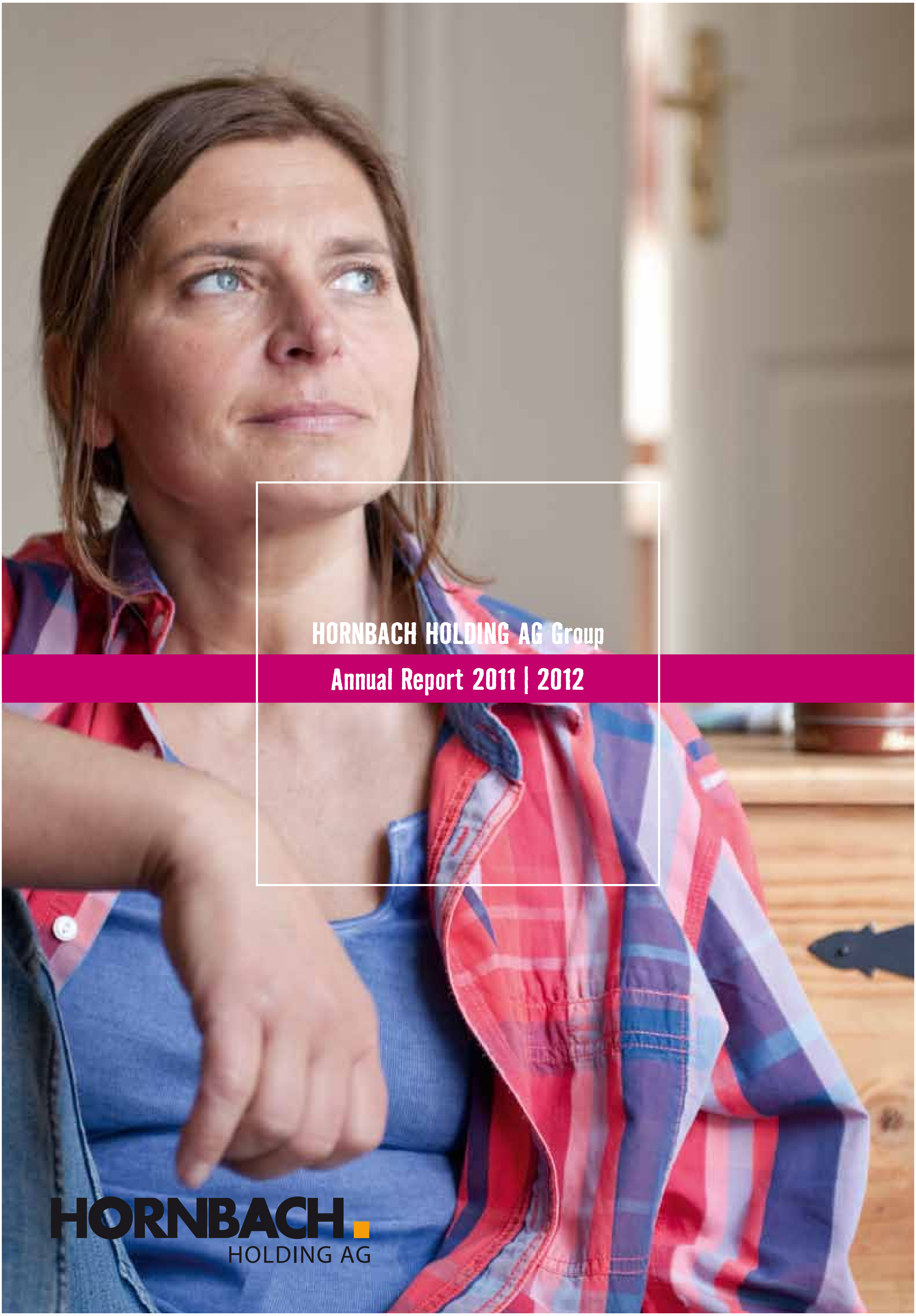

HORNBACH HOLDING AG Group

Annual Report 2011 | 2012

HORNBACH HOLDING AG

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Key Group, Financial and Operating Data

Amounts shown in € million unless otherwise stated	Change in financial year 2011/2012 on previous year	IFRS 2011/2012	2010/2011	2009/2010	2008/2009	2007/2008	2006/2007	2005/2006	2004/2005	2003/2004	2002/2003
Sales and earnings figures [1]											
Net sales	6.2%	3,204	3,017	2,853	2,752	2,617	2,544	2,367	2,220	2,057	1,709
of which in other European countries	6.5%	1,272	1,195	1,109	1,065	962	862	788	688	611	424
Sales growth as % of net sales		6.2	5.7	3.7	5.1	2.9	7.5	6.6	8.0	20.3	14.5
EBITDA [2]	7.8%	247	229	222	251	181	197	180	181	156	137
as % of net sales		7.7	7.6	7.8	9.1	6.9	7.7	7.6	8.2	7.6	8.0
EBIT [3]	6.3%	169	159	152	179	105	119	92	99	79	68
as % of net sales		5.3	5.3	5.3	6.5	4.0	4.7	3.9	4.5	3.8	4.0
Earnings before taxes and extraordinary result and non-controlling interest	4.0%	132	127	116	144	68	83	53	62	45	35
as % of net sales		4.1	4.2	4.1	5.2	2.6	3.3	2.2	2.8	2.2	2.1
Net income for the year before non-controlling interest	(4.5)%	95	99	82	113	58	76	32	37	27	20
as % of net sales		3.0	3.3	2.9	4.1	2.2	3.0	1.4	1.7	1.3	1.2
Gross margin as % of net sales		36.6	36.6	36.1	36.0	35.7	35.3	35.2	35.9	35.1	34.9
Store expenses as % of net sales [4]		27.1	27.4	27.7	27.3	27.7	27.4	28.1	27.5	27.2	28.1
Costs of central administration as % of net sales [4]		4.2	4.1	4.0	4.2	4.2	4.0	4.3	4.1	4.0	4.3
Pre-opening expenses as % of net sales [4]		0.2	0.2	0.2	0.3	0.3	0.2	0.5	0.5	0.6	1.2
Cash flow figures											
Cash flow from operating activities	(22.1)%	142	182	184	144	90	215	38	142	28	46
Investments	43.6%	163	113	97	130	201	123	208	135	134	206
Proceeds from divestments		13	48	9	83	46	55	193	28	99	7
Earnings potential [5]	(20.9)%	148	187	188	153	97	220	49	153	41	67
as % of net sales		4.6	6.2	6.6	5.6	3.7	8.7	2.1	6.9	2.0	3.9
Dividend distribution		10.5	10.5	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9
Balance sheet and financial figures											
Total assets	1.5%	2,267	2,233	2,033	1,996	1,902	1,842	1,794	1,762	1,664	1,582
Non-current assets	6.9%	1,202	1,125	1,070	1,010	1,000	983	959	1,045	1,030	1,071
Inventories	3.7%	507	489	451	516	498	463	512	444	441	376
Cash and cash equivalents	(10.9)%	422	474	335	275	196	265	161	162	69	55
Shareholders' equity [6]	8.2%	1,041	962	861	780	688	630	559	536	433	421
as % of total assets		45.9	43.1	42.4	39.1	36.1	34.2	31.1	30.4	26.0	26.6
Return on shareholders' equity based on net income - in %		9.4	10.9	10.0	15.4	8.8	12.8	5.9	7.6	6.3	4.8
Net working capital	11.0%	416	375	368	398	387	346	457	354	366	262
Additions to non-current assets	43.4%	163	113	103	131	202	120	202	131	133	231
Inventory turnover rate per year		4.1	4.1	3.8	3.5	3.5	3.4	3.2	3.2	3.2	3.1
Other information											
Employees - annual average - converted into full-time equivalents	5.9%	12,778	12,066	11,881	11,542	11,078	10,622	10,595	9,979	9,139	7,909
Number of shares [7]		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	8,000,000
Average earnings per share in € [7]		4.77	10.14	8.32	11.41	6.00	7.89	3.37	3.47	2.69	2.17

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 to become a European standard in the DIY sector today.

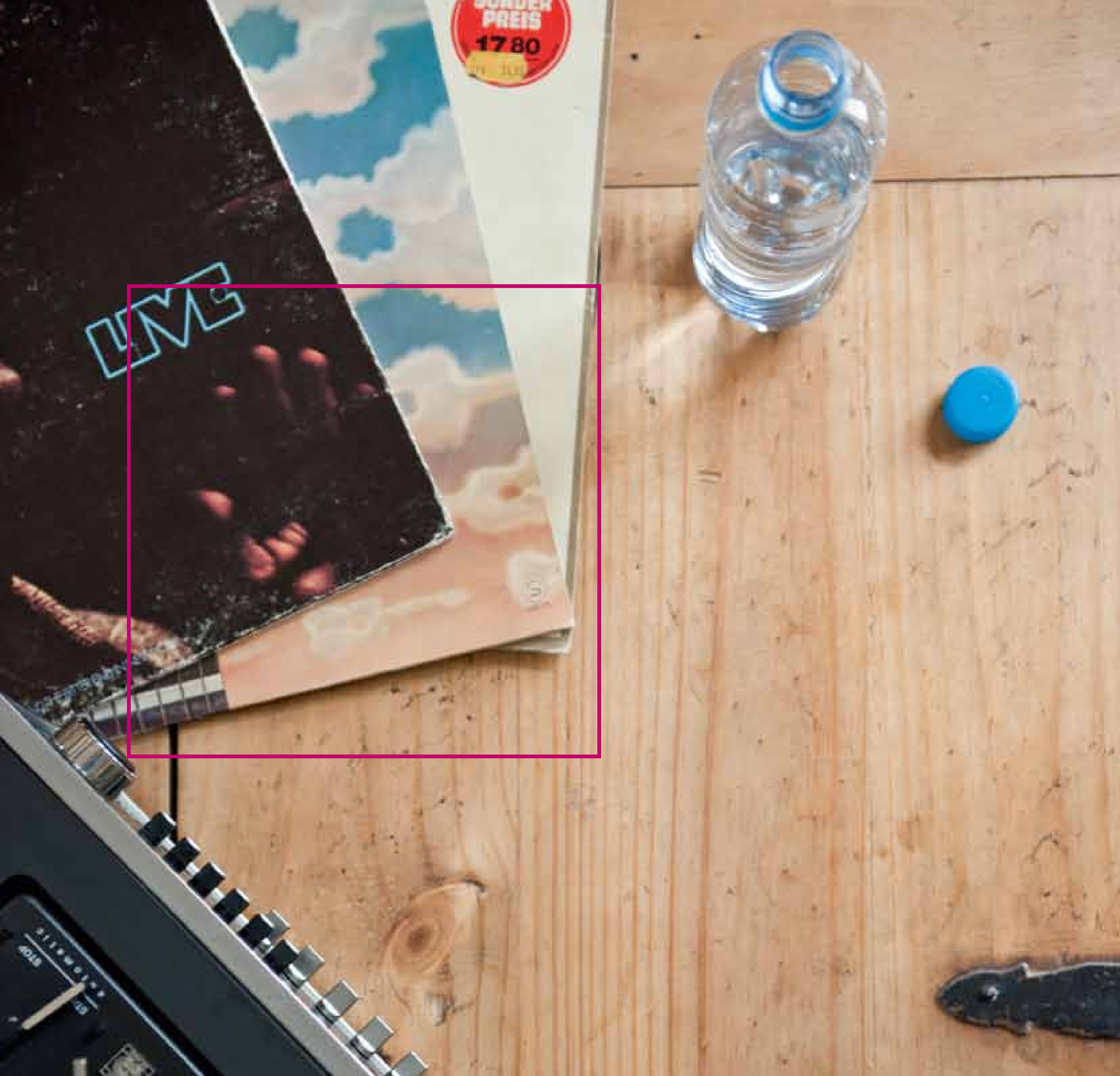
In the second half of the 1980s, HORNBACH added a new dimension to the market with its concept of large DIY and home improvement megastores with garden centers. Today, an impressively presented range of around 50,000 top quality DIY and gardening articles is available to DIY customers in spacious stores 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 29, 2012, the HORNBACH-Baumarkt-AG subgroup was operating 134 DIY megastores with garden centers across Europe (91 of which in Germany). HORNBACH HOLDING AG generated (net) consolidated sales of € 3,204 million in the 2011/2012 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 29, 2012, the company was operating a total of 43 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.

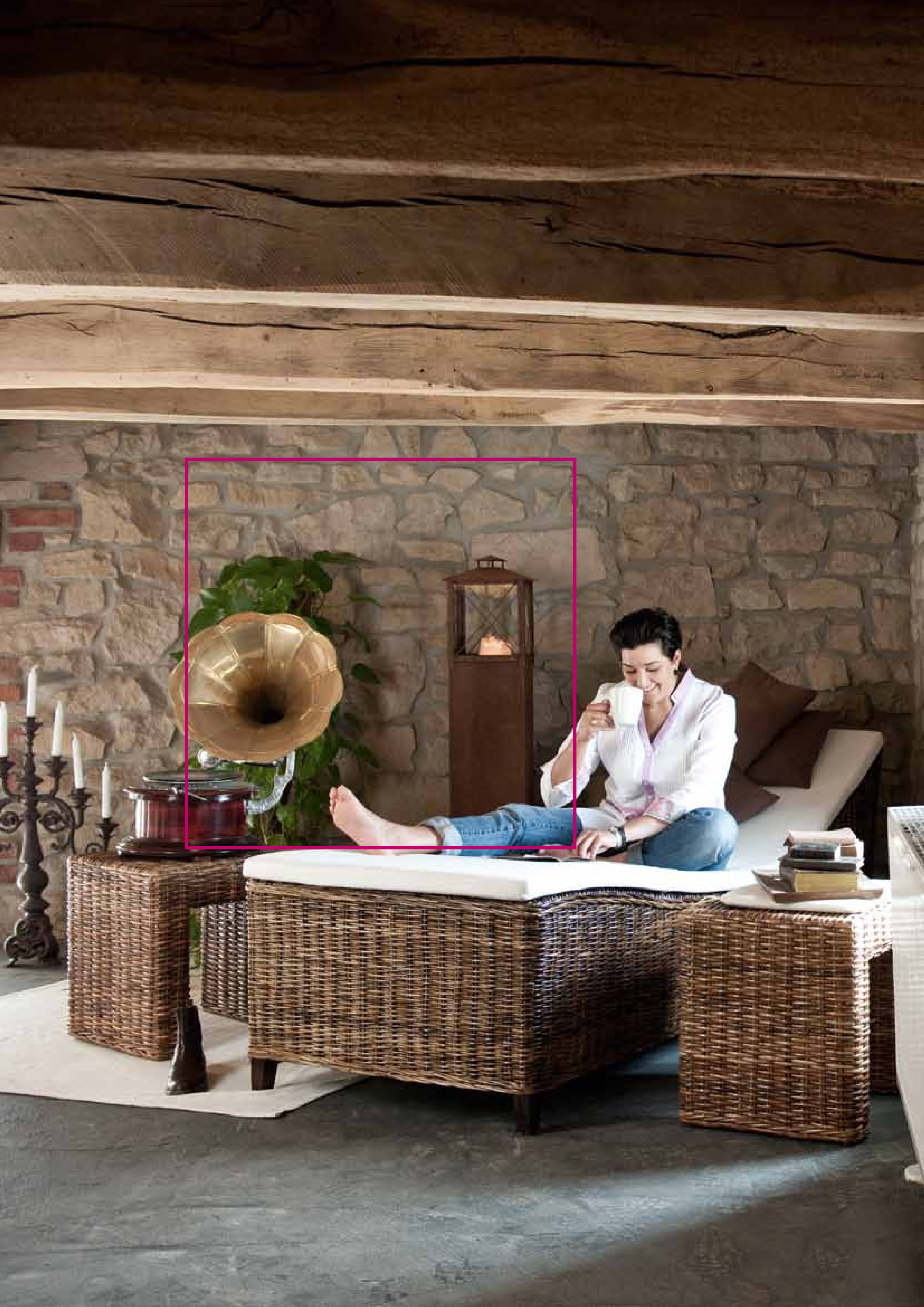
Both HORNBACH HOLDING AG and HORNBACH-Baumarkt-AG are publicly listed stock corporations. The share capital of HORNBACH HOLDING AG is divided equally between ordinary and non-voting preference shares. Of the eight million preference shares (ISIN DE0006083439), 82.6 % are owned by independent shareholders, while 17.4 % are held by the British retail group and our strategic partner Kingfisher plc. The preference shares are admitted to the subsection of official trading of the German Stock Exchange which involves 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 shares in HORNBACH-Baumarkt-AG 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 % are owned by independent shareholders. Kingfisher plc held a stake of around 5.2 % at the balance sheet date.



Appreciating values

»Change is the only constant«, as Heraclitus of Ephesus so rightly put it more than 2,500 years ago. Whatever change comes our way, we should never forget our roots, where we stand, and what we aim for in future. Returning to our values offers the best basis for sustainable action. Restoring a centuries-old house, spiritedly enticing tones out of a historic musical instrument, campaigning for regenerative materials, or supporting social aid projects – sustainability comes in many guises. What all have in common is an appreciation of what we most value – now and in future. ■



A piece of history

»I always found it a bit weird when friends were proud of the houses they had built themselves. After this marathon project, I now really know what they meant. My HORNBACH project partner almost wanted to move in himself when he saw the finished product. What I like most are the fantastic old timbers and metals we were able to reuse and reveal in various places. And the previous owner wanted to throw them away!« ■

TO OUR SHAREHOLDERS

Albrecht Hornbach

Dear Shareholders,

Two concepts are highly cherished on the capital markets – sustainability and trust. The vehemence with which the Lehman bankruptcy triggered the unprecedented global financial crisis in September 2008 – and in its wake the sovereign debt crisis – has fostered a welcome return among many companies and investors to an appreciation of traditional values – values that in New Economy times had been written off as boring, or even unattractive. Since the very start, however, there have also been some players who thankfully did not let themselves be wooed by the charms of short-term profit maximization. First and foremost, this group includes value investors. This species of investor prefers to focus on companies with high asset and intrinsic values. Not only that, they also expect a company to have a superb business model offering the greatest possible competitive advantages and potential for sustainable growth. Against this backdrop, it is no surprise that the HORNBACH Group's shareholder structure chiefly consists of value investors who in some cases have already been invested in our shares since the IPO of today's HORNBACH HOLDING AG in 1987, or since the stock market listing of our HORNBACH-Baumarkt-AG subsidiary in 1993, and who have consistently acquired additional shares over the years. This indicates that they have the greatest trust in the company's family-influenced management and corporate culture. That seems to me to be the real core of our success story. We do not think in terms of quarters, but rather on a timescale of generations. For us, it is all about rootedness, constancy, and solidity. We see this as the only approach that pays off in the long term.

How is the past financial year to be assessed against this backdrop? I can say without any exaggeration that it was a first-class year! So what drove this success?

- We fully met our sales and earnings forecast. Consolidated sales grew by 6.2 % to € 3.2 billion. We had forecast sales growth in a medium single-digit percentage range. Operating earnings (EBIT) amounted to € 169 million. Our aim was to exceed the previous year's figure of € 159 million.
- Like-for-like sales at our DIY megastores with garden centers in Germany rose by 5.8 % in the year under report – faster than at any time since the IPO of HORNBACH-Baumarkt-AG in November 1993. On average, our growth was six percentage points ahead of the DIY sector in the 2011 calendar year, and we expanded our market share from 8.8 % to 9.2 %.
- The pace of our like-for-like sales growth in Germany and Western Europe as a whole meant that we could easily absorb the downturn in sales due to economic factors in Eastern Europe. We stepped up the rate of like-for-like sales growth across the Group from 2.6 % to 2.8 %.
- We further improved the HORNBACH Group's capital structure. Our equity ratio has now reached an impressive 46 %. Our high volume of liquidity and broad range of financing instruments offer us flexibility in financing our further growth.

Given these figures, our earnings strength must seem incongruous. It is easy to ask why such strong sales growth did not ultimately produce higher profit. It should be noted, however, that we invested more than € 13 million (2010/2011: € 10 million) in forward-looking strategic projects, such as expanding our online retail business. Further millions were channeled into state-of-the-art building control and lighting technology intended to sustainably enhance our stores' energy efficiency. What's more, we incurred further expenses in a double-digit million range to ensure that our stores remain in optimal shape and to make our merchandise presentation even more appealing to customers. Examples here include elaborate conversions in the picture store departments, paint divisions, and bathroom and kitchen centers. All that is cash we would not necessarily invest if we were only interested in short-term profit maximization. But that is not the way we operate. We consciously accept these charges, as they will help us to tap sustainable earnings potential. **We aim to cultivate our inherent value, rather than live at its expense.**

It should also be noted that the non-operating charges on earnings we were obliged to absorb in 2011/2012 were € 6.5 million higher than in the previous year. These largely involved impairment losses. We nevertheless managed to meet our earnings forecast, and even to increase our EBIT in line with our sales growth. At first glance, the slight decline in consolidated net income from € 99 million to € 95 million is an anomaly. However, this is due to a retrospective corporate income tax credit of more than € 8 million in the previous year. Adjusted for this one-off item, our consolidated net income for 2011/2012 was also clearly ahead of the previous year's figure.

Our excellent performance is by no means limited to our key financial figures. We also took a great leap forward in the past year in terms of customer satisfaction. The results of the Kundenmonitor Deutschland 2011 are the best example here. In this, the most important consumer survey from our perspective (please see Page 62), HORNBACH achieved the best evaluation in terms of overall satisfaction ever achieved by a DIY company. Not only that, the head start over the runner up has also never been as large. What's more, DIY store and garden center customers ranked us 1st in a further 16 of the 33 survey categories. Among others, these included "Product selection and variety", "Quality of merchandise and products", and "Services compared with competitors". We are particular pleased that DIY store customers awarded HORNBACH the best marks for specialist advice, thus honoring the efforts we have made in selecting and training our specialist advisors. As if that were all not enough – we were also ahead in terms of "Value for money" and "Prices compared with competitors". This confirms that our permanent low price strategy has become successfully established in customers' minds.

Even in cases where customers fail to notice that we offer the best prices, HORNBACH stands "for significantly better value for money, better quality, and above all price confidence. Regardless of what the customer buys, he has the feeling that he is paying a fair price. This is a factor that significantly boosts customer loyalty". This is the conclusion reached by the OC&C Price Study 2011/2012 with the title "No Cheap Tricks" With prices 7.4 % below the market average, HORNBACH is "de facto the uncontested market leader". This independent assessment provides impressive evidence that we are on the right course with our permanent low price strategy. This contrasts starkly with those companies that blaringly claim to be the price leaders, but then signally fail to meet this promise to their customers.

Looking back, the 2011/2012 financial year was an all-round success. The competence, commitment, innovative strength, and customer focus shown by our employees, who now number significantly more than 14,000 across the Group, are crucial for our results and in enabling us to realize our goals. I owe them all a personal thank you. I also thank our shareholders for the trust they have placed in the HORNBACH Group, and in its vision of sustainable future growth.

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 2011/2012 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 2011/2012 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 20, 2011 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 16, 2012. We also 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 8, 2011, the Board of Management reported on the current situation of the Group and the developments apparent in the current year. Moreover, the termination of the profit transfer and control agreement with HORNBACH Baustoff

Union GmbH was discussed and dates were agreed for the regular meetings up to and including the 2012/2013 financial year.

On December 21, 2011, the Board discussed the Group's current business situation, the risk report and the compliance report. At the same meeting, the Supervisory Board informed itself as to the Group's personnel situation. 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 possibility of a postal ballot, the individualized disclosure of compensation of Supervisory Board members, the setting of an age limit for Supervisory Board members, the agreement of a deductible in the D&O insurance policy for Supervisory Board members, the setting of a cap on severance pay for members of the Board of Management, the 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 18 onwards.

At its final meeting in the past 2011/2012 financial year, held on February 29, 2012, the Supervisory Board discussed the Group's current business situation, and examined and approved the budget for the financial years 2012/2013 to 2016/2017.

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 2011, 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 28 the half-year financial report was discussed in the presence of the auditors. At its September meeting, the Audit Committee also discussed the conclusion of a syndicated credit line at the HORNBACH-Baumarkt-AG subsidiary. In December 2011, 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. In February 2012, the budget for the financial years 2012/2013 to 2016/2017 was discussed in detail and approved. The internal audit plan for the 2012/2013 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 held one meeting. The object of discussion was a recommended resolution concerning new compensation regulations for the Board of Management.

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

Personnel-related matters

Wolfger Ketzler stood down from his position on the company's Supervisory Board as of February 29, 2012. He was appointed to the Board of Management of our HORNBACH-Baumarkt-AG subsidiary as of March 1, 2012. Joerg Walter Sost will be proposed to the Annual General Meeting on July 6, 2012 as the candidate to succeed Wolfger Ketzler on the Supervisory Board. Peter Hogsted Nielsen has announced his intention to stand down from the Supervisory Board upon the conclusion of the Annual General Meeting on July 6, 2012. Kevin O'Byrne will be proposed to the Annual General Meeting as successor to Peter Hogsted Nielsen. The Supervisory Board thanks those members of the Supervisory Board already retired or due to retire prematurely for their commitment.

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 29, 2012, 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 was consistent with requirements and that no risks to the company's ongoing existence had been identified.

Key focuses of the audit in the 2011/2012 financial year included select IT-related processes and checks (e.g. authorization concepts, network access security), the functionality of internal controls of key financial reporting processes, the audit of follow-up accounting in accordance with the German Accounting Law Modernization Act (BilMoG), 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, 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 plausibility of the disclosures made in the group management report.

The financial statements and audit reports were provided to all Supervisory Board members in good time. They were examined in detail at the meeting of the Audit Committee on May 16, 2012 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 29, 2012; 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).

The HORNBACH HOLDING AG Group achieved superb results in the past 2011/2012 financial year, asserted its position in its competitive environment and acquired additional market share. The Supervisory Board would like to extend its thanks and appreciation to the Board of Management and to all employees, both in Germany and abroad, for their commitment and extremely successful work in the past financial year.

Neustadt an der Weinstrasse, May 2012

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
Operations Director
Kingfisher International

Peter Hogsted until July 6, 2012
Chief Executive Officer
Kingfisher International

Christoph Hornbach
School Director

Wolfger Ketzler until February 29, 2012
Attorney and Tax Advisor
Beiten Burkhardt Rechtsanwaltsgesellschaft mbH
(until December 31, 2011)
Member of Board of Management
HORNBACH-Baumarkt-AG (since March 1, 2012)

Supervisory Board Committees

Audit Committee

Dr. Wolfgang Rupf	Chairman
Richard Boyd	
Christoph Hornbach	
Otmar Hornbach	
Wolfger Ketzler (until February 29, 2012)	

Personnel Committee

Dr. Wolfgang Rupf	Chairman
Christoph Hornbach	
Otmar Hornbach	
Wolfger Ketzler (until February 29, 2012)	

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





Anna
Eliesabet
Kaszmann
1851

In good company

»I remember my parents used to find it slightly suspicious that I spent so much time with my books. My grandmother was convinced I had inherited this passion from her and was therefore especially proud to leave me the old family bible. I am pleased that I could breathe new life into the old tome with such easy means from the DIY store. This well-restored item will now have a place of honor in my book collection.« ■

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 21, 2011

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" as outlined in the version dated May 26, 2010 and published in the electronic Federal Gazette on July 2, 2010 have basically been met since the previous Declaration of Conformity and continue to be met. Application has not been made and is not made of the recommendations included in Points 2.3.3 Sentence 2, 3.8 (3), 4.1.5, 4.2.3 (4) and (5), 5.3.3, 5.4.1 (2) and (3), and 5.4.6 (3) Sentences 1 and 2.

The aforementioned deviations from the recommendations have arisen on account of the following considerations:

a) Point 2.3.3 Sentence 2:

The Articles of Association of HORNBACH HOLDING Aktiengesellschaft do not provide for the possibility of postal votes, as a result of which it is legally not possible to organize a postal vote. However, shareholders are assisted in exercising their voting rights by a voting proxy appointed by HORNBACH HOLDING Aktiengesellschaft and by the provision in line with legal requirements of forms to issue powers of attorney for the Annual General Meeting.

b) Point 3.8 (3):

In Point 3.8 (3), the Code recommends agreeing a specified deductible in any D&O insurance policy to be 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 members of the Supervisory Board. 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.

c) 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.

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 required of the individuals 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 corporate governance 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 for the disclosure of individual compensation packages.

g) Point 5.4.6 (3) Sentence 2:
In Point 5.4.6 (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 corporate governance report on an individual basis. HORNBACH HOLDING Aktiengesellschaft makes use in one case of the opportunity of drawing on the expertise of a member of the Supervisory Board in specific areas. This compensation is undertaken on the basis of symbolic compensation. Furthermore, the company also draws on the services of a law firm to which another Supervisory Board member belongs in return for customary market fees. 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 21, 2011

HORNBACH HOLDING Aktiengesellschaft

The Supervisory Board   The Board of Management

The above Declaration of Conformity dated December 21, 2011 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 the 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. Within the framework of an ongoing multistage process to assure the quality and audit the safety of its products, the company ensures that all DIY products sold at HORNBACH are fully functional and do not involve any health risks. 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 the 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 one 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 in return for symbolic compensation. Furthermore, the company also draws on the services of a law firm to which another member of the Supervisory Board belonged until December 31, 2011, in return for customary market 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 the 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 14 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 the annual financial statements

The HORNBACH HOLDING AG Group prepares its financial reports in accordance with International Financial Reporting Standards (IFRS). 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 the half-year financial report.

