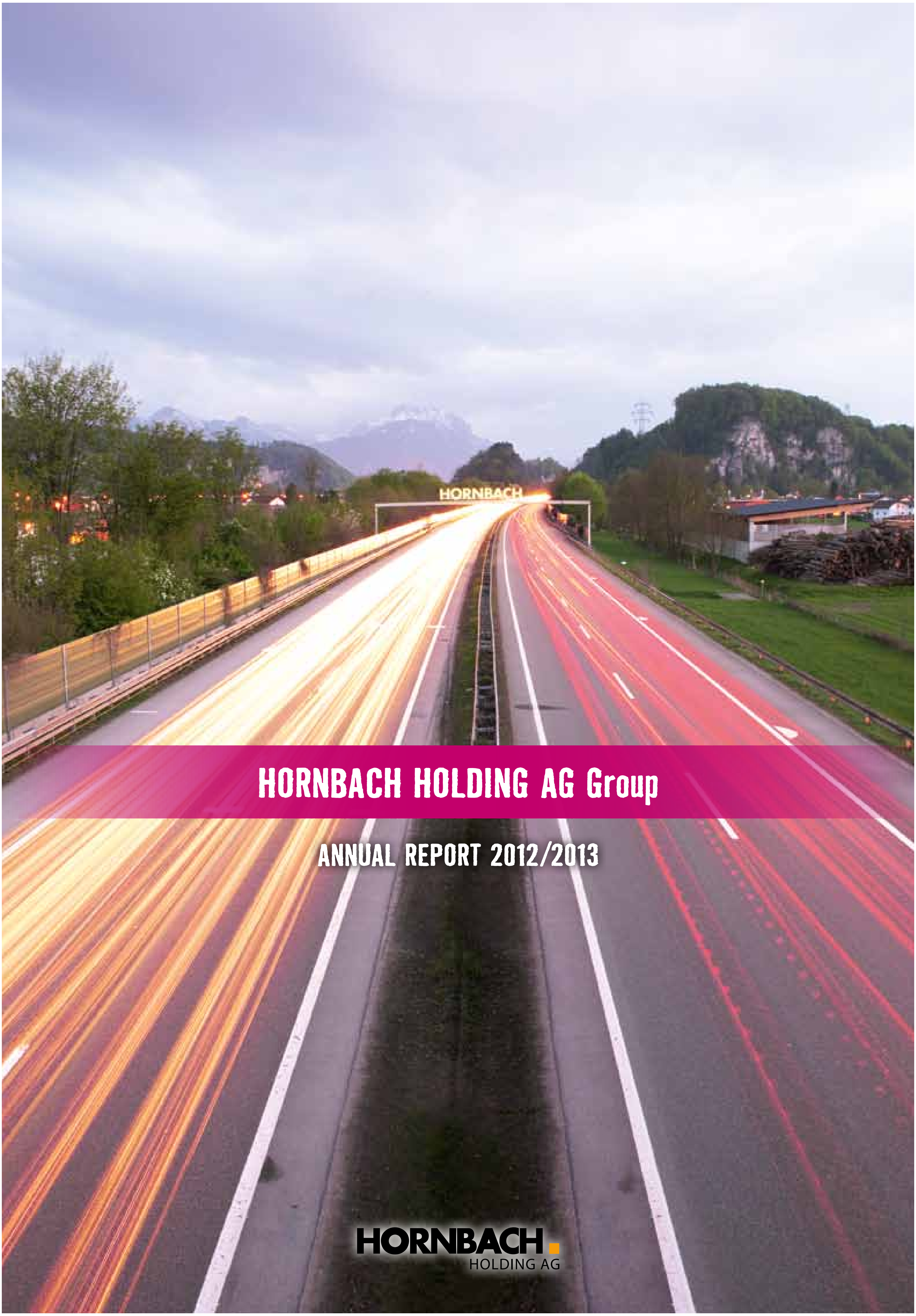


HORNBACH HOLDING AG Group

ANNUAL REPORT 2012/2013

HORNBACH HOLDING AG

CONTENTS

Key Group, Financial and Operating Data

Amounts shown in € million unless otherwise stated	Change financial year 2012/2013 on previous year	IFRS 2012/2013	2011/2012	2010/2011	2009/2010	2008/2009	2007/2008	2006/2007	2005/2006	2004/2005	2003/2004
Sales and earnings figures [1]											
Net sales	0.8%	3,229	3,204	3,017	2,853	2,752	2,617	2,544	2,367	2,220	2,057
of which in other European countries	0.6%	1,280	1,272	1,195	1,109	1,065	962	862	788	688	611
Sales growth as % of net sales		0.8	6.2	5.7	3.7	5.1	2.9	7.5	6.6	8.0	20.3
EBITDA [2]	(10.3)%	221	247	229	222	251	181	197	180	181	156
as % of net sales		6.9	7.7	7.6	7.8	9.1	6.9	7.7	7.6	8.2	7.6
EBIT [3]	(13.7)%	146	169	159	152	179	105	119	92	99	79
as % of net sales		4.5	5.3	5.3	5.3	6.5	4.0	4.7	3.9	4.5	3.8
Earnings before taxes and extraordinary result and non-controlling interest	(18.4)%	108	132	127	116	144	68	83	53	62	45
as % of net sales		3.3	4.1	4.2	4.1	5.2	2.6	3.3	2.2	2.8	2.2
Net income for the year before non-controlling interest	(18.2)%	77	95	99	82	113	58	76	32	37	27
as % of net sales		2.4	3.0	3.3	2.9	4.1	2.2	3.0	1.4	1.7	1.3
Gross margin as % of net sales		36.5	36.6	36.6	36.1	36.0	35.7	35.3	35.2	35.9	35.1
Store expenses as % of net sales [4]		27.7	27.1	27.4	27.7	27.3	27.7	27.4	28.1	27.5	27.2
Costs of central administration as % of net sales [4]		4.5	4.2	4.1	4.0	4.2	4.2	4.0	4.3	4.1	4.0
Pre-opening expenses as % of net sales [4]		0.3	0.2	0.2	0.2	0.3	0.3	0.2	0.5	0.5	0.6
Cash flow figures											
Cash flow from operating activities	1.7%	144	142	182	184	144	90	215	38	142	28
Investments	(8.2)%	149	163	113	97	130	201	123	208	135	134
Proceeds from divestments		6	13	48	9	83	46	55	193	28	99
Earnings potential [5]	3.6%	154	148	187	188	153	97	220	49	153	41
as % of net sales		4.8	4.6	6.2	6.6	5.6	3.7	8.7	2.1	6.9	2.0
Dividend distribution		10.5	10.5	10.5	8.9	8.9	8.9	8.9	8.9	8.9	8.9
Balance sheet and financial figures											
Total assets	0.1%	2,270	2,267	2,233	2,033	1,996	1,902	1,842	1,794	1,762	1,664
Non-current assets	5.5%	1,268	1,202	1,125	1,070	1,010	1,000	983	959	1,045	1,030
Inventories	1.7%	515	507	489	451	516	498	463	512	444	441
Cash and cash equivalents	(15.5)%	357	422	474	335	275	196	265	161	162	69
Shareholders' equity [6]	5.2%	1,095	1,041	962	861	780	688	630	559	536	433
as % of total assets		48.3	45.9	43.1	42.4	39.1	36.1	34.2	31.1	30.4	26.0
Return on shareholders' equity based on net income - in %		7.2	9.4	10.9	10.0	15.4	8.8	12.8	5.9	7.6	6.3
Net working capital	(2.4)%	406	416	375	368	398	387	346	457	354	366
Additions to non-current assets	(7.2)%	151	163	113	103	131	202	120	202	131	133
Inventory turnover rate per year		4.0	4.1	4.1	3.8	3.5	3.5	3.4	3.2	3.2	3.2
Other information											
Employees - annual average - converted into full-time equivalents	4.0%	13,289	12,778	12,066	11,881	11,542	11,078	10,622	10,595	9,979	9,139
Number of shares [6]		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	8,000,000
Average earnings per share in € [7]		4.06	4.77	10.14	8.32	11.41	6.00	7.89	3.37	3.47	2.69

1) Starting in the 2003/2004 financial year: other taxes (e.g. property tax) have been included under operating expenses
2) Earnings before interest, taxes, depreciation and amortization; starting in the 2007/2008 financial year: excluding net currency result
3) Earnings before interest and taxes; starting in the 2007/2008 financial year: excluding net currency result
4) Starting in the 2003/2004 financial year: excluding interest
5) Cash flow from operating activities, plus pre-opening expenses
6) Pursuant to IFRS; starting in the 2004/2005 financial year: including minority interests
7) Starting in the 2011/2012 financial year: change in number of shares following issue of bonus shares as of July 29, 2011 (c.f. Note (9) in notes to consolidated financial statements)

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 construction materials and 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, 2013, the HORNBACH-Baumarkt-AG subgroup was operating 138 DIY megastores with garden centers across Europe (92 of which in Germany). HORNBACH HOLDING AG generated (net) consolidated sales of € 3,229 million in the 2012/2013 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, 2013, the company was operating a total of 46 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 aims to make targeted use of the opportunities presented by multichannel retailing.

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), 82.6 % are owned by independent shareholders, while 17.4 % are held by the British retail group Kingfisher plc. 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. 75 % (minus two shares) of the eight million unlisted ordinary shares are owned by the Hornbach family. Kingfisher holds 25 % (plus two shares) of the voting capital. 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 18.4 % by independent shareholders. Kingfisher plc held a stake of around 5.2 % at the balance sheet date.

Time and Space

»Something always needs doing« – That's not just the motto underpinning the HORNBACH brand. It also defines the two dimensions shaping the Group's sustainable growth – Time and Space. The HORNBACH Group celebrated the 135^{th} anniversary of its foundation in the 2012/2013 financial year. Over five generations, this firmly rooted, family-managed company from Rheinland-Pfalz has grown into one of Europe's leading DIY store operators.

Origins

Bornheim/Rheinland-Pfalz in the 1950s: A simple groundbreaking ceremony by this family company aroused a passion that would inspire great things in the years to come. It all began with a new concrete store on a field. Years later, the same spot would see the first HORNBACH DIY superstore, one ushering in a completely new era for DIY retail. Today, the site in Bornheim is the linchpin of HORNBACH-Baumarkt-AG, the Group's largest operating subsidiary. As well as the headquarters, it is now also home to the largest of all the Group's DIY megastores with garden centers – with sales areas of more than 18,000 m².

TO OUR SHAREHOLDERS

Albrecht Hornbach

Dear Shareholders,

One year ago, writing this foreword was relatively straightforward. Our business in Germany was booming. At 5.8%, like-for-like sales growth at the DIY megastores with garden centers in our home market was higher than at any time in the past twenty years. That made it easy for us to absorb the weak sales performance due to economic developments in other regions within our network, especially in Eastern Europe. All in all, the HORNBACH Group's operating earnings (EBIT) for the 2011/2012 financial grew by more than six percent, and thus more or less in line with sales. All in all, it was a first-class year, and one which from an external perspective it would nice to think was normal.

This year it is a different story. The 2012/2013 financial year was characterized by extremely difficult underlying conditions. The euro sovereign debt crisis led to a macroeconomic slowdown across Europe in 2012. Europe is currently in recession. Not only that, the economic downturn gained in severity across large parts of the EU as the year progressed.

Consumers, companies, and investors in numerous countries are extremely insecure, a factor that has severely impacted on their willingness to consume and invest. Particularly noticeable was the sharp downturn in the European construction industry. Output in the main construction trade in the Czech Republic, for example, contracted by 6.6% in 2012. In Slovakia, it even shrank by 12.3%. In the Netherlands, the downturn in the construction industry amounted to 8.6%. In future, it will no longer be possible to fully deduct mortgage interest for tax purposes in the Netherlands. The country's real estate sector is in deep crisis. In many places, these figures reflect not only restrictions on housing construction, but also cuts in public and commercial construction investments

The further the 2012/2013 financial year progressed, the more we too felt the effects of the severe macroeconomic headwind, particularly outside Germany. This also affected countries that had still reported like-for-like sales growth one year earlier. An unfavorable calendar-related factor and weather-related losses of sales in the fourth quarter of 2012/2013 created extra pressure. The fact we managed to limit the group-wide downturn in like-for-like sales at our DIY megastores with garden centers to 1.4% is due in particular to our respectable performance in Germany. Here, comparatively robust economic performance and consumer confidence enabled us to match the previous year's record level of sales.

Given the background outlined above, it is no surprise that, following growth rates of around six percent in the two previous years, consolidated sales at HORNBACH HOLDING AG, including sales at newly opened stores, did no better than achieve slight growth of 0.8% in the 2012/2013 financial year.

Consistent with the adjustments made to our forecast in the course of the year, our earnings fell significantly short of the challenging standard set by the 2011/2012 financial year. Consolidated earnings before interest and taxes (EBIT) thus fell by 13.7% to € 145.9 million. That was mainly due to less favorable sales/cost ratios. That in turn is also not surprising. Just because of short-term fluctuations in sales, we do not question the measures we are taking in our store operations, expansion, and administration departments in order to generate sustainable earnings growth. We deliberately accept that in a given year it may not be possible to further build on the profitability achieved in previous years. After all, we think and act with a long-term, sustainable perspective. Our strategy is always based on long-term targets. It would have been easy to generate higher earnings by putting back individual forward-looking projects, but that would be incompatible with our philosophy.

We rather channeled substantial resources into optimizing our operating processes and into key services important for the future, projects that will make our company more valuable and differentiate us in qualitative terms from our competitors. One example here is the expansion in our internet presence at www.hornbach.de into Germany's top-performing and largest online DIY store and garden center. This additional expense does not pay off in the short term, but is extremely important to boost our competitive position on a permanent basis.

The 2012/2013 financial year was better than the sales and earnings figures alone would have us believe. The HORNBACH Group maintained its ground well in extremely challenging conditions. We have explained this in detail in the group management report from Page 38 onwards. I would nevertheless like to draw your attention here already to a few of the highlights in the 2012/2013 financial year.

- In the year under report, the HORNBACH-Baumarkt-AG subgroup accelerated its expansion compared with the previous year, opening four new stores and replacing an existing location with a larger, up-to-date store. As of February 28, 2013, we were operating 138 DIY megastores with garden centers, of which 92 in Germany.
- Our DIY stores and garden centers significantly outperformed the overall DIY sector and thus gained additional market share in the past year in most of the nine countries across Europe in which we operate. In Romania, we generated like-for-like sales growth once again for the first time in four years, and that in defiance of a starkly negative market trend.
- The HORNBACH Baustoff Union GmbH subgroup yet again posted a superb performance, increasing its sales by 3 % to € 207.3 million and its operating earnings (EBIT) by more than 21 % to € 4.6 million.
- The HORNBACH Immobilien AG subgroup improved its EBIT by 19 % to € 46.4 million.
- We accord very high priority to stable finances. We further increased our equity ratio – from 45.9 % to 48.3 %. We mostly financed our investments of almost € 150 million from our operating cash flow.
- Strong liquidity and a broad range of financing instruments mean we can act flexibly to finance our future growth. One milestone here was the premature refinancing of the ten-year high-yield bond of € 250 million issued by HORNBACH-Baumarkt-AG in November 2004. To this end, in February 2013 we exploited the low interest rates available to place a seven-year corporate bond with an interest coupon of 3.875 %. Compared with the previous bond, this will enable us to cut our annual interest charge by more than € 5.6 million.

We hired almost 600 new colleagues in the year under report. At the balance sheet date on February 28, 2013, 14,913 individuals, of which 837 trainees, were in fixed employment at our company. With their personal and passionate commitment to our project customers, they all helped keep the HORNBACH boat on it long-term growth course, and that even in stormy waters. For that, I owe all of our employees a special thank you.

I would like to offer my sincere thanks to our shareholders and business partners for the trust they have placed in the HORNBACH Group.

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 2012/2013 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

Four Supervisory Board meetings were held in total in the 2012/2013 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 Supervisory Board meeting held on May 16, 2012 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, 2013. We also formally accepted the report from the Audit Committee on its work and the findings of its audit. All 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 and compliance reports compiled by the Board of Management, and the new requirements governing compensation of the Board of Management 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 6, 2012, the Board of Management reported on the current situation of the Group and the developments apparent in the current year. Moreover, dates were agreed for the regular meetings up to and including the 2013/2014 financial year.

On December 20, 2012, the Board discussed the Group's current business situation, the risk report and the compliance report. The issue of a bond with a volume of € 250 million planned by the Board of Management on the level of the HORNBACH-Baumarkt-AG subsidiary to prematurely refinance an old bond was approved. Furthermore, the updated Declaration of Conformity with the German Corporate Governance Code was submitted 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, HORNBACH HOLDING AG has complied with and continues to comply with the recommendations of the German Corporate Governance 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, that the Supervisory Board Chairman should not simultaneously chair the Audit Committee, the formation of a nomination committee, the individualized disclosure of compensation or benefits granted to Supervisory Board members for services rendered in person, and the statement of targets for diversity and a commensurate representation of women. Further information about corporate governance at HORNBACH 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 2012/2013 financial year, held on February 28, 2013, the Supervisory Board discussed the Group's current business situation, and examined and approved the budget for the financial years 2013/2014 to 2017/2018.

Committees and committee meetings

The Supervisory Board has established three 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. Meetings were held in May, June, September, December and February. In May 2012, the Audit Committee discussed the annual financial statements of HORNBACH HOLDING AG and the consolidated financial statements, the management reports, the proposed appropriation of profits and the audit reports, including the dependent company report, in the presence of the auditor and of the Chairman of the Board of Management and the Chief Financial Officer. Key focuses of discussion at this meeting also included the risk and compliance reports of the Board of Management, group internal audit reports, the reports compiled by the Board of Management on the financial situation of the company 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 26, 2012 the half-year financial report was discussed in the presence of the auditors. In December 2012, the 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, including the planned restructuring of a bond at the HORNBACH-Baumarkt-AG subsidiary. At this meeting, the Committee also discussed the performance of new DIY megastores with garden centers and the long-term business performance of HORNBACH Baustoff Union GmbH. In February 2013, the budget for the financial years 2013/2014 to 2017/2018 was discussed in detail and approved. The internal audit plan for the 2013/2014 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.

It was not necessary to convene the Mediation Committee established pursuant to § 27 (3) of the German Codetermination Act (MitBestimmG).

Personnel-related matters

The Annual General Meeting on July 6, 2012 elected Joerg Walter Sost, Managing Partner of J. S. Consulting GmbH, to the Supervisory Board as successor to Wolfger Ketzler, who already stood down from the company's Supervisory Board as of February 29, 2012. Furthermore, the Annual General Meeting on July 6, 2012 also elected Kevin O'Byrne, Divisional CEO B&Q, London, to the company's Supervisory Board. Kevin O'Byrne has replaced the Supervisory Board member Peter Hogsted standing down as of the same date. Due to his departure from our strategic partner Kingfisher plc, London, Richard Marshall Boyd stood down from his position on the Supervisory Board as of December 31, 2012. Consistent with the petition submitted, Ludwigshafen District Court appointed David Paramor, Group Finance & Planning Director at Kingfisher plc, to succeed him as a Supervisory Board member through to the Annual General Meeting on July 5, 2013. The Supervisory Board thanks all of its retiring members for their longstanding contribution.

Annual and consolidated financial statements

KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG), Berlin and Frankfurt am Main, audited the annual financial statements of HORNBACH HOLDING AG and the consolidated financial statements as of February 28, 2013, as well as the management reports of HORNBACH HOLDING AG and the Group 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 early warning risk management system conformed to requirements and that no risks to the company's ongoing existence had been identified.

Key focuses of the audit in the 2012/2013 financial year included select IT-related processes and checks (e.g. audit of SAP release change), the functionality of internal controls of key financial reporting processes, the audit of the ongoing value of non-current assets (IAS 36), the assessment of stores with negative store results, the audit of the existence and measurement of inventories, the audit of the completeness and measurement of provisions, the audit of the recognition and measurement of deferred and current tax assets and liabilities, the audit of the recognition of the premature repayment of the corporate bond executed in the year under report and of the newly issued bond, 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 note disclosures, and the completeness and consistency of the disclosures made in the management report accompanying the separate and consolidated financial statements.

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, 2013 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 did not raise any objections and endorse KPMG's audit findings. We approve the annual financial statements prepared by the Board of Management for HORNBACH HOLDING AG and the Group as of February 28, 2013; 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).

Despite increasingly tough conditions, the HORNBACH HOLDING AG Group posted good results overall in the past 2012/2013 financial year and asserted its position in its competitive environment. 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 commitment and successful work in the past financial year.

Neustadt an der Weinstrasse, May 2013

The Supervisory Board

Dr. Wolfgang Rupf
Chairman

DIRECTORS & OFFICERS

Supervisory Board

Dr. Wolfgang Rupf
Chairman
Managing Director, Rupf Industries GmbH and Rupf Engineering GmbH

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

Richard Boyd until December 31, 2012
Operations Director
Kingfisher International (until November 30, 2012)

Peter Hogsted until July 6, 2012
Chief Executive Officer
Kingfisher International (until May 31, 2012)

Christoph Hornbach
School Director

Kevin O'Byrne since July 6, 2012
Kingfisher Divisional CEO, B&Q
Kingfisher plc

David Paramor since February 18, 2013
Finance and Planning Director
Kingfisher plc

Joerg Walter Sost since July 6, 2012
Managing Partner,
J. S. Sost Consulting GmbH

Supervisory Board Committees

Audit Committee

Dr. Wolfgang Rupf	Chairman
Richard Boyd	until December 31, 2012
Christoph Hornbach	
Otmar Hornbach	
Joerg Walter Sost	since December 20, 2012

Personnel Committee

Dr. Wolfgang Rupf	Chairman
Christoph Hornbach	
Otmar Hornbach	

Mediation Committee

Dr. Wolfgang Rupf	Chairman
Christoph Hornbach	
Otmar Hornbach	

Board of Management

Members 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

CORPORATE GOVERNANCE

Declaration on Corporate Governance and Corporate Governance Report

Our actions are guided by the principles of responsible, transparent corporate management and control (corporate governance). HORNBACH 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 of the German Stock Corporation Act (AktG) dated December 20, 2012

The Board of Management and Supervisory Board of HORNBACH HOLDING Aktiengesellschaft hereby declare pursuant to § 161 of the German Stock Corporation Act (AktG) that the recommendations of the "German Corporate Governance Code" in the version dated May 15, 2012 and published in the electronic Federal Official Gazette on June 15, 2012 have basically been met since the previous Declaration of Conformity and are still met. Application was and is not made of the recommendations in Points 3.8 (3), 4.1.5, 4.2.3 (4) and (5), 5.2 (2) Sentence 2, 5.3.3, 5.4.1 (2) and (3), and 5.4.6 (3) Sentences 1 and 2.

These deviations from the recommendations were or 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 Appropriateness 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) has therefore not been and is not followed.

b) Point 4.2.3 (4) and (5):
No application has been or is made of the recommendations included in Point 4.2.3 Paragraphs (4) and (5) of the Code ("severance pay cap"). 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 included in Point 4.2.3 (4) are legally enforceable.

c) Point 5.2 (2) Sentence 2:
In Point 5.2 (2) Sentence 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 HORNBACH-Baumarkt-Aktiengesellschaft, the largest subgroup, we deem this deviation appropriate.

d) 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 experience to date, the establishment of such a committee would not appear to be necessary.

e) 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 composition of its Board of Management and Supervisory Board, as well as of other management positions, HORNBACH HOLDING Aktiengesellschaft accords priority above all to the knowledge, ability and expert experience of the individual in question.

f) 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 compensation of the Supervisory Board is governed by the Articles of Association, we see no necessity to disclose individual compensation packages.

g) Point 5.4.6 (3) Sentence 2:
In Point 5.4.6 Paragraph 3 Sentence 2, the Code further recommends that compensation paid or benefits granted by the company to supervisory board members for services rendered personally, especially advisory and mediation services, are to be reported separately in the notes to the financial statements or the management report on an individual basis. HORNBACH HOLDING Aktiengesellschaft makes use in one case of the opportunity of drawing on the expertise of one Supervisory Board member in specific areas. This compensation is undertaken on the basis of symbolic compensation. Here, the Supervisory Board has adopted a resolution pursuant to § 114 of the German Stock Corporation Act (AktG). We see no need to provide individual disclosures in this respect.

Neustadt an der Weinstrasse, December 20, 2012

HORNBACH HOLDING Aktiengesellschaft
The Supervisory Board The Board of Management

The above Declaration of Conformity dated December 20, 2012 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].

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 HORNBACH 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. HORNBACH's corporate culture is based on these principles, key aspects of which are also formulated in the company's Corporate Compliance Policy [**Internet**: 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 HORNBACH, adherence with compliance requirements is consistently expected of its employees and business partners and is also monitored, with sanctions being imposed where necessary. In October 2009, the Board of Management entrusted the coordination and documentation of compliance activities across the Group to a Chief Compliance Officer. 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 HORNBACH foundation
HORNBACH 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 "HORNBACH 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].

Compliance with social, safety, and environmental 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 HORNBACH meets its responsibilities towards individuals, society at large and the environment [**Internet**: www.hornbach-group.com/CSR-Guidelines]. The 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 HORNBACH 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. HORNBACH currently stocks more than 4,500 articles bearing the Forest Stewardship Council (FSC) seal for sustainable forestry. We only offer FSC-certified tropical woods.

- **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 multi-stage process to assure the quality and audit the safety of its products. These checks are performed by employees in HORNBACH'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. HORNBACH 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
HORNBACH 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, HORNBACH 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 HORNBACH 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 any 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 any conflicts of interest to the Supervisory Board Chairman, especially any such conflicts arising due to their performing any consultant or directorship function at customers, suppliers, lenders or other business partners of the company. Any 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, HORNBACH HOLDING Aktiengesellschaft uses the possibility of drawing on the expertise of one 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:

- Mediation Committee
- Personnel Committee
- Audit Committee

The composition of the committees can be found on Page 14 of this report. Their activities have been 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 HORNBACH HOLDING AG consists of two members. The composition and areas of responsibility of the Board of Management 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 any assessment of the situation, development and management of the company. Transactions and measures requiring approval by the Supervisory Board are presented to the Supervisory Board in good time. Members of the Board of Management are obliged to disclose any 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 sideline activities, in particular Supervisory Board mandates outside the Group, with the approval of the Supervisory Board Chairman.

Annual General Meeting
Shareholders of HORNBACH 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. HORNBACH 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 HORNBACH 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 HORNBACH 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.

HORNBACH 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.** 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).

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 75) 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 HORNBACH 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 HORNBACH 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 HORNBACH 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 HORNBACH 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 HORNBACH 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 HORNBACH 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 due account of legal requirements, to the extent deemed necessary to account for the duties and performance of the respective member of the Board of Management.

Retirement and pension commitments

Members of the Board of Management of HORNBACH 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. HORNBACH 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 HORNBACH 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 HORNBACH 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 2012/2013 financial year

The total compensation of the Board of Management of HORNBACH HOLDING AG for performing its duties on behalf of the Group in the 2012/2013 financial year amounted to € 1,953k. Of this sum, € 945k constituted fixed compensation and € 1,008k involved performance-related components. Termination benefits of € 210k were incurred for active members of the Board of Management in the 2012/2013 financial year. These involve expenses to endow pension provisions. There are corresponding value credits.

The members of the Board of Management held a combined total of 52,778 ordinary shares and 6,810 preference shares in HORNBACH HOLDING AG at the balance sheet date on February 28, 2013.

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 HORNBACH HOLDING AG.

As well as the reimbursement of his or her expenses, from the 2012/2013 financial year onwards 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.

From the 2012/2013 financial year onwards, Supervisory Board members who also sit on a Supervisory Board committee receive additional 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.

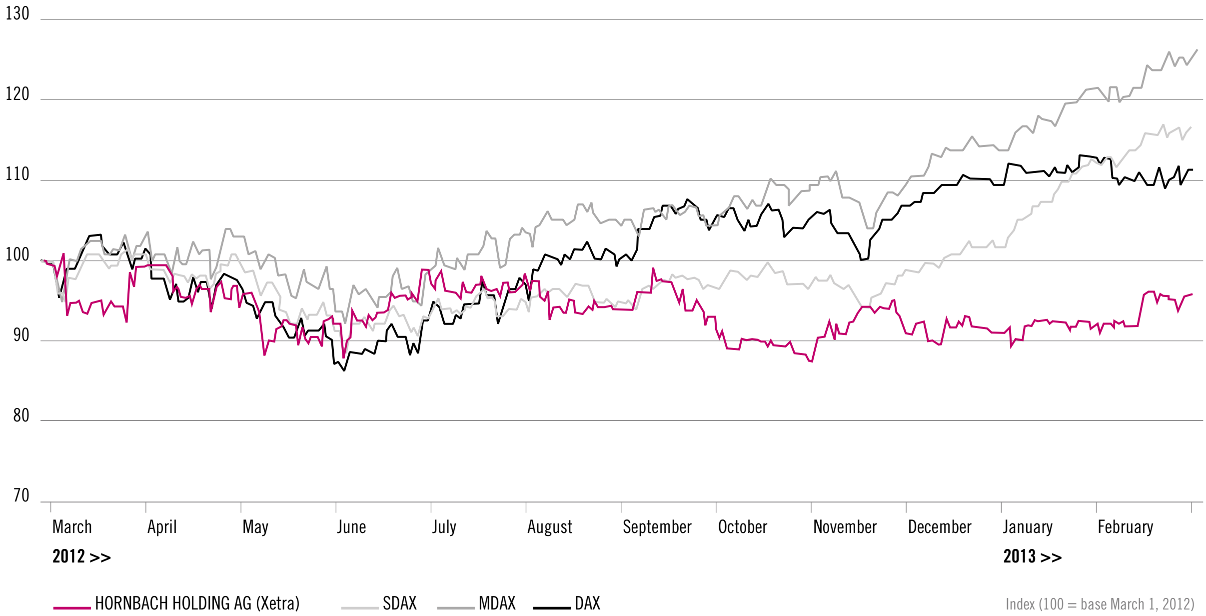
The compensation of the Supervisory Board for the 2012/2013 financial year totals € 347k. Of this total, € 220k relates to basic compensation and € 127k to committee compensation. Members of the Supervisory Board did not hold any ordinary shares or any preference shares at the balance sheet date on February 28, 2013.

