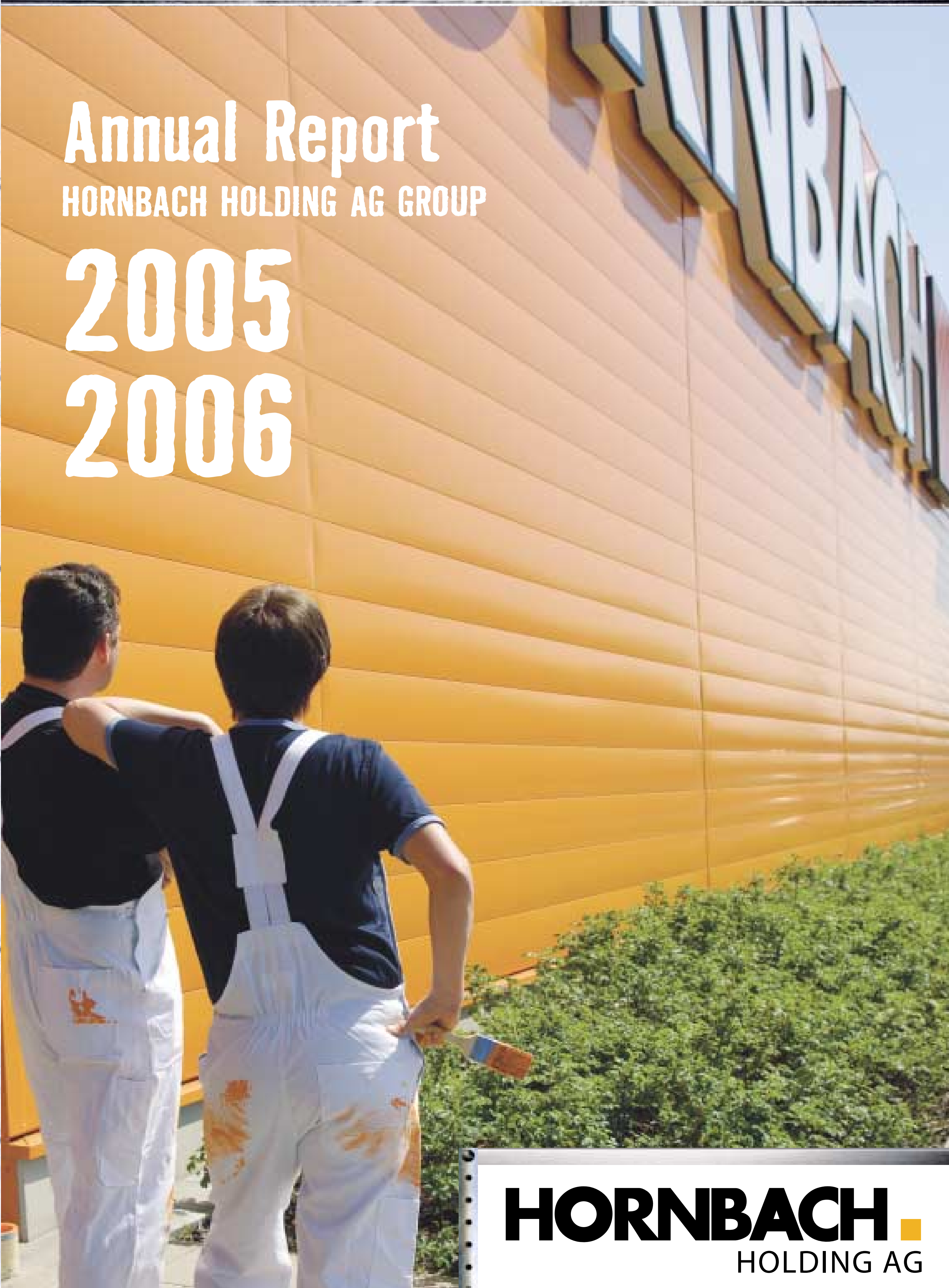
Annual Report
HORNBACH HOLDING AG GROUP
2005
2006



HORNBACH
HOLDING AG

Contents

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Key Group, Financial and Operating Information

Amounts shown in € million unless otherwise stated	Change in 2005/2006 financial year on previous year	2005/2006	2004/2005	IFRS 2003/2004	2002/2003	2001/2002	2000/2001	1999/2000	HGB 1998/1999	1997/1998	1996/1997
Sales and earnings figures [1]											
Net sales	6.6%	2,367	2,220	2,057	1,709	1,493	1,352	1,202	1,046	961	835
of which in other European countries	14.5%	788	688	611	424	317	266	213	140	68	29
Sales increase as % of net sales		6.6	8.0	20.3	14.5	10.4	12.5	14.9	8.9	15.1	12.2
EBITDA [3]	-0.5%	180	181	156	137	152	137	132	121	140	115
as % of net sales		7.6	8.1	7.6	8.0	10.2	10.1	11.0	11.6	14.6	13.8
EBIT [2]	-7.2%	92	99	79	68	88	79	74	67	88	57
as % of net sales		3.9	4.5	3.8	4.0	5.9	5.8	6.1	6.4	9.1	6.9
Earnings before taxes, extraordinary result and minority interests	-15.0%	53	62	45	35	47	50	48	48	67	41
as % of net sales		2.2	2.8	2.2	2.1	3.1	3.7	4.0	4.6	7.0	5.0
Net income for the year	-13.1%	32	37	27	20	24	27	21	38	39	16
as % of net sales		1.4	1.7	1.3	1.2	1.6	2.0	1.7	3.6	4.1	1.9
Gross margin as % of net sales		35.2	35.9	35.1	34.9	36.2	36.1	36.5	37.4	38.0	38.0
Store expenses as % of net sales [4]		28.1	27.5	27.2	28.1	28.2	27.7	27.7	27.9	26.7	28.5
Costs of central administration as % of net sales NU [4]		4.3	4.1	4.0	4.3	4.4	4.1	4.0	4.3	3.7	3.6
Pre-opening expenses as % of net sales [4]		0.5	0.5	0.6	1.2	0.7	1.1	1.3	1.3	1.2	1.9
Cash flow figures											
Cash flow from operating activities	-73.5%	38	142	28	46	75	70	28	64	82	44
Payments for capital expenditure	54.3%	208	135	134	206	215	173	175	172	161	152
Proceeds of divestments		193	28	99	7	139	47	20	162	9	8
Earnings potential [5]	-67.6%	49	153	41	67	86	85	44	77	94	60
as % of net sales		2.1	6.9	2.0	3.9	5.8	6.3	3.6	7.4	9.8	7.2
Dividend payments		8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.8	8.8	8.8
Balance sheet and financial figures											
Total assets	1.8%	1,794	1,762	1,664	1,582	1,451	1,123	1,072	911	874	706
Long-term assets	-8.3%	959	1,045	1,030	1,071	971	697	663	584	521	474
Inventories	15.5%	512	444	441	376	334	286	264	208	178	149
Cash and cash equivalents	-0.3%	161	162	69	55	88	65	97	96	34	61
Shareholders' equity [6]	4.2%	559	536	433	421	415	353	336	326	300	273
as % of total assets		31.1	30.4	26.0	26.6	28.6	31.5	31.3	35.8	34.3	38.6
Return on shareholders' equity in % based on net income for year		5.9	7.6	6.3	4.8	6.2	7.9	6.3	12.0	13.6	6.0
Net working capital [7]	29.1%	457	354	366	262	226	231	205	131	221	84
Additions to long-term assets	54.2%	202	131	133	231	201	173	175	172	161	152
Inventory turnover frequency per year		3.2	3.2	3.2	3.1	3.0	3.2	3.2	3.4	3.7	3.9
Other information											
Employees – annual average converted into full-time equivalents	6.2%	10,595	9,979	9,139	7,909	7,026	6,343	5,589	4,926	4,529	3,899
Number of shares		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	8,000,000
Average earnings per share in € [8]	-2.9%	3.37	3.47	2.69	2.17	2.20	2.58	2.26	2.00	2.95	2.13

1) Starting in the 2003/2004 financial year: other taxes (e.g. property tax) have been included under operating expenses
2) Earnings before interest and taxes; starting in the 2003/2004 financial year: including other taxes
3) Earnings before interest, taxes, depreciation and amortization; starting in the 2003/2004 financial year: including other taxes
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) Short-term assets less cash and cash equivalents less accounts payable
8) Prior to the 2001/2002 financial year: earnings based on DVFA/SG

Company Profile

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 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 since 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 that 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 80s, and especially since 1990, HORNBACH has 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 the focus of their activities. At the balance sheet reporting date on February 28, 2006, HORNBACH-Baumarkt-AG operated 124 DIY megastores with garden centers across Europe with total sales areas of around 1.3 million square metres.

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. These activities are undertaken in part by HORNBACH Immobilien AG, which owns much of the extensive real estate portfolio of the HORNBACH Group.

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 and form the basis for further expansion. With an average DIY sales area of more than 10,600 m^2 per store, HORNBACH is the market leader among the operators of DIY megastores with garden centers in Germany. HORNBACH HOLDING AG generated consolidated (net) sales of € 2,367m in the 2005/2006 financial year.

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 have subsequently been opened in the Netherlands, Luxembourg and the Czech Republic. The company's international growth was maintained with its expansion to Switzerland, Sweden and Slovakia. As of February 28, 2006, the company was operating a total of 32 DIY megastores with garden centers outside Germany.

HORNBACH HOLDING AG 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 shares of this company are admitted to the subsection of official trading of the German Stock Exchange which involves additional admissions obligations (Prime Standard). Some 79.4% of the approximately 15.2 million ordinary shares in the company are held by HORNBACH HOLDING AG, with approximately 15.2% being owned by independent shareholders. The British retail group Kingfisher plc owned 5.4% of the shares at the reporting date.

The share capital of HORNBACH HOLDING AG is divided equally between ordinary and non-voting preference shares. Some 83% of the four million preference shares (ISIN DE0006083439) are owned by independent shareholders and around 17% are held by Kingfisher plc. The preference shares are listed on the German stock exchange and have been admitted to the subsection of the official market involving additional admissions obligations ("Prime Standard"). 75% of the four million unlisted ordinary shares are owned by the Hornbach family. The Group's strategic partner, Kingfisher plc, holds 25% plus one share of the voting capital.

Your project is not just a chore. You haven't done the work just because it needed to be done. Your project is your passion. Your hands have built something which others just dream about. You have turned an idea into reality. When you take on a project, you do it properly or not at all.

Annual Report 2005|2006

HORNBACH HOLDING AG GROUP

To Our Shareholders

Albrecht Hornbach

Dear Shareholders,

By its very nature, an annual report always has a lot to do with figures. There is the risk that the core message might be lost between all of the key figures and tables. I would therefore like to begin by providing a brief summary of how HORNBACH is currently positioned within the sector:

- In the past financial year we further expanded our position in the market as one of the leading DIY operators in Europe in an extremely challenging competitive environment.
- We emerged as the winner of virtually all major independent customer surveys and DIY store tests. Two examples worth mentioning in this respect are the customer monitor survey undertaken by Servicebarometer AG and the DIY store test carried out by the TV channels ARD and WDR.
- We not only maintained our price leadership, but also firmed it up against tough attacks from the competition.
- We are now more than ever before a European company which has already become a major player in eight countries and will expand into further countries.

The past financial year was once again characterized by the discussions surrounding the high level of excess capacity in Germany and by media reports on the "discount war" being fought out between DIY store operators. Our company has succeeded better than ever in distancing itself from this debate, which in any case represents a rather one-sided perspective.

HORNBACH long ago recognized many of the structural problems which are currently the object of heated discussion in the sector and among the general public, and already drew the right conclusions many years ago. Talk of excess capacity among DIY stores and garden centers is by no means entirely misplaced. Yes, there will have to be a consolidation of the market in Germany, but it is more than questionable whether only 3 of the 14 larger DIY chains will actually survive, as forecast in the much-cited market study published by Ernst & Young in 2005.

The key question is: which structures are capable of survival in the future? This question cannot be answered merely on the basis of a quantitative approach which only takes account of sales volumes and surface capacities at individual providers. It is rather a question of the qualitative advantages which will enable us to survive the crowding-out competition and to emerge from this competition in even more robust shape.

Five aspects are of particular relevance in this respect:

- HORNBACH has based its pricing structure, as well as its expansion policy, on reliability and constancy, rather than on "campaignitis" and short-term success.
- We live from our mission to motivate people to undertake their home improvement projects themselves. Customers who come to HORNBACH are not only sold DIY products, but are rather helped to undertake their project in their flat, house or garden under their own steam. This is why we attach such high priority to qualified advice and interesting project shows at our stores.
- The DIY megastores with garden centers operated by HORNBACH are on average the largest in the sector. Only by having such large stores can we present the product range and selection expected by our project and professional customers.
- As a family business in its fifth generation, we think and act like a traditional medium-sized company. We are not concerned with achieving growth at any cost, but rather with implementing a sustainable expansion strategy facilitating healthy and profitable growth in the long term.
- Rather than looking to see what others are doing, we focus on our own strengths. Companies which only do that which they do best, while constantly optimizing and refining their concepts, will always be a good way ahead of their competitors.

And now I would like to highlight some of the most important key figures for the past financial year:

- The HORNBACH Group increased its consolidated sales in difficult market conditions by 6.6 percent to € 2.367bn in the past financial year.
- Like-for-like sales showed a further increase of 0.5 percent across the Group. This was primarily due to the positive effect of the sales growth reported at our foreign stores.
- HORNBACH has become even more international: the share of sales of the HORNBACH-Baumarkt-AG subgroup generated by the foreign DIY megastores with garden centers rose from 33 percent to 35 percent.
- In spite of the ongoing difficult situation in the construction sector, sales at HORNBACH Baustoff Union GmbH improved by 5.3 percent to € 134.6m. We are therefore optimistic that this company will become profitable on an operating level in the current financial year.
- The overall Group generated operating earnings (EBIT) of € 91.8m. This is a superb result, even if it was not quite possible to achieve the outstanding figure of € 99.0m reported for the previous year.
- Consolidated earnings before taxes amounted to € 52.5m, compared with € 61.7m in the previous year.
- Net income for the year amounted to € 32.0m, compared with € 36.9m in the previous year.

It may sound simple, but it is nonetheless true – not every year can be a record year. In 2005, the cold weather conditions in the spring and the long period of snow covering in the winter represented a considerable setback for us in some regions. Moreover, the temporary discount campaigns on the part of some competitors forced us to reduce our prices even further in order to defend our price leadership, thus obliging us to accept a temporary reduction in our gross margin. I would not wish to comment on the pricing policies of our competitors at this juncture. It is consumers themselves who are increasingly recognizing the benefits of honest and transparent price structures. Only these provide the reliability and budgeting security required when implementing projects.

The situation in the DIY sector will certainly not become any easier in the 2006/2007 financial year. The increase in sales tax from 16 percent to 19 percent may well lead to increased demand in the second half of 2006, but from the beginning of 2007 consumers will not be able to buy as much with the same income. This is certain to lead to a further intensification in the competition, as well as in the price war. We are optimally armed for this!

We have the following objectives for the future:

- We will press ahead further with our organic growth in Germany and in other countries. The driving force behind our expansion policy is that of profitability.
- We plan to open up to 13 new DIY megastores with garden centers in the next two financial years, with up to ten of these being located outside Germany.
- We are preparing our entry into the Rumanian market for the 2007/2008 financial year. HORNBACH will then be operating DIY megastores with garden centers in nine countries.
- We will need large numbers of well-qualified and highly motivated employees for the planned new locations. HORNBACH will continue to take on hundreds of new employees in the coming years, thus living up to its reputation as a "job machine".

I would like to extend my special thanks to the employees of the Group, who now number more than 12,000. They all perform excellent work for the benefit of our customers, thus securing the future of our long-established company.

Albrecht Hornbach
Chairman of the Board of Management

Creating value step by step.

Stone by stone, the vision of a completely new district is being turned into reality in the area located directly between the historical Speicherstadt district and the River Elbe in Hamburg. With a surface area of 155 hectares, the new HafenCity will increase the size of the center of Hamburg by 40%. This urban development project, which is unique in Europe, began to take shape with the buildings already occupied on Sandtor Quay. Over the next 20 years, an urban mixture of flats, office space, and cultural and leisure facilities will emerge on the former port site. The district will be home to between 10,000 and 12,000 people and provide work for 40,000 people.

The HORNBACH HOLDING AG Share

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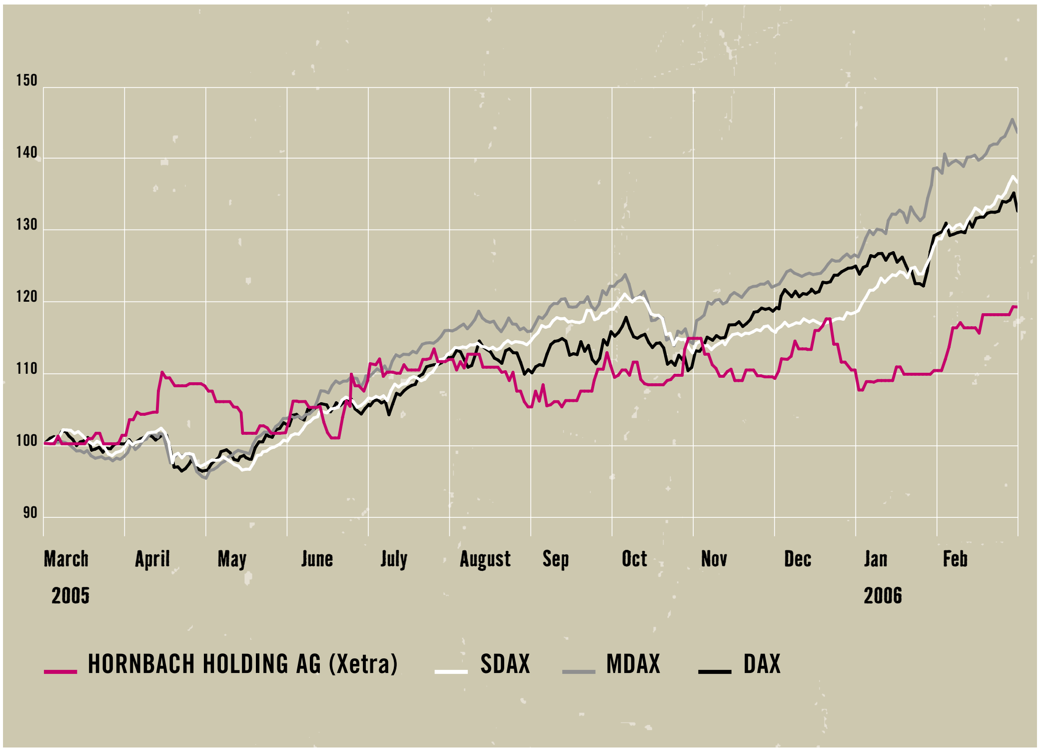
Share price performance: March 1, 2005 to February 28, 2006 (base: March 1, 2005)



Investors are certain to retain fond memories of the stock markets in 2005. Although the markets had to absorb the increase in prices on the international commodities and energy markets at the beginning of the year, from May onwards the dividend stocks showed a remarkable performance. Apart from the strong growth shown by the global economy, the boom on the stock markets was attributable to the attractive valuation of European stocks and to positive announcements concerning the development of corporate profits. The German economy in particular thus demonstrated that its competitiveness had improved compared with other countries thanks to extensive restructuring measures.

The rise in share prices in Germany was also a direct result of the surprise announcement of a general election in May 2005. It was hoped that the desired change of government would lead to greater political dynamism and to the backlog of reforms in the country being rapidly addressed. Even if the results of the election did not provide the expected trigger for a stock market rally, the formation of the grand coalition nevertheless gave rise to an optimistic mood among the population which in turn infected the stock markets and has continued into 2006.

The German Stock Index (DAX) rose by 33% in the reporting period from March 1, 2005 to February 28, 2006. The second-tier stocks below the German blue chips showed even more dynamic growth. The SDAX rose by 38% over the same period and the MDAX increased its value by almost 45%.

HORNBACH HOLDING share rises by 20%

The value of the preference shares in HORNBACH HOLDING AG (ISIN DE0006083439) rose by almost 20% during the 2005/2006 financial year. In spite of this pleasing performance, we nevertheless fell short of the widespread boom among German dividend stocks in the second half of the reporting period.

The security began the financial year at its annual low of € 66 (Xetra closing price) in March and outperformed the overall market in the first three months. The first-quarter data published together with the profit warning on June 13, 2005 and the forecast of a weaker earnings performance in 2005/2006 than in the previous year subsequently limited the upward potential of the share. At the same time, the volatile development of the share price showed a pleasing overall upward trend, starting from its interim low in June (€ 67.50) and rising to its annual high of € 79.00 on February 27, 2006. The stock was valued at € 78.90 on the balance sheet reporting date. By the conclusion of this report in April 2006, the share had performed very positively and at the peak of this development reached the € 89 mark, a level last attained in July 1998.

Communications via a wide variety of channels

Our investor relations activities once again provided shareholders, analysts, the financial media and the general public with prompt information on the business performance of HORNBACH HOLDING AG 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 extended and pooled all of our information and services for shareholders and press representatives in particular. This platform provides information on the overall Group and its subsidiaries, as well as on the publicly listed shares of the HORNBACH Group. Moreover, numerous download possibilities and the online annual reports of HORNBACH HOLDING AG and the HORNBACH-Baumarkt-AG subgroup are on offer together with very user-friendly research tools. This corporate communications site thus complements the product-related and marketing content provided at HORNBACH's internet site at www.hornbach.com.

The annual general meeting, the financial statements press conference, analysts' conferences and meetings with investors in Germany and abroad provided HORNBACH with the opportunity for intensive dialog with the capital markets. Moreover, the Board of Management also makes use of personal contacts with the media in order to present the objectives and strategy of our company within the framework of interviews. This involves outlining the market position and future growth prospects for the Group, as well as current performance figures. With its DIY megastores with garden centers across Europe, HORNBACH has a clear focus on organic growth and its concept has proven to be successful on an international basis.

Key Figures for the HORNBACH HOLDING AG Share

		2005/2006	2004/2005
Nominal value of share	€	3.00	3.00
Dividend per preference share	€	1.14	1.14
IFRS earnings per preference share	€	3.40	3.50
Total dividend payment	€ 000s	8,880	8,880
Shareholders' equity per share (including minority interests)*	€	69.83	67.00
Market capitalization*	€ 000s	631,200	528,000
Share price (Xetra)*	€	78.90	66.00
12-month high	€	79.00	67.00
12-month low	€	66.00	54.60
Shares issued		8,000,000	8,000,000
Price/earnings ratio*		23.2	18.9

* at the end of the financial year (the last day in February)

The share of HORNBACH HOLDING AG is a solid long-term investment with a high intrinsic value. The share capital of HORNBACH HOLDING AG amounting to € 24m is equally divided into ordinary shares and non-voting preference shares. Each share has a prorated value of € 3.

More than 80% of the four million preference shares are owned by independent shareholders. The British retail group Kingfisher plc, with which HORNBACH entered a strategic alliance at the end of 2001, holds around 17.4% of the preference shares. In line with the index system of the German stock exchange, the share of HORNBACH HOLDING AG is admitted for trading in the Prime Standard (a subsection of the official market involving additional admissions requirements). The company's listing in the prime standard obliges it to meet a high level of transparency standards.

Since March 20, 2006, the preference share has no longer been listed in the SDAX. In terms of its market capitalization, HORNBACH would have been eligible to remain in the SDAX, but the most recent trading volumes were insufficient to meet the criteria of the German stock exchange. The new index ranking has not had any negative impact on the performance of the share price. This development is also attributable to our shareholder structure. Most of our institutional and private investors have purchased the share as a long-term investment within the framework of a buy and hold strategy as a result of their being convinced by our business model. For these investors, the smallcap SDAX index plays at most a subordinate role.

The four million ordinary shares not listed on the stock exchange are owned by HORNBACH Familien-Treuhand GmbH (75% minus one share) and by Kingfisher plc (25% plus one share).

Financial Calendar for 2006

May 19, 2006	Press Conference 2005/2006 and publication of annual report
July 6, 2006	Interim report as of May 31, 2006
July 14, 2006	Annual General Meeting in Frankfurt am Main
September 28, 2006	Interim Report as of August 31, 2006 DVFA Analysts' Conference
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Corporate Governance

Background

High-quality and responsible corporate governance are accorded the greatest priority at HORNBACH HOLDING AG. The German Corporate Governance Code incorporates the principal legal requirements in respect of the management and supervision of German publicly listed stock corporations and contains nationally and internationally recognized standards of good and responsible corporate management. HORNBACH HOLDING AG is in compliance with the extended version of the Code published in June 2005, with the following exceptions: the disclosure of the remuneration of the Board of Management and the Supervisory Board on an individual basis, the setting of an upper age limit for members of the Supervisory Board, the recommendation that the Supervisory Board should include no more than two former members of the Board of Management, and the setting of parameters of comparison for the share option program. The recommendation that the consolidated financial statements be made available to the general public within 90 days of the end of the financial year will be complied with for the first time upon the publication of the consolidated financial statements for the 2005/2006 financial year.

At their meeting on December 8, 2005, the Board of Management and Supervisory Board of HORNBACH HOLDING AG submitted their statement in respect of the recommendations of the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG) and made this statement available to shareholders on the company's homepage. The complete statement can be found on Page 18 ff. of this report.

The Supervisory Board

The Supervisory Board of HORNBACH HOLDING AG consists of six members. In the event of a parity of votes in the Supervisory Board, the Chairman of the Supervisory Board shall have the decisive vote. The Supervisory Board monitors the management of the company and accompanies the Board of Management in an advisory capacity. It appoints the members of the Board of Management, dismisses them and is responsible for the conclusion of, amendments to and termination of employment contracts with the members of the Board of Management. Any measures proposed by the Board of Management which could have a fundamental impact on the net asset, financial or earnings situation of the company require the prior consent of the Supervisory Board. The Code of Procedure for the Supervisory Board contains a catalog of those transactions and measures requiring such consent. This list of transactions requiring consent may at any time be extended or reduced by resolution of the Supervisory Board.

The members of the Supervisory Board are exclusively obliged to safeguard the interests of the company. They are not dependent on any assignments or instructions. They may not pursue any personal interests when making decisions, neither may they exploit business opportunities available to the company for their personal benefit. The members of the Supervisory Board are obliged to disclose any conflicts of interest to the Chairman of the Supervisory Board, in particular any such conflicts of interest arising due to their fulfilling any advisory, executive or supervisory role for customers, suppliers, lenders or other business partners of the company. Any conflicts of interest in relation to a member of the Supervisory Board which are substantial and not merely temporary shall result in the termination of the respective Supervisory Board mandate. Advisory agreements and other service or work contracts to be concluded between a member of the Supervisory Board and the company require the prior consent of the Supervisory Board. The Supervisory Board has established the following committees:

- Mediation Committee
- Personnel Committee
- Audit Committee

The members of the respective committees are listed on Page 65 of this report.

The Board of Management

The Board of Management of HORNBACH HOLDING AG consists of three members and has a Chairman. The Board of Management has a self-imposed Code of Procedure. Its members are jointly responsible for the management of the company's business. The Board of Management provides timely and comprehensive information to the Supervisory Board on a regular basis. This information includes all questions of relevance to the company in respect of planning, business development, the risk situation and risk management. Furthermore, it presents the group investment, financial and earnings budgets both for the forthcoming financial year and for the medium term (five years) to the Supervisory Board. The Chairman of the Board of Management provides immediate report to the Chairman of the Supervisory Board of any significant events which are of material relevance for any assessment of the situation and development of the company, as well as of its management. Transactions and measures requiring the consent of 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 the other members of the Board of Management of such conflicts. Members of the Board of Management may only pursue secondary occupations, in particular Supervisory Board mandates outside the Group, with the consent of the Chairman of the Supervisory Board.

