical disclosures for sales to third parties and non-current assets have been supplemented on a voluntary basis with additional information.

The geographical disclosures have been subdivided into the "Germany" and "Other European countries" regions. The "Other European countries" region includes the Czech Republic, Austria, the Netherlands, Luxembourg, Switzerland, Sweden, Slovakia, Romania, and France (exclusively builders' merchants).

Sales are allocated to the geographical regions in which they were generated. Apart from income tax receivables, income tax liabilities and deferred taxes, all assets have been allocated to the region in which they are located. Investments relate to non-current assets allocated to the respective region. The reconciliation column includes consolidation items.

2013/2014 in € million 2012/2013 in € million	Germany	Other European countries	Reconciliation	HORNBACH HOLDING AG Group
<b>Sales</b>	<b>2,260.3</b>	<b>1,334.1</b>	<b>(225.1)</b>	<b>3,369.3</b>
	2,158.8	1,279.6	(209.4)	3,229.0
Sales to third parties	2,032.7	1,332.9	0.0	3,365.6
	1,946.9	1,278.3	0.1	3,225.4
Rental income from third parties	2.6	1.1	0.0	3.7
	2.6	1.0	0.0	3.6
Sales to affiliated companies	225.0	0.2	(225.1)	0.0
	209.3	0.2	(209.5)	0.0
<b>EBIT</b>	<b>71.2</b>	<b>89.1</b>	<b>0.1</b>	<b>160.4</b>
	60.3	85.6	0.0	145.9
<b>Depreciation and amortization</b>	<b>47.1</b>	<b>28.3</b>	<b>0.0</b>	<b>75.4</b>
	49.9	25.5	0.0	75.4
<b>EBITDA</b>	<b>118.3</b>	<b>117.4</b>	<b>0.1</b>	<b>235.7</b>
	110.2	111.1	0.0	221.3
<b>Assets</b>	<b>1,761.3</b>	<b>1,227.5</b>	<b>(656.9)</b>	<b>2,331.9</b>
	1,696.6	1,100.3	(567.3)	2,229.6
of which: non-current assets <sup>*)</sup>	652.9	633.7	(0.1)	1,286.5
	653.8	612.6	0.5	1,266.9
<b>Investments</b>	<b>47.8</b>	<b>71.1</b>	<b>(2.2)</b>	<b>116.7</b>
	64.4	87.8	(0.1)	152.2

<sup>\*)</sup> These involve property, plant and equipment, investment property, intangible assets and non-current deferrals and accruals. This item does not include non-current income tax receivables of € 10.9 million (2012/2013: € 14.4 million) for the Germany region.

## Notes on the Consolidated Income Statement

### (1) Sales

Sales mainly involve revenues in the “HORNBACH-Baumarkt-AG subgroup” and “HORNBACH Baustoff Union GmbH subgroup” segments. Furthermore, revenues of € 3,673k (2012/2013: € 3,655k) from the letting of real estate have also been reported under sales.

The sales of the Group broken down into business fields and regions have been depicted in the segment report.

### (2) Cost of goods sold

The cost of goods sold represents the expenses required for the generation of sales and is structured as follows:

	2013/2014 € 000s	2012/2013 € 000s
Expenses for auxiliary materials and purchased goods	2,101,390	2,019,979
Expenses for services rendered	34,039	29,507
	<b>2,135,429</b>	<b>2,049,486</b>

### (3) Selling and store expenses

Selling and store expenses include those costs incurred in connection with the operation of DIY megastores with garden centers and builders’ merchant centers. These mainly involve personnel expenses, costs of premises and advertising expenses, as well as depreciation and amortization. Moreover, this item also includes general operating expenses, such as administration expenses, transport costs, maintenance and upkeep, and rental expenses for plant and office equipment.

### (4) Pre-opening expenses

Pre-opening expenses mainly relate to those expenses arising at or close to the time of the construction up to the opening of new DIY megastores with garden centers. Pre-opening expenses mainly consist of personnel expenses, advisory expenses, costs of premises, advertising expenses, administration expenses, miscellaneous personnel expenses and depreciation and amortization.

### (5) Administration expenses

General and administration expenses include all costs incurred by administration departments in connection with the operation or construction of DIY stores with garden centers and of builders’ merchant centers which cannot be directly allocated to such. They mainly consist of personnel expenses, legal and advisory expenses, depreciation and amortization, costs of premises, and miscellaneous administration expenses, such as IT, travel and vehicle expenses.

**(6) Other income and expenses**

Other income and expenses are structured as follows:

	2013/2014 € 000s	2012/2013 € 000s
<b>Other income from operating activities</b>		
Income from advertising allowances and other reimbursements of suppliers	1,214	3,683
Income from damages	2,025	1,035
Income from disposal of non-current assets	1,517	1,015
Income from payment differences	501	432
Miscellaneous other income	11,354	18,405
	<b>16,611</b>	<b>24,570</b>
<b>Other income from non-operating activities</b>		
Income from disposal of real estate	903	1,566
Other non-operating income	0	700
	<b>903</b>	<b>2,266</b>
<b>Other income</b>	<b>17,514</b>	<b>26,836</b>

As in the previous year, miscellaneous other income for the current year under report principally relates to ancillary revenues at the DIY stores with garden centers, income from disposal activities, other income from personnel grants, and income from the writing back of receivables. The miscellaneous other income from operating activities reported for the previous year also includes income of € 6.1 million in connection with energy tax compensation. This resulted from the reversal of provisions recognized in the 2010/2011 financial year (€ 3.9 million) and from compensation not yet settled (€ 2.2 million).

	2013/2014 € 000s	2012/2013 € 000s
<b>Other expenses from operating activities</b>		
Impairments and defaults on receivables	3,342	2,661
Losses due to damages	2,546	1,435
Losses on disposal of non-current assets	427	404
Expenses from payment differences	295	202
Miscellaneous other expenses	1,920	2,939
	<b>8,530</b>	<b>7,641</b>
<b>Other expenses from non-operating activities</b>		
Impairment of property, plant, and equipment and investment property	434	1,201
Losses on disposal of non-current assets	1,468	398
Additions to provisions for onerous contracts	3,107	110
Other non-operating expenses	3	996
	<b>5,012</b>	<b>2,705</b>
<b>Other expenses</b>	<b>13,542</b>	<b>10,346</b>
<b>Net income from other income and expenses</b>	<b>3,972</b>	<b>16,490</b>

The miscellaneous other expenses reported for the previous year include settlements of € 1.0 million for third-party legal claims. Furthermore, the figure reported for the 2012/2013 financial year includes service fees of € 0.6 million due in connection with energy tax compensation.

The other non-operating expenses reported for the previous year included an amount of € 0.8 million for the addition to a provision for the refurbishment obligation at a DIY store property sold and leased back.

#### (7) Net financial expenses

	2013/2014 € 000s	2012/2013 € 000s
<b>Other interest and similar income</b>		
Interest income on financial instruments measured at amortized cost	874	2,226
	<b>874</b>	<b>2,226</b>
<b>Other interest and similar expenses</b>		
Interest expenses on financial instruments measured at amortized cost	24,963	36,175
Interest expenses on financial instruments used as hedging instruments	4,110	3,232
Interest expenses from compounding of provisions	141	16
Other	1,299	1,437
	<b>30,513</b>	<b>40,860</b>
<b>Net interest expenses</b>	<b>(29,639)</b>	<b>(38,634)</b>
<b>Other financial result</b>		
Gains/losses on derivative financial instruments	429	(576)
Gains and losses from foreign currency exchange	(3,372)	982
	<b>(2,943)</b>	<b>406</b>
<b>Net financial expenses</b>	<b>(32,582)</b>	<b>(38,228)</b>

In line with IAS 17 "Leases", financial leasing contracts are recognized under property, plant and equipment, with the interest component of the leasing installments, amounting to € 78k (2012/2013: € 93k) being recognized under interest and similar expenses. Net interest expenses do not include interest incurred for financing the construction stage of real estate development measures. This interest amounted to € 2,212k in the year under report (2012/2013: € 3,794k) and has been capitalized as a component of the costs of the property, plant and equipment concerned. The average financing cost rate used to determine the volume of borrowing costs eligible for capitalization amounted to 4.4 % (2012/2013: 5.9 %).

(Deferred) interest payments on interest swaps included as a hedging instrument within cash flow hedges are netted for each swap contract and recognized on the basis of their net amount either as interest income or interest expenses.

Gains/losses on derivative financial instruments include gains and losses of € 429k on derivative currency instruments (2012/2013: € -576k).

The gains and losses from foreign currency exchange for the 2013/2014 financial year chiefly result from the measurement of foreign currency receivables and liabilities. This resulted in net expenses of € 3,036k (2012/2013: income of € 4,344k). Furthermore, this item also includes realized exchange rate gains of € 5,283k (2012/2013: € 5,105k) and realized exchange rate losses of € 5,618k (2012/2013: € 8,467k). Gains



and losses from foreign currency exchange include income of € 1,340k (2012/2013: expenses of € 1,214k) from the reclassification of currency items relating to an interest-currency swap within a hedging relationship (cash flow hedge). This reclassification compensates for the currency items relating to the hedged loan.

#### **(8) Taxes on income**

The taxes on income reported include the taxes on income paid or payable in the individual countries, as well as deferred tax accruals.

As in the previous year, the German companies included in the HORNBAACH HOLDING AG Group are subject to an average trade tax rate of approximately 14 % of their trading income. The corporate income tax rate continues to amount to 15 %, plus 5.5 % solidarity surcharge.

As in the previous year, all domestic deferred tax items have been valued at an average tax rate of 30 %. The calculation of foreign income taxes is based on the relevant laws and regulations in force in the individual countries. As in the previous year, the income tax rates applied to foreign companies range from 16 % to 33 %.

The actual income tax charge of € 41,620k (2012/2013: € 30,195k) is € 3,282k higher (2012/2013: € 2,092k lower) than the expected tax charge of € 38,338k (2012/2013: € 32,287k) which would have been payable by applying the average tax rate of 30 % at HORNBAACH HOLDING AG (2012/2013: 30 %) to the Group's pre-tax earnings of € 127,788k (2012/2013: € 107,622k).

Deferred tax assets have been stated for as yet unutilized losses carried forward amounting to € 13,197k (2012/2013: € 40,270k). HORNBAACH HOLDING AG expects it to be possible to offset the tax losses carried forward, which in some cases are attributable to start-up losses in individual countries, against future earnings in full.

No deferred tax assets have been reported in the case of losses carried forward amounting to € 39,342k (2012/2013: € 6,607k), as future realization of the resultant benefit is not expected. Of these, losses carried forward of € 3,481k and of € 4,104k are due to expire within the next 5 and 7 years respectively. The previous year's figures included losses carried forward of € 3,481k whose use is limited to 5 years. There are no time limits on the utilization of all other losses carried forward for which no deferred tax assets have been stated.

Deferred tax assets of € 19k were recognized for the first time in the 2013/2014 financial year for losses carried forward whose utilization was previously not viewed as likely (2012/2013: € 0k). Furthermore, deferred tax assets of € 5,118k, and thus corresponding to the balance at the end of the previous year, were derecognized in the 2013/2014 financial year for losses carried forward whose utilization is no longer deemed likely (2012/2013: € 0k). The expenses for derecognition of these deferred tax items are included in deferred tax expenses.

Breakdown of the tax charge:

	2013/2014 € 000s	2012/2013 € 000s
<b>Current taxes on income</b>		
Germany	19,580	13,823
Other countries	17,080	18,880
	<b>36,660</b>	<b>32,703</b>
<b>Deferred tax expenses/income</b>		
due to changes in temporary differences	4,266	(2,415)
due to changes in tax rates	(30)	504
due to losses carried forward	724	(597)
	<b>4,960</b>	<b>(2,508)</b>
<b>Taxes on income</b>	<b>41,620</b>	<b>30,195</b>

The transition from the expected to the actual income tax charge is as follows:

	2013/2014		2012/2013	
	€ 000s	%	€ 000s	%
Expected income tax charge	38,338	100.0	32,287	100.0
Difference between local tax rate and group tax rate	(5,677)	(14.8)	(6,068)	(18.8)
Tax-free income	(823)	(2.1)	(826)	(2.6)
Tax reductions/increases due to changes in tax rates	(30)	(0.1)	504	1.6
Tax increases attributable to expenses not deductible for tax purposes	4,304	11.2	5,363	16.6
Tax increases attributable to unstated losses carried forward	1,966	5.1	59	0.2
Non-period current and deferred taxes	3,542	9.2	(1,124)	(3.5)
<b>Taxes on income</b>	<b>41,620</b>	<b>108.5</b>	<b>30,195</b>	<b>93.5</b>
Effective tax rate in %	32.6		28.1	

Taxes on income include non-period current tax income of € 1,337k (2012/2013: € 373k) and non-period deferred taxes of € 4,880k (2012/2013: € 751k). The non-period current tax income includes tax income of € 193k from the change in the present value of corporate income tax claims.