IPO

This more or less marked a quantum leap for the company's rapid development in the past 25 years. Today's HORNBACH HOLDING AG was floated on the stock exchange in 1987, followed six years later by its subsidiary HORNBACH-Baumarkt-AG. This provided the Group with the capital needed to expand further. At the time of the first IPO, consolidated sales totaled € 132 million and the company had 613 employees. Now, HORNBACH has grown into an international retail group with sales of more than € 3.2 billion and almost 15,000 employees.

THE HORNBACH HOLDING SHARE

Share price performance: March 1, 2012 to February 28, 2013



Hunt for returns leads investors to equities

Many investors will retain fond memories of 2012 as a good year on the stock markets. Historically low interest rates meant that even highly defensive investors were increasingly obliged to invest in equities and thus to accept higher risks. The strategy tried and tested over decades of investing large shares of assets in government bonds with impeccable creditworthiness no longer works in times of debt crisis. Fixed income investments alone are no longer a source of adequate yields. In the hunt for returns, there is thus no alternative to the stock market. The Dax, the German lead index, certainly felt the effects of this tailwind in the 2012 financial year, rising by almost 30% to 7,612 points. That marked the highest gain for nine years. During the year, there was the odd nail-biting moment within the maelstrom of macroeconomic jitters and the sovereign debt crisis. Toward the middle of 2012, the Dax returned to a level of 6,000 as investors worried about the future of the euro. Once ECB boss Mario Draghi had signaled a clear commitment to uphold the currency area, the index then embarked on a distinct rally from July 2012. In spring 2013, the German lead index was well on the way to what would then become a new all-time high in May 2013, and that despite temporary setbacks due to the threat of government bankruptcy in Cyprus. At the end of our financial year (February 28, 2013), the Dax amounted to 7,742 points, thus rising by 11.5% in the twelve-month period. German small-cap stocks performed even better. The SDax rose by 16.5%, while the MDax even surged by 26.3%.

Regrettably, the preference share of HORNBACH HOLDING AG (ISIN DE0006083439) only managed to keep up with the performance of the overall market until summer 2012. The share opened the year on March 1, 2012 at a Xetra price of € 57.84, and thus only just below its annual high, reached one week later at € 58.35. Fears of a break-up in the euro area sent stock markets plummeting in the spring. In the wake of these developments, the HOLDING preference share also tended downwards, hitting a new low at € 50.67 on June 4, 2013. During the market recovery largely triggered by the European Central Bank, HORNBACH's preference shares recovered to a level of around € 56 at the beginning of August 2013. Given the sales and earnings performance of the HORNBACH HOLDING AG Group, however, there was little potential for upward development in the share price in the further course of the 2012/2013 financial year.

As described in detail in the group management report (please see Page 38 onwards), the company had to contend with the recession across large parts of Europe in the third and fourth quarters in particular. The preference shares reached their annual low at € 50.41 on October 31, 2012. On November 27, 2012, the HORNBACH Group reduced its sales and earnings forecast for 2012/2013 as a whole to account for the increasingly subdued economic backdrop. The general public was informed by ad-hoc announcement that consolidated sales would most probably match the previous year's figure of € 3.2 billion and that operating earnings would fall short of the record figure of € 169 million posted for the 2011/2012 financial year. The capital market had clearly already priced the profit warning into its expectations beforehand. The HOLDING preference share lacked positive momentum to break out of its sideways motion within a corridor of between € 53 and € 56. This situation was exacerbated by investors' more pessimistic overall assessment of growth prospects in the European DIY sector. Unfavorable weather conditions in the 2012/2013 winter, which significantly impaired customer demand at DIY stores and garden centers, also played a part in attracting investors' interest towards other sectors. The preference share of HORNBACH HOLDING AG closed at € 55.28 on the balance sheet date on February 28, 2013. That corresponded to a 4.4% decline in the share price over the twelve-month period. Compared with the buoyant lead indices, that represented an unsatisfactory performance for investors with short-term engagements.

It was a different story for investors with long-term investment horizons. Anyone who bought the preference share at the beginning of March 2003, for example, and then kept it in the portfolio for ten years would have been pleased to see annual average share price growth of 11.3%. By reinvesting the dividend, they could have achieved 14.8% growth a year with the HOLDING preference share. Given these figures, it is clear that our stock is mostly to be found in the portfolios of so-called value investors, a group which 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.

Successful bond placement in February 2013

HORNBACH exploited the low interest rates available at the beginning of 2013 to refinance its non-current financial debt. The HORNBACH-Baumarkt-AG subsidiary successfully placed a seven-year bond (ISIN DE000A1R02E0) with a volume of € 250 million on February 15, 2013. The issue was several times oversubscribed, with great demand from private and institutional investors alike. The bond received an interest coupon of 3.875%, upon issue the lowest coupon for an issuer in this rating class (Standard & Poor's: BB+; Moody's: Ba2). Based on the issue price of 99.25%, this corresponds to a yield of 4.00% p.a. The proceeds were used to prematurely redeem the ten-year high-yield bond (ISIN XS0205954778), placed in November 2004 with a coupon of 6.125%, on February 25, 2013. This significantly improved the maturity profile of the Group's financial liabilities. Given the great interest shown in the new Eurobond by private investors in particular, within a few weeks the price reached more than 104%, corresponding to a yield of around 3.2%. The bond issue offers long-term security for the HORNBACH Group's further growth.

Key data about the HORNBACH HOLDING share (IFRS)		2012/2013	2011/2012
Nominal value of the share	€	3.00	3.00
Dividend per preference share[1]	€	0.67	0.67
Earnings per preference share	€	4.08	4.79
Total dividend payment	€ 000s	10,480	10,480
Shareholders' equity per share (including minority interests)[2]	€	68.46	65.08
Market capitalization[2]	€ 000s	884,480	916,000
Share price (Xetra)[2]	€	55.28	57.25
12-month high	€	58.35	63.30
12-month low	€	50.41	44.35
Shares issued	Number	16,000,000	16,000,000
Price / earnings ratio[2]		13.5	12.0

[1] 2012/2013: subject to resolution by the Annual General Meeting
[2] At the end of the financial year (the last day in February

Highly 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), where we have pooled all of our information and services, especially for shareholders and press representatives. This separate site for corporate communications thus complements the product-related and marketing content available at HORNBACH's internet site at www.hornbach.com.

The Annual General Meeting, the annual results press conference, analysts' conferences and meetings with investors in Germany and abroad give us the 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.

Dividend at previous year's level

The Board of Management and the Supervisory Board of HORNBACH HOLDING AG will propose a dividend distribution at the same level as in the previous year for approval by the Annual General Meeting on July 5, 2013. This corresponds to a dividend of € 0.64 per ordinary share and of € 0.67 per preference share. This way, the company intends to maintain a fair balance between the interests of its shareholders on the one hand, and the company's growth financing on the other.

The share of HORNBACH HOLDING AG represents a solid long-term investment with high intrinsic value. More than 80% of the eight million preference shares (ISIN DE0006083439) are in free float. The British retail Group Kingfisher plc holds a stake of around 17.4%. 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. The majority of the eight million unlisted ordinary shares (ISIN DE0006083405) are owned by the Hornbach families (75% minus two shares). Kingfisher plc holds a qualified minority shareholding in the voting capital amounting to 25% plus two shares.

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 DE0006083439WKN 608343
Stock market code	HBH3
Bloomberg	HBH3 GY
Reuters (Xetra)	HBHGP.DE

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FINANCIAL CALENDAR 2013

May 28, 2013	Annual Results Press Conference 2012/2013 Publication of Annual Report
June 27, 2013	Interim Report: 1st Quarter 2013/2014 as of May 31, 2013
July 5, 2013	Annual General Meeting Festhalle Landau, Landau/Pfalz
September 26, 2013	Half-Year Financial Report 2013/2014 as of August 31, 2013 DVFA Analysts' Conference
December 20, 2013	Interim Report: 3rd Quarter 2013/2014 as of November 30, 2013

Expansion

A great deal has happened since the first DIY superstore was opened in 1968. HORNBACH now has 138 DIY megastores with garden centers in nine countries across Europe. The latest store is currently being built in Nieuwerkerk in the Netherlands. Persistent ground frost this year has made this project a particular challenge. The time lost in the winter now has to be made up at full steam. Here and there is hustle and bustle, but elsewhere workers are already enjoying their well-earned sleep.

HORNBACH-BAUMARKT-AG

HORNBACH HOLDING AG acts as the holding company for all of the Group's retail activities. The DIY megastores with garden centers operated by HORNBACH-Baumarkt-AG since 1968 are the cornerstone of the Group's activities. In addition to these, the HORNBACH Group is also active on a regional level in the construction materials and builders' merchant business. All sales formats focus on the overall market for construction, gardening and DIY products.

HORNBACH opens five new DIY megastores with garden centers

Having opened three new stores in the previous year, the HORNBACH-Baumarkt-AG subgroup launched operations at five new DIY megastores with garden centers in the 2012/2013 financial year under report, of which three in other European countries. In the first quarter, we thus extended our Swedish network from three to four DIY megastores with garden centers by opening a new location in Sundbyberg near Stockholm. In the second quarter, we opened a new megastore in Timisoara, now our fifth location in Romania. Furthermore, by opening a new store in Riddes (Wallis Canton), we expanded our Swiss network to six stores.

The fourth quarter brought two new store openings in Germany. In December 2012, operations were launched at a new HORNBACH store in Oberhausen. In February 2013, the expansion program for the financial year under report was completed by opening a new store at the Bremen location, thus replacing the existing nearby location.

At the balance sheet date on February 28, 2013, the subgroup was operating 138 retail outlets, of which 92 in Germany and 46 in other European countries. With total sales areas of around 1.6 million m², the HORNBACH DIY megastores with garden centers had average sales areas of around 11,600 m².

Sales slightly ahead of previous year's figure

The HORNBACH-Baumarkt-AG subgroup maintained its ground well in the 2012/2013 financial year, and that despite increasingly difficult conditions across its European network. Net sales, including those at newly opened stores, showed slight growth of 0.6% to € 3,020 million (2011/2012: € 3,001 million). Sales in Germany increased by 0.7% to € 1,741 million in the 2012/2013 financial year (2011/2012: € 1,729 million). Sales outside Germany (other European countries), including sales at the three stores newly opened, grew by 0.6% to € 1,279 million (2011/2012: € 1,272 million). The international stores' share of sales at the subgroup remained unchanged at 42.4%.

Economic developments in Europe leave their mark

The greatest challenge in the year under report was the recession in Europe, which adversely affected the sales and earnings performance of the HORNBACH DIY megastores with garden centers in the second half of the financial year, and especially in the final quarter of 2012/2013. This factor chiefly influenced our activities outside Germany, where the implications of the sovereign debt crisis gave consumers reason to be cautious and hold back spending on construction and renovation projects. Not only that, fourth-quarter sales were also negatively affected by unfavorable calendar factors and poor weather conditions.

Against this backdrop, like-for-like sales in other European countries fell year-on-year by 3.2%. In Germany, by contrast, we successful upheld our like-for-like sales at the previous year's record level. Thanks to the stable performance in Germany, we managed to limit the downturn in like-for-like sales on group level to minus 1.4%.

It is pleasing to note that, notwithstanding the economic challenges in 2012/2013, we clearly outperformed the overall DIY store and garden center sector and thus gained further market share in most countries in our European network. As expected, the decline in like-for-like sales and resultant less favorable cost ratios meant that the operating earnings (EBIT) of € 99.3 million for the year under report fell short of the previous year's figure of € 128.4 million.

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

HORNBACH BAUSTOFF UNION GMBH

HORNBACH Baustoff Union GmbH (HBU), a regional builders' merchant company, was operating a total of 25 outlets in south-western Germany at the balance sheet date on February 28, 2013. Its product range focuses on the needs of professional customers in its key target groups of main and secondary construction clients. Alongside this, the company also offers extensive service and advice to private building clients. Alongside HORNBACH-Baumarkt-AG in the retail segment and HORNBACH Immobilien AG, which operates in the real estate segment, HORNBACH Baustoff Union GmbH is thus the third group subsidiary in the HORNBACH HOLDING AG Group.

Underlying conditions for builders' merchant business

The German construction industry continued to perform positively in 2012. This was particularly true of German housing construction, which achieved further growth given record low mortgage interest rates, higher real-term incomes, the robust state of the labor market, and the ongoing popularity of real estate as an inflation-proof investment. Having said this, the rate of growth has slowed significantly. While 21.7% more new residential units were approved in 2011, the number of building permits issued in 2012 grew by 4.8% to 239,500.

In HBU's main catchment area, the federal states of Rheinland-Pfalz and Saarland, the number of building permits issued for residential units in 2012 was notably weaker than the national average. The number of building permits fell by 2.9% in Rheinland-Pfalz, and even by more than a fifth in Saarland, a development attributable above all to the decline in the number of detached houses approved. In 2011, this segment had shown record growth in the statistics.

Pleasing business performance at HBU

Against this backdrop, sales at HORNBACH Baustoff Union GmbH showed pleasing growth of 2.9% to € 207.3 million in the 2012/2013 financial year (2011/2012: € 201.5 million). This growth was driven by all product divisions apart from civil engineering. HBU posted further above-average growth with its construction, garden and landscape gardening product ranges. Particularly striking in the year under report were the marked seasonal fluctuations in sales due to weather conditions. While the first quarter of 2012/2013 benefited from the weather, customer demand in the final quarter (December 1, 2012 to February 28, 2013) was held back more than in the previous year by the long winter.

HBU further boosted its earnings strength in the 2012/2013 financial year. This was mainly due to an improvement in the gross margin, but also to numerous measures taken to enhance efficiency in the subgroup's sales and logistics activities. Operating earnings (EBIT) grew by 21.1% to € 4.6 million, marking the eighth successive year of earnings growth.

In the year under report, HBU successfully expanded its sales of private label products in the product ranges of plaster, façade insulation, and garden design. Not only that, the subgroup built up specialist logistics to supply all of its locations with its natural stone product range. It also pressed further ahead with pooling vehicle pool capacities at several HBU outlets at one central pick-up point. Furthermore, considerable sums were channeled into converting the vehicle pool to meet currently valid emission norms. This has ensured that since the year under report deliveries can be unrestrictedly made to customers living in the environmental zones now established in large cities.

Strong position in the region

By consistently improving its sales network, HORNBACH Baustoff Union GmbH has further strengthened its market position in its regional catchment area. The two French locations in Phalsbourg and Thal-Drulingen were consolidated for the first time at the beginning of the 2013/2014 financial year. Both outlets operate under the name Holtz SA. The Viernheim outlet moved to a new location in April 2013. A new location has been let on a long-term basis and opened in Dahn. Alongside these steps, HBU will be focusing in future as well on strategically enhancing its sales concept for commercial customers. Among other measures, this will also involve expanding private labels, which HBU aims to successfully establish among its target groups.

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 are a result of 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. In the light of 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 Group 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 2012/2013 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, 2013, around 55% (2011/2012: 53%) of the total sales areas used for retail (approx. 1.6 million m²) belonged to one of the group companies. The remaining 45% (2011/2012: 47%) of sales areas are either rented from third parties, or leased from third parties with a repurchase option (43%). In individual cases (2%), the land has been leased (hereditary lease).

The 55% of sales areas owned by the Group are divided between the HORNBACH-Baumarkt-AG (26%) and the HORNBACH Immobilien AG (29%) subgroups. At the balance sheet date on February 28, 2013, the HORNBACH Immobilien AG subgroup had let or sublet 40 DIY megastores with garden centers in Germany and abroad, with sales areas totaling 459,321 m², 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 € 26.7 million was thereby transferred for the past financial year (2011/2012: € 22.5 million).

The HORNBACH-Baumarkt-AG subgroup operated a total of 138 DIY megastores with garden centers in Germany and abroad at the balance sheet date. Of these, 37 locations with sales areas totaling 414,880 m² 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 1,597,949 m² at the balance sheet date. Ownership of the sales areas was structured as follows at the balance sheet date on February 28, 2013:

	No. of stores	Sales area m²	Share %
Property owned			
HORNBACH-Baumarkt-AG subgroup	37	414,880	26.0
HORNBACH Immobilien AG subgroup	40	459,321	28.7
Subtotal of property owned	**77**	**874,201**	**54.7**
Land rented, buildings owned	4	34,968	2.2
Operating lease (rent)	57	688,780	43.1
Total	**138**	**1,597,949**	**100.0**

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 m² 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 € 421 million in the balance sheet as of February 28, 2013. 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 € 743 million at the balance sheet date. The deduction of the carrying amount of the real estate in question (€ 421 million) leads to hidden reserves of € 322 million.

At the balance sheet date on February 28, 2013, 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 € 466 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 € 715 million. Deducting the carrying amount (€ 466 million) leads to calculated hidden reserves of around € 249 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 € 571 million.

Futuristic

Fantastic product variety, the best service and the lowest prices – and those are just some of HORNBACH's strengths. And that not only at the stores on the ground. Thanks to Germany's highest-performance online DIY and garden store, HORNBACH customers benefit from these strengths at home. Even heavy items, such as paint barrels, can be ordered online and delivered to customers via the quickest route. The next project is just a mouse click away.

GROUP MANAGEMENT REPORT

Macroeconomic Framework

Global economy shifts down a gear

According to figures released by the International Monetary Fund (IMF), the global economy grew by 3.2% in 2012, and thus at a notably weaker rate than in the two previous years and the average for the past decade. Following an upturn in the first calendar quarter, global economic growth weakened noticeably once again in the two following quarters. For large parts of the year, these developments were due in particular to the debt crisis in the euro area. Through to the fall of 2012, however, levels of economic growth remained highly subdued in major emerging economies as well. Only towards the end of the year were there once again increasing signs of a gradual rise in global economic momentum. Viewed on a regional level, data from the German Bundesbank would appear to indicate that the group of emerging economies stepped up a gear in the fourth quarter of 2012. In the industrialized economies, by contrast, the low level of growth seen previously has reverted to a decline in production, one that has clearly left its mark in Europe as well.

Europe in recession

Eurostat, the European Union statistics authority, has calculated that gross domestic product (GDP) in the 2012 calendar year declined by 0.3% in the European Union as a whole (EU 27), and even by 0.6% in the euro area. The recession already underway since the fall of 2011 intensified sharply in the fourth quarter of 2012. Seasonally adjusted real-term GDP fell by 0.5% and 0.6% respectively compared with the relatively stable previous quarter. By the end of 2012, the unfavorable economic developments within the euro area had spread to increasing numbers of countries.

As a result, macroeconomic conditions in the nine countries across Europe in which HORNBACH's stores are located also deteriorated increasingly in the fourth quarter of 2012. Based on the economic data available upon completion of this report, Germany, which in the first nine months of 2012 had stood firm as rock in the European storm, also felt a tangible downturn in economic output. The economic downturn in the Netherlands and the Czech Republic slowed compared with the third quarter. However, from a full-year perspective both countries suffered a marked weakening in their economies in 2012, with GDP downturns of 1.0% and 1.3% respectively. By contrast, the other countries in our network mostly posted marginally positive economic growth in a range of 0.2% to 1.0% in 2012, and thus significantly ahead of the EU average. Slovakia even achieved growth of 2.0%.

GDP growth rates in countries with HORNBACH DIY megastores and garden centers

Percentage change on previous quarter Source: Eurostat (calendar year figures)	1st Quarter 2012	2nd Quarter 2012	3rd Quarter 2012	4th Quarter 2012	Calendar Year 2012 vs. 2011
Germany	**0.5**	**0.3**	**0.2**	**(0.6)**	**0.7**
Luxembourg	0.0	0.5	(0.5)	1.6	0.2
Netherlands	0.1	0.2	(1.0)	(0.4)	(1.0)
Austria	0.4	0.1	0.1	(0.1)	0.8
Romania	(0.1)	0.6	(0.2)	0.4	0.3
Slovakia	0.3	0.4	0.3	0.2	2.0
Sweden	0.4	0.8	0.3	0.0	0.8
Switzerland	0.5	(0.1)	0.6	0.2	1.0
Czech Republic	(0.5)	(0.6)	(0.4)	(0.2)	(1.3)
Euro area	**(0.1)**	**(0.2)**	**(0.1)**	**(0.6)**	**(0.6)**
EU 27	**(0.1)**	**(0.2)**	**0.1**	**(0.5)**	**(0.3)**

Alongside declining demand from outside Europe, the poor performance of the European economy in the course of 2012 chiefly resulted from home-made problems in the euro area. Consumer, business and investor confidence all clearly took a knock from the intensification in the crisis in the summer of 2012, as is apparent in, among other sources, the sentiment indicators calculated by the European Commission. Both consumer confidence and the business confidence index plummeted from the spring through to the fall of 2012. Consistent with this picture was the weak level of domestic demand, the primary cause of the recession. Gross fixed capital formation fell sharply in the euro area, reducing by a quarterly average of around four percent compared with the respective previous year's period. In particular, this reflected a sharp drop in output by more than five percent in the European construction industry. In terms of the countries where HORNBACH operates, the downturn in construction output was especially severe in the Czech Republic (minus 6.6%), the Netherlands (minus 8.6%) and Slovakia (minus 12.3%). This was the result not only of restrictions on housing construction activity and uncertainties surrounding fiscal support for real estate, but also of reductions in public and commercial construction investments.

Not only that, given rising state duties, shrinking real-term incomes, rapidly rising unemployment, and a widespread feeling of uncertainty, private households remained unwilling to spend. Private consumer spending contracted by more than one percent within the twelve-month period. Accordingly, real-term retail sales fell by 0.9% in the European Union and even by 1.8% in the euro area in 2012. Five of the nine countries in HORNBACH's store network – Germany, the Netherlands, Austria, the Czech Republic, and Slovakia – witnessed a contraction in real-term retail sales. The Eurostat figures show positive growth rates for Luxembourg, Romania, Sweden, and Switzerland. Indicators available from trade association surveys show that in most European countries demand levels in the DIY store and garden center sector, i.e. in the DIY retail sector, fared less favorably in 2012 than in the overall retail sector.

German economy proves resilient

The German economy successfully held the European recession at bay for large parts of 2012 and notwithstanding difficult macroeconomic omens managed to post moderate growth. According to figures released by the Federal Statistical Office (Destatis), real-term gross domestic product was 0.7% higher than in the previous year (calendar-adjusted: 0.9%). However, Europe's largest economy ran out of steam towards the end of 2012. Fourth-quarter real-term GDP adjusted for seasonal and calendar factors shrank by 0.6% compared with the previous quarter. Despite generating positive growth in each of the first three quarters of 2012, the German economy consistently lost momentum.

The key factors influencing domestic demand, and thus the most important means of assessing the underlying framework for German DIY stores and garden centers, as well as for the builders' merchant business, showed disparate developments in 2012. According to the harmonized consumer price index (HCPI), the annual inflation rate rose by 2.1%. As real-term incomes rose faster than inflation in 2012, as had also been the case in the two previous years, private households had increasing spending power. Adjusted for inflation, private consumer spending grew by 0.6%. Consumers were thus a source of only modest momentum. GfK consumer surveys nevertheless pointed to consistently positive consumer confidence. This was chiefly due to the robust situation on the labor market and substantial income growth. On the other hand, capital expenditure in Germany in 2012 fell notably short of the figure for the previous year. That applied not only to investments in equipment (down by 4.8% in real terms), but also to construction investments. Following strong price-adjusted growth of 5.8% in the previous year, these then contracted by 1.5% in 2012. Overall, construction activity in Germany showed a divided picture. In real terms, housing construction investments grew year-on-year by 1.5% in 2012, while non-housing construction fell by almost five percent.

Housing still key driver for construction industry

Underlying conditions for housing construction, such as ongoing low interest rates, real-term income growth, and the stable situation on the labor market, remained favorable in the final quarter of 2012. The pace of expansion nevertheless failed to match the high tempo seen in 2010 and 2011. To a considerable extent this was due to the shift in new construction activity away from detached houses and towards apartment blocks, and not least to the high level achieved in the previous year. Based on official Destatis statistics for 2012, the number of applications submitted for apartment block building permits rose by 13.3% in 2012. Building permits for semidetached houses increased by 3.6%, while permits for detached houses fell by 5.8%. Around 239,500 housing units were approved in total in 2012. That corresponds to growth of 4.8% and is all the more remarkable given the jump of almost 22% seen in the previous year. New orders in the main construction trade grew by 4.2% in 2012, thus benefiting in particular from the growth momentum in the German housing construction sector.

The construction sector posted slight growth in 2012. The annual results for the main construction trade were nevertheless frustrated by the early and severe onset of winter in December, which given the position of the Christmas holidays in any case had four working days fewer than in the previous year. At € 93.8 billion, nominal full-year sector sales were thus a mere 0.4% higher in 2012 than in the previous year. Due to weather conditions, sales plummeted in December 2012 compared with the same month in the previous year (minus 10%), thus contrasting starkly with the 24% growth reported for December 2011.

Light and shade in the retail sector

German construction material traders concluded 2012 with slight nominal sales growth. According to the Federal Association of German Builders' Merchants (BDB), member companies reported sales growth of 2.5%. This growth was primarily driven by improved business with commercial customers in the housing construction segment, as well as by energy efficiency modernization. By contrast, sales with private customers declined by 3.6%. The BDB attributed the reluctance shown by many private homeowners to renovate their homes in terms of energy efficiency to the government's failure to introduce tax incentives promoting renovation measures. In December 2012, after more than a year of negotiations, federal and state governments were unable to reach agreement concerning a compromise solution.

According to Destatis, sales in the German retail sector (excluding motor vehicle retail) grew by 2.0% in nominal terms in 2012. Part of the increased spending power at private households thus also benefited retailers. Price-adjusted retail sales volumes matched the previous year's figure (plus 0.1%) Food retailers turned over 0.3% more in real terms and 3.0% more in nominal terms. On a price-adjusted basis, non-food retailers matched the previous year's figure (plus 1.3% in nominal terms).

As is apparent from more detailed official statistics, German consumers' rush on durable goods slowed considerably compared with the previous year. Sales with furniture, other furnishings and household goods rose by a mere 1.2% in real terms and by 2.0% in nominal terms, thus contrasting with the growth rates of 4.5% and 5.3% seen in the previous year. Consumers spent less, in some cases considerably so, on works of art, coins and antiquities. Retail sales with coating materials and DIY and home improvement goods fell by 1.8% in real terms (plus 0.7% in nominal terms). By contrast, retailers reported higher sales with curtains, carpets, flooring and wallpaper, with real-term growth of 2.0% and nominal growth of 1.7%.

Online retail continues to boom

Mail order and internet retailers were once again among the winners in the German retail sector in 2012. According to figures released by the German E-Commerce and Distance Selling Trade Association (bvh), sales surged by 15.6% to € 39.3 billion and now account for a 9.2% share of total retail sales (2011/2012: 8.2%). The key growth driver here is internet retail (e-commerce), which boosted its sales by 27.2% to € 27.6 billion in 2012.

DIY and garden stores almost at previous year's level

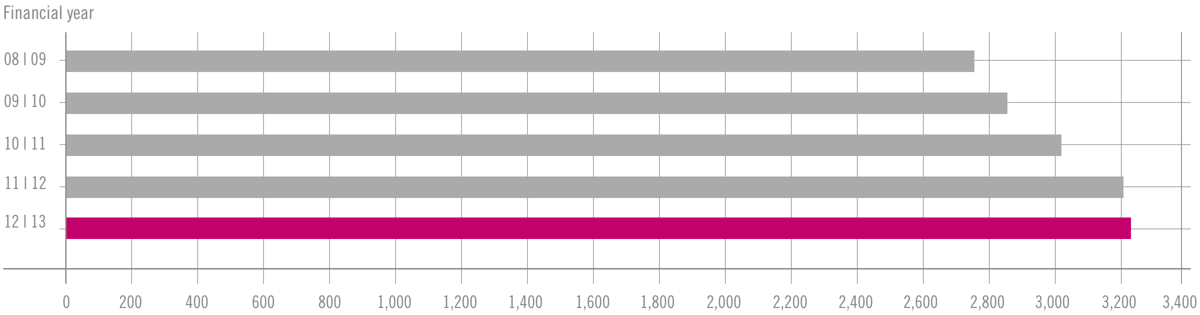
In 2012, German DIY stores and garden centers were unable to latch onto the series of successes seen in the three previous years. According to the BHB sector association, sales in the DIY sector in Germany in 2012 fell slightly short of the previous year's figures. Based on the BHB/GfK report, large-scale DIY stores with indoor sales areas of at least 1,000 m² per outlet reported a slight reduction in nominal gross sales by 0.6% to € 18.6 billion (2011/2012: € 18.7 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 0.8% short of the previous year's sales.

In terms of full-year sales, the BHB association reported a clear dividing line within the year. Basically satisfactory sales figures in the months from January to August were insufficient to offset the reluctance among consumers to spend apparent from September 2012 onwards. One striking aspect was the loss of sales due to weather conditions, particularly in April and the late fall of 2012, reflected in a lack of demand for seasonally appropriate product ranges. Garden-related products in particular performed significantly more weakly in 2012 than in the previous year. At € 3.8 billion, gross sales at smaller-scale DIY stores with sales areas of less than 1,000 m² (DIY shops) matched the previous year's figures in the 2012 calendar year. The market volume of all of Germany's DIY and home improvement stores that, according to the harmonized sector calculation, comprises sales at all DIY megastores with garden centers and DIY shops, declined by 0.5% to € 22.4 billion in 2012 (2011/2012: € 22.5 billion).

