



## HORNBAACH-Baumarkt-AG Group

### Interim Report for the 1st Half-Year 2002/2003 (1 March - 31 August 2002)

- Sales up 11.6 % on previous year
- 2.0% increase on like-for-like basis despite weak re-tailing climate in Germany
- Successful start in Switzerland
- Flood damage impacts earnings performance
- First interim report in accordance with international accounting standards (IAS)

HORNBAACH successfully held its own during the first six months of the current financial year (1 March to 31 August 2002) despite extremely difficult conditions in the German retail industry. Sales increased by 11.6% in absolute terms, and the market leader in the DIY megastore segment once again defied the industry trend to achieve like-for-like growth, with a gain of 2.0% for Germany and 2.2% including international activities. HORNBAACH further expanded its market share, although intense price competition in the sector and the exceptional costs resulting from the August floods in parts of Germany and Austria depressed earnings performance.

| <b>Key Figures (IAS)</b><br>HORNBAACH-Baumarkt-AG Group | Change on<br>previous year<br>(%) | 1st half-year<br>2002/2003<br>€m | 1st half-year<br>2001/2002<br>€m |
|---|-----------------------------------|----------------------------------|----------------------------------|
| Gross sales   | 11.6                              | 999.1                            | 895.4                            |
| Net sales   | 11.6                              | 860.9                            | 771.6                            |
| • Germany   | 7.4                               | 650.3                            | 605.5                            |
| • International   | 26.8                              | 210.6                            | 166.1                            |
| <i>Share in %</i>                                       |                                   | 24.5 %                           | 21.5 %                           |
| EBITDA  | -14.0                             | 68.7                             | 79.9                             |
| EBIT  | -21.3                             | 42.0                             | 53.4                             |
| Result from ordinary activities                         | -25.5                             | 33.0                             | 44.3                             |
| Extraordinary result                                    | -                                 | -8.8                             | -                                |
| Earnings before taxes (EBT)                             | -45.4                             | 24.2                             | 44.3                             |
| Net income for year                                     | -49.5                             | 14.6                             | 28.9                             |
| Earnings per share (€)                                  | -49.5                             | 0.97                             | 1.92                             |
| Capital investments                                     | 21.7                              | 85.2                             | 70.0                             |

## Situation in German retail sector remains unsatisfactory

In the face of persistent weakness in the economy and consumer demand, the German retail industry was unable to halt its decline during the first half of the 2002 calendar year. According to figures issued by the German Federal Statistical Office, sales for the sector as a whole were down 3.7% in real terms for the period from January to June 2002 compared with the corresponding period of the previous year. Trading in non-food products was particularly badly affected, with sales of household goods and DIY supplies showing a decline of over nine per cent in real terms in the first half of the calendar year.

The slump in retail spending was also reflected in the sales statistics of the Bundesverband Deutscher Heimwerker-, Bau- und Gartenfachmärkte e. V. (BHB), which reported a cumulative decrease of around five per cent in like-for-like sales for the period from January to the end of July 2002. Like-for-like sales for the DIY sector recovered slightly in August, but remained down one per cent according to BHB estimates.

## HORNBACH achieves growth despite industry trend

HORNBACH-Baumarkt-AG once again managed to break free from the downward trend in the sector by a clear margin in the reference period. From January to July 2002, like-for-like sales in Germany were maintained at a comparable level with the previous year (0.1%). In July and August 2002, sales growth in Germany was particularly marked at around six per cent in both cases compared with an estimated loss for the sector of two and one per cent respectively. This success enabled HORNBACH to further expand its market share.

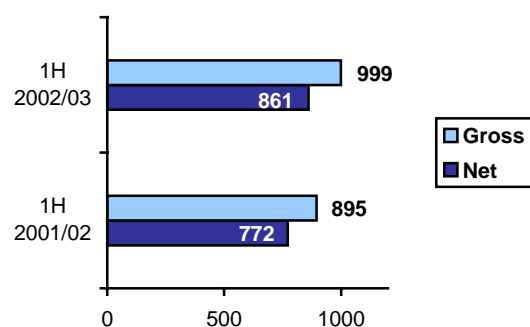
| <b>Like-for-like sales</b><br>Change on previous year | 1st quarter<br>2002/03<br>cumulative | 2nd quarter<br>2002/03<br>cumulative | 1st half-year<br>2002/03<br>cumulative |
|---|--------------------------------------|--------------------------------------|--|
| Germany   | 1.1 %                                | 3.1 %                                | 2.0 %                                  |
| International   | 3.7 %                                | 1.8 %                                | 2.7 %                                  |
| <b>HORNBACH total</b>                                 | <b>1.6 %</b>                         | <b>2.8 %</b>                         | <b>2.2 %</b>                           |