The Annual General Meeting

The shareholders of HORNBACH HOLDING AG exercise their rights, including their voting rights, at the Annual General Meeting. They are informed at regular intervals of all significant dates by means of the financial calendar published in the annual report, in the quarterly reports and on the company's homepage. The Annual General Meeting is generally chaired by the Supervisory Board Chairman.

Accounting and Auditing

The financial statements of the HORNBACH HOLDING AG Group are compiled in accordance with International Financial Reporting Standards (IFRS). The separate financial statements of HORNBACH HOLDING AG are compiled 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 proposal to the Annual General Meeting with regard to the auditor to be elected. 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 risk management system is reviewed by the auditors.

Transparency

The company's shareholders, all capital market participants, financial analysts, investors, shareholder associations and the media are provided with up-to-date information at regular intervals with regard to the situation of the company and to any material alterations in its business situation. The internet constitutes the principal means of communication for such information.

The situation and results of HORNBACH HOLDING AG are reported by means of:

- Quarterly reports
- The annual report
- The annual results press conference
- Telephone conferences with international financial analysts and investors
- Events with financial analysts and investors in Germany and abroad.

The dates of relevance to the company's regular financial reporting activities have been summarized in the financial calendar published on the internet at www.hornbach-holding.com. In addition to these regular reporting activities, any facts arising at HORNBACH HOLDING AG which are likely to have a significant influence on the price of the company's share are published in the form of ad-hoc announcements.

Directors' Dealings

The members of the Board of Management and of the Supervisory Board of HORNBACH HOLDING AG, as well as individuals closely related to such members, are required by Section 15a of the German Securities Trading Act (WpHG) and by Point 6.6 of the German Corporate Governance Code to disclose any transactions involving shares in the company or financial instruments based on such shares. HORNBACH HOLDING AG published the notifications it received during the 2005/2006 financial year on the internet without delay and forwarded the corresponding documentation to the Federal Financial Supervisory Authority.

The company was notified of a total of two transactions requiring disclosure during the year under report. This involved a book-entry transfer of 1,355 preference shares in HORNBACH HOLDING AG between one member of the Board of Management and a closely related person .

Remuneration Report

The remuneration report presents the basic features and structure of the remuneration of the Board of Management and the Supervisory Board. It forms a constituent component of the group management report and, with the exception of the individual disclosure of remuneration, is based on the recommendations of the German Corporate Governance Code.

Remuneration of the Board of Management

The amount and structure of the remuneration of the Board of Management are based on the size of the company, its economic and financial situation and the performance of the company within its competitive environment. Moreover, the overall remuneration and the individual components of such remuneration should stand in an appropriate relationship to the responsibilities of the respective member of the Board of Management, his or her personal performance and the performance of the overall Board of Management.

The remuneration of the Board of Management consists of fixed and variable components. The remuneration system of the Board of Management consists of an agreed fixed annual salary, which is paid in equal monthly installments. Furthermore, the members of the Board of Management receive an annual bonus which is paid upon the consolidated financial statements being approved by the Supervisory Board. The size of the annual bonus is based on the level of consolidated net income.

Within the framework of the 2001 share option plan, the members of the Board of Management were allocated share options as components of a long-term incentive nature. The share option program is based on the achievement of ambitious target prices for the share of HORNBACH-Baumarkt-AG. The tranches for the years 2001 to 2003 could be exercised during the 2005/2006 financial year. Further details of the share option plan have been provided under Note (36) of the notes to the consolidated financial statements.

The total remuneration paid to the Board of Management of HORNBACH HOLDING AG for the performance of its duties for the Group during the 2005/2006 financial year amounted to € 1,608k (2004/2005: € 1,657k). Of this total, € 704k (2004/2005: € 718k) constituted fixed remuneration and € 904k (2004/2005: € 939k) related to performance-related components. As of the balance sheet reporting date on February 28, 2006, the members of the Board of Management held a total of 158,334 ordinary shares in HORNBACH HOLDING AG (2004/2005: 158,334) and 3,405 publicly listed preference shares (2004/2005: 2,050). In view of the size and market position of the company, it is our opinion that the total remuneration of the Board of Management is appropriate. We therefore do not believe it to be necessary to disclose the remuneration of the Board of Management on an individual basis.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is governed by Section 16 of the Articles of Association of HORNBACH HOLDING AG.

In line with the Articles of Association, the remuneration of the members of the Supervisory Board consists of a fixed component and a variable component based on the dividend. In addition to the reimbursement of his or her expenses, each member of the Supervisory Board receives annual fixed remuneration 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 twice and the Deputy Chairman receives 1½ times the fixed and performance-related remuneration. Members of the Supervisory Board who also sit on the Audit Committee receive an additional sum of € 3,000. Members of the Supervisory Board who sit on another committee or on several other committees of the Supervisory Board receive an additional sum of € 1,500 per committee. Members of the Supervisory Board acting as the chairman of a Supervisory Board committee receive twice the respective committee remuneration. Members of the Supervisory Board who are only members of the Supervisory Board for part of the financial year receive proportionately lower remuneration.

The remuneration of the Supervisory Board for the 2005/2006 financial year amounted to € 180k (2004/2005: € 165k). Of this total, € 105k (2004/2005: € 87k) constitutes fixed remuneration and € 75k (2004/2005: € 78k) relates to performance-related components. The members of the Supervisory Board held a total of 378,096 (2004/2005: 219,763) ordinary shares and 19,636 (2004/2005: 19,636) publicly listed preference shares in HORNBACH HOLDING AG as of the balance sheet reporting date.

We believe that the overall remuneration of the Supervisory Board is appropriate. The remuneration of the individual members of the Supervisory Board can be derived from the disclosures made in the notes to the consolidated financial statements and has therefore not been reported separately.

Statement of Compliance with the Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG)

The Board of Management and the Supervisory Board of HORNBACH HOLDING Aktiengesellschaft hereby declare in accordance with Section 161 of the German Stock Corporation Act (AktG) that the recommendations of the "German Corporate Governance Code" government commission, as outlined in the version dated May 21, 2003 and published in the electronic Federal Gazette on July 4, 2003, were in principle fulfilled from the company's previous statement of compliance up to the new version of the German Corporate Governance Code dated July 20, 2005. Application was not made of the recommendations included in Points 4.2.4 clause 2, 5.4.1 clause 2, 5.4.5 clause 6 and clause 7, and 7.1.2 clause 2.

Since July 20, 2005, the recommendations of the government commission as outlined in the version dated June 2, 2005 and published in the electronic Federal Gazette on July 20, 2005, have been and are in principle fulfilled. Application has not been made and is not made of the recommendations included in Points 4.2.4 clause 2, 5.4.1 clause 2, 5.4.7 clause 6 and clause 7, and 7.1.2 clause 3.

The deviations mentioned have arisen on account of the following considerations:

a) Point 4.2.4:
Point 4.2.4 clause 1 recommends that the remuneration of the members of the Board of Management reported in the notes to the consolidated financial statements be broken down into fixed salaries, performance-related components and components of a long-term incentive nature. Point 4.2.4 clause 2

further recommends that such disclosures be made on an individual basis. On account of the overall level of remuneration for the Board of Management, which in our opinion is appropriate, we do not consider the disclosure of individual remuneration packages to be necessary.

b) Point 5.4.1:
The recommendations set out in Point 5.4.1 of the Code include the setting of an age limit for members of the Supervisory Board. This recommendation has not been and is not followed. With the membership in the Supervisory Board of the longstanding former members of the Board of Management, Albert Wilhelm and – up to the conclusion of the Annual General Meeting on September 2, 2005 – Otmar Hornbach, we have secured a great pool of experience and competence for the benefit of the company.

c) Point 5.4.7 (previous version: Point 5.4.5):
In Point 5.4.7 clause 6 (previous version: Point 5.4.5 clause 6), the Code recommends that the remuneration of the members of the Supervisory Board be reported in the Corporate Governance report (previous version: in the notes to the consolidated financial statements) on an individual basis and broken down into its constituent components. On account of the overall level of remuneration for the Supervisory Board, which in our opinion is appropriate, we do not consider the disclosure of individual remuneration packages to be necessary. In Point 5.4.7 clause 7 (previous version: Point 5.4.5 clause 7), the Code further recommends that any remuneration paid or benefits granted by the company to members of the Supervisory Board for any services rendered personally, especially advisory and mediation services, are to be reported in the notes to the consolidated financial statements on an individual basis. HORNBACH HOLDING AG makes use of the opportunity of drawing on the expertise of members of the Supervisory Board in specific areas (presently in one case). Such cooperation is undertaken on the basis of insubstantial (symbolic) remuneration. We see no need to provide individual disclosures in this respect.

d) Point 7.1.2:
In Point 7.1.2 clause 3 (previous version: Point 7.1.2 clause 2), the Code recommends that the consolidated financial statements be made available to the general public within 90 days of the end of the financial year. We have deviated and continue to deviate from this recommendation. Following the successful introduction of SAP and necessary organizational changes, however, we intend to publish our consolidated financial statements within 90 days. This is expected to be possible for the first time for the consolidated financial statements for the 2005/2006 financial year. The Code further recommends in this section that interim reports be made available to the general public within 45 days of the end of the period under report. We already comply with this recommendation.

Neustadt an der Weinstrasse, December 8, 2005

HORNBACH HOLDING Aktiengesellschaft
The Supervisory Board The Board of Management

A proud achievement.

The "Turning Torso", opened in the Swedish city of Malmö in August, is an international sensation on account of its architectural superlatives. At 190m, it is the highest skyscraper in Scandinavia and the second highest residential tower in Europe. The construction of the concrete foundations required approximately 830 trucks to transport 5,100 m^2 of concrete. The structure of the building, which rotates 90 degrees on its own axis, is supported by an external steel backbone, which itself weighs 820 tonnes.

Group Management Report

Group Structure and Shareholders of HORNBACH HOLDING AG

as of February 28, 2006

Kingfisher plc
Preference shares[1]
ISIN DE0006083439
8.7%

Independent shareholders
Preference shares[1]
ISIN DE0006083439
41.3%

Hornbach Families
Ordinary shares[2]
ISIN DE0006083405
37.5%
minus one share

Kingfisher plc
Ordinary shares[2]
ISIN DE0006083405
12.5%
plus one share

HORNBACH HOLDING AG

Neustadt/Weinstrasse
(€ 559m)[4]

Independent shareholders
Ordinary shares[1]
ISIN DE0006084403
15.2%

Kingfisher plc
Ordinary shares[1]
ISIN DE0006084403
5.4%

79.4%[1]
HORNBACH-Baumarkt-AG[3]
Bornheim
(€ 415m)[4]

100%
HORNBACH Immobilien AG[3]
Neustadt/W.
(€ 103m)[4]

100%
HORNBACH Baustoff Union GmbH[3]
Neustadt/W.
(€ 9m)[4]

- The shareholders' equity of HORNBACH HOLDING AG amounts to € 24,000,000 and is divided into 4,000,000 ordinary shares (owned by the Hornbach families and Kingfisher plc) and 4,000,000 non-voting preference shares which are listed on the German stock exchange.
- The shareholders' equity of HORNBACH-Baumarkt-AG amounts to € 45,600,960 and is divided into 15,200,320 ordinary shares which are listed on the German stock exchange. HORNBACH HOLDING AG holds an asset investment of 12,070,000 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 80 onwards.

1) publicly listed
2) not publicly listed
3) plus further subsidiaries in Germany and abroad
4) shareholders' equity of the respective reporting entity on the reporting date on February 28, 2006

Group Management Report

Macroeconomic Framework

Global economy continues to show strong growth

The upturn in the global economy driven by the growth centers of the USA and China lost hardly any of its dynamism in 2005 in spite of the jump in oil prices. The growth in the global economy showed only a marginal slowdown without any notable turbulence from 5% in 2004 to just over 4%. According to leading German economic research institutes, the rise in energy prices had a far milder impact on the economy than had been expected some time ago. This development is attributable to several factors. On the one hand, the rise in the oil price was triggered by increased demand rather than by any supply shortage. On the other hand, the global economy was supported by low capital market interest rates, rising asset values and solid company profits. At the same time, the upward trend in prices remained under control, with the rate of inflation in industrialized nations showing only a slight increase on 2004. As a result, in contrast to the oil price shocks in the seventies and eighties the central banks were not obliged to hike up interest rates. Overall, the global economy was in robust shape at the end of 2005. The economics departments at banks and economic research institutes generally see an increasing likelihood of the global upturn being maintained in 2006 and beyond.

Euro area gaining momentum

The economies in the European Union were not able to keep pace with global developments in 2005. According to the assessment published by the European Commission (Autumn Survey 2005), the euro area benefited from a revival in the second half of 2005, following a disappointing first half of the year. Industrial confidence levels have improved once more, not least as a result of increasing volumes of incoming orders. Moreover, the devaluation of the euro against the US dollar and the low level of long-term interest rates have helped to stimulate investment activity. Private consumption also gradually began to gain momentum towards the end of the year. According to Eurostat, the gross domestic product (GDP) rose by 1.3% in real terms in the euro area in 2005 (2004: 2.1%). Including the new member states (EU 25), economic growth in the European Union amounted to 1.5% (2004: 2.4%). With regard to the countries in which HORNBACH is represented with DIY megastores with garden centers, the estimates published by Eurostat revealed above-average growth rates ranging from 1.7% to around 5% for the Czech Republic, Luxembourg, Sweden and Austria.

Economic and Sector Developments in Germany

Economic growth still driven by exports

Compared with other European countries, overall developments in Germany remained somewhat meager in 2005. According to the calculations published by the Federal Statistics Office, the German gross domestic product (GDP) rose by 0.9% in real terms in 2005. The economic revival seen in 2004 (plus 1.6%) thus weakened slightly. It should be noted, however, that there were fewer working days in 2005. Following adjustment to account for this calendar factor, the GDP growth of 1.1% in 2005 was on a par with the previous year. This growth was once again largely attributable to the dynamic performance shown by the export sector. Its contribution of 0.6 percentage points to the growth figure reported prior to adjustment for calendar factors provides further proof that the export sector remains the pacemaker of the German economy. However, it is also an indication of the ongoing weakness in domestic demand (growth contribution: 0.3 percentage points).

With growth of 0.1%, the public sector stagnated at virtually the same level as in the previous year. German companies, by contrast, considerably increased their investments in machinery and plant once again. Investment in plant and equipment rose by 4.0% in 2005, thus reaching its highest level since 2000 (plus 10.7%). Given that construction investments (minus 3.4%) declined more sharply than in the two previous years, however, there was a slight overall decline (minus 0.2%) in gross fixed capital formation.

The construction sector nevertheless stabilized in the second half of the year. Construction last made a positive contribution to economic growth in 1999. Since the second half of 2005, a rise in incoming orders in the construction sector has once again provided grounds for optimism. The situation in the construction materials sector also improved in the course of the year. While sales were reported as having declined by more than 6% in the first half of the year, it was possible to reduce this downturn to 2.5% by the end of the year. The upward trend is primarily being driven by the construction of commercial property, although private housing construction has also risen once more.

Private household consumer spending also remained very subdued in 2005 once again, stagnating at the level reported for 2004 (0.0% in real terms). Among other factors, this was largely due to the purchasing power of private consumers having been reduced by the increase in energy prices, as well as to the increase in expenditure on private pension provisions.

According to official statistics, consumer prices rose by 2% in 2005. The rate of inflation was thus higher than at any time since 2000 and considerably above the average figure of 1.4% for the past ten years. In addition to higher energy prices, the rise in prices was also driven by those prices affected by the public sector (vehicle tax, tobacco tax, healthcare reform). Excluding these components, the cost of living would only have risen by 0.9%.

More than any other factor, however, it was the difficult situation on the labor market which had a negative impact on consumer demand levels. Although there was a slight improvement in the unemployment rate in Germany, in part as a result of government measures, it nevertheless remained at a high level of 12.2% at the end of February 2006 (2004/2005: 12.6%). Unemployment amounted to 10.2% in western Germany and to 19.5% in eastern Germany. The low level of consumer confidence is also reflected in the development of the savings rate, which rose from 10.5% in 2004 to 10.6% in 2005, thus reaching its highest level since 1995 (11.0%).

Since the end of 2005, however, confidence seems to be burgeoning among consumers once again. According to the monthly surveys undertaken by the Company for Consumer Research (GfK), the overall consumer climate was more positive in January 2006 than at any time since the early summer of 2001. It would appear that consumers trust the Grand Coalition government to tackle the economic and social challenges facing Germany in the right way. This is reflected in the positive assessment of economic prospects and of the development in consumers' personal income situations. There has also been an increase in the propensity to make larger purchases once again. The German retail sector could certainly benefit from this tailwind.

Rise in retail sales

Based on figures released by the Federal Statistics Office, in 2005 the German retail sector (excluding automobile retail and gas stations) reversed the negative trend seen in the previous three years. In spite of poor Christmas sales, retail sales rose by 1.5% in nominal terms (2004: minus 1.6%) and by 1.1% in real terms (2004: minus 1.7%).

According to sector estimates, there was a slight increase in sales at DIY stores and garden centers in Germany in 2005. In view of numerous discount campaigns and the addition of further sales areas, the sector continues to be characterized by intense price and crowding-out competition.

Based on figures released by the Federal Association of German Home Improvement, DIY and Specialist Garden Stores (BHB), there were 4,392 DIY stores in Germany at the end of 2005. Sales at the DIY stores with sales areas of at least 1,000 m^2 per outlet increased by 1.4% to € 17.67bn (2004/2005: € 17.44bn). This sales growth came at the expense of smaller-scale DIY stores and standalone garden centers in particular. Sales at DIY stores with sales areas of less than 1,000 m^2 declined by 2.1% to € 4.12bn (2004/2005: € 4.21bn). The market volume of all DIY and garden stores in Germany relevant for the measurement of market share therefore showed only a slight increase from € 21.65bn in the previous year to € 21.79bn in 2005 (plus 0.7%).

Sales volumes of DIY stores in Germany increase slightly to € 21.79bn.

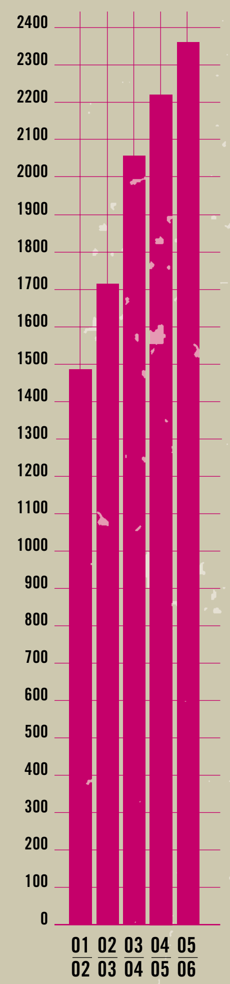
According to the DIY reporting provided by the BHB, like-for-like sales, i.e. excluding sales at newly opened stores, declined by 0.9% (2004/2005: minus 0.5%). Until April, the performance of companies in the do-it-yourself (DIY) sector was highly unsatisfactory. After this, the figures for 2004 were exceeded in all months with the exception of temporary setbacks in July and December 2005. The 2005 garden season suffered in particular from cold and wet weather conditions in the spring. There was a sharp decline in the demand for foliage plants and garden furniture/decoration and for the leisure and handicraft product ranges. By contrast, the "construction materials", "tiles", "sanitary" and "tools/machines" product groups reported disproportionate growth. Additional non-DIY product ranges, such as automobile and bicycle accessories, as well as household goods, also contributed to sales growth in the sector. Further momentum was provided by TV home improvement series, which featured this topic in programs throughout the year and thus motivated consumers to undertake DIY projects. However, the sector did not, as had been hoped, succeed in escaping the subdued overall consumer climate in Germany.

The growth in sales areas continued apace in 2005. According to figures released by the BHB, the sales areas of all DIY and garden stores with sales areas of more than 1,000 m^2 increased from 15.67 million m^2 to 15.76 million m^2 (plus 0.6%). This development was driven not only by openings at new locations, but also by numerous store extension measures. The trend towards increasingly large sales areas at newly opened stores also intensified in 2005. More than one third of the newly opened outlets (33.7%) were in the size class in excess of 10,000 m^2, the so-called megastore segment. The equivalent figure for 1996 had amounted to just 8.9% and has since increased continuously. This has thus resulted in an increase in average sales areas, which according to the BHB rose from 5,436 m^2 to 5,466 m^2 in the category of stores with sales areas in excess of 1,000 m^2.

Sales Performance

The HORNBACH HOLDING AG Group comprised the HORNBACH-Baumarkt-AG, HORNBACH Baustoff Union GmbH (HBU) and HORNBACH Immobilien AG subgroups at the balance sheet reporting date on February 28, 2005. The consolidated sales (excluding sales tax) of the HORNBACH Group rose by 6.6% from € 2,220m to € 2,367m in the 2005/2006 financial year (March 1, 2005 to February 28, 2006).

Sales Performance of the HORNBACH Group (net € million)



DIY stores report growth of 6.7%

More than 94% of the consolidated sales were generated by the HORNBACH-Baumarkt-AG subgroup. Net sales at the largest operating subgroup within the HORNBACH Group rose by 6.7% from € 2,094m to € 2,234m. Around 65% of sales (2004/2005: 67%) related to DIY megastores with garden centers in Germany. The net sales of these stores rose by 2.8% to € 1,446m (2004/2005: € 1,406m). Our growth has therefore once again outpaced that of the overall sector in Germany (plus 0.7%). The sales areas of our 92 stores in Germany (2004/2005: 88) totaled around 930,000 m^2 as of February 28, 2006. The average store size in Germany amounted to 10,114 m^2 (2004/2005: 9,738 m^2).

As of the reporting date, we operated a total of 32 DIY megastores with garden centers outside Germany with an average sales area of 12,157 m^2. The stores are located in Austria (11), the Netherlands (8), Luxembourg (1), the Czech Republic (5), Switzerland (3), Sweden (2) and Slovakia (2). Net sales in other European countries rose by 14.5% from € 688m to € 788m. The share of sales generated by the subgroup's international stores rose from 33% in the previous year to 35% in the year under report.

During the 2005/2006 financial year, the HORNBACH-Baumarkt-AG subgroup opened a total of eight DIY megastores with garden centers, of which five are in Germany (Berlin-Neukölln, Frankfurt am Main, Würzburg, Kiel and Munich-Fröttmaning). One location in Mannheim which was no longer up-to-date was closed. The store networks in other European countries were extended by new stores opened in Malmö (Sweden), Košice (Slovakia) and Hradec Kralové (Czech Republic). Our store network thus grew during the financial year to a total of 124 DIY megastores with garden centers (2004/2005: 117). With total sales areas of approximately 1,320,000 m², the average sales area per store is now in excess of 10,600 m² (2004/2005: approx. 10,200 m²). HORNBACH has thus further underlined its unique position among European DIY store operators in the megastores segment involving sales areas of more than 10,000 m².

0.5% increase in like-for-like sales

Like-for-like sales showed a slight improvement of 0.5% across the Group compared with the previous 2004/2005 financial year in spite of the difficult market climate. The sales performance suffered a notable slowdown as a result of the cold and wet weather conditions encroaching upon the spring season in the first quarter (-0.5%). Thanks to pleasing sales growth in the second and third quarters (+2.1% and +1.8%), we reported cumulative like-for-like sales growth of 1.1% at the end of the first nine months. The fourth quarter (December 2005 to February 2006) fell victim to extremely cold weather conditions. The extended period of snow covering with extreme weather conditions in some parts of Europe led to a marked cooling in the demand for DIY and home improvement products. Like-for-like sales declined by 1.5% in the final quarter.

The sales performance in Germany during the period under report was in line with the trend in the overall market. At the end of the financial year, the like-for-like sales of the German HORNBACH stores were down 1.1% on the previous year. Apart from weather conditions, the slight decline in like-for-like sales is attributable to the intractably low levels of consumer confidence. The considerable increase in energy costs for heating, electricity and mobility presumably also played a part in putting a damper on consumers' willingness to invest in larger-scale renovation projects. According to estimates compiled by the Federal Statistics Office, each private household had to spend around € 180 more on gasoline, diesel, natural gas and heating oil in 2005.

The intense price competition in the German DIY sector also left its mark on the company's sales performance. However, our permanent low price strategy enabled us to clearly differentiate ourselves in customers' minds from the further intensification in discount campaigns on the part of the competition. There was an increase in customer frequency levels compared with the previous year.

Our growth in the 2005/2006 financial year was primarily driven by the international business, where we once again surpassed the high figures already reported for the previous year. The HORNBACH stores in the seven countries outside Germany reported growth of 5.0% and 5.7% in the second and third quarters alone, before also suffering a slight decline in dynamism in the final quarter. By the end of the financial year the international stores nevertheless reported considerable like-for-like sales growth of 3.9%. This proves how successful HORNBACH has been in establishing its unmistakable concept in customers' minds.

International stores report like-for-like sales growth of 3.9%.

Market position strengthened

We succeeded in extending our market position as one of the leading DIY store operators in Europe in the difficult 2005/2006 financial year as well. Since 1998, HORNBACH has increased its sales in its core German market by more than 60%, while sales in the overall DIY sector (excluding HORNBACH) stagnated over the same period. This is clearly reflected in the development of our market share. As a percentage of the total sales of all German DIY stores and garden centers (€ 21.79bn in 2005 according to the BHB), our market share rose from 4.9% in 1998 to 7.7% in 2005 (2004: 7.6%).

The expansion into other European countries has from year to year lent further weight to the HORNBACH DIY megastores with garden centers operating in the respective country markets. In all countries apart from Sweden, where the store network still has to achieve a critical mass, we are among at least the five leading companies in the sector.

HORNBACH Baustoff Union reports growth of 5.3%

Net sales at the HORNBACH Baustoff Union GmbH (HBU) subgroup increased by 5.3% from € 127.8m to € 134.6m during the 2005/2006 financial year. As in the previous year, HBU was operating 18 outlets at the balance sheet reporting date on February 28, 2006. In view of the difficult situation in the construction sector, this pleasing sales growth is to be rated a success.

HORNBACH Immobilien AG increases rental income by 3.4%

The HORNBACH Immobilien AG subgroup develops first-class retail real estate for the operating companies in the HORNBACH HOLDING AG Group. The overwhelming share of property is let at customary market conditions to companies within the Group. Rental income rose by 3.4% in the 2005/2006 financial year to reach € 45.8m.

Earnings Performance

The Group's earnings performance failed to reach that of the previous year during the period under report. At € 91.8m, operating earnings (EBIT) were 7.2% lower than the previous year's figure (€ 99.0m). Consolidated earnings before taxes fell from € 61.7m in the previous year to € 52.5m (minus 15.0%).

The unfavorable earnings performance compared with the previous year was mainly attributable to the unsatisfactory like-for-like sales performance in the first and fourth quarters, coupled with a decline in the gross margin and higher costs at the stores and in the administration.