The taxes recognized directly in equity in the financial year under report relate to the following items:

	2013/2014 € 000s	2012/2013 € 000s
<b>Actuarial gains and losses on defined benefit plans <sup>1)</sup></b>		
Actuarial gains and losses on defined benefit plans before taxes	1,827	(3,437)
Change in deferred taxes	(369)	674
	<b>1,458</b>	<b>(2,763)</b>
<b>Measurement of derivative financial instruments (cash flow hedge)</b>		
Changes in fair value of derivative financial instruments before taxes	2,769	(3,427)
Change in deferred taxes	(728)	989
	<b>2,041</b>	<b>(2,438)</b>
<b>Exchange differences arising on the translation of foreign subsidiaries</b>	<b>(8,158)</b>	<b>(3,312)</b>
<b>Other comprehensive income, net after taxes</b>	<b>(4,658)</b>	<b>(8,513)</b>
of which: other comprehensive income before taxes	(3,562)	(10,176)
of which: change in deferred taxes	(1,097)	1,663

<sup>1)</sup> Previous year's figures adjusted due to IAS 19R.

### (9) Earnings per share

Basic earnings per share are calculated in line with IAS 33 "Earnings per Share" by dividing the consolidated net income allocable to the shareholders of HORNBAACH HOLDING AG by the weighted average number of shares in circulation during the financial year. As in the previous year, no dilutive effects arose in the 2013/2014 financial year.

	2013/2014	2012/2013
Consolidated net income allocable to shareholders in HORNBAACH HOLDING AG (in €)	72,737,311	64,977,181
Additional dividend on preference shares in €	(240,000)	(240,000)
<b>Consolidated net income adjusted by additional dividend claims in €</b>	<b>72,497,311</b>	<b>64,737,181</b>
Number of ordinary shares issued	8,000,000	8,000,000
Number of preference shares issued	8,000,000	8,000,000
	<b>16,000,000</b>	<b>16,000,000</b>
<b>Earnings per share in €</b>	<b>4.53</b>	<b>4.05</b>
Additional dividend claim per preference share in €	0.03	0.03
<b>Earnings per preference share in €</b>	<b>4.56</b>	<b>4.08</b>

**(10) Other disclosures on the income statement****Personnel expenses**

The individual expense items include the following personnel expenses:

	<b>2013/2014</b> <b>€ 000s</b>	2012/2013 € 000s
Wages and salaries	480,844	453,689
Social security contributions and pension expenses	103,979	97,396
	<b>584,823</b>	<b>551,085</b>

Wages and salaries also include expenses for temporary employees.

**Depreciation and amortization**

	<b>2013/2014</b> <b>€ 000s</b>	2012/2013 € 000s
Scheduled amortization of intangible assets and depreciation of property, plant, and equipment and investment property	74,922	74,199
Impairment of property, plant, and equipment and investment property	434	1,201
	<b>75,356</b>	<b>75,400</b>

As in the previous year, the impairment losses recognized in the 2013/2014 financial year relate exclusively to land and buildings not used for operations. Reference is also made to the disclosures on property, plant and equipment in Note 12.

Depreciation and amortization is included in the following items in the income statement:

2013/2014 financial year € 000s	Intangible assets	Property, plant, and equipment and investment property	Total
Selling and store expenses	610	65,618	66,228
Pre-opening expenses	0	157	157
General and administration expenses	2,677	5,860	8,537
Other income and expenses	0	434	434
	<b>3,287</b>	<b>72,069</b>	<b>75,356</b>

2012/2013 financial year € 000s	Intangible assets	Property, plant, and equipment and investment property	Total
Selling and store expenses	962	62,654	63,616
Pre-opening expenses	0	79	79
General and administration expenses	5,235	5,269	10,504
Other income and expenses	0	1,201	1,201
	<b>6,197</b>	<b>69,203</b>	<b>75,400</b>

## Notes on the Consolidated Balance Sheet

### (11) Intangible assets

The development in intangible assets in the 2012/2013 and 2013/2014 financial years was as follows:

€ 000s	Franchises, industrial property rights, and similar rights and values as well as licenses to such rights and values	Goodwill	Assets under construction	Total
<b>Cost</b>				
Balance at March 1, 2012	79,616	4,441	38	84,095
Changes in scope of consolidation	135	0	0	135
Additions	2,513	0	246	2,759
Disposals	1,095	0	4	1,099
Reclassifications	60	0	(17)	43
Foreign currency translation	(6)	0	0	(6)
<b>Balance at February 28/March 1, 2013</b>	<b>81,223</b>	<b>4,441</b>	<b>263</b>	<b>85,927</b>
Additions	1,539	0	51	1,590
Disposals	448	0	0	448
Reclassifications	178	0	(166)	12
Foreign currency translation	(15)	0	0	(15)
<b>Balance at February 28, 2014</b>	<b>82,477</b>	<b>4,441</b>	<b>148</b>	<b>87,066</b>
<b>Depreciation and amortization</b>				
Balance at March 1, 2012	65,996	1,169	0	67,165
Additions	6,197	0	0	6,197
Disposals	1,094	0	0	1,094
Foreign currency translation	(7)	0	0	(7)
<b>Balance at February 28/March 1, 2013</b>	<b>71,092</b>	<b>1,169</b>	<b>0</b>	<b>72,261</b>
Additions	3,287	0	0	3,287
Disposals	448	0	0	448
Foreign currency translation	(14)	0	0	(14)
<b>Balance at February 28, 2014</b>	<b>73,917</b>	<b>1,169</b>	<b>0</b>	<b>75,086</b>
<b>Carrying amount at February 28, 2014</b>	<b>8,560</b>	<b>3,272</b>	<b>148</b>	<b>11,980</b>
Carrying amount at February 28, 2013	10,131	3,272	263	13,666

Additions to franchises, industrial property rights and similar rights and values and licenses to such rights and values mainly relate to the acquisition of software licenses and expenses incurred to prepare the software for its intended use.

The goodwill mainly relates to garden centers in the Netherlands.

As in the previous year, there are no major restrictions on ownership and disposition rights.



**(12) Property, plant and equipment and investment property**

The development in property, plant and equipment in the 2012/2013 and 2013/2014 financial years was as follows:

€ 000s	Land, leasehold rights, and buildings on third-party land	Investment property (IAS 40)	Other equipment, plant, and office equipment	Assets under construction	Total
<b>Cost</b>					
Balance at March 1, 2012	1,293,455	62,142	533,609	58,516	1,947,722
Reclassifications to/from non-current assets held for sale	0	(5,926)	0	0	(5,926)
Changes in scope of consolidation	2,372	0	437	13	2,822
Additions	56,738	143	52,895	35,279	145,055
Disposals	107	0	30,010	407	30,524
Reclassifications pursuant to IAS 40	(934)	934	0	0	0
Reclassifications	53,325	0	684	(54,052)	(43)
Foreign currency translation	(3,393)	(84)	(747)	1,085	(3,139)
<b>Balance at February 28/March 1, 2013</b>	<b>1,401,456</b>	<b>57,209</b>	<b>556,868</b>	<b>40,434</b>	<b>2,055,967</b>
Additions	57,312	5,777	40,526	11,390	115,005
Disposals	3,650	135	27,209	1,474	32,468
Reclassifications pursuant to IAS 40	3,185	(3,185)	0	0	0
Reclassifications	29,071	0	4,509	(33,592)	(12)
Foreign currency translation	(15,425)	(507)	(3,244)	(644)	(19,820)
<b>Balance at February 28, 2014</b>	<b>1,471,949</b>	<b>59,159</b>	<b>571,450</b>	<b>16,114</b>	<b>2,118,672</b>
<b>Amortization</b>					
Balance at March 1, 2012	326,062	18,572	420,727	2	765,363
Reclassifications to/from non-current assets held for sale	0	(352)	0	0	(352)
Additions	29,570	1,856	37,777	0	69,203
Disposals	47	0	29,367	0	29,414
Reclassifications pursuant to IAS 40	(120)	120	0	0	0
Foreign currency translation	(440)	(2)	(402)	0	(844)
<b>Balance at February 28/March 1, 2013</b>	<b>355,025</b>	<b>20,194</b>	<b>428,735</b>	<b>2</b>	<b>803,956</b>
Additions	31,296	1,093	39,680	0	72,069
Disposals	33	108	26,279	0	26,420
Reclassifications pursuant to IAS 40	421	(421)	0	0	0
Foreign currency translation	(2,444)	(49)	(2,255)	0	(4,748)
<b>Balance at February 28, 2014</b>	<b>384,265</b>	<b>20,709</b>	<b>439,880</b>	<b>2</b>	<b>844,856</b>
<b>Carrying amount at February 28, 2014</b>	<b>1,087,684</b>	<b>38,450</b>	<b>131,570</b>	<b>16,112</b>	<b>1,273,816</b>
Carrying amount at February 28, 2013	1,046,431	37,015	128,133	40,432	1,252,011

The impairment losses included in depreciation relate to assets whose carrying amounts exceed their recoverable amounts. These impairment losses have been recognized under other expenses from non-operating activities.

In the 2013/2014 financial year, impairment losses of € 434k were recognized for items of investment property, which were written down to their net sale prices (2012/2013: € 1,201k). The net sale prices of these assets were determined by reference to current value surveys.

The impairment losses of € 1,201k recognized in the previous year related to investment property.

Impairment losses recognized on non-current assets are included in the corresponding segments as follows:

	2013/2014	2012/2013
<b>HORNBACH-Baumarkt-AG subgroup</b>		
Land	46	514
	<b>46</b>	<b>514</b>
<b>HORNBACH Immobilien AG subgroup</b>		
Land	388	687
	<b>388</b>	<b>687</b>
<b>Total</b>	<b>434</b>	<b>1,201</b>

Reference is made to Note 7 with regard to capitalized financing costs.

The real estate assets are predominantly owned by HORNBACH Immobilien AG, HORNBACH-Baumarkt-AG and by real estate companies established for this purpose.

Other equipment and plant and office equipment mainly relate to HORNBACH-Baumarkt-AG, Union Bauzentrum HORNBACH GmbH, Ruhland Kallenborn & Co. GmbH, and Robert Röhlinger GmbH in the case of German consolidated companies and to HORNBACH Baumarkt GmbH, HORNBACH Baumarkt Luxemburg SARL, HORNBACH Baumarkt CS spol s.r.o., HORNBACH-Baumarkt SK spol s.r.o., Hornbach Bouwmarkt (Nederland) B.V., Hornbach Baumarkt (Schweiz) AG, Hornbach Byggmarknad AB, HORNBACH Centrala SRL, and Etablissement Camille Holtz et Cie. SA in the case of foreign consolidated companies.

Investment property mainly relates to retail properties at various locations in Germany and abroad. The respective rental contracts have basic rental periods of 1 to 15 years and in some cases provide extension options for the lessee. The properties let to third parties are recognized at amortized cost. A useful life of 33 years has been assumed. The fair value of investment property amounts to approximately € 50.3 million (2012/2013: € 49.8 million). The fair values have been determined by independent experts and classified as Level 3 fair values based on the valuation methods and input data outlined below.

Valuation is performed using various methods. Use is made on the one hand of capitalized value methods, and here generally of the discounted cash flow method. This involves deriving the present value from future (rental) income by application of a discount rate. On the other hand, application is also made of market price methods by reference to the analogy method. Reference is made here to standard land values determined on the basis of comparisons with the prices of suitable comparative pieces of land or determined by surveyor committees on the basis of corresponding land sales. Furthermore, use is also made of the multiplier method,

in which the rental income surplus is multiplied by land-specific factors. Alongside the aforementioned input data, the surveyors also factor in additional premiums and discounts to account for individual property-specific characteristics (e.g. size, location, conversion/demolition costs still to be incurred).

Rental income of €2,124k was generated on properties let to third parties in the year under report (2012/2013: € 2,168k). Expenses of € 1,721k were incurred for the maintenance of the properties let to third parties (2012/2013: € 1,414k). Expenses of € 773k were incurred for all other items of investment property (2012/2013: € 643k).

The real estate acts as security for bank loans in the form of registered land charges amounting to € 480.7 million (2012/2013: € 491.4 million).

Property, plant and equipment include a building with a carrying amount of € 665k (2012/2013: € 831k) that is allocable to the Group as economic owner on account of the structure of the underlying lease agreement (finance lease). The finance lease has been concluded for a basic rental period of 20 years. At the end of the basic rental period, there is an option to extend the contract at least once for a period of 5 years. Furthermore, the contract provides for an index-based rent adjustment clause and for pre-emptive purchase rights on customary market terms. The leased asset acts as security for the leasing obligation.

