

Interim report on the 1st Quarter 2002/2003

(1 March to 31 May 2002)

HORNBACH clearly ahead of the DIY competition in Germany

The first quarter in the current financial year (effective 31 May 2002) was characterised by a weak economy in Germany and continued underperforming amongst the consumers. The upturn has not yet been fully felt in the largest economy in the Euro Zone. According to the industry sector association HDE¹ German retailing was one of the main losers in the last downturn phase; January to March 2002 was one of the weakest quarters overall and the consumer climate in April and May also remained at a low level.

Against this background sales development within the home improvement industry in Germany is also disappointing. From January to May 2002 the BHB² reports minus figures for like-for-like sales of around 6 %.

Compared to this HORNBACH-Baumarkt-AG has shown significantly better development in the comparison period from January to May than the sector as a whole: the fact that HORNBACH was able to maintain like-for-like sales in Germany at virtually the same level as the previous year (– 0.5 %) should be seen as a success. Taking into account the international activities as well HORNBACH increased like-for-like sales by 0.4 %. In relation to the first quarter of the fiscal year (1 March to 31 May 2002) like-for-like sales rose by 0.9 % at home, by 1.5 % across the Group as a whole including HORNBACH International and that was despite the fact that in May 2002 in Germany – depending on the individual German states – there were up to two less trading days than in the previous year.

Overall sales rose by more than 10 %

HORNBACH-Baumarkt-AG was also able to achieve double-digit increases in Group sales under the most difficult trading conditions. In the first three months of the current financial year (effective 31 May 2002) Group net sales rose 10.1 % to € 439 million (previous year € 399 million). Gross sales (incl. V.A.T.) grew by 10.1 % to € 509 million (462). During the first quarter a new DIY superstore with garden centre opened in Mönchengladbach. This means that the overall number of HORNBACH DIY superstores with garden centres has now risen to 92 as at 31 May 2002. The total selling space is now about 897,000 sq. m. with an average store size of approximately 9,750 sq. m. There are 76 stores operating in Germany. HORNBACH DIY superstores with garden centres in other European countries are spread over Austria (7), Netherlands (5), Czech Republic (3) and Luxembourg (1).

Profit development (in accordance with HGB)

The Group result from ordinary activities in accordance with HGB in the reporting period (Q1) compared to the previous year fell by € 4.3 million or 15.6 % to € 23.4 million (previous year € 27.7 million). The net income for the Group dropped by 14.1 % to € 15.3 million (17.8) in the first quarter.

The critical factor determining the fall in earnings was the flat consumer climate in Germany. As a

¹ Hauptverband des Deutschen Einzelhandels, Berlin

² Bundesverband Deutscher Heimwerker-, Bau- und Gartenfachmärkte, Bonn

HORNBACH-Baumarkt-AG-Group (Shown in accordance with HGB) Figures in € million if not stated otherwise	Change on previous year in %	1st quarter 2002/2003	1st quarter 2001/2002
Earnings figures			
Gross sales	10.1	509.1	462.3
Net sales	10.1	439.5	399.0
Other operating income	15.4	4.5	3.9
Gross profit	5.8	155.1	146.6
Staff expenses	17.1	61.0	52.1
Depreciation	– 3.4	11.9	12.3
Other operating expenses	8.1	53.2	49.2
Result of financial activities	– 5.7	– 5.6	– 5.3
Result from ordinary activities	– 15.6	23.4	27.7
Taxes	– 18.2	8.1	9.9
Net income	– 14.1	15.3	17.8
Other key data			
Earnings before interest and taxes (EBIT)	– 12.0	29.0	33.0
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	– 9.7	40.9	45.2

HORNBACH-Baumarkt-AG-Group Cash flow statement (Shown in accordance with HGB)	1st quarter 2002/2003 million €	1st quarter 2001/2002 million €
Net income	15	18
Depreciation on fixed assets	12	12
Changes in provisions and accruals	12	10
Changes in inventories, trade receivables and other asset	– 25	– 24
Changes in trade accounts payable and other liabilities	3	13
Net cash generated by operating activities	17	29
Proceeds from disposals of fixed assets	0	44
Investment in fixed assets	– 20	– 28
Net cash used in investing activities	– 20	16
Repayments of borrowings	– 13	– 5
Proceeds/repayments of group funding	– 7	– 17
Change in current account liabilities	6	3
Net cash used in financing activities	– 14	– 19
Net increase in cash and cash equivalents	– 17	26
Cash and cash equivalents as at March 1	50	30
Cash and cash equivalents as at May 31	33	56

result the forecasted increase of sales did not materialise and cost relations worsened. HORNBAACH is maintaining the successful strategy of establishing HORNBAACH as the DIY brand with the best price-performance ratio from the point of view of the customer. Thanks to its dominant megastore format and its competence in terms of product range and service HORNBAACH continues to improve its market share and thereby secure additional potential sales. The results in the first quarter 2002/2003 were also affected by higher pre-opening costs in connection with expansion, start-up costs in Switzerland as well as increased administration costs. The table on page 1 provides information on the income statement and the most important figures in the first quarter of the current fiscal year.