Key Earnings Figures for the HORNBACH HOLDING AG Group

Key Figure € million	2.28.2006	2.28.2005	Change
Net sales	2,367	2,220	6.6%
of which in other European countries	788	688	14.5%
Like-for-like sales growth	0.5%	1.5%	
EBITDA	180.1	181.1	-0.5%
EBIT	91.8	99.0	-7.2%
Earnings before taxes	52.5	61.7	-15.0%
Consolidated net income	32.0	36.9	-13.1%
EBITDA margin	7.6%	8.1%	
EBIT margin	3.9%	4.5%	
Gross margin	35.2%	35.9%	
Store expenses as % of sales	28.1%	27.5%	
Pre-opening expenses as % of sales	0.5%	0.5%	
Administration expenses as % of sales	4.3%	4.1%	
Tax rate	39.0%	40.3%	

The gross profit at the HORNBACH HOLDING AG Group declined as a percentage of net sales (gross margin) from 35.9% to 35.2%. This was primarily attributable to the consistent implementation of the permanent low price strategy. Retail prices were reduced slightly once again during the 2005/2006 financial year in order to safeguard the company's price leadership in Germany and abroad. The price adjustments had a negative impact on the gross margin and could not be compensated for in full before the end of the financial year. However, a considerable overall reduction was achieved in the year-on-year decline in the gross margin in the second half of the financial year.

Pre-opening, selling and store, general and administration expenses

Following eight new store openings during the 2005/2006 financial year (2004/2005: five), pre-opening expenses rose by approximately 15% to € 11.6m (2004/2005: € 10.1m). At 0.5%, these expenses remained constant as a percentage of net sales. This item includes those expenses incurred prior to the opening of a new HORNBACH DIY megastore with a garden center. These mainly involve personnel expenses.

Selling and store expenses rose as a percentage of sales at the Group in the 2005/2006 financial year. These expenses amounted to € 665.0m (2004/2005: € 609.5m). Selling and store expenses amounted to 28.1% of net sales at the balance sheet reporting date (2004/2005: 27.5%). The rise in selling and store expenses is principally due to the expansion, with new HORNBACH stores being opened in Germany and abroad. On the one hand, more new stores were opened than in 2004/2005 and on the other hand the store opening program was launched two months earlier than in the previous year. Seven of the eight stores opened in 2005/2006 involved large-scale DIY megastores with garden centers and combined drive-in builders' merchant facilities, which involve around 3,000 m^2 more space on average than the "traditional" HORNBACH stores without drive-in facilities. This is reflected in the increase in costs of premises and operating expenses.

Finally, a higher level of rental expenses also contributed to the rise in selling and store expenses. Rental agreements were concluded within the framework of sale and lease back transactions for eight HORNBACH stores during the 2005/2006 financial year (2004/2005: five).

General and administration expenses, which amounted to € 101.5m (2004/2005: € 91.6m), also rose as a percentage of sales at the Group in the 2005/2006 financial year. This is due on the one hand to the conversion of the former merchandising system to SAP. Moreover, this item also still includes start-up expenses relating to the establishment of administration structures in Sweden, Slovakia and Rumania. The administration expenses quota (as a percentage of net sales) rose from 4.1% to 4.3%.

The personnel expenses included within the selling and store, general and administration, and pre-opening expenses, rose by 7.0% from € 368.1m to € 393.8m. This is chiefly due to the introduction of SAP, to measures to optimize operating processes and to further improvements in customer service at the stores.

At € 88.2m, the depreciation and amortization of long-term assets was 7.4% higher than the previous year's figure (€ 82.1m). This figure includes extraordinary depreciation of € 15.0m (2004/2005: € 12.8m) mainly undertaken on real estate not used for operating purposes and goodwill amortization at the HORNBACH Baustoff Union GmbH subgroup. Specifically, this figure consists of write-downs of real estate in most cases not used for operating purposes as a result of a decline in its current value (€ 12.5m), and of goodwill amortization (€ 1.2m) and depreciation of real estate (€ 1.3m) at the HORNBACH Baustoff Union GmbH subgroup.

Other income and expenses

The other income and expenses reported in the income statement principally relate to income from advertising allowances, income from the disposal of assets, income from insurance payments in connection with flood damage at the Littau store (Switzerland), income from the release of provisions, income from exchange rate differences and miscellaneous income. This is mainly offset by expenses relating to the damages incurred by the flooding of the Littau store (Switzerland), extraordinary depreciation and amortization and expenses relating to exchange rate differences.

Other income and expenses rose to € 36.2m in 2005/2006 (2004/2005: € 14.1m), mainly as a result of the sale of eight retail properties (2004/2005: five). The new HORNBACH stores in Malmö, Bratislava, Košice, Berlin-Neukölln, Kiel and Munich-Fröttmaning, the existing stores in Vogelsdorf and Remseck, as well as two builders' merchants centers in Switzerland, were sold during the financial year to real estate companies and rented back on a long-term basis. Furthermore, a specialist retail center in Nuremberg and further development properties were also sold during the financial year. These transactions generated overall disposal profits amounting to € 29.1m (2004/2005: € 11.8m).

Earnings contributions by subsidiary

Earnings at the HORNBACH-Baumarkt-AG subgroup for the twelve months under report failed to match the high level reported for the previous year. At € 70.2m, operating earnings (EBIT) were 22.9% lower than in the previous year (€ 91.0m).

The earnings performance of the HORNBACH Baustoff Union GmbH subgroup showed a considerable improvement on the previous year. The gross margin showed a disproportionate increase compared with sales growth. The successful implementation of savings measures resulted in store and administration expenses being lower than in the previous year. At minus € 5.2m, operating earnings (EBIT) were significantly higher than in the previous year (minus € 14.8m). This figure includes extraordinary goodwill amortization and depreciation of land totaling € 2.5m. The operating earnings of this subsidiary in the previous year had been negatively affected by a significantly higher level of extraordinary amortization of goodwill and depreciation of land totaling € 5.3m.

The HORNBACH Immobilien AG subgroup reported operating earnings (EBIT) of € 33.3m for the 2005/2006 financial year, compared with € 28.3m in the previous year. The earnings before taxes include profits on disposal (net) generated by the sale of real estate, which showed a significant increase from € 1.6m to € 12.6m. The earnings of the HORNBACH Immobilien AG subgroup were negatively affected by extraordinary depreciation of real estate, in most cases not used for operating purposes, totaling € 7.1m (2004/2005: € 1.9m).

Earnings contributions by region

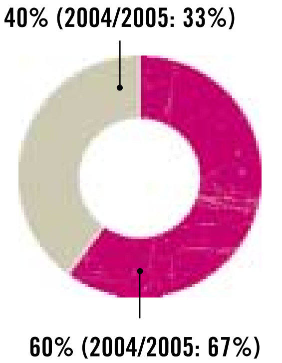
The segmental reporting reveals a further increase in the significance of the international activities for the performance of the overall Group in the 2005/2006 financial year.

The EBITDA in **Germany** amounted to € 107.5m (2004/2005: € 121.4m). This is equivalent to a 60% share of the EBITDA (2004/2005: 67%). The EBIT contribution from Germany dropped from € 58.9m to € 42.6m. The domestic share of operating earnings thus declined from 59% to 46%.

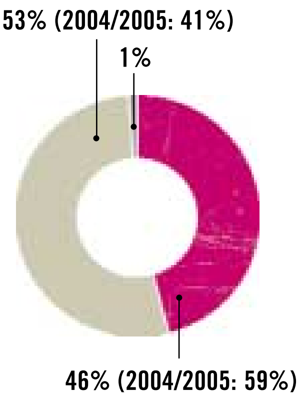
The international activities generated significantly higher earnings contributions in comparison with the previous year. At € 71.8m (2004/2005: € 60.5m), the EBITDA of **the international business** made up around 40% (2004/2005: 33%) of the EBITDA of the HORNBACH Group. The operating earnings (EBIT) of the international business rose from € 40.9m to € 48.4m, leading the international share to increase from 41% to 53%.

If these figures are compared with the respective share of sales (2005/2006: 33%), the significance of other European countries for the Group's earnings performance becomes apparent. At the same time, this also reflects the success of the Group's international expansion strategy. HORNBACH has succeeded in rolling out its large-scale retail format, which moulds the competition, as an "export hit" in a wide variety of country markets and has gradually acquired market share.

EBITDA 2005/2006



EBIT 2005/2006



Germany | International | Consolidation

Although the competitive climate was similarly difficult to that in Germany, our HORNBACH DIY megastores with garden centers in **Austria** succeeded in raising their like-for-like sales in the 2005/2006 financial year and in making a satisfactory contribution to the Group's earnings. No new stores were opened during the 2005/2006 financial year. At the reporting date, the network of locations in Austria comprised 11 stores with sales areas totaling 131,000 m².

The HORNBACH DIY megastores with garden centers in the **Netherlands** reported a highly pleasing earnings performance. This development was mainly attributable to like-for-like sales growth, as well as to an improvement in cost ratios. There were also no new store openings in the country during the 2005/2006 financial year. At the reporting date, the HORNBACH store network in the Netherlands consisted of eight megastores with sales areas totaling around 82,400 m².

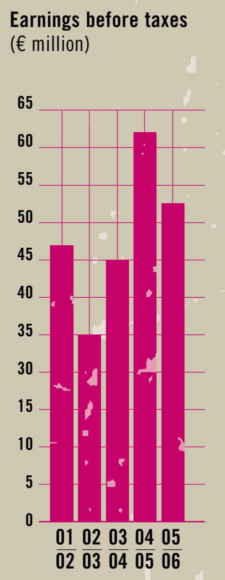
The HORNBACH DIY megastore with a garden center opened in **Luxembourg** in 1998 maintained its successful performance during the year under report, with further growth in sales and earnings.

The HORNBACH stores in the **Czech Republic** can also look back on a pleasing year. We opened the fifth outlet in this high-growth eastern European market at Hradec Kralové in October 2005. Sales and earnings were in excess of the previous year's figures in spite of the pre-opening expenses. The extension of our store network to 62,500 m² enabled us to further expand our market position during the 2005/2006 financial year.

The popularity of the unmistakable HORNBACH concept is reflected in the pleasing sales and earnings performance witnessed in **Switzerland**. It should be noted in this respect that the severe floods in central Switzerland in August 2005 resulted in the flooding of the store in Littau and to its subsequent closure for four weeks as a result of the clearing up and renovation work. HORNBACH operates at three locations in Switzerland, with sales areas totaling 35,100 m².

The increase in sales in **Sweden** during the 2005/2006 financial year was primarily due to the company's expansion. The earnings performance, however, was still negatively impacted by the opening of the new store in Malmö. We currently operate two locations in Sweden with total sales areas of around 29,000 m².

The opening of a large DIY megastore and garden center with a drive-in builders' merchant facility in Košice marked the opening of the second HORNBACH location in **Slovakia**. Total sales areas now amount to almost 32,000 m². The sales and earnings performance reflect a high level of acceptance by the consumers in this new EU member state.



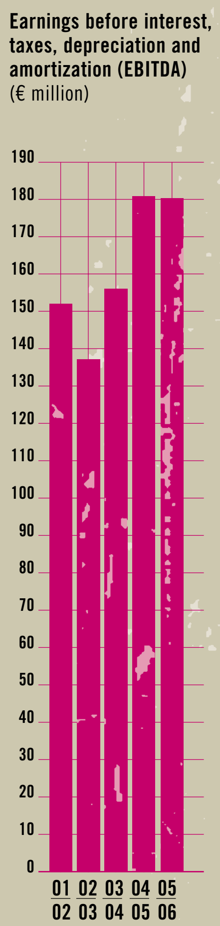
Earnings at the HORNBACH HOLDING AG Group

At € 180.1m, the earnings before interest, taxes, depreciation and amortization (EBITDA) of the HORNBACH HOLDING AG Group were almost at the same level as in the previous year (€ 181.1m). The EBITDA margin (as a percentage of net sales) therefore declined in the 2005/2006 financial year from 8.1% to 7.6%. Operating earnings (EBIT) declined by 7.2% to € 91.8m (2004/2005: € 99.0m). The EBIT margin amounted to 3.9% (2004/2005: 4.5%). Mainly as a result of the interest expenses relating to the corporate bond issued by HORNBACH-Baumarkt-AG, net financial expenses showed a slight deterioration from minus € 37.3m to minus € 39.3m.

Consolidated earnings before taxes fell from € 61.7m to € 52.5m. The pre-tax return on sales declined from 2.8% to 2.2%. Consolidated net income amounted to € 32.0m, compared with € 36.9m in the previous year (minus 13.1%). The return on sales after taxes dropped from 1.7% to 1.4%. Earnings per share calculated in accordance with IFRS declined from € 3.44 to € 3.34 per ordinary share and from € 3.50 to € 3.40 per preference share.

Proposed dividend

In spite of the lower level of earnings compared with the previous year, the Board of Management and Supervisory Board of HORNBACH HOLDING AG will, as in the previous year, be proposing the payment of a dividend of € 1.14 per preference share and of € 1.08 per ordinary share for approval by the Annual General Meeting on July 14, 2006. This is in keeping with the longstanding continuity of our dividend policy. The dividend has remained stable since the 1994/1995 financial year.



Financial Situation

Principles and objectives of the Group's financial management

Financing measures are undertaken by the central Group Treasury department at HORNBACH-Baumarkt-AG. Such measures also include granting assistance in the form of guarantees and letters of comfort to subsidiaries within the HORNBACH-Baumarkt-AG subgroup. Statements of obligation relating to companies outside the HORNBACH-Baumarkt-AG Group are provided either by HORNBACH HOLDING AG or by HORNBACH Immobilien AG. The central organization of financial management activities enables the HORNBACH Group to maintain a uniform presence on the financial market and to provide centralized liquidity management for the overall Group.

The information required for efficient liquidity management is provided by rolling group financial planning encompassing all relevant companies, which is updated on a monthly basis and has a budgeting horizon of 12 months. This tool also provides short-term financial forecasting which is updated on a daily basis.

On the basis of 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. Furthermore, DIY store properties are sold to investors upon completion, with their subsequent utilization being secured by rental agreements (sale and lease back). Efforts are made in this respect to meet the criteria set out in IAS 17 concerning classification as "Operating Leases".

Financial debt

At the balance sheet reporting date on 2.28.2006, the net financial liabilities of the Group amounted to € 665.9m (2004/2005: € 679.0m) and were structured as follows:

Type of financing	Liabilities broken down into remaining terms							
€ million	< 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	2.28.2006 Total	2.28.2005 Total
Short-term bank liabilities [1]	46.4						**46.4**	**38.2**
Mortgage loans	120.0	57.7	52.3	42.6	37.7	201.9	**511.9**	**533.9**
Other loans [2]	15.2	3.1	1.5	0.0	0.0	0.0	**19.8**	**19.4**
Bonds [3]		0.2				240.6	**240.8**	**239.6**
Bills of exchange	0.6						**0.6**	**0.6**
Obligations relating to derivatives	4.8						**4.8**	**5.4**
Financial leasing	0.6	0.1	0.2	0.2	0.2	1.7	**3.0**	**3.7**
Total financial liabilities	**187.6**	**61.1**	**54.0**	**42.8**	**37.5**	**444.3**	**827.3**	**840.8**
Cash and cash equivalents							**161.4**	**161.8**
Net financial liabilities							**665.9**	**679.0**

(Rounded up to nearest € million)

[1] financing facilities with a nominal term of under one year (overdraft and short-term interim financing facilities) and interest provisions
[2] loans not secured by mortgages with a nominal term of longer than one year
[3] the costs of € 10.9m relating to the corporate bond of € 250m have been proportionately spread over a term of 10 years.

Permanent improvement to capital resources

The inflow of funds from the bond amounting to € 250m issued by HORNBACH-Baumarkt-AG in November 2004 with a term of ten years and an interest coupon of 6.125% has been used to repay the short-term financing facilities of the HORNBACH-Baumarkt-AG subgroup in full and to provide additional liquidity for the further growth of the company.

As a result, the HORNBACH-Baumarkt-AG subgroup had no short-term financing facilities at the reporting date on 2.28.2006. The short-term financial debt (up to 1 year) amounting to € 187.6m consists of short-term financing facilities at the HORNBACH Immobilien AG and Hornbach Baustoff Union GmbH subgroups (€ 36.6m), interest provisions (€ 9.8m), liabilities relating to bills of exchange (€ 0.6m), liabilities in connection with derivative financial instruments (€ 4.8m) and the short-term portion of long-term financing facilities (€ 135.8m).

At the end of the 2005/2006 financial year, the long-term assets amounting to € 991.4m (2004/2005: € 1,075.6m) were countered by long-term liabilities amounting to € 741.2m (2004/2005: € 830.1m).

The financing of the Group has been further positively affected by structural changes in the committed credit lines. Credit lines with terms of several years (committed credit lines) have been agreed to replace credit lines terminable at any time (agreed until further notice). At the reporting date on 2.28.2006, the Group had free credit lines of € 324.4m at customary market conditions.

In order to provide the maximum possible degree of flexibility, all major group companies have credit lines denominated in their local currency, in most cases from local banks.

Whenever possible, the long-term mortgage loans are agreed with fixed interest rates up to the end of their respective terms. In those cases where it is not possible to agree long-term fixed interest rates, corresponding interest swaps are concluded for the variable loans. The interest swaps enable the floating interest rates of the loans to be exchanged for fixed interest rates. In line with internal risk principles, derivative financial instruments are used solely for hedging purposes. The nominal values and the valuation of existing derivative financial instruments have been depicted in the notes to the financial statements (Notes on the Consolidated Balance Sheet, (35) Financial Instruments).

As of the balance sheet reporting date, land charges amounting to € 653.2m had been provided as security for existing mortgage loans (2004/2005: € 670.6m). No assets had been provided as security for the credit lines or bond. The bond and the credit lines are dependent on compliance with customary bank covenants. These regularly involve pari passu clauses and negative pledge declarations for the bond and the committed credit lines, as well as compliance with certain financial ratios, such as interest cover. The interest cover, dynamic debt/equity ratio, equity ratio and company liquidity (cash and cash equivalents, plus unutilized committed credit lines) are monitored on a monthly basis within the framework of the internal risk management. Further key figures are calculated on a quarterly basis. In the event of the values falling short of certain target levels, then countermeasures are initiated at an early stage.

Key Financial Figures of the HORNBACH HOLDING AG Group

Key Figure	Definition	2.28.2006	2.28.2005
Net financial liabilities	Short-term financial liabilities + long-term financial liabilities - cash and cash equivalents	€ 665.9m	€ 679.0m
Interest cover	EBITDA / Net financial expenses	4.58	4.86
Dynamic debt/equity ratio	Net financial liabilities / EBITDA	3.70	3.75

High priority is accorded to the maintenance of an extensive liquidity cushion in the form of cash and cash equivalents and unutilized credit lines. Financial funds amounted to € 161.4m as of the balance sheet reporting date (2004/2005: € 161.8m).

Investments totaling € 208m

The HORNBACH HOLDING AG Group invested a total of € 202.3m during the 2005/2006 financial year (2004/2005: € 131.0m), primarily in land, buildings, and plant and office equipment for existing and new DIY megastores with garden centers. The funds of € 208.3m for the cash-effective investments (2004/2005: € 135.0m) were acquired from the cash flow from operating activities (€ 37.8m), from the taking up of real estate loans (€ 23.6m), and from one part of the sale of real estate (chiefly sale and lease back) which totaled € 193.4m.

Of the investment total, around 67% related to new real estate, including prepayments made and assets under construction. Around 33% of the investment total involved the replacement and extension of plant and office equipment, as well as intangible assets (primarily IT software).

The most significant investment projects related to the DIY megastores with garden centers opened during the 2005/2006 financial year in Munich-Fröttmaning, Kiel, Hradec Kralové (Czech Republic), Frankfurt-Niedereschbach, Berlin-Neukölln, Malmö (Sweden) and Košice (Slovakia), the repurchase of the DIY megastore with a garden center in Braunschweig, and the acquisition of land for the further expansion of the company. Investments totaling around € 9m were channeled into the construction of the third logistics center of the HORNBACH Group, which commenced operations as a central warehouse and central cross docking point at Vilshofen near Passau in October 2005.

The stores in Remseck, Berlin-Neukölln, Malmö (Sweden), Bratislava (Slovakia), Kiel, Košice (Slovakia), Munich-Fröttmaning and Berlin-Vogelsdorf* were sold during the reporting period to real estate companies and rented back on a long-term basis (sale and lease back). As in the past, the sale and lease back transactions served to release funds to finance the company's further growth. The utilization rights have been secured on a long-term basis. Rental extension and purchase options have also been agreed in most cases.

Considerable funds (€ 5.6m, compared with € 13.6m in 2004/2005) were invested in hardware upgrades, software licenses and the SAP implementation. The former central merchandising system was replaced by SAP at the beginning of the 2005/2006 financial year. Following the conversion of the central merchandising system, 46 stores and the logistics centers were converted to SAP Retail during the 2005/2006 financial year. The conversion is scheduled to be completed by the end of the 2007/2008 financial year.

Cash flow statement

Cash flow statement (abridged) **€ million**	**2005/2006**	**2004/2005**	**Change**
Cash flow from operating activities	37.8	142.5	-71.1%
of which funds from operations [1]	98.6	120.3	-18.0%
of which change in working capital [2]	-60.8	22.2	-373.9%
Cash flow from investment activities	-14.9	-107.4	86.1%
Cash flow from financing activities	-23.6	57.1	-141.3%
Cash-effective change in cash and cash equivalents	-0.7	92.1	-100.8%

[1] Consolidated earnings after taxes, plus depreciation and amortization of long-term assets, plus changes in provisions, minus profits on disposals of long-term assets, plus/minus other income/expenses with no cash effect

[2] Difference between "Change in inventories, accounts receivable and other assets" and "Change in accounts payable and other liabilities"

The cash flow from operating activities dropped in the 2005/2006 financial year from € 142.5m to € 37.8m. In addition to the decline in consolidated net income, this development was primarily attributable to inventories, which rose by € 68.6m. This increase on the one hand reflects the further expansion of the HORNBACH-Baumarkt-AG Group. A total of eight new DIY megastores with garden centers and a further logistics center commenced operations in the 2005/2006 financial year. On the other hand, the improvement in the presentation and stocking of merchandise led to an increase in inventories as of the balance sheet reporting date.

It was possible to reduce the outflow of funds for investment activities from € 107.4m to € 14.9m. In this respect, investments, which rose by € 73.3m to € 208.3m, were countered by a higher level of proceeds from the disposal of long-term assets, which amounted to € 193.4m (2004/2005: € 27.5m).

Mainly as a result of the repayment of existing financial debt, the outflow of funds for financing activities amounted to € 23.6m in the 2005/2006 financial year, compared with an inflow of funds amounting to € 57.1m from financing activities in the previous year. Financial debt was reduced from € 840.8m to € 827.3m.

* Sale as of 2.28.2006, inflow of funds during the 2006/2007 financial year

The decline in cash and cash equivalents and simultaneous decline in financial debt is the result of the strategy that the further growth of the company should wherever possible be financed with its available liquidity, rather than by drawing on short-term credit lines.

Rating

Since 2004, the creditworthiness of the HORNBACH-Baumarkt-AG Group has been assessed by the leading international rating agencies Moody's Investors Service and Standard & Poor's as follows:

Moody's: Ba2
Standard & Poor's: BB

Both ratings include stable outlooks and were confirmed without any changes in January (Standard & Poor's) and February (Moody's) 2006.

Asset Situation

Equity ratio rises to 31.1%

Balance Sheet of the HORNBACH HOLDING AG Group (Abridged Version)

€ million	2.28.2006	2.28.2005	Change
Long-term assets	991.4	1,075.6	-7.8%
Short-term assets	802.3	685.9	17.0%
Total assets	**1,793.7**	**1,761.5**	**1.8%**
Shareholders' equity	558.6	536.0	4.2%
Long-term liabilities	741.2	830.1	-10.7%
Short-term liabilities	493.9	395.4	24.9%
Equity and liabilities	**1,793.7**	**1,761.5**	**1.8%**

Total assets rose by € 32.2m, or by 1.8%, compared with the previous year to € 1,793.7m. The rise in total assets reflects the further expansion of the HORNBACH-Baumarkt-AG Group, which is mainly apparent in the rise in inventories.

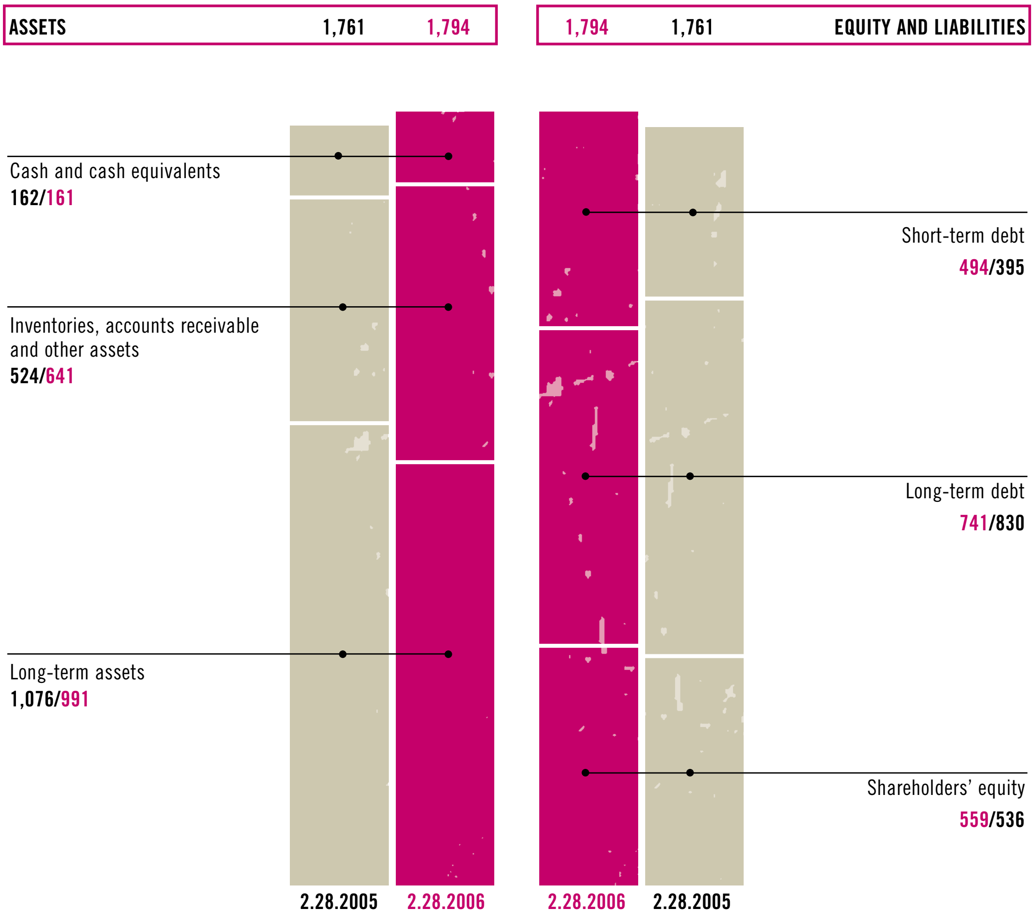
The equity of the Group as stated in the balance sheet amounted to € 558.6m at the end of the financial year (2004/2005: € 536.0m). At 31.1%, the equity ratio has thus increased on the previous year's figure (30.4%).