**(13) Financial assets**

The development in financial assets in the 2012/2013 and 2013/2014 financial years was as follows:

€ 000s	Shares in affiliated companies	Investments	Advance payments for financial assets	Total
<b>Cost</b>				
Balance at March 1, 2012	1,426	20	1,135	2,581
Changes in scope of consolidation	(1,426)	257	0	(1,169)
Additions	0	0	1,170	1,170
Foreign currency translation	0	0	49	49
<b>Balance at February 28/March 1, 2013</b>	<b>0</b>	<b>277</b>	<b>2,354</b>	<b>2,631</b>
Changes in scope of consolidation	(1,097)	0	0	(1,097)
Additions	0	0	104	104
Disposals	0	255	1,234	1,489
Reclassifications	1,097	0	(1,097)	0
Foreign currency translation	0	0	(127)	(127)
<b>Balance at February 28, 2014</b>	<b>0</b>	<b>22</b>	<b>0</b>	<b>22</b>
<b>Carrying amount at February 28, 2014</b>	<b>0</b>	<b>22</b>	<b>0</b>	<b>22</b>
Carrying amount at February 28, 2013	0	277	2,354	2,631

PCQ Czech a.s., Prague/Czech Republic, was acquired in the 2013/2014 financial year and subsequently merged into HORNBAACH Immobilien HK s.r.o., Prague/Czech Republic. The retirement of the shares of € 1,097k in the context of the merger has been presented as a change in the scope of consolidation.

The disposals of € 255k under other investments relate to shares held by Etablissement Camille Holtz et Cie S.A., Phalsbourg/France, in a purchasing association. These were sold in the financial year under report and generated a profit of € 95k.

The additions of € 104k to advance payments for financial assets result from the planned acquisition of a stake in a Swedish real estate company. The intention to make this acquisition was abandoned in the course of the financial year, as a result of which the values of € 1,234k incurred at this time are reported as a retirement in the financial year. This resulted in a loss of € 755k.

All financial assets have been recognized at cost as it was not possible to determine reliable fair values. The Group currently has no intention to sell investments.

**(14) Other non-current receivables and assets**

Other non-current receivables and assets mainly consist of deposits of € 3,872k (2012/2013: € 3,905k) paid as security for possible subsequent claims to purchase price reductions on the part of the buyer. The deposits have a maximum remaining term of 6 years.

Furthermore, as of February 28, 2014 this item also includes receivables of € 382k (2012/2013: € 874k) due from the Federal Employment Agency in connection with payments governed under the relevant part-time early retirement legislation.

Other non-current receivables and assets also include deferred expenses of € 482k (2012/2013: € 760k) in connection with an as yet unutilized syndicated credit line of € 250 million concluded in the 2011/2012 financial year with a term until December 14, 2016.

**(15) Deferred taxes**

Deferred taxes relate to the following items:

	2.28.2014		2.28.2013	
	Assets € 000s	Liabilities € 000s	Assets € 000s	Liabilities € 000s
Intangible assets and property, plant, and equipment	6,111	57,571	6,063	62,752
Inventories	622	4,020	486	2,348
Other assets and liabilities	1,245	660	1,326	991
Other provisions <sup>1)</sup>	5,657	2,469	4,709	2,101
Liabilities	1,939	1,010	3,010	1,018
Tax-free reserves	0	740	0	451
Losses carried forward	2,484	0	8,350	0
	<b>18,058</b>	<b>66,470</b>	<b>23,944</b>	<b>69,661</b>
Set-off <sup>1)</sup>	(9,118)	(9,118)	(8,964)	(8,964)
<b>Total <sup>1)</sup></b>	<b>8,940</b>	<b>57,352</b>	<b>14,980</b>	<b>60,697</b>

<sup>1)</sup> Previous year's figures adjusted due to IAS 19R.

**(16) Inventories**

	2.28.2014 € 000s	2.28.2013 € 000s
Raw materials and supplies	1,579	1,640
Unfinished products, unfinished services	2,834	2,175
Finished products and merchandise	545,414	521,270
<b>Inventories (gross)</b>	<b>549,827</b>	<b>525,085</b>
less valuation allowances	10,685	9,722
<b>Inventories (net)</b>	<b>539,142</b>	<b>515,363</b>
Carrying amount of inventories measured at net realizable value	25,587	25,557

Expenses of € 2,090,705k were recognized as merchandise input expenses for merchandise and auxiliary materials and supplies in the 2013/2014 financial year (2012/2013: € 2,031,966k).

**(17) Receivables and other assets**

The receivables and other assets of the Group are structured as follows:

	<b>2.28.2014</b> € 000s	2.28.2013 € 000s
Trade receivables	28,263	25,357
Positive fair values of derivative financial instruments	280	146
Other receivables and assets	44,380	54,923
	<b>72,923</b>	<b>80,426</b>

Trade receivables include receivables of € 1,181k (2012/2013: € 1,090k) assigned within factoring agreements that have not been derecognized as the credit risk remains at the HORNBAACH HOLDING AG Group. A corresponding liability has been recognized in the same amount.

Other receivables and assets mainly consist of receivables in connection with pledged funds, receivables from credit card companies, receivables from product reimbursements and bonus agreements, and deferred charges and prepaid expenses.

As in the previous year, there are no major restrictions on ownership or disposition rights in respect of the other receivables and assets reported.

The following tables provide an analysis of the financial assets included under receivables and other assets. Only those receivables for which individual allowances have been recognized have been portrayed as impaired. The HORNBAACH HOLDING AG Group also accounts for credit risks by recognizing portfolio-based allowances.

<b>2.28.2014</b> € 000s	Carrying amount	of which: neither impaired nor overdue	of which: not impaired, but overdue within the following time bands (days)			
			< 60	61-90	91-180	> 180
Trade receivables	28,263	13,970	7,221	2,032	496	97
Positive fair values of derivative financial instruments	280	280				
Other receivables and assets	31,093	29,743	1,037	50	108	159
	<b>59,636</b>	<b>43,993</b>	<b>8,258</b>	<b>2,082</b>	<b>604</b>	<b>256</b>

2.28.2013 € 000s	Carrying amount	of which: neither impaired nor overdue	of which: not impaired, but overdue within the following time bands (days)			
			< 60	61-90	91-180	> 180
Trade receivables	25,357	12,308	5,146	2,139	2,379	135
Positive fair values of derivative financial instruments	146	146				
Other receivables and assets	35,259	33,304	1,461	40	238	105
	<b>60,762</b>	<b>45,758</b>	<b>6,607</b>	<b>2,179</b>	<b>2,617</b>	<b>240</b>



There were no indications of impairment at the balance sheet date for financial assets that were neither impaired nor overdue.

Allowances for trade receivables and for other receivables and assets developed as follows:

€ 000s	Trade receivables		Other receivables and assets	
	2013/2014	2012/2013	2013/2014	2012/2013
<b>Allowances at March 1</b>	<b>4,122</b>	<b>3,216</b>	<b>622</b>	<b>728</b>
Utilization	1,212	1,268	328	192
Reversals	551	428	77	374
Additions	1,615	2,605	133	462
Foreign currency translation	2	(3)	(1)	(2)
<b>Allowances at end of financial year</b>	<b>3,976</b>	<b>4,122</b>	<b>349</b>	<b>622</b>

The complete retirement of receivables resulted in expenses of € 1,541k (2012/2013: € 774k). The receipt of receivables already derecognized resulted in income of € 73k (2012/2013: € 105k).

#### (18) Cash and cash equivalents

	2.28.2014 € 000s	2.28.2013 € 000s
Cash balances at banks	407,445	340,390
Checks and cash on hand	21,404	16,545
	<b>428,849</b>	<b>356,935</b>

**(19) Non-current assets held for sale and disposal groups**

This item includes assets which are highly likely to be sold in the coming financial year.

No items were reclassified out of property, plant and equipment in the 2013/2014 financial year.

The previous year's figure includes two pieces of land at € 1,076k in the "HORNBAACH-Baumarkt-AG subgroup" segment and one piece of land at € 1,442k in the "HORNBAACH Immobilien AG subgroup" segment. All of these pieces of land were sold in the past financial year. The resultant gain has been recognized under other non-operating income.

**(20) Shareholders' equity**

The development in the shareholders' equity of the HORNBAACH HOLDING AG Group is shown in the statement of changes in group equity for the 2012/2013 and 2013/2014 financial years.

**Share capital**

By resolution of the Annual General Meeting of HORNBAACH HOLDING AG on July 8, 2011, the company's share capital was increased in the 2011/2012 financial year by issuing bonus shares from company funds. As a result of the issue of bonus shares at a ratio of 1:1, the number of shares in HORNBAACH HOLDING AG doubled. By converting a partial amount of € 24,000,000.00 of the revenue reserves reported in the company's annual balance sheet as of February 28, 2011 into share capital, the share capital doubled to € 48,000,000.00. It is divided into 8,000,000 preference shares and 8,000,000 ordinary shares with a prorated nominal amount in the share capital of € 3.00 per share. The bonus shares enjoy dividend entitlement from March 1, 2011.

	€
8,000,000 ordinary shares	24,000,000.00
8,000,000 non-voting preference shares	24,000,000.00
	<b>48,000,000.00</b>

Each ordinary share entitles its holder to one vote. Non-voting preference shares receive a preferential dividend amounting to 2 % of their portion of the share capital from the net profit for the year. If the net profit is not sufficient in one or several financial years to distribute a preferential dividend of at least 2 % on the preference shares, the arrears are payable without interest from the net profit of the following years in such a way that the older arrears are settled before the more recent arrears and that the preferential payments to be made from the profit of a given financial year are only to be made once all arrears have been settled. This right to subsequent payment constitutes an integral part of the dividend for the financial year in which the subsequent payment on the preference shares is made from the net profit of the year.

Following the subsequent payment of any arrears of dividends on preference shares in connection with previous years and the distribution of a preferential dividend, a dividend is then paid on the ordinary shares from the remaining net profit up to 2 % of their proportion of the share capital. After the distribution of a dividend of 2 % on the ordinary shares, the preference and ordinary shares participate in a further dividend distribution in the ratio of their respective proportions of the share capital in such a way that the preference shares receive a further dividend of 1 % in addition to the dividend payable on ordinary shares.

If the preferential amount is not paid or is not paid in full in a year and if the arrears are not paid in the following year in addition to the full preferential amount for that year, then preference shareholders are granted voting rights until the arrears have been settled.

**Publication of WpHG voting right notifications**

HORNBAACH HOLDING AG published the following notification in the Stock Exchange Gazette (Börsenzeitung) on June 16, 2009 pursuant to § 25 (1) WpHG:

Albert Hornbach, Germany, has notified us that he has withdrawn his voting rights notification made pursuant to § 21 (1) WpHG, which was published in the Stock Exchange Gazette (Börsenzeitung) on September 7, 2004, as no threshold requiring disclosure was affected on August 18, 2004. His share of the voting rights in HORNBAACH HOLDING AG, Neustadt an der Weinstrasse, continued to exceed the 10 % threshold on the date on which Gertraud Hornbach reached the threshold and amounted to 10.74 % (429,763 voting rights) on this date.

Gertraud Hornbach, Germany, has notified us pursuant to § 21 (1) WpHG, that her share of the voting rights in HORNBAACH HOLDING AG, Neustadt an der Weinstrasse, exceeded the 3 % and 5 % thresholds on August 18, 2004, the date on which these thresholds were crossed, and amounted to 5.25 % (210,000 voting rights) on this date. Of these, 5.25 % (210,000 voting rights) are attributable to her via Albert Hornbach pursuant to § 22 (1) Sentence 1 No. 4 WpHG.

HORNBAACH HOLDING AG published the following voting right notifications pursuant to § 26 (1) WpHG electronically on March 12, 2013:

Dr. Susanne Wulfsberg, Germany, notified us on March 12, 2013 pursuant to § 21 (1) WpHG that her share of the voting rights in HORNBAACH HOLDING AG, Neustadt an der Weinstrasse, Germany, fell short of the 3 % voting rights threshold on October 22, 2012 and on that date amounted to 0.79 % (63,334 voting rights).

Albrecht Hornbach, Germany, notified us on March 12, 2013 pursuant to § 21 (1) WpHG that his share of the voting rights in HORNBAACH HOLDING AG, Neustadt an der Weinstrasse, Germany, fell short of the 3 % voting rights threshold on October 24, 2012 and on that date amounted to 2.64 % (211,112 voting rights). Of these, 1.98 % of the voting rights (158,334 voting rights) are attributable to Albrecht Hornbach pursuant to § 22 (1) Sentence 1 No. 4 WpHG.

Steffen Hornbach, Germany, notified us on March 12, 2013 pursuant to § 21 (1) WpHG that his share of the voting rights in HORNBAACH HOLDING AG, Neustadt an der Weinstrasse, Germany, fell short of the 3 % voting rights threshold on October 24, 2012 and on that date amounted to 1.98 % (158,333 voting rights).

HORNBAACH HOLDING AG published the following voting right notification pursuant to § 26 (1) WpHG electronically on April 1, 2014:

Kingfisher plc, London, United Kingdom, notified us pursuant to § 21 (1) WpHG on March 31, 2014 that the share of the voting rights held by Kingfisher plc in HORNBAACH HOLDING Aktiengesellschaft (ISIN DE0006083405) fell short of the 25%, 20%, 15%, 10%, 5%, and 3% thresholds on March 31, 2014 and amounted to 0 % (0 voting rights) on that date.