In terms of the first half of the financial year 2002/2003, covering the period from March to August 2002, HORNBACH achieved a cumulative increase of 2.0% in like-for-like sales across Germany thanks to strong second quarter performance. If like-for-like sales for HORNBACH's foreign DIY superstores and garden centres are also taken into account, this gives growth of 2.2% for the period from March to August.

## Group sales increase by 11.6%

HORNBACH-Baumarkt-AG recorded a significant increase in Group sales compared with the previous year. At the end of the first six months of the current financial year (reporting date: 31 August 2002), net Group sales had risen by 11.6% to €861m (previous year: €772m), and gross sales (incl. VAT) had increased to €999m (€895m), also an increase of 11.6%

Fig.: Sales performance in first half-year



Four new DIY superstores and garden centres were opened in the second quarter. In addition to megastores in Krems (Austria), Wateringen (Netherlands) and Bremen, Hornbach's first Swiss store opened for business in Littau near Lucerne.

As a result, the total number of HORNBACH DIY superstores and garden centres increased to 96 at 31 August 2002 as part of the Group's international expansion. The total sales area has now grown to approx. 942,000 square meters, with an average store size of over 9,800 square meters. The Group operates 77 stores in Germany. In the rest of Europe, HORNBACH DIY superstores and garden centres are spread across Austria (8), the Netherlands (6) Czech Republic (3), Luxembourg (1) and Switzerland (1).

### Earnings performance

In the period under review from March to August 2002, earnings suffered the negative impacts of intense price competition in the German DIY sector and the exceptional costs caused by the floods in August 2002.

The result from ordinary activities for the HORNBACH-Baumarkt-AG Group declined by €11.3m or 25.5% compared with the previous year to €33.0m (previous year: €44.3m) in the reporting period from March to August 2002. Earnings before interest and taxes (EBIT) fell by 21.3% to €42.0m (previous year: €53.4m). Earnings before interest, taxes, depreciation and amortisation (EBITDA) decreased by 14.0% compared with the previous year to €68.7m (€79.9m).

There are two main reasons for this appreciable decline in earnings ratios. Firstly, HORNBACH is currently operating in an intensely competitive environment, which is being reflected in prices. The Group's pricing strategy is designed to achieve sustainable expansion of market share in a difficult economic environment, putting pressure on profit margins. Secondly, pre-opening costs, start-up costs in new countries, including Switzerland, and administration costs have all risen, primarily due to the rapid pace of expansion.

The exceptional costs caused by the floods in parts of Germany and Austria in August had a negative impact on results to the tune of €8.8m. The HORNBACH DIY superstores and garden centres in Ansfelden near Linz (Austria) and Dresden suffered severe damage. Damage to goods, buildings, equipment and fittings and the costs of waste disposal and cleaning had a significant impact on results. As at the date of publication of this interim report, the Ansfelden store was not yet ready for re-opening. Dresden was back to near on full capacity by the middle of September.

The negative extraordinary result caused earnings before taxes (EBT) to fall by around 45% in the first half-year of 2002/2003 to €24.2m (previous year: €44.3m). Group net income for the year declined by 49.5% to €14.6m (€28.9m).

## **Staff**

At the reporting date on 31 August 2002, the total number of staff employed under permanent contracts with HORNBACH-Baumarkt-AG and its subsidiaries was 8,519 (previous year: 7,582). Averaged over the year, the Group employs the equivalent of 7,224 (previous year: 6,637) full-time staff.

## **Capital investment**

During the first half of the current financial year, a total of €85m (previous year: €70m) was invested, primarily in real estate and buildings (62%), followed by equipment and fittings (38%). The cash flow statement in the notes to this report provides information on the financing and investment activities of HORNBACH-Baumarkt-AG.