Long-term and short-term assets

Long-term assets amounted to € 991.4m at the balance sheet reporting date (2004/2005: € 1,075.6m) and thus made up around 55% of total assets (2004/2005: 61%). Property, plant and equipment, as well as real estate let to third parties and reserve land, declined by € 87.3m (8.6%) from € 1,018.2m to € 930.9m. In this respect, the additions to assets of € 193.6m were countered by depreciation amounting to € 82.1m. The disposals of assets amounting to € 183.7m primarily related to the eight DIY store properties and two builders' merchants centers disposed of within the framework of sale and lease back transactions during the financial year. Furthermore, one specialist retail center and a further development property were disposed of during the 2005/2006 financial year. Moreover, the initial application of IFRS 5 during the 2005/2006 financial year resulted in properties of € 17.5m earmarked for disposal being reported for the first time separately under short-term assets. These properties had been reported under property, plant and equipment in the previous year.

Short-term assets rose by 17.0% from € 686.0m to € 802.3m and thus made up around 45% of total assets (2004/2005: 39%). This increase is principally due to the increase in inventories and other assets. Inventories rose by 15.5% (€ 68.7m) from € 443.5m to € 512.2m. In addition to the increase relating to the company's expansion as a result of the opening of eight new DIY megastores with garden centers and the commencement of operations at a further logistics center, the increase in inventories as of the balance sheet reporting date was mainly attributable to the increased share of imports and to the targeted improvement of merchandise availability and presence for the forthcoming spring season. Accounts receivable and other assets (including receivables in connection with taxes on income) rose by € 30.6m from € 80.6m to € 111.2m. This was chiefly due to increased tax receivables (€ 6.3m), to receivables in connection with insurance payments for the flood damage at our store in Littau (Switzerland) (€ 4.6m) and to receivables relating to the disposal of real estate (€ 16.5m). Moreover, the property earmarked for sale referred to above, which amounted to € 17.5m, was reported for the first time under short-term assets.

Structure of Consolidated Balance Sheet of HORNBACH HOLDING AG
in € million



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

Long-term and short-term liabilities

Liabilities, including provisions, amounted to € 1,235.1m at the balance sheet reporting date on February 28, 2006, compared with € 1,225.6m in the previous year. Long-term liabilities fell from € 830.1m to € 741.2m. The reduction of € 88.9m in long-term liabilities is mainly due to the reclassification of loans due for payment in the coming financial year as short-term liabilities. Long-term liabilities include deferred tax liabilities amounting to € 90.8m (2004/2005: € 87.3m). The change in the maturity structure of the loans is also apparent in the short-term liabilities, which rose by € 98.4m from € 395.5m to € 493.9m. Short-term financial debt increased in the course of the reclassification referred to above by € 81.9m to € 187.6m as of February 28, 2006.

Accounts payable and other liabilities rose, in part as a result of the increased stocking of inventories, by a total of € 15.3m to € 241.1m as of the balance sheet reporting date (2004/2005: € 225.8m).

The net debt of the HORNBACH HOLDING AG Group, i.e. financial debt less cash and cash equivalents, amounted to € 665.9m at the balance sheet reporting date (2004/2005: € 679.0m).

Key Balance Sheet Figures of the HORNBACH HOLDING AG Group

Key Figure	Definition	2.28.2006	2.28.2005
Equity ratio	Equity / Total assets	31.1%	30.4%
Return on equity	Annual net income before minority interests / Average equity	5.9%	7.1%
Return on total capital	NOPAT [1] / Average total capital [2]	4.7%	5.1%
Debt/equity ratio (gearing)	Net debt / Equity	119.2%	126.7%
Additions to long-term assets, including advance payments for land		€ 202.3m	€ 131.0m
Net working capital	Short-term assets less cash and cash equivalents less accounts payable	€ 457.1m	€ 354.5m
Inventory turnover rate	Sales input / Average inventories	3.2	3.2

[1] "Net operating profit after tax". Defined as EBIT minus standardized tax rate of 38% for HORNBACH Group.
[2] Average total capital defined as average equity plus average net debt.

Financing instruments not reported in balance sheet and rental obligations

In addition to the DIY megastores with garden centers owned by the HORNBACH HOLDING AG Group and the DIY megastores with garden centers used on the basis of financial leasing agreements, there are 50 DIY megastores with garden centers which are let from third parties. Moreover, there is also a small number of additional leasehold, leasing and rental agreements for pieces of land.

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 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 2.28.2006, the obligations under rental, hiring, leasehold and leasing contracts amounted to € 914.1m (2004/2005: € 748.5m). The increase chiefly relates to the rental agreements newly concluded with third parties for ten DIY megastores with garden centers and for three builders' merchants centers.

Overall assessment of the earnings, financial and net asset situation

The HORNBACH HOLDING AG Group successfully maintained its ground in very difficult circumstances during the 2005/2006 financial year and strengthened its market position. As a result of the intense price competition in Germany and the extreme weather conditions in some cases in parts of Europe, it was, as expected, not possible to achieve the high level of earnings reported for the previous year. The HORNBACH-Baumarkt-AG subgroup nevertheless succeeded in achieving above-average sales growth compared with the overall sector and thus in further expanding its market position. Pleasing developments were reported by our international DIY store activities, which further expanded their share of sales and earnings. The expansion outside Germany has thus broadened the foundation for further growth and made the performance of the overall Group more independent of the intensely competitive situation in Germany. The restructuring of the HORNBACH Baustoff Union GmbH subgroup has shown initial success, with a considerable reduction in losses. The equity ratio increased to 31.1%. The capital structure has improved. In view of the broad spectrum of financing sources, we have a high degree of security and flexibility for financing our further growth. Overall, the economic situation of the Group is satisfactory.

Non-Financial Performance Indicators

HORNBACH Group creates 429 new jobs

The growth of the Group is also reflected in the number of its employees. At the reporting date on February 28, 2006, there were 12,014 individuals (2004/2005: 11,585) in active fixed employment at HORNBACH HOLDING AG or one of its subsidiaries. This represents an increase of 429, or 3.7%, on the end of the previous financial year in February 2005. The number of employees in Germany rose from 7,854 to 8,174 (plus 320). Our company has thus once again lived up to its reputation as a job machine. The number of employees in other countries rose from 3,731 to 3,840. As an annual average and converted into full-time equivalents, the overall HORNBACH HOLDING AG Group had 10,595 employees (2004/2005: 9,979).

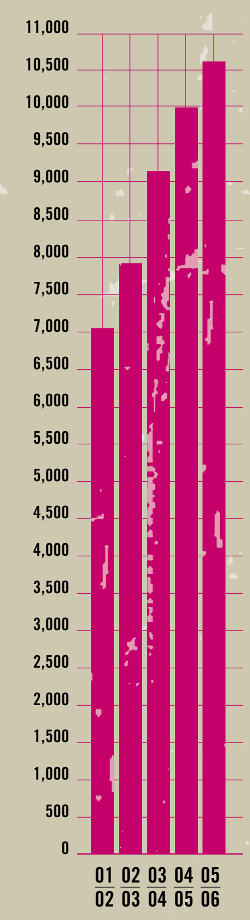
During the year under report an average of 672 young people (2004/2005: 634) were provided with a training position in one of 13 different fields. The largest share of these were the 361 trainees aiming to qualify as retail sales personnel (2004/2005: 339).

Moreover, the store and administration employees also took part in numerous training measures. Almost 200 men and women took part in the management training program preparing them for promotion to section managers, assistant store managers or store managers. Around 6,600 employees in Germany and abroad had the opportunity of enhancing their expertise at more than 900 training sessions organized by the Training/Multimedia division. The SAP launch alone was accompanied by 750 training sessions.

Further enhancement of the HORNBACH format

HORNBACH has longstanding experience built up over several decades in the operation of large-scale DIY stores with garden centers. This is also reflected in the average store size, which has most recently risen to around 10,600 m^2. We are the market leaders in the DIY megastore segment in Europe. At the same time, our store network is also one of the most homogenous in Europe. More than 80% of sales areas at the reporting date relate to stores which are larger than 10,000 m^2.

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



During the 2005/2006 financial year, we further refined the megastore concept both for existing stores and for the stores planned to be newly opened. Seven of the eight DIY megastores with garden centers opened during the financial year included a combined drive-in builders' merchant facility. Since the launch of this new store format in Gothenburg (Sweden) in October 2003, the number of these flagship stores, which have an average size of 15,000 m^2, has increased to twelve (2004/2005: five). The drive-in concept is intended to enable customers to load cumbersome and heavy goods, such as construction materials, conveniently and directly into their vehicles, to combine this with purchases in the DIY store, and to pay for all of these goods at one checkout. HORNBACH has thus underlined its traditional expertise in the construction-related goods segment. Moreover, the variety of the products and services offered by the company has enabled increasing numbers of professional customers to be acquired.

However, the development of the company during the year under report did not solely focus on the rollout of this new store format, but also ensured that older stores were gradually brought in line with the latest standards. When transferring proven concepts to existing sales areas (best practice approach), we benefit from the homogeneity of our national and international network.

Customer satisfaction: top marks for HORNBACH

The guiding principle behind the ongoing enhancement of the HORNBACH concept is the 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 merchandise, the highest levels of competence in the composition of the product ranges and in the specialist advice provided and not least a reliable price strategy. A whole series of consumer surveys and sector studies have shown that HORNBACH further sharpened its profile as the preferred DIY store for project-oriented customers in the past year. The response shown by consumers has been very pleasing.

According to the "Kundenmonitor Deutschland 2005" survey undertaken by the Munich-based company Servicebarometer AG, there is no other large DIY store chain with which German DIY customers are as satisfied as they are with HORNBACH. With a customer satisfaction index of 2.35, HORNBACH for the first time achieved top position among all large providers. In particular, HORNBACH clearly outperformed the competition in the categories of value for money, specialist advice, product quality and product range variety.

Further surveys undertaken in Germany and other countries in 2005/2006 underlined the high acceptance levels enjoyed by the HORNBACH DIY megastores with garden centers. In an online survey undertaken by the Cologne-based company ServiceRating GmbH among nearly 1300 DIY customers at the end of 2005, for example, the company was the clear winner in terms of customer satisfaction. In the summer of 2005, HORNBACH won an extensive DIY test, particularly as a result of the high quality of advice provided. This involved TV teams from the German broadcaster ARD testing the five largest DIY competitors over a period of several weeks. HORNBACH has also distinguished itself in other countries. In a survey undertaken by the Company for Consumer Research (GfK) among 4,000 consumers in the Netherlands, HORNBACH was named as the best DIY store. When comparing prices at the five leading DIY operators, the Swiss consumer magazine K-TIPP found that “HORNBACH is by far the least expensive” (K-TIPP SPEZIAL “Haus & Garten” 1/2006).

HORNBACH differentiates itself from its competitors by means of its permanently low prices.

The pressure on prices remained equally high in the past financial year. In this competitive climate, we were uncompromising in our adherence to our permanent low price strategy, which enabled us to differentiate ourselves from the discount campaigns undertaken by competitors. This pricing policy was also supported by independent studies (Mercer Management Consulting; Institut für Handelsforschung). These found that customer satisfaction was primarily dependent on the pricing structure, but that satisfaction levels were determined by normal prices rather than campaign prices. Consumers viewed retail stores with permanently low prices as being less expensive overall than stores which advertised with special offers. According to Mercer, HORNBACH’s permanent low price strategy has enabled it to establish a solid foundation for achieving sustainable, above-average growth and higher long-term earnings power.

It is not possible in all cases to ensure that customers are satisfied with their experience of shopping at HORNBACH. These cases are handled by our complaints management system. This provides us with important indications as to the strengths and weaknesses of operations at our stores and thus acts as a management instrument for optimizing customer satisfaction levels. Each problem is solved in cooperation with the HORNBACH stores in a maximum of one to two days. In the case of product complaints, the procurement department and the supplier are also informed. Complaints are evaluated on a monthly basis. A total of 919 cases were processed in the 2005/2006 financial year, which was around 7% lower than in the previous year. The success of this measure is also reflected in the number of cases where positive feedback was received following such handling, which rose by 13%.

Third logistics center commences operations

A sophisticated merchandise management system in conjunction with a homogeneous store network represents one key factor in the successful operation of DIY megastores across Europe. HORNBACH has created a competitive advantage for itself in the form of its logistics concept, which has achieved recognition in the international retail sector. Its logistics combines direct supplies to stores, indirect deliveries via central warehouses and cross docking. Considerable funds have been invested in the development of the logistics centers in recent years.

The most recent milestone involved the strategic extension of group logistics during the 2005/2006 financial year. HORNBACH-Baumarkt-AG commenced operations at the third logistics center of the HORNBACH Group in Vilshofen near Passau in Lower Bavaria in October 2005, following a construction period of only seven months. As at the other two centers, this location is used on the one hand to store imported goods and seasonal articles. On the other hand, we also supply the HORNBACH outlets in south-eastern Germany and in Austria, the Czech Republic and Slovakia from this new cross docking point.

HORNBACH's logistics centers also enable the company to make a sustainable contribution towards protecting the environment. The pooling of supplier deliveries enables thousands of truck journeys to be avoided. Moreover, the railroads are used for transportation. The imported goods are transported from Hamburg to Regensburg by around 2,000 container trains per year. Only when it has reached Regensburg is the merchandise transferred by road to the logistics center near Passau.

New era in information technology

From an information technology perspective, the 2005/2006 financial year was characterized by the heading of "Integration with SAP". Following the successful conversion of the Group's finance and accounting activities to SAP in the previous year, the main focus in the past year was on replacing the former merchandising system with SAP. The system went live on March 1, 2005, initially only for central applications at the company's head office.

A total of 46 HORNBACH DIY megastores with garden centers were connected to the new SAP merchandising system in the course of the 2005/2006 financial year. In order to enhance functionality and user-friendliness levels, the experience gained to date is being assessed, with optimization measures being implemented in the central store applications. This process is expected to last until the fourth quarter of 2006/2007. The rollout is subsequently to be continued to all HORNBACH stores. The SAP HR (Human Resources) system was successfully launched at the end of the 2005/2006 financial year. The harmonization of the heterogeneous previous IT system solutions has led to a considerable improvement in administration processes.

Advertising generates high awareness levels

HORNBACH continued to set advertising standards with its TV and print campaigns in the past financial year. TV spots such as "You will grow with each project" and the "Lifeblood (every project contains a part of you!)" spot, with its distinctly courageous visual opulence, contributed to the establishment of HORNBACH in customers' minds as the DIY store and garden center for passionate project customers. The TV spots, which received numerous advertising prizes once again in 2005, increased awareness levels over and above our previous areas of circulation. In order to raise women's interest in home improvement, we launched the "Women at Work" print campaign in the media in the summer of 2005.

In addition to the image campaigns, the company's strategic focus on project customers was supported by advertising brochures published every month. Each monthly edition included a focus project, such as "building a garden pond", "insulating a façade" or "roof extension". As well as product and price information, these sections also provided home improvement enthusiasts with step-by-step instructions and planning assistance for the selection and volume of materials required. The advertising brochures were also published together with a large quantity of additional information at the company's homepage (www.hornbach.com).

According to the advertising monitoring undertaken by the Ernest Dichter Institut in Frankfurt am Main, HORNBACH enjoyed the highest advertising acceptance levels in 2005, as in the previous year, and was clearly ahead of the company's top three German competitors (OBI, Praktiker, Bauhaus). In the catchment areas of its DIY megastores with garden centers, HORNBACH's brand profile placed it ahead of its competitors in virtually all criteria. HORNBACH enjoyed a clear lead, especially in the areas of product range, value for money and the question as to which provider was the right partner for home improvement projects of all kinds.

Other events during the year under report

A basic agreement with a real estate company concerning sale and lease back transactions was notarized at the end of February 2006. The agreement provides for the sale and long-term lease back of a total of seven HORNBACH DIY megastores with garden centers (four of which are in Germany) in the 2006/2007 and 2007/2008 financial years. The Berlin-Vogelsdorf location and the specialist retail center in Nuremberg were already sold to this company in the 2005/2006 financial year.

Events subsequent to the reporting date

The DIY megastore with a garden center Marquardt near Potsdam was sold and leased back on a long-tem basis within the framework of a sale and lease back transaction in March 2006 already on the basis of a land purchase agreement concluded with a real estate company and notarized at the end of February 2006. This disposal generated a profit of € 5.6m.

There have been no further events between the conclusion of the 2005/2006 financial year and the printing of this annual report which are of significance for the assessment of the net asset, financial or earnings position of HORNBACH HOLDING AG or of the HORNBACH HOLDING AG Group.

Dependent company report

Pursuant to Section 312 of the German Stock Corporation Act (AktG), a report has been compiled on the relationships to affiliated companies for the 2005/2006 financial year. In respect of those transactions requiring report, the report states: "Our company has received adequate counterperformance for all legal transactions executed with affiliated companies in accordance with the circumstances known to us at the time at which the legal transactions were executed, and has not been disadvantaged by such transactions."

Risk Report

Risk management at the HORNBACH Group

The Board of Management of HORNBACH HOLDING AG is committed to risk-conscious corporate management which at all times accords top priority to safeguarding the continued existence of the overall company and its subsidiaries. The risk management implemented by the Board of Management is intended to achieve ongoing enhancements in the early identification of risks in the interests of proactive risk management, as well as achieving a continuous optimization in the company's opportunity/risk profile.

Risk principles

The generation of economic profit necessarily involves the taking of risks. Nonetheless, no action or decision may entail any threat to the continued existence of the company or of 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 supportive processes. Core processes constitute the development and implementation of the respective business models, the procurement of merchandise and services, location decisions, the safeguarding of liquidity and the development of specialist and management personnel. Any earnings risks entered into have to be justified by an appropriate level of expected return. The relevant key figures in this respect are based on the return on the capital committed. Risks which cannot be avoided have to be insured against, to the extent that this is economically expedient. Residual risks have to be controlled by means of a range of risk management instruments.

Organization and process

Responsibility for risk management lies with the overall Board of Management, which is supported by the Director of Risk Management.

The risk managers at the Group's operations in Germany and other countries are responsible for managing the risks in their area of responsibility by means of suitable measures. The risk managers are supported by a risk controller in the identification and evaluation of risks and in the determination of appropriate measures to manage such risks.

Risks are evaluated in terms of their implications and their probability of occurrence. In cases where they cannot be quantified, they are assessed in terms of their qualitative implications.

The risks are updated on a regular basis and reported to the Board of Management. The Supervisory Board and the Audit Committee discuss the current risk situation on a half-yearly basis.
In addition to this scheduled reporting, ad-hoc reporting structures are also in place for risks arising unexpectedly and have been implemented in the risk management process.

Financial risks

Financial risks comprise foreign exchange risks, interest rate risks and liquidity risks.

Foreign exchange risks

The increasingly international business activities of the HORNBACH Group result in rising foreign currency requirements both for the handling of international procurement and for the financing of objects of investment in foreign currencies. Any change in the exchange rate between the euro and the procurement currencies (chiefly the US dollar) could have a direct negative impact on earnings. Open foreign currency positions which could have a significant influence on the annual earnings of the Group are largely secured by hedging transactions (forward contracts).

Interest rate risk

In addition to the cash flow from operating activities and sale and lease back transactions, the financing of the further expansion of the Group is secured by means of bilateral bank loans and not least by the issuing by HORNBACH-Baumarkt-AG of a bond amounting to € 250m in the 2004/2005 financial year. Interest rate exchange agreements (interest swaps) and interest limitation agreements (interest caps) have been concluded in order to safeguard the interest rate on existing 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 annual earnings of the Group.

Liquidity risks

The acquisition of land and the flexible procurement of large quantities of merchandise require liquidity to be permanently available. The information required for efficient liquidity management is provided by rolling group financial planning with a twelve-month planning horizon, which is updated on a monthly basis, as well as by a daily financial forecast. At present, no liquidity risks are discernible.

Further detailed information concerning financial risks has been provided in Note 35 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 may become apparent in the form of an unwillingness of customers to make purchases in periods of low economic growth. In general, the markets of relevance to HORNBACH are subject to differing economic developments. A dependency on economic developments in Germany can nevertheless be discerned.

The further expansion into other European countries is intended to achieve an ongoing diversification of risk.

Natural hazards

The climate change observed around the world also directly affects HORNBACH locations in Germany and other European countries. In addition to natural catastrophes, the HORNBACH Group is also exposed to risks resulting from fire or accidents. The principal natural hazards 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 earnings power of the Group. In the interests of minimizing such risks, investments in new locations are therefore made 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 as a result of additional external factors, such as customer behavior and the competitive situation, can nevertheless not be entirely excluded.

Procurement risks

An efficient early warning system has been developed in order to avoid the loss of major suppliers. Moreover, operations commenced at a further central warehouse in Vilshofen/Bavaria in the past financial year in order to reduce the risk of any interruption to the logistics chain and to enhance the efficiency of merchandise supply. In its procurement of merchandise, HORNBACH is subject, among other risks, to that of rising procurement prices for articles involving a high share of crude oil, copper or steel as a result of the volatile prices on the international commodities markets.

Legal risks

Legislative and regulatory risks

As a result of its business activities in various countries, the HORNBACH Group is subject to various national and local legislative frameworks and regulations. Legislative amendments may therefore result in a higher level of compliance costs. In addition to the risks relating to damage claims cited here as a result of infringements of patent or industrial property rights or of damage resulting from environmental or product liability, the future earnings situation of the Group may also be negatively affected in particular by any tightening up of national construction laws or by regulations governing the acquisition of land.

The increase in sales tax by three percentage points planned in Germany for 2007 also harbors risks. On the one hand, this could result in an increase in sales in 2006 as a result of purchases being brought forward. On the other hand, this may also lead to the opposite effect in the subsequent period.

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. At present, HORNBACH is not involved in any current or foreseeable court or arbitration proceedings which could have a significant impact on the economic situation of the Group.

Management and organizational risks

Project risks

Following the successful conversion of the central merchandising system to SAP as of 3.1.2005, a total of 46 HORNBACH DIY megastores with garden centers in Germany and abroad were connected to the new SAP merchandising system in the course of the 2005/2006 financial year. In order to improve the functionality and user-friendliness of the system, the experience gained to date is being evaluated, with the applications at the stores being optimized. This process is expected to last until the fourth quarter of 2006/2007. The rollout is subsequently to be continued to all HORNBACH stores and to be completed by the end of the 2007/2008 financial year.

IT risks

The management of the HORNBACH Group is heavily dependent on high-performance information technology (IT). The ongoing maintenance and optimization of the IT systems is undertaken by highly qualified internal and external experts. Unauthorized data access, as well as the misuse or loss of data, are avoided by the use of appropriate up-to-date virus software, firewalls, adequate access and authorization concepts and by the presence of backup systems. Appropriate emergency plans are in place for unexpected IT system breakdowns.

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 levels is evaluated by employee surveys undertaken on a regular basis. Employee qualification levels are improved on an ongoing basis by means of appropriate training and development measures. In its retention of highly qualified specialist and management personnel, however, HORNBACH is dependent on a variety of external factors, such as the overall developments on the labor markets.

Assessment of the overall risk situation

In respect of the risks outlined in this report and of the current business prospects, no risks have been identified which could threaten the financial stability or economic viability of the company. There were no risks to the continued existence of the HORNBACH HOLDING AG Group in the 2005/2006 financial year. From a current perspective, there are also no discernible risks which could threaten the continued existence of the company in future or which could encroach on its earnings, financial or net asset situation to any notable extent.

Outlook

The European DIY sector continues to provide HORNBACH with attractive future growth opportunities. Significant momentum is provided in this respect by the economic framework in Europe, sector trends, changes in consumer behavior and the enhancement of the corporate strategy.

Macroeconomic opportunities

At the beginning of 2006, the prospects are favorable for a continuation of the dynamic development of the global economy. Global growth rates are expected to be similar to those in the previous year (4.3%), with a possible slight decline only expected in 2007. This favorable forecast also supports the revival of economic growth in the EU. In its 2005 Autumn Survey, the EU Commission expected the European Union to achieve economic growth of 2.1% in 2006 and of 2.4% in 2007. Growth of 1.9% and 2.1% has been forecast for the euro area. On the basis of information published by the Center for European Economic Research (ZEW), the average of the two-year GDP growth forecasts issued by German bank economists and research institutes amounts to 2.0% and 1.7%. Within the European Union, economic growth is expected to be stimulated on an ongoing basis by the sharp rise in investments, rising employment levels and thus by rising private consumption. These developments are supported by the fact that, in view of inflation remaining at a moderate level, the central banks have no grounds for switching to a noticeably more restrictive monetary policy. However, the potential risks resulting from the further development of prices on commodity markets and potential price and demand corrections in Asia and the USA should not be ignored.

The German economy also finds itself on an upward course. There may have been a slight pause in economic growth in the final quarter of 2005, but the ongoing pleasing level of incoming orders for German industry and the improvement now also seen in company-related services sectors give reason to suspect that this merely constituted a temporary sideward movement, rather than any continued interruption of the growth trend. In view of the robust global economy, economic experts expect to see an upturn of between 1.4% and 2.0% in 2006.

Domestic demand began to pick up at the beginning of 2006. The high levels of demand for exports have transferred to investments. The federal government has also introduced measures to stimulate the economy, such as the partial tax deductibility of services provided by tradespersons. The increase in sales tax due to take effect in January 2007 will also encourage consumers to bring forward large-scale purchases and renovation projects. Consumer confidence levels measured by the Company for Consumer Research (GfK) were higher in the spring of 2006 than at any point in the past five years. One important factor in the recovery of private consumption is the stabilization of the labor market. Moreover, wages and salaries are expected to rise more significantly in 2006 than in the previous years, which will increase levels of disposable income. Private consumption can therefore be expected to contribute to the growth of the economy. The substantial rise in retail sales in January could be an indication that private consumption is beginning to pick up after years of stagnation in Germany. According to the Federal Statistics Office, the year-on-year rise in retail sales in January 2006 amounted to 2.2% in nominal terms and to 1.7% in real terms. In view of the rise in incoming orders since mid-2005, the construction industry is also cautiously optimistic for 2006.

One large question mark remains as to domestic demand in 2007. The increase in sales tax by three percentage points will have a negative impact on private consumption and investments, and threatens to drive up inflation. Companies are unlikely to succeed in simply passing on the increase in sales tax to their retail prices in full. Lower profit margins could possibly dampen the propensity to invest. Economic researchers also expect the demand for construction services to be weaker again in 2007 following low growth in the current calendar year. Domestic demand therefore has shaky foundations in Germany. Much will depend on whether the higher level of investment in the course of 2006 will result in the creation of new jobs, thus providing private consumption with a broader foundation.

The growth rates forecast for the economies within the European Union for 2006 and 2007 provide a solid basis for the future development of DIY retail.

Sector-specific opportunities

Sales of DIY and home improvement products in the core market of Germany can be expected to benefit in 2006 from the recovery of private consumption and from the effects of purchases being brought forward on account of the planned increase in sales tax. However, the competition will remain no less intense, thus increasing pressure on prices and costs at DIY store operators. The consolidation of the DIY sector, which remains highly fragmented, will be maintained, although it is still not to be expected that sales area capacities will disappear from the market to any significant extent. Sector experts have forecast a moderate overall increase in sales in Germany, which can be expected to be higher in 2006 than in 2007.

Thanks to our unique large-scale retail format and our structural advantages, which are reflected in particular in the highest level of surface productivity of the top ten operators in Germany, we view the German market as still harboring further growth potential. This is supported by several factors:

The DIY market still has great potential for growth in Germany as well.

- The DIY and home improvement distribution channel covers less than 40% of the estimated DIY market volume in Germany. The majority of DIY products are purchased in specialist retail stores, builders' merchants outlets or in the DIY sections of department stores. By comparison, in the UK and France, the second and third-largest European markets after Germany, more than half of the demand for DIY products is covered by DIY stores. This indicates that there is potential for the DIY stores, if they succeed in gaining market share from competing sales formats by means of appropriate customer focus and concepts. We believe that we are well positioned in this respect with our attractive large-scale concept.