Sheldon Holdings Limited, London, United Kingdom, notified us pursuant to § 21 (1) WpHG on March 31, 2014 that its share of the voting rights in HORNBAACH HOLDING Aktiengesellschaft (ISIN DE0006083405) fell short of the 25%, 20%, 15%, 10%, 5%, and 3% thresholds on March 31, 2014 and amounted to 0 % (0 voting rights) on that date.

Kingfisher France Limited, London, United Kingdom, notified us pursuant to § 21 (1) WpHG on March 31, 2014 that its share of the voting rights in HORNBAACH HOLDING Aktiengesellschaft (ISIN DE0006083405) fell short of the 25%, 20%, 15%, 10%, 5%, and 3% thresholds on March 31, 2014 and amounted to 0 % (0 voting rights) on that date.

Castorama Dubois Investissements S.C.A, Lille, France, notified us pursuant to § 21 (1) WpHG on March 31, 2014 that its share of the voting rights in HORNBAACH HOLDING Aktiengesellschaft (ISIN DE0006083405) fell short of the 25%, 20%, 15%, 10%, 5%, and 3% thresholds on March 31, 2014 and amounted to 0 % (0 voting rights) on that date.

Kingfisher France SAS (formerly: Kingfisher SAS), Lille, France, notified us pursuant to § 21 (1) WpHG on March 31, 2014 that its share of the voting rights in HORNBAACH HOLDING Aktiengesellschaft (ISIN DE0006083405) fell short of the 25%, 20%, 15%, 10%, 5%, and 3% thresholds on March 31, 2014 and amounted to 0 % (0 voting rights) on that date.

Kingfisher Holdings B.V., Amsterdam, Netherlands, notified us pursuant to § 21 (1) WpHG on March 31, 2014 that its share of the voting rights in HORNBAACH HOLDING Aktiengesellschaft (ISIN DE0006083405) fell short of the 25%, 20%, 15%, 10%, 5%, and 3% thresholds on March 31, 2014 and amounted to 0 % (0 voting rights) on that date.

HORNBAACH HOLDING AG published the following voting right notification pursuant to § 26 (1) WpHG electronically on April 2, 2014:

HORNBAACH Familien-Treuhandgesellschaft mbH, Annweiler am Trifels, Germany, has notified us pursuant to § 21 (1) and § 22 (1) No. 6 WpHG that its share of the voting rights in HORNBAACH HOLDING Aktiengesellschaft (ISIN DE0006083405), Neustadt an der Weinstrasse, exceeded the 75 % threshold on March 31, 2014 and amounted to 100 % (8,000,000 voting rights) on that date. Of these, 22.62 % (1,809,526) of the voting rights are attributable to it pursuant to § 22 (1) No. 6 WpHG. Voting rights of the following shareholder whose share of the voting rights in HORNBAACH HOLDING Aktiengesellschaft amounts to 3% or more are attributed in this respect:

- Albert Hornbach.

#### **Capital reserve**

The capital reserve includes the equity components generated over and above the par value of the shares issued.

#### **Revenue reserves**

Revenue reserves include the statutory reserve and "other revenue reserves", as well as accumulated earnings and equity components recognized in equity that are attributable to shareholders.

#### **Minority interests**

Shares held by third parties in the equity of consolidated subsidiaries are reported under minority interests.

#### **Disclosures concerning capital management**

The capital management practiced by HORNBAACH HOLDING AG pursues the aim of maintaining a suitable equity base in the long term. The equity ratio is viewed as representing an important key figure for investors, analysts, banks and rating agencies. The company aims on the one hand to achieve the growth targets it has

set itself while maintaining healthy financing structures and a stable dividend policy, and on the other hand to achieve long-term improvements in its key rating figures. The capital management instruments deployed include active debt capital management.

The company has entered into covenants towards some providers of debt capital which, among other conditions, require it to maintain an equity ratio of at least 25 %. The equity ratio, interest cover, debt/equity ratio and company liquidity (cash and cash equivalents plus unutilized committed credit lines) are monitored monthly as part of the company's internal risk management. Further key figures are calculated on a quarterly basis. Should the values fall short of certain target levels, then suitable countermeasures are initiated at an early stage. The covenants were complied with at all times during the 2013/2014 financial year. The equity ratio amounted to 49.3 % as of February 28, 2014 (2012/2013: 48.3 %).

No changes were made to the company's capital management approach in the financial year under report.

#### **(21) Distributable earnings and dividends**

The distributable amounts involve the unappropriated net profit reported in the balance sheet of HORNBAACH HOLDING AG prepared in accordance with German commercial law.

HORNBAACH HOLDING AG concluded the 2013/2014 financial year with an annual net surplus of € 30,952,522.91.

Following the allocation of € 15,400,000.00 to other revenue reserves, the unappropriated net profit amounts to € 15,552,522.91.

The Board of Management and the Supervisory Board of HORNBAACH HOLDING AG will propose to the Annual General Meeting that the unappropriated net profit be appropriated as follows:

	€
Dividend of € 0.77 on 8,000,000 ordinary shares	6,160,000.00
Dividend of € 0.80 on 8,000,000 ordinary shares	6,400,000.00
Additional allocation to revenue reserves	2,992,522.91
	<b>15,552,522.91</b>

By resolution of the Annual General Meeting held on July 5, 2013, dividends of € 0.64 (2012/2013: € 0.64) per ordinary share and € 0.67 (2012/2013: € 0.67) per preference share were distributed in the 2013/2014 financial year. The total amount distributed thus amounted to € 10,480k (2012/2013: € 10,480k).

**(22) Financial debt**

Total current and non-current financial debt is structured as follows:

€ 000s	Maturities			Carrying amount 2.28.2014 Total
	Current < 1 year	Non-current 1-5 years	Non-current > 5 years	
Bonds	0	0	246,401	246,401
Liabilities to banks	94,001	261,463	98,660	454,123
Liabilities in connection with finance leases	219	820	0	1,039
Negative fair values of derivative financial instruments	37	6,887	481	7,405
<b>Total</b>	<b>94,257</b>	<b>269,170</b>	<b>345,541</b>	<b>708,968</b>

€ 000s	Maturities			Carrying amount 2.28.2013 Total
	Current < 1 year	Non-current 1-5 years	Non-current > 5 years	
Bonds	0	0	245,794	245,794
Liabilities to banks	96,170	281,208	91,440	468,818
Liabilities in connection with finance leases	223	1,059	0	1,282
Negative fair values of derivative financial instruments	227	8,721	3,005	11,953
<b>Total</b>	<b>96,620</b>	<b>290,988</b>	<b>340,239</b>	<b>727,847</b>

Current financial debt (up to 1 year) amounted to € 94.3 million at the balance sheet date on February 28, 2014 (2011/2013: € 96.6 million). This consists of short-term financing facilities at the HORNBAACH Immobilien AG and HORNBAACH Baustoff Union GmbH subgroups, amounting to € 16.7 million and € 34.9 million respectively (2012/2013: € 17.9 million and € 35.3 million respectively), interest deferrals of € 2.3 million (2011/2012: € 2.3 million), the portion of long-term financing facilities maturing in the short term, amounting to € 40.3 million (2012/2013: € 40.9 million), and liabilities of € 0.0 million relating to the measurement of derivative financial instruments (2012/2013: € 0.2 million).

HORNBAACH-Baumarkt-AG took up a seven-year corporate bond of € 250 million on February 15, 2013. The bond has an interest coupon of 3.875 %. In combination with the issue price of 99.25 %, this results in a yield of 4.00 % p.a. The costs of € 2,355k arising in connection with the issue and the disagio of € 1,875k have been spread over the term using the effective interest method.

As of June 30, 2011, HORNBAACH-Baumarkt-AG took up an unsecured promissory note bond of € 80.0 million with a floating rate and a term running until June 30, 2016. To secure the interest rate, a forward swap with congruent terms was concluded in the 2010/2011 financial year already. The swap enabled the half-yearly interest payable to be secured at a level of 2.11 % p.a., plus a bank margin, for the entire term.

In addition, the Group still has the promissory note bond concluded by HORNBAACH Baumarkt CS spol s.r.o. in the 2010/2011 financial year with a volume of CZK 496.6 million, a floating interest rate and a term running until August 31, 2015. The interest payable was hedged with a congruent interest swap. The half-yearly



interest payable via the interest swaps was secured at a level of 2.08 % p.a. plus a bank margin for the entire term.

The HORNBAACH Immobilien AG subgroup concluded a promissory note bond of € 70 million as of April 18, 2012. The loan amount was disbursed as of June 29, 2012. The promissory note bond has a floating interest rate based on the 6-month Euribor, plus a bank margin, and matures at the end of its five-year term. A swap was concluded with congruent terms to hedge the interest rate. The interest swap enables the interest payable on a half-yearly basis to be secured at a fixed rate of 1.516 % p.a., plus a bank margin, for the entire term.

Alongside the aforementioned bond and promissory note bonds, the Group has further non-current liabilities, generally secured by mortgages, to banks.

Non-current liabilities to banks are structured as follows:

2013/2014 financial year	Currency	Interest agreement in % (including swap)	Maturity	Amount 2.28.2014 € 000s
Loans	EUR	2.60 to 4.86	2014 to 2021	149,726
	CZK	4.83	2015	18,125
Mortgage loans	EUR	2.37 to 6.47	2014 to 2013	134,533
	CZK	3.98 to 5.22	2018 to 2026	36,575
	RON	4.53 to 7.80	2015 to 2022	14,337
	SEK	4.97 to 6.60	2018 to 2028	46,930
				<b>400,228</b>

2012/2013 financial year	Currency	Interest agreement in % (including swap)	Maturity	Amount 2.28.2013 € 000s
Loans	EUR	2.60 to 4.86	2014 to 2021	149,613
	CZK	4.83	2015	19,306
Mortgage loans	EUR	3.15 to 6.47	2013 to 2022	152,463
	CZK	3.98 to 5.22	2018 to 2026	43,148
	RON	7.80 to 8.11	2016 to 2022	19,762
	SEK	5.89 to 6.60	2018 to 2023	29,041
				<b>413,333</b>

The overwhelming majority of non-current liabilities to banks have fixed interest rates. Loans with floating rates have interest rates based on the short-term Euribor, or a corresponding foreign currency lbor, plus a bank margin of, as in the previous year, between 0.45 and 2.75 percentage points. Interest swaps have been concluded to secure the interest rate on non-current liabilities with floating interest rates. These enable the interest payments to be secured on those loans which could have a significant influence on the Group's annual earnings.

In the third quarter of the 2011/2012 financial year, HORNBACH-Baumarkt-AG agreed a syndicated credit line of € 250 million with a term running until December 14, 2016. This credit may also be drawn down in foreign currencies, particularly CHF, SEK and CZK, up to an amount of € 25 million. Furthermore, supplementary bilateral loan agreements of up to € 50 million may also be concluded within the credit framework (also in foreign currencies). Upon utilization of the credit line, the interest is based on the 3-month or 6-month Euribor, or the equivalent Ibor, plus an interest margin. The applicable interest margin is determined by reference to the company rating granted to HORNBACH-Baumarkt-AG by an internationally recognized rating agency. Margin premiums apply should the level of utilization exceed specified threshold values and when the facility is drawn down in foreign currencies. A provision fee dependent on the respective interest margin is charged for the unutilized portion of the credit line.

As of February 28, 2014, the HORNBACH HOLDING AG Group had total credit lines of € 404.2 million (2012/2013: € 473.5 million) on customary market terms. Unutilized credit lines amounted to € 349.0 million (2012/2013: € 418.0 million). Furthermore, HORNBACH-Baumarkt-AG has a credit line for import credits amounting to USD 40.0 million (2012/2013: USD 40.0 million). Of this, an amount of USD 6.2 million had been drawn down as of the balance sheet date (2012/2013: USD 8.9 million).

Land charges amounting to € 480.7 million have been provided as security for liabilities to banks (2012/2013: € 491.4 million).

No assets have been provided as security for the credit lines, the promissory note bonds, or the bond. The relevant contractual arrangements nevertheless require compliance with customary bank covenants, non-compliance with which could lead to a premature repayment obligation. These regularly involve *pari passu* clauses and negative pledge declarations, as well as cross default arrangements for major financing facilities. In the case of the syndicated credit line at HORNBACH-Baumarkt-AG and the promissory note bond agreements at the HORNBACH-Baumarkt-AG subgroup, they also require compliance with specific financial ratios. These key financial ratios are based on consolidated figures at the HORNBACH-Baumarkt-AG subgroup and require interest cover of at least 2.25 times and an equity ratio of at least 25 %. Maximum limits for financing facilities secured by land charges and financing facilities taken up by subsidiaries were also agreed. The conditions governing the promissory note bond at HORNBACH Immobilien AG require the maintenance of a specified volume of unencumbered property, plant and equipment. The interest cover, net debt/EBITDA ratio, equity ratio, agreed financing limits, unencumbered property, plant and equipment, and company liquidity (cash and cash equivalents, plus unutilized committed credit lines) are regularly monitored within the internal risk management framework. Should the values fall short of certain target levels, then countermeasures are initiated at an early stage. All covenants were complied with at all times in the year under report.