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 identification 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 82) 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

The Act on the Appropriateness of Management Board Compensation (VorstAG) came into effect in August 2009. This legislation is intended to create greater incentives in terms of the structure of management board compensation at stock corporations so as to promote sustainable corporate management with a longer-term focus. The Supervisory Board of HORNBACH HOLDING AG therefore closely accompanied the review of the existing system and the conception of a new compensation system for the Board of Management. On May 20, 2011, it approved an amended compensation system for members of the Board of Management. This will apply to members newly appointed and upon the reappointment of existing members of the Board of Management.

Consistent with Point 4.2.2 Sentence 4 of the German Corporate Governance Code, the Supervisory Board drew on the services of an independent external compensation expert commissioned to review the existing compensation system for members of the Board of Management and devise proposals for enhancing this system. In the new compensation system, the company's long-term results have been accorded greater weighting as a factor for measuring performance-related compensation. The share of short-term performance-related compensation has reduced. Moreover, a cap has been introduced for performance-related compensation.

The new compensation system for members of the Board of Management was approved pursuant to § 120 (4) of the German Stock Corporation Act (AktG) by the Annual General Meeting on July 8, 2011 and applies retrospectively from March 1, 2011.

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, 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. On May 20, 2011, the Supervisory Board set new levels of fixed salary graded for the Chairman and the regular member of the Board of Management with retrospective effect as of March 1, 2011.

- Variable compensation:
  In addition to their fixed annual salaries, starting in the 2011/2012 financial year 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, Deputy Chairman and for each regular member of the Board of Management. For none of the members 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.

Transitional regulations

Those contracts with members of the Board of Management in place upon the entry into effect of the Act on the Appropriateness of Management Board Compensation (VorstAG) are subject to statutory protection. To facilitate the transition to the new compensation system, in the year under report the Supervisory Board reached agreement with all members of the Board of Management of HORNBACH HOLDING AG and correspondingly adjusted their employment contracts.

Retirement provision and pension commitment

Members of the Board of Management of HORNBACH HOLDING AG have for the first time been granted individual contractually agreed pension commitments as of March 1, 2011. 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 total annual compensation.

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 2011/2012 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 2011/2012 financial year amounted to € 1,943k (2010/2011: € 2,053k). Of this total, € 896k (2010/2011: € 548k) constituted fixed compensation and € 1,047k (2010/2011: € 1,505k) involved performance-related components. The members of the Board of Management held a combined total of 316,668 ordinary shares and 6,810 listed preference shares in HORNBACH HOLDING AG at the balance sheet date on February 29, 2012.

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.

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

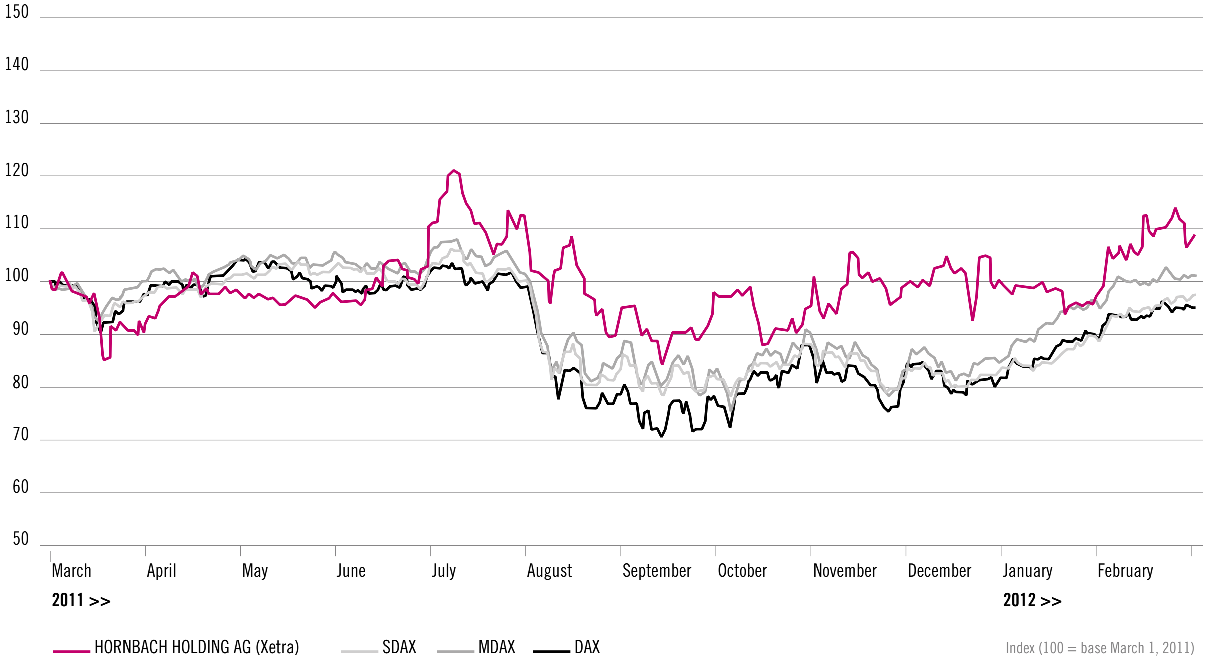
The Chairman receives three times and the Deputy Chairman twice the fixed and performance-related compensation. Supervisory Board members also sitting on the Audit Committee receive an additional sum of € 3,000. Supervisory Board members sitting on another committee or on several other committees of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

The compensation of the Supervisory Board for the 2011/2012 financial year amounts to € 228k (2010/2011: € 228k). Of this total, € 133k (2010/2011: € 133k) constitutes basic compensation and € 95k (2010/2011: € 95k) involves performance-related compensation. Members of the Supervisory Board did not hold any ordinary shares or any preference shares at the balance sheet date on February 29, 2012.

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

THE HORNBACH HOLDING SHARE

Share price performance: March 1, 2011 to February 29, 2012



Not good for the faint hearted

Investors underwent something of an emotional rollercoaster in 2011. Rarely in the long history of the Dax, Germany's lead index, have they witnessed such marked price fluctuations. Long ignored by the markets, the debt crisis on both sides of the Atlantic gradually came to dominate investors' thoughts. At the beginning of August 2011, a toxic brew of surprisingly negative US economic data acted as the proverbial straw that broke the camel's back, and sent share prices plummeting. The Dax fell by almost 22 % within a mere eight trading days. Following its annual high at more than 7,500 points in early May, Germany's lead index fell to its annual low of 5,072 points by mid-September. The recovery that then set in from early October 2011 managed to make up for part of the losses. Through to spring 2012, stock markets were subsequently affected by the debt crisis in the euro area, economic policy measures to contain the crisis, and more recently by a more favorable macroeconomic outlook. By the end of our financial year (February 29, 2012), the Dax had returned to 7,856 points, thus losing around 5 % over the twelve-month period. German second-tier stocks performed comparatively better. Between March 1, 2011 and February 29, 2012, the SDax fell by just 3 %, while the MDax even managed to rise by 1 %.

Within this highly uncertain capital market climate, the preference share of HORNBACH HOLDING AG (ISIN DE0006083439) significantly outperformed the overall market from the start of the highly volatile second half of 2011. It opened the year with a Xetra price of € 52.50 on March 1, 2011, and moved sideways at this level for around four months. The strong sales and earnings performance of the HORNBACH Group in the first quarter (March 1 to May 31, 2011) lent the preference share considerable momentum following publication of the figures as of June 30, 2011. The annual high, and at the same time the new all-time high, was reported at € 63.30 on July 8, 2011. After this, the share price came under pressure from profit taking and the widespread fall in prices on international stock markets in August 2011. The annual low was reported at € 44.35 on September 12, 2011. Due not least to the solid performance of the DIY sector in the fall, the preference share then returned to a volatile upwards trend. With the tailwind provided by the nine-month figures published on December 22, 2011, the stock regained a valuation range of between € 55 and € 60 in February 2012. By the end of the financial year (February 29, 2012), the share closed at € 57.25, equivalent to an annual performance of plus 9 %. The share thus proved comparatively immune to the extremely unsettled backdrop of news, particularly during the intensification in the European debt crisis from summer 2011, and significantly outperformed the Dax, MDax and SDax.

Quality is trump

Widespread uncertainty among stock market players, ever more extreme daily ups and downs, and the question as to the "right" sustainable investment strategy and safe havens have united many investors in the insight that what now counts most is to select the right stocks. Quality is the only factor that matters. Viewed in this light, HORNBACH and its sustainable business model, with which the company, via its most important operating subgroup, HORNBACH-Baumarkt-AG, further boosted its market position in Germany and eight other countries in the past financial year as one of Europe's most successful operators of DIY stores and garden centers, fits in well with this quality-driven approach. This was also accompanied by a pleasing business performance at the HORNBACH Baustoff Union GmbH subgroup, which also profited from the boom in the housing construction and renovation market. Not only that, the HORNBACH Group can point to a stable financing structure, a further increase in its equity ratio and high cash holdings, factors that serve to reassure today's ever more risk-averse investors.

The ongoing improvement in our Group's earnings, net asset and financial position has also been honored by the rating agency Standard & Poor's. At the end of July 2011, S&P upgraded its corporate ratings for both HORNBACH HOLDING AG and HORNBACH-Baumarkt-AG by one grade from "BB" to "BB+", the highest rating below investment grade level, and set its outlook at "stable".

Issue of bonus shares as of July 29, 2011

To enhance the attractiveness of HORNBACH HOLDING's share, in the past financial year we acted on a suggestion received from shareholders and issued one new bonus share for each existing preference and ordinary share to all shareholders on the basis of the corresponding resolution adopted by the Annual General Meeting on July 8, 2011. The bonus shares have been included in the stock market listing since July 29, 2011. Due to the issue of bonus shares at a ratio of 1:1, the number of HORNBACH HOLDING shares has doubled, while the share price consequently halved, leaving the company's market capitalization unchanged at the time of conversion. This produced the desired outcome, namely that the listed preference shares now appear cheaper in optical terms. Prior to the issue of bonus shares, the HOLDING preference shares were relatively expense for private investors, especially when compared with the stocks of many other companies in the MDax and SDax indices. At € 126.60 on July 8, 2011, the share price reached its highest level on since the company's IPO in 1987.

The issue of bonus shares was preceded by an increase in the company's share capital from company funds by converting part of the revenue reserves reported in the company's annual balance sheet as of February 28, 2011 into share capital. The share capital of HORNBACH HOLDING AG was doubled to € 48,000,000.00, and is divided into 8,000,000 ordinary shares and 8,000,000 preference shares with a prorated amount of € 3.00 per share.

Key data about the HORNBACH HOLDING share (IFRS)		2011/2012	2010/2011
Nominal value of the share	€	3.00	3.00
Dividend per preference share[1]	€	0.67	0.67
Earnings per preference share	€	4.79	5.08
Total dividend payment	€ 000s	10,480	10,480
Shareholders' equity per share (including minority interests)[2]	€	130.16	120.30
Market capitalization[2]	€ 000s	916,000	840,400
Share price (Xetra)[2]	€	57.25	52.53
12-month high	€	63.30	55.55
12-month low	€	44.35	31.26
Shares issued[3]	Number	16,000,000	16,000,000
Price / earnings ratio[2]		12.0	10.3

[1] 2011/2012: subject to resolution by the Annual General Meeting
[2] At the end of the financial year (the last day in February)
[3] Due to the issue of bonus shares (1:1), the number of shares doubled as of July 29, 2011. The previous year's figures have been retrospectively adjusted.

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 the media to present our company's objectives and strategy in interviews. 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 continuity

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 6, 2012. Following the doubling of the number of shares due to the issue of bonus shares, 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 shares of HORNBACH HOLDING AG are admitted for trading in the Prime Standard and are 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 stake 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 DE0006083439 WKN 608343
Stock market code	HBH3
Bloomberg	HBH3 GY
Reuters (Xetra)	HBHGP.DE

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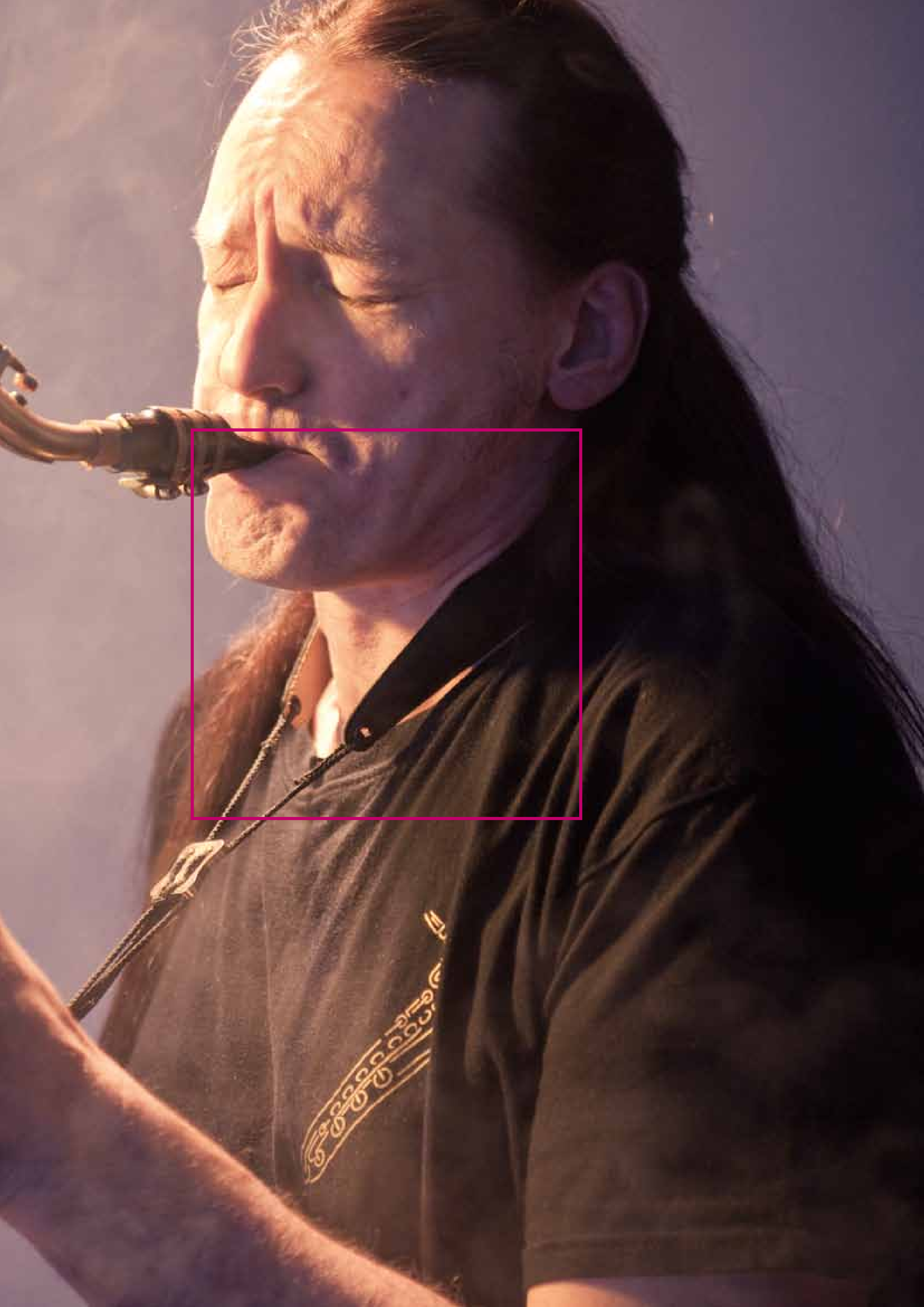
FINANCIAL CALENDAR FOR 2012

May 24, 2012	Annual Results Press Conference 2011/2012 Publication of Annual Report
June 28, 2012	Interim Report: 1st Quarter 2012/2013 as of May 31, 2012
July 6, 2012	Annual General Meeting Festhalle Landau, Landau/Pfalz
September 27, 2012	Half-Year Financial Report 2012/2013 as of August 31, 2012 DVFA Analysts' Conference
December 21, 2012	Interim Report: 3rd Quarter 2012/2013 as of November 30, 2012

Body and soul

»It took me more than four weeks to restore my old saxophones from the 20s and 40s. And all it needed was really simple materials from the DIY store. Since then people often ask me how much the instruments are worth. To be honest, I do not know their precise value. But I do know that I will not be parting company with the old instruments so quickly. They have a soul money cannot buy.« ■



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 three new stores

HORNBACH launched operations at three new DIY megastores with garden centers in the 2011/2012 financial year. The store network in the Czech Republic was extended from six to eight locations with the opening of new stores in Plzeň and Ostrava. The standalone garden center in Neunkirchen (Saarland) was closed on schedule. A new store was opened at the Sinsheim location (Baden-Württemberg), thus replacing the nearby existing store. At the balance sheet date on February 29, 2012, the subgroup was operating 91 retail outlets in Germany and 43 in other European countries, with total sales areas of around 1,549,000m². The HORNBACH DIY megastores with garden centers had average sales areas of around 11,600m².

Three billion euro mark exceeded

The HORNBACH-Baumarkt-AG subgroup has posted a very pleasing performance for the 2011/2012 financial year. The company exceeded the three billion euro sales mark for the first time in its history. Consistent with its forecast, net sales at the 134 DIY megastores with garden centers in nine countries across the Group grew by 5.8 % to € 3,001 million (2010/2011: € 2,836 million). Due to the Group's expansion, the share of sales generated at international stores increased from 42.1 % to 42.4 %.

As in the previous year already, key growth momentum came from the HORNBACH stores in Germany. In terms of sales, these stores significantly outperformed the overall DIY sector, boosting their like-for-like sales by 5.8 % and thus expanding their market share from 8.8 % to 9.2 %. Very pleasing growth in Germany and Western Europe as a whole enabled the subgroup to more than offset the weaker level of demand in Eastern Europe. Like-for-like sales at the overall subgroup rose by 2.8 %, and by 4.0 % including currency items

HORNBACH-Baumarkt-AG also further improved its sales productivity once again in the year under report. Weighted sales per store rose to € 22.3 million, up from € 21.7 million in the previous year. Average weighted net sales per square meter of sales area at the Group increased from € 1,903 to € 1,933. Measured in terms of overall sales in Europe, HORNBACH was thus ranked first once again among the ten largest German DIY players.

Sustainable earnings growth

Thanks to pleasing like-for-like sales growth in conjunction with a stable gross margin and slightly improved store expense ratios, the HORNBACH-Baumarkt-AG subgroup successfully maintained its course of sustainable earnings growth in the 2011/2012 financial year, achieving year-on-year improvements in all key earnings figures. Operating earnings (EBIT) showed disproportionate growth compared with sales, rising by 7.8 % to € 128.4 million. The subgroup achieved its target of exceeding the EBIT of € 119.1 million reported for the previous 2010/2011 financial year, and thus met its forecast.

These positive results for the year under report are due in no small part to the company's extremely pleasing reception among DIY store customers. In the "Kundenmonitor Deutschland 2011" customer survey, HORNBACH was ranked 1st in the most important category – "Overall Satisfaction" – and also in 16 of the other 33 survey categories, thus leaving its competitors well behind. Particularly worth highlighting here is the fact that HORNBACH was project customers' first choice not only for criteria such as price, quality, selection and service, but also in terms of specialist advice.

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 24 outlets in south-western Germany at the balance sheet date on February 29, 2012. Its product range focuses on the needs of professional customers. Alongside the HORNBACH DIY megastores with garden centers in the retail segment and HORNBACH Immobilien AG, which operates in the real estate segment, HBU is thus the third group subsidiary within the HORNBACH HOLDING AG Group.

Favorable conditions for builders' merchants

The German construction sector picked up noticeably in 2011, with particularly strong momentum from private housing construction. This benefited from higher private household incomes, positive developments on the labor market, and continuing favorable financing terms for house builders. The number of housing projects approved in Germany soared by almost 22 % in 2011. The positive trend in building permits already seen in 2010 (plus 5.5 % compared with 2009) thus accelerated sharply. The price-adjusted volume of construction investments grew by 5.8 % in 2011. New orders in the main building trade rose by 4.4 % on a price-adjusted basis. Here, the 9.3 % rise in demand for construction projects contrasted with a slight decline of 0.6 % in civil engineering projects.

HBU with significant sales and EBIT growth

Against this backdrop, construction activity also picked up noticeably in the region covered by HORNBACH Baustoff Union GmbH. Overall sales at the subgroup improved by 11.8 % to € 201.5 million (2010/2011: € 180.3 million). Like-for-like sales grew by 9.1 %, with all product divisions contributing to this growth. HBU achieved above-average growth rates in its garden and landscaping and its construction divisions. The subgroup successfully acquired new market share.

The HORNBACH Baustoff Union GmbH subgroup further boosted its earnings strength in the 2011/2012 financial year. Driven by pleasing sales growth in conjunction with improved expense ratios and optimized sales, procurement and logistics activities, operating earnings (EBIT) increased by 16.5 %, or € 0.5 million, to € 3.8 million. Operating earnings thus improved for the seventh year in succession.

At the beginning of the 2011/2012 financial year, the subgroup extended its location network with new outlets in Ludwigshafen (Rheinland-Pfalz) and Viernheim (Hessen). To account for the substantial sales growth, warehouse capacities were extended at several locations. The pleasing business performance of the garden and landscaping division was boosted by numerous new garden exhibitions focusing on the subgroup's Unio-Stone private label.

The control and profit and loss transfer agreement between HORNBACH HOLDING AG and HORNBACH Baustoff Union GmbH was terminated as of February 29, 2012. To strengthen its financial autonomy, HBU executed a € 31.2 million increase in its shareholders' equity.

Successfully established as brand

HORNBACH Baustoff Union GmbH successfully maintained its strategic course in the 2011/2012 financial year. With its core competencies in construction, civil engineering, roofing, plaster, dry construction, garden, landscaping, and natural stone, the subgroup's sales concept focuses in particular on the needs of professional customers in the construction sector. With this specialist retail approach, the HORNBACH Group has been able to draw above-average benefit via its professional customers from the upturn in the regional new construction and renovation business. The macroeconomic indicators discernible in spring 2012 give grounds to expect that the market situation for construction materials retail will remain stable in the current 2012/2013 financial year within the sales region covered by HORNBACH Baustoff Union GmbH.

HBU has firmly established itself as the market leader in its regional catchment area in south-western Germany. By relocating one outlet and opening one new location, the subgroup aims to further consolidate its position in the regional builders' merchant business in the 2012/2013 financial year.

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.

For several years now, part of the strategy for financing the rapid expansion of the network of DIY megastores with garden centers has involved using sale and leaseback transactions to free up funds. The liquid funds released in this way have become an important source of financing for further growth.

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 29, 2012, around 53 % (2010/2011: 52 %) of the total sales areas used for retail (approx. 1.55 million m²) belonged to one of the group companies. The remaining 47 % (2010/2011: 48 %) of sales areas are either rented from third parties, or leased from third parties with a repurchase option (45 %). In individual cases (2 %), the land has been leased (hereditary lease).

The 53 % of sales areas owned by the Group are divided between the HORNBACH-Baumarkt-AG (24 %) and the HORNBACH Immobilien AG (29 %) subgroups. At the balance sheet date on February 29, 2012, the HORNBACH Immobilien AG subgroup had let or sublet 39 DIY megastores with garden centers in Germany and abroad, with sales areas totaling 445,171m², 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 € 23.7 million was thereby transferred for the past financial year (2010/2011: € 22.6 million).

The HORNBACH-Baumarkt-AG subgroup operated a total of 134 DIY megastores with garden centers in Germany and abroad at the balance sheet date. Of these, 34 locations with sales areas totaling 378,031m² 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 1,549,084m² at the balance sheet date. Ownership of the sales areas was structured as follows at the balance sheet date on February 29, 2012:

	No. of stores	Sales area-m²	Share %
Property owned			
HORNBACH-Baumarkt-AG subgroup	34	378,031	24.4
HORNBACH Immobilien AG subgroup	39	445,171	28.7
Subtotal of property owned	**73**	**823,202**	**53.1**
Land rented, buildings owned	4	34,968	2.3
Operating lease (rent)	57	690,914	44.6
Total	**134**	**1,549,084**	**100.0**

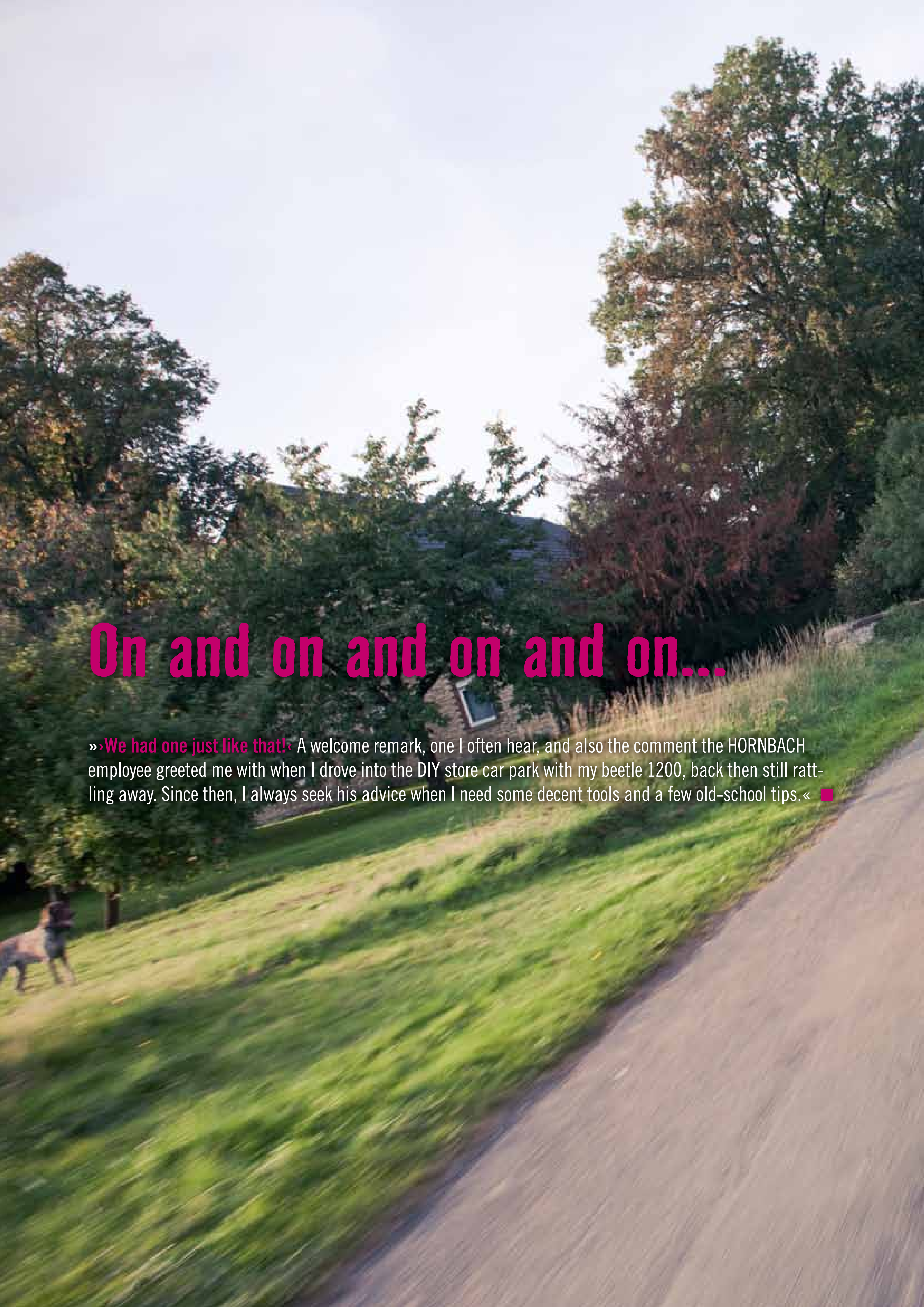
In Neustadt an der Weinstrasse, HORNBACH Immobilien AG has let an office building to HORNBACH HOLDING AG and various subsidiaries. A specialist retail center in Bornheim bei Landau with sales areas in excess of 4,700m² has been let to well-known retail chains. In addition, HORNBACH Immobilien AG and 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 € 393 million in the balance sheet as of February 29, 2012. 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 € 699 million at the balance sheet date. The deduction of the carrying amount of the real estate in question (€ 393 million) leads to hidden reserves of € 306 million.

At the balance sheet date on February 29, 2012, 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 € 408 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 € 627 million. Deducting the carrying amount (€ 408 million) leads to calculated hidden reserves of around € 219 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 € 525 million.