- The issue of excess capacity is not a general problem in the densely occupied German market. On a local and regional level within Germany, there are still promising catchment areas which do not have a high density of DIY stores and garden centers. We aim to step up our expansion in these regions in future.

- Home improvement and the design of consumers' own living environments is becoming ever more popular as a leisure activity. The topic is also being accorded increasing levels of attention on television. Numerous home improvement programs motivate consumers to improve their houses, flats or gardens themselves and also to implement larger-scale renovation projects. HORNBACH has a particular focus on the target group of project customers and thus has above-average growth potential compared with its competitors.

- At just under 45%, Germany has the lowest level of home ownership in Europe. At the same time, according to a survey undertaken by Emnid (2005), for almost 60% of tenants the desire to live in their own home is at the top of their list of priorities, ahead of traveling or buying a new car. This is an indication of catch-up potential which could support the construction sector, as well as leading to higher demand in the DIY sector. However, the construction of private housing in Germany has been negatively affected by the abolition of the owner-occupied housing subsidy as of January 1, 2006.

- The renovation of existing buildings can be expected to be even more significant to medium and long-term demand at DIY stores and garden centers. Almost 80% of all buildings were built more than 25 years ago. These buildings do not meet the latest standards in terms of living space, comfort, facilities, technology and energy efficiency. Given that the value of the property will decline unless renovation measures are undertaken, the need for construction services and products can be expected to increase. The construction industry will be supported by a public sector program introduced on February 1, 2006 to subsidize CO_2 building renovation and the modernization of living space. The modernization market will play a more important role for the DIY store and garden center sector in future than it does at present. With the competence of its range of products and services, HORNBACH has already prepared for this growth market at an early stage.

We continue to see above-average growth opportunities outside Germany. This is due on the one hand to the greater dynamism of economic developments in the foreign countries in which HORNBACH operates. Particularly in the Czech Republic and Slovakia, the increase in income in real terms, the ongoing boom in the housing industry and the enthusiasm for home improvement measures provide the construction industry and DIY stores with garden centers with a promising basis for increasing sales. On the other hand, the intensity of competition and number of competitors in the DIY megastore with garden center segment are considerably lower in many countries than in Germany or Austria. Thanks to their attractive product ranges and price structures, DIY megastores with garden centers in particular have succeeded in recent years in expanding their market share at the expense of small and medium-sized domestic retailers.

The successful business performance in Europe justifies our further international expansion and, by diversifying risks, will make us more independent of the difficult market conditions in Germany.

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 with above-average growth potential in Germany and abroad. Account will also be taken in this respect of the opportunities resulting from the changes in the underlying economic and sector conditions referred to above.

- The corporate strategy focuses on the project concept. 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 promotion of the consolidation process, especially in Germany. Our solid financial resources, our public corporate rating and flexibility in refinancing the business on the capital market will enable us to invest considerable sums in the differentiation of the HORNBACH format in future as well.

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

- We believe that we are excellently positioned in the sector with regard to the increasingly important **market for modernization** and the rise in statutory environmental requirements. The public sector programs subsidizing the energy-saving renovation of old properties harbor considerable sales potential. In the past year we successfully launched complex projects, such as the insulation of facades and the replacement of boilers, as "Project Shows" at the stores. Our competence in terms of specialist advice and the selection of the right products for customers played a key role in this respect. These activities are to be further expanded in future. Moreover, the activities of HORNBACH-

Baumarkt-AG in this area can be supported by the specialist competence on hand at HORNBACH Baustoff Union GmbH concerning professional roofing projects or plastering and dry construction.

- We see the **Buy-it-yourself** or **Do-it-for-me market** segment, which is still in its infancy, as harboring promising growth potential. This segment includes the target group of customers wishing to purchase the solutions for their home improvement projects conveniently, but who then prefer to have the work done by a tradesperson. We have extended our range of tradesperson services, for example, in order to tap this potential.

- Furthermore, we are expanding our range of service, information and advice in order to motivate **new customer groups** for HORNBACH. This range includes 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 supported by the promotion of expertise on the part of store personnel with the aim of achieving a further increase in product expertise and advisory competence, and thus in customer satisfaction levels.

- At the same time, we will be focusing in the next two years on **optimizing our operating processes.** The analysis of store cost structures and identification of savings potential on the basis of best practice approaches will have an ongoing positive impact on our earnings performance.

- Moreover, our **operative cooperation with Kingfisher**, the largest DIY group in Europe, will also make an important contribution to our economic success. This provides HORNBACH with even broader access to global procurement markets, especially in the Far East. HORNBACH's import department has direct access to the resources of Kingfisher's procurement offices around the world. We will further intensify our projects in the field of international procurement and in the development of private label products.

- We will press ahead in future with the **internationalization of group procurement**. Our strategic long-term partnership with suppliers is of key significance in this respect. Both sides benefit from this partnership. It provides suppliers with the possibility of growing outside their previous sales regions with the assistance of HORNBACH's logistics and enables HORNBACH to optimally adjust its project-related product selection to regional requirements in the respective countries and to achieve improved margins as a result of benefits of scale.

Strong position due to cooperation with Kingfisher and long-term partnerships with suppliers.

Outlook

The medium-term company planning (five years) at the HORNBACH-Baumarkt-AG subgroup provides for an average rate of seven new store openings per year. Depending on the progress made in the building permit and construction planning stages, the opening of some stores may be rescheduled within these years. It can be assumed that an average of more than half of the new stores opened in the coming five financial years will be located outside Germany. A weaker level of like-for-like sales growth has been assumed in this respect for Germany than for other countries. The sales of the HORNBACH Baustoff Union GmbH subgroup are budgeted to increase by means of organic growth. The HORNBACH Immobilien AG subgroup will continue to make a major contribution to the development of real estate within the framework of the expansion planned in Germany and abroad.

Go East: the market entry in **Rumania** is planned to take place in **2007**.

International focus of expansion

HORNBACH has planned a total of up to 13 new DIY megastores with garden centers in the 2006/2007 and 2007/2008 financial years, of which up to ten are located outside Germany. One of the three projects in Germany involves a new store in Darmstadt intended to replace the existing store at the same location. Moreover, the standalone garden centers in Ludwigshafen and Germersheim are to be closed at the end of the first quarter of the 2006/2007 financial year. The garden center in Kassel is to be merged with the adjacent HORNBACH DIY megastore. The focus of the expansion will be in the 2007/2008 financial year. The entry into the Rumanian market is scheduled to take place in the same year. This means that HORNBACH will be operating DIY megastores with garden centers in nine countries in the medium term. Overall, the number of HORNBACH DIY megastores with garden centers, accounting for adjustments to the store network (net), will increase to up to 133 by the end of February 2008 (February 28, 2006: 124).

High level of investment

Over the two-year forecast period, the investment volume budgeted for the HORNBACH HOLDING Group is expected to amount to between € 200m and € 250m per financial year.

The overwhelming share of such investment will be channeled into the construction of new stores. The investments will mainly be financed by drawing on the disposable cash flow from operating activities, the liquidity from the corporate bond, the borrowers' note loan and mortage loans, and by the release of funds resulting from sale and lease back transactions.

Sales and earnings on a growth trajectory

Taking due account of the opportunities and risks involved in future developments, we are confident that the sales growth at the HORNBACH-Baumarkt-AG subgroup during the forecast period will exceed the average growth rates in the sector. Sales are set to increase significantly both in the current 2006/2007 financial year and in the subsequent year.

The HORNBACH Baustoff Union GmbH subgroup is also expected to outperform the sector and to achieve sales growth in both of the next two financial years.

The sales growth of the overall HORNBACH HOLDING AG Group is heavily dependent on developments at the HORNBACH-Baumarkt-AG subgroup. We therefore expect to achieve significant sales growth for the overall Group in the 2006/2007 and 2007/2008 financial years.

The earnings performance of the overall Group is expected to show sustainable improvements by the end of the forecast period.

Further efficiency enhancements in operating processes at the HORNBACH Baustoff Union subgroup in conjunction with sales growth and an increase in the gross margin are expected to lead to an ongoing improvement in earnings. Operating earnings are already expected to break even at HORNBACH Baustoff Union in the 2006/2007 financial year. In the following 2007/2008 financial year, the subgroup is also expected to achieve profitability following the deduction of net financial expenses.

We expect earnings to increase at the HORNBACH HOLDING AG Group in each of the two coming years.

This annual report is to be read in conjunction with the audited financial data of the HORNBACH HOLDING AG Group and the disclosures made in the notes to the consolidated financial statements contained in the annual report. It contains statements relating to the future based on assumptions and estimates made by the Board of Management of HORNBACH. Statements relating to the future are only valid at the time at which they are made. Although we assume that the expectations reflected in these forecast statements are realistic, the company can provide no guarantee that these expectations will turn out to be accurate. The assumptions may involve risks and uncertainties which could result in significant variances between actual events and the forecast statements. The factors which could produce such variances include changes in the economic and commercial environment, particularly in respect of consumer behavior and the competitive environment in those retail markets of relevance for HORNBACH. Furthermore, they include a lack of acceptance of new sales formats or new product ranges, as well as changes to the corporate strategy. HORNBACH has no plans to update the forecast statements, neither does it accept any obligation to do so. The diagrams and charts, as well as the comments relating to such, have been provided for illustrative purposes and do not form part of the management report.

Strength and stamina.

With the help of a phenomenal volume of donations, work was begun in 1993 on removing the 20,000 m^3 mountain of debris remaining of the Frauenkirche in Dresden – stone by stone. More than 8,000 blocks of stone were rescued, measured and catalogued. 3,539 pieces were built into the external façade. In this way, 44% of the church was rebuilt using the original construction materials. The reconstruction of the church on the one hand required the use of innovative techniques. On the other hand, craftsmanship believed to be long lost had to be relearned. Following twelve years of construction, the vision of rebuilding the Frauenkirche in Dresden finally became reality in 2005.

Retail and Real Estate

HORNBACH HOLDING AG acts as the holding company for all of the retail activities of the Group. The DIY megastores with garden centers operated since 1968 by HORNBACH-Baumarkt-AG 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. Alongside the retail business, a team of specialists at the HORNBACH Immobilien AG subgroup is responsible for the real estate and location development for all of the Group's operating subsidiaries.

HORNBACH-Baumarkt-AG

HORNBACH
Es gibt immer was zu tun.

2005 was a very challenging year for DIY stores and garden centers in Germany. Given that sales virtually stagnated, the price wars already witnessed in Germany in previous years were fought out with unprecedented intensity, thereby producing no lack of material for headlines in the media. It therefore came as no surprise that there was widespread speculation as to the future of the sector, triggered by a sector study published by a management consulting company in the spring of 2005. How many retail companies in the DIY sector will survive in the coming years? Which companies are set to run out of steam given that the competition is becoming ever more merciless? What features are characteristic of a successful DIY format? There are no definitive answers to these questions. However, each competitor can reach its own conclusions on the basis of the discussions as to which strategic tasks still have to be undertaken.

HORNBACH-Baumarkt-AG used the past financial year to further enhance the details of its proven DIY megastore and garden center retail format and to press ahead with its internationalization. The company's undiluted concept enables it to successfully differentiate itself from the competition and to provide its customers with genuine added value. The findings of numerous DIY store studies and consumer surveys in Germany and abroad provide impressive evidence of this. As the renowned "Kundenmonitor Deutschland 2005" customer survey found, there is no large DIY chain with which German home improvement customers are as satisfied as they are with HORNBACH. HORNBACH considerably outstripped its competitors, particularly in the categories of value for money, specialist advice, product quality and variety of product range.

Focus on customers' passion for DIY

Organic growth in Germany and abroad based on a superior retail format optimally fulfilling the needs of private and professional customers at first-class locations – this remains the company's unshakeable strategy. HORNBACH has the most homogeneous large-scale structure of all DIY store operators in Germany and also generates the highest level of sales per square meter of all leading German DIY store operators. The resultant structural benefits are reinvested into a product range compiled with great competence, a high quality of advice, ongoing enhancements of operating processes and permanently low prices. The HORNBACH format is focused on passionate DIY enthusiasts who wish to implement large-scale projects in their houses, flats and gardens.

HORNBACH has the most homogeneous store network and benefits from structural advantages.

HORNBACH's product range is restricted to genuine, unadulterated DIY and gardening products. Its customers consider HORNBACH to be the DIY and garden store with the most competent product selection. An average of around 50,000 articles and a multitude of services are on offer to its customers at the 124 DIY megastores with garden centers across Europe (figure as of end of April 2006). These also help to introduce new target groups ("Do-it-for-me" or "Buy-it-yourself") to larger-scale projects. Modernization and upkeep are two areas which are noticeably gaining in significance in this respect, a trend which is not least reflected in the composition of product ranges and services on offer at HORNBACH.

HORNBACH maintains its ground in 2005/2006

At € 21.79bn, sector sales were only slightly higher (plus 0.7%) than in the previous year. According to information published by the BHB sector association, sales excluding those generated at newly opened stores declined by 0.9%, partly as a result of poor weather conditions, especially in the spring. Moreover, the earnings performance of the sector was negatively affected by the tough price competition. In view of these factors, HORNBACH-Baumarkt-AG succeeded overall in maintaining its ground in the past financial year, even if its earnings performance, as became apparent within the framework of its quarterly reporting, failed to match the superb level seen in the previous year. At 2.8%, the company's sales growth in Germany was higher than that reported by the overall DIY sector in Germany. One downer was the fact that HORNBACH did not manage to escape the marginally negative trend in like-for-like sales in the sector. The company's market share in Germany nevertheless showed a slight increase from 7.6% to 7.7%. HORNBACH reported significantly higher growth in the seven European countries in which it operates outside Germany. Sales at the company's international stores increased by more than 14%, with like-for-like sales growth of almost 4%.

In future, the HORNBACH-Baumarkt-AG subgroup, which with net sales of € 2,234m accounts for around 94% of the total sales of the HORNBACH Group and is thus its largest operating unit by far, intends to press consistently ahead with its expansion in Germany and abroad. A total of up to 13 new store openings are scheduled to take place in the next two financial years, with the expansion being focused on countries outside Germany.

Further information as to the business performance of HORNBACH-Baumarkt-AG during the 2005/2006 reporting period 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 18 outlets in south-western Germany. Its wholesale product range is tailored to the needs of professional customers. HBU thus complements the retail activities of the HORNBACH DIY megastores with garden centers.

Initial fruits of restructuring program have been harvested

HORNBACH Baustoff Union GmbH (HBU) achieved significant improvements in its earnings in the 2005/2006 financial year in spite of a further decline in the construction sector.

The subgroup's sales increased by more than 5% to € 134.6m. The gross profit rose as a percentage of net sales. At the same time, the subgroup succeeded in reducing costs both at the outlets and at the central administration. Earnings were once again negatively affected by the extraordinary amortization of goodwill, depreciation of land, and necessary restructuring expenses amounting to more than € 3m. Operating earnings (EBIT) improved from minus € 14.8m in the previous year to minus € 5.2m.

The figures show that the measures initiated, such as the decentralization of the operating business and the reduction of cost blocks have placed HBU on the right course.

In addition to the success reflected in the figures, HBU achieved a considerable increase in awareness levels in the past year. It also significantly boosted and communicated its degree of competence in the individual specialist divisions.

The subgroup's internal and external organizational structures have been further streamlined. Among other measures, this involved acquiring the remaining shares in Robert Röhlinger GmbH and selling the shareholding in Bauwerk GmbH, which did not form part of the subgroup's core business. The foundations have therefore been laid for further rationalization measures.

Positive outlook

HORNBACH Baustoff Union GmbH expects the construction sector to stagnate in the current financial year. The subgroup nevertheless remains optimistic and aims to achieve a marginally positive operating result (EBIT) in the 2006/2007 financial year already. The measures initiated will lead to further improvements in the subgroup's cost structures. Its core competencies in the product areas of plaster and dry construction, roofing and civil engineering are to be consistently strengthened, thus facilitating the acquisition of additional customers. The subgroup's marketing measures are being targeted at the increasingly significant area of renovation and redevelopment requirements.

Real Estate Activities at the HORNBACH Group

HORNBACH IMMOBILIEN AG

The business activities of the HORNBACH Group can basically be divided into two segments: the retail business and the real estate business. The Group's retail activities are primarily undertaken by the HORNBACH-Baumarkt-AG and HORNBACH Baustoff Union GmbH subgroups. In addition to these activities, the HORNBACH 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 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. As a result 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 a decisive strategic competitive advantage for the HORNBACH Group. HORNBACH HOLDING AG acts as the central service provider for all real estate activities within the HORNBACH Group.

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 rent back transactions to free up funds. The liquid funds released in this way have become an important source of financing for further growth. A total of eight HORNBACH DIY megastores with garden centers across the Group were sold to various real estate companies in the past 2005/2006 financial year. These relate to the Vogelsdorf, Berlin-Neukölln, Kiel, Munich-Fröttmanning and Remseck locations in Germany, as well as to the international stores in Bratislava (Slovakia), Košice (Slovakia) and Malmö (Sweden).

The utilization rights as DIY megastores with garden centers have been secured by means of long-term rental agreements. In spite of the sale and lease back 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. As of the reporting date on February 28, 2006, around 52% of the total sales areas used for retail purposes (approx. 1,320,000 m^2) belonged to one of the group companies. The remaining 48% of the sales areas are either rented from third parties or leased from third parties with a repurchase option. In individual cases (3%), the land has been leased (hereditary lease).

The 52% of sales areas owned by the Group are divided between the HORNBACH-Baumarkt-AG (27%) and the HORNBACH Immobilien AG (25%) subgroups.

As of the reporting date on February 28, 2006, the HORNBACH Immobilien AG subgroup had let 36 DIY megastores with garden centers in Germany and abroad, with sales areas totaling 332,690 m^2, to HORNBACH-Baumarkt-AG on a long-term basis. Furthermore, HORNBACH Immobilien AG owned one builders' merchant store, which has been let to HORNBACH Baustoff Union GmbH. Profit and loss and subordination agreements have been concluded between HORNBACH Immobilien AG and HORNBACH HOLDING AG. A sum of € 14.1m was thereby transferred for the past 2005/2006 financial year.

HORNBACH retains **ownership** of around **half** of its **sales areas.**

A total of 124 DIY megastores with garden centers were operated by the HORNBACH-Baumarkt-AG subgroup in Germany and abroad at the reporting date. Of these, 34 locations with sales areas totaling 359,792 m^2 are owned by HORNBACH-Baumarkt-AG or one of its subsidiaries. During the 2005/2006 financial year, the construction of DIY megastores with garden centers in Malmö and Munich was completed by HORNBACH Immobilien AG, or by one of its subsidiaries in the case of Košice (Slovakia). These locations were subsequently handed over to HORNBACH-Baumarkt-AG for utilization and refinanced by means of sale and rent back transactions.

The retail sales areas used as DIY megastores with garden centers across the HORNBACH HOLDING AG Group totaled 1,319,484 m^2 at the balance sheet reporting date.

The ownership of the sales areas was structured as follows as of the reporting date on February 28, 2006:

	No. of Stores	Sales Area m^2	Share %
Owned Property			
HORNBACH-Baumarkt-AG subgroup	34	359,792	27.3
HORNBACH Immobilien AG subgroup	36	332,690	25.2
Subtotal of owned property	**70**	**692,482**	**52.5**
Land rented, buildings owned	4	34,968	2.6
Operating leasing (rent)	50	592,034	44.9
Total	**124**	**1,319,484**	**100.0**

In Neustadt an der Weinstrasse, HORNBACH Immobilien AG has rented 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 m^2 has been rented to renowned 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, the two companies also both already own pieces of land in Germany and abroad which are earmarked for use as retail locations.

High level of hidden reserves in real estate assets

The real estate owned by both 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 as having a book value of approximately € 240m in the balance sheet as of February 28, 2006. The application of a conservative average multiplier of 13 (Germany) and 12 (Abroad) 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 € 436m at the reporting date. The deduction of the book value of the real estate in question (€ 240m) results in hidden reserves amounting to € 196m.

At the reporting date on February 28, 2006, the HORNBACH-Baumarkt-AG subgroup owned real estate in Germany and abroad used for proprietary purposes as DIY megastores with garden centers with a book value of approximately € 345m. On the basis of intra-company rental income at usual market rates and a multiplier of 13 (Germany) and 12 (Abroad), 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 approximately € 484m. The deduction of the book value (€ 345m) results in calculated hidden reserves amounting to approximately € 139m.

On the basis of this calculation method, it can be concluded that the hidden reserves relating to the real estate used for operating purposes across the Group can be estimated as amounting to approximately € 335m.

Executive Bodies

Supervisory Board

Gerhard Wolf
Chairman
Graduate in Business Administration, Worms

Dr. Wolfgang Rupf
Deputy Chairman
Managing Director
AKV Altkönig Verwaltungs GmbH, Königstein

Ian Cheshire
Chief Executive Officer
B&Q plc, Eastleigh

Albert Hornbach
Director
HORNBACH Familien-Treuhandgesellschaft mbH
Annweiler am Trifels

Otmar Hornbach until September 2, 2005
Director
HORNBACH Familien-Treuhandgesellschaft mbH
Annweiler am Trifels

Sir Francis Mackay
Chairman
Kingfisher plc, London

Dr. Susanne Wulfsberg since September 2, 2005
Veterinary Surgeon
Neritz

Supervisory Board Committees

Audit Committee
Gerhard Wolf
Dr. Wolfgang Rupf
Ian Cheshire
Otmar Hornbach until September 2, 2005
Dr. Susanne Wulfsberg since September 2, 2005

Personnel Committee
Gerhard Wolf
Dr. Wolfgang Rupf
Otmar Hornbach until September 2, 2005
Sir Francis Mackay
Dr. Susanne Wulfsberg since September 2, 2005

Mediation Committee
Gerhard Wolf
Dr. Wolfgang Rupf
Otmar Hornbach until September 2, 2005
Sir Francis Mackay
Dr. Susanne Wulfsberg since September 2, 2005

Board of Management

The members of the Board of Management and their areas of responsibility:

Albrecht Hornbach
Chairman
Graduate in Engineering
DIY Megastores and Garden Centers, Auditing,
Construction, Technical Procurement,
Public Relations

Eduard Zimmerle
Deputy Chairman
Businessman
Expansion, Real Estate,
Builders' Merchants Division

Roland Pelka
Graduate in Business Administration
Finance, Accounting, Tax, Controlling,
Investor Relations, Legal Department

Report of the Supervisory Board

Gerhard Wolf

Dear Ladies and Gentlemen,

During the past 2005/2006 financial year, we closely addressed the situation, perspectives and strategic alignment of the company. We advised the Board of Management in its management of the business and monitored its conduct in accordance with the requirements of the law, the articles of association and the code of procedure. The Board of Management provided us with regular, prompt and extensive written and oral reports on the course of business and on the economic situation of the company and its subsidiaries. The Supervisory Board was involved in decisions of major significance for the company. Moreover, the Chairman of the Supervisory Board was in regular contact with the Board of Management, and especially with the Chairman of the Board of Management, outside the framework of scheduled meetings, in order to discuss significant issues and also to hold a number of consultations.

Meetings of the Supervisory Board

The Supervisory Board met on a total of five occasions during the 2005/2006 financial year. For reasons of poor health, one member of the Supervisory Board attended only two and therefore fewer than half of the meetings. No conflicts of interest arose during the year under report.

At our meetings, we held extensive discussions with the Board of Management and advised it on the economic situation of the company and of major group companies, the course of business, business policy, investment and financial policy, as well as the risk and opportunity situation and risk management at the company on the basis of oral and written reports provided by the Board of Management. The discussion of the risk situation found that there were no risks to the company's ongoing existence during the year under report. We did not focus only on risks, but also addressed opportunities. We remain convinced that considerable potential is available and that this should be exploited by means of high-quality opportunity management. Further focuses of our discussions and deliberations related to the intensification of cost management at the Group, and progress reports on the IT projects. The most important subsidiary, HORNBACH-Baumarkt-AG, is very well positioned in its markets. It is robust enough to maintain its ground in a tough competitive climate and to uphold its growth trajectory. Following an in-depth analysis of the situation, as well as future opportunities and risks, at HORNBACH Baustoff Union GmbH, restructuring programs were compiled and implemented on the basis of close consultation with the Board of Management. These resulted in a considerable improvement in earnings in the year under report already. In addition, the Board of Management provided regular written and oral reports on the situation of the company and on the development of its earnings and financial situation. Actions on the part of the Board of Management requiring our consent were discussed in great detail. Following thorough examination and discussion of the proposals submitted by the Board of Management, at its meetings the Supervisory Board provided its consent to all of the respective measures.

At the meeting of the Supervisory Board held to approve the annual financial statements in June 2005, as was also the case in May 2006, we closely examined the annual and consolidated financial statements. The report compiled by the Audit Committee in this regard was accepted. Questions concerning the financial statements were answered by the auditors, who also attended the meeting, to our complete satisfaction. Moreover, the report of the Supervisory Board, the joint corporate governance report of the Board of Management and the Supervisory Board and the risk report were also discussed. The agenda for the Annual General Meeting, including the proposed resolutions, was approved.

At the meeting held directly before the Annual General Meeting in September 2005, the Board of Management reported on the current situation of the Group. A further meeting was held following the Annual General Meeting in September 2005, primarily as a result of the election of one new member of the Supervisory Board. The composition of the committees (Mediation Committee, Personnel Committee, Audit Committee) was newly determined. In addition, the dates of the meetings scheduled for the 2006/2007 financial year were agreed. The meeting held in December 2005 focused on the discussion of the strategic 5-year plan compiled by the Board of Management. The target of generating further growth at HORNBACH-Baumarkt-AG was affirmed, with the aim of achieving a further increase in the international share of sales, which already amount to € 788m and thus account for 35% of total sales. The growth can be solidly financed by the operating cash flow, by the funds from the bond issued by HORNBACH-Baumarkt-AG and by sale and lease back transactions. The attractiveness of the offering to customers is to be further enhanced by means of projects undertaken on an operational level. At the same time, particular significance has once again been accorded to committed cost management. At HORNBACH Baustoff Union GmbH, additional targeted individual measures are intended to achieve a further improvement in earnings. The strategy of HORNBACH Immobilien AG is focused on supporting the growth of HORNBACH-Baumarkt-AG. Its principal task involves identifying, purchasing and agreeing the financing for the land most suited to DIY megastores in the specified target markets.

At the same meeting, the updated Statement of Compliance with the German Corporate Governance Code was submitted pursuant to Section 161 of the German Stock Corporation Act (AktG) and then made available to shareholders on a permanent basis on the company's homepage. Apart from a few exceptions, HORNBACH HOLDING AG has complied with and continues to comply with most of the recommendations of the German Corporate Governance Code. Only the following recommendations have not been complied with for the reasons outlined in the Statement of Compliance: the disclosure of the remuneration of the members of the Board of Management and Supervisory Board on an individual basis, the setting of an upper age limit for members of the Supervisory Board, and the recommendation that the consolidated financial statements should be made available to the general public within 90 days of the end of the financial year. Further information concerning corporate governance at HORNBACH HOLDING AG can be found in the joint report of the Board of Management and the Supervisory Board from Page 19 onwards.

The final meeting of the Supervisory Board in the past 2005/2006 financial year, which was held in February 2006, closely examined the operating budget and the underlying budgets at the group companies for the coming 2006/2007 financial year, as well as reviewing their plausibility and their compliance with strategic objectives.