Transition of future leasing payments to the liabilities from financial leasing contracts:

€ 000s	Maturities			2.28.2014
	Current < 1 year	Non-current 1-5 years	Non-current > 5 years	Total
Liabilities in connection with finance leases	219	820	0	1,039
Interest component	58	86	0	144
<b>Total lease payments to be made in future</b>	<b>277</b>	<b>906</b>	<b>0</b>	<b>1,183</b>

€ 000s	Maturities			2.28.2013
	Current < 1 year	Non-current 1-5 years	Non-current > 5 years	Total
Liabilities in connection with finance leases	223	1,059	0	1,282
Interest component	79	150	0	229
<b>Total lease payments to be made in future</b>	<b>302</b>	<b>1,209</b>	<b>0</b>	<b>1,511</b>

### **(23) Pensions and similar obligations**

As a result of legal requirements in individual countries and individual commitments made to members of its Board of Management, the HORNBACH HOLDING AG Group has obligations relating to defined benefit and defined contribution pension plans.

#### **Defined contribution plans**

Apart from payment of contributions, the defined contribution plans do not involve any further obligations on the part of the HORNBACH HOLDING AG Group. The total of all defined contribution pension expenses amounted to € 45,434k in the 2013/2014 financial year (2012/2013: € 44,306k). Of this total, an amount of € 28,035k involved the employer's share of contributions to the state pension scheme in Germany (2012/2013: € 27,920k).

#### **Multiemployer defined benefit pension plans**

Joint pension plans are in place for staff employed in the Netherlands. As the pension providers for these plans do not provide the necessary information in the form required for recognition as defined benefit plans, these plans are recognized as defined contribution plans. Consistent with the requirements of this plan, HORNBACH HOLDING AG has no obligation to assume liability for the contributions of other employers participating in the plan. No probable material risks have been identified in connection with the multiemployer defined benefit pension plan. The company expects to pay contributions of € 2,100k in the 2014/2015 financial year.

#### **Defined benefit plans**

##### **Switzerland**

The HORNBACH HOLDING AG Group has one fund-financed pension plan which is financed via an external pension provider. This pension plan exists due to legal requirements in Switzerland (Swiss Occupational Pensions Act - BVG) and grants old-age, invalidity and fatality pensions and payments for around 820 beneficiaries.

The employee covers around 35 % of the premiums to be paid for the savings balances, as well as further clearly defined costs. The remaining expenses are covered by the employer. Risk and cost premiums are calculated by the insurance company on an individual basis and reassessed each year. The actuarial risk in connection with this plan is borne by HORNBACH HOLDING AG. The pension plan must be fully covered on the basis of a statistical evaluation performed in accordance with BVG provisions. In the event of a shortfall, the pension authority may adjust the respective employer and employee contributions or payments.

The pension provider constitutes a separate legal entity. This is responsible for managing the pension plan and has issued investment regulations defining the respective investment strategy. The highest decision-making body for the pension provider is the Board of Trustees. This consists of an equal number of employer and employee representatives from the companies participating in the plan.

##### **Germany**

HORNBACH HOLDING AG, HORNBACH-Baumarkt-AG, HORNBACH Immobilien AG and HORNBACH Baustoff Union GmbH have undertaken to provide members of their Boards of Management or their managing directors with a securities-financed pension plan. This model offers the opportunity of increasing pension claims, while the companies simultaneously guarantee a minimum return of 2 % p.a. for members of their Boards of Management. The pension assets and voluntary additional contributions by members of the Boards of Management or managing directors are held in a fiduciary capacity and invested in diversified funds by Allianz Treuhand

GmbH, Frankfurt am Main. The funds are invested in line with a capital investment concept jointly defined by the companies and Allianz Treuhand GmbH. Provided that amendments to the capital investment concept do not contravene the fiduciary objective, the companies themselves are entitled to have such amendments made. The risk that the trust assets do not generate the minimum return of 2% p.a. is borne by the companies.

The scope of obligation towards plan beneficiaries has been set in each case at a maximum of the fund assets and the present value of contributions paid, including the guaranteed return. To this end, the contributions paid by the employer and by the Board of Management are separately compared in each case with the fund assets.

Furthermore, company employees also have the possibility of participating in a "working time account model". Salary claims can be converted into so-called value credits in line with individual employee's requirements. These value credits may be used, for example, for premature retirement. Directly before the termination of the employment relationship for age-related reasons, these credits can then be used to enable the employee to retire early. Non-disbursed salary claims can be invested in various investment funds in line with the individual employee's risk preference. HORNBAACH HOLDING AG guarantees the value retention of amounts contributed to value credits and thus bears the investment risk. Salary components contributed by the company or employees are managed within a so-called double fiduciary model by Allianz Treuhand GmbH, Frankfurt am Main. Provisions for obligations in connection with working time accounts have been offset as of the balance sheet date against the corresponding cover assets in the form of fund shares.

Pensions and similar obligations are structured as follows <sup>1)</sup>:

	2013/2014 € 000s	2012/2013 € 000s
Present value of pension obligation	38,724	35,239
less fair value of plan assets	(37,967)	(33,212)
<b>Pension commitments as reported in balance sheet</b>	<b>757</b>	<b>2,027</b>
of which: pension provisions	757	2,027

<sup>1)</sup> Previous year's figures adjusted due to IAS 19R.

The plan assets were structured as follows at the balance sheet date:

	2.28.2014 %	2.28.2013 %
Debt securities	83.3	85.5
Shares	3.7	2.5
Real estate	10.3	9.9
Other	2.7	2.1
	<b>100.0</b>	<b>100.0</b>

**Change in pension obligation <sup>1)</sup>**

	<b>2013/2014</b> <b>€ 000s</b>	2012/2013 € 000s
Present value of pension obligation at beginning of period	35,239	27,049
Current service cost of employer	3,390	2,729
Interest cost	712	679
Remeasurement effects because of changes in demographic assumptions	0	1,034
Remeasurement effects because of changes in financial assumptions	(2,066)	2,367
Remeasurement effects because of experience adjustments	303	373
Employee contributions	2,819	2,388
Net balance of payments contributed and paid out	(876)	(162)
Insurance premiums	(942)	(889)
Foreign currency translation	145	(329)
	<b>38,724</b>	<b>35,239</b>

<sup>1)</sup> Previous year's figures adjusted due to IAS 19R.

**Change in plan assets**

	<b>2013/2014</b> <b>€ 000s</b>	2012/2013 € 000s
Plan assets at beginning of period	33,212	28,142
Interest income	695	599
Return on plan assets (excluding interest income)	(132)	350
Employer contributions	3,054	3,126
Employee contributions	2,819	2,388
Net balance of payments contributed and paid out	(876)	(162)
Insurance premiums	(942)	(889)
Foreign currency translation	136	(342)
	<b>37,967</b>	<b>33,212</b>

Responsibility for the plan asset investment strategy has been assigned to Allianz Treuhand GmbH for the German plans and to the top management body (Board of Trustees) at the BVG-Sammelstiftung Swiss Life for the Swiss plans. These external asset managers perform portfolio risk management and synchronize the development in plan assets and pension obligations in line with the conceptual and legal structure of the defined benefit plans.

HORNBACH HOLDING AG analyses the portfolio structure and performance at regular intervals in order to identify any need for action.



The following expenses have been recognized through profit or loss as personnel expenses:

	2013/2014 € 000s	2012/2013 € 000s
Current service cost of employer	3,390	2,729
Interest cost	712	679
Interest income	(695)	(599)
<b>Effects recognized in P&amp;L</b>	<b>3,406</b>	<b>2,809</b>
Remeasurements	1,763	(3,774)
Return on plan assets (excluding interest income)	(132)	350
<b>Effects recognized in OCI</b>	<b>1,631</b>	<b>(3,424)</b>
<b>Costs for defined benefit plans</b>	<b>1,775</b>	<b>6,233</b>

The amounts recognized through profit or loss are included in the personnel expenses allocated to the following items in the income statement:

	2013/2014 € 000s	2012/2013 € 000s
Selling and store expenses	2,299	1,781
Pre-opening expenses	0	55
General and administration expenses	1,107	973
	<b>3,406</b>	<b>2,809</b>

#### Actuarial assumptions

The calculation has been based on the following actuarial assumptions. These vary depending on the country in which the plan is based.

	2.28.2014		2.28.2013	
	Weighted average	Range	Weighted average	Range
Discount interest rate	2.5%	2.4% to 3.0%	2.1%	2.0% to 3.4%
Expected long-term credit interest rate	2.0%	2.0%	1.8%	1.8%
Future salary increases	1.7%	1.5% to 3.0%	1.7%	1.5% to 3.0%
Future pension increases	0.0%	0.0%	0.0%	0.0%

The discount rate used has been determined on the basis of the return on blue-chip fixed-income bonds. The assumptions concerning future mortality rates are based on published statistics and mortality tables. For plans in Germany, reference has been made to the "Heubeck Richttafeln 2005 G". Swiss plans are governed by the "BVG 2010 Generationentafel".

**Sensitivity analysis**

Any changes in actuarial assumptions would correspondingly affect the measurement of the present value of the pension obligation. The influence of those actuarial assumptions which, if changed, would materially impact on the measurement of the present value of the pension obligation, has been presented in the following sensitivity analysis. This presents that change in the present value of the pension obligation that would have arisen if different actuarial assumptions had been used as of the balance sheet date. The other parameters influencing the respective values have remained constant.

€ 000s	Present value of pension obligation	
	Increase	Decrease
Discount rate (0.25 basis points change)	(1,332)	1,454
Rate of pension increase (0.10 basis points change)	399	(336)

**Future cash flows**

Payments of contributions amounting to € 2.9 million are expected for the 2014/2015 financial year.

Expected Payments	<b>2.28.2014</b> € 000s
2014/2015	286
2015/2016	396
2016/2017	478
2017/2018	568
2018/2019	652
2019 to 2013	13,857

**(24) Other non-current liabilities**

Other non-current liabilities mainly involve non-current provisions. These include personnel provisions, provisions for contractually assumed structural maintenance obligations, and a provision required by law for the storage of business documents. The rental agreements underlying the maintenance obligations have remaining terms of between 1 and 21 years. The provision for the storage of business documents chiefly relates to statutory storage periods of between 7 and 11 years.

The development in provisions is presented in Note 27.

Non-current personnel provisions have been recognized mainly for part-time early retirement commitments and for the statutory reserve required in Austria to cover potential claims on the part of employees in the event of their leaving the company (severance pay).

**Part-time early retirement**

The provisions for part-time early retirement mainly involve the part-time early retirement agreements concluded by HORNBACH-Baumarkt-AG in the 2005/2006 and 2006/2007 financial years. The work undertaken by part-time early retirees is performed within the framework of the so-called block model. Provisions amounting to € 958k (2012/2013: € 1,822k) have been recognized to cover the performance backlog up to the balance sheet date and for top-up payments. This provision is expected to be reversed upon the final employee thereby entitled reaching regular retirement age in the 2016/2017 financial year. Claims from an existing reinsurance policy have been netted with the existing obligations. The provisions have been calculated by an independent expert on the basis of the 2005 G mortality tables published by Heubeck-Richttafeln-GmbH and using a discount rate of 1.46 % p.a. (2012/2013: 1.64 % p.a.). Moreover, provisions of € 31k (2012/2013: € 12k) were recognized to cover part-time early retirement obligations in Austria.

**Severance payments**

Upon reaching retirement age (or if their employment is terminated), employees at Austrian subsidiaries are entitled to severance payments provided that they joined the company by December 31, 2002. The level of severance payment entitlement is based on the number of years of service and the most recent level of compensation from the employment relationship. The volume of obligation is reviewed annually and adjusted accordingly on the basis of an external survey. The actuarial risks associated with this plan are borne by HORNBACH HOLDING AG.

Severance payments represent other defined benefit post-employment benefits and are therefore recognized under other non-current liabilities. The provision for severance payments is measured at the present value of the pension obligation.

## Change in pension obligation and costs of plan

	2013/2014 € 000s	2012/2013 € 000s	2011/2012 € 000s
Present value of pension obligation at beginning of period	4,126	3,553	3,109
Current service cost of employer	306	284	272
Interest cost	134	148	151
Remeasurement effects because of changes in financial assumptions	(52)	515	340
Remeasurement effects because of experience adjustments	(143)	(92)	2
Net balance of payments contributed and paid out	(368)	(282)	(321)
	<b>4,003</b>	<b>4,126</b>	<b>3,553</b>

	2013/2014 € 000s	2012/2013 € 000s	2011/2012 € 000s
Current service cost of employer	306	284	272
Interest cost	134	148	151
<b>Effects recognized in P&amp;L</b>	<b>440</b>	<b>432</b>	<b>423</b>
Remeasurements	195	(423)	(342)
<b>Effects recognized in OCI</b>	<b>195</b>	<b>(423)</b>	<b>(342)</b>
<b>Total costs for the plan</b>	<b>245</b>	<b>855</b>	<b>765</b>

The average remaining term of the obligation amounts to 14.8 years (2012/2013: 15.4 years).