The German DIY sector nevertheless steered a growth course with its online stores in 2012. Based on figures compiled by the BHB sector association and the market research company IFH Retail Consultants, stationary DIY players notched up new record sales of around € 343 million from their e-commerce activities. The DIY sector thus posted online sales growth of around 33% compared with the previous year. Alongside internet stores operated by stationary DIY players, other distribution channels are also participating in the online boom. According to IFH's calculations, total internet sales with core DIY product ranges totaled € 1.3 billion in Germany in 2012, thus surging by 22% compared with the previous year.

Sales Performance

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



At the balance sheet date on February 28, 2013, the HORNBACH HOLDING AG Group comprised the HORNBACH-Baumarkt-AG, HORNBACH Baustoff Union GmbH (HBU), and HORNBACH Immobilien AG subgroups. Despite increasingly subdued economic conditions across Europe, in the past financial year (March 1, 2012 to February 28, 2013) the HORNBACH Group generated slight growth in consolidated sales (excluding sales tax), which rose by 0.8% to € 3,229 million (2011/2012: € 3,204 million). Sales were thus absolutely in line with the forecast updated at the end of the first nine months.

HORNBACH-Baumarkt-AG subgroup

Net sales at the HORNBACH-Baumarkt-AG subgroup grew by 0.6% to € 3,020 million (2011/2012: € 3,001 million). Net sales in Germany rose by 0.7% to € 1,741 million in the 2012/2013 financial year (2011/2012: € 1,729 million). Outside Germany (Other European countries), and including three newly opened stores, we posted sales growth of 0.6% to € 1,279 million (2011/2012: € 1,272 million). International stores accounted for an unchanged total of 42.4% of sales. As expected, the subgroup felt the effects of the recession in Europe in the second half of the 2012/2013 financial year, and particularly in the final quarter. This was reflected above all in the like-for-like sales performance at HORNBACH's DIY megastores with garden centers.

German business robust – Europe falters

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 closed or opened in the past twelve months. As in the previous year, the Group's like-for-like sales performance in the 2012/2013 financial year was divided along geographical lines. However, the factors holding back sales compared with 2011/2012 in the DIY stores outside Germany intensified significantly in the second half of the year and also spilled over to countries that had still reported positive like-for-like sales growth in the past financial year.

Like-for-like sales net of currency items fell by 1.4% across the subgroup in the 2012/2013 financial year, thus contrasting with the growth of 2.8% generated in the previous year. Overall, currency items for the cumulative twelve-month period were negligible. On average, there were three business days fewer across the subgroup in the year under report than in the previous year. Seasonal influences on the subgroup's sales performance and the base effects from the previous year's periods are apparent in the presentation by quarter (please see table).

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

2012/2013 financial year 2011/2012 financial year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Group	**(1.1)**	**0.7**	**(2.0)**	**(3.9)**	**(1.4)**
	7.7	(0.2)	1.0	2.6	2.8
Germany	**(0.1)**	**2.8**	**(0.6)**	**(2.6)**	**0.0**
	11.9	2.2	3.5	5.2	5.8
Other European countries	**(2.4)**	**(1.8)**	**(3.8)**	**(5.7)**	**(3.2)**
	2.3	(3.2)	(2.4)	(0.8)	(1.0)

* Excluding currency items

Like-for-like consolidated sales were 1.1% down on the previous year's figure in the first quarter of 2012/2013 (March to May). It should be noted that the subgroup's like-for-like sales had grown by 7.7% in the first quarter of 2011/2012, and thus faster than in any first quarter since the launch of its expansion into other European countries in 1996. Not only that, cool and rainy weather conditions, particularly in April 2012, held back the sales performance in the spring season, an important period within the overall financial year. Thanks to slight sales growth in the second quarter, we reported a like-for-like sales performance of minus 0.2% by the end of the first half of 2012/2013, thus virtually matching the previous year's sales.

In the second half of the year (September to February), the negative aspects of the ever deeper and broader recession across Europe increasingly gained the upper hand and held back our sales performance across large parts of our European network. Following a 2.0% reduction in like-for-like sales in the third quarter, the marked deterioration in the confidence among consumers and in the construction industry led to a 3.9% downturn in like-for-like sales in the fourth quarter. Moreover, customer demand in all countries suffered from the early and severe onset of winter in December 2012.

- **Germany**
  As in the three previous financial years already, HORNBACH's locations in Germany performed significantly better than our network of stores in other European countries once again in the year under report. Adjusted growth rates for the months from March to May 2012 showed sharply opposed developments. Strong growth in March was followed in April by a weather-induced downturn in sales in a high single-digit percentage range. The pleasing performance in May contributed to a virtually unchanged quarterly figure (minus 0.1%), which thus followed on the 11.9% jump in domestic sales one year earlier. Sales at the stores in Germany showed a wide range of fluctuations in the second quarter of 2012/2013. This was largely due to an unsettled and at times overly wet summer season, a factor that left its mark on garden product sales in particular. For the second quarter as a whole, however, we managed to post pleasing sales growth, with like-for-like growth of 2.8%. By the end of the first six months, our cumulative sales were 1.3% ahead of the previous year's record figure.

  Customer demand was more subdued in the second half of the financial year compared with the strong growth rates seen a year earlier. This also reflected the decline in consumer confidence since June 2012. The bad news surrounding the euro sovereign debt crisis and the macroeconomic slowdown did not simply pass the Germans by. Our like-for-like sales performance in Germany in the period from December 2012 to February 2013 was additionally burdened by calendar-related factors – our stores had three business days fewer than in the previous year – and the early onset of what would turn out to be a severe winter. In 2012/2013 as a whole, we nevertheless managed to maintain the level of sales achieved following strong growth in the previous year.

HORNBACH once again outperformed its competitors in Germany by a significant margin. According to the BHB sector association, the DIY sector reported a downturn in like-for-like sales by 0.8% in the period from January to December 2012. By contrast, our domestic stores posted slight sales growth in the 2012 calendar year, thus outperforming the German sector average by around 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 (€ 22.4 billion), HORNBACH's market share grew from 9.2% to 9.3%. If the calculation is based only on those DIY stores and garden centers with sales areas of more than 1,000 m² in Germany (market volume: € 18.6 billion), then we increased our market share in this segment from 11.0% to 11.1%.

Overall, our retail concept, with its particular focus on the needs of project customers, enabled us to benefit to an above-average extent from demand in the German housing construction and renovation business. This success was also driven by HORNBACH's online store (www.hornbach.de), which has impacted positively on brand building and on customer retention levels.

- **Other European countries**

Like-for-like sales outside Germany declined by 3.2% in the 2012/2013 financial year (including currency items: by 3.3%). This weaker sales performance in line with expectations was mainly due to the faltering economic situation across large parts of Europe on account of the debt crisis. Consumer uncertainty was far more pronounced here than in Germany in the second half of the financial year. As 2012 progressed, private households in various European countries stepped firmly on the brakes in terms of their consumer spending. This situation was exacerbated by restrictions in the housing construction and real estate sector, which also left their mark on the DIY business. The Netherlands, for example, has witnessed a severe crisis in its real estate sector now that mortgage interest will no longer be fully deductible for tax purposes. Our stores in Austria, where we managed to uphold the high level of sales attained in the previous year, were able to escape this overall downward trend. In Romania, we successfully achieved a turnaround in the year under report. Here, we defied the negative market trend by generating like-for-like sales growth for the first time since the 2008/2009 financial year.

Alongside our own sales performance, comparison with developments in the overall sector is also highly significant. Based on the information available, in the year under report HORNBACH significantly outperformed its competitors in five out of seven countries outside Germany, and thus acquired further market share despite the tough economic climate. In two countries, our figures were consistent with the sector average.

Five new DIY megastores and garden centers opened

HORNBACH launched operations with five new DIY megastores with garden centers in the 2012/2013 financial year under report. In May 2012, a new HORNBACH DIY megastore with a garden center was opened in **Sundbyberg** near Stockholm (Sweden). Our Swedish store network now comprises four locations.

In July 2012, we opened a new megastore in **Timisoara**, our fifth location in Romania. This was followed in August 2012 by a new store in **Riddes** (Wallis Canton), thus extending our store network in Switzerland to six HORNBACH DIY megastores with garden centers.

The fourth quarter witnessed two new store openings in Germany. In December 2012, a new HORNBACH store opened its doors in **Oberhausen**. In February 2013, the expansion program for the financial year was rounded off with the opening of a newly built store at the **Bremen** location. This store has replaced the previous store located nearby.

Including the four stores newly opened and the replacement location, a total of 138 retail outlets were in operation across the Group as of February 28, 2013 (February 29, 2012: 134). Sales areas at the 92 stores in Germany amounted to around 988,000 m². The 46 DIY megastores with garden centers in other European countries had sales areas of around 610,000 m². The international stores are located in Austria (11), Netherlands (9), Luxembourg (1), Czech Republic (8), Switzerland (6), Sweden (4), Slovakia (2), and Romania (5).

Total sales areas amounted to around 1,598,000 m² at the HORNBACH-Baumarkt-AG Group as of February 28, 2013. As in the previous year, the HORNBACH DIY megastores with garden centers had average sales areas of around 11,600 m².

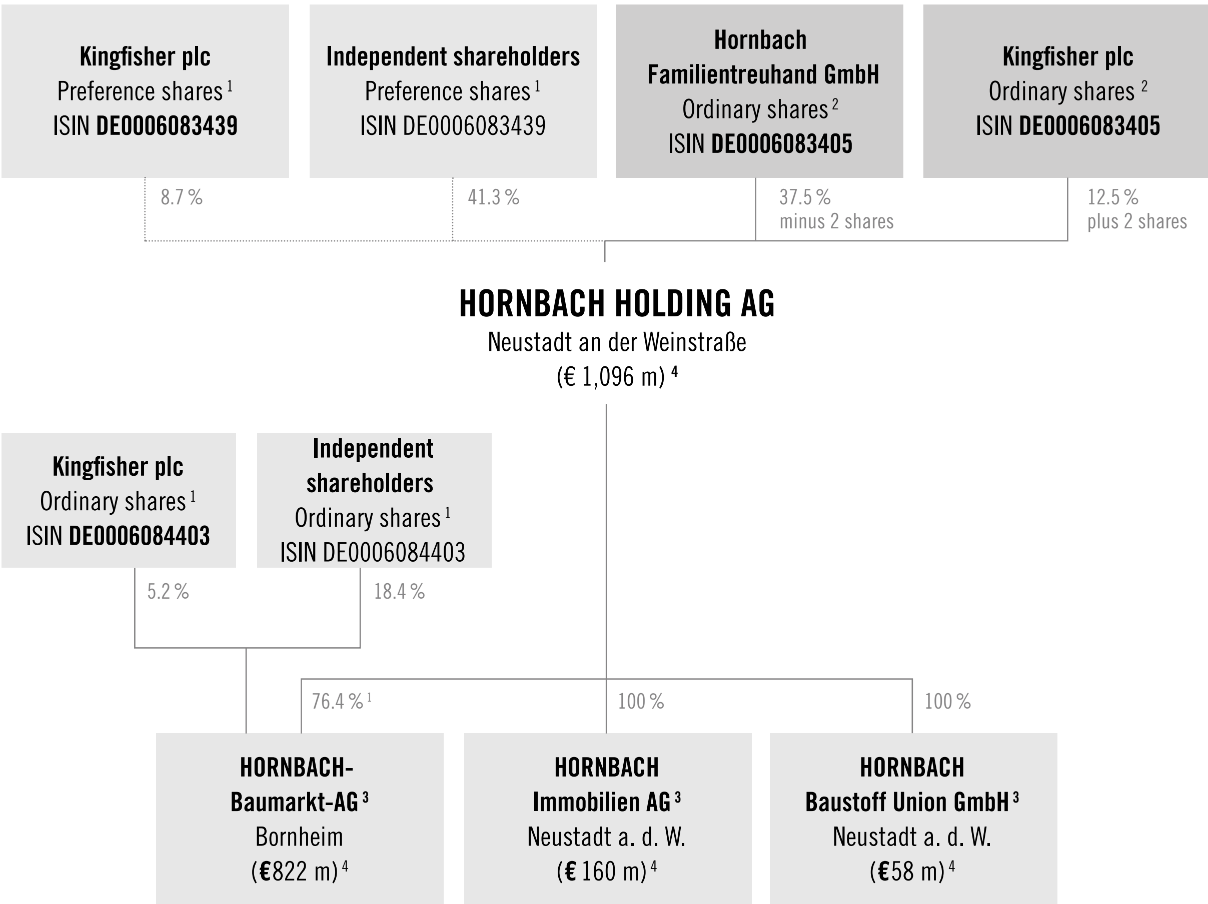
HORNBACH Baustoff Union GmbH subgroup

Overall, the HORNBACH Baustoff Union GmbH (HBU) subgroup can report a pleasing business performance for the 2012/2013 financial year. The subgroup increased its (net) sales by 2.9% from € 201.5 million to € 207.3 million, thus exceeding the rate of growth in consolidated sales at the HORNBACH Group (plus 0.8%). HBU operated 25 outlets at the balance sheet date on February 28, 2013 (2011/2012: 24).

HORNBACH Immobilien AG subgroup

The HORNBACH Immobilien AG develops first-class retail real estate for operating companies in the HORNBACH HOLDING AG Group. The overwhelming share of property is let on customary market terms to companies within the Group. Rental income grew by 5.0% to € 72.2 million in the 2012/2013 financial year (2011/2012: € 68.7 million). Of this, € 69.6 million (2011/2012: € 66.1 million) related to rental income from the letting of properties within the overall Group.

Group structure and shareholders of HORNBACH HOLDING AG
as of February 28, 2013



- The share capital of HORNBACH HOLDING AG amounts to € 48,000,000 and is divided into 8,000,000 ordinary shares (owned by the Hornbach families and Kingfisher plc) and 8,000,000 non-voting preference shares which are listed on the German stock Exchange.
- The share capital of HORNBACH-Baumarkt-AG amounts to € 95,421,000 and is divided into 31,807,000 ordinary shares which are listed on the German stock exchange. HORNBACH HOLDING AG holds an asset investment of 24,280,000 ordinary shares in HORNBACH-Baumarkt-AG.
- Plus further direct and indirect subsidiaries pursuant to the complete overview provided in the notes to the financial statements

1) Publicly listed
2) Not publicly listed
3) Plus further subsidiaries in Germany and abroad
4) Shareholders' equity of the respective consolidation group at the balance sheet date on February 28, 2013

Earnings Performance

Key earnings figures of the HORNBACH HOLDING AG Group

Key figure (€ million, unless otherwise stated)	2012/2013	2011/2012	Change
Net sales	3,229	3,204	0.8%
of which in Germany	1,949	1,932	0.9%
of which in other European countries	1,280	1,272	0.6%
Like-for-like sales growth	(1.4)%	2.8%	
EBITDA	221.3	246.5	(10.3)%
EBIT	145.9	169.1	(13.7)%
Earnings before taxes	107.6	131.9	(18.4)%
Consolidated net income	77.4	94.6	(18.2)%
EBITDA margin	6.9%	7.7%	
EBIT margin	4.5%	5.3%	
Gross margin	36.5%	36.6%	
Store expenses as % of net sales	27.7%	27.1%	
Pre-opening expenses as % of net sales	0.3%	0.2%	
General and administration expenses as % of net sales	4.5%	4.2%	
Tax rate	28.1%	28.3%	

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

Earnings performance of the HORNBACH HOLDING AG Group

Consistent with expectations, the earnings of the HORNBACH HOLDING AG Group for the 2012/2013 financial year fell short of the previous year's record figures.

In line with the forecast we issued after the first nine months, our consolidated operating earnings (EBIT) of € 145.9 million fell short of the previous year's figure of € 169.1 million (minus 13.7%). This was mainly due to a weakening like-for-like sales performance in the DIY store segment within the HORNBACH-Baumarkt-AG subgroup, a development that accelerated in the second half of the year, and the resultant deterioration in cost ratios. With significantly disproportionate growth in operating earnings compared with sales, the HORNBACH Immobilien AG and HORNBACH Baustoff Union GmbH both contributed positively to the earnings performance of the overall Group.

Gross margin

The gross margin almost matched the previous year's level in the 2012/2013 financial year under report. As a percentage of net sales, the gross profit amounted to 36.5% (2011/2012: 36.6%). We virtually managed to offset increases in procurement prices with the assistance of a slight rise in retail prices and changes in our product mix. Currency items in our international procurement activities played a negligible role in the year under report.

Selling and store, pre-opening and administration expenses

Selling and store expenses at the overall Group rose by 3.1% to € 894.5 million (2011/2012: € 867.8 million), and thus increased moderately. Personnel expenses (including bonuses), the largest cost block within selling and store expenses, showed growth of plus 2.5%, and thus below average compared with this item as a whole. Not only that, a year-on-year increase in operating expenses, albeit lower than planned, and the increase in rental expenses in line with the budget were countered by a reduction in advertising expenses in absolute terms. Utility expenses and depreciation were only slightly higher than in the previous year. As a percentage of net sales, selling and store expenses rose from 27.1% to 27.7%.

Due to the higher number of new store openings (DIY), pre-opening expenses grew from € 6.4 million to € 9.3 million (please also see Note 4). After three new store openings in the 2011/2012 financial year, operations began at five new HORNBACH DIY megastores with garden centers in the year under report. The pre-opening expense ratio increased from 0.2% to 0.3% as a result.

Administration expenses grew by 8.5% to € 146.4 million in the year under report (2011/2012: € 134.9 million). As in the previous year, a major share of this increase was due to important forward-looking projects in the Group's administrative departments. Among others, these include developing and extending our online retail and customer service activities, as well as innovations aimed at further optimizing our operating processes. In view of this, the administration expense ratio increased from 4.2% to 4.5%.

Other income and expenses

Other income and expenses showed a marked increase from € 6.2 million to € 16.5 million in the period under report. One prime reason for this increase was the conclusive clarification of outstanding issues in connection with the supply of utility energies in Germany by the energy-related services provider we commissioned to this end. On this basis, it was possible to reverse provisions of € 3.9 million recognized in previous years. Other than this, other income and expenses also include an amount of € 1.6 million for compensation not yet invoiced, net of service amounts.

Furthermore, other income and expenses were also positively influenced by a base effect with a net amount of € 7.0 million within other non-operating income and expenses: In the 2011/2012 financial year, impairment losses of € 4.7 million recognized in Romania were the main reason for negative, other non-operating income and expenses of minus € 7.4 million. In the year under report, by contrast, other non-operating income and expenses totaled minus € 0.4 million. The improvement in the year under report further benefited from a year-on-year increase in income from the disposal of land not required for operations, as well as from lower charges on earnings due to sundry expenses and provisions for the refurbishment of DIY store properties, and the abandonment of location projects.

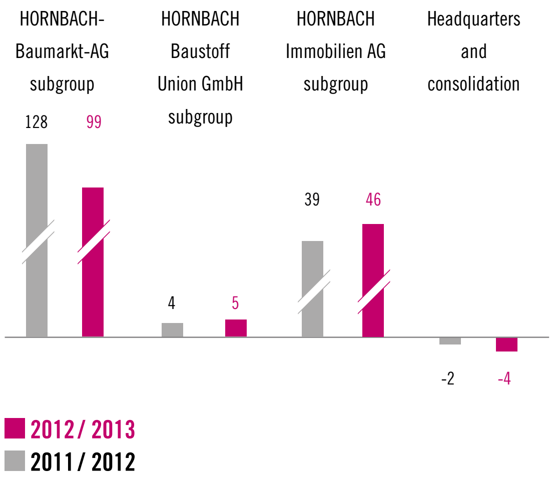
Earnings performance

Earnings before interest, taxes, depreciation and amortization (EBITDA) fell by 10.3% to € 221.3 million in the 2012/2013 financial year (2011/2012: € 246.5 million). That corresponds to an EBITDA margin of 6.9% (2011/2012: 7.7%). Operating earnings (EBIT) dropped by 13.7% to € 145.9 million (2011/2012: € 169.1 million). EBIT was equivalent to 4.5% of net sales in the year under report (2011/2012: 5.3%).

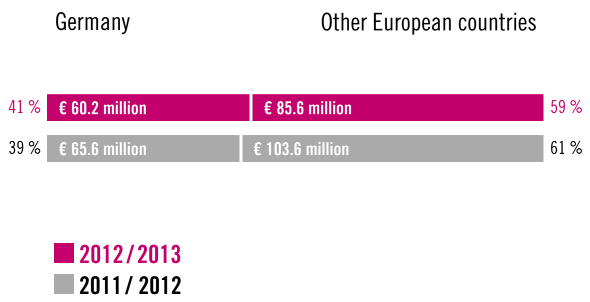
Net financial expenses declined from minus € 37.2 million to minus € 38.2 million. This was chiefly due to a deterioration in net interest expenses from minus € 34.7 million to minus € 38.6 million. The reduction in this item mainly resulted from lower interest income than in the previous year and from the additional interest expenses incurred upon the premature repayment of the corporate bond (ISIN XS0205954778, WKN: A0C4RP) at HORNBACH-Baumarkt AG as of February 25, 2013, which originally had a term running until November 15, 2014. This factor was countered by an improvement in negative currency items (including forward exchange transactions) from minus € 2.4 million to plus € 0.9 million.

Consolidated earnings before taxes (EBT) reduced by 18.4% to € 107.6 million (2011/2012: € 131.9 million). The return on sales before taxes eased from 4.1% to 3.3%. At € 77.4 million, consolidated net income fell 18.2% short of the previous year's figure of € 94.6 million. The Group's tax rate reduced slightly from 28.3% to 28.1%. The return on sales after taxes amounted to 2.4% (2011/2012: 3.0%). Earnings per share are reported at € 4.05 per ordinary share (2011/2012: € 4.76) and at € 4.08 per preference share (2011/2012: € 4.79) (please see Note 9).

EBIT by segment
(€ million)



EBIT by region
(share in %)



Earnings performance by segment

HORNBACH-Baumarkt-AG subgroup

The reduction in earnings at HORNBACH-Baumarkt-AG, the largest operating subgroup, shaped the earnings performance of the HORNBACH Group.

The key operating earnings figures for the DIY store segment fell significantly short of the high previous year's figures in the 2012/2013 financial year. This was largely due to the weakening like-for-like sales performance, especially outside Germany. Overall, the sales momentum in the DIY store segment slowed noticeably compared with the previous 2011/2012 financial year. As a result, cost ratios were significantly less favorable, even though selling and store, pre-opening and administration expenses as a whole were even within their respective budget targets.

The real estate segment reported pleasing earnings growth in the year under report. This was driven by higher rental income together with a relative reduction in real estate expenses and a year-on-year drop in charges from real estate development.

Consistent with our forecast, EBIT at this subgroup dropped from € 128.4 million to € 99.3 million (minus 22.7%). Accounting for an increase in the tax rate from 27.3% to 29.7%, annual net income fell almost a third to € 52.3 million (2011/2012: € 77.4 million). Earnings per share are reported at € 1.64 (2011/2012: € 2.43).

HORNBACH Baustoff Union GmbH subgroup

This subgroup's earnings performance improved yet again in the period under report. Operating earnings (EBIT) thus improved from € 3.8 million to € 4.6 million. Alongside sales growth, this increase was driven above all by the improvement in the gross margin. Due to lower volumes of new borrowing in the context of short-term group financing, net financial expenses improved from minus € 1.5 million to minus € 0.8 million.

HORNBACH Immobilien AG subgroup

The EBIT of the HORNBACH Immobilien AG subgroup rose by 19.0% to € 46.4 million in the 2012/2013 financial year (2011/2012: € 39.0 million). This improvement was driven on the one hand by higher rental income in conjunction with a less marked increase in real estate expenses. On the other hand, it should be noted that in the previous year other non-operating income and expenses had been adversely affected by impairment losses of € 3.0 million in Romania.

Earnings performance by geographical region

Our German retail business gained further significance in terms of the HORNBACH Group's earnings performance in the 2012/2013 financial year. As is apparent from the breakdown by geographical regions in the segment report (please see Page 113), the weighting of earnings contributions has shifted in favor of the Germany segment. This reflects the robust performance in like-for-like sales in the domestic business, which thus contributed towards a significantly more stable earnings performance than that in the other European countries segment.

EBITDA in Germany fell by 3.2% from € 113.8 million to € 110.2 million, while EBITDA on group level reduced by 10.3%. The domestic share of the Group's EBITDA rose from 46% to 50%. EBIT in the Germany segment decreased from € 65.6 million to € 60.3 million. The domestic share of operating earnings thus improved from 39% to 41% in the 2012/2013 financial year. The EBIT margin in Germany amounted to 3.1%, as against 3.4% one year earlier.

In the 2012/2013 financial year as well, the domestic share of operating earnings included significant expenses for sustainable innovation projects. A major portion of the project-related administration expenses of around € 22 million (2011/2012: around € 13 million) related to the further expansion in our online store, which since being launched in December 2010 has offered ever more articles, order possibilities, and service information. The costs attributable to the planned international rollout of online retailing have been charged on within group allocations. Not only that, we also pressed ahead with developing the Customer Service Center for German stores. 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. If these upstream costs for central forward-looking projects are deducted from the income statement of the Germany segment, then our adjusted domestic EBIT for the 2012/2013 financial year was around five percent higher than the previous year's figure.

Earnings contributions from our international activities, which are pooled on the level of the HORNBACH International GmbH subgroup, reduced year-on-year on account of the weaker like-for-like sales performance. With EBITDA of € 111.1 million in the period under report (2011/2012: € 132.8 million), the international business accounted for around 50% (2011/2012: 54%) of EBITDA at the HORNBACH HOLDING AG Group. EBIT in the international business fell from € 103.6 million to € 85.6 million. As a result, the international share of EBIT reduced from 61% to 59%. With an EBIT margin of 6.7% (2011/2012: 8.2%), the other European countries segment remains more profitable than the Germany segment.

Dividend proposal

The Board of Management and Supervisory Board of HORNBACH HOLDING AG will propose dividends of € 0.64 per ordinary share (ISIN: DE0006083405) and € 0.67 per preference share (ISIN: DE0006083439), and thus unchanged on the previous year, for approval by the Annual General Meeting on July 5, 2013.

Financial Situation

Principles and objectives of financial management

Financing measures are performed by the Group Treasury department at HORNBACH-Baumarkt-AG. The central organization of financial management enables the HORNBACH Group to maintain a uniform presence on the financial markets and to provide centralized liquidity management for the overall Group. HORNBACH-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 HORNBACH-Baumarkt-AG subgroup are provided either by HORNBACH HOLDING AG or by HORNBACH 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 their utilization being 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 HORNBACH-Baumarkt-AG subgroup, external financing generally takes the form of unsecured loans and real estate sales (sale and leaseback), while the HORNBACH Immobilien AG subgroup has additionally financed itself with secured mortgage loans. Consistent with HORNBACH's forward-looking financial policy, financial liabilities due to mature are refinanced at the earliest possible 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 have been 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, 2013, the net financial debt of the overall Group amounted to € 370.9 million (2011/2012: € 347.8 million). Its composition has been presented in detail in the table on Page 52.

The current financial debt (up to 1 year) of € 96.6 million (2011/2012: € 173.8 million) consists of short-term financing facilities of € 17.9 million at the HORNBACH Immobilien AG subgroup (2011/2012: € 28.5 million) and of € 35.3 million at the HORNBACH Baustoff Union GmbH subgroup (2011/2012: € 28.8 million), interest deferrals of € 2.3 million (2011/2012: € 7.6 million), liabilities of € 0.2 million (2011/2012: € 7.0 million) from the measurement of derivative financial instruments, and the portion of long-term financing facilities maturing in the short term, amounting to € 40.9 million (2011/2012: 101.9 million).

Solid capital structure

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

At the beginning of 2013, HORNBACH-Baumarkt-AG thus exploited the favorable capital market climate to place a new 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 has 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%. In combination with the issue price of 99.25%, this results in a yield of 4.00% p.a.

Financial debt of the HORNBACH HOLDING AG Group

Type of financing € million	Liabilities broken down into remaining terms < 1 year	1-2 years	2-3 years	3-4 years	4-5 years	> 5 years	2.28.2013 Total	2.29.2012 Total
Short-term bank debt[1]	55.5						55.5	64.8
Mortgage loans	40.6	39.5	29.4	22.5	21.0	91.4	244.4	268.5
Other loans[2) 3)]	0.1	0.1	19.3	79.7	69.7		168.9	181.2
Bonds[3]						245.8	245.8	247.1
Negative fair values of derivative financial instruments	0.2	0.1	0.7	4.3	3.6	3.0	11.9	7.0
Finance leases	0.2	0.2	0.3	0.3	0.3		1.3	1.5
Total financial debt	**96.6**	**39.9**	**49.7**	**106.8**	**94.6**	**340.2**	**727.8**	**770.1**
Cash and cash equivalents							356.9	422.3
Net financial debt							**370.9**	**347.8**

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

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

2) Loans not secured by mortgages

3) 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 € 244.4 million at the balance sheet date (2011/2012: € 268.5 million). Land charges of € 491.4 million had been provided as of February 28, 2013 as security for mortgage loans (2011/2012: € 522.2 million).

As of June 30, 2011, HORNBACH-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 HORNBACH 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. Due to the pleasing liquidity situation, the promissory note bond concluded by HORNBACH (Schweiz) AG in CHF with an original volume of € 20 million was prematurely redeemed as of December 31, 2012. The relevant interest swap was redeemed as of the same date at fair value.

The HORNBACH 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 inflow of funds was used 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 secured as fixed interest payments.

At the balance sheet date on February 28, 2013, the overall HORNBACH HOLDING AG Group had free credit lines amounting to € 418.0 million (2011/2012: € 424.4 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, 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. 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 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. 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 € 356.9 million at the balance sheet date (2011/2012: € 422.3 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. In the course of the financial crisis, the Group set maximum deposit totals per bank to enhance security by spreading liquidity holdings more widely.