Committees

The Supervisory Board has established three Committees. The current composition of the committees can be found on Page 65 of this Annual Report.

The Audit Committee met on three occasions during the year under report. It discussed the annual financial statements of HORNBACH HOLDING AG and the consolidated financial statements, the management reports, the proposal concerning the 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. It also focused on the strategic and operating budgets, the risk reports of the Board of Management, the reports compiled by the Board of Management on the financial situation of the company, the reports compiled by the group internal auditors, as well as on cost reduction projects. Moreover, the committee identified the main focuses for the coming audit.

The Personnel Committee held one meeting. At this meeting, the employment contract with Roland Pelka, a member of the Board of Management, was extended for a further term of five years.

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

The chairmen of the committees provided extensive reports on the work of the respective committees to the full meetings of the Supervisory Board.

Annual and Consolidated Financial Statements

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG), Berlin and Frankfurt am Main, audited the annual financial statements of HORNBACH HOLDING AG and the consolidated financial statements as of February 28, 2006, as well as the management reports for HORNBACH HOLDING AG and for the Group, and provided them in each case with an unqualified audit opinion. The consolidated financial statements were compiled in accordance with International Financial Reporting Standards (IFRS) as applicable in the EU.

Moreover, KPMG confirmed that the risk management system fulfilled the relevant requirements and that no risks to the company's ongoing existence had been identified.

The audit for the 2005/2006 financial year focused on the delineation of the reporting entity, the correctness of the annual financial statements included in the consolidated financial statements, the capital consolidation, the calculation of deferred taxes, the correctness of the consolidated cash flow statement, the correctness of the group segmental reporting, the completeness and accuracy of the disclosures made in the notes to the financial statements, and the completeness and consistency of the statements made in the group management report. The financial statements and audit reports were provided to all members of the Supervisory Board in good time. They formed the object of intense discussion, both at the meeting of the Audit Committee held on May 18, 2006 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 findings of the audit and was available to provide further information and to answer questions. In accordance with the findings of the preliminary audit undertaken by the Audit Committee and on the basis of our own examination of the documents provided by the Board of Management and the auditor, we did not raise any objections and endorse the findings of the audit undertaken by KPMG. We approve the annual financial statements compiled by the Board of Management for HORNBACH HOLDING AG and the Group as of February 28, 2006; the annual financial statements of HORNBACH HOLDING AG are therefore adopted. We endorse the proposal made by the Board of Management in respect of the appropriation of profits.

Furthermore, the Supervisory Board also reviewed the report provided by the Board of Management on relationships with affiliated companies pursuant to Section 312 of the German Stock Corporation Act (AktG). Neither this review nor the KPMG audit gave rise to any objections. KPMG granted the following audit opinion:

"On the basis of the audit and assessment undertaken by us in accordance with professional standards, we confirm that:

1. the facts presented in the report are accurate
2. the performance of the company in respect of the transactions set out in the report was not incommensurably high
3. in respect of the measures stated in the report, there are no circumstances which would speak for any assessment significantly different from that made by the Board of Management."

On the basis of its conclusive review, the Supervisory Board has no objections to the statement provided by the Board of Management at the end of its report pursuant to Section 312 of the German Stock Corporation Act (AktG).

The HORNBACH HOLDING AG Group has once again maintained its position in a highly competitive market. The Supervisory Board would like to extend its thanks to the Board of Management and to all of the company's employees, both in Germany and abroad, for their commitment and their successful work in the past financial year.

Neustadt an der Weinstrasse, May 2006

The Supervisory Board
Gerhard Wolf
Chairman

Large projects made to measure.

Work began on the construction of the north-easterly extension to Vienna Airport in 2005. The new sickle-shaped "Skylink" terminal, which will be 270m long, 55m wide and 20m high, will incorporate 17 docking stations and 51 gates. 140,000 m^3 of excavated material is being removed from the building site, which covers an area of 10 hectares – equivalent to 17 football fields. The terminal foundations will be supported by 450 caisson piles with a length of 20 meters each. The construction work is due to be completed by the end of 2008, thus enabling Vienna Airport to handle up to 28 million passengers per year.

Consolidated Financial Statements

Income Statement

for the period from March 1, 2005 to February 28, 2006

	Notes	2005/2006 € 000s	2004/2005 € 000s	Change %
Sales	(1)	2,367,105	2,220,220	6.6
Cost of goods sold	(2)	1,533,275	1,424,136	7.7
Gross profit		**833,830**	**796,084**	**4.7**
Selling and store expenses	(3)	665,047	609,460	9.1
Pre-opening expenses	(4)	11,634	10,146	14.7
General and administration expenses	(5)	101,504	91,604	10.8
Other income and expenses	(6)	36,201	14,120	156.4
Earnings before interest and taxes (EBIT)		**91,846**	**98,994**	**-7.2**
Financial income		5,548	2,385	132.6
Financial expenses		-44,893	-39,648	13.2
Net financial expenses	**(7)**	**-39,345**	**-37,263**	**5.6**
Consolidated earnings before taxes		**52,501**	**61,731**	**-15.0**
Taxes on income	(8)	20,457	24,848	-17.7
Consolidated net income		**32,044**	**36,883**	**-13.1**
Income allocable to shareholders		26,955	27,737	-2.8
of which minority interests		5,089	9,146	-44.4
Undiluted earnings per share (€)	(9)	3.34	3.44	-2.9
Undiluted earnings per preference share (€)	(9)	3.40	3.50	-2.9

Balance Sheet

as of February 28, 2006

Assets	Notes	2.28.2006 € 000s	2.28.2005 € 000s
Long-term assets			
Intangible assets	(12)	25,915	25,092
Property, plant and equipment	(13)	875,001	972,054
Real estate let to third parties and reserve land	(13)	55,949	46,186
Financial assets	(14)	2,010	1,958
Other long-term assets	(15)	5,066	2,980
Deferred tax claims	(16)	27,459	27,303
		991,400	**1,075,573**
Short-term assets			
Inventories	(17)	512,181	443,532
Accounts receivable and other assets	(18)	94,851	68,502
Income tax claims		16,423	12,125
Cash and cash equivalents	(19)	161,381	161,802
Long-term assets earmarked for disposal	(20)	17,480	0
		802,316	**685,961**
		1,793,716	**1,761,534**

Equity and liabilities	Notes	2.28.2006 € 000s	2.28.2005 € 000s
Shareholders' equity			
Share capital	(22)	24,000	24,000
Capital reserve	(23)	130,373	130,373
Retained earnings	(24)	318,605	298,644
Minority interests		85,634	82,944
		558,612	**535,961**
Long-term liabilities			
Long-term debt	(26)	639,715	735,126
Pensions and similar obligations	(27)	3,470	0
Deferred taxes	(16)	90,837	87,321
Other long-term liabilities	(28)	7,226	7,674
		741,248	**830,121**
Short-term liabilities			
Short-term debt	(26)	187,582	105,714
Accounts payable and other liabilities	(29)	241,067	225,741
Tax provisions	(30)	18,717	14,712
Other provisions	(30)	46,490	49,285
		493,856	**395,452**
		1,793,716	**1,761,534**

Cash Flow Statement

	2005/2006 € 000s	2004/2005 € 000s
Consolidated net income	**32,044**	**36,883**
Depreciation and amortization of long-term assets	88,224	82,064
Change in provisions	2,607	1,304
Profits on the sale of long-term assets	-27,015	-6,048
Change in inventories, accounts receivable and other assets	-84,126	32,413
Change in accounts payable and other liabilities	23,277	-10,264
Other income/expenses with no cash effect	2,747	6,143
Cash flow from operating activities	**37,758**	**142,495**
Proceeds from disposals of long-term assets	193,259	27,517
Proceeds from disposals of shareholdings and other business units	170	0
Payments for investments in property, plant and equipment	-193,611	-112,100
Payments for investments in intangible assets	-6,315	-12,748
Payments for investments in financial assets	-110	-5
Payments for acquisitions of shareholdings and other business units	-8,255	-10,106
Cash flow from investing activities	**-14,862**	**-107,442**
Receipts from capital increases	2,531	2,180
Payments to shareholders	-11,575	-11,500
Proceeds from long-terrm debt and issuing of corporate bond	23,568	264,400
Repayment of long-term debt	-48,394	-57,326
Payments for transaction expenses	0	-10,589
Change in short-term debt	10,273	-130,075
Cash flow from financing activities	**-23,597**	**57,090**
Change in cash and cash equivalents	-701	92,143
Effect of exchange rate changes on cash and cash equivalents	280	234
Cash and cash equivalents at March 1	161,802	69,425
Cash and cash equivalents at February 28	**161,381**	**161,802**

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

The sale and lease back transaction undertaken by HORNBACH-Baumarkt-AG as of February 28, 2006 (DIY store in Vogelsdorf), as well as the disposal of a specialist retail center and of a piece of land not required for operations undertaken by HORNBACH Immobilien AG as of February 28, 2006, are not included in the proceeds from disposals of long-term assets or in the change in other assets, given that the purchase price (€ 35,538k) had not been paid as of the reporting date. The purchase price payment (€ 18,500k) relating to the sale and lease back transaction undertaken by HORNBACH-Baumarkt-AG in the previous 2004/2005 financial year (DIY store in Binzen) was made during the current 2005/2006 financial year. This figure is included under proceeds from disposals of long-term assets. The payments for acquisitions of shareholdings and other business units in the current financial year include € 3,193k resulting from purchase price liabilities incurred in previous years.

The payments for investments in property, plant and equipment in the current 2005/2006 financial year include prepayments of € 1,300k for land, which have been reported under other long-term assets.

The payments for investments in property, plant and equipment items in the previous 2004/2005 financial year included € 10,535k from additions during the 2002/2003 financial year.

The cash flow from operating activities was reduced by tax payments of € 23,563k (2004/2005: € 27,443k) and by interest payments of € 44,478k (2004/2005: € 34,890k) and increased by interest received amounting to € 3,770k (2004/2005: € 2,093k).

The other income/expenses with no cash effect item mainly relates to deferred taxes and to the personnel expenses relating to the valuation of share options.

Statement of Shareholders' Equity

2004/2005 financial year € 000s	Share Capital	Capital Reserve	Hedging Reserve	Cumulative Currency Conversion	Other Retained Earnings	Minority Interests	Net Income for the Year	Total Equity
Balance at 3.1.2004	**24,000**	**130,373**	**-2,226**	**-150**	**280,637**	**432,634**	**72,996**	**505,630**
Dividend distributions					-8,880	-8,880	-2,689	-11,569
Foreign currency adjustments				2,297		2,297	573	2,870
Capital increase from share option plans						0	2,509	2,509
Valuation of derivative financial instruments, net after taxes			-771			-771	-83	-854
Changes to reporting entity						0	492	492
Consolidated net income					27,737	27,737	9,146	36,883
Balance at 2.28.2005	**24,000**	**130,373**	**-2,997**	**2,147**	**299,494**	**453,017**	**82,944**	**535,961**

2005/2006 Financial Year € 000s	Share Capital	Capital Reserve	Hedging Reserve	Cumulative Currency Conversion	Other Retained Earnings	Minority Interests	Net Income for the Year	Total Equity
Balance at 3.1.2005	**24,000**	**130,373**	**-2,997**	**2,147**	**299,494**	**453,017**	**82,944**	**535,961**
Dividend distributions					-8,880	-8,880	-2,695	-11,575
Foreign currency adjustments				1,694		1,694	408	2,102
Capital increase from share option plans						0	2,774	2,774
Valuation of derivative financial instruments, net after taxes			192			192	31	223
Changes to reporting entity						0	-2,917	-2,917
Consolidated net income					26,955	26,955	5,089	32,044
Balance at 2.28.2006	**24,000**	**130,373**	**-2,805**	**3,841**	**317,569**	**472,978**	**85,634**	**558,612**

Notes to the Consolidated Financial Statements for the 2005/2006 Financial Year

Explanatory notes on the principles and methods applied in the consolidated financial statements

Accounting principles

Pursuant to Section 315a of the German Commercial Code (HGB), HORNBACH HOLDING AG compiles consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) requiring mandatory application in the European Union. The consolidated financial statements of HORNBACH HOLDING AG are published in the Federal Official Gazette (Bundesanzeiger) and filed in the Commercial Register of the Ludwigshafen Local Court.

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' merchants 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.

The annual Statement of Compliance with the German Corporate Governance Codex required by Section 161 of the German Stock Corporation Act (AktG) was submitted by HORNBACH HOLDING AG and by HORNBACH-Baumarkt-AG on December 8, 2005 and made available to shareholders on the homepage of the respective company.

Individual items in the income statement and the balance sheet have been grouped together for reasons 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 between long-term and short-term debt capital in the balance sheet reporting. Liabilities and provisions are treated as short-term if they are due within one year. Income items, such as rental income, interest income, and dividends, are deferred accordingly. The consolidated financial statements have been compiled in euros. The figures have been rounded off to the nearest thousand or million.

Assumptions and estimates have been made in the compilation of the consolidated financial statements which have an effect on the assets and liabilities reported and on the income and expenditure as presented. These assumptions and estimates mainly relate to uniform procedures applied across the Group in respect of economic useful lives, the accounting and valuation of provisions, the calculation of current market values, and the ability to obtain future tax relief. The principal assumptions and estimates which on account of 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.

Amendments to accounting and valuation methods as a result of new standards

Account has been taken of all International Financial Reporting Standards and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) valid at the balance sheet reporting date, to the extent that such are of relevance for HORNBACH HOLDING AG. During the 2005/2006 financial year, HORNBACH HOLDING AG made application of the new and revised standards IFRS 3 "Business Combinations", IAS 36 (2004 revision) "Impairment of Assets", and IAS 38 (2004 revision) "Intangible Assets" for all company acquisitions based on contracts concluded subsequent to March 31, 2004. This initial application has implications for the financial situation of the company, given that the goodwill resulting from acquisitions undertaken prior to March 31, 2004 is no longer subject to scheduled amortization. Goodwill is subject to an annual impairment test. The discontinuation of goodwill amortization has resulted in the amortization expenses of € 671k being lower than those in the 2004/2005 financial year. Cumulative amortization of goodwill amounting to € 6,722k has been offset against the historical costs of acquisition of the goodwill.

IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations", which was adopted by the IASB in March 2004, has resulted in a change in the statement of assets and liabilities earmarked for sale and for business divisions to be discontinued in the balance sheet and the income statement compared with the annual financial statements for the 2004/2005 financial year. Assets which are highly likely to be sold in the next 12 months are no longer to be subject to depreciation and amortization. Their book values are to be reported under short-term assets earmarked for sale. As in the previous year, there are no business divisions to be discontinued. Prospective application is to be made of this standard, i.e. the new accounting and valuation methods are applied to items for the current financial year. No retrospective adjustments are required in the figures for comparative years. The initial application of this standard led to assets amounting to € 17,480k being reclassified as short-term assets.

In September 2005, the IFRIC published Interpretation 6 "Liabilities Arising from Participation in a Specific Market – Waste Electrical and Electronic Equipment". This interpretation addresses the time at which liabilities relating to the disposal of certain electronic appliances for private use which may be affected by the provisions of the EU Directive on Electrical and Electronic Appliances are to be recorded. The initial application of this standard does not have any implications for the consolidated financial statements. HORNBACH HOLDING AG has selected the so-called apportionment method for calculating its disposal obligation without joining any collective system. The bringing into circulation of electrical appliances therefore does not constitute any binding event pursuant to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". It is not yet necessary to state any provision for disposal obligations. Expenses for disposal obligations will only arise in the following financial years.

The initial application of the other standards amended within the framework of the improvement projects in most cases resulted in extended disclosures in the notes to these consolidated financial statements, with the figures for the previous year being adjusted accordingly. These standards have been applied in accordance with the respective transitional regulations.

Standards and interpretations not applied prematurely

The IASB has issued the following standards, interpretations, and amendments to existing standards of relevance to the HORNBACH Group but which do not yet require mandatory application and which HORNBACH HOLDING AG has not applied prematurely.

The IASB published IFRS 7 "Financial Instruments: Disclosures" in August 2005. This standard summarizes the disclosures on financial instruments previously required by IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and IAS 32 "Financial Instruments: Disclosure and Presentation". Individual disclosure requirements have also been amended and supplemented. Mandatory application is to be made of IFRS 7 for financial years beginning on or after January 1, 2007. The application of the standard at an earlier point is recommended.

Upon its initial application by HORNBACH HOLDING AG in the 2007/2008 financial year, this standard, which is to be applied by all companies, will result in extended disclosures on financial instruments.

The IASB published an amendment to IAS 1 in connection with the publication of IFRS 7 in August 2005. This requires information to be published in the financial statements enabling the reader of the financial statements to assess the objectives, methods and processes used in the company's capital management.

The amendment to IAS 1 is to be applied for financial years beginning on or after January 1, 2007. Application at an earlier point is recommended.

The initial application of this amendment to IAS 1 by HORNBACH HOLDING AG will lead to extended disclosures in the notes to the financial statements.

Consolidation principles

The annual financial statements of the companies included in the consolidated financial statements are based on uniform accounting and valuation principles. Valuations based on taxation regulations have not been included in the consolidated financial statements. With the exception of two Rumanian subsidiaries and three companies to be viewed pursuant to SIC 12 as special purpose entities (SPEs), the separate financial statements of the companies included in the consolidated financial statements have been compiled as of the reporting date for the consolidated financial statements.

In the case of acquisitions based on contracts concluded prior to March 31, 2004, the capital consolidation is based on the acquisition method by offsetting the relevant acquisition costs of the investment holding with the new valuation of the 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 burdens and until the end of the 2004/2005 financial year were subject to straight-line amortization with a corresponding charge to operations in line with their anticipated useful lives. 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 therefore based on the revaluation method. Any resultant goodwill and the residual book value 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 subject to an annual impairment test pursuant to IAS 36.

Intercompany profits relating to long-term 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.

Reporting entity

In addition to HORNBACH HOLDING AG, the consolidated financial statements include 24 domestic (2004/2005: 32) and 44 foreign (2004/2005: 44) fully consolidated subsidiaries.

One subsidiary (2004/2005: 1) not included in the consolidated financial statements is of subordinate significance for the presentation of the Group's net assets, financial and earnings position. The shares in non-consolidated companies are stated in the consolidated balance sheet at updated cost of acquisition.

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, 79.4% of the voting rights as the majority shareholder in HORNBACH-Baumarkt-AG. The reporting entity 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 so-called "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 calendar year constitutes the financial year of these companies. 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 reporting entity changed in comparison with the 2004/2005 financial year as a result of the inclusion for the first time of the newly established German company HORNBACH Solar-, Licht- und Energiemanagement GmbH and the newly established foreign companies HORNBACH Centrala SRL and HORNBACH Imobiliare SRL. These companies were first included in the consolidated financial statements as of January 1, 2006. These companies contributed a sum of € -767k to the consolidated earnings for 2005/2006. Decorama GmbH, HORNBACH Mietservice GmbH and Union Bauzentrum Becker GmbH were merged with Union Bauzentrum Hornbach GmbH, Werbeagentur Plusconcept GmbH and Self-made Haus GmbH with Ruhland-Kallenborn & Co. GmbH and Becker Baubedarf GmbH with HORNBACH Baustoff Union GmbH, in all cases with retrospective effect as of March 1, 2005.

The disposals during the 2005/2006 financial year relate to the sale of the shares in BM Immobilien Zeta GmbH (August 31, 2005) and HIAG Fastigheter i Malmö AB (April 30, 2005) within the framework of sale and lease back transactions, as well as of BM Immobilien Beta GmbH (October 31, 2005), HIAG Fastigheter i Norrköping AB (May 24, 2005) and the majority shareholding (51%) in BauWerk Zentrum für's Bauen GmbH (December 31, 2005). These companies contributed a sum of € 57k to the consolidated earnings for 2005/2006.

Additions during the 2004/2005 financial year related to two real estate companies, one company for the marketing of advertising services and three builders' merchants companies.

Disposals during the 2004/2005 financial year related to the sale of BM Immobilien Alpha GmbH. This company was sold within the framework of a sale and lease back transaction as of August 31, 2004.

The composition and development of the reporting entity was as follows:

	2005/2006	2004/2005
March 1	77	75
Companies consolidated for the first time	3	6
Companies sold	-5	-1
Companies merged	-6	-3
February 28	69	77

The changes in the reporting entity during the financial year resulted in the following overall changes in the individual asset and liability items:

€ 000s	Additions 2005/2006	Disposals 2005/2006	Additions 2004/2005	Disposals 2004/2005
Property, plant and equipment	0	42,298	16,013	20,682
Other assets	0	10,669	1,994	98
Long-term debt	0	688	0	404
Short-term debt	0	47,157	1,989	20,376

These changes did not have any significant impact on the income statement.

Consolidated subsidiaries

Company Name and Domicile	Equity [1] € 000s	Share-holding %
Germany		
HORNBACH-Baumarkt-AG, Bornheim	291,091	79.4 [2]
HORNBACH Immobilien AG, Neustadt/Weinstrasse	67,130	100
HORNBACH International GmbH, Bornheim	25,584	79.4 [2]
AWV Agentur für Werbung und Verkaufsförderung GmbH, Bornheim	151	79.4 [2]
HORNBACH Baustoff Union GmbH, Neustadt/Weinstrasse	10,156	100
Union Bauzentrum Hornbach GmbH, Bornheim	4,786	100
Ruhland-Kallenborn & Co. GmbH, Neustadt/Weinstrasse	-2,125	100
Ruhland-Kallenborn Grundstücksverwaltungsgesellschaft mbH, Neustadt/Weinstrasse	-413	100
Robert Röhlinger GmbH, Schiffweiler	810	100
Ollesch & Fitzner GmbH, Bornheim	554	79.4 [2]
BM Immobilien Gamma GmbH, Bornheim	0	79.4 [2]
BM Immobilien Kappa GmbH, Bornheim	23	79.4 [2]
BM Immobilien Lambda GmbH, Bornheim	23	79.4 [2]
BM Immobilien Omega GmbH, Bornheim	12,528	79.4 [2]
HB Services GmbH, Bornheim	22	79.4 [2]
HORNBACH Versicherungs-Service GmbH, Bornheim	513	79.4 [2]
HORNBACH Solar-, Licht- und Energiemanagement GmbH, Bornheim	19	79.4 [2]
HIAG Immobilien Jota GmbH, Bornheim	36	100
HIAG Immobilien Beta GmbH, Bornheim	-40	100
HIAG Immobilien Gamma GmbH, Bornheim	24	100
HIAG Immobilien Delta GmbH, Bornheim	24	100
SULFAT GmbH & Co. Objekt Bamberg KG, Pöcking	-700	90
SULFAT GmbH & Co. Objekt Düren KG, Pöcking	-815	90
SULFAT GmbH & Co. Objekt Saarbrücken KG, Pöcking	-674	90
Other European Countries		
HORNBACH Baumarkt GmbH, Wiener Neudorf, Austria	23,058	79.4 [2]
EZ Immobilien Beta GmbH, Wiener Neudorf, Austria	1,372	79.4 [2]
SM Immobilien Delta GmbH, Wiener Neudorf, Austria	-370	79.4 [2]
SZ Immobilien Zeta GmbH, Wiener Neudorf, Austria	-20	79.4 [2]
HK Immobilien Kappa GmbH, Wiener Neudorf, Austria	-157	79.4 [2]
HL Immobilien Lambda GmbH, Wiener Neudorf, Austria	-409	79.4 [2]
HO Immobilien Omega GmbH, Wiener Neudorf, Austria	-115	99.8
HO Immobilien Omikron GmbH, Wiener Neudorf, Austria	-283	79.4 [2]
HS Immobilien Sigma GmbH, Wiener Neudorf, Austria	-66	79.4 [2]
HR Immobilien Rho GmbH, Wiener Neudorf, Austria	-111	99.8
HD Immobilien Dora GmbH, Wiener Neudorf, Austria	11	79.3 [2]
HC Immobilien Chi GmbH, Wiener Neudorf, Austria	-10	99.8
HY Immobilien Ypsilon GmbH, Wiener Neudorf, Austria	-1,692	100
HN Immobilien Ny GmbH, Wiener Neudorf, Austria	36	100
HM Immobilien My GmbH, Wiener Neudorf, Austria	-12	100
HX Immobilien Xi GmbH, Wiener Neudorf, Austria	-485	100

[1] The shareholders' equity is equivalent to the local equity.
[2] Of which: 0.01% under short-term assets.

Company Name and Domicile	Equity 1) € 000s	Shareholding %
Reiterer Immobiliengesellschaft mbH, Wiener Neustadt, Austria	-152	100
HORNBACH Baumarkt Luxemburg S.à.r.l., Bertrange, Luxembourg	8,469	79.4 2)
HORNBACH HOLDING B.V., Amsterdam, Netherlands	18,065	79.4 2)
HORNBACH Bouwmarkt (Nederland) B.V., Driebergen - Rijsenburg, Netherlands	16,035	79.4 2)
HORNBACH Real Estate Zaandam B.V., Zaandam, Netherlands	1,688	79.4 2)
HORNBACH Real Estate Kerkrade B.V., Kerkrade, Netherlands	1,446	79.4 2)
HORNBACH Real Estate Tilburg B.V., Tilburg, Netherlands	1,101	79.4 2)
HORNBACH Real Estate Groningen B.V., Groningen, Netherlands	-126	79.4 2)
HORNBACH Real Estate Wateringen B.V., Wateringen, Netherlands	592	79.4 2)
HORNBACH Real Estate Alblasserdam B.V., Alblasserdam, Netherlands	-1,640	79.4 2)
HORNBACH Real Estate Nieuwegein B.V., Nieuwegein, Netherlands	848	79.4 2)
HORNBACH Real Estate Nieuwerkerk B.V., Nieuwerkerk, Netherlands	2,802	79.4 2)
HORNBACH Real Estate Geleen B.V., Geleen, Netherlands	894	79.4 2)
HORNBACH Reclame Activiteiten B.V., Nieuwegein, Netherlands	13	79.4 2)
HORNBACH Real Estate Nederland B.V., Amsterdam, Netherlands	14,358	100
HORNBACH Baumarkt CS spol s.r.o., Prague, Czech Republic	32,166	79.4 2)
HORNBACH Immobilien HK s.r.o., Prague, Czech Republic	-436	100
HORNBACH Baumarkt (Schweiz) AG, Oberkirch, Switzerland	10,786	79.4 2)
HORNBACH Byggmarknad AB, Gothenburg, Sweden	-18,211	79.4 2)
HIAG Fastigheter i Göteborg AB, Gothenburg, Sweden	275	100
HIAG Fastigheter i Helsingborg AB, Gothenburg, Sweden	134	100
HIAG Fastigheter i Göteborg Syd AB, Gothenburg, Sweden	42	100
HIAG Fastigheter i Stockholm AB, Gothenburg, Sweden	35	100
HORNBACH-Baumarkt SK spol s.r.o., Bratislava, Slovakia	-2,151	79.4 2)
HORNBACH Immobilien SK-BW s.r.o., Bratislava, Slovakia	4,961	100
HORNBACH Centrala SRL, Bucharest, Rumania	-594	79.4 2)
HORNBACH Imobiliare SRL, Bucharest, Rumania	-212	100
HIAG Eiendom i Lier AS, Oslo, Norway	3	100

1) The shareholders' equity is equivalent to the local equity.
2) Of which: 0.01% under short-term assets.

An overall summary of the shareholdings pursuant to Section 285 No. 11 and Section 313 (2 and 3) of the German Commercial Code (HGB) is filed in the Commercial Register of the Landau Local Court.