## Actuarial assumptions and sensitivity analysis

	2.28.2014	2.28.2013	2.29.2012
Discount interest rate	3.3%	3.3%	4.2%
Future salary increases	3.0%	3.0%	3.0%

The discount rate used has been determined on the basis of the return on blue-chip fixed-income bonds. The biometric calculation has been based on "AVÖ 2008 P – Rechnungsgrundlage für die Pensionsversicherungen".

Any changes in actuarial assumptions would correspondingly affect the measurement of the present value of the pension obligation. The influence of those actuarial assumptions which, if changed, would materially impact on the measurement of the present value of the pension obligation, has been presented in the following sensitivity analysis. This presents that change in the present value of the pension obligation that would have arisen if different actuarial assumptions had been used as of the balance sheet date. The other parameters influencing the respective values have remained constant.

€ 000s	Present value of pension obligation	
	Increase	Decrease
Discount rate (0.5 basis points change)	(271)	300
Rate of salary increase (0.25 basis points change)	160	(153)

**(25) Trade payables and other liabilities**

	<b>2.28.2014</b>	2.28.2013
	<b>€ 000s</b>	€ 000s
Trade payables and advance payments received for orders	238,900	209,530
Other liabilities	61,113	53,405
of which: other taxation	19,527	16,789
of which: social security contributions	2,699	2,753
	<b>300,013</b>	<b>262,935</b>

As in the previous year, all trade payables and other liabilities have remaining terms of less than one year.

Trade payables are secured by reservations of title to the customary extent.

Other taxation liabilities include amounts for which the individual group companies are liable. Liabilities for social security contributions particularly include contributions yet to be remitted to the social security funds. In addition to the aforementioned items, other liabilities mainly include deposits and pledged funds, merchandise credits not yet redeemed, and amounts due for outstanding invoices.

**(26) Income tax receivables and liabilities**

The receivables and liabilities relating to taxes on income involve current tax liabilities / receivables and taxes, and tax risks relating to previous financial years. Current income tax provisions are offset against corresponding income tax refund claims, provided that they relate to the same tax jurisdiction and are identical as far as their type and their due date are concerned. Tax provisions for current income taxes mainly relate to corporate income tax (including the solidarity surcharge) and to trade tax.

The "German act on fiscal measures accompanying the introduction of the European Company and amending further tax legislation (SEStEG)" came into force on December 13, 2006. Among other aspects, this act allows refunds of corporate income tax credits resulting from the retention of profit in accordance with previous corporation tax law requirements no longer to be linked to the distribution of profits. Furthermore, due to the 2010 Annual Tax Act, corporate income tax claims previously viewed as irrecoverable and amounting to a – discounted – total of € 8.2 million were recognized in the 2010/2011 financial year. The corporate income tax credits will be disbursed in ten equal amounts on September 30 of each year through to 2017. As of February 28, 2014, the HORNBAACH HOLDING AG Group had corporate income tax refund claims amounting to € 15.0 million in total (2012/2013: € 18.7 million), which have been recognized at a present value of € 14.6 million (2012/2013: € 18.2 million) under non-current and current income tax receivables.

Reference is made to the information about deferred taxes included in Note 15 with regard to the deferred tax assets and liabilities recognized under non-current assets and non-current liabilities.

**(27) Other provisions and accrued liabilities**

Other provisions and accrued liabilities developed as follows in the 2013/2014 financial year:

€ 000s	Opening balance at 3.1.2013	Utilization	Reversals	Additions	Interest compounding	Foreign currency translation	Closing balance at 2.28.2014	of which: non-current
<b>Other provisions</b>								
Personnel	7,812	2,997	0	2,172	35	0	7,022	7,022
Miscellaneous	19,492	6,182	808	8,529	141	(38)	21,135	13,894
	<b>27,304</b>	<b>9,179</b>	<b>808</b>	<b>10,701</b>	<b>176</b>	<b>(38)</b>	<b>28,157</b>	<b>20,916</b>
<b>Accrued liabilities</b>								
Other taxes	1,239	683	330	264	0	(2)	489	0
Personnel	38,859	36,750	653	44,959	0	(262)	46,154	0
Miscellaneous	17,467	14,235	1,381	17,935	0	(71)	19,715	0
	<b>57,565</b>	<b>51,667</b>	<b>2,363</b>	<b>63,158</b>	<b>0</b>	<b>(335)</b>	<b>66,358</b>	<b>0</b>
<b>Total</b>	<b>84,869</b>	<b>60,846</b>	<b>3,171</b>	<b>73,859</b>	<b>176</b>	<b>(372)</b>	<b>94,515</b>	<b>20,916</b>

Miscellaneous other current provisions mainly relate to provisions for customers' expected utilization of their rights of return, recognized at € 1,911k (2012/2013: € 1,605k), for onerous contracts, at € 1,422k (2012/2013: € 1,062k), for litigation risks, at € 793k (2012/2013: € 926k), and for clean-up agreements, at € 280k (2012/2013: € 1,236k).

Reference is made to Note 24 with regard to details of non-current provisions.

Other taxes largely involve the deferral of land tax.

The accrued liabilities for personnel obligations primarily relate to outstanding holiday entitlements, overtime, holiday pay, Christmas bonuses, and employee bonuses.

Miscellaneous accrued liabilities relate in particular to the costs of gas, water, electricity, property duties and advertising, as well as to year-end expenses and legal advisory expenses.



## Other Disclosures

### (28) Guarantees and other commitments

As in the previous year, there were no guarantees or other commitments as of February 28, 2014.

### (29) Other financial obligations and contingent assets

€ million	Maturities			2.28.2014 Total
	Current < 1 year	Non-current 1-5 years	Non-current > 5 years	
Purchase obligations for investments	72.9	55.8	0.0	128.7
Obligations under rental, leasehold and leasing contracts	97.1	350.9	290.8	738.8
Other financial obligations	10.1	0.7	0.0	10.8
	<b>180.1</b>	<b>407.4</b>	<b>290.8</b>	<b>878.3</b>

€ million	Maturities			2.28.2013 Total
	Current < 1 year	Non-current 1-5 years	Non-current > 5 years	
Purchase obligations for investments	61.1	22.8	0.0	83.9
Obligations under rental, leasehold and leasing contracts	89.7	330.9	257.6	678.3
Other financial obligations	10.2	0.9	0.0	11.1
	<b>161.0</b>	<b>354.6</b>	<b>257.6</b>	<b>773.3</b>

HORNBACH-Baumarkt-AG draws on the services of various temporary employment agencies to offset seasonal and sickness-related personnel requirements. Some service providers drawn on in the past were organized within the Christian Trade Unions for Temporary Employment and Temporary Employment Agencies Payment Association (CGZP), whose eligibility to negotiate collective payment agreements was not recognized in a verdict passed by the Federal Labor Court (BAG) on December 14, 2010. HORNBACH-Baumarkt-AG is thus exposed to a low risk of recourse claims in the event of insolvency at the relevant temporary employment agencies. These claims would correspond to that portion of the social security contributions not covered by statutory limitation, amounting to a maximum of € 0.9 million.

The obligations resulting from rental, hiring, leasehold and leasing contracts relate exclusively to those rental contracts in which the companies of the HORNBACH HOLDING AG Group do not constitute the economic owners of the rented assets pursuant to IFRS regulations (operating leases). Rental agreements mainly relate to DIY stores in Germany and abroad. The terms of the rental agreements mostly range from 15 to 20 years, with subsequent rental extension options and purchase options at market value. The agreements include rent adjustment clauses.

An amount of € 89,656k, excluding ancillary expenses, was recognized in the 2013/2014 financial year as rental expenses in connection with operating lease agreements (2012/2013: € 88,644k).

The Group has a refund claim of around € 6.3 million, including interest, for impairment losses at a foreign shareholding which have not yet been recognized for tax purposes (2012/2013: € 6.1 million).

**(30) Future income from rental and leasing contracts**

Future income from rental and leasing contracts is structured as follows:

Rental income from third parties € 000s	Maturities			Total
	Current < 1 year	Non-current 1-5 years	Non-current > 5 years	
February 28, 2014	4,830	11,720	4,984	21,534
February 28, 2013	5,273	11,288	5,380	21,941

Rental income mainly results from the letting of retail real estate and office space. The rental contracts mostly have terms of between 5 and 15 years.

Rental income has only been reported for up to one year in the case of rental contracts with indefinite contractual terms.

**(31) Legal disputes**

HORNBACH HOLDING AG does not anticipate that it or any of its group companies will be involved in current or foreseeable court or arbitration proceedings which could have any material effect on the economic situation of the Group. Moreover, appropriate provisions have been stated and adequate insurance benefits are anticipated at the relevant group companies for any financial charges in connection with other legal or arbitration proceedings. Such charges are therefore not expected to have any material impact on the financial position of the Group.

**(32) Supplementary disclosures on financial instruments**

The following tables show the carrying amounts of the financial instruments in each IAS 39 measurement category, and their fair values broken down by balance sheet category:

€ 000s	Category	Carrying amount 2.28.2014	Fair value 2.28.2014	Carrying amount 2.28.2013	Fair value 2.28.2013
<b>Assets</b>					
Financial assets	AfS	22	22	2,631	2,631
Other receivables and assets					
Derivatives without hedge relationship	FAHfT	280	280	146	146
Other financial assets	LaR	63,914	63,914	65,396	65,396
Cash and cash equivalents	LaR	428,849	428,849	356,935	356,935
<b>Equity and liabilities</b>					
Financial debt					
Bonds	FLAC	246,401	263,250	245,794	259,500
Liabilities to banks	FLAC	454,123	472,101	468,818	469,840
Liabilities in connection with finance leases	n.a.	1,039	1,056	1,282	1,314
Derivatives with hedge relationship	n.a.	7,405	7,405	11,727	11,727
Derivatives without hedge relationship	FLHfT	0	0	227	227
Trade payables and other liabilities	FLAC	252,179	252,179	223,001	223,001
Accrued liabilities	FLAC	19,715	19,715	17,467	17,467

The following items are outside the scope of IFRS 7: receivables and other assets of € 13,800k (2012/2013: € 20,896k), trade payables and other liabilities of € 73,468k (2012/2013: € 66,343k), and accrued liabilities of € 46,643k (2012/2013: € 40,098k).

Aggregate totals by measurement category:	Category	Carrying amount 2.28.2014	Carrying amount 2.28.2013
€ 000s			
Loans and receivables	LaR	492,763	422,331
Available for sale financial assets	AfS	22	2,631
Financial assets held for trading	FAHfT	280	146
Financial liabilities measured at amortized cost	FLAC	972,418	955,080
Financial liabilities held for trading	FLHfT	0	227

Cash and cash equivalents, financial assets held for sale, other financial assets, accrued liabilities, trade payables, and other liabilities mature in the short term in the majority of cases. Their carrying amounts therefore basically correspond to their fair values as of the balance sheet date.

The derivative financial instruments within hedges recognized in the balance sheet mainly involve interest hedges (interest swaps). Derivative financial instruments outside of hedges include foreign currency items for outstanding orders. Their fair value measurement has been based on customary valuation models (e.g. discounted cash flow method) by reference to interest and foreign exchange curves available on the market and with congruent terms, and thus corresponding to Level 2 input factors in the fair value hierarchy. The

fair values of fixed-interest liabilities to banks and of finance leases have been measured by analogy. The credit risk for the aforementioned financial instruments has been accounted for by reference to risk discounts available on the market.

The fair value of the publicly listed bond corresponds to the nominal value multiplied by the market value at the balance sheet date. The fair value has thus been determined by reference to Level 1 data in the fair value hierarchy.

The following financial instruments whose measurement has been based on fair value hierarchy input data have been recognized at fair value in the balance sheet:

€ 000s	2.28.2014	2.28.2013
<b>Assets</b>		
Valuation based on level 2 input data		
Financial assets held for trading	280	146
<b>Equity and liabilities</b>		
Valuation based on level 2 input data		
Derivatives with hedge relationship	7,405	11,727
Financial liabilities held for trading	0	227

Net result by measurement category	2013/2014 € 000s	2012/2013 € 000s
Loans and receivables (LaR)	(3,676)	(1,615)
Available-for-sale financial assets (AfS)	(660)	0
Financial liabilities measured at amortized cost (FLAC)	(2,051)	934
Financial instruments held for trading (FAHfT and FLHfT)	574	(54)

The net results of the measurement category “financial instruments held for trading” are attributable to derivative financial instruments. The net results of the measurement categories “loans and receivables”, “available-for-sale financial assets”, and “financial liabilities measured at amortized cost” involve foreign currency translation items, the results of disposals and write-downs.