Key financial figures of the HORNBACH HOLDING AG Group

Key figure	Definition		2.28.2013	2.29.2012
Net financial debt	Current financial debt + non-current financial debt – cash and cash equivalents	€ million	370.9	347.8
Interest cover	Adjusted(*) EBITDA / Gross interest expenses		5.4	6.1
Net debt / EBITDA	Net financial debt / Adjusted(*) EBITDA		1.7	1.4

* 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 € 149.5 million

The HORNBACH HOLDING AG Group invested a total of € 149.5 million in the 2012/2013 financial year (2011/2012: € 162.9 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 € 149.5 million (2011/2012: € 162.9 million) required for the cash-effective investments were mainly acquired from the cash flow of € 144.3 million from operating activities (2011/2012: € 141.8 million). The remaining amount was covered by reducing liquid funds. Around 59% of total investments were channeled into new real estate, including properties under construction. Around 40% of total investments mainly involved replacing and extending plant and office equipment, and around 1% of the investment total was invested in financial assets/shareholdings.

The most significant investment projects related to the DIY megastores with garden centers opened in the 2012/2013 financial year in Oberhausen (Germany), Riddes (Switzerland), Timisoara (Romania), and Stockholm-Sundbyberg (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, investments in plant and office equipment, and in intangible assets, especially software.

The inflow of funds from operating activities increased from € 141.8 million in the previous year to € 144.3 million in the 2012/2013 financial year. Here, the inflow of funds from operations decreased from € 181.2 million to € 150.0 million. This reduction was chiefly due to the weaker like-for-like sales performance and the resultant deterioration in 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 outflow of funds of € 5.7 million, as against an outflow of funds of € 39.4 million in the previous year. The higher outflow of funds in the previous year largely resulted from a balance sheet date factor involving the earlier settlement of supplier liabilities.

The outflow of funds for investing activities decreased from € 149.8 million to € 143.1 million. Here, the reduction in investments by € 13.4 million to € 149.5 million was opposed by a lower volume of proceeds from disposals of non-current assets and from non-current assets held for sale, amounting to € 6.4 million in total (previous year: € 13.1 million). As in the previous year, no DIY megastores with garden centers were disposed of in the framework of sale and leaseback transactions in the 2012/2013 financial year.

Cash flow statement

Cash flow statement (abridged) € million	2012/2013	2011/2012
Cash flow from operating activities	144.3	141.8
of which: funds from operations[1)]	150.0	181.2
of which change in working capital[2)]	(5.7)	(39.4)
Cash flow from investing activities	(143.1)	(149.8)
Cash flow from financing activities	(66.6)	(44.8)
Cash-effective change in cash and cash equivalents	**(65.3)**	**(52.8)**

1) 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

2) 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 € 66.6 million in the 2012/2013 financial year, compared with an outflow of € 44.8 million in the previous year. This figure includes the scheduled and premature redemption of non-current financial debt amounting to € 36.6 million. Current financial loans decreased by € 12.3 million, following an increase of € 2.8 million in the previous year. Gross financial debt reduced from € 770.1 million in the previous year to € 727.8 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 48.3%

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

€ million	2.28.2013	2.29.2012	Change
Non-current assets	1,303.7	1,240.0	5.1%
Current assets	966.1	1,027.2	(5.9)%
Assets	**2,269.8**	**2,267.2**	**0.1%**
Shareholders' equity	1,095.4	1,041.3	5.2%
Non-current liabilities	721.9	686.0	5.2%
Current liabilities	452.6	539.9	(16.2)%
Equity and liabilities	**2,269.8**	**2,267.2**	**0.1%**

Total assets at the Group rose year-on-year by € 2.6 million, or 0.1%, to € 2,269.8 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. This was countered by a reduction in cash and cash equivalents from € 422.3 million to € 356.9 million, mainly as a result the Group's expansion and repayments of financial debt. The equity of the Group as stated in the balance sheet amounted to € 1,095.4 million at the end of the financial year (2011/2012: € 1,041.3 million). At 48.3%, the equity ratio was once again higher than in the previous year (45.9%).

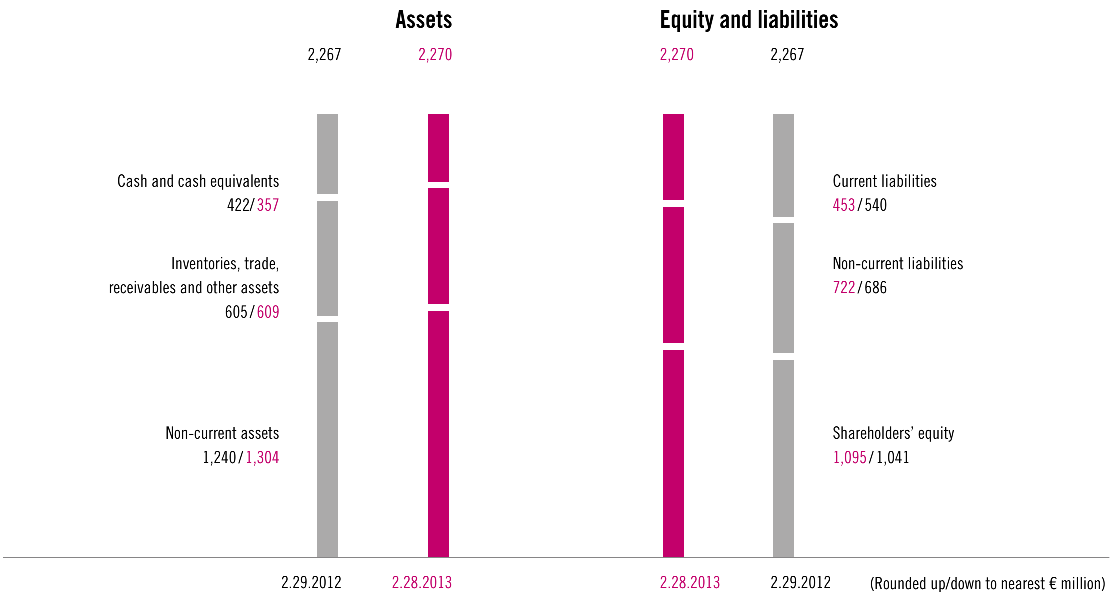
Non-current and current assets

Non-current assets amounted to € 1,303.7 million at the balance sheet date (2011/2012: € 1,240.0 million), and thus accounted for around 57% of total assets (2011/2012: 55%). Property, plant and equipment and investment property rose by 5.9% from € 1,182.4 million to € 1,252.0 million. Additions of € 145.0 million to property, plant and equipment were countered by depreciation of € 69.2 million, additions of € 2.8 million due to changes in the scope of consolidation, and disposals of assets amounting to € 1.1 million. Exchange rate movements led to a € 2.3 million reduction in the value of property, plant and equipment. Furthermore, application of IFRS 5 required real estate classified as held for sale amounting to a net total of € 5.6 million to be reclassified out of investment property (IAS 40) to current assets.

Non-current income tax receivables involve a claim to payment of a corporate income tax credit with a present value of € 14.4 million (2011/2012: € 17.9 million). This item was capitalized in previous years due to legislative amendments (SEStEG).

Current assets decreased by 5.9% from € 1,027.2 million to € 966.1 million, or around 43% of total assets (2011/2012: 45%). Here, the expansion-related increase in inventories was countered above all by a reduction in cash and cash equivalents. Due to the investments of € 149.5 million, not all of which could be covered by the inflow of funds from operations, as well as to scheduled and unscheduled repayments of financial debt, cash and cash equivalents declined by € 65.4 million to € 356.9 million. The HORNBACH HOLDING 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 € 506.8 million to € 515.4 million, but the inventory turnover rate of 4.0 in the 2012/2013 financial year could be maintained at virtually the same level as in the previous year (4.1).

Structure of consolidated balance sheet
(€ million)



Key balance sheet figures of the HORNBACH HOLDING AG Group

Key figure	Definition		2.28.2013	2.29.2012
Equity ratio	Equity / Total assets	%	48.3	45.9
Return on equity	Annual net income before minority interests / Average equity	%	7.2	9.4
Return on total capital	NOPAT[1]/ Average total capital[2]	%	7.2	8.9
Debt / equity ratio (gearing)	Net debt / Equity	%	33.9	33.4
Additions to non-current assets, including advance payments for land		€ million	150.8	162.6
Net working capital	Inventories and receivables less trade payables	€ million	406.1	415.9
Inventory turnover rate	Cost of goods sold / Average inventories		4.0	4.1

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

Receivables and other assets (including income tax receivables) decreased from € 96.6 million to € 91.3 million. Due mainly to the addition of three pieces of land in the 2012/2013 financial year, non-current assets held for sale and disposal groups recognized pursuant to IFRS 5 increased by € 1.0 million to € 2.5 million (2011/2012: € 1.5 million).

Non-current and current liabilities

Liabilities, including provisions, totaled € 1,174.4 million at the balance sheet date, as against € 1,225.8 million in the previous year. Non-current liabilities rose from € 686.0 million to € 721.9 million. Non-current liabilities include deferred tax liabilities of € 60.3 million (2011/2012: € 63.8 million).

Due to scheduled repayments and unscheduled redemptions of loan liabilities, current financial debt fell from € 173.8 million to € 96.6 million. Trade payables and other liabilities were reported at € 262.9 million at the balance sheet date, and thus € 5.9 million higher than in the previous year (2011/2012: € 257.0 million).

Other provisions and accrued liabilities amounted to € 63.3 million (2011/2012: € 72.8 million).

The net debt of the HORNBACH HOLDING AG Group, i.e. financial debt less cash and cash equivalents, increased to € 370.9 million at the balance sheet date, up from € 347.8 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.

The obligations under rental, hiring, leasehold and leasing contracts relate exclusively to rental agreements for which the companies of the HORNBACH HOLDING AG Group do not constitute the economic owners of the assets thereby leased pursuant to IFRS accounting standards (Operating Lease). The rental agreements principally relate to DIY megastores 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.

At February 28, 2013, obligations under rental, hiring, leasehold and leasing contracts amounted to € 678.3 million (2011/2012: € 725.8 million). This reduction is mainly due to annual rent payments for the 2012/2013 financial year. Furthermore, a number of rental adjustment and extension options were exercised in the 2012/2013 financial year.

Overall assessment of earnings, financial and net asset situation

The HORNBACH HOLDING AG Group performed satisfactorily in the 2012/2013 financial year and strengthened its market position. Sales at the HORNBACH-Baumarkt-AG subgroup sales showed slight growth, and that despite an increasingly subdued economic climate across Europe and poor weather conditions in the fourth quarter. It is pleasing to note that we managed to maintain like-for-like sales at the HORNBACH DIY megastores with garden centers in Germany at the high previous year’s level and expanded our market share yet again. Given the recession across Europe, our international activities, which upheld their share of sales, performed satisfactorily. Due in particular to a weaker like-for-like sales performance and less favorable cost ratios, in line with the forecast the subgroup’s earnings for the 2012/2013 financial year fell short of the record figures reported for the previous year.

By contrast, the HORNBACH Baustoff Union GmbH and HORNBACH Immobilien AG subgroups managed to boost their earnings strength in the year under report.

Irrespective of its short-term earnings position, HORNBACH pressed ahead with sustainable innovation projects in its DIY retail business in the 2012/2013 financial year. A large share of the project-related administration expenses were incurred for the consistent expansion in our e-commerce activities. Furthermore, further development projects also helped improve the foundations for the Group's long-term growth.

The equity ratio has risen to 48.3%. 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 satisfactory.

Non-Financial Performance Indicators

No normal DIY store – dedicated to projects

"We're no normal DIY store. We're a project DIY store". Consistent with this image of itself, HORNBACH focuses above all on project customers. We are the address for people with big plans – construction and renovation projects in their houses, apartments and gardens – people with a passion for home improvement. At HORNBACH, they can rely on a partner that offers them a comprehensive range of services for their project – with easily accessible locations, great breadth and depth of product range, the right volume of stock on hand for their projects, uncomplicated and easily comprehensible merchandise presentation, dependable permanently low prices, and professional advice. In this, customers can depend not only on our high-performance stationary retail store network, but also on our extensive online offering. In Germany and successively in other countries, customers now have the option of conveniently making their purchases at our internet store. Not only that, customers in all HORNBACH countries can find inspiring project ideas, product information, and planning and implementation aids on the internet.

HORNBACH's concept – a European recipe for success

Our unmistakable position as the top address for projects was honored once again in various consumer surveys and sector studies in the past financial year.

In the "Kundenmonitor" study issued by ServiceBarometer AG since 1992 and one of Germany's most renowned customer satisfaction surveys, almost 6,000 DIY customers were surveyed about their home DIY store once again in 2012. Of the ten large DIY chains covered by the survey, HORNBACH was awarded the best average marks in many key individual categories. Among others, we came top in categories particularly important to project customers, such as "product range compared with competitors", "merchandise and product quality", "value for money", "prices compared with competitors", and "service compared with competitors".

In the international arena as well, consumers confirmed that HORNBACH had created benefits for its customers and clearly differentiated itself from its competitors with its consistent project focus. In the "Kundenmonitor 2012" survey performed by analogy with its German counterpart in Austria and Switzerland, for example, we came first in the "product range", "selection and product variety", and "prices compared with competitors" categories. In Austria, we also scored highly in categories such as "value for money", while in Switzerland we came top in terms of "product quality".

HORNBACH received the best assessment in the annual Swedish Quality Index (SKI) customer satisfaction survey, and that for the fifth year in succession. We even improved on the very high satisfaction figures already awarded in 2011, and received correspondingly high marks in individual categories. Our Dutch customers were also particularly satisfied in 2012 and singled out HORNBACH as "Retailer of the Year" in the DIY store category. In the Czech Republic, HORNBACH scored very highly in terms of its prices and product range in the "Do it yourself 2012" survey performed by GfK. We also received top marks in the "specialist advice" category.

Homogenous store network across Europe

HORNBACH has decades of experience in operating DIY megastores with garden centers. The network of 138 stores in nine countries across Europe forms the stationary foundation for implementing the company's project concept. Our portfolio of locations in Germany and abroad is highly homogenous, with 84% of the Group's sales areas as of the balance sheet date at stores which are larger than 10,000 m². This facilitates the rapid rollout of universal and/or innovative concepts to old and new sales areas alike.

What's more, the combination of homogeneity and large surfaces generates substantial logistics benefits, thus securing a competitive advantage for us. Moreover, we are also working continuously on bringing the design of older stores in line with the latest standards, and on enhancing operating processes to enable customers' wishes to be met even more closely. These measures include signs, shelving measures, adjustments to the layout of stores, through to store extensions and the further enhancement of product ranges. Alongside our stationary retail business, in December 2010 we began work on rapidly building up and expanding our online retail business. Our guiding principle here is that customers should decide whether they prefer to visit us on location at one of our stores, or on the internet, or via a combination of both channels. That is why we offer our customers all the channels they need to implement their projects.

Virtual DIY store and garden center at www.hornbach.de

For our project customers, it has become absolutely normal to plan construction and renovation projects in detail on the internet. Since being launched, HORNBACH's online store (www.hornbach.de) has grown into a high-performance virtual DIY megastore and garden center. Our online customers can now inform themselves about more than 50,000 articles and their prices. Extensive additional information enables them to compare the various articles. Numerous text and image guidelines and more than 40 "Meisterschmiede" videos offer ideas and assistance in preparing and implementing projects.

One core aspect of our internet presence is the direct relationship our customers have to their preferred HORNBACH store. The range of services offered by the respective store is presented irrespective of the customer's location. This way, our customers can inform themselves online about our current training sessions, presentations within the monthly changing Project Shows, and opening times, as well as about the availability of specific articles at the particular store. Not only that, they can find information online about our services, such as our tradesman service, our paint mixing service, the builders' merchant drive-in service, or our rental service. It goes without saying that our internet store also offers customers the possibility of having articles delivered directly to their homes. And whenever the timing is particularly crucial, our customers can also use our "Reserve online and pick up at the store" service. Just four hours after the reservation, all of the articles are ready to be collected from the desired HORNBACH store. This service is a real timesaver, especially for our professional customers.

Consistent permanent low price strategy

We have relied on an uncompromising, credible permanently low price strategy for many years now. This is consistently valid for all of our business activities. Our retail prices at our stores and at our HORNBACH internet store are therefore identical. This differentiates us from the discount campaigns and differences in prices between the online business and stationary DIY retail often seen at our competitors. We see this as providing the best foundation for achieving sustainable, above-average growth and high earnings strength in the long term. Our aim is to retain customers at HORNBACH on a permanent basis by offering the highest possible degree of transparency, reliability and honesty in our pricing policies. The price guarantee accompanying the permanently low prices is intended to provide our customers with the certainty that they can focus all of their energies at all times on solving their projects.

HORNBACH tradesman service in all countries

When making purchases, HORNBACH customers are according ever greater priority to supplementary services connected to their project. For customers who wish to select their products at our stores, but then prefer to entrust the necessary work to experienced specialists (do-it-for-me customers), we made the HORNBACH tradesman service even more attractive in the 2012/2013 financial year. According to an internal survey, these efforts have been rewarded with maximum customer satisfaction, which was also reflected in the year under report by a very high willingness to recommend these services to further potential customers.

Complex tasks, such as house door, interior door, and window installation, were in particularly great demand in the past financial year. Our tile laying service benefited from strong demand for bathroom renovations HORNBACH's tradesman service offered 23 tasks in the year under report, including cobble laying, terrace construction, and decoration services.

HORNBACH's strength in recognizing trends at an early stage is also reflected in its "Bathroom House" and "Kitchen Center". Planning and advice are available at the store, while the assembly is taken care of by our tradesman partners. The benefit for our customers is that they receive the product and the tradesman's work from a single source. That helps elderly customers, for example, in deciding to have their bathrooms renovated in line with their needs.

The key benefit for customers is that it makes their renovation projects easier to handle. HORNBACH sees to the organization and coordination and is also the direct contact partner should any complications arise. It also offers numerous benefits to our tradesman partners – punctual, fast payment handling by our company, no advance financing of goods, and the assumption of product guarantees by HORNBACH. Not only that, our partners are relieved of administrative tasks, thus enabling them to acquire additional customers without time-consuming acquisition work, as well as to benefit from further training opportunities. By offering this unique concept, HORNBACH has built up a competitive advantage within the sector. The tradesman service has been available in all regions since the year under report.

Sense-based brand communications

Our brand communications in the 2012/2013 financial year focused on the sensual aspects of home improvement projects – feeling, seeing, hearing, experiencing, testing limits, being proud of what you did with your own hands, a passion for something – feelings and sensations that are increasingly rare. The joy felt by DIY enthusiasts when tackling their own projects was presented in exaggerated form in the "Nobody feels it like you do" campaign.

In the first half of the year this message was conveyed by two very different spots. In "Festival", a DIY enthusiast completely absorbed in his project prepares to take a swing with his hammer and feels that he will hit this nail right on the head. He experiences this positive feeling in his own world. He feels as if he is in paradise, on cloud nine, as a star in an arena full of cheering fans. The "Symphony" spot focused on the acoustic aspects of a project. In the ears of the DIY enthusiast, a pneumatic sounds like drums, a paint roller sounds like a trombone and a saw produces the dulcet tones of a cello. In the fall, the "Tear" spot portrayed the deep identification felt by a DIY enthusiast with his own four walls. This message was brought home by showing the story of a man who suddenly in the middle of his day-to-day life feels the symptoms of his "poorly" home right under his skin.

In parallel to these image adverts, the specific project benefits HORNBACH offers its customers were presented in a highly memorable and typically unconventional way under the motto of "Everything for the project". In Germany, these focused on advertising the "Order and have delivered" and "Reserve online and pick up at store" online services. In the international regions, adverts focused on price. These campaigns were backed up with accompanying online adverts, especially advertising banners, moving image advertising, and search engine marketing. Further marketing activities, such as print and out-of-home adverts, events, and the company's presence on the Facebook and Twitter social media platforms rounded off the campaigns. Our advertising booklets and the Project Shows held at our stores made a key contribution towards honing our brand profile both in Germany and abroad once again in the 2012/2013 financial year.

HORNBACH adverts hit home and clearly "touch the right spot" with DIY enthusiasts. That is reflected in the advertising tracking with which we also measure the strength of our brand communication, as well as in the feedback received in specialist circles. Particularly worth mentioning for 2012 are the results of a survey performed by the "Batten & Company" institute, which singled out HORNBACH as one of the ten companies to have achieved the greatest increase in its brand strength since 2009. HORNBACH is one of Germany's top 25 retail brands. Not only that, recognition also came from the advertising industry. As in previous years already, our campaigns were awarded numerous national and international prizes.

Personnel activities create sustainability

Almost 600 new jobs

In the course of our expansion across Europe, we create new jobs year in year out. The HORNBACH Group's consistent growth is thus also reflected in the size of its workforce. At the balance sheet date on February 28, 2013, there were 14,913 individuals (2011/2012: 14,320) in active fixed employment at HORNBACH HOLDING AG or at one of its subsidiaries. This corresponds to an increase of 4.1%. In Germany, the number of employees rose from 8,751 to 9,125 (plus 4.3%). In other European countries, the total workforce grew by 3.9% to 5,788 (2011/2012: 5,569). As an annual average and converted into full-time equivalents, the HORNBACH HOLDING AG Group has 13,289 employees (2011/2012: 12,778).

Uniform recruitment and initial training process

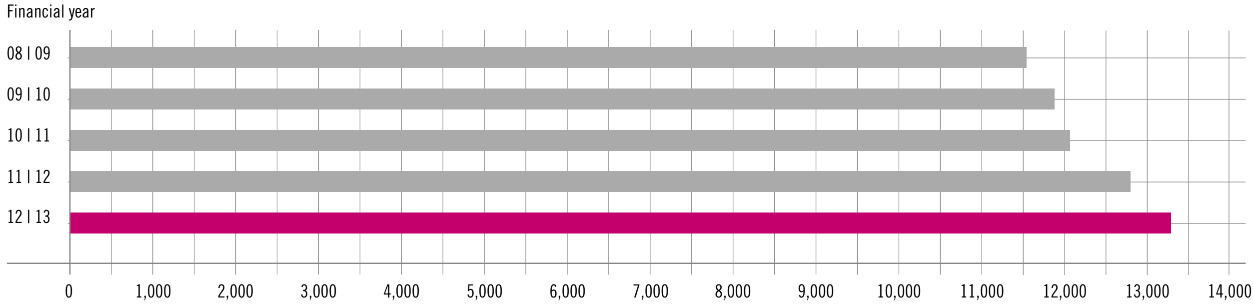
To ensure that we are perceived as an attractive employer and attract the right employees on an international basis, we work with a centralized, electronically assisted application process (eRecruiting system) in Germany, Austria, and the Netherlands. This way, interested applicants can find suitable jobs quickly and easily here in the various countries and then apply online. To ensure that new sales employees have a successful start to their work at HORNBACH, in these countries we have also implemented a standardized initial training process, one whose core elements involve working with trained mentors and making intense use of self-study media.

Ongoing training and development

We are committed to the ongoing further development of our staff. In the year under report, around 7,600 employees in Germany drew on our range of seminars to enhance their product range, system, and advisory skills. Not only that, 124 employees took part in in-house training programs to qualify as specialist bathroom and kitchen advisors (certified course accredited by Chamber of Commerce).

One key component of our efforts to secure the next generation of staff involves training employees in a total of 23 vocations in Germany, Austria, Luxembourg, and Switzerland. Alongside this, 61 young people completed a dual study program at HORNBACH in Romania as part of a pilot project. Furthermore, we offer nine dual study programs in which the practical stages can be performed at all European stores. A total of 837 young people were actively employed as trainees across the Group as of the balance sheet date (2011/2012: 858).

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



Targeted management development and succession planning

A total of 122 participants successfully completed our training programs to qualify as divisional heads, assistant managers and store managers in the past financial year. These training programs are offered on a uniform basis in Germany, Austria, Luxembourg, Switzerland, Sweden, and Romania and are due to be rolled out further.

Our management development activities are based on a structured succession process installed across the Group for the first time in the 2012/2013 financial year. This enables us to identify our need for next-generation operative managers better and faster than previously. Thanks to this employee training, any positions becoming vacant can be quickly filled with internal candidates. This is based on the uniform group-wide employee appraisal process. A functional level model was also newly introduced in the year under report. This aims to structure all job profiles at the company in line with objective criteria and thus provide clear, fair rules for dealing with topics such as compensation, ancillary benefits, and career opportunities.

IT successfully manages extensive release change

Since January 21, 2013, all of the HORNBACH Group's stores, administrative departments, and logistics centers have been working with a new release of our merchandise and logistics software. In preparation for this change, our information technology (IT) successfully coped with more than 12,000 test cases. HORNBACH thus laid the foundations necessary to benefit from the software manufacturer's technical upgrades. In particular, fiscal amendments can now be input directly and no longer have to be retrospectively programmed on an in-house basis. Following this change, the maintenance period has been extended until at least 2020.

A further focus of IT activities in the 2012/2013 financial year involved pressing ahead with the rollout of the new “FastPOS” checkout system. Following Germany, Sweden, Austria, and Switzerland, the stores in Luxembourg and the Netherlands were converted in the year under report. With FastPOS, the checkout keyboard is replaced by a touch-sensitive monitor. This system, which is based on Java technology, has more than proved itself in practice. Significantly shorter training periods and improved user management have helped make day-to-day work easier for our checkout teams.

With the help of IT, we have optimized key processes in our human resources systems. In mid-2012, for example, we introduced a browser-based employee survey system. Compared with the previous approach, this solution has significantly reduced the volume of processing and enhanced employee acceptance levels. The eRecruiting system introduced in Germany in summer 2011 has proven its worth and was rolled out to Austria and the Netherlands in the period under report. This system has shown tangible benefits in terms of lightening the workload at stores.

Sales tax rates in the Czech Republic were raised by one percentage point each to 15% and 21% as of January 1, 2013. The resultant adjustments to IT systems ran smoothly.

Group logistics secure competitive advantages

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

We launched operations at a fourth logistics center in Soltau (Niedersachsen) at the beginning of the 2013 financial year, thus extending our logistics capacities for imports and central storage in particular.

Corporate Responsibility

In the interests of corporate responsibility, the HORNBACH Group has imposed a set of rules governing its entrepreneurial activity. 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

One particular focus remained the ongoing communication concerning the fight against illegal tropical timber felling, underlined by the assumption of a guarantee for the origin of timber from certified sources. 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. We set up our own quality management and environmental department in February 2002. One focus of its activities involves working to protect rainforests and promote responsible forestry which also meets social and work safety standards. There is growing public awareness in this area. The FSC seal is also gaining in importance in political terms. Forests in municipal ownership in Germany, for example, are now also obtaining certification, thus offering increased possibilities of satisfying the rising demand for certified timber products. Given this focus, HORNBACH was and is 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 check when buying timber products to see whether the timber comes from responsible forestry. They see DIY stores as bearing a particular responsibility 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 HORNBACH 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. HORNBACH was successfully recertified in 2012. Trade companies that are themselves certified and all environmentally-aware DIY enthusiasts can now choose from a range of around 4,500 timber products bearing the FSC seal at all HORNBACH stores. That is the most extensive range on offer anywhere in the European DIY sector.

As part of our commitment to protecting the forests, HORNBACH participated in developing an information platform showing how forests can be put to rational use. Here, HORNBACH is cooperating with the Swiss company Papiliorama and the FSC Switzerland. Within this cooperation, HORNBACH 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.

HORNBACH relies on “Healthy Living” quality seal

There has been a sharp increase in consumers' sensitiveness towards contaminants in the air and in products. Allergic reactions to specific materials are arising ever more frequently, so that home improvement enthusiasts and construction clients have to pay 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 air-tight. The climate in the room remains constant, but it is difficult for any 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, HORNBACH 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. The seal of approval means that the products tested for contaminants can easily be found at the stores. A separate website on the topic provides detailed information and answers to frequently asked questions. We will be continually expanding our range of "Healthy Living" products in the coming years.

Comprehensive 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, HORNBACH's stores use compressors for high-volume waste, such as paper and plastics. A comprehensive 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 had the opportunity of depositing broken energy-saving light bulbs, LEDs, and luminescent tubes free of charge in suitable containers at the stores. With this voluntary service, HORNBACH will make it easier for consumers to dispose of these items in future during its usual opening hours, which are significantly more generous than those at municipal collection points. As a further voluntary service, the company has also enabled customers to return broken small electrical appliances, such as drills, fret saws, and battery-powered drills. The aim here is to contribute towards protecting the environment and help avoid such products being illegally disposed of in normal household waste.

Logistics: fewer miles, less packaging

With its logistics centers, HORNBACH is also making a sustainable contribution towards protecting the environment. In its logistics activities, the Group continued to work on reducing its CO_2 emissions in the year under report as well. Enhanced tour planning and making optimal use of available freight capacities have enabled us to reduce the number of miles traveled, and thus also our truck requirements. 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 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 from Italy, are transported across the Alps by rail. Containers from the import hub of Rotterdam 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.

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.

Further reduction in car pool CO_2 statistics

To continue to account for ecological and economic factors, the maximum CO_2 limit has been reduced from 180 to 170 grams per kilometer. No vehicles with higher emissions are listed. For the vehicles ordered in the year under report, average consumption and CO_2 emissions were further reduced compared with the previous year. The average consumption of the vehicles ordered currently amounts to 4.6 liters per 100 kilometers, while average CO_2 emissions amount to 120.8 grams per kilometer.

By accounting for fuel consumption in the calculation of the monthly mobility installment, drivers are incentivized to select lower consumption vehicles. What's more, a first hybrid vehicle has been included in the vehicle portfolio. By introducing new Company Car Guidelines, the company is also creating the possibility for employees to select a vehicle from a lower class than that to which they would be entitled.

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 117 stores now have the new technology (2011/2012: 84). 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 16 new DIY stores and rolled out to 89 existing stores. A total of 105 of our stores are thus equipped with the latest technological standard (2011/2012: 88). 17 further existing stores are due to be upgraded in the 2013/2014 financial year. 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 HORNBACH 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_2 emissions of our group-wide store network in the year under report.