On and on and on and on…

»›**We had one just like that!**‹ A welcome remark, one I often hear, and also the comment the HORNBACH employee greeted me with when I drove into the DIY store car park with my beetle 1200, back then still rattling away. Since then, I always seek his advice when I need some decent tools and a few old-school tips.«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GROUP MANAGEMENT REPORT

Macroeconomic Framework

Global upturn held back by sovereign debt crisis

The global economic recovery lost momentum in 2011. According to the International Monetary Fund (IMF), the global economy generated growth of 3.8%, compared with growth of 5.2% one year earlier. Given the numerous shocks faced by international markets in the past year, the global economy nevertheless put in a respectable performance. Particularly memorable in this respect were the shocking news surrounding the natural and reactor catastrophe in Japan, severe flooding in Thailand, as well as the months of civil war in Libya and the Syrian conflict. From an economic and political perspective, however, the dominant topic in 2011 was the European sovereign debt crisis, which reached a preliminary low point with the debate surrounding the second multibillion rescue package for Greece and the shaky outlook for the future of other euro countries. The fact that the USA only just managed to avert government bankruptcy in summer 2011 also served to exacerbate macroeconomic concerns on the global stage in the second half of the year.

It therefore comes as no surprise that the global economic upturn began to falter in the fourth quarter of 2011. This was due to a broad-based macroeconomic slowdown across several regions. In emerging economies, monetary policy was noticeably throttled so as to regain control of accelerated inflation. In the euro area, the intensification in the debt crisis had a strong downward impact on overall economic developments. The countries affected by the crisis came under even greater pressure to consolidate. Consumer and investor confidence declined even further. Financing terms for the commercial economy also deteriorated. Via trading structures, these negative influences spilled over onto other countries within the euro area.

Europe: following pleasing start, year ends on weak note

Thanks to high volumes of business carried over from 2010 and lively developments at the beginning of the year, Eurostat, the European Union statistics authority, has estimated that full-year growth amounted to 1.5% in 2011 both for the euro area and for the European Union as a whole (EU 27).

In the final three months of 2011, the European economy underwent the weak period already looming on the horizon in the summer half of the year. Real-term gross domestic product (GDP) thus declined once again in the fourth quarter of 2011 for the first time since spring 2009. Seasonally-adjusted GDP both in the euro area and in the EU 27 countries contracted by 0.3% compared with the previous quarter.

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

Percentage change on previous quarter Source: Eurostat (calendar year figures)	1st Quarter 2011	2nd Quarter 2011	3rd Quarter 2011	4th Quarter 2011	Calendar Year 2010 vs. 2009
Germany	**1.3**	**0.3**	**0.6**	**(0.2)**	**3.0**
Luxembourg	0.2	(0.6)	1.0	0.2	1.6
Netherlands	0.7	0.2	(0.4)	(0.6)	1.2
Austria	0.8	0.5	0.2	(0.1)	3.1
Romania	1.1	0.2	1.1	(0.2)	2.5
Slovakia	0.8	0.8	0.8	0.9	3.3
Sweden	0.4	1.1	0.9	(1.1)	3.9
Switzerland	0.4	0.4	0.3	0.1	1.9
Czech Republic	0.5	0.3	(0.1)	(0.1)	1.7
Euro area	**0.7**	**0.1**	**0.1**	**(0.3)**	**1.5**
EU 27	**0.6**	**0.2**	**0.3**	**(0.3)**	**1.5**

The economic slowdown in the final quarter of the year affected Europe across the board. Alongside the crisis-ridden countries in Southern Europe, some economies not directly affected by the sovereign debt crisis, including Germany and the Netherlands, also reported negative GDP growth rates. A similar picture is therefore to be seen in most countries within HORNBACH's pan-European network. According to available Eurostat data, only Luxembourg, Slovakia and Switzerland reported positive growth in macroeconomic output in the fourth quarter of 2011 compared with the previous quarter.

For 2011 as a whole, GDP growth rates in the nine European countries covered by HORNBACH's store network mostly exceeded the level of growth in the euro area, and ranged between one and four percent. As in the previous year, Germany lent the European economy a strong helping hand in 2011. While economic growth in numerous other countries suffered significantly on account of the euro debt crisis, the robust level of domestic demand in particular in Europe's largest economy helped ensure stability in the EU.

German economy grows by 3% in 2011

The German economy showed further strong growth in 2011. According to the Federal Statistics Office (Destatis), price-adjusted GDP increased by 3.0% (2010: plus 3.7%). The economic recovery process thus continued in Germany for the second consecutive year following the economic crisis. Macroeconomic output overtook pre-crisis levels in the course of 2011. The upturn mostly took place in the first half of the year. In the fourth quarter of 2011, even the German economy, which had previously being ticking over at a pleasing rate, was unable to escape the extended macroeconomic implications of the euro debt crisis. With a decline of 0.2% compared with the previous quarter, GDP took a slight knock. It nevertheless remains the case that economic output exceeded the respective figures for 2010 in all four quarters.

Unlike in 2010, the momentum driving growth in 2011 came less from strong exports, but rather from the domestic economy. Economic developments in 2011 were characterized by strong investment momentum. Significantly higher amounts were invested in equipment (price-adjusted plus 7.6%). These mainly include machinery, appliances, and vehicles. What's more, price-adjusted construction investments grew by 5.8%.

Furthermore, private consumer spending in particular proved to be a key driver of economic developments in Germany. This grew by 1.5%, and thus faster that at any time in the past five years. The main factor behind this growth was the positive development on the German labor market which, irrespective of the macroeconomic deterioration at the end of 2011, has continued to expand to date. The average number of people in employment reached a new record level at more than 41 million in 2011. This boosted consumer confidence among German consumers, and that despite all of the difficult news surrounding the European debt crisis. The increase in consumer confidence is also reflected in the savings rate, which declined from 11.3% to 10.9%. Private consumer spending also benefited from the development in real-term incomes. Net of inflation, which surged from 1.1% to 2.3% in 2011, mainly on account of higher food and energy prices, Germans had one percent more in their pockets than in the previous year to spend on consumption.

Boom in housing construction

The optimistic mood among private households was and is the key source of momentum for housing construction. In conjunction with ongoing attractive financing terms, higher wages and salaries and the perceived low probability of job loss have motivated ever more households to buy their own home or tackle larger-scale renovation measures. According to the Bundesbank, the prospect of improved incomes has also stimulated the residential lettings market, which the capital providers clearly expect to offer stable asset values. To satisfy high private and commercial demand for residential properties, property holdings have been extended. The key indicators for the construction industry reflect this development.

Building permits were issued for 228,400 apartments in 2011, 21.7% more than in the previous year. At around 200,000 residential units (plus 21.6%), most of these related to new housing construction. Here, newly built units in apartment blocks were in particularly great demand (plus 26.8%), while 17.5% more units involving detached and semidetached houses were approved than in the previous year. The positive trend already observed in 2010, in which 5.5% more building permits were issued than in 2009, thus clearly intensified further.

The boom in construction activity, which also benefited from milder weather conditions in December 2011 than in the previous year, was also reflected in the statistics for the main construction trade. According to Destatis, the construction industry reported 4.4% new order growth on a price-adjusted basis in 2011. The strongest momentum came from housing construction, which witnessed a 17.8% increase in orders. Overall demand in the construction sector grew by 9.3%, while demand for civil engineering fell slightly short of the previous year's figure. Total sales in the main construction trade improved by 12.5% to € 93.4 billion in 2011. Even higher growth rates were reported by builders' merchants. According to the Federal Association of German Builders' Merchants (BDB), sales in this sector grew by 14% in the second half of 2011. Based on estimates compiled by the association, full-year growth might turn out even higher.

Retail sector with real-term growth of 1.1 % – tangible assets in demand

According to the Federal Statistics Office, retail sales in Germany (excluding motor vehicle retail) grew by 1.1% in real terms and by 2.6% in nominal terms in 2011. To date, consumers seem to have been more willing to spend their money on durable goods and larger-scale acquisitions rather than investing or saving it. The much-cited "run on tangibles" was also apparent in the more detailed retail statistics. The level of expenditure on consumers' own four walls, interior furnishings and high-value goods was particularly striking in the past year. Retail sales with metal goods, coating materials, and DIY and home improvement goods grew by 1.3% in real terms, while price-adjusted expenditure on furniture, other furnishings and household goods rose by 4.2%. Top of the scale in terms of popularity were watches and jewelry (plus 7.3% in real terms), as well as works of art and coins (plus 12.0% in real terms). Significant growth rates were reported for mail order and internet retail, where sales rose by 4.7% in real terms. Demand in the motor vehicle retail business was even higher, with price-adjusted sales growth of 6.2% in 2011. Due not least to rising food prices, food retail only managed to post slight price-adjusted growth of 0.2%.

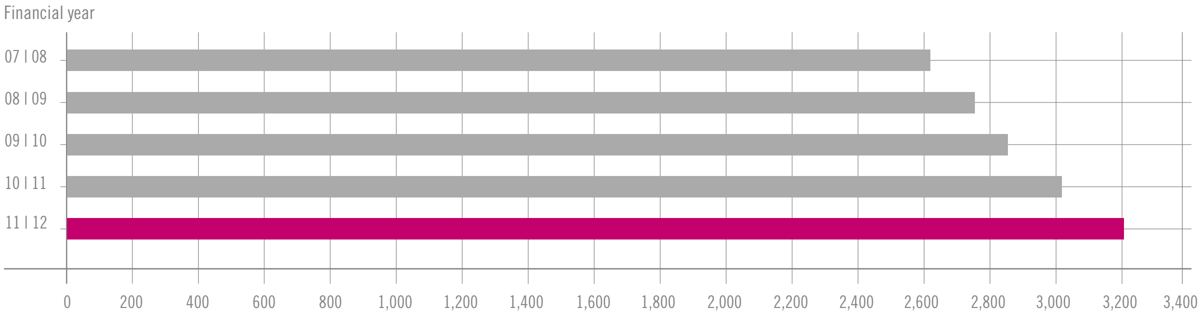
DIY and garden stores profit from consumer sentiment

Thanks to consumers' positive propensity to spend and increased demand in the housing construction and renovation businesses, the German DIY and garden center sector (DIY retail / DIY) managed to increase its sales in for the third year in succession in 2011. According to the BHB sector association, the DIY sector posted moderate growth in 2011, and that despite unfavorable weather conditions in the summer. Based on the BHB/GfK report, large-scale DIY stores with indoor sales areas of at least 1,000 m² per outlet could report nominal gross sales growth of 1.5% to € 18.71 billion (2010: € 18.43 billion). Like-for-like sales, i.e. sales excluding stores newly opened, closed or significantly renovated in the year under report, were 1.0% ahead of the previous year's figure. Gross sales at smaller-scale DIY stores with sales areas of less than 1,000 m² (DIY shops) showed slight growth of 0.7% to € 3.77 billion in the 2011 calendar year (2010: € 3.74 billion).

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, grew by 1.4% to € 22.48 billion in 2011 (2010: € 22.18 billion).

Sales Performance

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



At the balance sheet date on February 29, 2012, the HORNBACH HOLDING AG Group comprised the HORNBACH-Baumarkt-AG, HORNBACH Baustoff Union GmbH (HBU), and HORNBACH Immobilien AG subgroups. In the 2011/2012 financial year (March 1, 2011 to February 29, 2012), the HORNBACH Group boosted its consolidated sales (excluding sales tax) by 6.2% from € 3,017 million to € 3,204 million. This pleasing increase was at the upper end of the forecast, namely of generating sales growth in a medium single-digit percentage range.

HORNBACH-Baumarkt-AG subgroup

Sales at the HORNBACH-Baumarkt-AG subgroup exceeded the three billion euro mark for the first time in the company's history in the past financial year (March 1, 2011 to February 29, 2012). Net sales rose by 5.8% to € 3,001 million (2010/2011: € 2,836 million).

Net sales in Germany increased by 5.4% to € 1,729 million in the 2011/2012 financial year (2010/2011: € 1,641 million). Outside Germany (other European countries), and including two newly opened stores, we reported sales growth of 6.5% to € 1,272 million (2010/2011: € 1,195 million). Due to the Group's expansion, the international share of consolidated sales grew from 42.1% to 42.4%.

Substantial growth momentum in Germany

Like-for-like sales at the subgroup, which take no account of stores newly opened or closed in the past twelve months, showed uneven developments from a geographical perspective in the 2011/2012 financial year. Thanks to very pleasing growth momentum in Germany and Western Europe as a whole, however, we managed to more than offset the downturn in sales in Eastern Europe.

Net of currency items, the subgroup's like-for-like sales rose significantly by 2.8% in 2011/2012, having already achieved a growth rate of 2.6% in the previous year. Including currency items, growth amounted to 4.0%. If we break down sales by quarter, then the impact of seasonal factors on our sales performance is clear. In the first quarter (March to May), the period accounting for the largest share of annual sales due to the spring and garden season, like-for-like sales jumped by 7.7% - the highest first-quarter increase reported since the international expansion began in 1996. In the second quarter, by contrast, demand at HORNBACH DIY megastores with garden centers only just matched the previous year's figure. This was primarily due to the unfavorable weather conditions in summer 2011 compared with the previous year, as well as to the deterioration in consumer confidence in some countries outside Germany due to the European sovereign debt crisis.

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

2011/2012 financial year 2010/2011 financial year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Group	**7.7**	**(0.2)**	**1.0**	**2.6**	**2.8**
	(2.0)	3.7	4.3	5.6	2.6
Germany	**11.9**	**2.2**	**3.5**	**5.2**	**5.8**
	(2.3)	4.9	6.4	8.2	3.8
Other European countries	**2.3**	**(3.2)**	**(2.4)**	**(0.8)**	**(1.0)**
	(1.5)	2.1	1.3	1.9	0.8

* Excluding currency items

In the second half of the 2011/2012 reporting year, we managed to exceed the previous year's figures, even as they became more ambitious from quarter to quarter.

The comments below refer to the development in like-for-like sales at the HORNBACH-Baumarkt-AG subgroup.

- **Germany**
  As in the previous year already, HORNBACH's locations in Germany were among the key growth drivers within the Group in the 2011/2012 financial year. Following record sales growth in the first quarter (plus 11.9% on an adjusted basis), the domestic stores maintained their very pleasing growth course in the second quarter of 2011/2012 as well, and that in spite of negative base effects. In June 2011, for example, there were two shopping days less than in June 2010. This calendar effect led to a shift in sales from the second to the first quarter of 2011/2012. Furthermore, weather conditions in the second quarter were almost the opposite of those seen in the previous year. While excellent summer weather in 2010 helped above all to send garden sales soaring in June and July, the weather in the summer of 2011 was unsettled and rainy in some cases. These calendar and seasonal factors nevertheless in no way impeded the strong growth trend in the further course of the 2011/2012 financial year. The rate of sales growth accelerated from quarter to quarter in the second half of the year. This is all the more remarkable when it is considered that the third and fourth quarters of the previous year, with adjusted growth of 6.4% and 8.2% respectively, had set ever higher standards to beat. The DIY business also benefited from favorable weather conditions in the fall months, as well as in December 2011. In 2011/2012 as a whole, like-for-like sales in Germany grew by 5.8% (2010/2011: 3.8%).

  German house builders, DIY enthusiasts and gardening fans did not let the insecurities arising due to the euro debt crisis undermine their consumer confidence in the year under report. Housing construction has proven an asset to the domestic economy right up to the present day. The strong demand for residential property has continued, given ever new record lows in terms of mortgage interest rates. The pleasing constitution of the German labor market and tangible pay increases have also created additional incentives to invest in new construction and renovation projects, and thus in inflation-proof assets. Given its retail format, with its focus on product range and service competence, HORNBACH caters to the needs of precisely this target group of project customers and can therefore continue to draw above-average benefit from the positive overall trend. In the comparative period from January to December 2011, for example, HORNBACH's domestic like-for-like sales were more than six percentage points ahead of the sector average in Germany (BHB: plus 1.0%). HORNBACH thus further expanded its market position. As a percentage of aggregate sales at all German DIY stores and garden centers (€ 22.5 billion), HORNBACH's market share grew from 8.8% to 9.2%. 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: € 18.7 billion), then we increased our market share in this segment from 10.6% to 11.0%.

- **Other European countries**

  Sales in our "Other European countries" segment more or less matched the previous year's figure in the 2011/2012 financial year. Excluding currency items, sales showed a slight decline (minus 1.0 %). Including currency items for non-euro countries (Romania, Sweden, Switzerland, Czech Republic), like-for-like sales rose by 1.6%. Individual countries showed disparate developments due to the differing degrees of pressure on account of the financial and sovereign debt crisis. As a result, only some of HORNBACH's international DIY megastores with garden centers were able to contribute to the Group's like-for-like sales growth.

  The economic recovery in **Eastern Europe** – for us, that means Romania, Slovakia and the Czech Republic – is taking longer than economists originally expected. In the year under report, the local construction industry still suffered from a lack of orders. Stagnating private consumer spending and government austerity programs meant that domestic demand remained weak in these countries. As the difficult situation on the labor market only improved sluggishly, consumers were especially careful with their spending and postponed larger-scale projects. The situation was exacerbated by the fact that the severe winter in January/February 2012 brought public life to a halt across large parts of Eastern Europe. All these factors led to low or declining sales in the retail sector. HORNBACH too was unable to escape these underlying conditions. At the same time, the rate of decline in like-for-like sales in the East European store network slowed significantly from the second quarter through to the end of the financial year on February 29, 2012.

  By contrast in **Western Europe** as a whole (excluding Germany), i.e. in terms of aggregate sales for Luxemburg, the Netherlands, Austria, Switzerland and Sweden, the Group managed in the 2011/2012 financial year as a whole to exceed the high level of like-for-like sales already built up in previous years. Thanks to the distribution of risks within the "Other European countries" segment, we virtually offset the downturn in sales due to macroeconomic factors in some of our regions with pleasing sales growth in other regions. What's more, alongside the Group's 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 seven out of eight countries outside Germany, and thus acquired further market share despite the tough economic climate.

Three new locations opened

HORNBACH launched operations with three new DIY megastores with garden centers in the 2011/2012 financial year. In May 2011, a new HORNBACH DIY megastore with a garden center was opened at the **Plzeň** location in the Czech Republic. One month later, a new store opened its doors in **Ostrava** in the eastern region of the same country. The store network in the Czech Republic now comprises eight locations. The standalone garden center in Neunkirchen (Saarland), which was no longer consistent with strategic requirements, was closed on schedule in June 2011. The expansion program for the financial year under report was completed in September 2011 with the opening of a newly built store at the **Sinsheim** location (Baden-Württemberg). This store has replaced the old location in the vicinity.

Including the three stores newly opened and the two scheduled closures, a total of 134 retail outlets were in operation across the subgroup as of February 29, 2012 (February 28, 2011: 133). Sales areas at the 91 stores in Germany most recently amounted to around 981,000 m². The 43 DIY megastores in other European countries had sales areas of around 568,000 m². The international stores are located in Austria (11), the Netherlands (9), Luxembourg (1), Czech Republic (8), Switzerland (5), Sweden (3), Slovakia (2), and Romania (4).

Total sales areas amounted to around 1,549,000 m² at the HORNBACH-Baumarkt-AG subgroup as of February 29, 2012. The HORNBACH DIY megastores with garden centers had average sales areas of around 11,600 m² (2010/2011: 11,400 m²).

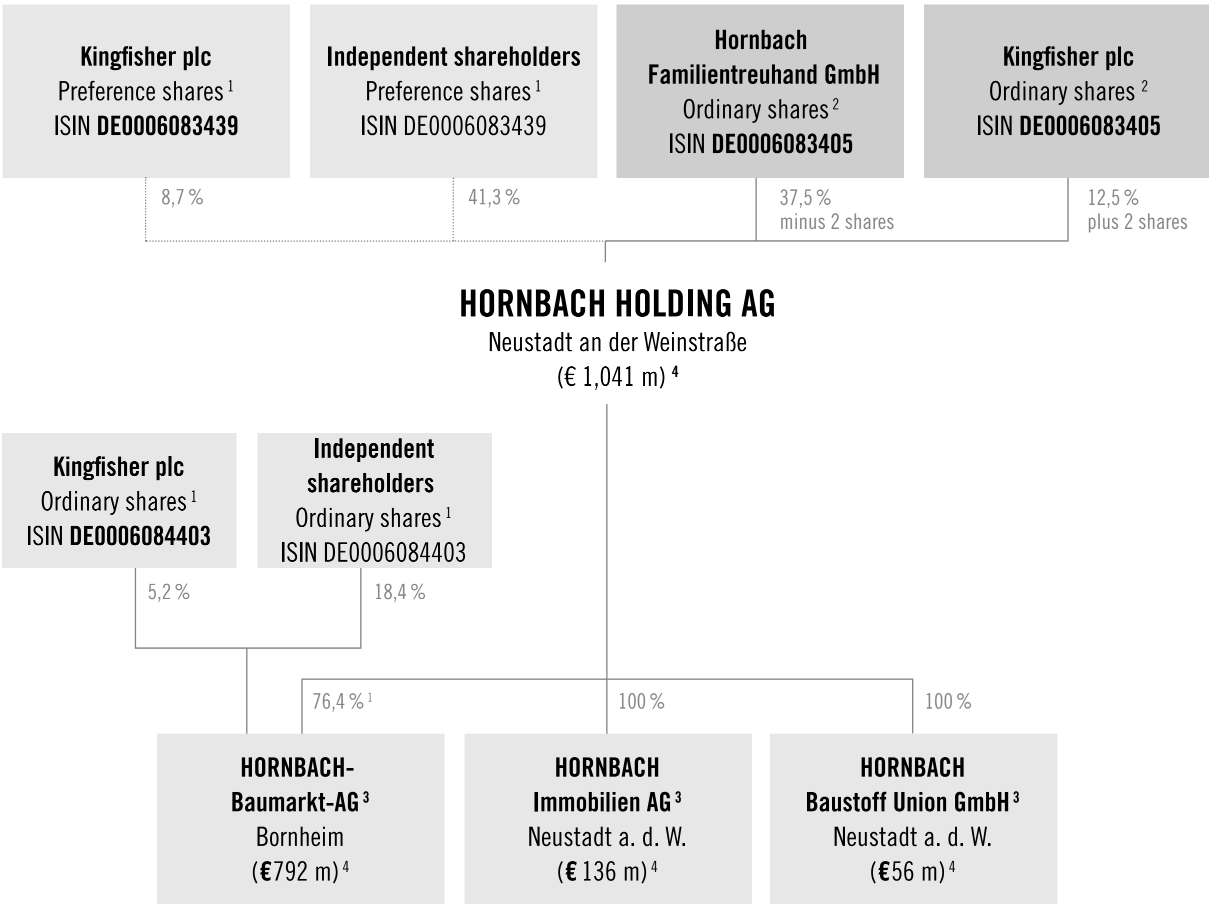
HORNBACH Baustoff Union GmbH subgroup

The HORNBACH Baustoff Union GmbH subgroup can also report a highly successful business performance for the 2011/2012 financial year. In particular, the boom in regional housing construction and in the renovation market led to dynamic (net) sales growth of 11.8% to € 201.5 million (2010/2011: € 180.3 million). HBU was operating 24 outlets in south-western Germany at the balance sheet date on February 29, 2012 (2010/2011: 21).

HORNBACH Immobilien AG subgroup

The HORNBACH Immobilien AG subgroup 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 7.0% to € 68.7 million in the 2011/2012 financial year (2010/2011: € 64.2 million). Of this, € 66.1 million (2010/2011: € 61.7 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 29, 2012



- 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 from Page 110 onwards

[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 29, 2012

Earnings Performance

Key earnings figures of the HORNBACH HOLDING AG Group

Key figure (€ million, unless otherwise stated)	2011/2012	2010/2011	Change
Net sales	3,204	3,017	6.2%
of which: in Germany	1,932	1,822	6.0%
of which in other European countries	1,272	1,195	6.5%
Like-for-like sales growth	2.8%	2.6%	
EBITDA	246.5	228.7	7.8%
EBIT	169.1	159.1	6.3%
Earnings before taxes	131.9	126.8	4.0%
Consolidated net income	94.6	99.1	(4.5)%
EBITDA margin	7.7%	7.6%	
EBIT margin	5.3%	5.3%	
Gross margin	36.6%	36.6%	
Store expenses as % of net sales	27.1%	27.4%	
Pre-opening expenses as % of net sales	0.2%	0.2%	
General and administration expenses as % of net sales	4.2%	4.1%	
Tax rate	28.3%	21.9%	

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

Earnings performance of the HORNBACH HOLDING AG Group

The HORNBACH HOLDING AG Group successfully maintained its course of sustainable earnings growth in the 2011/2012 financial year. All of the Group's key earnings figures improved compared with the previous year. Consistent with our forecast, consolidated operating earnings (EBIT) exceeded the figure reported for the 2010/2011 financial year (€ 159.1m) and showed slightly disproportionate growth compared with sales, rising by 6.3% to € 169.1 million. This was chiefly due to like-for-like sales growth at the DIY store segment at the HORNBACH-Baumarkt-AG subgroup in conjunction with a stable gross margin and a slight improvement in store operating expense ratios. Moreover, disproportionate earnings growth at the HORNBACH Baustoff Union GmbH subgroup also contributed to the positive earnings performance of the overall Group.

Gross margin

The gross margin easily defended the previous year's level in the 2011/2012 year under report. As a percentage of net sales, the gross profit remained unchanged at 36.6%. We managed to offset higher procurement prices with a slight rise in average retail prices, changes in our product mix, and positive currency items in our international procurement activities.

Selling and store, pre-opening and administration expenses

Selling and store expenses at the overall Group rose by 5.1% to € 867.8 million (2010/2011: € 825.5 million), and thus slightly less rapidly than sales. As a percentage of net sales, the store expense ratio decreased from 27.4% to 27.1%. This improvement in the ratio was largely due to savings generated in absolute terms with advertising expenses. Utility expenses also fell short of the previous year's figures. These were positively affected by the measures taken in the past to enhance energy efficiency at the HORNBACH DIY megastores with garden centers with the assistance of modern building control technologies and energy-saving lighting. Finally, our store expense ratio also benefited from the fact that rental expenses rose less markedly than sales. These positive items more than offset the disproportionate increase in personnel and operating expenses.

Due to the higher pace of expansion, pre-opening expenses increased from € 5.3 million to € 6.4 million in the 2011/2012 financial year (please see Note 4). Following two new store openings in the 2010/2011 financial year, operations began at three new HORNBACH locations in the year under report. The pre-opening expense ratio remained virtually unchanged at 0.2%.

Administration expenses grew by 9.0% to € 134.9 million in the year under report (2010/2011: € 123.7 million). This markedly disproportionate increase compared with sales was primarily due to important forward-looking projects in the Group's administrative departments. These projects, mostly relating to the HORNBACH-Baumarkt-AG subgroup, included developing and extending our online retail and tradesman service activities and further enhancing the professionalism of our group-wide human resources activities, an increasingly important factor in view of "employer branding" considerations. The administration expense ratio increased from 4.1% to 4.2% as a result.

Other income and expenses

Other income and expenses decreased from € 9.0 million to € 6.2 million in the year under report. This item benefited from a positive base effect in the previous year in connection with electricity tax in Germany. Due to an amended risk assessment in respect of potential refund claims at our energy-related services provider, a provision of € 3.8 million was recognized for this item in the 2010/2011 financial year - in contrast to the electricity tax refund originally expected.

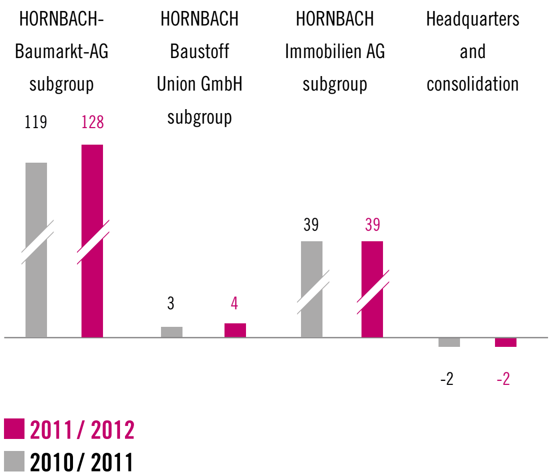
In the 2011/2012 financial year, by contrast, other non-operating income and expenses were negative at minus € 7.4 million (2010/2011: minus € 0.9 million). This was mainly due to impairment losses in Romania. By the end of the 2011/2012 financial year it was apparent that the expectations in the medium-term sales and earnings performance of our Romanian store network were too high. We were therefore obliged to adjust our forecasts for this East European country in the context of the five-year plan presented to the Supervisory Board in February 2012 and to test all non-current assets in Romania for impairment. This impairment test resulted in the recognition of impairment losses of € 1.7 million for plant and office equipment in Romania in the DIY store segment at the HORNBACH-Baumarkt-AG subgroup. At the HORNBACH Immobilien AG subgroup, impairment losses of € 3.0 million were recognized on land and buildings. Earnings were also negatively affected by impairment losses on land no longer required for operations, other expenses and provisions for the refurbishment of DIY store properties, and other charges in connection with the discontinuation of location projects.

