

“Soon we’ll have made it! This garden house is the final touch for our school garden – something we’ve been working on with the kids for two years now.”

Anja Kipp, teacher, Bad Homburg elementary school, Germany



The weather isn't always on our side. The snow's so slushy we can't drive on it with the digger for the foundations – we can't even build a snowman.



2 weeks later. The snow's gone, but it's still freezing. Off at the crack of dawn.



We've opted for one of the display items. HORNBAACH is there to give advice and lend a hand in dismantling and reassembling it.



Teamwork is the be all and end all. First we take off the roof together for the journey ...

RETAIL AND REAL ESTATE



... then it's all hands on to heave the hut in one piece into the van.



Having got to the school, it's the same procedure in reverse - remove the hut and place it on the newly completed foundation.

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 constitute the core 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 of the sales formats focus on the overall retail market for construction, gardening and DIY products.

Growth course maintained in turbulent times

The HORNBACH-Baumarkt-AG subgroup generated net sales of € 2,599 million in the past financial year, thus accounting for around 94 % of the sales of the overall Group. HORNBACH reinforced and further extended its position as one of Europe's leading DIY players in the past financial year. It achieved this against the backdrop of the economic downturn triggered by the global financial and economic crisis, a factor which also impacted negatively on European retail markets. Within this climate, the HORNBACH-Baumarkt-AG subgroup fully met the targets formulated in its outlook, posting sales growth of 5 % and the expected notably disproportionate rise in earnings. Here are the key facts on the performance of the HORNBACH-Baumarkt-AG Group in the 2008/2009 financial year:

- The expansion course was upheld with four new DIY megastores and garden centers in Sweden, Romania, Switzerland and Hamburg. The store network comprised 129 HORNBACH locations in nine countries at the reporting date.
- Sales rose by 5.2 % across the Group. Both the German and the international businesses contributed to this growth. Sales in Germany grew by 1.8 % to € 1,534 million, while international sales rose by 10.6 % to € 1,065 million. The international share thus reached 41 % (2007/2008: 39 %).
- Like-for-like sales grew by 1.4 % across the Group. The comparable store sales growth of 1.2 % in Germany was particularly pleasing after the lean previous year. HORNBACH thus yet again outperformed the DIY store sector, which suffered a 2.0 % drop in comparable store sales in the 2008 calendar year.

- HORNBACH increased its market share in Germany from 8.3 % to 8.5 % in 2008.
- As expected, earnings grew disproportionately compared with sales, following a weaker previous year burdened by one-off factors. Operating earnings (EBIT) reached € 136.5 million (2007/2008: € 79.1 million). This was due on the one hand to improved operating earnings power. On the other hand, the pleasing earnings figures also benefited from impressive disposal gains in the real estate segment.
- The equity ratio of the HORNBACH-Baumarkt-AG Group now amounts to an impressive 41.5 %, thus underlining the firm financial foundations on which Germany's fourth-largest DIY group stands.

All in all, the subgroup can look back on a successful financial year. The core message is that HORNBACH has made progress on its course of long-term profitable growth, even in an unfavorable climate. This is underlined not only by the figures, but also by the top scores achieved by HORNBACH in renowned consumer surveys in Germany and abroad in the past financial year.

The guiding principle underlying the ongoing enhancement of HORNBACH's concept is its focus on the needs of our project customers. The key criteria for our customers include the easy accessibility of the stores, the stocking of large quantities of articles, the attractive presentation of the merchandise, maximum competence in the composition of the product ranges and in the provision of specialist advice, and not least a reliable pricing strategy. HORNBACH is superbly positioned in the sector, also in view of the ever more important markets for modernization and energy-saving renovation work. Further information on the business performance of HORNBACH-Baumarkt-AG, as well on the opportunities and risks involved in its future development, can be found in the extensive annual report published by the subsidiary, which is a publicly listed company in its own right.

HORNBACH BAUSTOFF UNION GMBH

Hornbach Baustoff Union GmbH (HBU) is a regional construction materials and builders' merchant company. It currently operates 21 outlets in south-western Germany. Its wholesale 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.