Responsibility for our employees

68 nations under one roof

In our behavior towards our employees, we accord absolute priority to ensuring equality of opportunity and rejecting any kind of discrimination. Ethnic origin, gender, age, physical restrictions and religious affiliation play no role in the assessment of applicants. The only qualities 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 68 countries across four continents work together in the nine countries in which HORNBACH operates.

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

HORNBACH performed an employee survey in the 2012/2013 financial year to evaluate the working climate at the company and employee satisfaction levels. The findings and resultant changes at the company are being taken as an opportunity to consistently respond to employees' wishes and ideas. The positive overall balance is reflected in the pleasingly high score received in the "Identification with the company" index.

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 HORNBACH 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 HORNBACH-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 106 individuals with a total of more than € 155,000 in the year under report.

However, our commitment to society is by no means limited to the work performed by the Foundation. HORNBACH 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 promoting academic excellence in the region. HORNBACH-Baumarkt-AG has thus continued to support a research project at the German Cancer Research Center (DKFZ) in Heidelberg with € 100,000 a year. HORNBACH Immobilien AG also supports the project with a donation of the same amount. Among other measures, this has facilitated the research carried out by a young female scientist of international standing.

Compliance with minimum social standards

For more than ten years now, HORNBACH has voluntarily ensured that minimum social standards are complied with at factories producing goods for the company. To this end, HORNBACH 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 legislation and the 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 HORNBACH HOLDING AG is committed to risk-conscious corporate management which accords top priority at all times to safeguarding the continued existence of the overall company and its subsidiaries. The risk management 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.

Organization and process

The risk management system in place at the HORNBACH 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.

Risks are evaluated in terms of their implications and their probability of occurrence and are allocated to so-called risk classes in which the risks are classified as representing "high", "medium" or "low" risks overall. In cases where they cannot be quantified, they are assessed in terms of their qualitative implications. The target figures used at the Group (including EBIT) serve as a basis for reference in this respect.

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 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.

The HORNBACH HOLDING AG Group began to structure its existing internal control system in respect of the financial reporting process in previous years and to document this uniformly for the overall Group in a risk matrix.

In the course of the 2012/2013 financial year, this documentation of the control measures associated with key standard group processes was continuously extended. The current status of this documentation has been provided to foreign subsidiaries to enable them to review and, where necessary, supplement their risk and control measure descriptions.

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 in the context of 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.

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, HORNBACH 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 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 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 HORNBACH-Baumarkt-AG with a term running until December 14, 2016, a promissory note bond at HORNBACH-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 HORNBACH-Baumarkt-AG with an equivalent volume of € 20 million and a term running until August 31, 2015, a promissory note bond at HORNBACH 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 HORNBACH-Baumarkt-AG in February 2013, which has a term running until February 15, 2020.

HORNBACH is countering the risk of no longer being able to obtain longer-term financing for new locations from banks or via sale and leaseback transactions due to 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 HORNBACH-Baumarkt-AG, the promissory note bonds at the HORNBACH-Baumarkt-AG subgroup, or the promissory note bond at HORNBACH Immobilien AG. The contractual terms nevertheless 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 HORNBACH-Baumarkt-AG subgroup and the syndicated credit line at HORNBACH-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 HORNBACH-Baumarkt-AG subgroup. Furthermore, maximum limits have been set for financial liabilities secured by land charges and for financial liabilities at subsidiaries of HORNBACH-Baumarkt-AG. The bond at HORNBACH-Baumarkt-AG is governed by general covenants, such as pari passu, negative pledge, and cross default covenants, but not by any financial covenants. As of February 28, 2013, the equity ratio of the HORNBACH-Baumarkt-AG subgroup amounted to 51.4% (2011/2012: 48.6%) and its interest cover amounted to 6.0 (2011/2012: 7.6).

In connection with the promissory note bond at HORNBACH 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 2012/2013 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 2012/2013 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 could become apparent in the form of unwillingness on the part of customers to make purchases in periods of low economic growth. In particular, the different duration of the impact of the global financial and economic crisis and the subsequent European debt crisis on economic performance figures and employment statistics within Europe would appear to indicate that the risks in terms of stagnating or declining DIY sales in those European countries in which HORNBACH operates are still present.

Irrespective of this, a major dependency on economic developments in Germany has been identified. The further expansion into other European countries is intended to achieve an ongoing diversification of risk. Furthermore, the company generates a substantial share of its sales with seasonal articles, whose turnover is significantly affected by external factors, such as weather conditions.

Natural hazards

The climate change 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. 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, HORNBACH is subject, among other risks, to increasing purchasing prices for articles involving a high share of crude oil, copper or steel as a result of volatile prices on the international commodities markets. 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 HORNBACH 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 HORNBACH 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, HORNBACH 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 HORNBACH's success. This pillar of the corporate culture is therefore of great significance for the overall Group. The maintenance of employee satisfaction is 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, HORNBACH 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 specific impact of demographic changes in individual countries.

Overall assessment of risk situation

There were no risks to the continued existence of the HORNBACH HOLDING AG Group in the 2012/2013 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.

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 21 onwards of this Annual Report.

Disclosures under § 315 (4) HGB and explanatory report

§ 315 (4) of the German Commercial Code (HGB) requires 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 2012/2013 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."

Events after the balance sheet date

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, 2013 and the preparation of this annual report.

Outlook

The European DIY sector will continue to provide HORNBACH with growth opportunities in future as well. These are to be assessed in conjunction with the risks outlined in the Risk Report. Upon completion of this report, the assessment of the future macroeconomic framework for the retail activities of the HORNBACH HOLDING AG Group still involved great uncertainties. At core, these relate to the latent euro crisis. Our opportunities are closely linked to future developments in government finances, labor markets, real-term incomes, and consumer confidence in Europe. What's more, the business performance of DIY and garden stores could 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.

Macroeconomic opportunities

Global economy looks to euro crisis

The global economy is set to consistently gain momentum in the two-year forecast period through to 2014, but continues to look with concern at developments in the euro area debt crisis. The economy there is set to develop more hesitantly than originally expected. This is the summary that can be put together from the individual puzzle pieces available in spring 2013 in terms of assessing future macroeconomic developments. Having said this, the uncertainties surrounding growth prospects have intensified significantly once again compared with the fall of 2012. This is because the forecasts issued by bank economists and economic research institutes have in some cases been overtaken by current developments. The political stalemate arising after the parliamentary elections in Italy in February 2013 and the sudden intensification in the euro crisis due to the threat of state bankruptcy in Cyprus in March 2013 have thus yet to be reflected in the global economic outlook issued by the International Monetary Fund. In January 2013, the IMF made a slight downward revision to the forecast issued in the fall for the two-year period through to 2014. Accordingly, the IMF most recently expected to see global growth of 3.5% (previously 3.6%) in 2013, rising to 4.1% (previously 4.2%) in 2014. However, the revisions to the euro area forecasts were more substantial. Rather than slight growth, the IMF now expects the euro area to contract by 0.2% in 2013 and only to return to growth in 2014 (plus 1.0%). Due to the uncertainty surrounding the sustainability of any solution to the debt crisis, the IMF continues to view the euro area as a major downside risk for the global economic outlook.

Growth in Europe only in small steps

Defying previous expectations, the 2013 Winter Forecast compiled by the European Commission for the first time and published in February 2013 also only predicts a gradual return to economic growth. After a disappointing second half of 2012, the prospects for 2013 remain subdued. The EU is expected to post growth of a mere 0.1% in 2013. Economic output in the euro area is set to contract by 0.3%. Having said this, the Commission believes that Europe will slowly return to expansion, with economic growth of 1.6% in the EU and 1.4% in the euro area forecast for 2014.

Key early indicators, such as the Purchasing Managers Index, the ZEW Economic Sentiment Indicator, the Ifo Business Confidence Index, and the Eurozone Economic Sentiment Indicator brought the message home in March 2013 that in the wake of the discussions surrounding the Cyprus rescue package any talk of a rapid, sustainable stabilization in the EU economy was still premature. Given the background referred to above, it can be assumed that the European labor market will not bottom out before 2014. It is a similar picture for construction investments. As the real estate market is in crisis in various countries and no rapid stabilization in terms of building permits is yet discernible, residential construction volumes both in EU 27 countries and in the euro area can only be expected to show any turnaround after 2013.

European consumers, by contrast, have provided a gleam of hope. Consumer confidence has maintained its ground well, and that despite ever higher unemployment and the renewed intensification in the euro crisis. The slight improvement since the fall of 2012 indicates that private consumer spending – supported by low inflation – will gradually lend buoyancy to the European economy once again. The Commission expects to see notable growth momentum from 2014 due to the recovery in domestic demand by then.

Growth forecasts for European Union countries are once again characterized by great disparity. While those peripheral countries in southern Europe that have been particularly hard hid by the debt crisis will be confronted by a further significant downturn in economic output in 2013 as well, most countries in northern and eastern Europe can hope to see a stabilization in their economies, or even positive growth rates in 2013. The forecasts for most countries in which HORNBACH operates its DIY megastores with garden centers are notably more positive than the EU average. According to Eurostat, only the Netherlands can expect to see a downturn in real-term GDP (minus 0.6%) in 2013. The Czech economy is expected to match the previous year's figure. Estimates for Germany, Luxembourg, and Austria range from 0.5% to 0.7%. At the top end of the expectations issued for 2013 are Slovakia (plus 1.1%), Sweden (plus 1.3%), Switzerland (plus 1.4%), and Romania (plus 1.6%). According to the Eurostat forecast for 2014, GDP in the Netherlands is set to grow by 1.1%. All other HORNBACH countries clearly exceed expectations for the euro area (plus 1.4%), with growth forecasts ranging between 1.6% (Luxembourg) and 2.9% (Slovakia).

German economy gains momentum

Based on assessments issued by banks and research institutes, the German economy has already set out on a race to catch up in 2013. According to the median forecast issue by the Centre for European Economic Research (ZEW), German GDP is forecast to show real-term growth of 0.7% in 2013. With forecast growth of 1.0%, private consumer spending is set to play a key role here, while capital expenditure will continue to mark time. In 2014, private consumer spending is due to maintain its tempo at plus 1.0%. In line with the forecast, capital expenditure should then spring into action with growth of 4.3% and contribute to the accelerated growth of 1.8% in economic output.

According to the Economic Barometer issued by the German Institute for Economic Research (DIW), the German economy grew by half a percent in the first quarter of 2013 compared with the weak fourth quarter of 2012. The persistently strong labor market situation has encouraged hopes that Europe's largest economy has regained tempo once again. The number of people in employment is expected to increase further in the coming months and lend momentum to incomes. The DIW believes that growth will be supported by private household incomes, and thus ultimately by private consumer spending. German citizens most recently documented their confidence in developments in the German economy, as was confirmed by the stable level of consumer confidence measured by the GfK consumer survey in March 2013. People's expectations as to future economic developments thus improved for the third time in succession, and that despite the euro crisis, while their expectations as to their personal incomes and propensity to spend eased slightly at nonetheless high levels.

Disclosures by the Federal Statistical Office show that sales in the German retail sector grew by 1.6% nominally and by 0.2% in real terms in the first two months of 2013 compared with January and February 2012. Despite record employment and rising incomes, German retailers nevertheless expect sales for 2013 as a whole to stagnate. The Association of German Retailers (HDE) thus expects sales to show low nominal growth of one percent to around € 432 billion. Given expected inflation of around two percent, the price-adjusted (real-term) sales predicted in the HDE forecast will thus fall short of 2012 figures. As in previous years, online retail is still booming. According to the HDE, e-commerce sales will virtually match the growth of 13% achieved in the previous year and surge by a further 12% to more than € 33 billion.

European housing construction expects end to hard times

Given the impact of the euro crisis on private households' income situations and willingness to invest, experts continue to assess underlying conditions for the European construction industry as unfavorable. However, an end to the hard times for housing construction is now in sight. That is the conclusion reached by the Euroconstruct research and advisory network in its forecast in December 2012. While housing construction work in the 19 EU countries analyzed reduced by 3.5% in 2012, the process of contraction is expected to slow to around minus 1% or at best even stabilize in 2013. The construction experts are confident that housing construction will regain positive territory with growth of around 2.5% in 2014.

In their medium-term forecast for the period from 2012 to 2015, the Euroconstruct researchers paint an overwhelmingly positive picture for seven of the countries in HORNBACH's network. Housing construction in Germany is thus thought to have the potential for average annual growth of 2.5%, a rate only topped in Europe by Norway (plus 4.9% p.a.). Housing construction volumes are set to grow by just over one percent a year in Austria and Switzerland, and by 0.5% and 0.3% respectively in Slovakia and Sweden. For the Netherlands, plagued by a real estate crisis, the construction expects have forecast a slight reduction in housing construction work averaging 0.3% a year. With an annual contraction of 2%., new housing construction volumes in the Czech Republic are set to show clearly below-average developments. This is due in particular to rising consumer prices, falling real-term incomes, tax charges, and increased job insecurity.

Notwithstanding the fragile macroeconomic backdrop, the German construction industry remains positive in its assessment. The two main construction industry associations (*Hauptverband der Bauindustrie* and *Zentralverband des Baugewerbes*) expect nominal growth of 2% in construction sales in 2013. Housing construction will remain the key growth driver for the main construction trade, with sales growth of 3.5%. According to the forecast issued by the association, commercial construction and public construction are set to show moderate nominal sales growth of 1.0% and 1.5% respectively.

Sector-specific opportunities

The medium-term macroeconomic framework and the outlook for the construction and retail sectors also offer the DIY sector positive development opportunities overall in the countries where we operate. What's more, DIY store and garden center operators stand to benefit in future from specific megatrends harboring various degrees of potential in individual country markets in terms of rising demand for products and services relating to construction, renovation and gardens. Looking forward, developments are crucially dependent on both the macroeconomic framework and consumer and business confidence levels remaining stable. In assessing future sector-specific opportunities, particular importance has to be accorded to downside risks, such as those resulting from any potential further escalation in the European sovereign debt crisis.

Based on the key factors outlined above, such as employment totals, income levels, consumer confidence, and developments in the construction industry, the European DIY sector is placing its hopes in the prospect that, following the economic setback suffered in the second half of 2012, customer demand will gradually recover in the course of 2013 and 2014. IFH Retail Consultants expect the aggregate market volume for all DIY stores and garden centers in EU 27 countries to grow by between 0.5% and 0.7% in 2013 (2012: minus 0.5%). The German sector is slightly more optimistic in its assessment of its prospects for 2013. The BHB sector association thus expects to see a low level of nominal sales growth ranging between 1.0% and 2.0%. The association basically saw potential for sales growth in garden product ranges, which due to weather conditions were in less demand than usual in 2012. Furthermore, the BHB hoped to see growth momentum from private housing construction. Given that the winter had large parts of Europe and Germany firmly in its grip until well into April, the annual performance of the sector in 2013 will crucially depend on a strong start to the seasonal business in the second and third calendar quarters.

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 megatrends 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. In 2011, more than three quarters of the total construction volumes of around € 166 billion 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. Less than 5% have been built since 2000. 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.

- In view of 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 around three quarters and the property's operating costs to be sustainably reduced over its lifecycle. At the same time, energy-efficiency renovation makes a major contribution towards cutting CO_2 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-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 three megatrends 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 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 19% and 17% in 2013 and 2014. The experts expect online sales with all DIY and home improvements formats available in the stationary retail sector to shown even more dynamic developments, with forecast growth rates of 26% and 21%.

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 the longer term as well.

Strategic opportunities

Our aim is to continually expand HORNBACH's position in the European DIY market by means of organic growth. Our sales and profitability are to be sustainably increased by expanding our internationally successful retail format. This involves focusing on the strategic enhancement of our concept and the expansion of our store network at locations offering above-average growth potential in Germany and abroad.

- The company's strategy focuses on the concept of projects. HORNBACH is increasingly able to differentiate itself from its competitors with this approach, which is reflected in its product range, service and pricing policies. Our solid financial resources, public corporate rating and the flexibility available to us in refinancing the business on the capital market will enable us to invest considerable sums in **differentiating HORNBACH's format** in future as well.

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

- We believe that we are excellently positioned in the sector with regard to the ever more important market for **modernization** 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-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 HORNBACH. 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 HORNBACH 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.

- Since December 1, 2010, DIY enthusiasts and tradesmen have also been able to shop at HORNBACH on the internet (www.hornbach.de). The **online shop** represents a key strategic addition to our stationary retail business. By taking this step, we aim to targetedly exploit the considerable future growth potential retail experts see in multichannel retailing. 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 HORNBACH 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 provide each supplier with the opportunity to supply all of our stores as efficiently as possible. Suppliers are able make large-scale logistical deliveries directly to each location, or to supply the merchandise indirectly via our central logistics hubs. We thus provide regional manufacturers 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.

Outlook for the Group

Since the financial crisis in 2009, the basis for forecasting future developments has been subject to greater macroeconomic uncertainties than previously. At core, these relate to how industrialized economies plan to regain control of the problems resulting from excessive government debt. Financial markets reacted very sensitively to the outcome of the elections in Italy and the risk of state bankruptcy in Cyprus in spring 2013, thus rekindling worries about an intensification in the euro crisis, as well as triggering fundamental doubts as to international political willingness to implement reforms. Future developments remain subject to numerous risks. Market volatility has increased across the board. Short to medium-term developments in sales, procurement, and refinancing markets are difficult to predict.

One crucially important factor for the business prospects of the HORNBACH HOLDING AG group is the future development in consumer demand in those countries in which we operate. Private consumer spending is decisively affected by the development in levels of employment and disposable income, factors affected not least by the development in inflation, savings measures to consolidate government finances, and social security, and healthcare reforms. Forward-looking parameters, such as expectations as to developments in the overall economy and in personal incomes, or consumers' propensity to spend, act as confidence indicators pointing to future developments in real economic data. Alongside these issues, unusual weather conditions may also significantly affect consumer behavior and our seasonal business, although this factor cannot be accounted for in our forecast.

The statements made concerning the two-year forecast period are based on the company's medium-term planning, which has a budgeting horizon of five years and is extrapolated annually. The corporate budget for the financial years 2013/2014 to 2017/2018, into which the annual budget for 2013/2014 is integrated, was approved by the Supervisory Board at the end of February 2013.

Expansion

The HORNBACH-Baumarkt-AG subgroup has still not planned any market entry in a new country for the two-year forecast period, but will rather focus on expanding and modernizing its store network in our 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. Some of the planned new store openings serve to replace existing locations no longer meeting the latest standards. The majority of new stores is to be opened outside Germany.

We plan to open up to four new HORNBACH DIY megastores with garden centers across the Group in the 2013/2014 financial year. Outside Germany, three locations are planned. Upon completion of this report, the locations in Slovakia, Sweden and the Netherlands were under construction. In Germany, we plan to open a new store in Heidelberg. This will replace the existing store, with sales areas of just 4,000 m², in operation since 1985.

Up to six new store openings are planned across Europe for the 2014/2015 financial year. Of these, up to four stores will be in other European countries. One new store opening is on the agenda in Germany. Furthermore, the DIY store and standalone garden center at the Kassel location are due to be replaced by a newly built combined HORNBACH DIY megastore and garden center. Including replacement locations and closures, the group-wide total number of HORNBACH DIY megastores with garden centers based on the expansion planned for the current and next financial year should rise to up to 145 by February 28, 2015 (February 28, 2013: 138).

The HORNBACH Baustoff Union GmbH subgroup intends to optimize its regional market position by relocating two outlets in the 2013/2014 financial year. Other than this, no further changes to its location network are planned for the two-year forecast period.

Investments

The gross investment volume at the HORNBACH HOLDING AG Group is budgeted to range between € 150 million and € 200 million in each of the 2013/2014 and 2014/2015 financial years. 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 HORNBACH Group is chiefly shaped by developments at the HORNBACH-Baumarkt-AG subgroup.

We originally based our forecast for the 2013/2014 financial year on the base scenario that sales at the **HORNBACH-Baumarkt-AG subgroup** would achieve higher growth rates than in the 2012/2013 financial year under report. This was to be partly driven by a turnaround in like-for-like sales at the subgroup, which were expected to regain positive growth rates once again in 2013/2014. This forecast also reflected the assumption that the economies in the countries across Europe in which we operate would gradually recover in 2013.

However, the start to the 2013/2014 financial year on March 1, 2013, and thus after the completion of the budgeting process, was anything but promising. Across Europe, consumer demand for DIY retail products literally froze due to the unusually prolonged winter lasting into April. According to the monthly survey performed by the BHB sector association, German DIY store operators reported like-for-like reductions of almost a quarter of their sales in March 2013 alone. HORNBACH continued to outperform the DIY sector as a whole. Upon the completion of this report, however, it was apparent that due to weather conditions the Group's performance in the first quarter of 2013/2014 (March 1 to May 31, 2013) would be significantly weaker than in the previous year, and that both in Germany and in other European countries.

Against this backdrop, in April 2013 the Management Board revised the base scenario for 2013/2014 and is now more cautious in its assessment of the sales performance of the HORNBACH-Baumarkt-AG Group. One particular uncertainty is the extent to which the shortfall in sales in the first six weeks can be made up in the further course of the 2013/2014 financial year as a whole.

We remain optimistic about our 2014/2015 financial year, provided that there is no recurrence of the extremely prolonged winter weather conditions in spring 2014. In conjunction with the larger number of new store openings, the recovery in gross domestic product and consumer demand forecast for 2014 should result in improved sales momentum at the HORNBACH-Baumarkt-AG subgroup in the 2014/2015 financial year. We aim to achieve ongoing improvements in the operating processes underlying our sales and our services by introducing numerous measures and concepts. Our aim is to continually enhance customer satisfaction levels by competently extending the range of advice and assistance provided to our customers both in the stationary business and at the online store.

- Based on our expectations, **Germany** will post like-for-like growth ahead of the group average once again in the 2013/2014 financial year. Due to the shortfall in sales expected in the important first quarter, the likelihood that like-for-like sales will also miss the growth target originally set and rather merely match or fall short of the previous year's figure has risen significantly. We continue to expect a positive sales trend for the following 2014/2015 financial year. This forecast is based on the assumption that the consumer climate will remain more or less stable and continue to be supported by robust developments in employment and income levels. However, any significant macroeconomic turbulence in the two-year forecast period, for example as a result of an unexpected intensification in the euro debt crisis or of exogenous price shocks on commodity markets, would place an additional burden on the development in our like-for-like sales. Given our strong competitive position, we are confident that HORNBACH will continue to outperform the German sector average and thus acquire further market share in future as well.

- The statements concerning the revision of expectations for the domestic business in 2013/2014 are basically also transferrable to the sales forecast for **other European countries**. Due to the more fragile state of the macroeconomic framework in most EU countries outside Germany, however, the downside risk in the other European countries segment is to be classified higher overall. We therefore expect to see a lower rate of like-for-like sales growth than in Germany in the 2013/2014 financial year. As the long winter led to substantial losses of sales in the first quarter of 2013/2014 in other European countries as well, we believe that the most likely scenario is that like-for-like sales will not match the level seen in the 2012/2013 financial year.

  In the 2014/2015 financial year, we intend to improve our sales in other European countries once again compared with 2013/2014. Our aim is to achieve like-for-like sales growth, in some cases significant, in the countries outside Germany. We see this aim as realistic 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. Should there be any significant deterioration in the macroeconomic framework, then this would also involve an additional risk to the like-for-like sales at our locations in other European countries.

Sales forecast

We expect consolidated sales at the HORNBACH-Baumarkt-AG subgroup, i.e. our net sales accounting for new openings, closures and extensions of stores, for the 2013/2014 financial year to slightly exceed the level seen in the 2012/2013 financial year. In the following 2014/2015 financial year, our sales should achieve a higher growth rate than in 2013/2014.

Net sales at the **HORNBACH Baustoff Union GmbH subgroup** should slightly exceed the previous year's levels in both of the 2013/2014 and 201472015 financial years.

Consistent with developments at the largest operating subgroup, HORNBACH-Baumarkt-AG, we also expect consolidated sales on the level of the **overall HORNBACH HOLDING AG Group** to slightly exceed the figures for the 2012/2013 financial year in the 2013/2014 financial year and then to show accelerated growth in the 2014/2015 financial year.

Earnings performance

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

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

- The operating earnings performance of the **DIY store segment** is primarily dependent on the rate of change in like-for-like sales. A further key factor is the gross margin, which we believe will match the level seen in the previous year in the 2013/2014 financial year and then tend slightly downwards in the following years. We see this as being due above all to the increased pressure on margins on account of the sharp growth in e-commerce in DIY store sector. The growing range of internet stores can be expected to lead to tougher price competition. We intend to counter the negative impact on prices largely with positive volume effects and by raising our share of private labels.

Due to the expected development in like-for-like sales, the store expense ratio (store expenses as a percentage of net sales) will remain at around the same level as in the previous year in the 2013/2014 financial year and is expected to decrease significantly in the 2014/2015 financial year. This development will be driven above all by savings in general operating expenses and great cost discipline at the stores. Pre-opening expenses will increase year-on-year in 2013/2014, as they already include costs incurred for stores scheduled to be opened in the first months of the following year. In the 2014/2015 financial year, pre-opening expenses should then fall to levels significantly below the 2012/2013 financial year (€ 9.6 million).

We will continue to channel targeted resources into key forward-looking projects in the forecast period, such as in particular into consistently expanding our online store in Germany and other European countries. In view of this, the administration expense ratio will increase further in 2013/2014. From the 2014/2015 financial year onwards, the administration expense ratio is expected to gradually decline.

- The earnings performance of the **real estate segment** in the two-year forecast period through to the end of February 2015 will mainly be characterized by the stable development in rental income in line with the Group's expansion.

Earnings forecast

The earnings forecast is based on the assumption that there is no unexpected macroeconomic downturn, such as due to any escalation in the European sovereign debt crisis, in the two-year forecast period.

The earnings performance of the HORNBACH-Baumarkt-AG subgroup in the 2013/2014 and 2014/2015 financial years will be determined by the development in earnings in the DIY store segment. We expect operating earnings (EBIT) for the 2013/2014 financial year not to match the level seen in the 2012/2013 financial year (€ 99.3 million). The subgroup's earnings strength should improve significantly once again in the 2014/2015 financial year. EBIT should then show clearly disproportionate growth compared with sales.

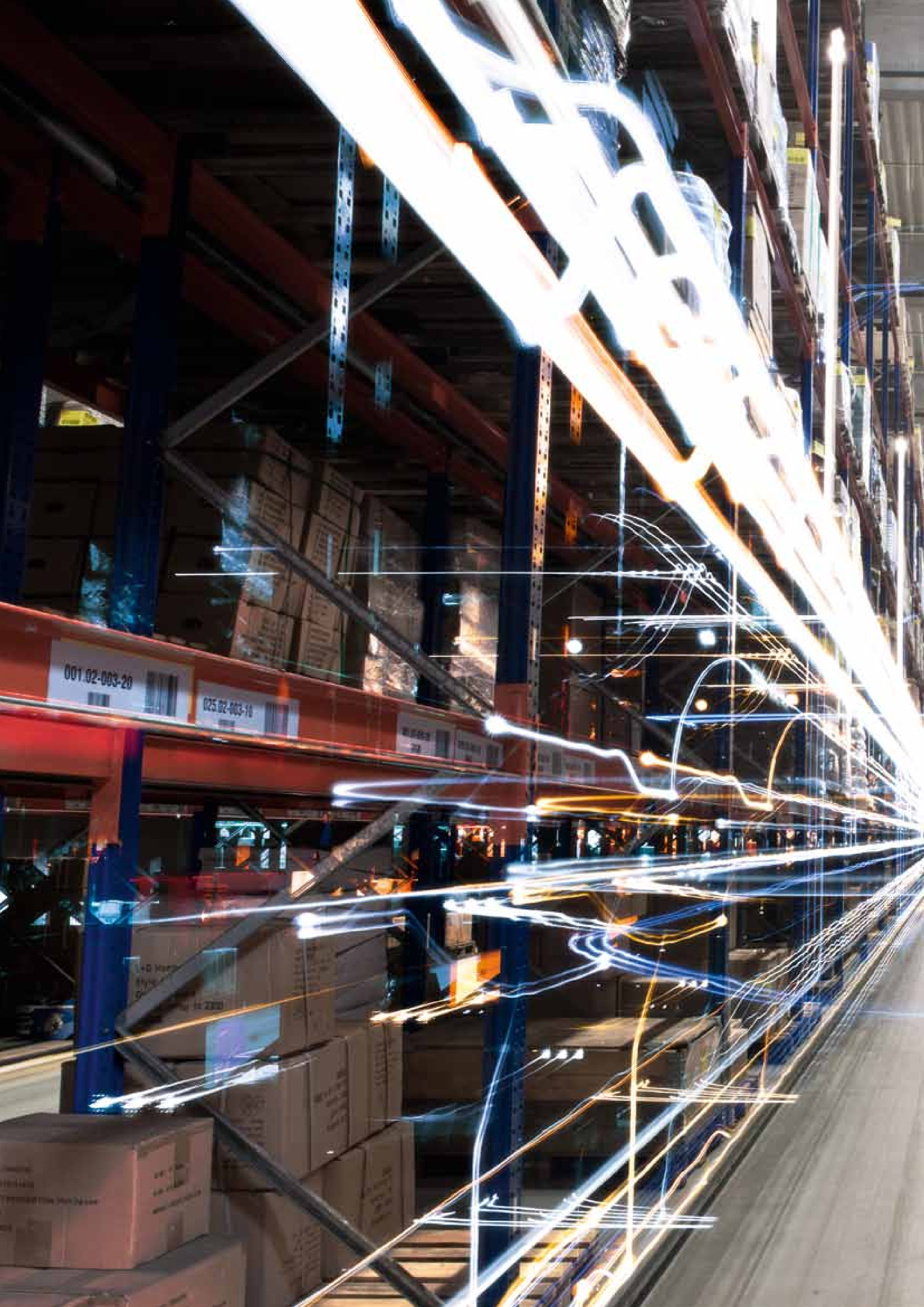
The earnings performance of the **HORNBACH Baustoff Union GmbH subgroup** segment in the next two years should mainly benefit from a slightly improvement in the gross margin. This subgroup is expected to generate consistent EBIT growth in the forecast period.