Earnings performance

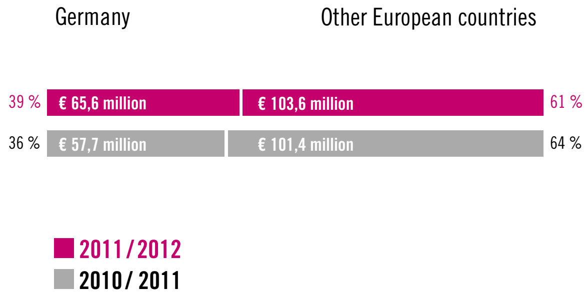
Notwithstanding these additional charges with a net total of € 6.5 million within the non-operating result, the pre-tax earnings figures of the HORNBACH HOLDING AG Group showed pleasing overall developments in the 2011/2012 year under report. Earnings before interest, taxes, depreciation and amortization (EBITDA) grew by 7.8% to € 246.5 million (2010/2011: € 228.7 million). As a percentage of net sales, the EBITDA margin improved from 7.6% to 7.7%. Operating earnings (EBIT) increased by 6.3% to € 169.1 million (2010/2011: € 159.1 million). As in the previous year, the EBIT margin amounted to 5.3%.

Consolidated earnings before taxes (EBT) rose by 4.0% to € 131.9 million (2010/2011: € 126.8 million), and thus somewhat more slowly than sales. This was mainly due to negative currency items (including currency futures), which led net financial expenses to deteriorate from minus € 32.3 million to minus € 37.2 million. While the previous year's earnings benefited from positive currency items of € 5.3 million, earnings in 2011/2012 were affected by charges of € 2.4 million. This item

EBIT by segment
(€ million)



EBIT by region
(share in %)



was countered by net interest expenses, which improved from minus € 37.0 million to minus € 34.7 million. The return on sales before taxes eased from 4.2% to 4.1%.

In contrast to the pre-tax earnings figures, a negative base effect meant that consolidated net income fell short of the previous year's figure. Consolidated net income decreased by 4.5% to € 94.6 million (2010/2011: € 99.1 million). The Group's tax rate increased from 21.9% to 28.3%. It should be noted that consolidated net income for the previous 2010/2011 financial year was positively affected by a tax refund claim of € 8.2 million recognized through profit or loss for previous years (2010 Annual Tax Act). The return on sales after taxes therefore eased from 3.3% to 3.0%. Earnings per share reduced from € 5.05 to € 4.76 per ordinary share and from € 5.08 to € 4.79 per preference share. The previous year's figures have been adjusted retrospectively to account for the issue of bonus shares as of July 29, 2011 (please see Note 9).

Earnings performance by segment

HORNBACH-Baumarkt-AG subgroup

With its pleasing earnings performance, HORNBACH-Baumarkt-AG, the largest operating subgroup, shaped the HORNBACH Group's growth in the 2011/2012 financial year.

We generated year-on-year growth in the key operating earnings figures in the DIY store segment in the year under report. This growth was largely driven by like-for-like sales growth in Germany and Western Europe as a whole in conjunction with a stable gross margin and a slight improvement in store expense ratios. These factors more than offset the increase in pre-opening and administration expenses, as well as the impairment losses recognized in connection with the company's expansion in Romania.

In the real estate segment, higher rental income and unchanged real estate expenses enabled us to more than offset the charges incurred for real estate development on the one hand and further substantial expenses to enhance energy efficiency at the HORNBACH DIY megastores with garden centers on the other. Operating earnings in the real estate segment in 2011/2012 were significantly higher than in the previous year.

The subgroup's EBIT showed slightly disproportionate growth compared with sales, rising by 7.8% to € 128.4 million. Consistent with our forecast, we thus reached our target of exceeding the EBIT of € 119.1 million reported for the previous year. Notwithstanding the negative base effect in terms of the tax rate, annual net income for the 2011/2012 financial year increased by 2.3% to € 77.4 million (2010/2011: € 75.7 million). Earnings per share at HORNBACH-Baumarkt-AG increased from € 2.38 to € 2.43.

HORNBACH Baustoff Union GmbH subgroup

The HORNBACH Baustoff Union GmbH subgroup further improved its earnings performance in the period under report. Operating earnings (EBIT) thus improved from € 3.3 million to € 3.8 million. This was chiefly the result of very pleasing sales growth in conjunction with effective cost management.

HORNBACH Immobilien AG subgroup

The EBIT of the HORNBACH Immobilien AG subgroup rose by 0.9% to € 39.0 million in the 2011/2012 financial year (2010/2011: € 38.6 million). The subgroup therefore successfully absorbed the additional charges of minus € 4.1 million on non-operating earnings (2010/2011: minus € 0.6 million) mainly attributable to the impairment losses in Romania.

Earnings performance by geographical region

As is apparent from the breakdown by geographical regions in the segment report (please see Page 121), the Group generated year-on-year earnings growth both in Germany and in other European countries. Thanks to the above-average like-for-like sales performance at our domestic DIY megastores with garden centers, we managed to improve the earnings contribution in the Germany segment once again in the 2011/2012 financial year.

EBITDA in **Germany** grew from € 105.2 million to € 113.8 million. The domestic share of the Group's EBITDA thus rose slightly from 46.0% to 46.2%. EBIT improved from € 57.7 million to € 65.6 million. The domestic business accounted for a 38.8% share of operating earnings in the 2011/2012 financial year (2010/2011: 36.3%). The EBIT margin in Germany rose from 2.9% to 3.1%.

In the 2011/2012 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 € 13 million (2010/2011: around € 10 million) related to the further expansion in our online retail business, 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 the Customer Service Center initiated for German stores in the 2010/2011 financial year and completed the rollout of the new checkout system to all 91 German DIY megastores with garden centers. Alongside these projects, we also worked on a series of other development projects 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 the increase in the earnings strength of our domestic DIY megastores with garden centers in the 2011/2012 financial year is even more apparent.

Earnings contributions from our international activities showed further year-on-year growth. With EBITDA of € 132.8 million (2010/2011: € 123.5 million), the **international business** accounted for 53.9% (2010/2011: 54.0%) of the EBITDA at the HORNBACH HOLDING AG Group in the period under report. EBIT in the international business increased from € 101.4 million to € 103.6 million.

The international share of EBIT decreased from 63.7% to 61.2%. With an EBIT margin of 8.1% (2010/2011: 8.5%), the other European countries segment remains more profitable than the German business. The increase in operating earnings in the other European countries segment was driven in particular by pleasing earnings growth in the Group's retail activities in Western Europe.

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) for approval by the Annual General Meeting on July 6, 2012.

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. Since the issue of the bond, external financing at the HORNBACH-Baumarkt-AG subgroup has exclusively taken 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.

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 29, 2012, the net financial debt of the overall Group amounted to € 347.8 million (2010/2011: € 322.1 million). The composition of financial debt has been presented in detail in the table on Page 54.

The current financial debt (up to 1 year) of € 173.8 million (2010/2011: € 193.5 million) consists of short-term financing facilities of € 28.5 million at the HORNBACH Immobilien AG subgroup (2010/2011: € 26.4 million) and of € 28.8 million at the HORNBACH Baustoff Union GmbH subgroup (2010/2011: € 27.7 million), interest deferrals of € 7.6 million (2010/2011: € 7.5 million), liabilities of € 7.0 million (2010/2011: € 3.9 million) from the measurement of derivative financial instruments, and the portion of long-term financing facilities maturing in the short term, amounting to € 101.9 million (2010/2011: € 128.0 million).

Solid capital structure

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

Since November 2004, HORNBACH-Baumarkt-AG has thus had a corporate bond of € 250 million issued on the European capital market with an interest coupon of 6.125% and a term running until November 2014. The costs associated with the corporate bond, amounting to € 10,714k in total, have been spread over the term using the effective interest method.

The value of the financing facilities secured by land charges at the overall Group amounted to € 268.5 million at the balance sheet date (2010/2011: € 302.6 million). Land charges of € 522.2 million had been provided as of February 29, 2012 as security for mortgage loans (2010/2011: € 527.9 million).

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	2.29.2012 Total	2.28.2011 Total
Short-term bank debt[1]	64.8	0.0	0.0	0.0	0.0	0.0	64.8	61.6
Mortgage loans	41.8	41.9	34.8	27.4	21.5	101.0	268.5	302.6
Other loans[2) 3)]	59.9	0.0	0.0	41.7	79.6	0.0	181.2	180.4
Bonds[3]	0.0	0.0	247.1	0.0	0.0	0.0	247.1	246.0
Liabilities in connection with bills of exchange	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Negative fair values of derivative financial instruments	7.0	0.0	0.0	0.0	0.0	0.0	7.0	3.9
Finance leases	0.2	0.2	0.2	0.3	0.3	0.3	1.5	1.7
Total financial debt	**173.8**	**42.1**	**282.2**	**69.4**	**101.4**	**101.3**	**770.1**	**796.2**
Cash and cash equivalents							422.3	474.0
Net financial debt							**347.8**	**322.1**

(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 second tranche of a promissory note bond of € 80.0 million already concluded by HORNBACH-Baumarkt-AG in the previous year was disbursed as of June 30, 2011. The new promissory note bond has a term running until June 30, 2016 and serves to provide follow-up financing for the previous promissory note bond of the same amount maturing as of June 30, 2011. In addition, the Group still has the two promissory note bonds from the first tranche already disbursed in the previous year. These bonds, amounting to € 20 million each and denominated in CHF and CZK respectively, have terms running until August 31, 2015. Forward swaps with congruent terms were concluded to hedge the interest rate. The swaps enable the half-yearly interest to be secured for the entire term.

HORNBACH Immobilien AG still has the promissory note bond of € 60.0 million concluded in the 2009/2010 financial year with joint liability on the part of HORNBACH HOLDING AG. This bond is repayable upon maturity and has a term running until June 29, 2012. Here too, the interest rate has been secured for the entire term with an interest swap with congruent terms.

At the balance sheet date on February 29, 2012, the overall HORNBACH HOLDING AG Group had free credit lines amounting to € 424.4 million (2010/2011: € 438.6 million) at customary market conditions. These include a newly concluded syndicated credit line of € 250 million with a term running until December 14, 2016. The previous syndicated credit line of € 200 million dating from 2006 was thus redeemed. 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

Key financial figures of the HORNBACH HOLDING AG Group

Key figure	Definition		2.29.2012	2.28.2011
Net financial debt	Current financial debt + non-current financial debt – cash and cash equivalents	€ million	347.8	322.1
Interest cover	Adjusted(*) EBITDA / Gross interest expenses		6.1	5.6
Net debt / EBITDA	Net financial debt / Adjusted(*) EBITDA		1.4	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

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. In the case of the bond, 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%. In the case of the promissory note bonds at the HORNBACH-Baumarkt-AG subgroup and the syndicated credit line at HORNBACH-Baumarkt-AG, maximum limits for financing facilities secured by land charges and financing facilities taken up by subsidiaries were also agreed. The conditions underlying 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 quarterly. 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 € 422.3 million at the balance sheet date (2010/2011: € 474.0 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.

Investments of € 162.9 million

The HORNBACH HOLDING AG Group invested a total of € 162.9 million in the 2011/2012 financial year (2010/2011: € 113.4 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 € 162.9 million required for cash-effective investments (2010/2011: € 113.4 million) were mostly covered by the cash flow from operating activities. The remaining amount was financed by reducing cash holdings. Around 71% of total investments were channeled into new real estate, including property under construction. Around 29% of total investments mainly involved replacing and extending plant and office equipment.

The most significant investment projects related to the DIY megastores with garden centers opened in the 2011/2012 financial year in Sinsheim (Germany) and Plzeň and Ostrava (both Czech Republic), 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 reduced from € 182.1 million in the previous year to € 141.8 million in the 2011/2012 financial year. Here, the inflow of funds from operations improved from € 169.3 million to € 181.2 million. This increase was chiefly driven by like-for-like sales growth in Germany and Western Europe, as well as by a lower store expense ratio.

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 € 39.4 million, as against the inflow of funds of € 12.8 million in the previous year. Alongside the building up of inventories for the Group's expansion, this development was due to a balance sheet date factor resulting from the earlier settlement of liabilities to suppliers, as a result of which cash and cash equivalents and the cash flow from changes in working capital were reported around € 42 million lower than otherwise.

The outflow of funds for investing activities rose from € 65.0 million to € 149.8 million. Here, the increase in investments by € 49.5 million to € 162.9 million was opposed by a lower volume of proceeds from disposals of non-current assets and from disposals of non-current assets held for sale, amounting to € 13.1 million in total (2010/2011: € 48.4 million). No DIY megastores with garden centers were disposed of in the framework of sale and leaseback transactions in the 2011/2012 financial year. In the previous year, by contrast, one DIY store property was sold and leased back on a long-term basis.

Cash flow statement

Cash flow statement (abridged) € million	2011/2012	2010/2011
Cash flow from operating activities	141.8	182.1
of which: funds from operations[1]	181.2	169.3
of which change in working capital[2]	(39.4)	12.8
Cash flow from investing activities	(149.8)	(65.0)
Cash flow from financing activities	(44.8)	20.9
Cash-effective change in cash and cash equivalents	**(52.8)**	**138.0**

[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 € 44.8 million in the 2011/2012 financial year, contrasting with an inflow of funds of € 20.9 million in the previous year. Here, the scheduled repayment of non-current financial debt of € 128.0 million was opposed by the taking up of new long-term loans of € 96.3 million and an increase of € 2.8 million in short-term loans (2010/2011: € 30.5 million). Net financial debt increased from € 322.1 million in the previous year to € 347.8 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. Following a positive outlook in February 2011, Standard & Poor's upgraded the company's rating in July 2011 to "BB+" with a stable outlook on that basis. In October 2011, Moody's confirmed its rating at "Ba2" and amended its outlook to positive.

Asset Situation

Equity ratio rises to 45.9%

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

€ million	2.29.2012	2.28.2011	Change
Non-current assets	1,240.0	1,165.4	6.4%
Current assets	1,027.2	1,067.9	(3.8)%
Assets	**2,267.2**	**2,233.3**	**1.5%**
Shareholders' equity	1,041.3	962.4	8.2%
Non-current liabilities	686.0	688.7	(0.4)%
Current liabilities	539.9	582.2	(7.3)%
Equity and liabilities	**2,267.2**	**2,233.3**	**1.5%**

Total assets at the Group rose year-on-year by € 33.9 million, or 1.5%, to € 2,267.2 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 an expansion-related reduction in cash and cash equivalents from € 474.0 million to € 422.3 million. The equity of the Group as stated in the balance sheet amounted to € 1,041.3 million at the end of the financial year (2010/2011: € 962.4 million). At 45.9%, the equity ratio was once again higher than in the previous year (43.1%).

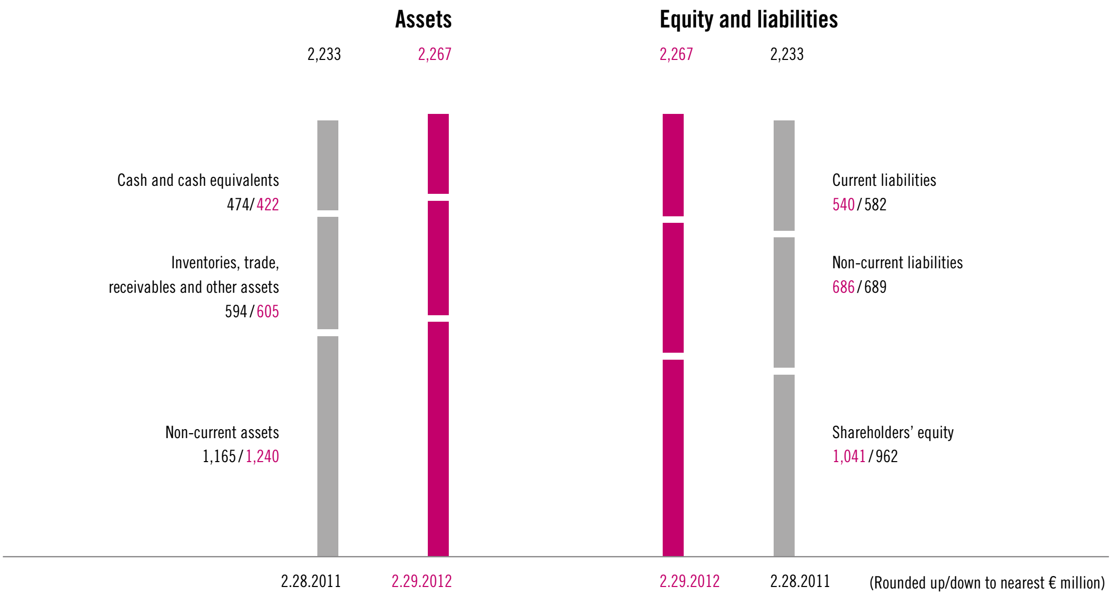
Non-current and current assets

Non-current assets amounted to € 1,240.0 million at the balance sheet date (2010/2011: € 1,165.4 million), and thus accounted for around 55% of total assets (2010/2011: 52%). Property, plant and equipment and investment property rose by 7.4% from € 1,101.2 million to € 1,182.4 million. Additions to property, plant and equipment of € 159.6 million were countered by depreciation of € 71.8 million, write-ups of € 1.2 million, and disposals of assets amounting to € 2.7 million. Exchange rate movements led to a € 1.8 million reduction in the value of property, plant and equipment and investment property. Furthermore, application of IFRS 5 required real estate classified as held for sale amounting to a net total of € 3.5 million to be reclassified out of property, plant and equipment to current assets. This mainly related to the sale of a former HORNBACH DIY megastore with a garden center in Germany planned for the 2012/2013 financial year.

Non-current income tax receivables involve a claim to payment of a corporate income tax credit with a present value of € 17.9 million. This item was capitalized in previous years and once again in the past financial year due to legislative amendments (SEStEG).

Current assets decreased by 3.8% from € 1,067.9 million to € 1,027.2 million, or around 45% of total assets (2010/2011: 48%). Here, the expansion-related increase in inventories was countered above all by a reduction in cash and cash equivalents. Due to the sharp rise in investments to € 162.9 million, not all of which could be covered by the inflow of funds from operations, as well as to scheduled repayments of financial debt, cash and cash equivalents declined by € 51.7 million to € 422.3 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 € 488.7 million to € 506.8 million, but further measures taken to optimize capital committed nevertheless enabled the inventory turnover rate to be maintained consistently high at 4.1.

Structure of consolidated balance sheet
(€ million)



Key balance sheet figures of the HORNBACH HOLDING AG Group

Key figure	Definition		2.29.2012	2.28.2011
Equity ratio	Equity / Total assets	%	45.9	43.1
Return on equity	Annual net income before minority interests / Average equity	%	9.4	10.9
Return on total capital	NOPAT[1)] / Average total capital[2)]	%	8.9	8.7
Debt / equity ratio (gearing)	Net debt / Equity	%	33.4	33.5
Additions to non-current assets, including advance payments for land		€ million	162.6	113.3
Net working capital	Inventories and receivables less trade payables	€ million	415.9	374.7
Inventory turnover rate	Cost of goods sold / Average inventories		4.1	4.1

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

At € 96.6 million, receivables and other assets (including income tax receivables) were more or less at the same level as in the previous year (€ 100.1 million). Due mainly to the disposal of three pieces of land in the 2011/2012 financial year, the non-current assets held for sale and disposal groups recognized pursuant to IFRS 5 decreased by € 3.6 million to € 1.5 million (2010/2011: € 5.1 million).

Non-current and current liabilities

Liabilities, including provisions, totaled € 1,225.8 million at the balance sheet date, as against € 1,270.9 million in the previous year. Non-current liabilities fell from € 688.7 million to € 686.0 million. Non-current liabilities include deferred tax liabilities of € 63.8 million (2010/2011: € 64.4 million).

Due mainly to scheduled repayments, current financial debt reduced from € 193.5 million to € 173.8 million. Due to reporting date factors, the trade payables and other liabilities of € 257.0 million at the balance sheet date were € 19.8 million lower than in the previous year (2010/2011: € 276.8 million).

Other provisions and accrued liabilities amounted to € 72.8 million (2010/2011: € 72.7 million).

The net debt of the HORNBACH HOLDING AG Group, i.e. financial debt less cash and cash equivalents, increased to € 347.8 million at the balance sheet date, up from € 322.1 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 amount to between 15 and 20 years, with subsequent rental extension options. The respective agreements include rent adjustment clauses.

At February 29, 2012, obligations under rental, hiring, leasehold and leasing contracts amounted to € 725.8 million (2010/2011: € 736.2 million). This reduction is mainly due to annual rent payments for the 2011/2012 financial year. Furthermore, a number of rental adjustment and extension options were exercised in the 2011/2012 financial year.

Overall assessment of earnings, financial and net asset situation

The HORNBACH HOLDING AG Group performed well in the 2011/2012 financial year and boosted its market position. Despite the difficult macroeconomic framework as a result of the financial and economic crisis, especially in Eastern Europe, we managed to increase our sales both in absolute terms and on a like-for-like basis and further strengthened our operating earnings performance. The HORNBACH-Baumarkt-AG subgroup once again outperformed the German sector average, thus expanding its market share yet again. Given the uncertain macroeconomic backdrop in Europe, our international business reported satisfactory developments, achieving a slight expansion in its share of sales accompanied by a high level of profitability. The HORNBACH Baustoff Union GmbH subgroup also significantly increased its sales and earnings. Our equity ratio has risen to 45.9%. The capital structure and liquidity remain at very 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 Group is satisfactory.

Non-Financial Performance Indicators

HORNBACH puts project customers in the spotlight

"We're no normal DIY store. We're a project DIY store". Consistent with this image of itself, HORNBACH has made project customers the focal point of its activities for more than 130 years now. We are the address for people with big plans - construction and renovation projects in their houses, apartments and gardens - people for whom home improvement is a matter of passion and absolute dedication. 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, we rely not only on a high-performance stationary retail store network, but supplement this with a sophisticated range of online products focusing on our internet store and numerous planning aids.

Customers across Europe honor HORNBACH's concept

Our unmistakable position as the top address for projects was confirmed yet again in various consumer surveys and sector studies in the past financial year. In the "Kundenmonitor Deutschland" issued by ServiceBarometer AG, one of Germany's most important and detailed customer satisfaction surveys, more than 6,000 DIY customers were surveyed about their home DIY store in 2011. The results speak for themselves. Of the ten large DIY chains covered by the survey, HORNBACH was awarded the best average marks in 16 out of 32 individual categories. Among others, these included "product range compared with competitors", "value for money", "merchandise and product quality", and "specialist advice". Not only that, HORNBACH was ranked first in the most important category of all - "overall satisfaction". Consumers have thus confirmed that, with its consistent project orientation, HORNBACH has generated benefits for its customers and clearly differentiated itself from competitors.

Our results on the international stage were equally impressive once again in the year under report. HORNBACH received top marks in the "Kundenmonitor 2011" survey carried out in Austria by analogy with its German counterpart. For the third time in succession, consumers ranked our company first, and well ahead of its competitors, both in terms of "overall satisfaction" and in all four other main categories surveyed. In the Netherlands, HORNBACH came first in the consumer survey carried out by GfK Panel Services Benelux, with the best marks in the "products" and "prices" categories. Customers in Switzerland reached similar conclusions. For the second consecutive year, HORNBACH was singled out as "Retailer of the Year" in the DIY store category by the renowned market research company Q&A Research. HORNBACH scored especially well and received the top marks from Swiss customers in the "product range" and "value for money" categories.

HORNBACH received the best assessment in the annual Swedish Quality Index (SKI) customer satisfaction survey, and that for the fourth year in succession. In 2011, customers were even more satisfied with our Swedish DIY stores and garden centers than one year earlier. Particularly good marks were awarded to HORNBACH for "value for money", among other categories. According to the "Do it yourself 2011" survey performed by GfK, Czech customers also ranked HORNBACH very highly, including top position compared with competitors in the fields of "product range breadth" and "employee qualification".

HORNBACH pursues multichannel strategy

Homogenous store network as basis for success

HORNBACH has decades of experience in operating DIY megastores with garden centers. The network of 134 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 85% of the Group's sales areas as of the balance sheet at stores which are larger than 10,000 m². This facilitates the rapid rollout of universal and/or innovative concepts to old and new sales areas alike (best-practice approach). What's more, the combination of homogeneity and large surfaces generates substantial logistical benefits, thus providing us with an advantage over our competitors. Moreover, we are also working continuously on gradually bringing the design of older stores in line with the latest standards, and on enhancing operating processes to enable customers' wishes to be met even more closely. These measures include signs, shelving measures, adjustments to the layout of stores, through to store extensions and the further enhancement of the product range.

E-business gaining in significance

We aim to help our customers implement their projects as easily as possible. That is why we are consistently pursuing a multichannel strategy without any barriers between stationary retail and the online store. It makes no difference to us whether our customers prefer to start by informing themselves about their projects and the products thereby required on the internet and then assemble the necessary articles on location at the store, or whether they prefer to have their project-related purchases delivered directly to their homes.

To this end, since launching our online retail in December 2010 we have actively enhanced our internet platform (www.hornbach.com). Whereas only just under 3,500 articles were presented at the beginning, our customers can now not only inform themselves about more than 40,000 articles, but also receive extensive tips and assistance in preparing and implementing their projects. For example, more than 90 step-by-step manuals with illustrations and more than 35 Meisterschmiede videos are available on the website, and are systematically sorted in line with the respective projects. Depending on the customer's location, these are supplemented by the range of service offered by the relevant store. This way, our customers can inform themselves on the internet about the latest training sessions, demonstrations within the different Project Show each month, and opening hours. Furthermore, they can find information online about our services, such as our tradesman, paint mixing, construction materials drive-in, and rental service.

Customers are according ever greater importance to the possibility of having items delivered directly to their homes. Today, more than 13,000 items can be ordered online. Customers often already receive their deliveries within 24 hours. This makes HORNBACH attractive even to customers not living within the catchment area of one of our stationary DIY stores and garden centers, or who face a slightly longer journey to reach a HORNBACH store.

A further component of our strategy of dovetailing our stationary and online businesses is our "Reserve online and pick up at the store" service. Customers often wish to implement their construction or renovation projects without delay and cannot afford to wait until the desired goods are delivered. Here, we now offer more than 30,000 articles that can be commissioned within four hours. This service is a real time-saver, especially for our professional customers. Given that projects also very often lead to questions requiring competent advice, by using this service customers can thus combine the benefits of quick purchases and a broad product range with the opportunity of receiving competent advice from employees at our stores.

Sustainable price policy – both stationary and online

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 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.

Tradesman service further extended

When making purchases, DIY customers are according ever greater priority to services. We further extended our tradesman service in the 2011/2012 financial year for those customers who merely wish to select their products at HORNBACH, and then entrust the work to experienced specialists ("do-it-for-me" customers). This is particularly relevant for services relating to timber, construction materials, and prefabricated construction components. These are becoming an ever more important factor, especially when implementing complex renovation projects. Right at the top of many project customers' wish lists is front door and window installation at their homes. Not only that, the installation of garage doors and interior doors is also becoming increasingly popular.

Bathroom renovation, currently an "in" topic, is another area where the tradesman service is in ever greater demand. At the specialist bathroom presentation areas in some of our stores, customers can conveniently commission the complete refurbishment of their old bathrooms, including all installation work, as well as all project-related additional services such as decoration, electrical installation and door assembly, with HORNBACH acting as the central contact partner. To date, our broad range of tradesman services has been available in Germany, Austria, Switzerland and, since the 2011/2012 financial year, in the Netherlands and Czech Republic as well. One service newly included since the past year at all stores in Germany, Switzerland, and Austria is the installation of sanitary objects, such as vanities, toilets, and faucets. The company is unique in its sector thanks to the scope of services it offers. Customers handle their projects via a central contact partner at HORNBACH, and can rely on transparent fixed prices and punctual, professional implementation.

Brand communications with powerful images

Two broad-based image campaigns helped us sharpen our brand image as a partner for project customers in Germany and abroad in the 2011/2012 financial year. "Go on, outdo yourself!" marked the start to the spring season. With powerful images, this campaign whet consumers' appetites to tackle large projects once again after the long winter.

You only make a difference by actually doing something. This was the concept underpinning the "Every change has to start somewhere" campaign in the fall. Drawing on an apparently real documentation format, the campaign tells the story of a run-down village somewhere in the middle of nowhere where the inhabitants have forgotten how to work with their hands. The village decays ever more until one day, out of the blue, a mysterious object appears; a gigantic nut filled to bursting with DIY materials and tools. When, at last, one of the inhabitants makes a start and begins to renovate his house, a whole chain reaction is set off. One DIY project follows hot on the heels of the next until the whole village is as good as new.

Both campaigns were supported in particular by accompanying online adverts, both on HORNBACH's website or with the assistance of advertising banners and search engine marketing. HORNBACH was also present on the most important social media platforms. The image campaigns were rounded off with additional marketing activities in the 2011/2012 financial year. We based these on the respective Project Show topic at our stores and thus made these topics the focus of our communications for a month in our monthly advertising booklets, in TV reminders, radio spots, on the internet and in print adverts.

As in previous years, HORNBACH's advertising campaigns received numerous distinguished awards once again in 2011/2012. Both image campaigns thus received prizes at the "Die Klappe 2012" and "Deutscher Werbefilmpreis" advertising awards. At the latter event, "Every change has to start somewhere" was even singled out as the "Best Commercial". Not only that, this campaign was also named "Best Film" in the German Advertising Yearbook. What's more, "Every change has to start somewhere" also received awards on the international stage. At the "Eurobest 2011" award, for example, the commercial received accolades in several categories.