## **Outlook**

HORNBACH-Baumarkt-AG expects to achieve net sales in excess of €1.6bn and gross sales of around €1.9bn (an increase of 13%) for the financial year 2002/2003. A total of six new openings are planned in Germany, Austria, Switzerland and Czech Republic for the second half of the financial year. This will increase the total number of DIY stores to 102, covering a total sales areas of over one million square metres.

The aim set out in the first quarter report of making up the earnings shortfall compared with the previous year over the following months and achieving results at the previous year's level for 2002/2003 is unfortunately no longer realistic in the light of developments so far and the flood damage suffered in 2002, and we now expect the result from ordinary activities to be significantly down on the previous year. Earnings should, however, significantly exceed 2001/2002 levels once again in the financial year 2003/2004.

Bornheim bei Landau, 26 September 2002  
The Board of Management

## Financial Calendar

- 19 December 2002 **Interim report** for period ending 30 November 2002
- 16 April 2003 **Preliminary year-end results** 2002/2003
- June 2003 **Financial statements press conference** 2002/2003  
and publication of annual report  
**DVFA analysts' conference**  
**Interim report** for period ending 31 May 2003
- 28 August 2003 **Annual General Meeting** in Frankfurt am Main
- 25 September 2003 **Interim report** for period ending 31 August 2003
- 19 December 2003 **Interim report** for period ending 30 November 2003

## Contacts

### Investor Relations

Axel Müller  
Telephone (+49) 0 63 48/ 60 - 24 44  
Fax (+49) 0 63 48/ 60 - 42 99  
invest@hornbach.com

**Internet:** [www.hornbach.com](http://www.hornbach.com)

### Press/Public Relations

Dr. Ursula Dauth  
Telephone (+49) 0 63 21/ 678 - 93 21  
Fax (+49) 0 63 21/ 78 - 93 00  
presse@hornbach.com

## Income Statement

### HORNBACH-BAUMARKT-AG Group

| Figures in €m                          | % change<br>on previous year | 1st half-year<br>2002/2003 | 1st half-year<br>2001/2002 |
|--|------------------------------|----------------------------|----------------------------|
| Sales                                  | 11.6                         | 860.9                      | 771.6                      |
| Other income                           | 19.8                         | 9.7                        | 8.1                        |
| <b>Gross profit</b>                    | <b>7.2</b>                   | <b>306.3</b>               | <b>285.8</b>               |
| Staff expenses                         | 15.4                         | 123.6                      | 107.1                      |
| Amortisation/depreciation              | 0.8                          | 26.7                       | 26.5                       |
| Other operating expenses               | 15.4                         | 114.0                      | 98.8                       |
| Result of financial activities         | -1.1                         | -9.0                       | -9.1                       |
| <b>Result from ordinary activities</b> | <b>-25.5</b>                 | <b>33.0</b>                | <b>44.3</b>                |
| Extraordinary result                   |                              | -8.8                       | 0.0                        |
| Earnings before taxes (EBT)            | -45.5                        | 24.2                       | 44.3                       |
| Taxes                                  | -37.7                        | 9.6                        | 15.4                       |
| <b>Net income</b>                      | <b>-49.5</b>                 | <b>14.6</b>                | <b>28.9</b>                |
| <i>Earnings per share (€)</i>          | <i>-49.5</i>                 | <i>0.97</i>                | <i>1.92</i>                |