No financial instruments are reported on a net basis in the balance sheet. Supplementary arrangements permitting the economic netting of recognized financial instruments exist for swap transactions concluded by the Group. Given the current fair values of these transactions, it would not be possible to net these transactions were the triggering event to occur.

The following breakdown presents the economic netting volumes for the previous year:

2.28.2013 € 000s	Gross amount	Set-off	Net amount	Potential netting volume		Potential net amount
				Netting arrangements	Financial collateral	
<b>Assets</b>						
Derivatives without hedge relationship	146	0	146	(95)	0	51
<b>Equity and liabilities</b>						
Derivatives with hedge relationship	11,727	0	11,727	95	0	11,632

### (33) Risk management and financial derivatives

#### Risk management principles

The assets, liabilities and planned financial transactions of the HORNBAACH HOLDING AG Group are subject in particular to risks resulting from changes in exchange rates and interest rates.

The aim of the company's risk management is therefore to minimize these market risks by means of suitable financial market-based hedging activities. To achieve this aim, derivative financial instruments are deployed to limit interest rate and foreign currency risks. In general, however, the company only hedges those risks which could impact materially on its financial result.

The necessary decisions may only be taken on the basis of the strategic requirements determined by the Chief Financial Officer. These requirements focus on hedging interest rate and foreign currency risks. Moreover, these requirements do not permit financial transactions to be undertaken for speculative purposes. Furthermore, certain transactions also require prior approval by the Supervisory Board.

The treasury department regularly reviews and monitors the current and future interest charge and the foreign exchange requirements of the overall Group. The Board of Management is informed of its findings on a regular basis.

#### Market risks

For the presentation of market risks, IFRS 7.40 "Financial Instruments: Disclosures" requires the hypothetical impact on profit and loss and equity which would have resulted if those changes in the relevant risk variables (e.g. market interest rates or exchange rates) which could reasonably be assumed to be possible at the balance sheet date had actually materialized to be presented on the basis of sensitivity analyses. The market risks faced by the HORNBAACH HOLDING AG Group consist of foreign currency risks and interest rate risks. The company does not face any other price risks.

#### Foreign currency risk

Foreign currency risks, i.e. potential reductions in the value of a financial instrument or future cash flow due to changes in foreign exchange rates, particularly apply wherever monetary financial instruments, such as receivables or liabilities, exist in a currency other than the local currency of the company, or will exist in the

scheduled course of business. The foreign currency risks of the HORNBACH HOLDING AG Group mainly result from financing measures and from the company's business operations. Exchange rate differences arising from the translation of financial statements into the group currency do not constitute a foreign currency risk as defined by IFRS 7.

The group companies are largely financed by means of external financing measures denominated in the functional currency of the corresponding group company (natural hedging). Moreover, there are also intra-group loans denominated in euros, thus resulting in foreign currency risks at those group companies which have a functional currency other than the euro. These risks are basically not hedged.

Foreign currency loans whose foreign currency risk is hedged by cash flow hedges do not result in any foreign currency risk. These items have therefore not been accounted for in the sensitivity analysis.

The foreign currency risks faced by the HORNBACH HOLDING AG Group in its business operations mainly relate to the purchase of goods in the Far East using US dollars and from intragroup supplies and services, which are basically handled in euros. The US dollar currency risk is largely hedged using forward exchange transactions and fixed deposits denominated in US dollars.

Including hedging measures, the Group had the following main foreign currency items open as of the balance sheet date:

€ 000s	2.28.2014	2.28.2013
EUR	(45,553)	(71,551)
USD	8,215	2,995
CZK	(681)	(519)

The above EUR currency position results from the following currency pairs: CHF/EUR € -8,254k (2012/2013: € 4,276k), CZK/EUR € 3,316k (2012/2013: € -359k), RON/EUR € -14,205k (2012/2013: € -47,073k), and SEK/EUR € -26,410k (2012/2013: € -28,395k).

The most important exchange rates have been presented under "Currency Translation".

In the sensitivity analysis provided below for foreign currency risks, it has been assumed that the foreign currency holdings as of the balance sheet date are representative of the financial year as a whole.

If the euro had appreciated by 10 % compared with the Group's other main currencies at the balance sheet date, and all other variables had remained unchanged, consolidated earnings before taxes would have been € 5,492k lower (2012/2013: € 10,373k). Conversely, if the euro had depreciated by 10 % compared with the Group's other main currencies at the balance sheet date, and all other variables had remained unchanged, then consolidated earnings before taxes would have been € 5,492k higher (2012/2013: € 10,373k). The hypothetical impact on earnings of € +5,492k (2012/2013: € +10,373k) is the result of the following sensitivities: EUR/RON € 1,441k (2012/2013: € 7,554k), EUR/SEK € 2,698k (2012/2013: € 2,966k), EUR/CHF € 830k (2012/2013: € -432k), EUR/CZK € -413k (2012/2013: € -15k), and EUR/USD € 936k (2012/2013: € 300k).



### Interest rate risk

At the end of the year, the Group was principally financed by a euro bond with a nominal total of € 250,000k and by unsecured promissory note bonds with total equivalent nominal values of around € 170,000k. Furthermore, the Group also has long-term fixed-interest euro loans amounting to € 134,533k (2012/2013: € 152,463k), long-term CZK loans amounting to € 36,575k (2012/2013: € 43,148k), long-term RON loans amounting to € 14,337k (2012/2013: € 19,762k), and long-term SEK loans amounting to € 46,930k (2012/2013: € 29,041k). The principal long-term financial liabilities with floating interest rates have been converted into fixed-interest financial liabilities using derivative financial instruments.

The sensitivity analysis provided below is based on the following assumptions:

In the case of fixed-interest primary financial instruments, changes in market interest rates only impact on profit and loss or equity when such instruments are measured at fair value. Primary financial instruments measured at amortized cost are therefore not subject to any interest rate risk as defined in IFRS 7. The same applies to financial liabilities which originally had floating interest rates, but which have been converted into fixed-interest financial liabilities by means of cash flow hedges.

Changes in the market interest rates of interest derivatives designated to hedge primary financial instruments with floating interest rates within the framework of a cash flow hedge impact on the hedging reserve within equity and have therefore been accounted for in the equity-related sensitivity analysis.

Changes in the market interest rates of primary financial instruments with floating interest rates impact on the income statement and have therefore been accounted for in the sensitivity analysis.

In the sensitivity analysis for interest rate risks, it has been assumed that the volumes as of the balance sheet date are representative of the financial year as a whole. A parallel shift in the interest rate structure curve has been assumed.

If the market interest rate had been **100 basis points higher** at the balance sheet date, and all other variables had remained unchanged, then consolidated earnings before taxes would have been € 3,515k higher (2012/2013: € 4,026k) and equity before deferred taxes would have been € 5,865k higher (2012/2013: € 7,191k). Conversely, if the market interest rate had been **100 basis points lower** at the balance sheet date, and all other variables had remained unchanged, then consolidated earnings before taxes would have been € 3,515k lower (2012/2013: € 4,026k) and equity before deferred taxes would have been € 5,538k lower (2012/2013: € 5,784k).

### Credit risk

Credit risk involves the risk that a contractual party is unable to comply in part or in full with the obligations entered into upon the conclusion of a financial instrument. The credit risk of the Group is strictly limited to the extent that financial assets and derivative financial instruments are concluded as far as possible with contractual parties of good credit standing. Moreover, transactions with individual contractual partners are subject to a maximum limit. The risk of receivables default in the operating business is already considerably reduced on account of the retail format (cash & carry). The maximum credit risk is basically equivalent to the carrying amounts of the financial assets, which do not include any material risk clusters.

**Liquidity risk**

The following tables show the contractually agreed (undiscounted) cash flows for primary and derivative financial liabilities:

€ 000s	Carrying amount 2.28.2014	Cash flows		
		< 1 year	1-5 years	> 5 years
<b>Primary financial liabilities</b>				
Bonds	246,401	9,688	38,750	259,714
Liabilities to banks	454,123	108,333	296,080	112,758
Liabilities in connection with finance leases	1,039	277	906	0
Trade payables and other liabilities	252,179	252,102	77	0
Accrued liabilities	19,715	19,715		
	<b>973,457</b>	<b>390,114</b>	<b>335,812</b>	<b>372,471</b>
<b>Derivative financial liabilities</b>				
Foreign currency derivatives without hedge relationship	0	0	0	0
Interest derivatives in connection with cash flow hedges	7,405	2,233	4,977	195
	<b>7,405</b>	<b>2,233</b>	<b>4,977</b>	<b>195</b>
		<b>392,347</b>	<b>340,789</b>	<b>372,666</b>

€ 000s	Carrying amount 2.28.2013	Cash flows		
		< 1 year	1-5 years	> 5 years
<b>Primary financial liabilities</b>				
Bonds	245,794	10,000	40,000	269,616
Liabilities to banks	468,818	111,350	320,481	103,239
Liabilities in connection with finance leases	1,282	302	1,209	0
Trade payables and other liabilities	223,001	222,631	370	0
Accrued liabilities	17,467	17,467		
	<b>956,362</b>	<b>361,750</b>	<b>362,060</b>	<b>372,856</b>
<b>Derivative financial liabilities</b>				
Foreign currency derivatives without hedge relationship	227	227	0	0
Interest derivatives in connection with cash flow hedges	11,727	4,292	13,515	3,805
	<b>11,953</b>	<b>4,519</b>	<b>13,515</b>	<b>3,805</b>
		<b>366,268</b>	<b>375,575</b>	<b>376,661</b>

All financial liabilities held at the balance sheet date have been included. No account has been taken of budget figures for future new liabilities. Floating-rate interest payments were calculated on the basis of interest rates valid at the balance sheet date. Liabilities denominated in foreign currencies were translated at the relevant reporting date rate.

Reference is made to Note 22 with regard to the management of liquidity risk.

**Hedging measures**

Hedging transactions serve to hedge the interest rate and foreign currency risks associated with an underlying transaction (hedged item).

**Cash flow hedge – interest rate risk and foreign currency risk**

Payer interest swaps are concluded to secure the interest rates on major long-term financial liabilities with floating interest rates. These enable the variable interest rates on the loans to be converted into fixed interest rates. In individual cases where long-term loans are concluded in currencies other than the functional currency of the respective group company, the foreign currency risk is hedged with currency or interest-currency swaps. Creditworthiness risks are not hedged.

A Swedish subsidiary took up a long-term Euro mortgage loan in the 2012/2013 financial year. This loan of € 30 million has a term running until June 30, 2022. The interest rate is based on the 3-month Euribor, plus a fixed bank margin. To secure the interest and exchange rates, an interest-currency swap consistent with the loan structure was concluded. This swap enables the floating-rate Euro payment installments to be secured as fixed-interest SEK payment installments.

A promissory note bond of € 70 million was concluded by HORNBAACH Immobilien AG as of April 18, 2012. The loan amount was disbursed as of June 29, 2012. The promissory note bond serves in particular to refinance a promissory note bond of € 60 million maturing as of the same date. The promissory note bond has a floating interest rate based on the 6-month Euribor, plus a bank margin, and matures at the end of its five-year term. A swap was concluded with congruent terms to hedge the interest rate. The swap enables the floating interest payable to be converted into fixed interest payments.

As of June 30, 2011, HORNBAACH-Baumarkt-AG took up an unsecured promissory note bond of € 80.0 million with a floating interest rate and a term running until June 30, 2016. The funds served to provide follow-up financing for the promissory note bond of the same amount maturing as of June 30, 2011. To secure the interest rate, a forward swap with congruent terms was taken up in the 2010/2011 financial year already. The swap enabled the half-yearly interest payable to be secured for the entire term at a level of 2.11 % p.a., plus a bank margin.

At the end of the 2013/2014 financial year, the Group had interest swaps amounting to € 184,357k (2012/2013: € 219,734k), with which a transformation from floating interest commitments to fixed interest commitments was achieved. The fair value of the interest swaps amounted to € -6,924k as of February 28, 2014 (2012/2013: € -9,509k) and is reported under financial debt. Furthermore, as of February 28, 2014, the Group also had an interest-currency swap with a nominal value of € 27,000k (2012/2013: € 29,000k) enabling a euro loan with a floating interest rate to be converted into a fixed-interest SEK loan. At the end of the 2013/2014 financial year, the fair value of this interest-currency swap amounted to € -481k (2012/2013: € -2,218k). This item has also been reported under financial debt.

All interest rate swaps met hedge accounting requirements as of February 28, 2014. Changes in the fair values are recognized in the hedging reserve within equity until the results of the hedged transaction are also recognized.