Personnel activities support international expansion

500 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 29, 2012, there were 14,320 individuals (2010/2011: 13,768) in active fixed employment at HORNBACH HOLDING AG or at one of its subsidiaries. This corresponds to an increase of 4.0%. In Germany, the number of employees rose from 8,371 to 8,751 (plus 4.5%). In other European countries, the total workforce grew by 3.2% to 5,569 (2010/2011: 5,397). As an annual average and converted into full-time equivalents, the HORNBACH HOLDING AG Group had 12,778 employees at the balance sheet date (2010/2011: 12,068).

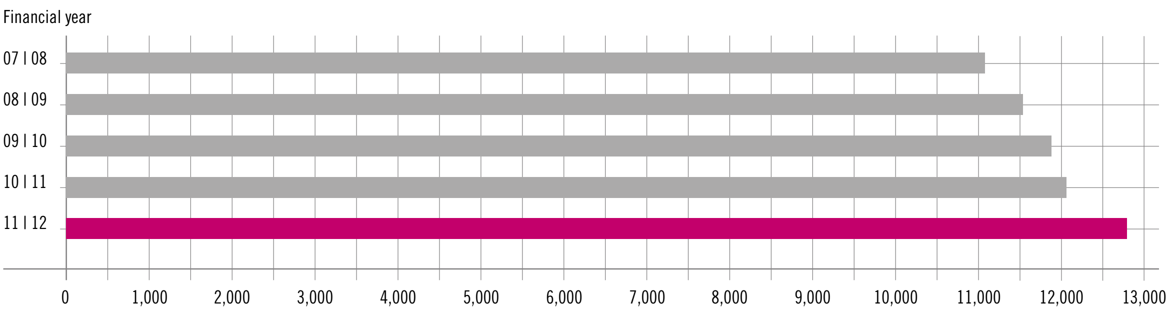
HORNBACH hones its brand profile as attractive employer

One of the key factors in the company's success is the partnership HORNBACH forges with its employees. We measure employee satisfaction every two years. The most recent survey (2010/2011 financial year), in which more than two thirds of the Group's total workforce took part, confirmed a consistent increase in our employee's satisfaction and commitment to the company. The satisfaction index calculated for HORNBACH was in the top third compared with other European retail companies. Particular advantages highlighted by those surveyed included trust in the management, enjoyment at work, and suitable deployment in line with their own skills and expertise. This success provides our Human Resources (HR) department with added incentive in its efforts to continually strengthen HORNBACH's brand as an attractive employer. One of the core objectives of our HR strategy is to attract well-qualified, highly motivated applicants, and to retain employees at our company by offering attractive development opportunities and compensation packages.

For HORNBACH, being international does not just mean operating in numerous European markets, but also forging a united, dedicated team with the employees from a current total of 67 countries. In view of this, topics such as training programs and performance systems are developed and implemented on a basis of international cooperation. This approach enables us to ensure that our processes and programs are compatible across the Group, while also taking adequate account of the needs in different countries.

Number of employees

(annual average converted into full-time equivalents)



Main focus on training and development

HORNBACH has always accorded high priority to training the next generation of staff and continually developing our staff. This enables us to secure our own need for specialists, while also meeting our responsibility towards society. Alongside our broad range of twelve vocational training programs, our upcoming staff also have the possibility of choosing from seven different dual study programs enabling them to lay a foundation for a successful career together with HORNBACH. Given our international approach, particularly well-motivated students also have the opportunity of studying in Switzerland, Austria, Sweden, or Romania.

A total of 858 young people were actively employed as trainees within the HORNBACH HOLDING AG Group (2010/2011: 785). The largest share of these were the 656 sales trainees, i.e. qualified retail sales staff and sales floor employees. A further 51 ambitious students were taking part in dual study programs in Germany and abroad. HORNBACH most recently had a trainee quote of 7.5% in Germany, and was thus significantly ahead of the national average. According to available data at the Federal Institute for Vocational Education and Training, large companies in Germany had a trainee quota of 5.2% in 2010.

The degree of trust HORNBACH places in its upcoming staff is reflected in the scale of responsibility it assigns to young people. Guided by a store director and a small number of experienced colleagues, trainees were thus permitted to operate the old location in Sinsheim under their own steam for up to eight weeks through to its closure. Here, the trainees were responsible for advising customers, logistics, and managing store processes.

Training our sales staff is the be all and end all

Renowned international consumer surveys, such as Kundenmonitor Deutschland 2011, have awarded HORNBACH top marks for the quality of its specialist advice. These high levels of customer satisfaction with our sales staff in Germany and abroad confirms us in our strategy. Providing ongoing training to our sales personnel in terms of their product, product range, system and advisory competence is decisive for sustainably increasing customer satisfaction. In view of this, more than 10,000 employees drew on our group-wide range of training programs in the 2011/2012 financial year. The programs for the bathroom and kitchen center divisions are a good example here. To guarantee that customers receive advice on a level comparable to specialist retailers, the sales staff must have an excellent command of the complexity of the product ranges involved, as well as of the tools needed to plan and visualize projects. These requirements are factored into a customized training program. To date, 40 employees have successfully qualified with the Chamber of Industry and Commerce (IHK) as specialist bathroom advisors, and 49 further employees have qualified as specialist kitchen advisors.

International career opportunities – leadership called for

The HORNBACH Group has a pan-European structure. One of our strengths as an employer is our ability to offer international career opportunities within an expanding group. This is accompanied by our philosophy that management positions should be filled where possible with in-house staff. HORNBACH therefore has the following training programs in place for its next generation of managers:

- Division head promotion: Promotional program to prepare highly motivated sales staff for the position as specialist head of their respective store division.
- Assistant manager promotion: Promotional program to accompany upcoming managers on their way into middle management.
- Store manager promotion: Promotional program to support upcoming managers on their way into upper management.

Following fundamental restructuring, the redesigned training programs were successfully launched in Germany in the 2011/2012 financial year. In a further stage, they will also be on offer in all international regions in future, taking due account of country-specific factors.

HORNBACH also attaches great value to the ongoing development of its existing management staff in terms of their competencies. As role models, they play a key role in implementing the corporate strategy. Alongside traditional management qualities, managers are also expected to show leadership skills. Our management staff pursue the objective of acting as trustworthy, competent contact partners to their staff in all matters and of motivating their staff to perform their best. Upon the introduction of a revised employee appraisal system, in the 2011/2012 financial year the Group laid down ten management principles intended to ensure a shared and transparent understanding of management for employees and managers alike. All management staff are required to align their actions with these principles. These are also accounted for in terms of their personal development and regular performance appraisals.

IT successfully continues new checkout system rollout

One key focus of our IT activities in the 2011/2012 year under report involved pressing ahead with the rollout of our new "FastPOS" checkout system. By the middle of 2011, all German stores had been fitted out with the new system. By the end of the year under report, all of the stores in Austria and Switzerland had also been converted. 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.

There were major changes in our human resources systems in the period under report. By introducing a uniform global template, we have significantly improved group-wide human resources processes and enabled them to be presented in standardized form. The previous need for interfaces and switches between media has thus been eliminated. This way, we have laid a common foundation to facilitate new work and control processes across the Group. What's more, the entire recruitment process, i.e. application process, in Germany has been electronically supported since summer 2011. Applications are recorded in a new eRecruiting system. Applicants can thus apply for jobs at HORNBACH electronically via the internet. Not only that, an integrated eAssessment system provides an initial assessment of applicants' strengths and weaknesses. Thanks to the new, improved handling of processes, the throughput time required to process applications has been significantly reduced. One useful side effect is that the system has considerably reduced the volumes of paper used.

One major project in the period under report was the Unicode migration of our central merchandise and logistics systems. Unicode is an international standard in which a digital code is determined in the long term for each character and text element in each country. The aim here is to eliminate the use of different coding systems in different countries and cultural regions. Unicode is permanently being supplemented by characters from further font systems. Migration to a uniform coding system will help us to operate our internationally integrated systems more efficiently in the long term. This project was successfully completed in October 2011.

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 developing our own group logistics system, we have over the years built up a competitive advantage in terms of procuring transport services. Our logistics system combines direct supplies to stores, indirect deliveries via central warehouses and cross-docking. In the past year as well, our logistics infrastructure actively supported our expansion within Europe, thus laying a foundation for further growth.

Out of the woods

»These days, most of our day-to-day objects are made of plastic in state-of-the-art factories. The fact that wood comes from trees that do not grow overnight is not always clear to children. Taking sustainable forestry and the FSC as an example, I could show them in simple, practical terms where the paper for their exercise books and the wood for our new school furniture comes from. The children then built the bird houses together using HORNBACH's FSC timber residues.«

Corporate Responsibility

With regard to 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

Energy-saving projects

Cutting energy consumption in order to reduce CO_2 emissions and protect remaining resources has become a prime topic in the area of building and renovation as well. The Energy Saving Ordinance will place ever more ambitious requirements on homeowners in the coming years. As a project-based DIY store, HORNBACH has been a competent partner in this area for many years now, and can offer a suitable product range and qualified advice. In view of this, energy-saving possibilities, such as roof and façade insulation and window and door replacements, were key topics in our Project Shows and advertising booklets once again in the year under report. Furthermore, the communication of energy-saving opportunities is accorded great space on the internet, with several webpages informing customers in detail about our extensive product range. Project manuals provide detailed information about efficient installation methods. Other pages provide links to energy-saving assistance and calculators, as well as to related expertise and information about potential subsidies.

Timber only from sustainable 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 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 sustainable 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.

Most extensive FSC-certified product range

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 to be traced without any gaps in the chain from the checkout back to its place of origin. The company's entitlement to this certificate is reviewed in annual audits performed by an independent testing institute. 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 DIY sector.

The fact that consumers are according ever greater priority to the environment is documented in a representative Forsa study commissioned by HORNBACH from the polling firm in the year under report - the "UNO International Year of Forests". The overwhelming majority of the German population would like to see a ban on the sale of illegally felled timber in Germany and would welcome corresponding legislation. According to the study, four out of five consumers check when buying timber products to see whether the timber comes from sustainable forestry. Not only that, they see DIY stores are bearing a particular responsibility to ensure that only products from sustainable forestry are on offer.

Praised by WWF as "best DIY store"

The fact that HORNBACH has been systematically extending its range of certified timber products for years now has always been particularly praised by environmental organizations and honored with awards. The FSC International awarded the company its first FSC Global Partner Award in the 2010/11 financial year. In the year under report, the WWF (World Wildlife Fund for Nature) praised HORNBACH for achieving the best grade in the DIY store sector in terms of the development and labeling of certified timber products. According to the

"Timber and Paper 2011" company survey, HORNBACH was ranked first among the seven DIY stores surveyed.

We also account for ecological factors when producing our advertising booklets. These are based on recycling fibers made of waste paper and fresh fibers. While the waste paper mostly comes from municipal household collections, the entire stock of fresh fibers required to make the paper comes from Scandinavian forests. The forestry there is generally supervised, with stocks being harvested and replanted in a responsible manner. However, not all of the forests are certified. It has nevertheless been ensured that our paper manufacturers make no use of timber from illegal felling. Both suppliers have been certified under different environmental management systems (ISO 14001, EMAS). In general, these stand for controlled, resource-effective, environmentally-compatible production processes and materials use. The printers we work with also bear the aforementioned environmental management certifications. Not only that, the printers are also certified under the "Chain of Custody" scheme.

Focus: EU directives

Within the European Union, responsibility for the environment is reflected in various directives and regulations that also affect HORNBACH and form one focus of our quality management activities (catchwords: RoHS, WEEE, REACH). Around 800 products which HORNBACH imports directly are thus governed by the REACH chemicals directive. The quality management and environmental department accords particular attention to identifying and eliminating hazardous and potentially carcinogenic contents within products, as well as to documenting their material composition in a database specially programmed for this purpose.

HORNBACH introduces "Healthy Living" seal of approval

There has been an enormous 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. To meet our customers' rising requirements in this respect, in the year under report we launched a project to address the topic of "Healthy Living". 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 stores use compressors for high-volume waste, such as paper and plastics. A comprehensive waste concept promotes the separation, and thus recycling, of other waste.

In the year under report, customers were offered 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 usual 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 in the year under report on reducing its CO_2 emissions along the merchandise value chain. 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 sustainable reduction in the specific 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 hubs of Rotterdam and Hamburg are also brought to our logistics centers in Essingen, Lehrte and Vilshofen not by truck, but by inland waterway and rail.

A further field of action involves freeing the merchandise delivered from unnecessary packaging material. To this end, we work with reusable, durable transport containers in circuits between suppliers, stores and logistics centers. As one of the wide range of activities aimed at continually improving work safety, we also check containers for gassing residues, an approach singled out as exemplary by the employers' mutual insurance association. Not only that, in the year under report we also worked together with the employers' mutual insurance association to introduce an occupational health and safety management system to ensure even more effective accident avoidance.

Less CO_2 in car pool as well

The Group's vehicle pool also accounts for ecological and economic factors. According to the manufacturers' figures, the CO_2 limits of the four vehicle classes listed range from 115 to 180 grams per kilometer. No vehicles with higher emissions are listed. Fuel consumption, which is also affected by the tires chosen, is another factor accounted for when selecting vehicles. For the vehicles ordered in the year under report, average consumption could be reduced by 6.0%, and CO_2 emissions by 4.6% compared with the previous year. The average consumption of the vehicles ordered currently amounts to 4.7 liters per 100 kilometers, while average CO_2 emissions amount to 124 grams per kilometer.

Energy-saving measures at stores

The company also actively takes account of environmental protection factors when building and operating its stores. The new lighting technology introduced in 2009 has benefited not only all new stores - further existing stores were upgraded in the year under report, so that 84 stores now have the new technology. A further 28 stores are set to follow in the 2012/2013 financial year. 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 eleven new DIY stores and rolled out to 77 existing stores. In the 2012/2013 financial year, 20 further existing stores are due to be upgraded. 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 applied in the construction of new stores, as is improved thermal insulation due to a new façade system. The store newly opened in Sinsheim in the year under report has benefited from this new approach. This and other measures will enable the threshold value set out in the Energy Savings Ordinance to be undercut by 15%.

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

67 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 67 countries across four continents work together in the nine countries in which HORNBACH operates.

At HORNBACH, the selection of suitable applicants is based on the principle of equal treatment. The company's participation in the "Berlin's Economy Needs You" initiative organized by the Chamber of Industry and Commerce in 2010/2011, which was aimed at integrating children from ethnic minorities in Berlin, was viewed as a great success. The young people moved on with superb results to their second year of training in the 2011/2012 financial year. This training program was also continued in the year under report. Within this campaign, we once again offered 22 training positions at our five stores in Berlin to young people who would otherwise find it difficult to find a job in the private economy.

Company pensions, bonuses, employee shares

We have responded to the challenges presented by future pension provision by introducing a company pension model. This consists of four modules including both collectively agreed retirement pension contributions and the option of converting voluntary bonus payments and collectively agreed remuneration claims, such as vacation allowances. The part-time early retirement model expired in 2009. This has been superseded by a retirement provision model that uses "working time accounts" to enable employees to structure their retirement age individually, i.e. to retire prematurely.

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. In the 2011/2012 financial year, 23% of all employees entitled to subscribe at the Group purchased more than 35,000 shares in HORNBACH-Baumarkt-AG.

Numerous preventative health check measures

Healthy, satisfied employees form the cornerstone of our economic success. In line with this approach, our occupational health and safety department not only regularly checks all workplaces in terms of accident prevention, but also offers health promotion and maintenance measures to the workforce. Among others, these include vaccinations, eye and lung function tests, and back training. All in all, our preventative services have been taken up by around 2,700 employees.

Further focuses included preventative check-ups in terms of noise pollution, workplaces with computer monitors, specialist and control activities, and skin exposure. Achieving a further reduction in accident figures, which are already below average, and permanent health promotion will remain key focuses in the 2012/2013 financial year as well. Among other measures, we will be holding a bowel cancer checkup campaign.

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.

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 107 individuals with a total of more than € 148,000 in the year under report.

However, our commitment to society is by no means limited to the work performed by the Foundation. Following the earthquake catastrophes in Haiti and Japan, the company supported reconstruction projects with donations totaling € 250,000. Furthermore, 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.

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.

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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 2011/2012 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 from the 2012/2013 financial year onwards.

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. In their quarterly group-internal declarations of completeness, the managers responsible for the accounting treatment of the relevant items confirm 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

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, two promissory note bonds taken up in local currencies by subsidiaries of HORNBACH-Baumarkt-AG with an equivalent volume of € 20 million each and terms running until August 31, 2015, a promissory note bond of € 60 million at HORNBACH Immobilien AG with a term running until June 29, 2012, and not least the € 250 million bond issued by HORNBACH-Baumarkt-AG in the 2004/2005 financial year, which has a term running until November 15, 2014.

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, or the promissory note bonds at the HORNBACH-Baumarkt-AG Group. 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. These covenants 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 within the HORNBACH-Baumarkt-AG subgroup. As of February 29, 2012, the equity ratio of the HORNBACH-Baumarkt-AG subgroup amounted to 48.6% (2010/2011: 45.9%) and its interest cover amounted to 7.6 (2010/2011: 7.1).

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. They were complied with at all times during the 2011/2012 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 debt crisis. This approach was maintained in the 2011/2012 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 labor markets 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. Due to the varying impact of the crisis on individual countries, for example, the sales performance of the company's East European locations fell short of expectations once again in the 2011/2012 financial year.

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 three 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 may 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, a group-wide Corporate Compliance Policy was adopted 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 2011/2012 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 23 onwards of this Annual Report.

Dependent company report

A report on relationships with associate companies has been compiled for the 2011/2012 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."

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.

Events after the balance sheet date

On April 18, 2012, HORNBACH Immobilien AG concluded an agreement for a promissory note bond of € 70 million with joint liability on the part of HORNBACH HOLDING AG. Disbursement of the loan is scheduled for June 29, 2012 and should serve in particular to refinance the existing promissory note bond of € 60 million at HORNBACH Immobilien AG due to mature on the same date. From the date of disbursement, the new promissory note bond is subject to floating interest based on the 6-month Euribor plus a bank margin and matures at the end of a five-year term. To secure the interest rate, a forward interest swap was agreed with congruent terms upon the conclusion of the loan agreement. The interest swap enables the floating interest payments to be exchanged for fixed interest payments.

Other than this, no further 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 29, 2012 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 the completion of this report, the assessment of the future macroeconomic framework for the retail activities of the HORNBACH HOLDING AG Group involved greater uncertainties than was the case one year ago. 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

The overall picture concerning future developments in the global economy was highly diffuse at the beginning of 2012, as actual news, hard economic data and key early indicators appeared to emit partly contradictory signals. Bank economists and economic research institutes queued up to reduce their forecasts. In January 2012, the International Monetary Fund corrected its 2011 Autumn Forecast significantly downwards to account for the weaker economic performance in the winter quarter. For 2012, the IMF now only expects economic growth of 3.3%, compared with the previous forecast of 4.0% – a level that is nevertheless expected to be more or less regained in 2013. Forecasts were cut above all for the euro area which, given the discussions surrounding the billions channeled into rescue packages for Greece and further unstable countries in Southern Europe, was a source of great concern. The IMF continued to stress the downside risks, and placed the intensification in the euro area sovereign debt crisis at the top of its list of risks. The euro crisis was joined in spring 2012 by the latent conflict in the Middle East due to the nuclear program in Iran, a factor that sent listed crude oil prices soaring to annual highs and thus feeding inflationary concerns. Despite all these developments, economic and market confidence levels seemed to look up once again. Confidence surveys among worldwide procurement managers in February 2012 pointed to a renewed stabilization in economic activity following the dip at the end of 2011.

Growing hopes of economic turnaround in euro area

In February 2012, the European Union also issued a downward correction in the expectations published in its Autumn Forecast in November. For 2012 as a whole, the Commission has now forecast no change in real-term GDP (previously: plus 0.6%) in EU 27 countries, and a reduction of 0.3% (previously: plus 0.5%) in the euro area. The Commission nevertheless expects the European economy to show modest growth in the second half of the year and is pinning its hopes on an economic turnaround. This expectation is backed up by the Economic Sentiment Indicator (ESI), the euro area economic confidence indicator, which brightened up once again at the beginning of 2012. A similar trajectory has been seen in European consumer confidence which, following its long downward slide in the second half of 2011, now gradually seems to be finding a firmer foothold. Weak domestic demand, and in particular the decline in construction activity and private consumer spending, was one of the main causes for the economic weakness recently seen in Europe.

Economists see these forecasts as being subject to substantial uncertainties with regard to the further course of the debt crisis and the ongoing difficult employment situation in Europe. The wide range of estimates for individual countries within the EU is also striking. Forecasts for those individual countries in which HORNBACH operates its DIY stores with garden centers are more positive. Based on Eurostat figures for 2012, only the Netherlands are expected to see a reduction in real-term GDP (minus 0.9%). In the Czech Republic, economic output is expected to match the previous year's level. The estimates for Germany, Luxembourg, Austria, and Sweden are all at or around 0.7%. At the upper end of the range of expectations for 2012 are Slovakia (plus 1.2%), Romania (plus 1.6%), and Switzerland (plus 1.9%). In Eurostat's outlook, the European economy is thought to be capable of generating growth of around 1.5% in 2013. Here, gross domestic product in HORNBACH's network of countries, especially in Eastern Europe, is expected to outstrip the euro area average.

German economy back on expansion course

Many economists have been surprised by the robustness of the German economy. Following the race to catch up in the wake of the financial and economic crisis, Germany also seems to have absorbed the dip in the final quarter of 2011 without any great difficulty and now appears to have returned to a flatter growth curve. This assessment increasingly gained ground among economic experts at banks and research institutes in spring 2012. Based on the median forecast issued by the Centre for European Economic Research (ZEW), real-term GDP in Germany is set to grow by 0.5% in 2012. With forecast growth of 1.0%, private consumer spending is expected to play a major role and grow faster than capital investment. Private consumer spending and investments are forecast to increase by 1.2% and 3.3% respectively in 2013, thus contributing to higher GDP growth of 1.6%.

In its monthly report for February, the German Bundesbank predicted that the growth process would recommence in spring 2012 already. This expectation also reflects the positive mood among industrial companies. Well-stocked order books helped companies pass through the weak fourth quarter of 2011 unscathed. Demand from emerging economies is still deemed strong, while the US economy has also started to regain momentum. These factors helped offset the weaker business climate in the crisis-ridden euro area.

Mixed prospects in retail sector

In terms of its labor market and consumer climate, Germany must until recently have seemed to represent an absolute exception when viewed in the overall European context. Even though the economy faltered in the fall and winter of 2011, the German population remained optimistic about the future. This is also confirmed by the consumer confidence surveys carried out by GfK, which reveal that consumers' optimism was grounded above all in expectations as to their future incomes given the stable labor market situation. At an annual average of 41.1 million, the number of people in employment reached a new record level in Germany in 2011.

Against this backdrop, the German retail sector is cautiously optimistic about the future. According to Destatis, retail sales grew by 3.5% in nominal terms and by 1.6% in real terms in January 2012. Given the additional shopping day compared with the previous year, this basically represents a stable sales performance. The ifo business confidence index shows that confidence among retail players noticeably improved in January and February 2012 following a slight dip in the fourth quarter of 2011. Almost equal numbers of companies had positive and negative expectations as to their future sales performance in the remainder of the 2012 calendar year.

When calculating its Retail Confidence Index, the Association of German Retailers (HDE) most recently saw increasing numbers of optimistic three-month forecasts. Twelve-month forecasts reached their higher level since August 2011. The HDE believes that consumer spending will contribute to the low economic growth expected in Germany in 2012, but will not itself show any notable momentum. Accordingly, the HDE has forecast nominal sales growth of 1.5% in 2012. On a price-adjusted basis, sales can thus be expected to mark time. Despite positive developments in private consumer spending thanks to the robust state of the labor market, economic experts believe that it is questionable whether the strong demand for motor vehicles and other durable consumer goods, such as furniture, watches and jewelry, seen in the previous year will continue in 2012 as well. "There will be tough competition in terms of alternative uses for income", stressed the Association. According to the HDE, the key growth driver in 2012 once again will be online retail, where sales are forecast to grow by 13% to almost € 30 billion.

Underlying conditions in countries outside Germany are less positive. Consumers in surrounding EU countries are more worried about losing their jobs or by the prospect of lower incomes. The European labor market statistics had yet to bottom out in spring 2012. According to Eurostat figures, the euro area unemployment rate rose further in 2011, reaching

10.7% in January 2012 compared with 10.0% twelve months earlier. Unlike in Germany, this situation will hold back purchasing power in numerous EU countries in the further course of 2012. This is one of the main reasons for the weak performance of the EU retail sector since summer 2010. Having said this, confidence indicators in the spring showed a hesitant improvement for the euro area as well. Economists expect private consumer spending to grow by 0.3% in the single currency area in 2012 and that this growth rate will improve further to 0.8% in 2013.

Housing construction as source of hope

The recovery in the European construction sector will still take time. This was the conclusion reached by the Euroconstruct research and advisory network in its forecast issued in November 2011. However, this forecast was still influenced by the intensification in the sovereign debt crisis at that time and might therefore be deemed overly pessimistic in the light of the brighter economic outlook in spring 2012. Non-housing construction and civil engineering are forecast to contract by 1.5% and 2% respectively in 2012, largely on account of falling public sector investment in infrastructure expansion. The main source of hope is housing construction which, based on average construction volumes in 19 EU countries, is expected to stabilize, with slight growth of 1.5% thought possible in 2012. Having said this, Euroconstruct paints a different picture, in some cases markedly so, for individual countries. Compared with the previous estimates in June 2011, the forecasts for Slovakia, the Czech Republic, Hungary, Spain, Portugal, Italy, Ireland, and the UK were corrected significantly downwards. The situation in the domestic housing construction industry in Sweden was now also viewed far less favorably. For Switzerland, by contrast, housing construction forecasts for 2012 were significantly raised.

In their medium-term forecast for the period from 2011 to 2014, the Euroconstruct researchers paint an overwhelmingly positive picture for the countries outside Germany in which HORNBACH operates. The Dutch housing construction sector, for example, is thought capable of generating average annual growth of 6.3%. Alongside government-sponsored measures and positive developments on the labor market, this sharp growth is due above all to a need to catch up. In 2009 and 2010, the number of apartments built in the Netherlands dropped by almost a fifth. According to Euroconstruct, this means that 2008 levels will still not have been regained by 2014. Housing construction volumes are set to grow by 4.6% and 3.7% a year in Switzerland in Sweden, and by 1.6% in Austria. The volume of housing construction could contract by an average of 3% in Slovakia, and even by 5% in the Czech Republic. Developments here are being held back by macroeconomic expectations, unfavorable developments in private household incomes, persistently high unemployment, and a deterioration in financing terms.

For Germany, the experts have forecast above-average annual growth rates of more than 4% through to 2014. Following years of declining new construction volumes, there is a great need to catch up when it comes to producing living space. In terms of the number of properties completed, Germany is almost top of the European league, with cumulative growth of 53% forecast for the period from 2010 to 2014. Germany is thus ranked second behind Norway (plus 79%). Sweden (plus 52%), Denmark (plus 44%) and the Netherlands (plus 32%) occupy the next positions in the European top ranking.

According to the Bundesbank, this lively demand for construction will provide the overall German economy with substantial momentum in the foreseeable future. Civil engineering will tend to remain weak due to lower public sector demand, but construction faces the prospect of a period of high capacity utilization. The order situation in the construction segment, which includes both housing and commercial construction, was favorable in spring 2012. The two main construction industry associations (*Hauptverband der Bauindustrie* and *Zentralverband des Baugewerbes*) forecast growth rates of five to six percent in housing construction in 2012. The equivalent forecasts for commercial construction ranged between two and three percent.

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 company and business confidence levels remaining stable. Macroeconomic forecasts are thus subject to the ever-present risk of potentially unwelcome developments surprises arising in connection with the sovereign debt crisis or the conflict in the Gulf region.

In its outlook for 2012, the BHB DIY sector association expects the stable developments seen in the DIY sector to continue, provided that there is no unexpected increase in risks and uncertainties. Following nominal sales growth of 1.5 % in 2011, the BHB has forecast growth in a range of between 1.8 % and 2.0 % for 2012, and thus ahead of the growth forecast for the German retail sector as a whole. The sector has begun 2012 on a promising note. Like-for-like sales in the sector soared by around six percent in January, and also managed to show slightly positive overall developments during the period of icy weather conditions in February 2012.

According to the findings of the "DIY and Home Improvements Stores in Austria in 2011" report compiled by the BHB/GfK, the DIY sector managed to improve its sales by 1.6 % both on an unadjusted basis and on a like-for-like basis in the past year. Sector experts expect the sales performance in 2012 to be similarly positive to that seen in 2011. In Switzerland, DIY store operators expect to see a trend reversal in 2012. In the past year, the strength of the Swiss franc drove domestic consumers to shops in neighboring countries. That was one of the main reasons for the 2.1 % downturn in nominal sales. For 2012, by contrast, the BHB has forecast a slight recovery, with moderate sales growth of 1.0 % to 1.5 % in nominal terms.

Based on the key factors outlined above, such as levels of employment, income and consumer confidence, as well as developments in the construction sector, developments in the sector in the two-year forecast period through to 2013 can be expected to be volatile, with a wide range of positive and negative expectations concerning developments in the countries within our group-wide network.