## Balance Sheet

### HORNBACH-BAUMARKT-AG Group

|   | 31 August 2002 |                | 31 August 2001 |              |
|---|----------------|----------------|----------------|--------------|
|   | %              | €m             | %              | €m           |
| <b>ASSETS</b>                               |                |                |                |              |
| <b>A. Fixed assets</b>                      | <b>60.6</b>    | <b>643.8</b>   | <b>62.1</b>    | <b>606.6</b> |
| I. Intangible assets                        | 1.4            | 14.5           | 1.2            | 11.6         |
| II. Tangible assets                         | 59.2           | 629.0          | 60.9           | 594.6        |
| III. Financial assets                       | 0.0            | 0.3            | 0.0            | 0.4          |
| <b>B. Current assets</b>                    | <b>38.5</b>    | <b>408.5</b>   | <b>36.9</b>    | <b>360.0</b> |
| I. Inventories                              | 31.2           | 331.4          | 30.2           | 294.3        |
| II. Receivables and other assets            | 3.6            | 37.7           | 3.6            | 34.9         |
| III. Cash                                   | 3.7            | 39.4           | 3.2            | 30.8         |
| <b>C. Deferred taxes</b>                    | <b>0.8</b>     | <b>8.4</b>     | <b>0.8</b>     | <b>7.5</b>   |
| <b>D. Deferred charges</b>                  | <b>0.1</b>     | <b>1.2</b>     | <b>0.2</b>     | <b>2.0</b>   |
| <b>BALANCE SHEET TOTAL</b>                  | <b>100.0</b>   | <b>1,061.9</b> | <b>100.0</b>   | <b>976.1</b> |
| <b>SHAREHOLDERS' EQUITY AND LIABILITIES</b> |                |                |                |              |
| <b>A. Shareholders' equity</b>              | <b>33.3</b>    | <b>354.1</b>   | <b>35.9</b>    | <b>350.2</b> |
| I. Subscribed capital                       | 4.2            | 45.0           | 4.6            | 45.0         |
| II. Capital reserves                        | 11.5           | 122.5          | 12.5           | 122.5        |
| III. Revenue reserves                       | 16.2           | 172.0          | 15.8           | 153.8        |
| IV. Net income for year                     | 1.4            | 14.6           | 3.0            | 28.9         |
| <b>B. Provisions and accruals</b>           | <b>4.9</b>     | <b>52.4</b>    | <b>4.8</b>     | <b>46.7</b>  |
| <b>C. Payables</b>                          | <b>56.9</b>    | <b>604.5</b>   | <b>53.9</b>    | <b>526.3</b> |
| <b>D. Deferred taxes</b>                    | <b>4.2</b>     | <b>45.0</b>    | <b>4.8</b>     | <b>47.0</b>  |
| <b>E. Deferred income</b>                   | <b>0.6</b>     | <b>5.9</b>     | <b>0.6</b>     | <b>5.9</b>   |
| <b>BALANCE SHEET TOTAL</b>                  | <b>100.0</b>   | <b>1,061.9</b> | <b>100.0</b>   | <b>976.1</b> |

## Cash Flow Statement

### HORNBACH-BAUMARKT-AG Group

|   | 1st half-year<br>2002/2003<br>€m | 1st half-year<br>2001/2002<br>€m |
|---|----------------------------------|----------------------------------|
| Net income for year   | 15                               | 29                               |
| Scheduled amortisation/depreciation of fixed assets                     | 27                               | 26                               |
| Changes in provisions and accruals                                      | 9                                | 11                               |
| Profit/loss on disposal of fixed assets                                 | 0                                | 1                                |
| Changes in inventories, trade accounts receivable and other asset items | -4                               | -11                              |
| Changes in trade accounts payable and other liability items             | -1                               | -3                               |
| <b>Funds provided by operating activities</b>                           | <b>46</b>                        | <b>53</b>                        |
| Proceeds from the disposal of fixed assets                              | 1                                | 45                               |
| Investments in tangible fixed assets                                    | -71                              | -69                              |
| Investments in intangible assets  | -2                               | -1                               |
| <b>Funds used in investing activities</b>                               | <b>-72</b>                       | <b>-25</b>                       |
| Payments to shareholders  | -13                              | -13                              |
| Proceeds from borrowings  | 0                                | 0                                |
| Repayment of borrowings   | -21                              | -11                              |
| Inflows/outflows from intra-Group financing                             | 4                                | -23                              |
| Changes in current account payables                                     | 45                               | 20                               |
| <b>Funds provided by/used in financing activities</b>                   | <b>15</b>                        | <b>-27</b>                       |
| Net increase in cash and cash equivalents                               | -11                              | 1                                |
| Effect of foreign exchange rate changes                                 |                                  |                                  |
| Cash and cash equivalents as at 1 March                                 | 50                               | 30                               |
| <b>Cash and cash equivalents as at 31 August</b>                        | <b>39</b>                        | <b>31</b>                        |