Subordination and profit and loss transfer agreements have been concluded between HORNBACH HOLDING AG and HORNBACH Immobilien AG and between HORNBACH HOLDING AG and HORNBACH Baustoff Union GmbH. These took effect in the 2000/2001 financial year. HORNBACH Baustoff Union GmbH has itself concluded a subordination and profit and loss transfer agreement with Union Bauzentrum HORNBACH GmbH which also came into effect in the 2000/2001 financial year. Moreover, a subordination agreement and a profit and loss transfer agreement have been in place between Ruhland-Kallenborn Grundstücksverwaltungsgesellschaft mbH and Ruhland-Kallenborn & Co. GmbH since March 1, 2004.

Furthermore, subordination and profit and loss transfer agreements have been concluded between HORNBACH-Baumarkt-AG on the one hand and HORNBACH International GmbH and Ollesch & Fitzner GmbH on the other.

Foreign currency conversion

The consolidated financial statements have been compiled in euros and the amounts stated rounded up or down to the nearest thousand.

Transactions executed in foreign currencies have been converted at the respective transaction rate. All receivables and liabilities denominated in foreign currencies have been valued using the rate on the reporting date regardless of whether they have been hedged or not. The resultant exchange gains and losses have basically been included in the income statement. Forward exchange transactions have been stated at fair value.

In line with IAS 21, the annual financial statements of foreign group companies have been converted 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, long-term assets, other assets and liabilities have been converted at the median rate on the balance sheet reporting date. Exchange rate differences arising from the conversion of the annual financial statements of foreign subsidiaries are treated with no net income effect and are reported separately under retained earnings. Income and expense items are converted using average rates.

The most important foreign exchange rates applied are as follows:

Country	Rate on Reporting Date		Average Rate	
	2.28.2006	2.28.2005	2005/2006	2004/2005
CZK Czech Republic	28.3200	29.7430	29.52067	31.46981
SEK Sweden	9.4490	9.0576	9.32374	9.11079
CHF Switzerland	1.5661	1.5392	1.54914	1.54056
SKK Slovakia	37.0800	37.8700	38.43582	39.65259
RON Rumania	3.5360	-	3.61424	-

Accounting and valuation principles

Assets have generally been valued on the basis of historic costs of acquisition with the exception of derivative financial instruments and financial instruments available for sale, which have been valued at fair value.

Goodwill

Since March 1, 2005, goodwill has not been subject to scheduled amortization but has rather been subject to an annual impairment test. Should any events or change in circumstances indicate any possible value impairment, then such impairment test is to be undertaken more frequently. Pursuant to IAS 36, the book values of the smallest cash generating units, including the goodwill proportionately allocated to such units, are compared with the higher of the net sale price and the utility value (so-called recoverable amount) of such units.

In the event of the book value of the cash generating unit exceeding 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 recorded for the other assets in the cash generating unit. No write-ups of goodwill are undertaken.

In line with the internal management reporting structures, the cash generating units correspond to the smallest strategic reporting levels within the HORNBACH HOLDING AG Group. The utility value is calculated on the basis of the discounted expected future cash flows of a cash generating unit on the basis of the detailed financial planning for the coming financial year and in the strategic five-year plan.

The discounting is undertaken on the basis of average equity and debt capital costs (WACC = Weighted Average Cost of Capital). HORNBACH HOLDING AG uses the yield expected on long-term risk-free federal government bonds for calculating the costs of equity. The costs of debt capital are based on the financing costs of the ten-year bond issued by HORNBACH-Baumarkt-AG during the 2004/2005 financial year. The discount rates applied represent after-tax rates for the respective cash generating units and take account of specific equity and country risks.

Intangible assets

Intangible assets with fixed useful lives are stated at cost of acquisition less cumulative straight-line amortization. Pursuant to IAS 23 "Borrowing Costs", financing costs which can be directly allocated to an asset ("qualifying asset") over the period of the establishment of the utility of such an asset are capitalized as a component of the costs of acquisition or manufacture.

Amortization is calculated using the straight-line method and on the basis of the following economic useful lives:

Useful Life	Years
Software and licenses	3 to 8
Other intangible assets	3 to 13

There are no intangible assets with indeterminate useful lives.

Property, plant and equipment

Property, plant and equipment, including real estate which is held for leasing purposes, is stated at cost of acquisition or manufacture less cumulative depreciation.

Scheduled depreciation is undertaken on a straight-line basis. If there are indications of any impairment of value and if the recoverable amount is less than the updated cost of acquisition or manufacture, then the property, plant and equipment is subject to extraordinary depreciation. If the reason for extraordinary depreciation undertaken in previous years no longer applies, a corresponding write-up is undertaken. Scheduled depreciation across the Group is uniformly based on the following economic useful lives:

Useful Life	Years
Buildings and outdoor facilities (including rented properties)	15 to 33
Other equipment, plant and office equipment	3 to 21

In the event of components of property, plant and equipment having different useful lives, they are stated and valued as separate components.

Financing costs incurred in the context of real estate development ("building interest") and which can be directly allocated to the acquisition, construction or establishment of land and buildings ("qualifying assets") are capitalized as an integral part of the costs of acquisition or manufacture in accordance with IAS 23 (Borrowing Costs).

Leased property, plant and equipment which in economic terms constitutes asset purchases with long-term financing (financial leasing) are stated at fair value in compliance with IAS 17 “Leases” unless the present value of the leasing payments is lower. Scheduled depreciation is undertaken over their economic useful lives or over the term of the contract if this is shorter. Application is made of the same method of depreciation which would apply for comparable assets acquired or manufactured. The obligations relating to future leasing payments are capitalized as liabilities.

Financial assets

In line with IAS 39, financial assets are subdivided as follows: financial assets held to maturity and financial assets available for sale, which are valued at fair value with a corresponding impact on earnings.

Financial assets held to maturity are valued at updated cost of acquisition using the effective interest method.

Financial assets valued at fair value with a corresponding impact on earnings are stated at their value as of the balance sheet reporting date.

Inventories

Inventories are stated at cost of acquisition or manufacture or at net sale value. The net sale value is taken to be the expected realizable sales proceeds less the costs incurred up to such disposal. The acquisition costs of inventory holdings are determined using weighted average prices. Account is taken of the principle of loss-free valuation. The costs of manufacture of unfinished services in the builders’ merchant business include both directly allocable expenses and an appropriate share of production and material overheads.

Accounts receivable and other assets

Accounts receivable and other assets are stated at cost of acquisition or at their lower present value. Account is taken of all identifiable individual risks and general credit risk based on empirical values by means of appropriate value reductions for these items.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term deposits with maturity dates of less than three months.

Long-term assets earmarked for sale

Land, buildings and other long-term assets which are highly likely to be sold in the coming financial year are valued as property, plant and equipment up to the time of such classification. These assets are subsequently stated at fair value, less related disposal expenses, should such be lower than the book value.

Leasing contracts

In the case of leasing contracts in which the respective risks and rewards relating to the asset are mainly transferred to the company, the asset in question is capitalized and stated less cumulative depreciation. Moreover, a corresponding liability is capitalized in the amount of the fair value of the asset or the lower present value of the minimum leasing payments.

Impairment of assets

With the exception of inventories, deferred tax assets and those assets which are stated at fair value, a review is undertaken of all assets on each balance sheet reporting date to ascertain whether there are indications for an impairment of value due to specific facts or circumstances. An extraordinary write-down is recorded in the income statement if the net realizable value is less than the book value of the respective asset. Except in the case of goodwill, a write-up is undertaken if the reasons for the extraordinary write-down no longer apply.

Pensions and similar obligations

Pursuant to the legal requirements in the respective countries, the 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 calculating the pension commitment in accordance with actuarial principles, this procedure accounts for the pensions known of and claims acquired as of the balance sheet reporting date, as well as for the increase in salaries and pensions to be expected in future. In the case of defined contribution plans, the contributions are recorded as expenses upon becoming due for payment.

Provisions

Provisions are taken for uncertain obligations to third parties if such obligations will probably result in a future charge on assets. The provisions are stated after taking account of all discernible risks up to the anticipated settlement amount and are not offset against recourse claims. If the overall effect is material, long-term provisions are stated at their present value discounted to the end of their respective terms. Provisions for pending losses are accounted for if the contractual obligations in the case of stores rented from third parties are higher than the anticipated economic benefits.

Liabilities

Financial liabilities (bank loans, bonds) are reported in the amount of the individual loan less transaction costs and are subsequently reported at their updated cost of acquisition. The difference to the repayment amount is recorded as an expense over the term of the bond using the effective interest rate method. Other liabilities are stated at their repayment amounts.

Sales

Income from the sale of goods is recorded at the time of the transfer of ownership.

Costs of goods sold

As well as the direct acquisition costs of the merchandise in question, the costs of goods sold also include ancillary acquisition costs, such as freight charges, customs duties, and other services rendered.

Rental income

Rental income is recorded on a straight-line basis as sales for the duration of the rental period.

Public grants

Public grants awarded to cover expenses incurred and for assistance purposes are recorded as income in the income statement. Grants awarded for long-term assets reduce the cost of acquisition of such assets.

Expenses

Rental expenses are recorded on a straight-line basis as costs over the term of the rental contract.

Advertising expenses for commercials are produced for image advertising purposes and are generally broadcast directly following their production. The broadcasting costs are recorded as expenses upon receipt of the service (broadcasting by the broadcaster).

Expenses relating to advertising leaflets are deferred and reported as deferred expenses until such leaflets have been distributed.

Interest expenses and interest income are recorded in line with the period for which the loan was granted or the bond issued.

Tax expenses include current and deferred taxation unless they are attributable to facts or circumstances which are directly accounted for under equity.

In line with IAS 12, deferred taxes are accounted for and valued using the balance sheet liability method based on the tax rate valid at the realization date. Deferred tax assets are stated for anticipated tax benefits arising from future realizable losses brought forward. Deferred tax assets arising from deductible temporary differences and tax losses carried forward which exceed temporary taxable differences are only stated to the extent that it can be assumed with reasonable certainty that the company in question will achieve an adequate level of taxable income.

With regard to options issued prior to November 7, 2002 in connection with existing share option plans, no expenses have been taken into account for the difference between the exercise price and the market value of shares or the intrinsic value of the share options granted as long as the options have not been exercised.

The 1999 share option plan of HORNBACH-Baumarkt-AG represents an equity-settled share-based payment. With regard to the fourth tranche of the share option plan, which was issued subsequent to November 7, 2002, the current market value of the options expected to be convertible was calculated for the time of their issue. This amount is spread as an expense over the period up to the non-forfeitability of such options and is recorded as a corresponding increase in shareholders' equity.

The HORNBACH phantom stock plan at HORNBACH-Baumarkt-AG and the share option plan at HORNBACH HOLDING AG represent cash-settled share-based payments. The expenses for the phantom stock plan and for the 4th tranche of the share option plan at HORNBACH HOLDING AG, which was issued subsequent to November 7, 2002, are spread over the qualifying period on a prorated basis. The resultant obligation as of the reporting date has been reported under other liabilities. Changes to the respective values have been accounted for in this respect.

Segment Reporting

The segment reporting is undertaken in compliance with the accounting and valuation methods used in the consolidated financial statements. The sales to external third parties represent net sales. Transfer prices between the segments are equivalent to those applied to external third parties.

Segment definition

The allocation of operating divisions (segments) corresponds to the internal reporting system used by the Board of Management of the HORNBACH HOLDING AG Group for managing the company. The primary reporting system is based on operating divisions, whereas the secondary reporting system makes a distinction between the regions of Germany and of Other European Countries. The "Retail" segment includes the DIY stores and garden centers grouped together in the HORNBACH HOLDING AG Group, as well as specialist garden centers and the builders' merchant business. The "Real Estate" segment includes the retail properties owned by companies in the HORNBACH-Baumarkt-AG Group and by HORNBACH Immobilien AG which let and charge the properties at normal market conditions to the respective DIY stores with garden centers within the Group. The "Miscellaneous and Consolidation" segment includes administration and consolidation items which are not attributable to the individual segments.

Segment results

The segment results depicted represent earnings before interest and taxes (EBIT).

Segment assets and liabilities

Assets and liabilities in the consolidated balance sheet have been directly allocated to the individual segments as far as possible. The remaining assets and liabilities have been allocated on an appropriate basis. 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. The resultant adjustments have been eliminated under the "Miscellaneous and Consolidation" item.

2005/2006 € million (2004/2005 € million)	**Retail**	**Real Estate**	**Miscellaneous and Consolidation**	**HORNBACH HOLDING AG Group**
Segment income	**2,363.9**	**143.3**	**-140.1**	**2,367.1**
	(2,216.5)	(133.8)	(-130.1)	(2,220.2)
Sales to external third parties	2,363.9	0.0	0.0	2,363.9
	(2,216.5)	(0.0)	(0.0)	(2,216.5)
Internal rental income	0.0	140.1	-140.1	0.0
	(0.0)	(130.1)	(-130.1)	(0.0)
Rental income from external third parties	0.0	3.2	0.0	3.2
	(0.0)	(3.7)	(0.0)	(3.7)
Segment results (EBIT)	**35.5**	**75.5**	**-19.2**	**91.8**
	(54.4)	(58.9)	(-14.3)	(99.0)
of which				
Depreciation	45.6	34.2	8.4	88.2
	(46.1)	(29.3)	(6.7)	(82.1)
Segment assets	**803.6**	**873.4**	**116.7**	**1,793.7**
	(702.1)	(886.0)	(173.4)	(1,761.5)
Capital expenditures	**64.2**	**121.3**	**16.8**	**202.3**
	(37.2)	(74.3)	(19.5)	(131.0)
Segment liabilities	**383.7**	**499.3**	**352.1**	**1,235.1**
	(306.1)	(583.0)	(336.5)	(1,225.6)

Analysis by geographical regions

The "Other European Countries" segment includes the Czech Republic, Austria, the Netherlands, Luxembourg, Switzerland, Sweden, Slovakia, Rumania and Norway.

Segment sales are allocated to the geographical regions in which the sales were generated. The sales for Other European Countries include segment sales to be reported pursuant to IAS 14.69 for our subsidiaries in Austria amounting to € 251.0m (2004/2005: € 247.4m). Segment assets are allocated to the region in which they are located. Capital expenditures relate to the assets allocated to the respective segments.

2005/2006 € million (2004/2005 € million)	**Germany**	**Other European Countries**	**Miscellaneous and Consolidation**	**HORNBACH HOLDING AG Group**
Segment income	**1,677.1**	**788.0**	**-98.0**	**2,367.1**
	(1,573.6)	(687.5)	(-40.9)	(2,220.2)
Sales to external third parties	1,576.7	787.2	0.0	2,363.9
	(1,529.8)	(686.7)	(0.0)	(2,216.5)
Sales to affiliated companies	98.0	0.0	-98.0	0.0
	(40.8)	(0.1)	(-40.9)	(0.0)
Rental income from external third parties	2.4	0.8	0.0	3.2
	(3.0)	(0.7)	(0.0)	(3.7)
Segment assets	**1,510.8**	**466.3**	**-183.4**	**1,793.7**
	(1,493.5)	(472.1)	(-204.1)	(1,761.5)
Capital expenditures	**157.2**	**44.9**	**0.2**	**202.3**
	(84.6)	(46.5)	(-0.1)	(131.0)
EBIT	**42.6**	**48.4**	**0.8**	**91.8**
	(58.9)	(40.9)	(-0.8)	(99.0)
Depreciation	**64.8**	**23.4**	**0.0**	**88.2**
	(62.5)	(19.6)	(0.0)	(82.1)
EBITDA	**107.4**	**71.8**	**0.8**	**180.0**
	(121.4)	(60.5)	(-0.8)	(181.1)

Notes on the Consolidated Income Statement

(1) Sales

The sales mainly include income from the "Retail" segment. Income amounting to € 3,215k (2004/2005: € 3,782k) from the letting of real estate has also been included under the heading of sales.

The sales of the Group broken down into operating divisions and regions have been depicted in the segment reporting.

(2) Costs of goods sold

The costs of goods sold represent the expenses required for the generation of sales and are structured as follows:

	2005/2006 € 000s	2004/2005 € 000s
Expenses for ancillary materials and purchased goods	1,522,946	1,417,361
Expenses for external services	10,329	6,775
	1,533,275	**1,424,136**

As a result of the conversion of inventory management to SAP Retail, the depiction of the costs of goods sold has been revised. The components previously recorded separately under expenses for external services are now recorded directly in the floating average valuation of the goods and thus reported under expenses for goods purchased. This has resulted in the following amendments to the amounts reported for the previous year:

	2004/2005 adjusted € 000s	2004/2005 reported € 000s
Expenses for ancillary materials and purchased goods	1,417,361	1,413,679
Expenses for external services	6,775	10,457
	1,424,136	**1,424,136**

(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 are structured as follows:

	2005/2006 € 000s	2004/2005 € 000s
Personnel expenses	327,391	304,978
Cost of premises	115,777	98,402
Advertising	83,337	78,001
General operating expenses	73,273	64,683
Depreciation and amortization	62,509	60,590
Other taxes	2,760	2,806
	665,047	**609,460**

General operating expenses primarily relate to administration expenses, transport costs, maintenance and upkeep, rental expenses for plant and office equipment, and vehicle expenses.

(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 and of specialist retail centers. These comprise personnel expenses amounting to € 7,011k (2004/2005: € 6,221k) and miscellaneous expenses amounting to € 4,623k (2004/2005: € 3,925k). The miscellaneous expenses primarily relate to administration expenses, costs of premises, miscellaneous personnel expenses, depreciation, and other taxes.

(5) General and administration expenses

General and administration expenses include all other costs incurred in connection with the operation or construction of DIY stores with garden centers which cannot be directly allocated to such projects.

General and administration expenses are structured as follows:

	2005/2006 € 000s	2004/2005 € 000s
Personnel expenses	59,405	56,908
Legal and advisory expenses	14,659	11,610
Depreciation and amortization	10,596	8,607
Costs of premises	2,312	2,139
Other general and administration expenses	14,532	12,340
	101,504	**91,604**

Other general and administration expenses mainly relate to IT expenses, travel expenses, and vehicle expenses.

(6) Other income and expenses

Other income and expenses are structured as follows:

	2005/2006 € 000s	2004/2005 € 000s
Other operating income from operating activities		
Income from advertising allowances	12,346	12,779
Income from exchange rate and payment differences	5,526	6,119
Income from the release of provisions	2,433	1,561
Income from the disposal of miscellaneous long-term assets	717	737
Miscellaneous income	12,038	12,063
	33,060	**33,259**
Other operating income from non-operating activities		
Income from the disposal of subsidiaries and from the disposal of DIY megastore properties	29,085	11,846
Income from damages cases	7,871	0
Income from the release of provisions for disadvantageous contracts	3,276	1,925
Miscellaneous income	40	0
	40,272	**13,771**
Other income	**73,332**	**47,030**

The miscellaneous other income mainly relates to income from personnel contributions, damages payments, and cost allowances granted by suppliers.

Non-operating income in the 2005/2006 financial year relates to income from the disposal of five (2004/2005: five) DIY megastore properties, two (2004/2005: one) builders' merchant centers and two (2004/2005: one) specialist retail centers. Furthermore, the income includes the disposal of three real estate investments and of one builder's merchant investment.

The DIY megastore properties were subsequently rented back on a long-term basis within the framework of an operating lease. There is a rental prolongation and purchase option at the end of the non-terminable basic rental period.

	2005/2006 € 000s	2004/2005 € 000s
Other operating expenses from operating activities		
Expenses relating to exchange rate and payment differences	6,746	5,593
Impairments and defaults on accounts receivable	2,837	4,178
Losses incurred on disposals of long-term assets	2,127	2,520
Other operating expenses	2,783	4,137
	14,493	**16,428**
Other operating expenses from non-operating activities		
Extraordinary depreciation of property, plant and equipment	13,875	8,285
Expenses relating to damages cases	6,435	0
Extraordinary amortization of intangible assets	1,169	4,471
Additions to provisions for disadvantageous contracts	0	3,726
Losses incurred on disposals of long-term assets	659	0
Losses incurred on disposals of investments	500	0
	22,638	**16,482**
Other expenses	**37,131**	**32,910**
Other income and expenses (net)	**36,201**	**14,120**

The miscellaneous other operating expenses mainly relate to losses incurred on damages cases and expenses incurred on services which are charged on. The corresponding income has been reported as other income.

(7) Net financial expenses

	2005/2006 € 000s	2004/2005 € 000s
Financial income		
Other interest and similar income	3,782	2,030
Income from the fair value valuation of derivative financial instruments	1,766	355
	5,548	**2,385**
Financial expenses		
Other interest and similar expenses	44,893	39,622
Expenses from the fair value valuation of derivative financial instruments	0	26
	44,893	**39,648**

In line with IAS 17 "Leases", financial leasing contracts are reported under property, plant and equipment and the interest component of the leasing installment amounting to € 226k (2004/2005: € 280k) 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 € 4,370k (2004/2005: € 3,286k) in the year under report and has been capitalized as an integral component of the costs of acquisition and manufacture of the property, plant and equipment concerned. Furthermore, financing costs amounting to € 168k were capitalized in the previous year for the period of preparing the utility of SAP. An average financing cost rate of 5.9% (2004/2005: 5.4% to 5.9%) has been used to determine the level of debt costs to be capitalized.

(8) Taxes on income

Taxes on income include the taxes on income paid or payable in the individual countries, as well as deferred tax accruals.

The German companies included in the HORNBACH HOLDING Group are subject to an average trade tax rate of approximately 16% of their trading income, with the aforesaid tax being deductible for corporate income tax purposes. The corporate income tax rate amounts to 25%, plus 5.5% solidarity surcharge.

All domestic deferred tax items continue to be valued using an average tax rate of 38%. 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 18% to 31%.

The actual income tax charge of € 20,457k (2004/2005: € 24,848k) is € 507k higher (2004/2005: € 1,390k) than the expected tax charge of € 19,950k (2004/2005: € 23,458k) which would have been payable by applying the average tax rate of 38% to the pre-tax earnings of the Group.

Tax losses carried forward and not utilized to date amount to € 43,992k (2004/2005: € 40,328k), for which deferred assets have been reported in full. 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 were reported in the case of losses carried forward amounting to € 1,111k (2004/2005: € 0k) in view of the fact that a future realization of the resultant benefit is not to be expected.

Following the expiry of the so-called moratorium, distributions of earnings undertaken after December 31, 2005 result in a reduction in corporate income tax in the assessment period in which such distribution is undertaken. At the end of the financial year on February 28, 2006, HORNBACH HOLDING AG still has 14 financial years to distribute the corporate income tax credit of a maximum of € 22,746k. In the event of its approval by the Annual General Meeting, the dividend distribution proposed by the Board of Management and Supervisory Board (Note 25) will result in a corporate income tax reduction claim amounting to € 856k.

Breakdown of the tax charge:

	2005/2006 € 000s	2004/2005 € 000s
Current taxation on income		
Germany	6,648	13,575
Other countries	11,339	6,046
	17,987	**19,621**
Deferred taxes		
Based on changes in temporary differences	6,263	3,791
Based on changes in tax rates	-262	-31
Based on losses carried forward	-3,531	1,467
	2,470	**5,227**
Taxes on income	**20,457**	**24,848**

Deferred taxes amounting to € -201k (2004/2005: € -172k) have been recorded under shareholders' equity without any impact on earnings.

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

	2005/2006 € 000s	%	2004/2005 € 000s	%
Anticipated income tax charge	19,950	100.0	23,458	100.0
Tax rate differences	-5,432	-27.2	-3,497	-14.9
Tax-free income	-115	-0.6	-306	-1.3
Tax reductions/increases due to changes in tax rates	-262	-1.3	-31	-0.1
Tax increases attributable to expenses not deductible for tax purposes	3,323	16.6	5,374	22.9
Non-period current and deferred taxes	3,968	19.9	238	1.0
Miscellaneous tax effects	-975	-4.9	-388	-1.7
Taxes on income	**20,457**	**102.5**	**24,848**	**105.9**
Effective tax rate in (%)	39.0		40.3	

(9) Earnings per share

The undiluted 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.

Earnings per share

€	2005/2006	2004/2005
Consolidated earnings	26,954,957.96	27,737,260.12
Additional dividend on preference shares	240,000.00	240,000.00
Consolidated earnings adjusted by additional dividend claims	**26,714,957.96**	**27,497,260.12**
Number of ordinary shares issued	4,000,000	4,000,000
Number of preference shares issued	4,000,000	4,000,000
	8,000,000	**8,000,000**
Earnings per share (€)	**3.34**	**3.44**
Additional dividend claim per preference share (€)	0.06	0.06
Earnings per preference share (€)	**3.40**	**3.50**

(10) Other disclosures on the income statement

Personnel expenses

	2005/2006 € 000s	2004/2005 € 000s
Wages and salaries	322,296	304,423
Social security contributions and pension expenses	71,512	63,684
	393,808	**368,107**

The wages and salaries also include expenses relating to temporary staff. The social security contributions include pension expenses amounting to € 6,615k (2004/2005: € 3,154k). The personnel expenses include expenses relating to the employer's share of the statutory pension scheme amounting to € 21,327k (2004/2005: € 20,617k).

The average number of employees was as follows:

	2005/2006	2004/2005
Salaried employees	11,264	10,797
Wage earners	315	202
Trainees	613	568
	12,192	**11,567**
of which: part-time employees	2,552	2,312

In terms of geographical regions, 8,310 (2004/2005: 8,068) of the average number of employees were employed in Germany during the 2005/2006 financial year, and 3,882 (2004/2005: 3,499) were employed in Other European Countries.

Depreciation and amortization

The depreciation of property, plant and equipment and the amortization of intangible assets were structured as follows:

	2005/2006 € 000s	2004/2005 € 000s
Scheduled amortization of goodwill	0	671
Extraordinary amortization of goodwill	1,169	4,471
Scheduled amortization of intangible assets and depreciation of property, plant and equipment	73,180	68,638
Extraordinary depreciation of property, plant and equipment	13,875	8,285
	88,224	**82,065**

Reference is made to Note 12 in respect of the extraordinary amortization of goodwill reported in the previous year. The extraordinary depreciation of property, plant and equipment relates to land, and in the previous year to land and plant and office equipment. The depreciation was undertaken on account of a reduction in the expected proceeds on disposal. Reference is also made to Note 13 in this respect.