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. There is an immense backlog of renovation work in Eastern Europe in particular, although the difficult period of consolidation in these countries means that their economies are only expected to recover sluggishly and significantly later than their west European counterparts. Accordingly, the DIY retail sector in Eastern Europe will encounter greater difficulties in returning to the level of sales seen before the financial crisis in 2009, and in exceeding these in the medium term.

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 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. More than three quarters of the total construction volumes of more than € 130 billion now involve 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. There is great need for investment, especially in heating technology, replacement windows, and heat insulation. Not only that, construction based on regenerative materials and the use of energy-saving lighting solutions and building technology are also high on the agenda in the DIY and real estate sectors.

- 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 new market potential
Based on estimates compiled by IFH Retail Consultants, the European DIY market has a total volume of more than € 300 billion. Numerous different sales formats are competing for the favor of DIY enthusiasts, construction clients and garden lovers. 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, timber merchants, and small-scale specialist retail formats. 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, the DIY store and garden center sector is also increasingly relying on the internet as a distribution channel. In Germany, various measures to build up online retail platforms have only been underway since 2010.

According to figures released by the Association of German Retailers (HDE), sales in the German online retail sector grew by 10 % to € 26.1 billion in 2011, and are forecast to increase by 13 % to € 29.5 billion in 2012. Based on sector estimates, DIY retailers generated disproportionate growth in this area in 2011, boosting their online sales by 30 % to € 430 million. For 2012, market experts expect online sales with DIY articles to rise by almost a third. In the period from 2010 to 2015, e-commerce sales at DIY store operators are forecast to treble to around € 1.0 billion.

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. Today's customers are more reluctant to commit to just one channel. They inform themselves about articles and prices online and then buy the products themselves at the DIY stores, or they start by obtaining advice from specialist sales staff at the store before reaching their actual purchase decision at their computers. Not only that, e-commerce is also set to become 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 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. Sector observers expect this homing trend to continue. 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 offered by internationalization

Over and above the opportunities available in the German DIY market, the company’s expansion into other countries offers additional growth prospects. Numerous leading German DIY store players already took the decision to expand outside their own borders years ago. 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. Account will also be taken of the opportunities resulting from the changes in the underlying economic and sector conditions referred to above.

- The company's strategy 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. This **unmistakable differentiation** is necessary for the active promotion of the consolidation process, especially in Germany. Our solid financial resources, public corporate rating and the flexibility available to us in refinancing the business on the capital market will enable us to invest considerable sums in differentiating HORNBACH's format in future as well.

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

- DIY customers 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) 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 being extended further to cover the entire building shell and 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 on our homepage enabling customers to research subsidy programs provided on federal, state and district levels, as well as by energy supply companies.

- 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. To tap this potential, we have, among other measures, extended our range of tradesman services. It is possible, for example, to have an entire bathroom renovation or the assembly of doors, garage doors, or awnings conveniently handled with HORNBACH acting as the general contractor guaranteeing that the work is carried out on time, correctly and at the agreed fixed price, as well as assuming responsibility for the warranty.

- Furthermore, we are expanding our range of services, information and advice in order to attract **new customer groups** to HORNBACH. These include home improvement demonstrations at the stores intended to motivate customers to do it themselves, special workshops for women, and the targeted use of step-by-step displays. These measures are backed up by the promotion of 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.

- 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**, whose product range is being gradually expanded, 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. One further advantage is that the online shop and the results of price comparisons on the internet make our permanent low price strategy transparent to an extent that would not be possible via traditional sales and marketing channels alone.

- 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 three central logistics hubs, where large numbers of individual deliveries are pooled using the cross docking function. We thus also provide regional manufacturers with the opportunity of growing 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 Germany, we are relying on selective growth. Notwithstanding the general problem of excess surface capacity in the densely occupied German DIY market, there are still local and regional catchment areas with below-average coverage with DIY stores and garden centers. 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 nevertheless 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. The intensification in the euro area, with the highly controversial rescue package for Greece, is perhaps not the final development of its kind. 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.

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 2012/2013 to 2016/2017, into which the annual budget for 2012/2013 is integrated, was approved by the Supervisory Board at the end of February 2012.

Expansion

The HORNBACH-Baumarkt-AG subgroup plans to significantly step up the pace of its expansion in the 2012/2013 and 2013/2014 financial years compared with the two previous years – two and three new stores were opened in 2010/2011 and 2011/2012 respectively. Some of the planned new store openings are intended to replace existing locations no longer meeting the latest standards. We have not planned any market entry in a new country for the forecast period, but will rather focus on expanding and modernizing our 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. The majority of new stores will be opened outside Germany.

In the 2012/2013 financial year, we plan to open up to six new HORNBACH DIY megastores with garden centers across the Group. Outside Germany, four locations are planned. Upon the completion of this report, three locations were under construction: Romania (1), Sweden (1) and Switzerland (1). In Germany, we intend to open two new stores, of which one as a replacement location. Up to nine new store openings are planned across Europe for the 2013/2014 financial year. Of these, up to five stores will be in other European countries. The four stores planned in Germany are mainly replacement locations. These will be offset by the closure of four old locations. 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 144 by February 28, 2014 (February 29, 2012: 134).

The HORNBACH Baustoff Union GmbH subgroup plans to further expand its regional market position by transferring one outlet and opening one new outlet in the 2012/2013 financial year. Other than this, no further changes in the location network are planned in the two-year forecast period.

Investments

Assuming that sales and earnings develop as expected, the gross investment volume at the HORNBACH HOLDING AG Group is budgeted to range between € 200 million and € 250 million in each of the 2012/2013 and 2013/2014 financial years. We will thus be investing significantly more than in the 2011/2012 financial year (€ 163 million). 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 with sale and leaseback transactions, for example, or by taking up long-term mortgage loans and additional promissory note bonds.

Sales performance

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

We have based our forecast for the 2012/2013 financial year on the expectation that consolidated sales at the **HORNBACH-Baumarkt-AG subgroup** will show a similar rate of growth as in the 2011/2012 financial year under report. In terms of like-for-like sales, we expect growth in 2012/2013 to fall short of the previous year's figure (plus 2.8 %). This expectation also reflects the economic slowdown forecast for most EU countries in 2012. In conjunction with the stepping up in the rate of expansion, the revival in gross domestic product and consumer spending expected from the second half of 2012 should then lead to increased sales momentum in the European countries in which we operate in the 2013/2014 financial year. We aim to achieve ongoing improvements in the operating processes underlying our sales and 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 retail business and at the online store.

- Based on our expectations, **Germany** will be one of the regions showing the highest rates of sales growth once again in the 2012/2013 financial year. Here, we expect the rate of like-for-like sales growth to exceed the group average once more. We expect this positive sales trend to continue in the following 2013/2014 financial year. This forecast is based on the assumption that the consumer climate remains more or less stable on account of robust developments in employment and income levels. However, in the event of 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, then the possibility of like-for-like sales reducing cannot be excluded. 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.

- Consistent with our base scenario, we intend to improve our sales performance in **other European countries** in the 2012/2013 and 2013/2014 financial years compared with the 2011/2012 financial year under report. We thus expect to see consistent like-for-like sales growth in all eight countries outside Germany in the forecast period. We are more positive in our assessment of growth prospects for our west European locations than for their east European counterparts. Having said this, our stores in Romania, Slovakia, and the Czech Republic, should nevertheless manage to gradually increase their sales momentum in the coming years. Irrespective of the hesitant economic recovery, the backlog in the east European construction and modernization market is enormous. Should there be any significant deterioration in the macroeconomic framework, a development not expected upon the preparation of this report, then our locations in other European countries would also be exposed to the risk of a reduction in like-for-like sales.

We expect net sales at the HORNBACH-Baumarkt-AG subgroup, i.e. our net sales accounting for new openings, closures and extensions of stores, to show growth in a medium single-digit percentage range in the current 2012/2013 financial year and in a medium to high single-digit percentage range in the following 2013/2014 financial year.

Net sales at the **HORNBACH Baustoff Union GmbH subgroup** should slightly exceed the respective previous year's figures in the 2012/2013 and 2013/2014 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 show growth in a medium single-digit percentage range in the current 2012/2013 financial year and a medium to high single-digit percentage range in the following 2012/2014 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 tend slightly downwards over the two-year forecast period. We see this as being due above all to the increased pressure on margins on account of the sharp growth in e-commerce in the DIY store sector. As retail prices, consistent with our multichannel strategy, are identical both at the online shop and in our stationary retail outlets, we expect prices to be negatively affected. We intend to counter this factor with positive volume effects, by raising our share of private labels and introducing selective price policy measures while maintaining our permanent low price strategy.

  The store expense ratio (store expenses as a percentage of net sales) is budgeted to gradually decrease in the 2012/2013 and 2013/2014 financial years. The ongoing improvement in business processes and increased energy efficiency at the stores should make a key contribution towards enhancing productivity at the stores, and should more than offset the budgeted rise in expenses for maintenance and conversion measures, and for modernizing merchandise presentation.

Due to the faster pace of expansion, pre-opening expenses are set to rise noticeably in the 2012/2013 financial year and to remain at around the same level in the following 2013/2014 financial year. The administration expense ratio will show a further slight increase in the two-year budget period through to the end of February 2014 compared with the 2011/2012 financial year. This is due on the one hand to a series of organizational changes in the company's administration structures, including the enlargement of the Board of Management from March 1, 2012. On the other hand, innovation projects, such as the further expansion in HORNBACH's internet store and its Customer Service Center, require higher volumes of resources to be invested in specific periods. The administration expense ratio is then expected to decline gradually from the 2014/2015 financial year.

- The earnings performance of the **real estate segment** in the two-year forecast period through to the end of February 2014 will mainly be characterized by the stable development in rental income in line with the Group's expansion. Over this period, it is planned to dispose of up to three new HORNBACH DIY megastores with garden centers by way of sale and leaseback transactions.

The earnings performance of the **HORNBACH-Baumarkt-AG subgroup** in the 2012/2013 and 2013/2014 financial years will be determined by the development in earnings in the DIY store segment. Due mainly to a slight decrease in the gross margin and to higher administration and pre-opening expenses, we expect operating earnings (EBIT) at this subgroup for the current financial year (2012/2013) to be at the same level as in the 2011/2012 financial year (€ 128 million). We consciously accept that the expenses budgeted for innovation projects and for an even more effective organizational structure will temporarily hold back our earnings performance. We are nevertheless convinced that the further development of our intrinsic strengths will contribute towards accelerated sales and sustainable earnings growth in the following years. We therefore expect to see a noticeably higher level of earnings from the 2013/2014 financial year.

The earnings performance of the **HORNBACH Baustoff Union GmbH subgroup** segment in the next two years should mainly benefit from a slight 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 2012/2013 financial year or for the 2013/2014 financial year. Operating earnings (EBIT) are expected to exceed the respective previous year's figures.

All three subgroups should contribute to the positive development in earnings at the **overall HORNBACH HOLDING AG Group** in the two-year forecast period through to the end of February 2014. We expect our operating earnings (EBIT) for the 2012/2013 financial year to slightly exceed the level reported for the 2011/2012 financial year (€ 169.1 million). In the 2013/2014 financial year, the EBIT of the HORNBACH Group should grow faster than consolidated sales.

Precision work

»I like it when everything is perfect down to the last detail. That is why I had the old cabinet restored by the professionals. I was absolutely delighted when I saw the outcome. I asked the carpenter what materials he used to obtain this kind of result. He told me that all the materials came from HORNBACH's product range, but the most important things were experience and patience.« ■

CONSOLIDATED FINANCIAL STATEMENTS

Income Statement of the HORNBACH HOLDING AG Group

for the period from March 1, 2011 to February 29, 2012

	Notes	2011/2012 € 000s	2010/2011 € 000s	Change %
Sales	1	3,204,213	3,016,962	6.2
Cost of goods sold	2	2,032,339	1,912,364	6.3
Gross profit		**1,171,874**	**1,104,598**	**6.1**
Selling and store expenses	3	867,753	825,487	5.1
Pre-opening expenses	4	6,389	5,279	21.0
General and administration expenses	5	134,865	123,709	9.0
Other income and expenses	6	6,219	8,985	(30.8)
Earnings before interest and taxes (EBIT)		**169,086**	**159,108**	**6.3**
Other interest and similar income		6,467	4,332	49.3
Other interest and similar expenses		41,126	41,310	(0.4)
Other financial result		(2,550)	4,698	
Net financial expenses	**7**	**(37,209)**	**(32,280)**	**15.3**
Consolidated earnings before taxes		**131,877**	**126,828**	**4.0**
Taxes on income	8	37,275	27,752	34.3
Consolidated net income		**94,602**	**99,076**	**(4.5)**
of which: income attributable to shareholders of HORNBACH HOLDING AG		76,374	81,100	(5.8)
of which: non-controlling interest		18,228	17,976	1.4
Basic/diluted earnings per share (€)	**9**	**4.76**	**5.05**	**(5.7)**
Basic/diluted earnings per preference share (€)	**9**	**4.79**	**5.08**	**(5.7)**

Statement of Comprehensive Income of the HORNBACH HOLDING AG Group

for the period from March 1, 2011 to February 29, 2012

	Notes	2011/2012 € 000s	2010/2011 € 000s
Consolidated net income		**94,602**	**99,076**
Actuarial gains and losses on defined benefit plans	23	1,322	(2,842)
Measurement of derivative financial instruments (cash flow hedge)			
Measurement of derivative hedging instruments directly in equity		(9,632)	4,251
Gains and losses from measurement of derivative financial instruments transferred to profit or loss		2,436	4,045
Exchange differences arising on the translation of foreign subsidiaries		2,753	12,470
Deferred taxes on gains and losses recognized directly in equity	8	1,657	(1,827)
Other comprehensive income		**(1,464)**	**16,097**
Total comprehensive income		**93,138**	**115,173**
of which: attributable to shareholders of HORNBACH HOLDING AG		74,756	93,526
of which: attributable to non-controlling interest		18,382	21,647

Balance Sheet of the HORNBACH HOLDING AG Group

as of February 29, 2012

	Notes	2.29.2012 € 000s	2.28.2011 € 000s
Non-current assets			
Intangible assets	11	16,930	20,847
Property, plant, and equipment	12	1,138,789	1,057,203
Investment property	12	43,570	43,984
Financial assets	13	2,581	2,600
Non-current receivables and other assets	14/23	6,269	5,691
Non-current income tax receivables	26	17,927	20,018
Deferred tax assets	15	13,926	15,090
		1,239,992	**1,165,433**
Current assets			
Inventories	16	506,774	488,675
Other receivables and assets	17	86,853	91,134
Income tax receivables	26	9,734	8,974
Cash and cash equivalents	18	422,341	474,016
Non-current assets held for sale and disposal groups	19	1,473	5,085
		1,027,175	**1,067,884**
		2,267,167	**2,233,317**

	Notes	2.29.2012 € 000s	2.28.2011 € 000s
Shareholders' equity	**20**		
Share capital		48,000	24,000
Capital reserve		130,373	130,373
Revenue reserves		675,798	635,507
Equity of shareholders of HORNBACH HOLDING AG		**854,171**	**789,880**
Non-controlling interest		187,147	172,488
		1,041,318	**962,368**
Non-current liabilities			
Non-current financial debt	22	596,341	602,688
Provisions for pensions	23	0	521
Deferred tax liabilities	15	63,752	64,351
Other non-current liabilities	24/27	25,869	21,177
		685,962	**688,737**
Current liabilities			
Current financial debt	22	173,793	193,468
Trade payables and other liabilities	25	257,035	276,835
Income tax liabilities	26	36,216	39,185
Other provisions and accrued liabilities	27	72,843	72,724
		539,887	**582,212**
		2,267,167	**2,233,317**

Statement of Changes in Equity of the HORNBACH HOLDING AG Group

2010/2011 financial year € 000s	Notes	Share capital	Capital reserve	Hedging reserve	Cumulative currency translation	Other revenue reserves	Equity attributable to shareholders	Non-controlling interest	Total group equity
Balance at March 1, 2010		**24,000**	**130,373**	**(4,440)**	**10,133**	**546,635**	**706,701**	**154,757**	**861,458**
Consolidated net income						81,100	81,100	17,976	99,076
Actuarial gains and losses on defined benefit plans, net after taxes	23					(1,769)	(1,769)	(549)	(2,318)
Measurement of derivative financial instruments (cash flow hedge), net after taxes				4,762			4,762	1,183	5,945
Foreign currency translation					9,433		9,433	3,037	12,470
Total comprehensive income				**4,762**	**9,433**	**79,331**	**93,526**	**21,647**	**115,173**
Dividend distribution	21					(10,480)	(10,480)	(3,764)	(14,244)
Transactions with other shareholders						133	133	(152)	(19)
Balance at February 28, 2011		**24,000**	**130,373**	**322**	**19,566**	**615,619**	**789,880**	**172,488**	**962,368**

2011/2012 financial year € 000s	Notes	Share capital	Capital reserve	Hedging reserve	Cumulative currency translation	Other revenue reserves	Equity attributable to shareholders	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	20	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**

Cash Flow Statement of the HORNBACH HOLDING AG Group

	Notes	2011/2012 € 000s	2010/2011 € 000s
Consolidated net income		**94,602**	**99,076**
Depreciation and amortization of non-current assets	10	78,693	69,867
Change in provisions		6,383	3,491
Gains/losses on disposals of non-current assets and of non-current assets held for sale		(184)	(303)
Change in inventories, trade receivables and other assets		(15,995)	(31,511)
Change in trade payables and other liabilities		(23,367)	44,305
Other non-cash income/expenses		1,706	(2,832)
Cash flow from operating activities		**141,838**	**182,093**
Proceeds from disposal of non-current assets and of non-current assets held for sale		13,137	48,436
Payments for investments in property, plant, and equipment		(151,211)	(103,919)
Payments for investments in intangible assets		(2,685)	(7,804)
Payments for acquisitions of shareholdings and other business units		(8,994)	(1,703)
Cash flow from investing activities		**(149,753)**	**(64,990)**
Dividends paid	21	(14,244)	(14,244)
Proceeds from taking up long-term debt	22	96,259	54,874
Repayment of long-term debt		(128,031)	(49,698)
Payments for transaction costs		(1,591)	(593)
Change in current financial debt		2,772	30,545
Cash flow from financing activities		**(44,835)**	**20,884**
Cash-effective change in cash and cash equivalents		(52,750)	137,987
Change in cash and cash equivalents due to changes in exchange rates		1,075	972
Cash and cash equivalents at March 1		474,016	335,058
Cash and cash equivalents at February 29/28		**422,341**	**474,016**

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

The non-cash income/expense item for the current year mainly relates to deferred taxes, unrecognized exchange rate gains/losses, write-ups to non-current assets, and write-downs of non-current assets held for sale.

The cash flow from operating activities was reduced by income tax payments of € 37,648k (2010/2011: € 23,295k) and interest payments of € 44,526k (2010/2011: € 45,683k) and increased by interest received of € 6,467k (2010/2011: € 4,332k).

The proceeds from disposal of non-current assets and of non-current assets held for sale reported for the current year include proceeds of € 3,333k from disposals in previous years (2010/2011: € 10,365k).

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 16, 2012. 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:

- In November 2009, the IASB published amendments to IAS 24 "Related Party Disclosures". The amended version of IAS 24 has introduced an exemption option for disclosures of transactions with specified closely related companies. This exemption covers all transactions with government bodies that control, jointly manage or significantly influence the reporting company and transactions with companies controlled, jointly managed or significantly influenced by the same government body. As a result of the amendment, detailed disclosures only have to be made concerning individually significant transactions. For transactions that are collectively, but not individually significant, companies now only have to provide quantitative or qualitative indications of their implications.

  Furthermore, the amendment to IAS 24 has changed the definition of a related party to ensure that symmetry is now obtained. Two companies closely related from the perspective of one of the companies are now also closely related from the perspective of the other company.
  The HORNBACH HOLDING AG Group is not affected by the new exemption option. Its group of related parties has not changed.

- In November 2009, the IASB published amendments to IFRIC 14 "Prepayment of a Minimum Funding Requirement". This pronouncement has modified IFRIC 14: IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". IFRIC 14 sets out rules governing the recognition of defined benefit pension plans in cases where existing plan assets exceed the pension obligation. The amendment is relevant when companies are subject to minimum funding requirements and make prepayments to meet such requirements. In these cases, the amendment now permits companies to recognize the economic benefit accruing from such prepayments of minimum funding requirements as an asset in their accounts. First-time application of IFRIC 14 has not had any implications for the consolidated financial statements of HORNBACH HOLDING AG.

- In November 2009, the IASB published IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments“. IFRIC 19 explains the accounting treatment of cases where a company extinguishes a financial liability in part or in full by issuing shares or other equity instruments. The interpretation clarifies that the equity instruments issued to a creditor to extinguish a financial liability form part of the "consideration paid" as defined in IAS 39.41. The corresponding equity instruments basically require measurement at fair value. Where this cannot be reliably determined, the equity instruments must be measured at the fair value of the liability extinguished. The difference between the carrying amount of the financial liability to be derecognized and the first-time recognition of the equity instrument issued must be recognized through profit or loss.
  First-time application of IFRIC 19 has not had any implications for the consolidated financial statements of HORNBACH HOLDING AG.

- Within its annual improvements project, the IASB published its "Improvements to IFRSs 2008-2010" omnibus standard on May 6, 2010. The EU adopted the amendments into EU law on February 19, 2011. The

2008-2010 annual improvements project has introduced eleven amendments to a total of six standards and one interpretation. The adjustments made to formulations in individual IFRSs are intended to clarify existing requirements. Alongside these, amendments have also been introduced that have implications for recognition, statement, and measurement methods. The amendments relate to the IAS 1, IAS 27 (in conjunction with IAS 21, IAS 28 and IAS 31), IAS 34, IFRS 1, IFRS 3, IFRS 7 standards, and the IFRIC 13 interpretation. First-time application of these amendments has not had any material implications for the net asset, financial or earnings position of the HORNBACH HOLDING AG Group.

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 do not yet require mandatory application and which the HORNBACH HOLDING AG Group has also not applied prematurely:

- In October 2010, the IASB published amendments to IFRS 7 "Financial Instruments: Disclosures". The amendments to IFRS 7 require extended note disclosure obligations to be made when financial assets are transferred. This is intended to additionally 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 will 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. The amendments require first-time application in financial years beginning on or after July 1, 2011. The amendments to the standard are not expected to have any 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

- 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. Subject to adoption into EU law, which is still outstanding, this amendment will require first-time application in financial years beginning on or after July 1, 2012.

- On December 20, 2010, the IASB published amendments to IAS 12 "Income Taxes". These involve a supplement relating to the calculation of deferred taxes for investment property measured at fair value (IAS 40.33). The amendment also incorporates SIC 21 "Income Taxes – Recovery of Revalued Non-Depreciable 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. 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, 2012. Earlier application is permitted. At the HORNBACH HOLDING AG Group, investment property is measured using the cost model (IAS 40.56). The amendments to IAS 12 are not expected to have any implications for the net asset, financial or earnings position of the HORNBACH HOLDING AG Group.

- 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 under other comprehensive income. Furthermore, the expected income from plan assets is currently determined 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 to recognize a typical return on plan assets at the level of the current discount rate for pension obligations.
  Subject to adoption into EU law, which is still outstanding, this amendment will require first-time application in financial years beginning on or after January 1, 2013. 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.

- 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. Subject to adoption into EU law, which is still outstanding, this amendment will require first-time application in financial years beginning on or after January 1, 2013. The amendments to IAS 27 will not have any implications for the net asset, financial or 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 companies will thus become obsolete. Subject to adoption into EU law, which is still outstanding, this amendment will require 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.

- 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 rights 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. Subject to adoption into EU law, which is still outstanding, the amendment to IAS 32 will require first-time application in financial years beginning on or after January 1, 2014. Subject to adoption into EU law, which is still outstanding, the amendment to IFRS 7 will require 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.

- Amendments to IFRS 1 "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters": As a result of this amendment to IFRS 1, the references previously used to the date January 1, 2004 as the fixed transition date have been replaced by the "date of transition to IFRS". Furthermore, provisions have now been included in IFRS 1 to cover those cases in which companies were unable to comply with IFRS requirements for a period of time as their functional currencies were subject to hyperinflation. Subject to adoption into EU law, which is still outstanding, this amendment will require first-time application in financial years beginning on or after July 1, 2011.

- 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. The implications of future application of IFRS 9 for the presentation of the net asset, financial and earnings position of the HORNBACH HOLDING AG Group are currently still being investigated.

- 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. Subject to adoption into EU law, which is still outstanding, the new standard will require 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 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 will thus no longer exist. Subject to adoption into EU law, which is still outstanding, the new standard will require first-time application in financial years beginning on or after January 1, 2013. 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 is not expected to 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. Subject to adoption into EU law, which is still outstanding, this new standard will require first-time application in financial years beginning on or after January 1, 2013. 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. Subject to adoption into EU law, which is still outstanding, this new standard will require first-time application in financial years beginning on or after January 1, 2013. The implications of the future application of IFRS 13 for the presentation of the net asset, financial and earnings position of the HORNBACH HOLDING AG Group are currently still being investigated.

- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine": This interpretation is intended to provide uniform requirements for the accounting treatment of stripping costs at surface mines. If the future use of the excavated material is expected to generate revenues, then the allocable costs must be recognized as inventories in line with IAS 2. Furthermore, this gives rise to an intangible asset that must be capitalized together with the surface mining asset in cases where access to further resources is improved and the requirements set out in the interpretation are met. This asset must be depreciated over its expected useful life. Subject to adoption into EU law, which is still outstanding, IFRIC 20 will require 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.

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, 2011. 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 39 foreign subsidiaries by way of full consolidation.

Two subsidiaries (2010/2011: two subsidiaries) which, viewed aggregately, are of subordinate significance for the presentation of a true and fair picture of the net asset, financial and earnings position and cash flow of the HORNBACH HOLDING AG Group have not been included in the consolidated financial statements, not least due to cost/benefit considerations. The shares in these companies have been recognized in the consolidated balance sheet at amortized cost, as there is no active market for them and their fair values cannot be determined at reasonable expense.

In respect of the consolidated subsidiaries, HORNBACH HOLDING AG has, either directly or indirectly, 100% of the voting rights as the sole shareholder in HORNBACH Immobilien AG and HORNBACH Baustoff Union GmbH, and has, either directly or indirectly, 76.4% (2010/2011: 76.4%) of the voting rights as the majority shareholder in HORNBACH-Baumarkt-AG.

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 three real estate companies HORNBACH Real Estate Amsterdam-Sloterdijk B.V., Amsterdam (Netherlands), HORNBACH Real Estate Best B.V., Nieuwegein (Netherlands), and TIM HB SRL, Timisoara (Romania), were included in the consolidated financial statements for the first time in the 2011/2012 financial year.

The development in the scope of consolidation was as follows:

	2011/2012	2010/2011
March 1	**60**	**60**
Companies consolidated for the first time	3	0
February 29/28	**63**	**60**

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 2011/2012 financial year resulted in the following aggregate changes in individual asset and liability items.

€ 000s	Additions 2011/2012
Property, plant, and equipment	7,952
Other assets	847
Non-current liabilities	621
Current liabilities	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]	461,474	EUR
HORNBACH Immobilien AG, Bornheim	100	90,347	EUR
HORNBACH International GmbH, Bornheim	76.4[2]	106,019	EUR
AWV-Agentur für Werbung und Verkaufsförderung GmbH, Bornheim	76.4[2]	254	EUR
HORNBACH Baustoff Union GmbH, Neustadt/Weinstrasse	100	41,560	EUR
Union Bauzentrum Hornbach GmbH, Neustadt/Weinstrasse	100	4,820	EUR
Ruhland-Kallenborn & Co. GmbH, Neustadt/Weinstrasse	100	9,290	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]	7,226	EUR
BM Immobilien Lambda GmbH, Bornheim	76.4[2]	20	EUR
HB Services GmbH, Bornheim	76.4[2]	20	EUR
HORNBACH Versicherungs-Service GmbH, Bornheim	76.4[2]	145	EUR
HORNBACH Solar-, Licht- und Energiemanagement GmbH, Bornheim	76.4[2]	(34)	EUR
HIAG Immobilien Jota GmbH, Bornheim	100	6,763	EUR
HIAG Immobilien Beta GmbH, Bornheim	100	(68)	EUR
HIAG Immobilien Gamma GmbH, Bornheim	100	20	EUR
HIAG Immobilien Delta GmbH, Bornheim	100	21	EUR
SULFAT GmbH & Co. Objekt Bamberg KG, Pullach	90	(897)[3]	EUR
SULFAT GmbH & Co. Objekt Düren KG, Pullach	90	(873)[3]	EUR
SULFAT GmbH & Co. Objekt Saarbrücken KG, Pullach	90	(959)[3]	EUR
Other European countries			
HORNBACH Baumarkt GmbH, Wiener Neudorf, Austria	76.4[2]	62,688	EUR
EZ Immobilien Beta GmbH, Wiener Neudorf, Austria	76.4[2]	6,096	EUR
HL Immobilien Lambda GmbH, Wiener Neudorf, Austria	76.4[2]	(632)	EUR
HO Immobilien Omega GmbH, Wiener Neudorf, Austria	99.8	(292)	EUR
HS Immobilien Sigma GmbH, Wiener Neudorf, Austria	76.4[2]	(538)	EUR
HR Immobilien Rho GmbH, Wiener Neudorf, Austria	99.8	(173)	EUR
HC Immobilien Chi GmbH, Wiener Neudorf, Austria	99.8	(53)	EUR

[1] Shareholders' equity corresponds to the local equity.
[2] Of which: 0.021 % under current assets
[3] Shareholders' equity as of 12.31.2011.