Headcount

Effective 31 May 2002 8,080 people were employed throughout Europe (previous year 7,458) by HORNBAACH Baumarkt AG and its subsidiaries. The annual average of full-time equivalents totals 7,058 (previous year 6,549).

Capital expenditures

In the first quarter of the current financial year € 21.7 million was

invested primarily in land and buildings (47 %) plus equipment (53 %). The cash flow statement on page 1 provides the information on the financing and investment activities of HORNBAACH-Baumarkt-AG.

Outlook

HORNBAACH-Baumarkt-AG is expected to achieve overall net sales of more than € 1.6 bn or € 1.9 bn gross for the 2002/2003 fiscal year. By 28 February 2003 up to eleven HORNBAACH DIY super-stores with garden centres will be opened at home and abroad of which up to eight will be in other parts of Europe. It is expected that HORNBAACH will continue to exceed the sales development of the DIY sector in Germany thanks to its megastore concept. The Board of Management has set itself the target over the next few months of making up the earnings shortfall in comparison to the previous year and of achieving a result for the overall 2002/2003 financial year that is equivalent to the figure posted for the previous year (€ 43.6 million).

Bornheim, 26 June 2002

– The Board of Management –

Accounting in accordance with IAS

In the current financial year 2002/2003 HORNBAACH-Baumarkt-AG-Group will be switching their accounting from the principles of German law (HGB) to the international accounting standards (IAS or International Accounting Standards). The company will thereby ensure better comparability in international competition and at the same time satisfy the regulations of the German Stock Exchange for companies trading within the SMAX segment.

In comparison to the evaluation, balancing and consolidation methods used up until the end of 2000/2001 this quarterly report and

the annual accounts for 2002/2003 will essentially show the following changes:

Borrowed capital costs (construction period interest), which can be allocated directly to the acquisition, construction or production of land and buildings have been activated in accordance with IAS 23 as part of the acquisition or production costs.

The scheduled depreciation of the property assets and the intangible assets are based on the following useful life periods:

Intangible assets	3 to 4 years
Building and external areas	15 to 33 years
Technical plants and machinery	3 to 8 years
Equipment	3 to 15 years

Leased tangible fixed assets where ownership is attributed to the incorporated subsidiary companies (financing leasing) have been activated in accordance with IAS 17 and depreciated according to the schedule.

The special tax reserves in accordance with § 6b EStG have been included in the retained earnings.

The deferred taxation was calculated in accordance with IAS 12 based on different estimates for asset and liabilities between the IAS and balance sheet for taxation purposes as well as utilisable losses carried forward.

The extent of consolidation has been extended to include special purpose companies (IAS 27, SIC 12).

The other changes essentially concern the use of other provisions and the evaluation of the inventory.

The overview (IAS) gives a summary of the income statement and the most important figures in the first quarter of the current fiscal year.

HORNBAACH-Baumarkt-AG-Group Reconciliation between earnings derived from HGB and IAS in € million	1st quarter 2002/2003	1st quarter 2001/2002
HGB result from ordinary activities	23.3	27.7
Capitalisation of external consultancy costs for software development	0.0	0.3
Capitalisation of financing costs	0.8	0.5
Depreciation on intangible fixed assets and property assets	- 0.9	- 0.8
Other changes	- 0.1	- 1.0
IAS result from ordinary activities	23.1	26.7
Effective tax	8.1	9.9
Latent tax in accordance with IAS	0.6	- 0.9
IAS net income	14.4	17.7

HORNBAACH-Baumarkt-AG-Group (Shown in accordance with IAS) Figures in € million if not stated otherwise	Change on previous year in %	1st quarter 2002/2003	1st quarter 2001/2002
Earnings figures			
Gross sales	10.1	509.1	462.3
Net sales	10.1	439.5	399.0
Other operating income	15.4	4.5	3.9
Gross profit	5.8	155.1	146.6
Staff expenses	17.1	61.0	52.1
Depreciation	- 1.9	13.0	13.2
Other operating expenses	6.7	53.2	49.9
Result of financial activities	- 2.1	- 4.8	- 4.7
Result from ordinary activities	- 13.4	23.1	26.7
Taxes	- 3.3	8.7	9.0
Net income	- 18.6	14.4	17.7
Other key data			
Earnings before interest and taxes (EBIT)	- 11.1	28.0	31.4
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	- 8.4	40.9	44.7
Earnings per share in €	- 18.6	0.96	1.18