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 either for the 2013/2014 financial year or for the 2014/2015 financial year. Operating earnings (EBIT) are expected to exceed the respective previous year's figures.

For the **overall HORNBACH HOLDING AG Group**, we expect operating earnings (EBIT) for the 2013/2014 financial year to match or fall slightly short of the level reported for the 2012/2013 financial year (€ 145.9 million). For the 2014/2015 financial year, we then expect to see earnings growth that is clearly disproportionate compared with consolidated sales.

DISCLAIMER

This annual report is to be read in the context of the audited financial data of the HORNBACH HOLDING AG Group and the disclosures made in the notes to the consolidated financial statements contained in the annual report. It contains statements relating to the future based on assumptions and estimates made by HORNBACH's Board of Management. Forward-looking statements are only valid at the time at which they are made. Although we assume that the expectations reflected in these forecast statements are realistic, the company can provide no guarantee that these expectations will turn out to be accurate. The assumptions may involve risks and uncertainties which could result in actual events differing significantly from the forecast statements. The factors which could produce such variances include changes in the economic and business environment, particularly in respect of consumer behavior and the competitive environment in those retail markets of relevance for HORNBACH. Furthermore, they include a lack of acceptance of new sales formats or new product ranges, as well as changes to the corporate strategy. HORNBACH has no plans to update the forecast statements, neither does it accept any obligation to do so.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A Miracle of Space

To satisfy even the most demanding project customer's every last wish, HORNBACH's DIY megastores and garden centers stock an average of more than 50,000 different products. That can only be done with efficient merchandise and organizational structures. All kinds of serious equipment are in use at the four logistics centers we now operate. Some machines are perfectly tailored to fit the dimensions of numerous narrow and wide alleys. Despite heavy loads, man and machine are flight of foot in a forest of products and shelving, putting back miles and more each day.

CONSOLIDATED FINANCIAL STATEMENTS

Income Statement of the HORNBACH HOLDING AG Group

for the Period from March 1, 2012 to February 28, 2013

	Notes	2012/2013 € 000s	2011/2012 € 000s	Change %
Sales	1	3,228,973	3,204,213	0.8
Cost of goods sold	2	2,049,486	2,032,339	0.8
Gross profit		**1,179,487**	**1,171,874**	**0.6**
Selling and store expenses	3	894,495	867,753	3.1
Pre-opening expenses	4	9,268	6,389	45.1
General and administration expenses	5	146,364	134,865	8.5
Other income and expenses	6	16,490	6,219	165.2
Earnings before interest and taxes (EBIT)		**145,850**	**169,086**	**(13.7)**
Other interest and similar income		2,226	6,467	(65.6)
Other interest and similar expenses		40,860	41,126	(0.6)
Other financial result		406	(2,550)	(115.9)
Net financial expenses	**7**	**(38,228)**	**(37,209)**	**2.7**
Consolidated earnings before taxes		**107,622**	**131,877**	**(18.4)**
Taxes on income	8	30,195	37,275	(19.0)
Consolidated net income		**77,427**	**94,602**	**(18.2)**
of which: income attributable to shareholders of HORNBACH HOLDING AG		64,977	76,374	(14.9)
of which: non-controlling interest		12,450	18,228	(31.7)
Basic/diluted earnings per share (€)	**9**	**4.05**	**4.76**	**(14.9)**
Basic/diluted earnings per preference share (€)	**9**	**4.08**	**4.79**	**(14.8)**

Statement of Comprehensive Income of the HORNBACH HOLDING AG Group

for the Period from March 1, 2012 to February 28, 2013

	Notes	2012/2013 € 000s	2011/2012 € 000s
Consolidated net income		**77,427**	**94,602**
Actuarial gains and losses on defined benefit plans	23	(4,267)	1,322
Measurement of derivative financial instruments (cash flow hedge)			
Measurement of derivative hedging instruments directly in equity		(7,972)	(9,632)
Gains and losses from measurement of derivative financial instruments transferred to profit or loss		4,545	2,436
Exchange differences arising on the translation of foreign subsidiaries		(3,312)	2,753
Deferred taxes on gains and losses recognized directly in equity	8	1,826	1,657
Other comprehensive income		**(9,180)**	**(1,464)**
Total comprehensive income		**68,247**	**93,138**
of which: attributable to shareholders of HORNBACH HOLDING AG		57,387	74,756
of which: attributable to non-controlling interest		10,860	18,382

Balance Sheet of the HORNBACH HOLDING AG Group

as of February 28, 2013

	Notes	2.28.2013 € 000s	2.29.2012 € 000s
Non-current assets			
Intangible assets	11	13,666	16,930
Property, plant, and equipment	12	1,214,996	1,138,789
Investment property	12	37,015	43,570
Financial assets	13	2,631	2,581
Non-current receivables and other assets	14/23	6,012	6,269
Non-current income tax receivables	26	14,419	17,927
Deferred tax assets	15	14,980	13,926
		1,303,719	**1,239,992**
Current assets			
Inventories	16	515,363	506,774
Other receivables and assets	17	80,426	86,853
Income tax receivables	26	10,829	9,734
Cash and cash equivalents	18	356,935	422,341
Non-current assets held for sale and disposal groups	19	2,518	1,473
		966,071	**1,027,175**
		2,269,790	**2,267,167**

	Notes	2.28.2013 € 000s	2.29.2012 € 000s
Shareholders' equity	**20**		
Share capital		48,000	48,000
Capital reserve		130,373	130,373
Revenue reserves		722,692	675,798
Equity of shareholders of HORNBACH HOLDING AG		**901,065**	**854,171**
Non-controlling interest		194,308	187,147
		1,095,373	**1,041,318**
Non-current liabilities			
Non-current financial debt	22	631,227	596,341
Provisions for pensions	23	3,884	0
Deferred tax liabilities	15	60,333	63,752
Other non-current liabilities	24/27	26,409	25,869
		721,853	**685,962**
Current liabilities			
Current financial debt	22	96,620	173,793
Trade payables and other liabilities	25	262,935	257,035
Income tax liabilities	26	29,750	36,216
Other provisions and accrued liabilities	27	63,259	72,843
		452,564	**539,887**
		2,269,790	**2,267,167**

Statement of Changes in Equity of the HORNBACH HOLDING AG Group

2011/2012 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
Balance at March 1, 2011		**24,000**	**130,373**	**322**	**19,566**	**615,619**	**789,880**	**172,488**	**962,368**
Consolidated net income						76,374	76,374	18,228	94,602
Actuarial gains and losses on defined benefit plans, net after taxes	23					811	811	252	1,063
Measurement of derivative financial instruments (cash flow hedge), net after taxes				(4,042)			(4,042)	(1,238)	(5,280)
Foreign currency translation					1,613		1,613	1,140	2,753
Total comprehensive income				**(4,042)**	**1,613**	**77,185**	**74,756**	**18,382**	**93,138**
Dividend distribution	21					(10,480)	(10,480)	(3,764)	(14,244)
Transactions with other shareholders						15	15	41	56
Issue of bonus shares		24,000				(24,000)	0	0	0
Balance at February 29, 2012		**48,000**	**130,373**	**(3,720)**	**21,179**	**658,339**	**854,171**	**187,147**	**1,041,318**

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
Balance at March 1, 2012		**48,000**	**130,373**	**(3,720)**	**21,179**	**658,339**	**854,171**	**187,147**	**1,041,318**
Consolidated net income						64,977	64,977	12,450	77,427
Actuarial gains and losses on defined benefit plans, net after taxes	23					(2,619)	(2,619)	(811)	(3,430)
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)
Total comprehensive income				**(2,319)**	**(2,652)**	**62,358**	**57,387**	**10,860**	**68,247**
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
Balance at February 28, 2013		**48,000**	**130,373**	**(6,039)**	**18,527**	**710,204**	**901,065**	**194,308**	**1,095,373**

Cash Flow Statement of the HORNBACH HOLDING AG Group

	Notes	2012/2013 € 000s	2011/2012 € 000s
Consolidated net income		**77,427**	**94,602**
Depreciation and amortization of non-current assets	10	75,400	78,693
Change in provisions		2,439	6,383
Gains/losses on disposals of non-current assets and of non-current assets held for sale		(1,878)	(184)
Change in inventories, trade receivables and other assets		293	(15,995)
Change in trade payables and other liabilities		(5,984)	(23,367)
Other non-cash income/expenses		(3,409)	1,706
Cash flow from operating activities		**144,288**	**141,838**
Proceeds from disposal of non-current assets and of non-current assets held for sale		6,443	13,137
Payments for investments in property, plant, and equipment		(145,055)	(151,211)
Payments for investments in intangible assets		(2,758)	(2,685)
Payments for investments in financial assets		(1,170)	0
Payments for acquisitions of shareholdings and other business units		(515)	(8,994)
Cash flow from investing activities		**(143,055)**	**(149,753)**
Dividends paid	21	(14,244)	(14,244)
Proceeds from taking up long-term debt and bond issue	22	350,521	96,259
Repayment of long-term debt and bond		(387,072)	(128,031)
Payments for transaction costs		(3,524)	(1,591)
Change in current financial debt		(12,258)	2,772
Cash flow from financing activities		**(66,577)**	**(44,835)**
Cash-effective change in cash and cash equivalents		(65,344)	(52,750)
Change in cash and cash equivalents due to changes in scope of consolidation		38	0
Change in cash and cash equivalents due to changes in exchange rates		(100)	1,075
Cash and cash equivalents at March 1		422,341	474,016
Cash and cash equivalents at balance sheet date		**356,935**	**422,341**

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, unrecognized exchange rate gains/losses, and pro-rated reversals of accrued expenses for financial liabilities.

The cash flow from operating activities was reduced by income tax payments of € 36,755k (2011/2012: € 37,648k) and interest payments of € 46,821k (2011/2012: € 44,526k) and increased by interest received of € 2,226k (2011/2012: € 6,467k).

The proceeds from disposal of non-current assets and of non-current assets held for sale include proceeds of € 1,790k from disposals in previous years (2011/2012: € 3,333k).

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.

Individual items in the income statement and the balance sheet have been grouped together in the interests of clarity. These items have been reported separately in the notes to the financial statements. In line with IAS 1 "Presentation of Financial Statements", a distinction has been made in the balance sheet reporting between non-current and current debt capital. 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 have been 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 in respect of economic useful lives, the recognition and measurement of provisions, the calculation of current market values and the ability to obtain future tax relief. The principal assumptions and estimates which, due to their uncertainty, may result in discrepancies in the level of assets and liabilities reported have been outlined in the notes to the respective items. Changes are accounted for as a credit or charge to operations upon receipt of further information.

The Board of Management of HORNBACH HOLDING AG prepared the consolidated financial statements and approved them for publication on May 23, 2013. 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 HORNBACH HOLDING AG Group.

The following new standards, revised standards and interpretations required application for the first time in the 2011/2012 financial year:

- Amendments to IFRS 7 "Disclosures – Transfer of Financial Assets": The amendments to IFRS 7 involve extended note disclosure obligations upon transfers of financial assets. This is intended to clarify the nature of the relationships between financial assets not requiring complete derecognition and the corresponding financial liabilities. Furthermore, it should be possible to better judge the nature of and in particular the risks associated with any continuing involvement with derecognized financial assets. The amendments also require additional disclosures to be made when a disproportionately high number of transfers with continuing involvement arise, for example at around the end of a reporting period. These amendments have no implications for the consolidated financial statements of HORNBACH HOLDING AG.

Standards and interpretations not applied prematurely

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

- Amendments to IAS 1 "Presentation of Items of Other Comprehensive Income": These amendments affect the presentation of other comprehensive income within the statement of comprehensive income. In future, those items of other comprehensive income that are reclassified at a later date to the income statement (recycling) must be presented separately from items of other comprehensive income that will never be reclassified. Where items are recognized on a gross basis, i.e. without netting with deferred tax items, the deferred taxes should now no longer be recognized as an aggregate total, but rather allocated to the two groups of items. This amendment requires first-time application in financial years beginning on or after July 1, 2012. The amendments to the standard will lead to the presentation of the respective items being adjusted to the new requirements in future consolidated financial statements of HORNBACH HOLDING AG.

- Amendments to IAS 12 "Recovery of Underlying Assets": In the case of investment property, it is often difficult to assess whether existing temporary tax differences will be reversed by further use or upon disposal. The amendment to IAS 12 clarifies that the measurement of deferred taxes should be based on the refutable assumption that such items will be reversed by disposal. This amendment requires first-time application in financial years beginning on or after January 1, 2013. The amendments have no implications for the consolidated financial statements of HORNBACH HOLDING AG.

- IAS 19 "Employee Benefits" (revised 2011): Alongside more extensive disclosure obligations for employee benefits, the revised standard has resulted in particular in the following amendments: There is currently an option as to how unexpected fluctuations in pension obligations, so-called actuarial gains and losses, may be presented in the financial statements. These may be recognized (a) through profit or loss in the income statement, (b) under other comprehensive income (OCI) or (c) over time using the so-called corridor method. To ensure greater transparency and comparability of these items, the revised version of IAS 19 has eliminated this option. In future, it will only be permitted to recognize these items directly and in full under other comprehensive income. Moreover, retrospective service cost must now be recognized directly through profit or loss in the year in which it arises. Furthermore, the expected income from plan assets is currently determined at the beginning of the accounting period on the basis of the management's subjective expectations concerning the development in the value of the investment portfolio. Upon application of IAS 19 (revised 2011), it will only be permitted at the beginning of the respective period to recognize a typical return on plan assets at the level of the current discount rate for pension obligations. As the HORNBACH HOLDING AG Group already bases its accounting on the method due to be applicable in future, first-time application of this standard is not expected to have any implications.

The amended definition of termination benefits will impact on the recognition of top-up payments committed in the context of part-time early retirement agreements. Previously, these top-up payments were classified as termination benefits and accordingly recognized at their full amounts as provisions upon the signing of part-time early retirement agreements. Due to the amended definition of termination benefits, upon application of IAS 19 (revised 2011) these top-up payments will no longer meet the requirements for recognition as termination benefits. They will rather basically involve other long-term employee benefits accumulated in installments over the employee's respective period of service.

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. First-time application of the amended standard will not have any material implications for the presentation of the net asset, financial and earnings position of the HORNBACH HOLDING AG Group as, with only a few exceptions, the employees due to benefit from part-time early retirement arrangements have already reached the passive stage of such arrangements.

This amendment requires first-time application in financial years beginning on or after January 1, 2013.

- 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 HORNBACH 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 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. First-time application of the amended standard is not expected to have any implications for the future consolidated financial statements of HORNBACH HOLDING AG.

- Amendments to IAS 32 and IFRS 7 "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. These clarifications are also accompanied by extended note disclosure requirements in IFRS 7. The amendment to IAS 32 requires first-time application in financial years beginning on or after January 1, 2014. The amendment to IFRS 7 requires first-time application in financial years beginning on or after January 1, 2013. First-time application of the amended standard is not expected to have any implications for the future consolidated financial statements of HORNBACH HOLDING AG.

- 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. First-time application of the amended standard is not expected to have any implications for the future consolidated financial statements of HORNBACH 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. Earlier 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. First-time application of the amended standard will not have any implications for the future consolidated financial statements of HORNBACH 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 not expected to lead to extended note disclosures in the consolidated financial statements of HORNBACH HOLDING AG.

- IFRS 13 "Fair Value Measurement": This standard lays down uniform requirements for fair value measurement in IFRS financial statements. In future, all fair value measurements called for by other standards will have to comply with the uniform requirements of IFRS 13. Only IAS 17 and IFRS 2 will continue to be governed by their own requirements. IFRS 13 defines fair value as the exit price, i.e. as the price that would be obtained upon the sale of the asset, or the price that would have to be paid to assign a liability. A three-level hierarchy system graded in terms of dependence on observable market prices is to be introduced in line with the system already known for the fair value measurement of financial assets. This new method of fair value measurement may result in values that differ from those determined in line with existing requirements. The new standard requires first-time application in financial years beginning on or after January 1, 2013. First-time application of the amended standard is not expected to have any material implications for the future consolidated financial statements of HORNBACH 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. Subject to adoption into EU law, which is still outstanding, IFRS 9 will require first-time application in financial years beginning on or after January 1, 2015.

- 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. Subject to adoption into EU law, which is still outstanding, these amendments – by analogy with the requirements of IFRS 9 – will require first-time application in financial years beginning on or after January 1, 2015.

- 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 do not have any implications for consolidated financial statements that include investment entities unless the group parent company is itself an investment entity. Subject to adoption into EU law, which is still outstanding, these amendments will require first-time application in financial years beginning on or after January 1, 2014.

- 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. Subject to adoption into EU law, which is still outstanding, the amendments to IFRS 10, IFRS 11 and IFRS 12 will require first-time application in financial years beginning on or after January 1, 2014.

- Improvements to IFRS 2009-2011: Amendments were made to five standards within the annual improvement project. The adjustments made to the formulations contained in individual IFRS standards are intended to clarify existing requirements. Alongside these, there are also amendments with implications for accounting, recognition, and measurement, as well as for note disclosures. These relate to the following standards: IAS 1, IAS 16, IAS 32, IAS 34, and IFRS 1.

The implications of IFRS 9, which is expected to require application from 2015, for the consolidated financial statements are currently being investigated. From a current perspective, the other 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, 2012. 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 HORNBACH HOLDING AG, the consolidated financial statements include 23 domestic and 41 foreign subsidiaries by way of full consolidation.

HORNBACH HOLDING AG is the sole shareholder in HORNBACH Immobilien AG and Hornbach Baustoff Union GmbH and the majority shareholder with a 76.4% stake in HORNBACH-Baumarkt-AG (2011/2012: 76.4%). Further information about direct and indirect voting rights has been presented in the overview of consolidated shareholdings.

The scope of consolidation also includes investments held by HORNBACH 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). HORNBACH Immobilien AG holds 90% of the share capital in these three companies and has 19% of the voting rights. The financial year of these companies corresponds to the calendar year.

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

The companies Etablissement Camille Holtz et Cie S.A. and Saar-Lor Immobilière S.C.L, both based in Phalsbourg/France, were included in the consolidated financial statements for the first time in the 2012/2013 financial year.

The development in the scope of consolidation was as follows:

	2012/2013	2011/2012
March 1	**63**	**60**
Companies consolidated for the first time	2	3
February 28/29	**65**	**63**

The changes in the scope of consolidation had no material implications for the income statement.

The changes in the scope of consolidation in the current 2012/2013 financial year resulted in the following aggregate changes in individual asset and liability items.

€ 000s	Additions 2012/2013	Additions 2011/2012
Property, plant, and equipment	2,822	7,952
Other assets	3,406	847
Non-current liabilities	215	621
Current liabilities	3,915	4,395

Consolidated shareholdings

Company name and domicile	Shareholding in %	Equity[1] in thousands, local currency	Local currency
Germany			
HORNBACH-Baumarkt-AG, Bornheim	76.4[2)4)]	491,276	EUR
HORNBACH Immobilien AG, Bornheim	100[4)]	111,750	EUR
HORNBACH International GmbH, Bornheim	76.4[2)]	106,019	EUR
AWV-Agentur für Werbung und Verkaufsförderung GmbH, Bornheim	76.4[2)]	265	EUR
HORNBACH Baustoff Union GmbH, Neustadt/Weinstrasse	100[4)]	43,509	EUR
Union Bauzentrum Hornbach GmbH, Neustadt/Weinstrasse	100	4,820	EUR
Ruhland-Kallenborn & Co. GmbH, Neustadt/Weinstrasse	100	10,193	EUR
Ruhland-Kallenborn Grundstücksverwaltungsgesellschaft mbH, Neustadt/Weinstrasse	100	26	EUR
Robert Röhlinger GmbH, Neustadt/Weinstrasse	100	3,141	EUR
Ollesch & Fitzner GmbH, Bornheim	76.4[2)]	554	EUR
BM Immobilien Gamma GmbH, Bornheim	76.4[2)]	(4)	EUR
HB Reisedienst GmbH, Bornheim	76.4[2)]	7,272	EUR
BM Immobilien Lambda GmbH, Bornheim	76.4[2)]	19	EUR
HB Services GmbH, Bornheim	76.4[2)]	19	EUR
HORNBACH Versicherungs-Service GmbH, Bornheim	76.4[2)]	109	EUR
HORNBACH Solar-, Licht- und Energiemanagement GmbH, Bornheim	76.4[2)]	(34)	EUR
HIAG Immobilien Jota GmbH, Bornheim	100	6,787	EUR
Hornbach Baustoff Union Grundstücksentwicklungs GmbH, Neustadt (previously: HIAG Immobilien Beta GmbH, Bornheim)	100	(70)	EUR
HIAG Immobilien Gamma GmbH, Bornheim	100	20	EUR
HIAG Immobilien Delta GmbH, Bornheim	100	20	EUR
SULFAT GmbH & Co. Objekt Bamberg KG, Pullach	90	(860)[3]	EUR
SULFAT GmbH & Co. Objekt Düren KG, Pullach	90	(776)[3]	EUR
SULFAT GmbH & Co. Objekt Saarbrücken KG, Pullach	90	(947)[3]	EUR
Other European countries			
HORNBACH Baumarkt GmbH, Wiener Neudorf, Austria	76.4[2)]	69,076	EUR
EZ Immobilien Beta GmbH, Wiener Neudorf, Austria	76.4[2)]	6,689	EUR
HL Immobilien Lambda GmbH, Wiener Neudorf, Austria	76.4[2)]	(167)	EUR
HO Immobilien Omega GmbH, Wiener Neudorf, Austria	99.8	(300)	EUR
HS Immobilien Sigma GmbH, Wiener Neudorf, Austria	76.4[2)]	(736)	EUR
HR Immobilien Rho GmbH, Wiener Neudorf, Austria	99.8	(181)	EUR
HC Immobilien Chi GmbH, Wiener Neudorf, Austria	99.8	(61)	EUR

1) Shareholders' equity corresponds to the local equity; in the case of HORNBACH Centrala SRL, HORNBACH Imobiliare SRL, and TIM HB SRL, however, equity has been determined in accordance with IFRS.
2) Of which: 0.0203% under current assets.
3) Shareholders' equity as of 12.31.2012.
4) Direct shareholdings of 76.4% and 100%.
5) Of which: 1% direct shareholding.

Company name and domicile	Shareholding in %	Equity[1] in thousands, local currency	Local currency
HM Immobilien My GmbH, Wiener Neudorf, Austria	100	(64)	EUR
HB Immobilien Bad Fischau GmbH, Wiener Neudorf, Austria	100[5]	(193)	EUR
HORNBACH Baumarkt Luxemburg SARL, Bertrange, Luxembourg	76.4[2]	10,306	EUR
HORNBACH Holding B.V., Amsterdam, Netherlands	76.4[2]	79,685	EUR
HORNBACH Bouwmarkt (Nederland) B.V., Driebergen-Rijsenburg, Netherlands	76.4[2]	12,555	EUR
HORNBACH Real Estate Tilburg B.V., Tilburg, Netherlands	76.4[2]	534	EUR
HORNBACH Real Estate Groningen B.V., Groningen, Netherlands	76.4[2]	487	EUR
HORNBACH Real Estate Wateringen B.V., Wateringen, Netherlands	76.4[2]	929	EUR
HORNBACH Real Estate Alblasserdam B.V., Alblasserdam, Netherlands	76.4[2]	(334)	EUR
HORNBACH Real Estate Nieuwegein B.V., Nieuwegein, Netherlands	76.4[2]	1,017	EUR
HORNBACH Real Estate Nieuwerkerk B.V., Nieuwerkerk, Netherlands	76.4[2]	(2)	EUR
HORNBACH Real Estate Geleen B.V., Geleen, Netherlands	76.4[2]	77	EUR
HORNBACH Reclame Activiteiten B.V., Nieuwegein, Netherlands	76.4[2]	(24)	EUR
HORNBACH Real Estate Breda B.V., Breda, Netherlands	76.4[2]	2,192	EUR
HORNBACH Real Estate Amsterdam-Sloterdijk, Amsterdam, Netherlands	76.4[2]	(28)	EUR
HORNBACH Real Estate Nederland B.V., Amsterdam, Netherlands	100	289	EUR
HORNBACH Real Estate Best B.V., Nieuwegein, Netherlands	76.4[2]	15	EUR
HORNBACH Baumarkt CS spol s.r.o., Prague, Czech Republic	76.4[2]	1,627,377	CZK
HORNBACH Immobilien H.K. s.r.o., Prague, Czech Republic	97.6	300,568	CZK
HORNBACH Baumarkt (Schweiz) AG, Oberkirch, Switzerland	76.4[2]	100,221	CHF
HORNBACH Byggmarknad AB, Gothenburg, Sweden	76.4[2]	82,579	SEK
HIAG Fastigheter i Göteborg AB, Gothenburg, Sweden	100	12,374	SEK
HIAG Fastigheter i Helsingborg AB, Gothenburg, Sweden	100	1,434	SEK
HIAG Fastigheter i Göteborg Syd AB, Gothenburg, Sweden	100	607	SEK
HIAG Fastigheter i Stockholm AB, Gothenburg, Sweden	100	83,928	SEK
HIAG Fastigheter i Botkyrka AB, Gothenburg, Sweden	100	35,228	SEK
HIAG Fastigheter i Sisjön AB, Gothenburg, Sweden	76.4[2]	500	SEK
HORNBACH Immobilien SK-BW s.r.o., Bratislava, Slovakia	100	6,259	EUR
HORNBACH-Baumarkt SK spol. s.r.o., Bratislava, Slovakia	76.4[2]	18,849	EUR
HORNBACH Centrala SRL, Domnesti, Romania	76.4[2]	5,430	RON
HORNBACH Imobiliare SRL, Domnesti, Romania	100	106,935	RON
TIM HB SRL, Timisoara Bd., Romania	76.4[2]	3,501	RON
Etablissement Camille Holtz et Cie S.A., Phalsbourg, France	99.92	1,133	EUR
Saar-Lor Immobilière S.C.L., Phalsbourg, France	60	159[3]	EUR

1) Shareholders' equity corresponds to the local equity; in the case of HORNBACH Centrala SRL, HORNBACH Imobiliare SRL, and TIM HB SRL, however, equity has been determined in accordance with IFRS.
2) Of which: 0.0203% under current assets.
3) Shareholders' equity as of 12.31.2012.
4) Direct shareholdings of 76.4% and 100%.
5) 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, control and profit and loss transfer agreements are in place between HORNBACH-Baumarkt-AG and HORNBACH International GmbH on the one hand and Ollesch & Fitzner GmbH on the other.

Currency translation

In the separate financial statements of HORNBACH 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	
	2.28.2013	2.29.2012	**2012/2013**	2011/2012
RON Romania	4.3588	4.3486	4.46426	4.25397
SEK Sweden	8.4475	8.8088	8.66173	9.02505
CHF Switzerland	1.2209	1.2051	1.20870	1.22086
CZK Czech Republic	25.6370	24.8430	25.18442	24.74297
USD USA	1.3129	1.3443	1.28992	1.38438

Accounting policies

Assets 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 asset identified. Goodwill is not written up.

Individual DIY stores are viewed as cash generating units at the HORNBACH HOLDING AG Group. The HORNBACH 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 and in the strategic five-year plan. Periods reaching further into the future have been based on a growth factor of 1.0% (2011/2012: 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 HORNBACH-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 5.1% and 7.2% were applied in the 2012/2013 financial year (2011/2012: 5.8% to 7.6%).

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 HORNBACH, 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 HORNBACH HOLDING AG have obligations relating to defined contribution and defined benefit pension plans. In the case of defined benefit plans, provisions have been calculated using the projected unit credit method in accordance with IAS 19 “Employee Benefits”. When determining the pension obligation in accordance with actuarial principles, this method accounts for the pensions known of and claims vested as of the 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. Customary purchases and sales of foreign exchange are generally recognized as of the transaction date. Customary purchases and sales of all other financial assets are generally recognized as of the settlement date, i.e. on the date at which the asset is delivered. Upon initial recognition, financial instruments are recognized at cost. This corresponds to their fair value.

Financial assets are 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 HORNBACH HOLDING AG Group has so far not made any use of the option of classifying financial assets or financial liabilities as measured at fair value through profit or loss.

Financial assets are classified as available for sale pursuant to IAS 39. They are measured at fair value, where this can be reliably determined, and otherwise at cost. Interests in unconsolidated subsidiaries, investments and prepayments for financial assets are recognized at cost, as there is no active market for these items 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) are recognized at the respective loan amount, less transaction costs, and subsequently measured at amortized cost. The difference to the repayment amount is recognized as an expense over the term of the bond 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 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 swaps is determined by the financial institutions with which they were concluded.

Upon entering into a hedging transaction, the HORNBACH 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.

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.