Company name and domicile	Shareholding in %	Equity[1] in thousands, local currency	Local currency
HM Immobilien My GmbH, Wiener Neudorf, Austria	100	(56)	EUR
HB Immobilien Bad Fischau GmbH, Wiener Neudorf, Austria	100	(181)	EUR
HORNBACH Baumarkt Luxemburg SARL, Bertrange, Luxembourg	76.4[2]	10,612	EUR
HORNBACH Holding B.V., Amsterdam, Netherlands	76.4[2]	80,114	EUR
HORNBACH Bouwmarkt (Nederland) B.V., Driebergen-Rijsenburg, Netherlands	76.4[2]	14,867	EUR
HORNBACH Real Estate Tilburg B.V., Tilburg, Netherlands	76.4[2]	422	EUR
HORNBACH Real Estate Groningen B.V., Groningen, Netherlands	76.4[2]	416	EUR
HORNBACH Real Estate Wateringen B.V., Wateringen, Netherlands	76.4[2]	789	EUR
HORNBACH Real Estate Alblasserdam B.V., Alblasserdam, Netherlands	76.4[2]	(1,130)	EUR
HORNBACH Real Estate Nieuwegein B.V., Nieuwegein, Netherlands	76.4[2]	854	EUR
HORNBACH Real Estate Nieuwerkerk B.V., Nieuwerkerk, Netherlands	76.4[2]	60	EUR
HORNBACH Real Estate Geleen B.V., Geleen, Netherlands	76.4[2]	30	EUR
HORNBACH Reclame Activiteiten B.V., Nieuwegein, Netherlands	76.4[2]	5	EUR
HORNBACH Real Estate Breda B.V., Breda, Netherlands	76.4[2]	1,974	EUR
HORNBACH Real Estate Amsterdam-Sloterdijk, Amsterdam, Netherlands	76.4[2]	9	EUR
HORNBACH Real Estate Nederland B.V., Amsterdam, Netherlands	100	8,848	EUR
HORNBACH Real Estate Best B.V., Nieuwegein, Netherlands	100	19	EUR
HORNBACH Baumarkt CS spol s.r.o., Prague, Czech Republic	76.4[2]	1,432,020	CZK
HORNBACH Immobilien H.K. s.r.o., Prague, Czech Republic	97.6	254,577	CZK
HORNBACH Baumarkt (Schweiz) AG, Oberkirch, Switzerland	76.4[2]	90,974	CHF
HORNBACH Byggmarknad AB, Gothenburg, Sweden	76.4[2]	117,247	SEK
HIAG Fastigheter i Göteborg AB, Gothenburg, Sweden	100	7,500	SEK
HIAG Fastigheter i Helsingborg AB, Gothenburg, Sweden	100	1,200	SEK
HIAG Fastigheter i Göteborg Syd AB, Gothenburg, Sweden	100	533	SEK
HIAG Fastigheter i Stockholm AB, Gothenburg, Sweden	100	209	SEK
HIAG Fastigheter i Botkyrka AB, Gothenburg, Sweden	100	2,851	SEK
HIAG Fastigheter i Sisjön AB, Gothenburg, Sweden	76.4[2]	291	SEK
HORNBACH Immobilien SK-BW s.r.o., Bratislava, Slovakia	100	6,025	EUR
HORNBACH-Baumarkt SK spol. s.r.o., Bratislava, Slovakia	76.4[2]	19,216	EUR
HORNBACH Centrala SRL, Domnesti, Romania	76.4[2]	(4,265)	RON
HORNBACH Imobiliare SRL, Domnesti, Romania	100	54,449	RON
TIM HB SRL, Timisoara Bd., Romania	76.4[2]	747	RON

[1] Shareholders' equity generally 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: 0.021 % under current assets

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. These took effect in the 2000/2001 financial year. The control and profit and loss transfer agreement between HORNBACH HOLDING AG and HORNBACH Baustoff Union GmbH also effective from the 2000/2001 financial year was terminated as of the end of February 29, 2012. A control and profit and loss transfer agreement has been in place between Ruhland-Kallenborn Grundstücksverwaltungsgesellschaft mbH and Ruhland-Kallenborn & Co. GmbH since March 1, 2004. Furthermore, control and profit and loss transfer agreements are in place between HORNBACH-Baumarkt-AG on the one hand and HORNBACH International GmbH 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	
	2.29.2012	2.28.2011	2011/2012	2010/2011
RON Romania	4.3486	4.2057	4.25397	4.23142
SEK Sweden	8.8088	8.7445	9.02505	9.34325
CHF Switzerland	1.2051	1.2840	1.22086	1.35157
CZK Czech Republic	24.8430	24.3530	24.74297	25.01167
USD USA	1.3443	1.3834	1.38438	1.31889

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 net sale price and the value in use (so-called recoverable amount) of such units.

If the carrying amount of the cash generating unit exceeds its recoverable amount, then a write-down is required. The impairment loss for a cash generating unit is initially allocated to goodwill. Any remaining impairment loss is subsequently recognized for the other assets in the cash generating unit. However, assets may only be written down at maximum to the recoverable amount of the individual asset identified. 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% (2010/2011: 0.5%). The strategic five-year plan is largely based on the developments expected in consumer spending as stated in economic forecasts published by economic research institutes. A detailed financial budget for the coming financial year is then compiled on this basis.

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 5.8% and 7.6% were applied in the 2011/2012 financial year (2010/2011: 7.8%).

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 net sale price 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 net sale value. The net sale value is taken to be the expected realizable sales proceeds less the costs incurred up to disposal. The acquisition costs of inventory holdings are determined using weighted average prices. 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 related disposal expenses 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 Boards 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 recognition and measurement methods 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 let 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.

2011/2012 in € million 2010/2011 in € million	HORNBACH-Baumarkt-AG subgroup	HORNBACH Baustoff Union GmbH subgroup	HORNBACH Immobilien AG subgroup	Headquarters and consolidation	HORNBACH HOLDING AG Group
Segment sales	**3,001.0**	**201.5**	**68.7**	**(67.0)**	**3,204.2**
	2,836.1	180.3	64.2	(63.6)	3,017.0
Sales to third parties	3,000.0	200.5	0.0	0.0	3,200.5
	2,835.1	178.4	0.0	0.0	3,013.5
Sales to affiliated companies	0.1	0.8	0.0	(0.9)	0.0
	0.0	1.9	0.0	(1.9)	0.0
Rental income from third parties	0.9	0.2	2.6	0.0	3.7
	1.0	0.0	2.5	0.0	3.5
Rental income from affiliated companies	0.0	0.0	66.1	(66.1)	0.0
	0.0	0.0	61.7	(61.7)	0.0
Segment earnings (EBIT)	**128.4**	**3.8**	**39.0**	**(2.1)**	**169.1**
	119.1	3.3	38.6	(1.9)	159.1
of which: depreciation and amortization/write-ups	55.9	4.8	16.7	0.0	77.4
	53.5	4.2	12.5	(0.6)	69.6
Segment assets	**1,608.7**	**112.0**	**492.2**	**12.7**	**2,225.6**
	1,571.7	109.7	489.3	18.5	2,189.2
of which: credit balances at banks	386.7	0.9	4.8	12.3	404.7
	403.9	1.3	31.2	18.7	455.1
Investments	**103.7**	**8.6**	**50.3**	**0.0**	**162.6**
	67.9	6.2	39.1	0.1	113.3
Segment liabilities	**772.6**	**56.1**	**336.9**	**(39.7)**	**1,125.9**
	795.7	87.1	352.3	(67.7)	1,167.4
of which: financial debt	431.9	34.0	304.2	0.0	770.1
	440.4	34.2	321.5	0.0	796.2

Reconciliation in € million	2011/2012	2010/2011
Segment earnings (EBIT) before "Headquarters and consolidation"	**171.2**	**161.0**
Headquarters	(2.8)	(2.7)
Consolidation adjustments	0.7	0.8
Net financial expenses	(37.2)	(32.3)
Consolidated earnings before taxes	**131.9**	**126.8**
Segment assets	**2,225.6**	**2,189.2**
Deferred tax assets	13.9	15.1
Income tax receivables	27.7	29.0
Total assets	**2,267.2**	**2,233.3**
Segment liabilities	**1,125.9**	**1,167.4**
Deferred tax liabilities	63.8	64.4
Income tax liabilities	36.2	39.2
Total liabilities	**1,225.9**	**1,271.0**

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, and Romania.

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.

2011/2012 in € million 2010/2011 in € million	Germany	Other European countries	Reconciliation	HORNBACH HOLDING AG Group
Sales	**2,131.0**	**1,272.2**	**(199.1)**	**3,204.2**
	1,995.2	1,195.1	(173.4)	3,017.0
Sales to third parties	1,929.4	1,271.1	0.0	3,200.5
	1,819.5	1,193.9	0.0	3,013.5
Rental income from third parties	2.6	1.0	0.0	3.7
	2.4	1.0	0.0	3.5
Sales to affiliated companies	199.0	0.1	(199.1)	0.0
	173.3	0.1	(173.4)	0.0
EBIT	**65.6**	**103.6**	**(0.1)**	**169.1**
	57.7	101.4	(0.1)	159.1
Depreciation and amortization/write-ups	**48.2**	**29.2**	**0.0**	**77.4**
	47.5	22.1	0.0	69.6
EBITDA	**113.8**	**132.8**	**(0.1)**	**246.5**
	105.2	123.5	0.0	228.7
Assets	**1,719.2**	**1,173.6**	**(667.2)**	**2,225.6**
	1,720.5	1,102.8	(634.1)	2,189.2
of which: non-current assets*)	643.2	557.4	0.5	1,201.1
	625.9	497.1	0.5	1,123.5
Investments	**70.6**	**92.1**	**(0.1)**	**162.6**
	42.0	71.3	0.0	113.3

*) 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 € 17.9 million (2010/2011: € 20.0 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 € 3,679k (2010/2011: € 3,483k) 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:

	2011/2012 € 000s	2010/2011 € 000s
Expenses for auxiliary materials and purchased goods	2,007,835	1,892,470
Expenses for services rendered	24,504	19,894
	2,032,339	**1,912,364**

(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:

	2011/2012 € 000s	2010/2011 € 000s
Other income from operating activities		
Income from advertising allowances and other reimbursements of suppliers	6,248	5,156
Income from disposal of non-current assets	1,288	625
Income from damages	1,057	869
Income from payment differences	785	625
Miscellaneous other income	11,456	11,843
	20,834	**19,118**
Other income from non-operating activities		
Income from write-ups to property, plant, and equipment and investment property	1,249	273
Income from reversal of provisions for onerous contracts	210	516
Income from disposal of real estate	206	497
Other non-operating income	169	293
	1,834	**1,579**
Other income	**22,668**	**20,697**

Miscellaneous other income from operating activities principally relates to ancillary revenues at the DIY stores with garden centers, other income from personnel grants, and income from the writing back of receivables.

	2011/2012 € 000s	2010/2011 € 000s
Other expenses from operating activities		
Impairments and defaults on receivables	2,963	2,081
Losses due to damages	1,237	1,227
Losses on disposal of non-current assets	504	405
Expenses from payment differences	145	149
Miscellaneous other expenses	2,345	5,328
	7,194	**9,190**
Other expenses from non-operating activities		
Impairment of property, plant, and equipment and investment property	5,649	1,044
Losses on disposal of non-current assets	807	413
Impairment of non-current assets held for sale	100	150
Additions to provisions for onerous contracts	0	210
Other non-operating expenses	2,699	705
	9,255	**2,522**
Other expenses	**16,449**	**11,712**
Net income from other income and expenses	**6,219**	**8,985**

Miscellaneous other expenses mainly include expenses for services charged on. The corresponding income is recognized under other income. In the 2010/2011 financial year, this item also included additions of € 3.8 million to provisions for potential refund claims at our energy-related service provider due to a changed assessment of the risk involved.

Other non-operating expenses include amounts of € 1.5 million for the addition to a provision for the refurbishment obligation at a DIY store property sold and leased back and of € 0.8 million for the targeted clean-up agreement for a DIY store property owned by the Group.

(7) Net financial expenses

	2011/2012 € 000s	2010/2011 € 000s
Other interest and similar income		
Interest income on financial instruments measured at amortized cost	6,467	4,332
	6,467	**4,332**
Other interest and similar expenses		
Interest expenses on financial instruments measured at amortized cost	36,819	35,968
Interest expenses on financial instruments used as hedging instruments	2,436	4,045
Interest expenses from compounding of provisions	796	0
Other	1,075	1,297
	41,126	**41,310**
Net interest expenses	**(34,659)**	**(36,978)**
Other financial result		
Gains/losses on derivative financial instruments	238	665
Gains and losses from foreign currency exchange	(2,788)	4,033
	(2,550)	**4,698**
Net financial expenses	**(37,209)**	**(32,280)**

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 € 107k (2010/2011: € 120k) 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 € 4,785k in the year under report (2010/2011: € 4,867k) 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.

Interest expenses from the compounding of provisions have been reported separately for the first time in the 2011/2012 financial year. The previous year's figure has not been adjusted.

Gains/losses on derivative financial instruments include gains and losses of € 405k on derivative currency instruments (2010/2011: € 1,313k) and the ineffective portion, amounting to € -167k (2010/2011: € -648k), 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 2011/2012 financial year chiefly result from the measurement of foreign currency receivables and liabilities. This resulted in net expenses of € 2,792k (2010/2011: € 2,133k). Furthermore, this item also includes realized exchange rate gains of € 7,925k (2010/2011: € 14,962k) and realized exchange rate losses of € 7,921k (2010/2011: € 8,796k).

(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. As in the previous year, the income tax rates applied to foreign companies range from 16% to 31%.

The actual income tax charge of € 37,275k (2010/2011: € 27,752k) is € 2,288k lower (2010/2011: € 10,296k) than the expected tax charge of € 39,563k (2010/2011: € 38,048k) which would have been payable by applying the average tax rate of 30% at HORNBACH HOLDING AG (2010/2011: 30%) to the Group's pre-tax earnings of € 131,877k (2010/2011: € 126,828k).

Deferred tax assets have been stated for as yet unutilized losses carried forward amounting to € 26,342k (2010/2011: € 38,515k). 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 € 9,360k (2010/2011: € 3,524k), as future realization of the resultant benefit is not expected. Of these, losses carried forward of € 1,663k (2010/2011: € 0k) and of € 4,808k (2010/2011: € 0k) are due to expire within the next 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 2011/2012 financial year, deferred tax assets of € 163k (2010/2011: € 1,194k) were recognized for the first time for losses carried forward whose utilization was previously not viewed as likely. As a result of the termination of the control and profit and loss transfer agreement between HORNBACH HOLDING AG and HORNBACH Baustoff Union GmbH as of the end of February 29, 2012, deferred tax assets of € 24k (2010/2011: € 0k) have been recognized for the first time for losses carried forward from the period prior to the validity of this agreement. Furthermore, deferred tax assets of € 1,012k were derecognized in the 2011/2012 financial year for losses carried forward whose utilization is no longer deemed likely. The income from first-time recognition and expenses for derecognition of these deferred tax items are included in deferred tax income.

Tax expenses for the previous year were reduced by € 1,516k due to the utilization of previously unrecognized losses carried forward.

Breakdown of the tax charge:

	2011/2012 € 000s	2010/2011 € 000s
Current taxes on income		
Germany	13,137	9,834
Other countries	22,872	22,200
	36,009	**32,034**
Deferred tax expenses/income		
due to changes in temporary differences	(672)	(4,312)
due to changes in tax rates	12	(590)
due to losses carried forward	1,926	620
	1,266	**(4,282)**
Taxes on income	**37,275**	**27,752**

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

	2011/2012		2010/2011	
	€ 000s	%	€ 000s	%
Expected income tax charge	39,563	100.0	38,048	100.0
Difference between local tax rate and group tax rate	(6,675)	(16.9)	(6,595)	(17.3)
Tax-free income	(499)	(1.3)	(490)	(1.3)
Tax reductions/increases due to changes in tax rates	12	0.0	(590)	(1.6)
Tax increases attributable to expenses not deductible for tax purposes	4,956	12.5	6,994	18.4
Tax increases attributable to unstated losses carried forward	805	2.0	230	0.6
Non-period current and deferred taxes	(887)	(2.2)	(9,845)	(25.9)
Taxes on income	**37,275**	**94.1**	**27,752**	**72.9**
Effective tax rate in %	28.3		21.9	

Taxes on income include non-period current tax income of € 2,554k (2010/2011: tax expenses of € 4,245k) and non-period deferred taxes of € 1,667k (2010/2011: tax income of € 5,600k). The non-period current tax income includes tax income of € 1,923k from the change in the present value of corporate income tax claims. The non-period current taxes reported for the previous year mainly related to two opposing items. The tax expenses of € 4,764k resulting from the external tax audit completed in the previous financial year were countered by tax income of € 8,901k. This was due to the compounding of existing corporate income tax claims (€ 694k) and the first-time recognition of future corporate income tax credits due to the 2010 Annual Tax Act (€ 8,207k). The non-period deferred taxes for the previous year chiefly result from the adjustment in tax carrying amounts in connection with the aforementioned external tax audit, as well as from the first-time recognition of deferred tax assets for losses carried forward whose utilization was previously not viewed as likely.

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

	2011/2012 € 000s	2010/2011 € 000s
Actuarial gains and losses on defined benefit plans		
Actuarial gains and losses on defined benefit plans before taxes	1,322	(2,842)
Change in deferred taxes	(259)	524
	1,063	**(2,318)**
Measurement of derivative financial instruments (cash flow hedge)		
Changes in fair value of derivative financial instruments before taxes	(7,196)	8,296
Change in deferred taxes	1,916	(2,351)
	(5,280)	**5,945**
Exchange differences arising on the translation of foreign subsidiaries	**2,753**	**12,470**
Other comprehensive income, net after taxes	**(1,464)**	**16,097**
of which: other comprehensive income before taxes	(3,121)	17,924
of which: change in deferred taxes	1,657	(1,827)

(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 2011/2012 financial year.

Bonus shares were issued at a ratio of 1:1 to all shareholders in HORNBACH HOLDING AG on July 29, 2011 (please see Note 20). 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 unchanged. The additional dividend claim thus halved from € 0.06 to € 0.03. The calculation of earnings per share has been retrospectively adjusted to account for this.

	2011/2012	2010/2011
Consolidated net income in €	76,373,530	81,100,336
Additional dividend on preference shares in €	(240,000)	(240,000)
Consolidated net income adjusted by additional dividend claims in €	**76,133,530**	**80,860,336**
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 €	**4.76**	**5.05**
Additional dividend claim per preference share in €	0.03	0.03
Earnings per preference share in €	**4.79**	**5.08**

(10) Other disclosures on the income statement

Personnel expenses

The individual expense items include the following personnel expenses:

	2011/2012 € 000s	2010/2011 € 000s
Wages and salaries	436,591	410,900
Social security contributions and pension expenses	92,896	83,603
	529,487	**494,503**

Wages and salaries also include expenses for temporary employees.

Depreciation and amortization

	2011/2012 € 000s	2010/2011 € 000s
Scheduled amortization of intangible assets and depreciation of property, plant, and equipment and investment property	73,044	68,823
Impairment of property, plant, and equipment and investment property	5,649	1,044
	78,693	**69,867**

The impairment losses recognized in the 2011/2012 financial year relate to land, buildings and outdoor facilities, as well as to plant and office equipment. In the previous year, impairment losses related to land and buildings not used for operations. Reference is also made to the disclosures on property, plant and equipment in Note 12.

Depreciation and amortization is included in the following items in the income statement:

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**

2010/2011 financial year € 000s	Intangible assets	Property, plant, and equipment and investment property	Total
Selling and store expenses	598	57,369	57,967
Pre-opening expenses	0	77	77
General and administration expenses	5,855	4,924	10,779
Other income and expenses	0	1,044	1,044
	6,453	**63,414**	**69,867**

Notes on the Consolidated Balance Sheet

(11) Intangible assets

The development in intangible assets in the 2010/2011 and 2011/2012 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, 2010	67,969	4,441	1,031	73,441
Additions	7,723	0	81	7,804
Disposals	4	0	0	4
Reclassifications	1,032	0	(1,031)	1
Foreign currency translation	54	0	0	54
Balance at February 28/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, 2012	**79,616**	**4,441**	**38**	**84,095**
Depreciation and amortization				
Balance at March 1, 2010	52,780	1,169	0	53,949
Additions	6,453	0	0	6,453
Disposals	4	0	0	4
Foreign currency translation	51	0	0	51
Balance at February 28/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, 2012	**65,996**	**1,169**	**0**	**67,165**
Carrying amount at February 29, 2012	**13,620**	**3,272**	**38**	**16,930**
Carrying amount at February 28, 2011	17,494	3,272	81	20,847

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, the renewal of store checkout systems and expenses incurred to prepare the software for its intended use.

Goodwill 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 2010/2011 and 2011/2012 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, 2010	1,151,943	69,389	502,409	13,855	1,737,596
Reclassifications to/from non-current assets held for sale	0	(10,079)	0	0	(10,079)
Additions	32,106	3,405	30,428	39,585	105,524
Disposals	144	4,044	22,376	459	27,023
Reclassifications pursuant to IAS 40	(1,578)	1,578	0	0	0
Reclassifications	3,873	0	1,743	(5,617)	(1)
Foreign currency translation	17,841	(168)	5,843	415	23,931
Balance at February 28/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, 2012	**1,293,455**	**62,142**	**533,609**	**58,516**	**1,947,722**
Amortization					
Balance at March 1, 2010	273,935	22,577	393,092	24	689,628
Reclassifications to/from non-current assets held for sale	0	(5,844)	0	0	(5,844)
Additions	26,161	1,639	35,614	0	63,414
Write-ups	0	(273)	0	0	(273)
Disposals	58	1987	21,612	22	23,679
Reclassifications	3	0	(3)	0	0
Foreign currency translation	1,651	(15)	3,879	0	5,515
Balance at February 28/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, 2012	**326,062**	**18,572**	**420,727**	**2**	**765,363**
Carrying amount at February 29, 2012	**967,393**	**43,570**	**112,882**	**58,514**	**1,182,359**
Carrying amount at February 28, 2011	902,349	43,984	107,077	47,777	1,101,187

The impairment losses included in depreciation relate to assets whose carrying amounts exceed their recoverable amounts. The recoverable amount corresponds to the higher of fair value less costs to sell (net sale price) and value in use. These impairment losses have been recognized under other expenses from non-operating activities.

In the 2011/2012 financial year, it was not possible to uphold the expectations from previous years 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. Furthermore, impairment losses of € 2,989k were recognized for land, buildings, and outdoor facilities, which were written down to their net sale price on the basis of current value surveys.

The value in use of the Romania region is calculated by reference to the discounted expected future cash flows of the DIY stores with garden centers located there 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% (2010/2011: 0.5%). The strategic five-year plan is largely based on the developments expected in consumer spending as stated in economic forecasts published by economic research institutes. A detailed financial budget for the coming financial year is then compiled on this basis.

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. A discount rate of between 8.9% and 10.0% was applied in the 2011/2012 financial year (2010/2011: 10.2%).

In the 2011/2012 financial year, impairment losses of € 956k (2010/2011: € 1,044k) were also recognized for items of investment property, which were written down to their net sale prices. The net sale prices of items of property, plant and equipment were determined by reference to current value surveys, purchase offers, and agreed sale contracts.

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

	2011/2012	2010/2011
HORNBACH-Baumarkt-AG subgroup		
Land	0	365
Buildings	0	400
Other equipment, plant, and office equipment	1,704	0
	1,704	**765**
HORNBACH Immobilien AG subgroup		
Land	2,470	279
Buildings	1,231	0
Outdoor facilities	244	0
	3,945	**279**
Total	**5,649**	**1,044**

The write-ups of € 1,249k in the 2011/2012 financial year (2010/2011: € 273k) relate to the appreciation in value on pieces of land not used for operations, or originally intended for DIY store extensions, for which impairment losses were recognized in previous years. The write-ups were based on purchase offers and agreed sale contracts and have been recognized under other income from non-operating activities in the "HORNBACH-Baumarkt-AG subgroup" segment at an amount of € 1,196k (2010/2011: € 273k) and in the "HORNBACH Immobilien AG subgroup" segment at an amount of € 53k (2010/2011: € 0k).

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, 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, and HORNBACH Centrala SRL 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 € 52.1 million (2010/2011: € 52.2 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 € 2,150k was generated on properties let to third parties in the year under report (2010/2011: € 2,058k). Expenses of € 1,413k were incurred for the maintenance of the properties let to third parties (2010/2011: € 1,124k). Expenses of € 162k were incurred for all other items of investment property (2010/2011: € 467k).

The real estate acts as security for bank loans in the form of registered land charges amounting to € 522.2 million (2010/2011: € 527.8 million).

Property, plant and equipment include a building with a carrying amount of € 997k (2010/2011: € 1,163k) 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 2010/2011 and 2011/2012 financial years was as follows:

€ 000s	Shares in affiliated companies	Investments	Advance payments for financial assets	Total
Cost				
Balance at March 1, 2010	1,426	31	1,028	2,485
Foreign currency translation	0	0	115	115
Balance at February 28/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, 2012	**1,426**	**20**	**1,135**	**2,581**
Carrying amount at February 29, 2012	**1,426**	**20**	**1,135**	**2,581**
Carrying amount at February 28, 2011	1,426	31	1,143	2,600

The non-consolidated associated companies have been stated in Note 36.

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 € 3,869k (2010/2011: € 3,763k) paid as security for possible subsequent claims to purchase price reductions on the part of the buyer. The deposits have a maximum term of 11 years.

As of February 29, 2012, this item also includes deferred expenses of € 1,038k in connection with a newly concluded, but as yet unutilized syndicated credit line of € 250 million with a term until December 14, 2016.

Moreover, this item also includes 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 (2010/2011: € 0k). Details about this item and its development can be found in Note 23.

(15) Deferred taxes

Deferred taxes relate to the following items:

	2.29.2012		2.28.2011	
	Assets € 000s	Liabilities € 000s	Assets € 000s	Liabilities € 000s
Intangible assets and property, plant, and equipment	6,008	61,906	5,866	61,056
Inventories	433	3,563	262	4,064
Other assets and liabilities	1,555	1,229	1,228	1,427
Other provisions	4,039	2,734	3,814	1,389
Liabilities	1,780	986	913	2,597
Losses carried forward	6,777	0	9,189	0
	20,592	**70,418**	**21,272**	**70,533**
Set-off	(6,666)	(6,666)	(6,182)	(6,182)
Total	**13,926**	**63,752**	**15,090**	**64,351**

(16) Inventories

	2.29.2012 € 000s	2.28.2011 € 000s
Raw materials and supplies	1,331	1,928
Unfinished products, unfinished services	1,818	743
Finished products and merchandise	512,537	493,226
Inventories (gross)	**515,686**	**495,897**
less valuation allowances	8,912	7,222
Inventories (net)	**506,774**	**488,675**
Carrying amount of inventories measured at net realizable value	25,336	27,426

Expenses of € 1,998,923k were recognized as merchandise input expenses for merchandise and auxiliary materials and supplies in the 2011/2012 financial year (2010/2011: € 1,885,248k).

(17) Receivables and other assets

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

	2.29.2012 € 000s	2.28.2011 € 000s
Trade receivables	23,772	23,036
Positive fair values of derivative financial instruments	2	4,649
Other receivables and assets	63,079	63,449
	86,853	**91,134**

Trade receivables include assigned receivables of € 1,100k (2010/2011: € 168k) 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.

2.29.2012 € 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**

2.28.2011 € 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	23,036	11,132	4,792	1,810	1,797	96
Positive fair values of derivative financial instruments	4,649	4,649				
Other receivables and assets	43,790	39,788	2,628	628		
	71,475	**55,569**	**7,420**	**2,438**	**1,797**	**96**

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

€ 000s	Trade receivables		Other receivables and assets	
	2011/2012	2010/2011	2011/2012	2010/2011
Allowances at March 1	**2,449**	**2,868**	**997**	**886**
Utilization	1,044	1,367	484	123
Reversals	401	478	168	12
Additions	2,209	1,414	381	237
Foreign currency translation	3	12	2	9
Allowances at end of financial year	**3,216**	**2,449**	**728**	**997**

The complete retirement of receivables resulted in expenses of € 506k (2010/2011: € 455k). The receipt of receivables already derecognized resulted in income of € 177k (2010/2011: € 180k).

(18) Cash and cash equivalents

	2.29.2012 € 000s	2.28.2011 € 000s
Cash balances at banks	404,592	455,145
Checks and cash on hand	17,749	18,871
	422,341	**474,016**

(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.