## Statement of Changes in Shareholders' Equity

HORNBACH-BAUMARKT-AG Group

| <b>1st half-year 2002/2003</b><br>in €m | Subscribed<br>capital | Capital<br>reserves | Retained<br>earnings | Net income<br>for year | Total share-<br>holders' equity |
|---|-----------------------|---------------------|----------------------|------------------------|---------------------------------|
| <b>As at 01.03.02</b>                   | <b>45</b>             | <b>122</b>          | <b>155</b>           | <b>30</b>              | <b>352</b>                      |
| Dividends paid                          |                       |                     |                      | -13                    | -13                             |
| Change in companies<br>consolidated     |                       |                     | 0                    |                        | 0                               |
| Exchange adjustments                    |                       |                     | 0                    |                        | 0                               |
| Transfer to reserves                    |                       |                     | 17                   | -17                    | 0                               |
| Net income for year                     |                       |                     |                      | 15                     | 15                              |
| <b>As at 31.08.02</b>                   | <b>45</b>             | <b>122</b>          | <b>172</b>           | <b>15</b>              | <b>354</b>                      |

| <b>1st half-year 2001/2002</b><br>in €m | Subscribed<br>capital | Capital<br>reserves | Retained<br>earnings | Net income<br>for year | Total share-<br>holders' equity |
|---|-----------------------|---------------------|----------------------|------------------------|---------------------------------|
| <b>As at 01.03.01</b>                   | <b>45</b>             | <b>122</b>          | <b>144</b>           | <b>23</b>              | <b>334</b>                      |
| Dividends paid                          |                       |                     |                      | -13                    | -13                             |
| Change in companies<br>consolidated     |                       |                     | 0                    |                        | 0                               |
| Exchange adjustments                    |                       |                     | 0                    |                        | 0                               |
| Transfer to reserves                    |                       |                     | 10                   | -10                    | 0                               |
| Net income for year                     |                       |                     |                      | 29                     | 29                              |
| <b>As at 31.08.01</b>                   | <b>45</b>             | <b>122</b>          | <b>154</b>           | <b>29</b>              | <b>350</b>                      |

## Notes to the interim financial statements

### Basis of accounting

HORNBACH-Baumarkt-Aktiengesellschaft is a listed public limited company under German law. The Board of Management of the company entered in the Commercial Register of the Municipal Court of Landau has its registered offices at Hornbachstrasse, Landau. The interim financial statements of HORNBACH-Baumarkt-Aktiengesellschaft were prepared for the first time in compliance with the International Accounting Standards (IAS). All the IAS and Interpretations of the Standing Interpretations Committee (SIC) in force on 31 August 2002 were applied.

### Change to IAS

IAS were applied for the first time in accordance with SIC-8 (First-Time Application of IAS as the Primary Basis of Accounting). Under this, the adjustments to recognition and valuation required for first-time application should be made retrospectively as if the financial statements had always been prepared in accordance with IAS (retrospective application). The change to IAS resulted in the following changes in the equity in the consolidated balance sheet at 28 February 2002, compared to the consolidated financial statements prepared in accordance with the German GAAP:

|   | <b>€ million</b> |
|---|------------------|
| <b>Equity to German GAAP at 28 February 2002</b>                                | <b>280</b>       |
| <b>Changes due to differences in recognition and valuation</b>                  |                  |
| Capitalisation of goodwill  | 3                |
| Capitalisation of other intangible assets                                       | 3                |
| Change in valuation of tangible assets  |                  |
| Tax-driven special depreciation   | 50               |
| Changes in useful life and method of depreciation                               | 33               |
| Capitalisation of borrowing costs during construction                           | 11               |
| Reclassification of capitalised dismantling costs from buildings to real estate | 1                |
| Finance leasing   | -1               |
| Adjustment to special tax reserves  | 5                |
| Differences in inventory valuation  | 5                |
| Deferred tax  | -37              |
| Other changes   | -1               |
| <b>Equity to IAS at 28 February 2002</b>  | <b>352</b>       |

There are the following material differences from the recognition and valuation methods under German GAAP used previously:

- Scheduled depreciation of tangible assets was changed from the declining balance method to the straight line method.
- Solely tax-driven depreciation and amortisation and special tax reserves had to be retrospectively eliminated or written back.
- Borrowing costs which are directly attributable to the acquisition, construction or production of real estate and buildings ("qualifying assets") were capitalised in accordance with IAS 23 ("Borrowing Costs") as part of acquisition or production costs.
- Tangible assets leased back as part of sale & lease back transactions must be capitalised and the resulting liabilities accrued where the risks and rewards incident to ownership of the assets are transferred to the companies in the HORNBACH-Baumarkt Group in accordance with the criteria of IAS 17 ("Leases"). Where there are profits on sales under these transactions and they qualify as finance leases, these must be accrued and recognised as income in the income statement over the lease term.