2012/2013 in € million 2011/2012 in € million	HORNBACH-Baumarkt-AG subgroup	HORNBACH Baustoff Union GmbH subgroup	HORNBACH Immobilien AG subgroup	Headquarters and consolidation	HORNBACH HOLDING AG Group
Segment sales	**3,020.0**	**207.3**	**72.2**	**(70.5)**	**3,229.0**
	3,001.0	201.5	68.7	(67.0)	3,204.2
Sales to third parties	3,018.9	206.5	0.0	0.0	3,225.4
	3,000.0	200.5	0.0	0.0	3,200.5
Sales to affiliated companies	0.1	0.8	0.0	(0.9)	0.0
	0.1	0.8	0.0	(0.9)	0.0
Rental income from third parties	1.0	0.0	2.6	0.0	3.6
	0.9	0.2	2.6	0.0	3.7
Rental income from affiliated companies	0.0	0.0	69.6	(69.6)	0.0
	0.0	0.0	66.1	(66.1)	0.0
Segment earnings (EBIT)	**99.3**	**4.6**	**46.4**	**(4.4)**	**145.9**
	128.4	3.8	39.0	(2.1)	169.1
of which: depreciation and amortization/write-ups	56.5	4.8	14.1	0.0	75.4
	55.9	4.8	16.7	0.0	77.4
Segment assets	**1,577.8**	**124.6**	**518.6**	**8.6**	**2,229.6**
	1,608.7	112.0	492.2	12.7	2,225.6
of which: credit balances at banks	300.8	1.1	28.9	9.6	340.4
	386.7	0.9	4.8	12.3	404.7
Investments	**116.6**	**13.7**	**36.4**	**(14.5)**	**152.2**
	103.7	8.6	50.3	0.0	162.6
Segment liabilities	**720.8**	**64.7**	**339.9**	**(41.1)**	**1,084.3**
	772.6	56.1	336.9	(39.7)	1,125.9
of which: financial debt	382.1	39.3	306.5	0.0	727.9
	431.9	34.0	304.2	0.0	770.1

Reconciliation in € million	2012/2013	2011/2012
Segment earnings (EBIT) before "Headquarters and consolidation"	**150.3**	**171.2**
Headquarters	(2.9)	(2.8)
Consolidation adjustments	(1.5)	0.7
Net financial expenses	(38.2)	(37.2)
Consolidated earnings before taxes	**107.6**	**131.9**
Segment assets	**2,229.6**	**2,225.6**
Deferred tax assets	15.0	13.9
Income tax receivables	25.2	27.7
Total assets	**2,269.8**	**2,267.2**
Segment liabilities	**1,084.3**	**1,125.9**
Deferred tax liabilities	60.3	63.8
Income tax liabilities	29.8	36.2
Total liabilities	**1,174.4**	**1,225.9**

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.

2012/2013 in € million 2011/2012 in € million	Germany	Other European countries	Reconciliation	HORNBACH HOLDING AG Group
Sales	**2,158.8**	**1,279.6**	**(209.4)**	**3,229.0**
	2,131.0	1,272.2	(199.1)	3,204.2
Sales to third parties	1,946.9	1,278.3	0.1	3,225.3
	1,929.4	1,271.1	0.0	3,200.5
Rental income from third parties	2.6	1.0	0.0	3.6
	2.6	1.0	0.0	3.7
Sales to affiliated companies	209.3	0.2	(209.5)	0.0
	199.0	0.1	(199.1)	0.0
EBIT	**60.3**	**85.6**	**0.0**	**145.9**
	65.6	103.6	(0.1)	169.1
Depreciation and amortization/write-ups	**49.9**	**25.5**	**0.0**	**75.4**
	48.2	29.2	0.0	77.4
EBITDA	**110.2**	**111.1**	**0.0**	**221.3**
	113.8	132.8	(0.1)	246.5
Assets	**1,696.6**	**1,100.3**	**(567.3)**	**2,229.6**
	1,719.2	1,173.6	(667.2)	2,225.6
of which: non-current assets*)	653.8	612.6	0.5	1,266.9
	643.2	557.4	0.5	1,201.1
Investments	**64.4**	**87.8**	**(0.1)**	**152.2**
	70.6	92.1	(0.1)	162.6

*) 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 € 14.4 million (2011/2012: € 17.9 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 € 3,655k (2011/2012: € 3,679k) 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:

	2012/2013 € 000s	2011/2012 € 000s
Expenses for auxiliary materials and purchased goods	2,019,979	2,007,835
Expenses for services rendered	29,507	24,504
	2,049,486	**2,032,339**

(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’ merchants 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:

	2012/2013 € 000s	2011/2012 € 000s
Other income from operating activities		
Income from advertising allowances and other reimbursements of suppliers	3,683	6,248
Income from damages	1,035	1,057
Income from disposal of non-current assets	1,015	1,288
Income from payment differences	432	785
Miscellaneous other income	18,405	11,456
	24,570	**20,834**
Other income from non-operating activities		
Income from disposal of real estate	1,566	206
Income from write-ups to property, plant, and equipment and investment property	0	1,249
Income from reversal of provisions for onerous contracts	0	210
Other non-operating income	700	169
	2,266	**1,834**
Other income	**26,836**	**22,668**

Miscellaneous other income from operating activities includes income of € 6.1 million in connection with energy tax compensation. This results from the reversal of provisions recognized in the 2010/2011 financial year (€ 3.9 million) and from compensation not yet settled (€ 2.2 million). Other than this, this item 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.

	2012/2013 € 000s	2011/2012 € 000s
Other expenses from operating activities		
Impairments and defaults on receivables	2,661	2,963
Losses due to damages	1,435	1,237
Losses on disposal of non-current assets	404	504
Expenses from payment differences	202	145
Miscellaneous other expenses	2,939	2,345
	7,641	**7,194**
Other expenses from non-operating activities		
Impairment of property, plant, and equipment and investment property	1,201	5,649
Losses on disposal of non-current assets	398	807
Impairment of non-current assets held for sale	0	100
Additions to provisions for onerous contracts	110	0
Other non-operating expenses	996	2,699
	2,705	**9,255**
Other expenses	**10,346**	**16,449**
Net income from other income and expenses	**16,490**	**6,219**

Miscellaneous other expenses include settlements of € 1.0 million for existing and potential legal claims. Furthermore, this item also includes service fees of € 0.6 million due in connection with energy tax compensation.

Other non-operating expenses include an amount of € 0.8 million (2011/2012: € 1.5 million) for the addition to a provision for the refurbishment obligation at a DIY store property sold and leased back.

(7) Net financial expenses

	2012/2013 € 000s	2011/2012 € 000s
Other interest and similar income		
Interest income on financial instruments measured at amortized cost	2,226	6,467
	2,226	**6,467**
Other interest and similar expenses		
Interest expenses on financial instruments measured at amortized cost	36,175	36,819
Interest expenses on financial instruments used as hedging instruments	3,232	2,436
Interest expenses from compounding of provisions	16	796
Other	1,437	1,075
	40,860	**41,126**
Net interest expenses	**(38,634)**	**(34,659)**
Other financial result		
Gains/losses on derivative financial instruments	(576)	238
Gains and losses from foreign currency exchange	982	(2,788)
	406	**(2,550)**
Net financial expenses	**(38,228)**	**(37,209)**

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 € 93k (2011/2012: € 107k) 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 € 3,794k in the year under report (2011/2012: € 4,785k) and has been capitalized as a component of the costs of the property, plant and equipment concerned. As in the previous year, the average financing cost rate used to determine the volume of borrowing costs eligible for capitalization amounted to 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 € -576k on derivative currency instruments (2011/2012: € 405k). The previous year's figure also includes the ineffective portion, amounting to € -167k, of the change in value of an interest swap deployed as a hedging instrument in a hedging relationship pursuant to IAS 39. The hedged item and hedging transaction expired as of June 30, 2011.

The gains and losses from foreign currency exchange for the 2012/2013 financial year chiefly result from the measurement of foreign currency receivables and liabilities. This resulted in net income of € 4,344k (2011/2012: expenses of € 2,792k). Furthermore, this item also includes realized exchange rate gains of € 5,105k (2011/2012: € 7,925k) and realized exchange rate losses of € 8,467k (2011/2012: € 7,921k). Gains and losses from foreign currency exchange include expenses of € 1,214k (2011/1012: € 0k) from the reclassification of currency items relating to an interest-currency swap within a hedging relationship (cash flow hedge). Of this amount, € 1,562k (2011/2012: € 0k) was attributable to foreign currency measurement and

€ 348k (2011/2012: € 0k) to realized exchange rate gains. 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 HORNBACH 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. The income tax rates applied to foreign companies range from 16% to 33% (2011/2012: 16% to 31%).

The actual income tax charge of € 30,195k (2011/2012: € 37,275k) is € 2,092k lower (2011/2012: € 2,288k) than the expected tax charge of € 32,287k (2011/2012: € 39,563k) which would have been payable by applying the average tax rate of 30% at HORNBACH HOLDING AG (2011/2012: 30%) to the Group's pre-tax earnings of € 107,622k (2011/2012: € 131,877k).

Deferred tax assets have been stated for as yet unutilized losses carried forward amounting to € 40,270k (2011/2012: € 26,342k). HORNBACH 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 € 6,607k (2011/2012: € 9,360k), as future realization of the resultant benefit is not expected. Of these, losses carried forward of € 3,481k are due to expire within 7 years of arising. The previous year's figures included losses carried forward of € 1,663k and € 4,808k whose use is limited to 5 and 7 years respectively. There are no time limits on the utilization of all other losses carried forward for which no deferred tax assets have been stated.

In the 2012/2013 financial year, no deferred tax assets were recognized for losses carried forward whose utilization was previously not viewed as likely (2011/2012: € 163k). Deferred tax assets were recognized for the first time for losses carried forward of € 1,711k that have newly arisen due to the conversion of previously non-deductible interest expenses. Furthermore, no deferred tax assets were derecognized in the 2012/2013 financial year for losses carried forward whose utilization is no longer deemed likely (2011/2012: € 1,012k). In the previous year, the income from first-time recognition and expenses for derecognition of these deferred tax items were included in deferred tax income.

Breakdown of the tax charge:

	2012/2013 € 000s	2011/2012 € 000s
Current taxes on income		
Germany	13,823	13,137
Other countries	18,880	22,872
	32,703	**36,009**
Deferred tax expenses/income		
due to changes in temporary differences	(2,415)	(672)
due to changes in tax rates	504	12
due to losses carried forward	(597)	1,926
	(2,508)	**1,266**
Taxes on income	**30,195**	**37,275**

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

	2012/2013		2011/2012	
	€ 000s	%	€ 000s	%
Expected income tax charge	32,287	100.0	39,563	100.0
Difference between local tax rate and group tax rate	(6,068)	(18.8)	(6,675)	(16.9)
Tax-free income	(826)	(2.6)	(499)	(1.3)
Tax reductions/increases due to changes in tax rates	504	1.6	12	0.0
Tax increases attributable to expenses not deductible for tax purposes	5,363	16.6	4,956	12.5
Tax increases attributable to unstated losses carried forward	59	0.2	805	2.0
Non-period current and deferred taxes	(1,124)	(3.5)	(887)	(2.2)
Taxes on income	**30,195**	**93.5**	**37,275**	**94.1**
Effective tax rate in %	28.1		28.3	

Taxes on income include non-period current tax income of € 373k (2011/2012: € 2,554k) and non-period deferred tax income of € 751k (2011/2012: tax expenses of € 1,667k). The non-period current tax income includes tax income of € 233k 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:

	2012/2013 € 000s	2011/2012 € 000s
Actuarial gains and losses on defined benefit plans		
Actuarial gains and losses on defined benefit plans before taxes	(4,267)	1,322
Change in deferred taxes	837	(259)
	(3,430)	**1,063**
Measurement of derivative financial instruments (cash flow hedge)		
Changes in fair value of derivative financial instruments before taxes	(3,427)	(7,196)
Change in deferred taxes	989	1,916
	(2,438)	**(5,280)**
Exchange differences arising on the translation of foreign subsidiaries	**(3,312)**	**2,753**
Other comprehensive income, net after taxes	**(9,180)**	**(1,464)**
of which: other comprehensive income before taxes	(11,006)	(3,121)
of which: change in deferred taxes	1,826	1,657

(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 HORNBACH 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 2012/2013 financial year.

Bonus shares were issued at a ratio of 1:1 to all shareholders in HORNBACH HOLDING AG on July 29, 2011. The number of preference and ordinary shares in HORNBACH HOLDING AG doubled from 4,000,000 to 8,000,000 respectively. At the same time, the total additional dividend claim on the part of preference shareholders remained proportionately unchanged. The additional dividend claim thus halved from € 0.06 to € 0.03.

	2012/2013	2011/2012
Consolidated net income allocable to shareholders in HORNBACH HOLDING AG (in €)	64,977,181	76,373,530
Additional dividend on preference shares in €	(240,000)	(240,000)
Consolidated net income adjusted by additional dividend claims in €	**64,737,181**	**76,133,530**
Number of ordinary shares issued	8,000,000	8,000,000
Number of preference shares issued	8,000,000	8,000,000
	16,000,000	**16,000,000**
Earnings per share in €	**4.05**	**4.76**
Additional dividend claim per preference share in €	0.03	0.03
Earnings per preference share in €	**4.08**	**4.79**

(10) Other disclosures on the income statement

Personnel expenses

The individual expense items include the following personnel expenses:

	2012/2013 € 000s	2011/2012 € 000s
Wages and salaries	453,689	436,591
Social security contributions and pension expenses	97,396	92,896
	551,085	**529,487**

Wages and salaries also include expenses for temporary employees.

Depreciation and amortization

	2012/2013 € 000s	2011/2012 € 000s
Scheduled amortization of intangible assets and depreciation of property, plant, and equipment and investment property	74,199	73,044
Impairment of property, plant, and equipment and investment property	1,201	5,649
	75,400	**78,693**

The impairment losses recognized in the 2012/2013 financial year relate to land and buildings not used for operations. In the previous year, impairment losses related to land, buildings, outdoor facilities, and to plant and office equipment. 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:

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
	6,197	**69,203**	**75,400**

2011/2012 financial year € 000s	Intangible assets	Property, plant, and equipment and investment property	Total
Selling and store expenses	908	60,883	61,791
Pre-opening expenses	0	373	373
General and administration expenses	5,985	4,895	10,880
Other income and expenses	0	5,649	5,649
	6,893	**71,800**	**78,693**

Notes on the Consolidated Balance Sheet

(11) Intangible assets

The development in intangible assets in the 2011/2012 and 2012/2013 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
Cost				
Balance at March 1, 2011	76,774	4,441	81	81,296
Additions	2,927	0	38	2,965
Disposals	186	0	0	186
Reclassifications	94	0	(81)	13
Foreign currency translation	7	0	0	7
Balance at February 29/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)
Balance at February 28, 2013	**81,223**	**4,441**	**263**	**85,927**
Depreciation and amortization				
Balance at March 1, 2011	59,280	1,169	0	60,449
Additions	6,893	0	0	6,893
Disposals	187	0	0	187
Reclassifications	3	0	0	3
Foreign currency translation	7	0	0	7
Balance at February 29/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)
Balance at February 28, 2013	**71,092**	**1,169**	**0**	**72,261**
Carrying amount at February 28, 2013	**10,131**	**3,272**	**263**	**13,666**
Carrying amount at February 29, 2012	13,620	3,272	38	16,930

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 2011/2012 and 2012/2013 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
Cost					
Balance at March 1, 2011	1,204,041	60,081	518,047	47,779	1,829,948
Reclassifications to/from non-current assets held for sale	(2,374)	(4,918)	0	0	(7,292)
Changes in scope of consolidation	7,948	0	0	4	7,952
Additions	61,414	197	43,536	46,490	151,637
Disposals	273	923	30,674	835	32,705
Reclassifications pursuant to IAS 40	(8,199)	8,199	0	0	0
Reclassifications	32,337	0	2,116	(34,466)	(13)
Foreign currency translation	(1,439)	(494)	584	(456)	(1,805)
Balance at February 29/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)
Balance at February 28, 2013	**1,401,456**	**57,209**	**556,868**	**40,434**	**2,055,967**
Amortization					
Balance at March 1, 2011	301,692	16,097	410,970	2	728,761
Reclassifications to/from non-current assets held for sale	(583)	(3,186)	0	0	(3,769)
Additions	31,999	506	39,295	0	71,800
Write-ups	(1,270)	21	0	0	(1,249)
Disposals	109	5	29,915	0	30,029
Reclassifications pursuant to IAS 40	(5,162)	5,162	0	0	0
Reclassifications	51	0	(54)	0	(3)
Foreign currency translation	(556)	(23)	431	0	(148)
Balance at February 29/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)
Balance at February 28, 2013	**355,025**	**20,194**	**428,735**	**2**	**803,956**
Carrying amount at February 28, 2013	**1,046,431**	**37,015**	**128,133**	**40,432**	**1,252,011**
Carrying amount at February 29, 2012	967,393	43,570	112,882	58,514	1,182,359

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 2012/2013 financial year, impairment losses of € 1,201k were recognized for items of investment property, which were written down to their net sale prices (2011/2012: € 956k). The net sale prices of these assets were determined by reference to current value surveys and to purchase offers.

In the previous year, it was not possible to uphold the expectations in terms of the medium-term sales and earnings performance of the Romania region. The impairment test performed as a result led to the recognition of impairment losses pursuant to IAS 36.105 in conjunction with IAS 36.104 on marketing-oriented and sales promotional plant and office equipment, which were written down by € 1,704k to a value of zero in the 2011/2012 financial year. Furthermore, impairment losses of € 2,989k were also recognized in the previous year for land, buildings, and outdoor facilities, which were written down to their net sale price on the basis of current value surveys.

Impairment losses recognized on non-current assets are included in the corresponding segments as follows:

	2012/2013	2011/2012
HORNBACH-Baumarkt-AG subgroup		
Land	514	0
Other equipment, plant, and office equipment	0	1,704
	514	**1,704**
HORNBACH Immobilien AG subgroup		
Land	687	2,470
Buildings	0	1,231
Outdoor facilities	0	244
	687	**3,945**
Total	**1,201**	**5,649**

No write-ups were recognized in the 2012/2013 financial year (2011/2012: € 1,249k). The write-ups recognized in the previous year related to the appreciation in value on pieces of land not used for operations, or originally intended for DIY store extensions, for which impairment losses had been recognized in previous years. The write-ups were based on purchase offers and agreed sale contracts and were recognized under other income from non-operating activities in the "HORNBACH-Baumarkt-AG subgroup" segment at an amount of € 1,196k and in the "HORNBACH Immobilien AG subgroup" segment at an amount of € 53k.

The reclassifications from reserve land to non-current assets held for sale relate to three pieces of land not used for operations in the “HORNBACH-Baumarkt-AG subgroup” segment, two pieces of land at the “HORNBACH Immobilien AG subgroup” segment, and one piece of land at HORNBACH HOLDING AG. Of these, three pieces of land were already sold in the 2012/2013 financial year.

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 € 49.8 million (2011/2012: € 52.1 million). The fair values have been determined by independent experts in the overwhelming majority of cases. The valuations are based on the capitalized earnings power of the individual pieces of real estate on the open market. In individual cases, the fair values have been based on purchase offers received.

Rental income of € 2,168k was generated on properties let to third parties in the year under report (2011/2012: € 2,150k). Expenses of € 1,414k were incurred for the maintenance of the properties let to third parties (2011/2012: € 1,413k). Expenses of € 643k were incurred for all other items of investment property (2011/2012: € 162k).

The real estate acts as security for bank loans in the form of registered land charges amounting to € 491.4 million (2011/2012: € 522.2 million).

Property, plant and equipment include a building with a carrying amount of € 831k (2011/2012: € 997k) 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 2011/2012 and 2012/2013 financial years was as follows:

€ 000s	Shares in affiliated companies	Investments	Advance payments for financial assets	Total
Cost				
Balance at March 1, 2011	1,426	31	1,143	2,600
Disposals	0	11	0	11
Foreign currency translation	0	0	(8)	(8)
Balance at February 29/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
Balance at February 28, 2013	**0**	**277**	**2,354**	**2,631**
Carrying amount at February 28, 2013	**0**	**277**	**2,354**	**2,631**
Carrying amount at February 29, 2012	1,426	20	1,135	2,581

The two subsidiaries Etablissement Camille Holtz et Cie S.A., Phalsbourg/France, and Saar-Lor Immobilière S.C.L, Phalsbourg/France, were fully consolidated for the first time in the 2012/2013 financial year. The retirement of the shares of € 1,426k has been presented as a change in the scope of consolidation.

The additions of € 257k to other investments relate to shares held by Etablissement Camille Holtz et Cie S.A., Phalsbourg/France.

The additions of € 1,170k to advance payments for financial assets relate to an advance payment made for the purchase price to acquire a Czech real estate company.

All financial assets have been recognized at cost as it was not possible to determine reliable fair values.

(14) Other non-current receivables and assets

Other non-current receivables and assets mainly consist of deposits of € 3,905k (2011/2012: € 3,869k) paid as security for possible subsequent claims to purchase price reductions on the part of the buyer. The deposits have a maximum term of 7 years.

Furthermore, as of February 28, 2013 this item also includes receivables of € 874k (2011/2012: € 538k) 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 € 760k (2011/2012: € 1,038k) 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.

Moreover, in the 2011/2012 financial year this item also included the net balance of the fair value of plan assets and the present value of the pension obligation for the statutory pension obligation in Switzerland, amounting to € 66k. Details about this item and its development can be found in Note 23.

(15) Deferred taxes

Deferred taxes relate to the following items:

	2.28.2013		2.29.2012	
	Assets € 000s	Liabilities € 000s	Assets € 000s	Liabilities € 000s
Intangible assets and property, plant, and equipment	6,063	62,752	6,008	61,906
Inventories	486	2,348	433	3,563
Other assets and liabilities	1,326	991	1,555	1,229
Other provisions	5,073	2,101	4,039	2,734
Liabilities	3,010	1,018	1,780	986
Tax-free reserves	0	451	0	0
Losses carried forward	8,350	0	6,777	0
	24,308	**69,661**	**20,592**	**70,418**
Set-off	(9,328)	(9,328)	(6,666)	(6,666)
Total	**14,980**	**60,333**	**13,926**	**63,752**

(16) Inventories

	2.28.2013 € 000s	2.29.2012 € 000s
Raw materials and supplies	1,640	1,331
Unfinished products, unfinished services	2,175	1,818
Finished products and merchandise	521,270	512,537
Inventories (gross)	**525,085**	**515,686**
less valuation allowances	9,722	8,912
Inventories (net)	**515,363**	**506,774**
Carrying amount of inventories measured at net realizable value	25,557	25,336

Expenses of € 2,031,966k were recognized as merchandise input expenses for merchandise and auxiliary materials and supplies in the 2012/2013 financial year (2011/2012: € 1,998,923k).

(17) Receivables and other assets

The receivables and other assets of the Group are structured as follows:

	2.28.2013 € 000s	2.29.2012 € 000s
Trade receivables	25,357	23,772
Positive fair values of derivative financial instruments	146	2
Other receivables and assets	54,923	63,079
	80,426	**86,853**

Trade receivables include receivables of € 1,090k (2011/2012: € 1,100k) assigned within factoring agreements that have not been derecognized as the credit risk remains at the HORNBACH 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 HORNBACH HOLDING AG Group also accounts for credit risks by recognizing portfolio-based allowances.

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
	60,762	**45,758**	**6,607**	**2,179**	**2,617**	**240**

2.29.2012 € 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	23,772	12,474	4,844	1,622	1,314	49
Positive fair values of derivative financial instruments	2	2				
Other receivables and assets	42,177	38,872	2,376	187	97	187
	65,951	**51,348**	**7,220**	**1,809**	**1,411**	**236**

Allowances for trade receivables and for other receivables and assets developed as follows:

€ 000s	Trade receivables		Other receivables and assets	
	2012/2013	2011/2012	2012/2013	2011/2012
Allowances at March 1	**3,216**	**2,449**	**728**	**997**
Utilization	1,268	1,044	192	484
Reversals	428	401	374	168
Additions	2,605	2,209	462	381
Foreign currency translation	(3)	3	(2)	2
Allowances at end of financial year	**4,122**	**3,216**	**622**	**728**

The complete retirement of receivables resulted in expenses of € 774k (2011/2012: € 506k). The receipt of receivables already derecognized resulted in income of € 105k (2011/2012: € 177k).

(18) Cash and cash equivalents

	2.28.2013 € 000s	2.29.2012 € 000s
Cash balances at banks	340,390	404,592
Checks and cash on hand	16,545	17,749
	356,935	**422,341**

(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.

In the 2012/2013 financial year, three pieces of land in the "HORNBACH-Baumarkt-AG subgroup" segment, two pieces of land in the "HORNBACH Immobilien AG subgroup" segment, and one piece of land at HORNBACH HOLDING AG were reclassified at a total amount of € 5,574k out of property plant and equipment. Of these reclassifications, € 1,318k relate to the "HORNBACH-Baumarkt-AG subgroup" segment, € 3,807k to the "HORNBACH Immobilien AG subgroup" segment, and € 449k to HORNBACH HOLDING AG. The figure for the current year relates to two pieces of land at an amount of € 1,076k in the "HORNBACH-Baumarkt-AG subgroup" segment and one piece of land at an amount of € 1,442k in the "HORNBACH Immobilien AG subgroup" segment. The remaining properties reclassified were sold in the current financial year.

The figure for the previous year includes a property not required for operations at an amount of € 1,473k in the "HORNBACH Immobilien AG subgroup" segment. This was also sold in the current financial year. The gains or losses generated from the assets sold in the financial year under report have been recognized under other income/expenses from non-operating activities.

Impairment losses of € 100k were recognized for non-current assets held for sale in the 2011/2012 financial year. These were reported under other expenses for non-operating activities in the "HORNBACH-Baumarkt-AG subgroup" segment. No impairment losses were recognized in the current financial year.

(20) Shareholders' equity

The development in the shareholders' equity of the HORNBACH HOLDING AG Group is shown in the statement of changes in group equity for the 2011/2012 and 2012/2013 financial years.

Share capital

By resolution of the Annual General Meeting of HORNBACH 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 HORNBACH 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
	48,000,000.00

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.

HORNBACH HOLDING AG published the following notification in the Stock Exchange Gazette (Börsenzeitung) on April 20, 2002 pursuant to § 41 (3) of the German Securities Trading Act (WpHG): Kingfisher plc, London/UK, has notified us pursuant to § 41 (2) Sentence 1 WpHG that it held 25% plus one share of the voting rights (1,000,001 ordinary shares) in HORNBACH HOLDING AG on April 1, 2002. These related exclusively to its own voting rights.

HORNBACH Familien-Treuhandgesellschaft mbH, Annweiler am Trifels, has notified us pursuant to § 21 (1) and § 22 (1) No. 6 WpHG that its share of the voting rights in HORNBACH HOLDING AG, Neustadt an der Weinstrasse, exceeded the 5% threshold on August 6, 2002 and now amounts to 75% less one share (2,999,999 ordinary shares). Approximately 22.62% of the voting rights (904,763 ordinary shares) are now attributable to it pursuant to § 22 (1) No. 6 WpHG.

HORNBACH HOLDING AG published the following notification in the Stock Exchange Gazette (Börsenzeitung) on September 7, 2004 pursuant to § 25 (1) WpHG: Albert Hornbach, Bornheim/Pfalz, has notified us pursuant to § 21 (1) WpHG that his share of the voting rights in HORNBACH HOLDING AG, Neustadt an der Weinstrasse, fell below the 10% threshold on August 18, 2004 and now amounts to 5.494% of the voting capital in the company (219,763 ordinary shares). These relate exclusively to his own voting rights. Gertraud Hornbach, Bornheim/Pfalz, has notified us pursuant to § 21 (1) WpHG that her share of the voting rights in HORNBACH HOLDING AG, Neustadt an der Weinstrasse, exceeded the 5% threshold on August 18, 2004 and now amounts to 5.25% of the voting rights (210,000 ordinary shares). These relate exclusively to her own voting rights.

In respect of the notification dated September 7, 2004 and already published, HORNBACH HOLDING AG published the following information 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 HORNBACH 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 HORNBACH 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 vot-

ing 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.

HORNBACH HOLDING AG published the following voting rights notification electronically with the aim of circulation across Europe on June 15, 2007 pursuant to § 26 (1) WpHG:

Kingfisher Holdings BV, Amsterdam/Netherlands notified us on June 15, 2007 pursuant to § 21 (1) WpHG that the share of voting rights in HORNBACH HOLDING AG (ISIN DE0006083405) held by Kingfisher Holdings BV exceeded the 3%, 5%, 10%, 15%, 20% and 25% thresholds on June 12, 2007 and on that date amounted to 25% plus one vote (1,000,001 voting rights) in terms of all voting rights and in terms of all ordinary shares in HORNBACH HOLDING AG with voting entitlement.

Kingfisher SAS, Lille/France, notified us on June 15, 2007 pursuant to § 21 (1) WpHG that its share of voting rights in HORNBACH HOLDING AG (ISIN DE0006083405) exceeded the 3%, 5%, 10%, 15%, 20% and 25% thresholds on June 12, 2007 and on that date amounted to 25% plus one vote (1,000,001 voting rights) in terms of all voting rights and in terms of all ordinary shares in HORNBACH HOLDING AG with voting entitlement.

These voting rights are attributable to Kingfisher SAS pursuant to § 22 (1) Sentence 1 No. 1 WpHG.

The voting rights attributable to Kingfisher SAS are held via the following company controlled by Kingfisher SAS whose share of voting rights in HORNBACH HOLDING AG amounts to 3% or more:

– Kingfisher Holdings BV

Castorama Dubois Investissements SCA, Lille/France, notified us on June 15, 2007 pursuant to § 21 (1) WpHG that its share of voting rights in HORNBACH HOLDING AG (ISIN DE0006083405) exceeded the 3%, 5%, 10%, 15%, 20% and 25% thresholds on June 12, 2007 and on that date amounted to 25% plus one vote (1,000,001 voting rights) in terms of all voting rights and in terms of all ordinary shares in HORNBACH HOLDING AG with voting entitlement.

These voting rights are attributable to Castorama Dubois Investissements SCA pursuant to § 22 (1) Sentence 1 No. 1 WpHG.

The voting rights attributable to Castorama Dubois Investissements SCA are held via the following companies controlled by Castorama Dubois Investissements SCA whose share of voting rights in HORNBACH HOLDING AG amounts to 3% or more:

– Kingfisher Holdings BV
– Kingfisher SAS

Kingfisher France Limited, London/UK, notified us on June 15, 2007 pursuant to § 21 (1) WpHG that its share of voting rights in HORNBACH HOLDING AG (ISIN DE0006083405) exceeded the 3%, 5%, 10%, 15%, 20% and 25% thresholds on June 12, 2007 and on that date amounted to 25% plus one vote (1,000,001 voting rights) in terms of all voting rights and in terms of all ordinary shares in HORNBACH HOLDING AG with voting entitlement.

These voting rights are attributable to Kingfisher France Limited pursuant to § 22 (1) Sentence 1 No. 1 WpHG.