The figure for the current year relates to a property not required for operations amounting to € 1,473k in the "HORNBACH Immobilien AG subgroup" segment (2010/2011: € 0k). In the 2011/2012 financial year, two pieces of land not used for operations and originally intended for DIY store extensions and one closed DIY store amounting to € 3,523k in total were reclassified out of property, plant and equipment. Of these reclassifications, € 1,370k related to the "HORNBACH-Baumarkt-AG subgroup" segment and € 2,153k to the "HORNBACH Immobilien AG subgroup" segment. The figure for the current year relates to the DIY store property of € 1,473k given up in the "HORNBACH Immobilien AG subgroup" segment. The other reclassified properties were sold in the current financial year.

The figure for the previous year includes three properties not required for operations that were also sold in the current financial year. These involve an amount of € 5,085k in the "HORNBACH-Baumarkt-AG subgroup" segment. The gains or losses on the assets sold in the financial year have been reported 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 (2010/2011: € 150k). These have been reported under other expenses for non-operating activities in the "HORNBACH-Baumarkt-AG subgroup" segment.

(20) Shareholders' equity

The development in the shareholders' equity of the HORNBACH HOLDING AG is shown in the statement of changes in group equity for the 2011/2012 and 2010/2011 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 has 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 has now 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

voting rights) on this date. Of these, 5.25 % (210,000 voting rights) are attributable to her via Albert Hornbach pursuant to § 22 (1) Sentence 1 No. 4 WpHG.

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

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 2011/2012 financial year. The equity ratio amounted to 45.9 % as of February 29, 2012 (2010/2011: 43.1 %).

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 2011/2012 financial year with an annual net surplus of € 26,892,359.59. Furthermore, a profit carryover of € 49,342.49 is also still available from the previous year.

Following the allocation of € 13,400,000.00 to other revenue reserves, the unappropriated net profit amounts to € 13,541,702.08.

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	3,061,702.08
	13,541,702.08

By resolution of the Annual General Meeting held on July 8, 2011, dividends of € 1.28 (2010/2011: € 1.28) per ordinary share and € 1.34 (2010/2011: € 1.34) per preference share were distributed in the 2011/2012 financial year. The total amount distributed thus amounted to € 10,480k (2010/2011: € 10,480k).

(22) Financial debt

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

2011/2012 financial year € 000s	Maturities Current < 1 year	 Non-current 1-5 years	 Non-current > 5 years	Carrying amount 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**

2010/2011 financial year € 000s	Maturities Current < 1 year	 Non-current 1-5 years	 Non-current > 5 years	Carrying amount 2.28.2011 Total
Bonds	0	245,994	0	245,994
Liabilities to banks	189,394	243,425	111,778	544,597
Liabilities in connection with finance leases	195	925	566	1,686
Negative fair values of derivative financial instruments	3,879	0	0	3,879
Total	**193,468**	**490,344**	**112,344**	**796,156**

Current financial debt (up to 1 year) amounted to € 173.8 million at the balance sheet date on February 29, 2012 (2010/2011: € 193.5 million). This consists of short-term financing facilities at the HORNBACH Immobilien AG and HORNBACH Baustoff Union GmbH subgroups, amounting to € 28.5 million and € 28.8 million respectively (2010/2011: € 26.4 million and € 27.7 million respectively), interest deferrals of € 7.6 million (2010/2011: € 7.5 million), the portion of long-term financing facilities maturing in the short term, amounting to € 101.9 million (2010/2011: € 128.0 million), and liabilities of € 7.0 million relating to the measurement of derivative financial instruments (2010/2011: € 3.9 million).

HORNBACH-Baumarkt-AG still has the corporate bond of € 250.0 million issued on the European capital market in November 2004 with an interest coupon of 6.125 % and a term running until November 2014. The costs associated with the corporate bond, amounting to € 10,714k in total, 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 serve to provide follow-up financing for 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 the previous year, HORNBACH (Schweiz) AG, Oberkirch, and HORNBACH Baumarkt CS spol s.r.o., Prague, took up promissory note bonds with floating interest rates and equivalent values of € 20 million each in CHF and CZK respectively and terms running until August 31, 2015. The interest payable was secured by way of interest swaps with congruent terms. The half-yearly interest payable via the interest swaps was secured over the entire term at a level of 1.03 % p.a. in the case of the CHF promissory note bond and of 2.08 % p.a. in the case of the CZK promissory note bond, in both cases plus a bank margin.

HORNBACH Immobilien AG has a promissory note bond of € 60 million with a floating interest rate payable upon final maturity. This was concluded with a term running until June 29, 2012 and with HORNBACH HOLDING AG assuming joint liability. The level of interest was secured by way of a swap with congruent terms. The swap enabled the interest payable quarterly to be secured at a fixed level of 2.084 % p.a., 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, serves to prematurely replace the existing syndicated credit line of € 200 million at HORNBACH-Baumarkt-AG otherwise due to mature in June 2013. 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.

As of February 29, 2012, the HORNBACH HOLDING AG Group had total credit lines of € 487.8 million (2010/2011: € 492.7 million). Unutilized credit lines amounted to € 424.4 million (2010/2011: € 438.6 million). Furthermore, HORNBACH-Baumarkt-AG has a credit line for import credits amounting to USD 40.0 million (2010/2011: USD 35.0 million). Of this, an amount of USD 23.4 million had been drawn down as of the balance sheet date (2010/2011: USD 17.2 million).

Land charges amounting to € 522.2 million had been provided as security for liabilities to banks (2010/2011: € 527.8 million). No contractual obligations were breached during the period under report.

No assets have been provided as security for the credit lines, the promissory note bonds referred to above, 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. In the case of the bond, 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 Group and require interest cover of at least 2.25 times and an equity ratio of at least 25 %. In the case of the promissory note bonds at the HORNBACH-Baumarkt-AG subgroup and the syndicated credit line at HORNBACH-Baumarkt-AG, 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 quarterly. 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 2004/2005 financial year, the Group also has non-current liabilities to banks. These consist of the following items:

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

2010/2011 financial year	Currency	Interest agreement in % (including swap)	Maturity	Amount 2.28.2011 € 000s
Loans	EUR	4.63 to 5.83	2011 to 2012	139,634
	CHF	3.78	2015	20,452
	CZK	4.83	2015	20,269
Mortgage loans	EUR	3.17 to 6.47	2011 to 2022	205,086
	CZK	4.38 to 5.22	2018 to 2023	37,382
	RON	6.27 to 7.80	2020 to 2022	26,928
	SEK	5.89 to 6.60	2018 to 2023	33,225
				482,976

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 3.75 percentage points (2010/2011: 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:

2011/2012 financial year € 000s	Maturities Current < 1 year	 Non-current 1-5 years	 Non-current > 5 years	29.2.2012 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**

2010/2011 financial year € 000s	Maturities Current < 1 year	 Non-current 1-5 years	 Non-current > 5 years	28.2.2011 Total
Liabilities in connection with finance leases	195	925	566	1,686
Interest component	107	283	39	429
Total lease payments to be made in future	**302**	**1,208**	**605**	**2,115**

(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 € 41,291k in the 2011/2012 financial year (2010/2011: € 39,242k). Of this total, an amount of € 26,023k involved the employer's share of contributions to the state pension scheme in Germany (2010/2011: € 25,304k).

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. The pension plans were adjusted and simplified as of January 1, 2011, with a distinction now only being made between two insurance groups, rather than the previous total of four. This reallocation of the pension plan resulted in a reduction in invalidity payments and related surviving dependants' payments for some of the employees insured. As these new benefits apply directly and do not have to be earned first, the retrospective service cost was recognized in full in the income statement for the 2010/2011 financial year.

In the 2011/2012 financial year, HORNBACH HOLDING AG and HORNBACH-Baumarkt-AG undertook 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 pension assets and additional voluntary contributions by members of the Boards of Management are held in a fiduciary capacity and invested in funds by Allianz Treuhand GmbH, Frankfurt am Main.

Provisions for obligations in connection with working time accounts have been offset as of the balance sheet date against the corresponding cover assets in the form of 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:

	2011/2012 € 000s	2010/2011 € 000s
Present value of pension obligation	28,076	24,687
less fair value of plan assets	(28,142)	(24,166)
Pension commitments as reported in balance sheet	**(66)**	**521**
of which: pension provisions	0	521
of which: plan assets	66	0

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

	2.29.2012 %	2.28.2011 %
Debt securities	81.3	80.9
Shares	3.3	2.3
Real estate	9.9	10.8
Other	5.5	6.0
	100.0	**100.0**

Change in pension obligation

	2011/2012 € 000s	2010/2011 € 000s
Present value of pension obligation at beginning of period	24,687	18,432
Current service cost of employer	2,906	1,577
Interest cost	772	722
Employee contributions	2,063	936
Net balance of payments contributed and paid out	(2,139)	478
Insurance premiums	(790)	(618)
Plan amendments	0	(2,151)
Actuarial gains/losses recognized directly in equity	(1,039)	2,730
Foreign currency translation	1,616	2,581
	28,076	**24,687**

Change in plan assets

	2011/2012 € 000s	2010/2011 € 000s
Plan assets at beginning of period	24,166	18,567
Expected return on plan assets	626	576
Employer contributions	2,351	1,739
Employee contributions	2,063	936
Net balance of payments contributed and paid out	(2,139)	478
Insurance premiums	(790)	(618)
Actuarial gains/losses recognized directly in equity	283	(112)
Foreign currency translation	1,582	2,600
	28,142	**24,166**

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

	2011/2012 € 000s	2010/2011 € 000s
Current service cost of employer	2,906	1,577
Interest cost	772	722
Plan amendments	0	(2,151)
Expected return on plan assets	(626)	(576)
	3,052	**(428)**

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

	2011/2012 € 000s	2010/2011 € 000s
Selling and store expenses	2,162	(382)
Pre-opening expenses	1	0
General and administration expenses	889	(46)
	3,052	**(428)**

Payments of contributions amounting to € 3.4 million are expected for the 2012/2013 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:

	2011/2012 € 000s	2010/2011 € 000s
Gains and losses at beginning of period	(4,438)	(1,596)
Gains and losses arising during period	1,322	(2,842)
Gains and losses at end of period	**(3,116)**	**(4,438)**

The calculation has been based on the following actuarial assumptions:

	2.29.2012 %	2.28.2011 %
Discount interest rate	2.5 to 4.67	2.8
Expected long-term credit interest rate	2.5	2.0
Expected return on plan assets	2.1 to 4.67	2.2
Future salary increases	1.5 to 3.0	1.5
Future pension increases	0.0 to 2.0	0.5

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:

	2011/2012 € 000s	2010/2011 € 000s	2009/2010 € 000s	2008/2009 € 000s	2007/2008 € 000s
Present value of pension obligation	28,076	24,687	18,432	14,410	11,335
Fair value of plan assets	28,142	24,166	18,567	15,246	13,344
Yield on plan assets	909	463	222	355	327
Experience adjustments arising on plan assets	(283)	112	253	184	115
Experience adjustments arising on plan liabilities	(87)	301	769	1,713	(166)

(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 2 and 25 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 € 2,809k (2010/2011: € 3,261k) 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 2.1 % p.a. (2010/2011: 4.07 % p.a.). Moreover, provisions of € 24k (2010/2011: € 3k) 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

	2.29.2012 € 000s	2.28.2011 € 000s
Trade payables and advance payments received for orders	197,198	223,195
Other liabilities	59,837	53,640
of which: other taxation	18,463	15,487
of which: social security contributions	2,688	2,472
	257,035	**276,835**

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, liabilities relating to employee salary payments, 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. The tax liabilities reported for the previous year also include taxes resulting from an external tax audit completed in the previous year for the years 2005 to 2007. 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 previous 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 29, 2012, the HORNBACH HOLDING AG Group had corporate income tax refund claims amounting to € 22.4 million in total (2010/2011: € 26.5 million), which have been recognized at a present value of € 21.7 million (2010/2011: € 23.8 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 2011/2012 financial year:

€ 000s	Opening balance at 3.1.2011	Utilization	Reversals	Additions	Interest compounding	Foreign currency translation	**Closing balance at 2.29.2012**	of which: non-current
Other provisions								
Personnel	7,557	1,831	0	1,760	311	(2)	7,795	7,795
Miscellaneous	14,921	3,628	915	8,230	797	60	19,465	14,335
	22,478	**5,459**	**915**	**9,990**	**1,108**	**58**	**27,260**	**22,130**
Accrued liabilities								
Other taxes	1,210	214	118	371	0	43	1,292	0
Personnel	48,329	46,607	1,287	45,181	0	83	45,699	0
Miscellaneous	18,421	12,801	1,428	16,474	0	56	20,722	0
	67,960	**59,622**	**2,833**	**62,026**		**182**	**67,713**	**0**
Total	**90,438**	**65,081**	**3,748**	**72,016**	**1,108**	**240**	**94,973**	**22,130**

Miscellaneous other current provisions mainly relate to provisions for customers' expected utilization of their rights of return, recognized at € 1,590k (2010/2011: € 1,671k), for clean-up agreements, at € 1,380k (2010/2011: € 450k), for onerous contracts, at € 806k (2010/2011: € 1,020k), and for litigation risks, at € 535k (2010/2011: € 422k).

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 29, 2012.

(29) Other financial obligations and contingent assets

2011/2012 financial year € million	Maturities Current < 1 year	 Non-current 1-5 years	 Non-current > 5 years	2.29.2012 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**

2010/2011 financial year € million	Maturities Current < 1 year	 Non-current 1-5 years	 Non-current > 5 years	2.28.2011 Total
Purchase obligations for investments	37.2	0.0	0.0	37.2
Obligations under rental, leasehold and leasing contracts	87.5	312.1	336.6	736.2
Other financial obligations	10.6	0.3	0.0	10.9
	135.3	**312.4**	**336.6**	**784.3**

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 € 0.8 million.

Antitrust proceedings have been initiated against one subsidiary of HORNBACH-Baumarkt-AG due to vertical price fixing. We do not expect these proceedings to result in any charge on earnings, or only to an immaterial extent.

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 € 87,250k was recognized in the 2011/2012 financial year as rental expenses in connection with operating lease agreements, including related expenses (2010/2011: € 86,007k).

The Group has a refund claim of around € 5.9 million, including interest, for impairment losses at a foreign shareholding which have not yet been recognized for tax purposes (2010/2011: € 6.1 million).

Furthermore, the Group also has recourse claims of approximately € 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
2011/2012 financial year	4,154	11,828	5,678	21,660
2010/2011 financial year	2,982	9,185	6,845	19,012

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 2.29.2012	Fair value 2.29.2012	Carrying amount 2.28.2011	Fair value 2.28.2011
Assets					
Financial assets	AfS	2,581	2,581	2,600	2,600
Other receivables and assets					
Derivatives with hedge relationship	n.a.	0	0	4,077	4,077
Derivatives without hedge relationship	FAHfT	2	2	572	572
Other financial assets	LaR	70,356	70,356	71,042	71,042
Cash and cash equivalents	LaR	422,341	422,341	474,016	474,016
Equity and liabilities					
Financial debt					
Bonds	FLAC	247,080	264,375	245,994	263,500
Liabilities to banks	FLAC	514,576	526,612	544,597	545,094
Liabilities in connection with finance leases	n.a.	1,474	1,556	1,686	2,000
Derivatives with hedge relationship	n.a.	6,636	6,636	3,639	3,639
Derivatives without hedge relationship	FLHfT	368	368	240	240
Trade payables and other liabilities	FLAC	215,407	215,407	239,969	239,969
Accrued liabilities	FLAC	20,722	20,722	18,421	18,421

Aggregate totals by measurement category: € 000s	Category	Carrying amount 2.29.2012	Carrying amount 2.28.2011
Loans and receivables	LaR	492,697	545,058
Available for sale financial assets	AfS	2,581	2,600
Financial assets held for trading	FAHfT	2	572
Financial liabilities measured at amortized cost	FLAC	997,785	1,048,981
Financial liabilities held for trading	FLHfT	368	240

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	2011/2012 € 000s	2010/2011 € 000s
Loans and receivables (LaR)	(2,379)	(1,911)
Financial liabilities measured at amortized cost (FLAC)	(1,788)	5,059
Financial instruments held for trading (FAHfT and FLHfT)	406	1,313

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.

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	2.29.2012	2.28.2011
EUR	(47,379)	(20,314)
USD	6,012	6,461

The most important exchange rates have been presented on Page 112.

In the sensitivity analysis provided below for foreign currency risks, it has been assumed that the foreign currency holdings as of the balance sheet date are representative of the financial year as a whole.

If the euro had **appreciated by 10 %** compared with the Group's other main currencies at the balance sheet date, and all other variables had remained unchanged, consolidated earnings before taxes would have been € 5,342k lower (2010/2011: € 2,721k). Conversely, if the euro had **depreciated by 10 %** compared with the Group's other main currencies at the balance sheet date, and all other variables had remained unchanged, then consolidated earnings before taxes would have been € 5,342k higher (2010/2011: € 2,721k). The hypothetical impact on earnings of € +5,342k (2010/2011: € +2,721k) is the result of the following sensitivities: EUR/RON € 3,563k (2010/2011: € 1,777k), EUR/SEK € 2,609k (2010/2011: € 1,562k), EUR/CHF € -2,055k (2010/2011: € -1,124k), EUR/CZK € 623k (2010/2011: € -324k), and EUR/USD € 602k (2010/2011: € 830k).

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 values of around € 180,000k (nominal). Furthermore, the Group also has long-term fixed-interest euro loans of € 164,742k (2010/2011: € 205,086k), long-term CZK loans of € 48,705k (2010/2011: € 37,382k), long-term RON loans of € 24,598k (2010/2011: € 26,928k), and long-term SEK loans of € 30,458k (2010/2011: € 33,225k). The principal long-term financial liabilities with floating interest rates have been converted into fixed-interest financial liabilities using derivative financial instruments.

The sensitivity analysis provided below is based on the following assumptions:

In the case of fixed-interest primary financial instruments, changes in market interest rates only impact on profit and loss or equity when such instruments are measured at fair value. Primary financial instruments measured at amortized cost are therefore not subject to any interest rate risk as defined in IFRS 7. The same applies to financial liabilities which originally had floating interest rates, but which have been converted into fixed-interest financial liabilities by means of cash flow hedges.

Changes in the market interest rates of interest derivatives designated to hedge primary financial instruments with floating interest rates within the framework of a cash flow hedge impact on the hedging reserve within equity and have therefore been accounted for in the equity-related sensitivity analysis.

Changes in the market interest rates of primary financial instruments with floating interest rates impact on the income statement and have therefore been accounted for in the sensitivity analysis.

In the sensitivity analysis for interest rate risks, it has been assumed that the volumes as of the balance sheet date are representative of the financial year as a whole. A parallel shift in the interest rate structure curve has been assumed.

If the market interest rate had been **100 basis points higher** at the balance sheet date, and all other variables had remained unchanged, then consolidated earnings before taxes would have been € 3,850k higher (2010/2011: € 4,012k) and equity before deferred taxes would have been € 5,244k higher (2010/2011: € 6,536k). Conversely, if the market interest rate had been **100 basis points lower** at the balance sheet date, and all other variables had remained unchanged, then consolidated earnings before taxes would have been € 3,850k lower (2010/2011: € 4,012k) and equity before deferred taxes would have been € 5,523k lower (2010/2011: € 6,872k).

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.

2011/2012 financial year € 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**

2010/2011 financial year € 000s	Carrying amount 2.28.2011	Cash flows < 1 year	1 to 5 years	> 5 years
Primary financial liabilities				
Bonds	245,994	15,313	295,938	0
Liabilities to banks	544,597	209,331	288,011	114,995
Liabilities in connection with finance leases	1,686	302	1,208	605
Trade payables and other liabilities	239,969	239,645	324	0
Accrued liabilities	18,421	18,421	0	0
	1,050,667	**483,012**	**585,481**	**115,600**
Derivative financial liabilities				
Foreign currency derivatives without hedge relationship	240	240	0	0
Interest derivatives in connection with cash flow hedges	3,639	2,623	4,749	2,031
	3,879	**2,863**	**4,749**	**2,031**
Derivative financial assets				
Foreign currency derivatives without hedge relationship	572	(572)	0	0
Interest derivatives in connection with cash flow hedges	4,077	564	3,382	292
	4,649	**(8)**	**3,382**	**292**
		485,867	**593,612**	**117,923**

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

Payer interest swaps are concluded for 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. Creditworthiness risks are not hedged.

As of June 30, 2011, an unsecured promissory note bond of € 80.0 million was taken up with a floating interest rate and a term running until June 30, 2016. The funds serve 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.

In the previous year, two floating-rate promissory note bonds with an equivalent value of € 20 million each and terms running until August 31, 2015 were taken up in CHF and CZK. The interest payable was hedged with congruent interest swaps. The half-yearly interest payable via the swaps was secured for the entire term at a level of 1.03 % p.a. for the CHF promissory note bond and of 2.08 % p.a. for the CZK promissory note bond, in both cases plus a bank margin.

At the end of the 2011/2012 financial year, the Group had interest swaps amounting to € 210,698k (2010/2011: € 295,791k), with which a transformation from floating interest commitments to fixed interest commitments was achieved. The fair value of the interest swaps amounted to € -6,636k as of February 29, 2012 (2010/2011: € 438k). Of this sum, € 6,636k has been recognized under financial debt (2010/2011: € 3,639k). In the previous year, € 4,077k was also recognized under other assets. The previous year's figure included a forward swap with a nominal amount of € 80,000k and a fair value of € 3,144k to secure the interest rate in connection with the taking up of a new promissory note bond in the 2011/2012 financial year. In the previous year, this involved the hedge of an expected transaction.
All interest rate swaps met hedge accounting requirements as of February 29, 2012. Changes in the fair values are recognized in the hedging reserve within equity.

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 2.29.2012 in € 000s	Nominal value at 2.28.2011 in € 000s	Reference rate
6.30.2011	6.30.2016	80,000	80,000	6-month Euribor
7.23.2009	6.29.2012	60,000	60,000	3-month Euribor
9.30.2002	9.30.2017	8,510	9,990	3-month Euribor
9.30.2002	9.30.2017	5,783	6,788	3-month Euribor
12.30.1999	12.30.2014	3,681	4,908	6-month Euribor
12.30.1999	12.30.2014	1,841	2,454	6-month Euribor
12.30.1998	12.30.2013	1,023	1,534	3-month Eurolibor
6.30.2006	6.30.2011	0	80,000	6-month Euribor

Start	End	Nominal value at 2.29.2012 in SEK 000s	Nominal value at 2.28.2011 in SEK 000s	Reference rate
11.28.2003	12.31.2018	70,000	80,000	3-month SEK-Stibor

Start	End	Nominal value at 2.29.2012 in CHF 000s	Nominal value at 2.28.2011 in CHF 000s	Reference rate
8.31.2010	8.31.2015	26,420	26,420	6-month CHF-Libor

Start	End	Nominal value at 2.29.2012 in CZK 000s	Nominal value at 2.28.2011 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 € -366k at February 29, 2012 (2010/2011: € 332k). Of this sum, € 368k (2010/2011: € 240k) has been recognized under financial debt and € 2k (2010/2011: € 572k) 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.

2011/2012 financial year	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)

2010/2011 financial year	Forward exchange transactions	Interest swaps	Total
Nominal value in € 000s	24,897	295,791	320,688
Fair value in € 000s (before deferred taxes)	332	438	770

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:

	2011/2012	2010/2011
Angestellte	13.455	12.894
Lohnempfänger	372	310
Auszubildende	832	733
	14.659	**13.937**
davon Teilzeitmitarbeiter	2.884	2.798

In terms of geographical regions, 9,048 of the average workforce were employed in Germany during the 2011/2012 financial year (2010/2011: 8,714) and 5,611 in other European countries (2010/2011: 5,223).

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:

	2011/2012 T€	2010/2011 T€
Abschlussprüfungsleistungen	752	752
Andere Bestätigungsleistungen	204	204
Steuerberatungsleistungen	61	112
Sonstige Leistungen	50	4
	1.067	**1.072**

Information on the German Corporate Governance Code

The annual Declarations of Conformity with the German Corporate Governance Code required by § 161 of the German Stock Corporation Act (AktG) were submitted by the Board of Management and Supervisory Board of HORNBACH HOLDING AG on December 21, 2011, and by the Board of Management and Supervisory Board of HORNBACH-Baumarkt-AG on December 20, 2011, and made available to shareholders on the companies' respective homepages.

Exemption options pursuant to § 264 (3) HGB

The subsidiaries HORNBACH Baustoff Union GmbH and Union Bauzentrum HORNBACH GmbH have drawn on the exemptions under § 264 (3) of the German Commercial Code (HGB), which allow companies to forego the disclosure of the annual financial statements, notes to the financial statements and management reports.

(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

Subsidiaries and second-tier subsidiaries (non-consolidated)
Etablissements Camille Holtz et Cie S.a., Phalsbourg
Saar-Lor Immobilière S.C.I., Phalsbourg

Otmar Hornbach, a member of the Supervisory Board, is additionally placing his extensive experience at the service of HORNBACH HOLDING AG 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 make use of Kurhaus Trifels Seminarhotel GmbH, Annweiler, for seminars and conferences. This company is represented by its managing directors Bettina Hornbach and Albrecht Hornbach. Services of € 9k were performed by the seminar hotel in the 2011/2012 financial year (2010/2011: € 0k). These services were invoiced at customary rates. Liabilities of € 4k were outstanding at the balance sheet date on February 29, 2012. Furthermore, HORNBACH HOLDING AG expended an amount of € 7k in connection with Albrecht Hornbach's activity as Honorary Consul for Romania (2010/2011: € 0k). These outlays were reimbursed at the same amount by HORNBACH HOLDING AG. The full amount of these liabilities was still outstanding at the balance sheet date on February 29, 2012.

Beiten Burkhardt Rechtsanwaltsgesellschaft mbh, a law firm, indirectly counts as a related party pursuant to IAS 24 "Related party disclosures". Given the key management position held at Beiten Burkhardt Rechtsanwaltsgesellschaft mbh by Wolfger Ketzler, a former member of the Supervisory Boards of HORNBACH HOLDING AG and HORNBACH-Baumarkt-AG and now a member of the Board of Management of HORNBACH-Baumarkt-AG, it is necessary to report on business relationships between the two companies. In the 2011/2012 financial year, Beiten Burkhardt Rechtsanwaltsgesellschaft mbh performed advisory services amounting to € 73k (2010/2011: € 109k). These were invoiced at customary hourly rates. There were no liabilities outstanding at the balance sheet date.

(36) Events after the balance sheet date

On April 18, 2012, HORNBACH Immobilien AG agreed a promissory note bond of € 70 million with joint liability on the part of HORNBACH HOLDING AG. This loan is due to be disbursed on June 29, 2012 and will serve in particular to refinance the existing promissory note bond of € 60 million at HORNBACH Immobilien AG due to mature on the same date. From the date of disbursement, the new promissory note bond will charge floating-rate interest based on the 6-month Euribor, plus a bank margin, and matures at the end of the five-year term. To secure the interest rate, a forward interest swap with congruent terms was agreed upon the conclusion of the loan agreement. The interest swap enables the variable interest payments to be exchanged for fixed interest payments.

The consolidated financial statements of HORNBACH HOLDING AG for the 2011/2012 financial year were approved for publication by the Board of Management on May 16, 2012.

(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 Tax,
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 2011/2012 financial year amounts to € 1,943k (2010/2011: € 2,053k). Of this sum, € 896k (2010/2011: € 548k) relates to fixed compensation and € 1,047k (2010/2011: € 1,505k) to performance-related components. Post-employment benefits amounting to € 210k were incurred for active members of the Board of Management in the 2011/2012 financial year. These involve expenses incurred to endow pension provisions (Note 23).

Members of the Board of Management owned a total of 316,668 ordinary shares (2010/2011: 158,334) and 6,810 listed preference shares (2010/2011: 3,405) in HORNBACH HOLDING AG at the balance sheet date on February 29, 2012.

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	
Peter Hogsted Chief Executive Officer Kingfisher International	until July 6, 2012
Christoph Hornbach School Director	
Wolfger Ketzler Attorney and Tax Advisor Beiten Burkhardt Rechtsanwaltsgesellschaft mbH (until December 31, 2011) Member of Board of Management HORNBACH-Baumarkt-AG (since March 1, 2012)	until February 29, 2012

The total compensation of the Supervisory Board for the 2011/2012 financial year amounted to € 228k (2010/2011: € 228k). Of this sum, € 133k (2010/2011: € 133k) related to basic compensation and € 95k (2010/2011: € 95k) to performance-related compensation. As in the previous year, members of the Supervisory Board did not hold any ordinary or preference shares 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
b) B&Q (China) Investment Co. Ltd.
Koctas Yapi Marketleri Ticaret A.S.

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

Christoph Hornbach
a) Corivus AG

Wolfger Ketzler (until February 29, 2012)
a) RNR AG (Chairman)
HORNBACH-Baumarkt-AG (until February 29, 2012)

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 16, 2012

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 16, 2012

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 AG, 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, 2011 to February 29, 2012. 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 16, 2012
KPMG AG Wirtschaftsprüfungsgesellschaft

Bertram	Kunisch
German Public Auditor	German Public Auditor

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To all participants

Injuries, tight deadlines, unreliable weather – none of these adversities made you lose your nerve. My sincere thanks for that – and for the fantastic results!

Adrian Schröder.