- Accrued taxes are formed using the liability method (IAS 12), i.e. based on temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet in accordance with IAS and any loss carry-forwards which can be applied. Deferred tax assets must be recognised.
- Under IAS allows recognition of provisions only for liabilities involving another party (IAS 37). Provision for future expense not based on a present obligation is not permitted.
- The IAS consolidated financial statements are also based on historical cost, with the exception that financial derivatives and other short-term securities held for trading are measured at fair value.

## **Consolidation principles**

The financial statements of the domestic and foreign subsidiaries included in the consolidation are prepared in accordance with uniform recognition and measurement principles. The financial statements of the individual consolidated companies are prepared for the same period as the consolidated financial statements.

Capital consolidation follows the purchase method, offsetting the acquisition cost of an interest against the prorated remeasured equity at the time of acquisition of the subsidiary. Remaining differences are capitalised as goodwill after attribution of prorated hidden reserves and amortised over their useful life on the straight-line method.

The share of the results of companies over which the Group has significant influence (associates) is accounted for in the consolidated financial statements using the equity method. Shares in losses reduce the book value of an interest to nil value. Additional losses are provided for to the extent that there are contractual obligations to compensate these.

Intercompany profits relating to inventories are eliminated through the income statement. Expenses and income and receivables and liabilities between the consolidated companies are netted out.

## **Currency translation**

### Foreign currency transactions

Transactions in foreign currencies are translated to Euro at the transaction rate. Receivables and payables in foreign currencies are translated at the balance sheet date. Resulting exchange rate profits and losses are taken to the income statement.

Exchange rate losses from translation of loans to foreign subsidiaries which are in substance part of the investment are classified as equity until the repayment of the loan or disposal of the shares.

### Foreign currency translation of annual financial statements of foreign subsidiaries

As in the view of HORNBACH-Baumarkt-Aktiengesellschaft all companies operate autonomously in financial, material and organisational terms, the assets and liabilities of subsidiaries whose annual financial statements are not prepared in Euro (Czech Republic, Sweden, Switzerland) are translated at the exchange rate on the balance sheet date. Income and expenses are translated at average exchange rates. Exchange differences from the translation of annual financial statements of foreign subsidiaries are classified as equity and shown under revenue reserves.

## Accounting and valuation

### Goodwill and other intangible assets

Goodwill arising in connection with the acquisition of subsidiaries is recognised as the difference between the purchase cost of the investment and the fair value of the prorated net assets of the subsidiary at the time of acquisition less scheduled (and, if necessary unscheduled) depreciation and amortisation. Goodwill of a foreign company and adjustment to fair value is translated using the exchange rate at the date of acquisition.

Other intangible assets are recognised at purchase cost less accumulated amortisation on the straight-line method.

Amortisation is calculated using the straight-line method and the following useful lives:

|                         | years |
|-------------------------|-------|
| Goodwill                | 15    |
| Software and licences   | 3 - 4 |
| Other intangible assets | 3 - 8 |

### Tangible assets

Tangible assets including property held for rental is recognised at cost of purchase or production less accumulated depreciation.

Borrowing costs in the context of property development (borrowing costs during construction) which are directly attributable to the acquisition, construction or production of real estate and buildings ("qualifying assets") are capitalised in accordance with IAS 23 ("Borrowing Costs") as part of acquisition or production costs.