The voting rights attributable to Kingfisher France Limited are held via the following companies controlled by Kingfisher France Limited whose share of voting rights in HORNBACH HOLDING AG amounts to 3% or more:

– Kingfisher Holdings BV
– Kingfisher SAS
– Castorama Dubois Investissements SCA

Sheldon Holdings Limited, London/UK, notified us on June 15, 2007 pursuant to § 21 (1) WpHG that its share of voting rights in HORNBACH HOLDING AG (ISIN DE0006083405) exceeded the 3%, 5%, 10%, 15%, 20% and 25% thresholds on June 12, 2007 and on that date amounted to 25% plus one vote (1,000,001 voting rights) in terms of all voting rights and in terms of all ordinary shares in HORNBACH HOLDING AG with voting entitlement.

These voting rights are attributable to Sheldon Holdings Limited pursuant to § 22 (1) Sentence 1 No. 1 WpHG.

The voting rights attributable to Sheldon Holdings Limited are held via the following companies controlled by Sheldon Holdings Limited whose share of voting rights in HORNBACH HOLDING AG amounts to 3% or more:

– Kingfisher Holdings BV
– Kingfisher SAS
– Castorama Dubois Investissements SCA
– Kingfisher France Limited

Dr. Susanne Wulfsberg, Germany, notified us on March 12, 2013 pursuant to § 21 (1) WpHG that her share of the voting rights in HORNBACH 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 HORNBACH 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 HORNBACH 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).

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 "other revenue reserves" and accumulated earnings and equity components recognized in equity that are attributable to shareholders. Of the revenue reserves of HORNBACH HOLDING AG, an unchanged amount of € 7,976,833.83 constitutes the statutory reserve.

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 HORNBACH 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 2012/2013 financial year. The equity ratio amounted to 48.3% as of February 28, 2013 (2011/2012: 45.9%).

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 HORNBACH HOLDING AG prepared in accordance with German commercial law.

HORNBACH HOLDING AG concluded the 2012/2013 financial year with an annual net surplus of € 29,197,957.55.

Following the allocation of € 14,500,000.00 to other revenue reserves, the unappropriated net profit amounts to € 14,697,957.55.

The Board of Management and the Supervisory Board of HORNBACH HOLDING AG will propose to the Annual General Meeting that the unappropriated net profit be appropriated as follows:

	€
Dividend of € 0.64 on 8,000,000 ordinary shares	5,120,000.00
Dividend of € 0.67 on 8,000,000 ordinary shares	5,360,000.00
Additional allocation to revenue reserves	4,217,957.55
	14,697,957.55

By resolution of the Annual General Meeting held on July 6, 2012, dividends of € 0.64 (2011/2012: € 1.28) per ordinary share and € 0.67 (2011/2012: € 1.34) per preference share were distributed in the 2012/2013 financial year. The total amount distributed thus amounted to € 10,480k (2011/2012: € 10,480k).

(22) Financial debt

Total current and non-current financial debt is structured as follows:

€ 000s	Maturities			**Carrying amount**
	Current < 1 year	Non-current 1-5 years	Non-current > 5 years	**2.28.2013 Total**
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
Total	**96,620**	**290,988**	**340,239**	**727,847**

€ 000s	Maturities			Carrying amount
	Current < 1 year	Non-current 1-5 years	Non-current > 5 years	2.29.2012 Total
Bonds	0	247,080	0	247,080
Liabilities to banks	166,597	246,941	101,038	514,576
Liabilities in connection with finance leases	192	989	293	1,474
Negative fair values of derivative financial instruments	7,004	0	0	7,004
Total	**173,793**	**495,010**	**101,331**	**770,134**

Current financial debt (up to 1 year) amounted to € 96.6 million at the balance sheet date on February 28, 2013 (2011/2012: € 173.8 million). This consists of short-term financing facilities at the HORNBACH Immobilien AG and HORNBACH Baustoff Union GmbH subgroups, amounting to € 17.9 million and € 35.3 million respectively (2011/2012: € 28.5 million and € 28.8 million respectively), interest deferrals of € 2.3 million (2011/2012: € 7.6 million), the portion of long-term financing facilities maturing in the short term, amounting to € 40.9 million (2011/2012: € 101.9 million), and liabilities of € 0.2 million relating to the measurement of derivative financial instruments (2011/2012: € 7.0 million).

HORNBACH-Baumarkt-AG used the favorable capital market climate in February 2013 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%. In combination with the issue price of 99.25%, this results in a yield of 4.00% p.a. The total costs of € 2,355k arising in connection with the corporate bond and the disagio of € 1,875k have been spread over the term using the effective interest method.

As of June 30, 2011, HORNBACH-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. The funds served to redeem the promissory note bond of the same amount maturing on June 30, 2011. 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 HORNBACH Baumarkt CS spol s.r.o. in CZK with an original volume of € 20 million in the 2010/2011 financial year. This bond, also with a floating interest rate, was concluded for 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. Due to the pleasing liquidity situation, the promissory note bond concluded by HORNBACH (Schweiz) AG in CHF with an original volume of € 20 million was prematurely redeemed as of December 31, 2012. The relevant interest swap was redeemed at fair value.

The HORNBACH 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 inflow of funds was used 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 interest payable on a half-yearly basis to be secured at a fixed rate of 1.516%, plus a bank margin, for the entire term.

In the third quarter of the 2011/2012 financial year, HORNBACH-Baumarkt-AG agreed a syndicated credit line of € 250 million. This facility, which matures on December 14, 2016, served to prematurely replace the previous syndicated credit line of € 200 million at HORNBACH-Baumarkt-AG otherwise due to mature in June 2013. The new 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, 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, 2013, the HORNBACH HOLDING AG Group had total credit lines of € 473.5 million (2011/2012: € 487.8 million). Unutilized credit lines amounted to € 418.0 million (2011/2012: € 424.4 million). Furthermore, HORNBACH-Baumarkt-AG has a credit line for import credits amounting to USD 40.0 million (2011/2012: USD 40.0 million). Of this, an amount of USD 8.9 million had been drawn down as of the balance sheet date (2011/2012: USD 23.4 million).

Land charges amounting to € 491.4 million had been provided as security for liabilities to banks (2011/2012: € 522.2 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.

In addition to existing current account liabilities at normal market conditions and the bond issued in the year under report, the Group also has non-current liabilities to banks. These consist of the following items:

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
				413,333

2011/2012 financial year	Currency	Interest agreement in % (including swap)	Maturity	Amount 2.29.2012 € 000s
Loans	EUR	4.86 to 5.83	2012 to 2016	139,515
	CHF	3.78	2015	21,821
	CZK	4.83	2015	19,896
Mortgage loans	EUR	3.17 to 6.47	2012 to 2022	164,742
	CZK	3.98 to 5.22	2018 to 2026	48,705
	RON	7.24 to 7.80	2020 to 2022	24,598
	SEK	5.89 to 6.60	2018 to 2023	30,458
				449,735

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 Ibor, plus a bank margin of between 0.45 and 2.75 percentage points (2011/2012: 0.45 to 3.75). 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.

Transition of future leasing payments to the liabilities from financial leasing contracts:

€ 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	1059	0	1,282
Interest component	79	150	0	229
Total lease payments to be made in future	**302**	**1,209**	**0**	**1,511**

€ 000s	Maturities			2.29.2012
	Current < 1 year	Non-current 1-5 years	Non-current > 5 years	Total
Liabilities in connection with finance leases	192	989	293	1,474
Interest component	85	219	9	313
Total lease payments to be made in future	**277**	**1,208**	**302**	**1,787**

(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.

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 € 44,306k in the 2012/2013 financial year (2011/2012: € 41,291k). Of this total, an amount of € 27,920k involved the employer's share of contributions to the state pension scheme in Germany (2011/2012: € 26,023k).

In the case of defined benefit plans, a distinction is made between pension plans financed by provisions and those financed by funds. The HORNBACH HOLDING AG Group has one fund-financed pension plan which is financed via an external pension provider. This pension plan is due to legal requirements in Switzerland, and grants old-age, invalidity and fatality pensions and payments. The employee covers 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.

HORNBACH HOLDING AG, HORNBACH-Baumarkt-AG, and HORNBACH Immobilien AG have undertaken to provide members of their Boards of Management with a security-based 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 assets contributed by the companies or additionally paid in by members of the Boards of Management are held in a fiduciary capacity and invested in funds by Allianz Treuhand GmbH, Frankfurt am Main. The scope of obligation towards plan beneficiaries has been set in each case at a maximum of the fund assets and the total amount of contributions paid, including the guaranteed return. To this end, the contributions paid by the employer and by the Board of Management have been separately compared in each case with the fund assets.

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 securities. The cover assets are managed in a fiduciary capacity by Allianz Treuhand GmbH, Frankfurt am Main.

Pensions and similar obligations are structured as follows:

	2012/2013 € 000s	2011/2012 € 000s
Present value of pension obligation	37,096	28,076
less fair value of plan assets	(33,212)	(28,142)
Pension commitments as reported in balance sheet	**3,884**	**(66)**
of which: pension provisions	3,884	0
of which: plan assets	0	66

The plan assets were structured as follows at the balance sheet date:

	2.28.2013 %	2.29.2012 %
Debt securities	85.5	81.3
Shares	2.5	3.3
Real estate	9.9	9.9
Other	2.1	5.5
	100.0	**100.0**

Change in pension obligation

	2012/2013 € 000s	2011/2012 € 000s
Present value of pension obligation at beginning of period	28,076	24,687
Current service cost of employer	2,729	2,906
Interest cost	679	772
Employee contributions	2,388	2,063
Net balance of payments contributed and paid out	(162)	(2,139)
Insurance premiums	(889)	(790)
Actuarial gains/losses recognized directly in equity	4,617	(1,039)
Foreign currency translation	(342)	1,616
	37,096	**28,076**

Change in plan assets

	2012/2013 € 000s	2011/2012 € 000s
Plan assets at beginning of period	28,142	24,166
Expected return on plan assets	599	626
Employer contributions	3,126	2,351
Employee contributions	2,388	2,063
Net balance of payments contributed and paid out	(162)	(2,139)
Insurance premiums	(889)	(790)
Actuarial gains/losses recognized directly in equity	350	283
Foreign currency translation	(342)	1,582
	33,212	**28,142**

The following expenses have been recognized through profit or loss as personnel expenses:

	2012/2013 € 000s	2011/2012 € 000s
Current service cost of employer	2,729	2,906
Interest cost	679	772
Expected return on plan assets	(599)	(626)
	2,809	**3,052**

The amounts recognized through profit or loss are included in the personnel expenses allocated to the following items in the income statement:

	2012/2013 € 000s	2011/2012 € 000s
Selling and store expenses	1,781	2,162
Pre-opening expenses	55	1
General and administration expenses	973	889
	2,809	**3,052**

Payments of contributions amounting to € 2.9 million are expected for the 2013/2014 financial year.

Actuarial gains and losses may arise on account of changes in the parameters underlying the calculation of the present value of the pension obligation and the fair value of the plan assets. These changes are recognized directly in equity, together with the share of deferred taxes attributable to such changes.

The actuarial gains and losses (before deferred taxes) recognized in equity developed as follows:

	2012/2013 € 000s	2011/2012 € 000s
Gains and losses at beginning of period	(3,116)	(4,438)
Gains and losses arising during period	(4,267)	1,322
Gains and losses at end of period	**(7,383)**	**(3,116)**

The calculation has been based on the following actuarial assumptions:

	2.28.2013 %	2.29.2012 %
Discount interest rate	2.0	2.5
Expected long-term credit interest rate	1.8	2.5
Expected return on plan assets	1.9	2.1
Future salary increases	1.5	1.5
Future pension increases	0.0	0.0

The expected return on plan assets is calculated as the weighted average of the investment strategy and the expected returns per investment category.

The historic development is as follows:

	2012/2013 € 000s	2011/2012 € 000s	2010/2011 € 000s	2009/2010 € 000s	2008/2009 € 000s
Present value of pension obligation	37,096	28,076	24,687	18,432	14,410
Fair value of plan assets	33,212	28,142	24,166	18,567	15,246
Yield on plan assets	949	909	463	222	355
Experience adjustments arising on plan assets	(351)	(283)	112	253	184
Experience adjustments arising on plan liabilities	707	(87)	301	769	1,713

(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 23 years. The provision for the storage of business documents chiefly relates to statutory storage periods of between 7 and 11 years.

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.

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 € 1,822k (2011/2012: € 2,809k) 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 1.64% p.a. (2011/2012: 2.1% p.a.). Moreover, provisions of € 12k (2011/2012: € 24k) were recognized to cover part-time early retirement obligations in Austria.

The development in provisions is presented in Note 27.

(25) Trade payables and other liabilities

	2.28.2013 € 000s	2.29.2012 € 000s
Trade payables and advance payments received for orders	209,530	197,198
Other liabilities	53,405	59,837
of which: other taxation	16,789	18,463
of which: social security contributions	2,753	2,688
	262,935	**257,035**

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, 2013, the HORNBACH HOLDING AG Group had corporate income tax refund claims amounting to € 18.7 million in total (2011/2012: € 22.4 million), which have been recognized at a present value of € 18.2 million (2011/2012: € 21.7 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 2012/2013 financial year:

€ 000s	Opening balance at 3.1.2012	Utilization	Reversals	Additions	Interest compoun-ding	Foreign currency translation	Closing balance at 2.28.2013	of which: non-current
Other provisions								
Personnel	7,795	2,595	126	2,622	116	0	7,812	7,812
Miscellaneous	19,465	5,679	1,388	7,094	16	(16)	19,492	13,798
	27,260	**8,274**	**1,514**	**9,716**	**132**	**(16)**	**27,304**	**21,610**
Accrued liabilities								
Other taxes	1,292	251	34	231	0	1	1,239	0
Personnel	45,699	44,068	461	37,642	0	47	38,859	0
Miscellaneous	20,722	13,323	5,942	16,016	0	(6)	17,467	0
	67,713	**57,642**	**6,437**	**53,889**	**0**	**42**	**57,565**	**0**
Total	**94,973**	**65,916**	**7,951**	**63,605**	**132**	**26**	**84,869**	**21,610**

Miscellaneous other current provisions mainly relate to provisions for customers' expected utilization of their rights of return, recognized at € 1,605k (2011/2012: € 1,590k), for clean-up agreements, at € 1,236k (2011/2012: € 1,380k), for onerous contracts, at € 1,062k (2011/2012: € 806k), and for litigation risks, at € 926k (2011/2012: € 535k).

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, 2013.

(29) Other financial obligations and contingent assets

€ million	Maturities			2.28.2013
	Current < 1 year	Non-current 1-5 years	Non-current > 5 years	Total
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
	161.0	**354.6**	**257.6**	**773.3**

€ million	Maturities			2.29.2012
	Current < 1 year	Non-current 1-5 years	Non-current > 5 years	Total
Purchase obligations for investments	68.7	7.4	0.0	76.1
Obligations under rental, leasehold and leasing contracts	88.2	317.3	320.3	725.8
Other financial obligations	11.7	0.7	0.0	12.4
	168.6	**325.4**	**320.3**	**814.3**

HORNBACH-Baumarkt-AG draws on the services of various temporary employment agencies to offset seasonal and sickness-related personnel requirements. Some of the 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. As a result, HORNBACH-Baumarkt-AG is exposed to a low risk of having recourse claims asserted against it 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 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 € 88,644k was recognized in the 2012/2013 financial year as rental expenses in connection with operating lease agreements, including related expenses (2011/2012: € 87,250k).

The Group has a refund claim of around € 6.1 million, including interest, for impairment losses at a foreign shareholding which have not yet been recognized for tax purposes (2011/2012: € 5.9 million).

Furthermore, the Group also has recourse claims of approximately € 2.8 million (2011/2012: € 3.0 million) in connection with renovation obligations for a DIY megastore with a garden center let within a sale and leaseback transaction. Legal action has been taken to assert these claims.

(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 Current < 1 year	 Non-current 1-5 years	 Non-current > 5 years	Total
February 28, 2013	5,273	11,288	5,380	21,941
February 29, 2012	4,154	11,828	5,678	21,660

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 2.28.2013	Fair value 2.28.2013	Carrying amount 2.29.2012	Fair value 2.29.2012
Assets					
Financial assets	AfS	2,631	2,631	2,581	2,581
Other receivables and assets					
Derivatives without hedge relationship	FAHfT	146	146	2	2
Other financial assets	LaR	65,396	65,396	70,356	70,356
Cash and cash equivalents	LaR	356,935	356,935	422,341	422,341
Equity and liabilities					
Financial debt					
Bonds	FLAC	245,794	259,500	247,080	264,375
Liabilities to banks	FLAC	468,818	469,840	514,576	526,612
Liabilities in connection with finance leases	n.a.	1,282	1,314	1,474	1,556
Derivatives with hedge relationship	n.a.	11,727	11,727	6,636	6,636
Derivatives without hedge relationship	FLHfT	227	227	368	368
Trade payables and other liabilities	FLAC	223,001	223,001	215,407	215,407
Accrued liabilities	FLAC	17,467	17,467	20,722	20,722

Aggregate totals by measurement category: € 000s	Category	Carrying amount 2.28.2013	Carrying amount 2.29.2012
Loans and receivables	LaR	422,331	492,697
Available for sale financial assets	AfS	2,631	2,581
Financial assets held for trading	FAHfT	146	2
Financial liabilities measured at amortized cost	FLAC	955,080	997,785
Financial liabilities held for trading	FLHfT	227	368

Derivative financial instruments have been recognized at fair value in the balance sheet. Fair value measurement has been based on input factors observable on markets and thus corresponds to Level 2 of the fair value hierarchy as defined in IFRS 7.

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 approximate to their fair values as of the balance sheet date.

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 values of the liabilities to banks and the finance lease liabilities have been calculated as present values.

The present values of financial assets and liabilities have been calculated based on current money market interest rates, taking due account of their maturity structure and the respective credit margin.

Net result by measurement category	2012/2013 € 000s	2011/2012 € 000s
Loans and receivables (LaR)	(1,615)	(2,379)
Financial liabilities measured at amortized cost (FLAC)	934	(1,788)
Financial instruments held for trading (FAHfT and FLHfT)	(54)	406

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” and “financial liabilities measured at amortized cost” involve foreign currency translation items, the results of disposals and write-downs.

(33) Risk management and financial derivatives

Risk management principles

The assets, liabilities and planned financial transactions of the HORNBACH 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 HORNBACH 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 intragroup 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	2.28.2013	2.29.2012
EUR	(101,851)	(47,379)
USD	7,370	6,012
CZK	(519)	(428)

The most important exchange rates have been presented on Page 104.

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 € 10,373k lower (2011/2012: € 5,342k). 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 € 10,373k higher (2011/2012: € 5,342k). The hypothetical impact on earnings of € +10,373k (2011/2012: € +5,342k) is the result of the following sensitivities: EUR/RON € 7,554k (2011/2012: € 3,563k), EUR/SEK € 2,966k (2011/2012: € 2,609k), EUR/CHF € -432k (2011/2012: € -2,055k), EUR/CZK € -15k (2011/2012: € 623k), and EUR/USD € 300k (2011/2012: € 602k).

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 € 152,463k (2011/2012: € 164,742k), long-term CZK loans amounting to € 43,148k (2011/2012: € 48,705k), long-term RON loans amounting to € 19,762k (2011/2012: € 24,598k), and long-term SEK loans amounting to € 29,041k (2011/2012: € 30,458k). 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 € 4,026k higher (2011/2012: € 3,850k) and equity before deferred taxes would have been € 7,191k higher (2011/2012: € 5,244k). 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 € 4,026k lower (2011/2012: € 3,850k) and equity before deferred taxes would have been € 5,784k lower (2011/2012: € 5,523k).

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.

Liquidity risk

The following tables show the contractually agreed (undiscounted) cash flows for primary and derivative financial liabilities, and for derivative financial assets.

€ 000s	Carrying amount 2.28.2013	Cash flows < 1 year	1 to 5 years	> 5 years
Primary financial liabilities				
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		
	956,362	**361,750**	**362,060**	**372,856**
Derivative financial liabilities				
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
	11,953	**4,519**	**13,515**	**3,805**
Derivative financial assets				
Foreign currency derivatives without hedge relationship	146	(146)		
	146	**(146)**	**0**	**0**
		366,122	**375,575**	**376,661**

€ 000s	Carrying amount 2.29.2012	Cash flows < 1 year	1 to 5 years	> 5 years
Primary financial liabilities				
Bonds	247,080	15,313	280,625	0
Liabilities to banks	514,576	186,231	297,402	117,407
Liabilities in connection with finance leases	1,474	277	1,208	302
Trade payables and other liabilities	215,407	215,281	126	0
Accrued liabilities	20,722	20,722	0	0
	999,259	**437,824**	**579,361**	**117,709**
Derivative financial liabilities				
Foreign currency derivatives without hedge relationship	368	368	0	0
Interest derivatives in connection with cash flow hedges	6,636	1,817	5,387	791
	7,004	**2,185**	**5,387**	**791**
Derivative financial assets				
Foreign currency derivatives without hedge relationship	2	(2)	0	0
	2	**(2)**	**0**	**0**
		440,007	**584,748**	**118,500**

All financial liabilities and derivative assets held at the balance sheet date have been included. No account has been taken of budget figures for future new liabilities and derivative assets. 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 as of April 18, 2012. The loan amount was disbursed as of June 29, 2012. The promissory note bond served 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.

In the previous year, an unsecured promissory note bond of € 80 million was taken up with a floating interest rate and a term running until June 30, 2016 was taken up as of June 30, 2011. 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 2012/2013 financial year, the Group had interest swaps amounting to € 219,734k (2011/2012: € 210,698k), with which a transformation from floating interest commitments to fixed interest commitments was achieved. The fair value of the interest swaps amounted to € -9,509k as of February 28, 2013 (2011/2012: € -6,636k) and is reported under financial debt. Furthermore, as of February 28, 2013, the Group also had an interest-currency swap with a nominal value of € 29,000k (2011/2012: € 0k) enabling a euro loan with a floating interest rate to be converted into a fixed-interest SEK loan. At the end of the 2012/2013 financial year, the fair value of this interest-currency swap amounted to € -2,218k (2011/2012: € 0k). This item has also been reported under financial debt.

All swaps met hedge accounting requirements as of February 28, 2013. 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 2.28.2013 in € 000s	Nominal value at 2.29.2012 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	0	6-month Euribor
7.23.2009	6.29.2012	0	60,000	3-month Euribor
6.29.2012	6.30.2022	29,000	0	3-month Euribor
9.30.2002	9.30.2017	7,030	8,510	3-month Euribor
9.30.2002	9.30.2017	4,777	5,783	3-month Euribor
12.30.1999	12.30.2014	2,454	3,681	6-month Euribor
12.30.1999	2.22.2013	0	1,841	6-month Euribor
12.30.1998	2.22.2013	0	1,023	3-month Eurolibor

Start	End	Nominal value at 2.28.2013 in SEK 000s	Nominal value at 2.29.2012 in SEK 000s	Reference rate
11.28.2003	12.31.2018	60,000	70,000	3-month SEK-Stibor

Start	End	Nominal value at 2.28.2013 in CHF 000s	Nominal value at 2.29.2012 in CHF 000s	Reference rate
8.31.2010	12.30.2012	0	26,420	6-month CHF-Libor

Start	End	Nominal value at 2.28.2013 in CZK 000s	Nominal value at 2.29.2012 in CZK 000s	Reference rate
8.31.2010	8.31.2015	496,600	496,600	6-month CZK-Pribor

The HORNBACH 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 HORNBACH 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 HORNBACH 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 € -81k at February 28, 2013 (2011/2012: € -366k). Of this sum, € 227k (2011/2012: € 368k) has been recognized under financial debt and € 146k (2011/2012: € 2k) 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.

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)

February 29, 2012	Forward exchange transactions	Interest swaps	Total
Nominal value in € 000s	33,737	210,698	244,435
Fair value in € 000s (before deferred taxes)	(366)	(6,636)	(7,002)

As all interest 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.

(34) Sundry disclosures

Employees

The average number of employees was as follows:

	2012/2013	2011/2012
Salaried employees	14,505	13,827
Trainees	839	832
	15,344	**14,659**
of which: part-time employees	2,897	2,884

In terms of geographical regions, 9,426 of the average workforce were employed in Germany during the 2012/2013 financial year (2011/2012: 9,048) and 5,918 in other European countries (2011/2012: 5,611).

Auditor's fee

The fees charged by the auditor of the annual and consolidated financial statements of HORNBACH HOLDING AG, KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, for the year under report were as follows:

	2012/2013 € 000s	2011/2012 € 000s
Auditing of financial statements	805	752
Other certification services	456	204
Tax advisory services	38	61
Other services	30	50
	1,329	**1,067**

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 HORNBACH HOLDING AG on December 20, 2012 and by the Board of Management and Supervisory Board of HORNBACH-Baumarkt-AG on December 19, 2012 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, HORNBACH HOLDING AG has direct or indirect relationships with associated companies in the course of its customary business activities.

The associated companies are:

HORNBACH 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 by means of symbolic amount of one euro each month.

Some of the companies included in the consolidated financial statements of HORNBACH 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 € 33k were performed by the seminar hotel in the 2012/2013 financial year (2011/2012: € 9k). These services were invoiced at customary rates. Liabilities of € 0k were outstanding at the balance sheet date on February 28, 2013 (2011/2012: € 4k). In the 2011/2012 financial year, HORNBACH HOLDING AG advanced an amount of € 7k in connection with Albrecht Hornbach's activities as Honorary Consul for Romania. These outlays were refunded to HORNBACH HOLDING AG in the same amount.

(36) Events after the balance sheet date

The consolidated financial statements of HORNBACH HOLDING AG for the 2012/2013 financial year were approved for publication by the Board of Management on May 23, 2013.

(37) Supervisory Board and Board of Management

Members of the Board of Management:

Albrecht Hornbach — Chairman
DIY Stores and Garden Centers (HORNBACH-Baumarkt-AG)
Builders' Merchants (HORNBACH Baustoff Union GmbH)
Real Estate (HORNBACH Immobilien AG)

Roland Pelka
Finance, Accounting and Taxes,
Group Controlling, Risk Management, Loss Prevention,
Information Technology, Investor Relations

The total compensation paid to the Board of Management of HORNBACH HOLDING AG for performing its duties for the Group in the 2012/2013 financial year amounts to € 1,953k (2011/2012: € 1,943k). Of this sum, € 945k (2011/2012: € 896k) relates to fixed compensation and € 1,008k (2011/2012: € 1,047k) to performance-related components. Post-employment benefits amounting to € 210k were incurred for active members of the Board of Management in the 2012/2013 financial year. These involve expenses incurred to endow pension provisions (Note 23).

Members of the Board of Management owned a total of 52,778 ordinary shares (2011/2012: 316,668) and 6,810 listed preference shares (2011/2012: 6,810) in HORNBACH HOLDING AG at the balance sheet date on February 28, 2013.

Members of the Supervisory Board:

Dr. Wolfgang Rupf Managing Director, Rupf Industries GmbH and Rupf Engineering GmbH	Chairman
Otmar Hornbach Businessman Managing Director, WASGAU Food Beteiligungsgesellschaft mbH and Delta HORNBACH GmbH	Deputy Chairman
Richard Boyd Operations Director Kingfisher International Kingfisher plc (until November 30, 2012)	until December 31, 2012
Peter Hogsted CEO Kingfisher International Kingfisher plc (until May 31, 2012)	until July 6, 2012
Christoph Hornbach School Director	
Kevin O'Byrne Kingfisher Divisional CEO, B&Q Kingfisher plc	since July 6, 2012
David Paramor Group Finance & Planning Director Kingfisher plc	since February 18, 2013
Joerg Sost Managing Partner J.S. Consulting GmbH	since July 6, 2012

The total compensation of the Supervisory Board for the 2012/2013 financial year amounted to € 346k (2011/2012: € 228k). Of this sum, € 220k (2011/2012: € 72k) related to basic compensation and € 126k (2011/2012: € 61k) to committee compensation. The previous year’s total also included performance-related compensation of € 95k. As in the previous year, members of the Supervisory Board did not hold any ordinary or preference shares in HORNBACH HOLDING AG at the balance sheet date.

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) HORNBACH-Baumarkt-AG (Deputy Chairman)
IVA Valuation & Advisory AG (Deputy Chairman)

Otmar Hornbach
a) WASGAU Produktions & Handels AG (Deputy Chairman)

Richard Boyd (until December 31, 2012)
b) B&Q (China) Investment Co. Ltd. - until November 30, 2012
Koctas Yapi Marketleri Ticaret A.S. - until November 30, 2012

Peter Hogsted (until July 6, 2012)
b) Castorama Polska Sp. z o.o. (Chairman) - until May 31, 2012
Koctas Yapi Marketleri Ticaret A.S. (Deputy Chairman) - until May 31, 2012

Christoph Hornbach
a) Corivus AG

Kevin O'Byrne (since July 6, 2012)
b) Koctas Yapi Marketleri Ticaret A.S. (Deputy Chairman) since June 1, 2012
Land Securities plc, London (Director, Chairman of Audit Committee, Senior Independent Director)

Joerg Sost (since July 6, 2012)
a) HORNBACH-Baumarkt-AG – since March 1, 2012
b) Atreus GmbH (Member of Advisory Board)
Aurelius AG (Member of Advisory Board) - since end of June 2012
Bürger Glas- und Fasertechnik GmbH (Chairman of Advisory Board) - until end of January 2013
Bürger GmbH (Member of Advisory Board)
Deutsche Bank AG (Member of Advisory Board Mannheim)
Freudenberg Schwab Vibration Control AG (Member of Advisory Board)
Spirella AG (Member of Administrative Board)
Spirella Holding AG (Member of Administrative Board)

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) 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, 2013

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, 2013

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, together with the group management report for the financial year from March 1, 2012 to February 28, 2013. 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, 2013
KPMG AG Wirtschaftsprüfungsgesellschaft

Bertram	Palm
German Public Auditor	German Public Auditor

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