The following table presents the contractually agreed maturities for the payments, i.e. the time at which the hedged item is recognized through profit or loss:

Start	End	Nominal value at 2.28.2014 in € 000s	Nominal value at 2.28.2013 in € 000s	Reference rate
6.30.2011	6.30.2016	80,000	80,000	6-month Euribor
6.29.2012	6.30.2017	70,000	70,000	6-month Euribor
6.29.2012	6.30.2022	27,000	29,000	3-month Euribor
9.30.2002	9.30.2017	5,550	7,030	3-month Euribor
9.30.2002	9.30.2017	3,771	4,777	3-month Euribor
12.30.1999	12.30.2014	1,227	2,454	6-month Euribor

Start	End	Nominal value at 2.28.2014 in SEK 000s	Nominal value at 2.28.2013 in SEK 000s	Reference rate
11.28.2003	12.31.2018	50,000	60,000	3-month SEK-Stibor

Start	End	Nominal value at 2.28.2014 in CZK 000s	Nominal value at 2.28.2013 in CZK 000s	Reference rate
8.31.2010	8.31.2015	496,600	496,600	6-month CZK-Pribor

The HORNBAACH HOLDING AG Group meets the hedge accounting requirement set out in IAS 39 in that it already documents the relationship between the derivative financial instrument deployed as a hedging instrument and the hedged item, as well as the hedging objective and strategy, at the beginning of any hedging measure. This also includes an assessment of the effectiveness of the hedging instruments thereby deployed. The effectiveness of the hedging relationship is assessed prospectively using the critical terms match method. Retrospective effectiveness is calculated at each balance sheet date using the dollar offset method. A hypothetical derivative is taken as the hedged item. A hedging relationship is termed effective when the changes in the value of the hedging instrument and the hypothetical derivative are compensated by between 80 % and 125 %. Hedging relationships are cancelled without delay upon becoming ineffective.

#### Other hedging measures – foreign currency risk

The HORNBAACH HOLDING AG Group also deploys hedging measures which do not meet the hedge accounting requirements set out in IAS 39, but which nevertheless make an effective contribution towards hedging the Group's financial risks in line its risk management principles. For example, the HORNBAACH HOLDING AG Group hedges the foreign currency risks involved in select (planned) transactions, including the embedded foreign currency derivatives potentially resulting from the transactions, such as those involved in the purchase of merchandise in the Far East using US dollars, by working with forward exchange transactions or by making fixed deposit investments denominated in foreign currencies in the form of macro hedges.

The fair value of forward exchange transactions, including the embedded forward exchange transactions, amounted to € 280k at February 28, 2014 (2012/2013: € -81k). Of this sum, € 0k (2012/2013: € 227k) has been recognized under financial debt and € 280k (2012/2013: € 146k) under other assets.

No fair value hedges or net investment in a foreign operation hedges have been undertaken to date.

### Derivatives

The following table provides an overview of the nominal and fair values of derivative financial instruments as of the balance sheet date. The values of opposing transactions, such as foreign exchange purchases or sales, have been shown on a net basis. Nominal value totals are shown in the nominal value line without offsetting any opposing transactions.

<b>February 28, 2014</b>	Forward exchange transactions	Interest swaps	Interest rate and currency swap	Total
Nominal value in € 000s	17,730	184,357	27,000	229,087
Fair value in € 000s (before deferred taxes)	280	(6,925)	(481)	(7,125)

February 28, 2013	Forward exchange transactions	Interest swaps	Interest rate and currency swap	Total
Nominal value in € 000s	33,297	190,734	29,000	253,031
Fair value in € 000s (before deferred taxes)	(81)	(9,509)	(2,218)	(11,807)

As all swaps are included in effective hedging relationships, the changes in their value, less deferred taxes, have basically been recognized in the hedging reserve within equity. The ineffective portion is recognized through profit or loss under net financial expenses.

The nominal value of forward exchange transactions presented above also includes the nominal value of open foreign currency orders for which IAS 39 requires the foreign currency components to be recognized at fair value. In the 2013/2014 financial year, the Group had foreign currency orders with a nominal value of € 17,730k (2012/2013: € 22,633k).

**(34) Sundry disclosures****Employees**

The average number of employees was as follows:

	2013/2014	2012/2013
Salaried employees	15,115	14,505
Trainees	854	839
	<b>15,969</b>	<b>15,344</b>
of which: part-time employees	3,107	2,897

In terms of geographical regions, 9,785 of the average workforce were employed in Germany during the 2013/2014 financial year (2012/2013: 9,426) and 6,184 in other European countries (2012/2013: 5,918).

**Auditor's fee**

The fees charged by the auditor of the annual and consolidated financial statements of HORNBAACH HOLDING AG, KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, for the year under report were as follows:

	2013/2014 € 000s	2012/2013 € 000s
Auditing of financial statements	757	805
Other certification services	201	456
Tax advisory services	78	38
Other services	40	30
	<b>1,076</b>	<b>1,329</b>

**Information on the German Corporate Governance Code**

The annual Declaration of Conformity with the German Corporate Governance Code required by § 161 of the German Stock Corporation Act (AktG) was submitted by the Board of Management and Supervisory Board of HORNBAACH HOLDING AG on December 19, 2013 and by the Board of Management and Supervisory Board of HORNBAACH-Baumarkt-AG on December 18, 2013 and made available to shareholders on the respective company homepages.



**(35) Related party disclosures**

In addition to the subsidiaries included in the consolidated financial statements, HORNBAACH HOLDING AG has direct or indirect relationships with associated companies in the course of its customary business activities.

**The associated companies are:**

HORNBAACH Familien-Treuhandgesellschaft mbH, Annweiler am Trifels

Otmar Hornbach, a member of the Supervisory Board, additionally puts his extensive experience at the company's service within the framework of a consulting agreement. These advisory services are remunerated with a symbolic amount of one euro each month.

Some of the companies included in the consolidated financial statements of HORNBAACH HOLDING AG make use of Kurhaus Trifels Seminarhotel GmbH, Annweiler, for seminars and conferences. This company is represented by its managing director, Bettina Hornbach, wife of Albrecht Hornbach. Services of € 11k were performed by the seminar hotel in the 2013/2014 financial year (2012/2013: € 33k). These services were invoiced at customary rates. Liabilities of € 2k were outstanding at the balance sheet date on February 28, 2014 (2012/2013: € 0k).

**(36) Events after the balance sheet date**

On April 1, 2014, HORNBAACH HOLDING AG published the notification that Kingfisher plc, London, Sheldon Holdings Limited, London, Kingfisher France Limited, London, Castorama Dubois Investissements S.C.A., Lille/France, Kingfisher France SAS, Lille/France, and Kingfisher Holdings B.V., Amsterdam/Netherlands, had sold their jointly held voting rights and now no longer owned any voting rights. Furthermore, the group of companies surrounding Kingfisher plc, London/United Kingdom, has sold its 17.4 % of the preference shares in HORNBAACH HOLDING AG to international investors.

Furthermore, it was announced on April 2, 2014 that HORNBAACH Familien-Treuhandgesellschaft mbH, Annweiler am Trifels, had now acquired these voting rights and now owned 100 % of the voting rights in HORNBAACH HOLDING AG.

The consolidated financial statements of HORNBAACH HOLDING AG for the 2013/2014 financial year were approved for publication by the Board of Management on May 23, 2014.

**(37) Supervisory Board and Board of Management**

Members of the Board of Management:

**Albrecht Hornbach**

DIY Stores and Garden Centers (HORNBAACH-Baumarkt-AG)  
Builders' Merchants (HORNBAACH Baustoff Union GmbH)  
Real Estate (HORNBAACH Immobilien AG)

Chairman

**Roland Pelka**

Finance, Accounting and Tax, Group Controlling,  
Risk Management, Loss Prevention,  
Information Technology, Investor Relations,  
Public Relations (since March 1, 2014)

The total compensation paid to the Board of Management of HORNBAACH HOLDING AG for performing its duties for the Group in the 2013/2014 financial year amounts to € 1,954k (2012/2013: € 1,953k). Of this sum, € 945k (2012/2013: € 945k) relates to fixed compensation and € 1,009k (2012/2013: € 1,008k) to performance-related components. Post-employment benefits amounting to € 210k were incurred for active members of the Board of Management in the 2013/2014 financial year (2012/2013: € 210k). These involve expenses incurred to endow pension provisions (Note 23).

## Members of the Supervisory Board:

<b>Dr. Wolfgang Rupf</b> Managing Director, Rupf Industries GmbH and Rupf Engineering GmbH	Chairman
<b>Christoph Hornbach</b> School Principal	Deputy Chairman since July 5, 2013
<b>Otmar Hornbach</b> Businessman Managing Director, WASGAU Food Beteiligungsgesellschaft mbH and Delta HORNBACH GmbH	Deputy Chairman until July 5, 2013
<b>Dr. John Feldmann</b> Supervisory Board member	since January 17, 2014
<b>Erich Harsch</b> CEO dm-drogerie markt GmbH & Co. KG	since January 17, 2014
<b>Kevin O'Byrne</b> Kingfisher Divisional Chief Executive Officer B&Q and Koçtaş brands	until September 11, 2013
<b>David Paramor</b> Group Finance & Planning Director Kingfisher plc	until September 11, 2013
<b>Joerg Walter Sost</b> Managing Partner J.S. Consulting GmbH	
<b>Dr. Susanne Wulfsberg</b> Veterinary Surgeon	since July 5, 2013

The total compensation of the Supervisory Board for the 2013/2014 financial year amounted to € 382k (2012/2013: € 346k). Of this sum, € 242k (2012/2013: € 220k) related to basic compensation and € 140k (2012/2013: € 126k) to committee compensation.

**Mandates in supervisory boards and other control bodies**

(Disclosures pursuant to § 285 Number 10 HGB)

**Members of the Supervisory Board**

- a) Membership of statutory supervisory boards
- b) Membership of comparable control bodies

Dr. Wolfgang Rupf

- a) HORNBAACH-Baumarkt-AG (Deputy Chairman)  
IVA Valuation & Advisory AG (Deputy Chairman)
- b) Inception Exploration Ltd. (Member of Board)

Dr. John Feldmann

- a) Bilfinger SE  
HORNBAACH-Baumarkt-AG  
KION Group AG (Chairman)  
KION Material Handling GmbH (Chairman)

Erich Harsch

- a) HORNBAACH-Baumarkt-AG
- b) GS 1 Germany GmbH (Chairman)

**Otmar Hornbach** (until July 5, 2013)

- a) WASGAU Produktions & Handels AG (Deputy Chairman)

**Christoph Hornbach**

- a) Corivus AG  
HORNBAACH-Baumarkt-AG

Kevin O'Byrne (until September 11, 2013)

- b) Koctas Yapi Marketleri Ticaret A.S. (Deputy Chairman)  
Land Securities plc, London (Director, Chairman of Audit Committee, Senior Independent Director)

Joerg Walter Sost

- a) HORNBAACH-Baumarkt-AG  
DUOPLAST AG (since February 2014)
- b) Atreus GmbH (Member of Advisory Board)  
Aurelius AG (Member of Advisory Board)  
Bürger GmbH (Member of Advisory Board)  
Deutsche Bank AG (Member of Advisory Board)  
DUOPLAST Holding GmbH (Member of Advisory Board since February 2014)  
Freudenberg Schwab Vibration Control AG (Member of Advisory Board until December 2013)  
Spirella AG (Member of Administrative Board until end of July 2013)  
Spirella Holding AG (Member of Administrative Board until end of July 2013)

**Members of the Board of Management**

- a) Membership of statutory supervisory boards
- b) Membership of comparable control bodies

**Albrecht Hornbach**

- a) HORNBACH-Baumarkt-AG (Chairman)  
HORNBACH Immobilien AG (Chairman)
- b) Inception Exploration Ltd. (Member of Board)  
Rheinland-Pfalz Bank (Member of Advisory Board)

**Roland Pelka**

- a) HORNBACH Immobilien AG (Deputy Chairman)  
WASGAU Produktions & Handels AG
- b) Commerzbank AG (Member of Regional Advisory Board, Central Region)

Neustadt an der Weinstrasse, May 23, 2014

HORNBACH HOLDING AG  
The Board of Management

Albrecht Hornbach

Roland Pelka

## RESPONSIBILITY STATEMENT (BALANCE SHEET OATH)

We hereby affirm that, to the best of our knowledge, the consolidated financial statements give a true and fair picture of the assets, liabilities, financial position and results of operations of the Group in accordance with the applicable reporting principles, and the group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Neustadt an der Weinstrasse, May 23, 2014

HORNBACH HOLDING AG  
The Board of Management

Albrecht Hornbach

Roland Pelka

## AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by Hornbach Holding Aktiengesellschaft, Neustadt / Weinstrasse, comprising the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements and its report on the position of the company and the Group for the business year from March 1, 2013 to February 28, 2014. The preparation of the consolidated financial statements and the group management report in accordance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a (1) HGB are the responsibility of the company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system in respect of the financial reporting process and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined, primarily on a test basis, within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a (1) HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, May 23, 2014  
KPMG AG Wirtschaftsprüfungsgesellschaft

Bertram  
German Public Auditor

Palm  
German Public Auditor





# IMPRINT

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