Regular depreciation is on the straight-line method. If there are reasons for assuming impairment and the recoverable amount is below cost less any accumulated depreciation and any accumulated impairment losses, unscheduled depreciation is taken on tangible assets. If the reasons for unscheduled depreciation in earlier years no longer apply, tangible assets are revalued accordingly. Scheduled depreciation throughout the Group is based on the following useful lives:

|   | Useful life |
|---|-------------|
| Buildings and outdoor facilities                | 15-33 years |
| Other equipment, operating and office equipment | 3-15 years  |

Leased tangible assets which are substantially acquisitions of assets with long-term financing (finance leasing) are recognised at fair value in accordance with IAS 17 ("Leases") or, if lower, at the present value of the minimum lease payments. Assets are depreciated on schedule over the shorter of the lease term or its useful life, using the depreciation method applied to comparable purchased or manufactured assets. The obligations resulting from future lease payments are carried as liabilities.

### Financial assets

Financial assets are broken down as follows in accordance with IAS 39: financial assets held for trading, held to maturity and available for sale. All financial assets are available for sale. Purchases and sales of securities are recognised on the trade date.

Financial assets are initially recognised at cost and subsequently remeasured at fair value if a market price is available on an active market or the market value can be otherwise reliably determined.

### Inventories

Inventories are carried at the lower of their cost of acquisition or manufacture or their market value. The cost of merchandise inventories is calculated on the basis of weighted average prices. The principle of valuation at the lower of cost or net realisable value is applied. Net realisable value is the amount likely to be realised less costs to be incurred to the time of sale.

### Leasing contracts

For leasing contracts which transfer substantially all the risks and rewards incident to ownership of an asset to the company, the asset is recognised at cost less accumulated depreciation and a matching liability in the amount of the fair value of the asset or, if lower, at the present value of the minimum lease payments.

### Impairment of assets

For all assets other than inventories, deferred tax assets and assets recognised at fair value, the recoverable value is determined if facts or circumstances lead to impairment. If the recoverable value is lower than the book value, unscheduled depreciation is taken through the income statement. Revaluation is carried out if the reasons for unscheduled depreciation no longer apply.

### Provisions

Provisions are formed for liabilities to other parties where the amount is uncertain and it is probable that a future outflow of resources will be required to settle the obligation. They are recognised as the best estimate of the amount required to settle the obligation after taking into account all identifiable risks; reimbursement claims are not deducted. Long-term provisions are recognised at their discounted present value where the difference is material. Provisions for future losses are recognised if the contractual obligations for stores leased from other parties exceed the expected economic benefits.

The interim financial statements for the first half include provisions of € 1.1 million for flood damage. Provisions include substantially the obligation to restore the state of a rented DIY superstore and garden center and work on clearing and cleaning.

Under IAS 37 no provision for future expense is recognised for damage to the Group's own DIY superstores and garden centers, including renovation. Under the German GAAP additional provisions totalling € 1.0 million would have been required.

### Expenses

Tax expense includes current and deferred taxes except where these relate to items credited or charged directly to equity. Recognition and valuation of deferred taxes is in accordance with IAS 12 ("Income Taxes", revised 2000) where the liability is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax assets reflect the expected tax benefits recoverable from the carry-forward of tax losses. Deferred tax assets from deductible temporary differences and carryforward of tax losses exceeding taxable temporary differences are only recognised if it is sufficiently probable that the company involved will make sufficient taxable income to recover the corresponding benefit.

No expenses are recognised for the existing stock option plans for the difference between the exercise price and the market value of shares or the fair value of stock options granted but not exercised.

In preparing the consolidated financial statements assumptions and estimates were made which affected the carrying amount and recognition of assets and liabilities and income and expense. The assumptions and estimates relate primarily to group-wide determination of useful life, recognition and valuation of provisions and the probability of recovering future tax benefits. The actual values may deviate from the assumptions and estimates in individual cases. Adjustments will be made through the income statement as better information becomes available.

### **Extraordinary result**

The extraordinary result of € 8.8 million includes expense of € 9.3 million on flood damage and income of € 0.5 million from the sale of damaged goods. Expense relates primarily to write-offs on destroyed inventory, expense of clearing and cleaning, obligation to restore the state of a leased DIY superstore and garden center and losses on disposal of other equipment, operating and office equipment and current operating costs during store closures due to flooding. The extraordinary result breaks down as follows:

|                                | € million |
|--------------------------------|-----------|
| Extraordinary expense          | 9.3       |
| Extraordinary income           | 0.5       |
| Pre-tax extraordinary result   | 8.8       |
| Tax credit                     | -3.3      |
| Extraordinary result after tax | 5.5       |