Significant improvement in earnings performance

Even though market conditions remained very difficult in the past financial year, HBU broke even on an operating level (EBIT) for the third consecutive year, significantly boosting its operating earnings compared with the previous year. The expiry of the owner-occupied housing subsidy and the sales tax hike led the number of building permits issued in the states of Rheinland-Pfalz and Saarland to drop by more than 35% in 2007. As several months often pass by between the issuing of the building permit and actual construction work, this negative trend impacted massively on the market situation in the past financial year. The number of building permits issued in 2008 stagnated at a low level.

In contrast to this development, HBU improved its operating earnings (EBIT) from € 0.2 million to € 1.2 million. It achieved this by further expanding its market share, adjusting its costs and enhancing its sales and logistics activities. Only the cold weather during the last three and a half months of the financial year prevented the company from performing even better. The economic crisis, by contrast, had no perceivable impact in the year under report.

The subgroup's like-for-like sales declined by 1.9%. Total sales amounted to € 152.8 million and were thus 2.8% up on the previous year's figure (2007/2008: € 148.6 million). Year-on-year growth was seen in particular in the heating oil business, the roofing sector and civil engineering. Other product divisions matched the previous year's figures. Due to intense competition and the increased share of total sales involving heating oil trading, the gross margin came under pressure in the 2008/2009 financial year.

The acquisition of a construction materials business in Landstuhl as of March 1, 2008 enabled HBU to reinforce its presence in its core region and to exploit the promising market between Kaiserslautern and Homburg in the area surrounding the US airbase in Ramstein even more extensively. The takeover of a dry construction trader in Bobenheim-Roxheim as of February 1, 2009 extended HBU's catchment area north-eastwards, while also increasing the subgroup's competence in this promising specialist construction materials segment.

Sales concept with high degree of recognition

During the past 2008/2009 financial year, HORNBACH Baustoff Union GmbH maintained the restructuring program already initiated, also introducing additional measures for the strategic expansion of its business. The subgroup further refined its sales concept, which involves focusing its core competencies of construction, civil engineering, roofing, plaster, dry construction, garden and landscaping on the needs of commercial customers in the construction industry. With high recognition and awareness levels for its "UNION Bauzentrum" outlets, HBU has now firmly established itself as the market leader in its regional catchment area in south-western Germany.

Based on our assessment, there will be little change in the competitive climate in the construction materials sector in HBU's sales region in the current 2009/2010 financial year. However, there has been a marked increase in the macroeconomic uncertainties facing the construction sector. The construction of a new location in Kandel completed in April 2009 should lead to additional sales growth and help to reduce the share of fixed costs at the subgroup. The takeover of a builders' merchant business in Karlsbad as of March 1, 2009 will extend the subgroup's market south-eastwards, while also boosting its competence in natural stone trading. The ongoing enhancement of operating processes, coupled with the cost savings already achieved at the HORNBACH Baustoff Union GmbH subgroup, are expected to result in a further substantial improvement in earnings in 2009/2010 compared with the two previous years.



Together, we reassemble the roof.



The kids love it when the grown-ups are sweating away. They peer proudly over daddy's shoulder.



Now all that's needed is to screw back on what we unscrewed earlier. Refitting the doorframe ...



And here and there they can lend a hand as well.

REAL ESTATE AT THE HORNBACK GROUP

The business activities of the HORNBACK Group can basically be divided into two segments: retail and real estate. The Group's retail activities are primarily undertaken by the HORNBACK-Baumarkt-AG and HORNBACK Baustoff Union GmbH subgroups. Alongside these activities, the HORNBACK Group has an extensive real estate portfolio. This chiefly consists of retail properties which are mainly used by the operating units within the Group. The real estate is owned by HORNBACK-Baumarkt-AG, as well as by HORNBACK 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 to awarding and supervising the execution of building contracts. This expertise built up over many years has become one of HORNBACK's key strategic competitive advantages.

HORNBACK HOLDING AG acted as the central service provider for all real estate activities within the HORNBACK Group until the end of the 2008/2009 financial year (February 28, 2009). As of March 1, 2009, key management and service functions previously handled by employees of HORNBACK HOLDING AG were reorganized and relocated to the HORNBACK-Baumarkt-AG Group. The employees responsible for the planning and execution of the construction of new stores, as well as for their fittings, were taken over by HORNBACK-Baumarkt-AG and now also work on behalf of the associate company HORNBACK Immobilien AG. Moreover, since the start of the 2009/2010 financial year, the location development specialists have also been employed by HORNBACK-Baumarkt-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. In the past 2008/2009 financial year, three HORNBACK DIY megastores with garden centers at the overall Group, namely Bertrange (Luxembourg) and Kerkrade and Zaandam (both in the Netherlands), were sold to a real estate group. The right to use the properties as DIY megastores with garden centers was secured on the basis of long-term rental agreements.

Notwithstanding the sale and leaseback transactions undertaken every year, the overriding strategy of retaining ownership of around half of the real estate used for operating purposes, measured in terms of sales areas, remains valid. At the reporting date on February 28, 2009, around 51 % (2007/2008: 52 %) of the total sales areas used for retail purposes (approx. 1.45 million m²) belonged to one of the group companies. The remaining 49 % (2007/2008: 48 %) of sales areas are either rented from third parties or leased from third parties with a repurchase option (47 %). In individual cases (2 %), the land has been leased (hereditary lease).

The 51 % of sales areas owned by the Group are divided between the HORNBACK-Baumarkt-AG (23 %) and the HORNBACK Immobilien AG (28 %) subgroups. At the reporting date on February 28, 2009, the HORNBACK Immobilien AG subgroup had let or sublet 38 DIY megastores with garden centers in Germany and abroad, with sales areas totaling 400,651 m², as well as one logistics center, to HORNBACK-Baumarkt-AG on a long-term basis. Furthermore, HORNBACK Immobilien AG owned one builders' merchant store, which has been let to HORNBACK Baustoff Union GmbH. A profit and loss transfer and subordination agreement is in place between HORNBACK Immobilien AG and HORNBACK HOLDING AG. A sum of € 13.2 million was thereby transferred for the past financial year (2007/2008: € 23.3 million).

The HORNBACK-Baumarkt-AG subgroup operated a total of 129 DIY megastores with garden centers in Germany and abroad at the reporting date. Of these, 31 locations with sales areas totaling 336,452 m² are owned by HORNBACK-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 1,446,794 m² at the reporting date. Ownership of the sales areas was structured as follows at the reporting date on February 28, 2009:

	No. of stores	Sales area m ²	Share %
Property owned			
HORNBACH-Baumarkt-AG subgroup	31	336,452	23.3
HORNBACH Immobilien AG subgroup	38	400,651	27.7
Subtotal of property owned	69	737,103	51.0
Land rented, buildings owned	4	34,968	2.4
Operating lease (rent)	56	674,723	46.6
Total	129	1,446,794	100.0

In Neustadt an der Weinstrasse, HORNBACH Immobilien AG has let an office building to HORNBACH HOLDING AG and various subsidiaries. A specialist retail center in Bornheim bei Landau with sales areas in excess of 4,700 m² has been let to well-known retail chains. In addition, HORNBACH Immobilien AG and HORNBACH-Baumarkt-AG both hold a number of purchase options entitling them to acquire further land at first-class locations in Germany and abroad. Moreover, group companies also already own pieces of land in Germany and abroad which are earmarked for use as retail locations.

Hidden reserves in real estate assets

The real estate owned by HORNBACH Immobilien AG and the HORNBACH-Baumarkt-AG subgroup includes a high level of hidden reserves. The property already completed and rented out by HORNBACH Immobilien AG is reported at a carrying amount of around € 348 million in the balance sheet as of February 28, 2009. 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 € 617 million at the reporting date. The deduction of the carrying amount of the

real estate in question (€ 348 million) leads to hidden reserves of € 269 million.

At the reporting date on February 28, 2009, 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 € 309 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 € 461 million. Deducting the carrying amount (€ 309 million) leads to calculated hidden reserves of around € 152 million.

Based on this calculation method, the hidden reserves relating to the real estate used for operating purposes across the Group can be estimated as amounting to around € 421 million.



... remounting the doors ...



... and last but not least, hoisting up the new tar paper.



Our new garden house is ready. Now all we need is the summer.