(11) Fee for the services provided by the auditor

The fees recorded as expenses in the 2005/2006 financial year for the auditor of the annual and consolidated financial statements of HORNBACH-Baumarkt-AG, KPMG Deutsche Treuhand-Gesellschaft AG, were structured as follows:

	2005/2006 € 000s
Auditing of financial statements	763
Tax advisory services	159
	922

Notes on the Consolidated Balance Sheet

(12) Intangible assets

The development of intangible assets during the 2004/2005 and 2005/2006 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 of acquisition/manufacture				
Balance at 3.1.2004	40,451	9,396	2,411	52,258
Foreign currency conversion	30	0	0	30
Additions to reporting entity	6	685	0	691
Additions	2,377	0	10,336	12,713
Disposals	76	87	0	163
Reclassifications	129	0	-115	14
Balance at 2.28.2005	**42,917**	**9,994**	**12,632**	**65,543**
Netting of goodwill amortization	0	-6,722	0	-6,722
Balance at 3.1.2005	42,917	3,272	12,632	58,821
Foreign currency conversion	14	0	0	14
Additions to reporting entity	0	994	0	994
Disposals from reporting entity	10	0	0	10
Additions	5,972	175	154	6,301
Disposals	82	0	31	113
Reclassifications	12,246	0	-12,522	-276
Balance at 2.28.2006	**61,057**	**4,441**	**233**	**65,731**
Amortization				
Balance at 3.1.2004	30,611	1,667	0	32,278
Foreign currency conversion	27	0	0	27
Additions	3,136	5,142	0	8,278
Disposals	45	87	0	132
Balance at 2.28.2005	**33,729**	**6,722**	**0**	**40,451**
Netting of goodwill amortization	0	-6,722	0	-6,722
Balance at 3.1.2005	33,729	0	0	33,729
Foreign currency conversion	13	0	0	13
Disposals from reporting entity	6	0	0	6
Additions	4,989	1,169	0	6,158
Disposals	78	0	0	78
Balance at 2.28.2006	**38,647**	**1,169**	**0**	**39,816**
Book value at 2.28.2006	**22,410**	**3,272**	**233**	**25,915**
Book value at 2.28.2005	9,188	3,272	12,632	25,092

The addition to the reporting entity in the 2005/2006 financial year amounting to € 994k results from the acquisition of the remaining shares in Robert Röhlinger GmbH. The takeover of the Überherrn location by Ruhland-Kallenborn & Co. GmbH resulted in additions to goodwill amounting to € 175k. The disposals during the current financial year result from the sale of shares in BauWerk Zentrum für´s

Bauen GmbH (as of December 15, 2005). The additions resulting from changes in the reporting entity in the 2004/2005 financial year related to the initial consolidation of BauWerk Zentrum für´s Bauen GmbH and to the acquisition of the remaining shares in Ruhland-Kallenborn & Co. GmbH.

The additions to franchises, industrial property rights and similar rights and values and licenses to such rights and values mainly relate to license fees for SAP software and expenses incurred in connection with adapting the software to its intended utilization. The additions mainly relate to the expansion of SAP to include the retail module and the HR module.

Pursuant to IFRS 3, the cumulative amortization of goodwill amounting to € 6,722k as of March 1, 2005 was offset against its cost of acquisition at the beginning of the 2005/2006 financial year.

The amortization is included in the following items in the income statement:

	2005/2006 € 000s	2004/2005 € 000s
Selling and store expenses	906	1,639
General and administration expenses	4,083	2,168
Other non-operating income and expenses	1,169	4,471
	6,158	**8,278**

Extraordinary write-downs of goodwill amounting to € 1,169k (2004/2005: € 4,471k) were undertaken in the retail segment during the 2005/2006 financial year. As in the previous year, these write-downs were attributable to a change in earnings prospects in the builders' merchant business. The values were calculated using discounted cash flows with interest rates of between 8.6% and 8.9%.

As in the previous year, there are no major restrictions on ownership and disposition rights.

(13) Property, plant and equipment, as well as real estate leased to third parties and reserve land

The development of property, plant and equipment during the 2004/2005 and 2005/2006 financial years was as follows:

€ 000s	Land, leasehold rights and buildings, including buildings on non-proprietary land	Real estate leased to third parties and reserve land in line with IAS 40 (Investment Property)	Other equipment, plant and office equipment	Assets under construction	Total
Cost of acquisition/manufacture					
Balance at 3.1.2004	970,436	51,730	376,209	29,686	1,428,061
Foreign currency conversion	5,866	0	1,554	630	8,050
Additions to reporting entity	16,009	0	4	0	16,013
Disposals from reporting entity	20,810	0	88	0	20,898
Additions	24,775	4,157	39,538	33,129	101,599
Disposals	15,438	2,273	17,037	1,472	36,220
Reclassifications	12,277	-860	1,394	-12,825	-14
Balance at 2.28.2005	**993,115**	**52,754**	**401,574**	**49,148**	**1,496,591**
Balance at 3.1.2005	993,115	52,754	401,574	49,148	1,496,591
Foreign currency conversion	2,385	0	474	80	2,939
Disposals from reporting entity	41,735	0	162	1,194	43,091
Reclassifications to long-term assets earmarked for sale	-19,795	-3,037	-71	0	-22,903
Additions	112,000	10,752	57,118	13,744	193,614
Disposals	147,588	2,545	24,062	176	174,371
Reclassifications IAS 40	-17,913	17,913	0	0	0
Reclassifications	41,266	0	3,477	-44,472	271
Balance at 2.28.2006	**921,735**	**75,837**	**438,348**	**17,130**	**1,453,050**
Depreciation					
Balance at 3.1.2004	170,945	4,702	244,602	263	420,512
Foreign currency conversion	406	0	841	0	1,247
Disposals from reporting entity	213	0	3	0	216
Additions	29,043	2,127	42,610	7	73,787
Disposals	2,427	261	14,291	0	16,979
Reclassifications	0	0	0	0	0
Balance at 2.28.2005	**197,754**	**6,568**	**273,759**	**270**	**478,351**
Balance at 3.1.2005	197,754	6,568	273,759	270	478,351
Foreign currency conversion	368	0	470	0	838
Disposals from reporting entity	784	0	9	0	793
Reclassifications to long-term assets earmarked for sale	-4,581	-798	-44	0	-5,423
Additions	29,024	7,850	45,192	0	82,066
Disposals	12,028	70	20,841	0	32,939
Reclassifications IAS 40	-6,338	6,338	0	0	0
Reclassifications	20	0	-20	0	0
Balance at 2.28.2006	**203,435**	**19,888**	**298,507**	**270**	**522,100**
Book value at 2.28.2006	**718,300**	**55,949**	**139,841**	**16,860**	**930,950**
Book value at 2.28.2005	795,361	46,186	127,815	48,878	1,018,240

Investment subsidies amounting to € 2,514k were claimed in connection with the Vilshofen location during the 2005/2006 financial year. Of this sum, € 1,519k related to buildings, € 585k to outdoor facilities and € 410k to plant and office equipment.

Extraordinary depreciation amounting to € 13,875k was undertaken during the year under report (2004/2005: € 8,285k). Of this sum, € 6,252k (2004/2005: € 7,535k) related to land, € 7,022k (2004/2005: € 750k) to buildings and € 601k (2004/2005: € 0k) to outdoor facilities in the "Real Estate" segment. Of the extraordinary depreciation, € 6,150k (2004/2005: € 1,609k) related to real estate let to third parties and to reserve land not yet earmarked for any particular utilization. The extraordinary depreciation resulted from the valuation of assets whose book values were in excess of their respective net sale values. The net sale value of the land was determined by independent experts primarily on the basis of capitalized earnings power or on the basis of the respective purchase agreements.

Reference is made to Note 7 with regard to capitalized financing costs.

There were no additions to the reporting entity resulting from acquisitions during the 2005/2006 financial year. The additions to the reporting entity in the previous year resulted from the initial consolidation of the shares in BM Immobilien Omega GmbH, and in BauWerk Zentrum für's Bauen GmbH and from the acquisition of the remaining shares in Ruhland-Kallenborn & Co. GmbH. The disposals from the reporting entity in the 2005/2006 financial year relate to the sale of shares in BM Immobilien Zeta GmbH, BM Immobilien Beta GmbH, HIAG Fastighter I Malmö AB, HIAG Fastigheter i Norrköping AB and of the majority shareholding held in BauWerk Zentrum für's Bauen GmbH. The disposals in the 2004/2005 financial year related to the sale of shares in BM Immobilien Alpha GmbH.

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 and Hornbach Byggmarknad AB in the case of foreign consolidated companies.

Real estate leased to third parties and reserve land not yet scheduled for any specific use mainly relate 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 for prolongation options for the lessee. The properties leased to third parties are stated at cost less scheduled straight-line depreciation. A useful life of 33 years has been assumed. The market value of real estate leased to third parties, including reserve land, amounts to approximately € 75,323k (2004/2005: € 63,001k). The market 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 at the reporting date on February 28, 2006.

Long-term assets which are available to the Group on the basis of financial leasing contracts have been reported in the balance sheet as property, plant and equipment amounting to € 2,343k (2004/2005: € 3,032k). These relate to rented buildings. Financial leasing contracts are generally concluded for a basic rental period of 10 to 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. The leased assets act as security for the relevant leasing obligations.

In addition to financial leasing contracts, the HORNBACH HOLDING AG Group has rental and leasing contracts for DIY store real estate which qualify as operating leasing contracts as a result of the assets leased being economically attributable to the lessor. The leasing contracts have non-terminable basic rental periods of 15 to 20 years and generally have rent prolongation or purchase options.

A sum of € 64,485k was reported as rental expenses, excluding ancillary expenses, resulting from operating leasing contracts in the 2005/2006 financial year (2004/2005: € 55,939k).

The real estate in question acts as security for bank loans in the form of registered land charges amounting to € 653,237k (2004/2005: € 670,598k).

Depreciation of € 2,788k was reported during the current financial year for the real estate amounting to € 17,480k reclassified pursuant to IFRS 5 as short-term assets as of 2.28.2006.

(14) Financial assets

Financial assets showed the following developments during the 2004/2005 and 2005/2006 financial years:

€ 000s	Shares in affiliated companies	Investments	Loans to companies linked by virtue of investment	Investment securities	Advance payments for financial assets	Total
Cost of acquisition						
Balance at 3.1.2004	1,268	12,375	1,794	242	1,328	17,007
Disposals from reporting entity	832	0	0	0	0	832
Additions	0	0	0	0	5	5
Disposals	0	0	0	78	0	78
Reclassifications	604	0	0	0	-604	0
Balance at 2.28.2005	**1,040**	**12,375**	**1,794**	**164**	**729**	**16,102**
Balance at 3.1.2005	1,040	12,375	1,794	164	729	16,102
Additions	0	0	0	0	110	110
Disposals	0	0	0	63	0	63
Reclassifications	0	0	0	0	5	5
Balance at 2.28.2006	**1,040**	**12,375**	**1,794**	**101**	**844**	**16,154**
Amortization						
Balance at 3.1.2005	0	12,350	1,794	0	0	14,144
Balance at 2.28.2006	**0**	**12,350**	**1,794**	**0**	**0**	**14,144**
Book value at 2.28.2006	**1,040**	**25**	**0**	**101**	**844**	**2,010**
Book value at 2.28.2005	1,040	25	0	164	729	1,958

Those affiliated companies which have not been consolidated have been stated under Note 37.

Investment securities relate to securities which have to be held for legal reasons in Austria as cover for personnel-related provisions.

No disposals from the reporting entity have been reported for the 2005/2006 financial year. The disposals from the reporting entity in the 2004/2005 financial year resulted from the initial consolidation of the shares in BM Immobilien Omega GmbH, BauWerk Zentrum für´s Bauen GmbH, Self-made Haus GmbH and Werbeagentur Plusconcept GmbH.

Of the financial assets, € 101k (2004/2005: € 164k) have been stated at fair value. All other financial assets have been stated at cost of acquisition in view of the fact that fair values cannot be reliably determined.

The advance payments for financial assets relating to the real estate shareholding in BM Immobilien Omega GmbH (previously: KiWi Grund GmbH) were reclassified in the previous year. The shares in this subsidiary were acquired in full in the 2004/2005 financial year, and the company included in the consolidated financial statements.

(15) Other long-term assets

Other long-term assets relate to deposits of € 3,060k (2004/2005: € 2,980k) paid as security for possible subsequent claims of the buyers to purchase price reductions. The deposits have a maximum term of 16 years. Moreover, this item also includes a purchase price claim resulting from the sale of real estate amounting to € 540k (2004/2005: € 0k), guarantees for time account reinsurance in the event of insolvency amounting to € 166k (2004/2005: € 0k) and an advance payment of € 1,300k (2004/2005: € 0k) made for a piece of land.

(16) Deferred taxes

Deferred taxes relate to the following items:

	2.28.2006		2.28.2005	
	Assets € 000s	Liabilities € 000s	Assets € 000s	Liabilities € 000s
Intangible assets and property, plant and equipment	8,219	76,605	9,397	74,581
Inventories	0	4,526	0	3,080
Short-term assets	0	109	0	171
Other provisions	2,650	33	3,360	33
Liabilities	1,653	4,201	1,876	4,057
Tax-free reserves	0	5,363	0	5,399
Losses carried forward	14,937	0	12,670	0
Consolidated balance sheet	**27,459**	**90,837**	**27,303**	**87,321**

(17) Inventories

	2.28.2006 € 000s	2.28.2005 € 000s
Auxiliary materials and supplies	2,366	2,057
Unfinished products, unfinished services	957	1,702
Finished products and merchandise	517,935	447,623
Inventories (gross)	**521,258**	**451,382**
less impairments	9,077	7,850
Inventories (net)	**512,181**	**443,532**
Book value of inventories valued at market value less disposal costs still to be incurred	30,076	22,064

(18) Accounts receivable and other assets

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

	2.28.2006 € 000s	2.28.2005 € 000s
Receivables from sale of land	34,998	18,500
Accounts receivable	17,473	17,548
Receivables from credit notes for goods, inter alia	17,576	14,759
Deferred charges and prepaid expenses	5,611	7,342
Receivables from credit card companies	5,673	4,991
Receivables from damages claims	4,643	0
Receivables from the valuation of derivative financial instruments	1,519	81
Tax refund claims	499	164
Other assets	6,859	5,117
	94,851	**68,502**

The other assets include receivables amounting to € 34,998k (2004/2005: € 18,500k) from the disposal of one (2004/2005: one) DIY megastore with a garden center and of one specialist retail center.

Write-downs amounting to € 4,329k (2004/2005: € 4,166k) have been undertaken on accounts receivable.

As in the previous year, there are no major restrictions on ownership or disposition rights in respect of the other receivables and assets reported in the balance sheet.

Deferred charges and prepaid expenses mainly relate to advance payments for the maintenance of hardware and software and to insurance premiums paid. In the previous year, this item also included TV advertising time paid in advance for March 2005.

(19) Cash and cash equivalents

	2.28.2006 € 000s	2.28.2005 € 000s
Credit balances at banks	146,739	153,356
Checks and cash on hand	14,642	8,446
	161,381	**161,802**

(20) Long-term assets earmarked for sale

One DIY megastore with a garden center earmarked for sale, as well as six further pieces of land not required for operations, which are very likely to be sold in the coming financial year, have been reported under this item. These assets are allocated to the "Real Estate" segment.

(21) Shareholders' equity

The development of the shareholders' equity in the HORNBACH HOLDING AG Group is shown in the change in shareholders' equity schedule for the 2004/2005 and 2005/2006 financial years.

(22) Share capital

The share capital continues to amount to € 24,000,000.00. Each share has a nominal value of € 3.00. The shares are divided as follows:

	€
4,000,000 ordinary shares	12,000,000
4,000,000 non-voting preference shares	12,000,000
	24,000,000

Each ordinary share has one vote. Non-voting preference shares receive a preferential dividend amounting to 4% of their share of the share capital from the net income for the year. If the annual net income in one or several financial years is not sufficient to distribute a preferential dividend of at least 4% on the preference shares, the arrears are payable without interest from the net income 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 income 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 income for the financial year in which the subsequent payment on the preference shares is made from the net income 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, the payment of a dividend on the ordinary shares is then payable up to 4% of its share in the share capital. After the distribution of a dividend of 4% on the ordinary shares, the preference and ordinary shares participate in a further dividend distribution in the ratio of their shares in the share capital in such a way that the preference shares receive an additional dividend of 2% 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, preference shareholders shall be granted voting rights until the arrears have been settled.

HORNBACH HOLDING AG published the following notification in the Stock Exchange Gazette (Börsen-Zeitung) on April 20, 2002 pursuant to Section 41 (3) of the German Securities Trading Act (WpHG): Kingfisher plc, London/UK, has notified us in accordance with Section 41 (2) Sentence 1 of the German Securities Trading Act (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 relate exclusively to its own voting rights.

HORNBACH HOLDING AG published the following notification in the Stock Exchange Gazette (Börsen-Zeitung) on September 7, 2004 pursuant to Section 25 (1) of the German Securities Trading Act (WpHG): Albert Wilhelm Hornbach, Bornheim/Pfalz, has notified us in accordance with Section 21 (1) of the German Securities Trading Act (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% (219,763 ordinary shares) of the voting capital in the company. These relate exclusively to his own voting rights. Gertraud Hornbach, Bornheim/Pfalz, has notified us in accordance with Section 21 (1) of the German Securities Trading Act (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% (210,000 ordinary shares) of the voting rights. These relate exclusively to her own voting rights.

HORNBACH Familien-Treuhandgesellschaft mbH, Annweiler am Trifels, has notified us in accordance with Section 21 (1) and Section 22 (1) No. 6 of the German Securities Trading Act (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 Section 22 (1) No. 6 of the German Securities Trading Act (WpHG).

(23) Capital reserve

No changes have been made to the capital reserve, which consists of the following items:

	€ million	€ million
Premium on the capital increase at HORNBACH HOLDING AG in 1987/1988	30.6	
Withdrawal in 1999/2000 for the capital increase from company funds	-3.5	27.1
Premium on the capital increase at HORNBACH-Baumarkt-AG in 1993/1994	128.9	
Minority interests	-25.9	103.0
Premium on convertible bonds converted at HORNBACH-Baumarkt-AG		0.3
		130.4

(24) Retained earnings

Retained earnings relate to "revenue reserves", as well as cumulative earnings allocable to shareholders.

Retained earnings also include foreign currency conversion differences amounting to € 3,841k (2004/2005: € 2,147k).

(25) Distributable earnings and dividends

The distributable amounts relate to the net earnings reported in the balance sheet of HORNBACH HOLDING AG calculated in accordance with German commercial law.

The Board of Management and the Supervisory Board of HORNBACH HOLDING AG will propose to the annual general meeting that, following the allocation of € 4,100,000 to other revenue reserves, the net earnings of € 8,927,779.95 reported in the balance sheet of HORNBACH HOLDING AG as of February 28, 2006 be appropriated as follows:

	€
Dividend of € 1.08 on 4,000,000 ordinary shares	4,320,000.00
Dividend of € 1.14 on 4,000,000 preference shares	4,560,000.00
Balance to be carried forward to the following year	47,779.95
	8,927,779.95

(26) Financial debt

Total short-term and long-term financial debt is structured as follows:

2005/2006 financial year € 000s	Short-term < 1 year	Maturities Long-term 1 to 5 years	> 5 years	Book Value 2.28.2006 Total	Fair Value 2.28.2006 Total
Bonds	0	184	240,634	240,818	259,559
of which convertible	(0)	(184)	(0)	(184)	
Liabilities to banks	181,577	194,614	201,936	578,127	588,843
Liabilities in connection with financial leasing contracts	606	662	1,685	2,953	3,150
Acceptance liabilities	610	0	0	610	610
Liabilities in connection with derivative financial instruments	4,789	0	0	4,789	4,789
Total	**187,582**	**195,460**	**444,255**	**827,297**	**856,951**

2004/2005 financial year € 000s	Short-term < 1 year	Maturities Long-term 1 to 5 years	> 5 years	Book Value 2.28.2005 Total	Fair Value 2.28.2005 Total
Bonds	0	188	239,411	239,599	301,371
of which convertible	(0)	(188)	(0)	(188)	
Liabilities to banks	98,848	269,185	223,385	591,418	606,368
Liabilities in connection with financial leasing contracts	796	1,090	1,867	3,753	4,006
Acceptance liabilities	614	0	0	614	614
Liabilities in connection with derivative financial instruments	5,456	0	0	5,456	5,456
Total	**105,714**	**270,463**	**464,663**	**840,840**	**917,815**

HORNBACH-Baumarkt-AG placed a paper with a volume of € 250m, a term of ten years and an interest coupon of 6.125% on the European capital market for corporate bonds in November 2004. This liability has been stated under long-term financial debt following the deduction of the related expenses of € 10,880k. The expenses arising in connection with the corporate bond have been distributed over the term of ten years using the effective interest method. The bond is linked to compliance with covenants customary to banks, such as the ratio of EBITDA to interest expenses. Non-compliance with the respective ratios or other obligations set out in the bond agreement may result in a premature repayment obligation. The company has so far complied with all such covenants.

The inflow of funds from the corporate bond was used to redeem the short-term financing facilities of the HORNBACH-Baumarkt-AG subgroup in full. This subgroup had no short-term financing facilities at the balance sheet reporting date on February 28, 2006. The short-term financial debt (< 1 year) amounting to € 187.6m relates to short-term financing facilities at the HORNBACH Immobilien AG and HORNBACH Baustoff Union GmbH subgroups (€ 36.6m), acceptance liabilities (€ 0.6m), interest provisions (€ 9.8m), the short-term portion of long-term financing facilities (€ 135.8m), and to the valuation of derivative financial instruments (€ 4.8m).

Land charges amounting to € 653,237k (2004/2005: € 670,598k) have been registered as collateral for liabilities to banks.

The HORNBACH HOLDING AG Group had credit lines amounting to € 378.2m on February 28, 2006 (2004/2005: € 354.9m). The unutilized credit lines amounted to € 324.4m (2004/2005: € 309.6m). In addition to the aforementioned multi-purpose credit lines, HORNBACH-Baumarkt-AG also has a special purpose credit line with a term of 364 days until July 20, 2006, on the basis of which an unsecured borrowers' note loan of € 80m may be issued at any time with a floating interest rate and a term of five years. Furthermore, HORNBACH-Baumarkt-AG has credit lines for import credits amounting to USD 15.0m, of which USD 1.6m (2004/2005: USD 9.8m) had not been used at the balance sheet reporting date.

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 medium and long-term liabilities to banks. These are mostly fixed-interest loans and consist of the following items:

2005/2006 financial year	Currency	% Interest Agreement (including swap)	Maturity	Amount 2.28.2006 € 000s
Loans	€	0.00 to 5.95	2006 to 2009	19,844
Mortgage loans	€	3.17 to 6.95	2006 to 2023	449,774
	CZK	4.38 to 7.98	2010 to 2020	48,372
	SEK	6.60	2018	13,758
				531,748

2004/2005 financial year	Currency	% Interest Agreement (including swap)	Maturity	Amount 2.28.2005 € 000s
Loans	€	0.5 to 7.11	2005 to 2009	19,372
Mortgage loans	€	3.75 to 7.72	2005 to 2023	452,449
	CZK	5.08 to 7.98	2010 to 2018	36,733
	SEK	6.6	2018	15,457
				524,011

The variable interest rates of swapped mortgage loans charge interest at the 3 month EUR-Libor, the 6 month EUR-Libor, the 3 month Euribor and the 6 month Euribor. The swap margins range from 0.30 to 0.75 basis points (2004/2005: 0.30 to 1.30).

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

2005/2006 financial year € 000s	< 1 year	Maturities 1 to 5 years	> 5 years	Total
Liabilities from financial leasing contracts	606	662	1,685	**2,953**
Interest component	179	545	430	**1,154**
Total leasing payments to be made in future	785	1,207	2,115	**4,107**

2004/2005 financial year € 000s	bis 1 Jahr	Maturities 1 to 5 years	> 5 years	Total
Liabilities from financial leasing contracts	796	1,090	1,867	**3,753**
Interest component	230	601	549	**1,380**
Total leasing payments to be made in future	1,026	1,691	2,416	**5,133**

(27) Pensions and similar obligations

As a result of legal requirements in individual countries, the HORNBACH HOLDING AG Group has obligations relating to defined benefit and defined contribution pension plans.

Pension commitments in the Netherlands have been accounted for as defined contribution plans, given that the information required to account for these plans as defined benefit plans was not available.

Apart from the 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 € 22,738k in the 2005/2006 financial year (2004/2005: € 22,077k).

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 only has one fund-financed pension plan which is financed via an external pension provider. This pension plan is attributable to legal requirements in Switzerland.

As a result of contractual and legal amendments to the pension commitments in Switzerland at the end of the financial year, these commitments have been stated for the first time in accordance with the regulations governing defined benefit pension plans.

	2.28.2006 € 000s
Present value of pension obligation	11,404
Fair value of plan assets	7,934
Provision for pension commitments	**3,470**

As a result of the amendment to the plan at the end of the financial year, the entire amount of the provision has been recorded with a corresponding impact on earnings in the following income statement items for the retail segment.

	2005/2006 € 000s
Selling and store expenses	3,102
General and administration expenses	368
	3,470

The calculation has been based on the following actuarial assumptions:

	2005/2006
Discount interest rate	2.7%
Expected return on plan assets	3.0%
Future salary increases	1.5%
Future pension increases	0.5%

(28) Other long-term liabilities

Other long-term liabilities are structured as follows:

	2.28.2006 € 000s	2.28.2005 € 000s
Liabilities	481	1,402
Accruals	1,523	1,661
Other personnel-related provisions	5,222	4,611
	7,226	**7,674**

The liabilities mainly relate to liabilities totaling € 368k (2004/2005: € 275k) resulting from a valuation of the phantom stock plan at HORNBACH-Baumarkt-AG and of the share option plan of HORNBACH HOLDING AG. The liabilities reported in the previous year also included a remaining purchase price liability of € 1,022k, including interest, for the BM Immobilien Omega GmbH subsidiary.

The accruals of € 1,523k (2004/2005: € 1,661k) were taken in connection with disposal profits generated within the framework of financial leasing and are being written back to earnings over the outstanding term of the rental agreement (14 years).

Other long-term personnel-related provisions mainly relate to the statutory reserve amounting to € 2,253k (2004/2005: € 2,045k) required in Austria to cover potential claims on the part of employees in the event of their leaving the company.

The other personnel-related provisions also include provisions for part-time early retirement. These relate to the part-time early retirement agreements concluded within the HORNBACH HOLDING AG Group. The work undertaken by part-time early retirees is in most cases performed within the framework of a so-called block model. Provisions amounting to € 2,717k (2004/2005: € 2,312k) have been taken to cover the performance backlog up to the reporting date and for top-up payments. The provisions were calculated by an independent expert on the basis of the 2005 G mortality tables published by Heubeck-Richttafel-GmbH and a discount rate of 3.35% p.a. Moreover, provisions of € 129k (2004/2005: € 98k) were taken to cover part-time early retirement obligations in Austria.

(29) Accounts payable and other liabilities

	2.28.2006 € 000s	2.28.2005 € 000s
Advance payments received for orders	6,001	5,223
Accounts payable	183,806	169,661
Other liabilities	51,260	50,857
of which: taxation	(16,281)	(15,397)
of which: social security contributions	(7,603)	(8,361)
	241,067	**225,741**

As in the previous year, all accounts payable and other liabilities have an outstanding term of less than one year.

Accounts payable are secured by reservations of title to the customary extent.

Taxation liabilities include amounts for which the individual group companies are liable. Liabilities for social security contributions mainly include contributions yet to be remitted to the social security funds. Other liabilities mainly include amounts due for outstanding invoices, merchandise vouchers not yet redeemed and liabilities relating to salary payments to employees.

(30) Taxation and other provisions

Provisions showed the following developments during the 2005/2006 financial year:

Type of Provision € 000s	Opening Balance 3.1.2005	Changes to Reporting Entity	Foreign Currency Conversion	Utilized	Released	Added	Closing Balance 2.28.2006
Tax provisions	**14,712**	**-179**	**161**	**10,156**	**86**	**14,265**	**18,717**
Other provisions							
Personnel expenses	37,475	-11	-15	31,651	1,076	33,276	37,998
of which: long-term	4,611	0	0	522	52	1,185	5,222
Other	16,421	-1,088	2	7,600	4,633	10,612	13,714
	53,896	**-1,099**	**-13**	**39,251**	**5,709**	**43,888**	**51,712**
Total	**68,608**	**-1,278**	**148**	**49,407**	**5,795**	**58,153**	**70,429**

Tax provisions

Tax provisions include provisions for current income taxes and for miscellaneous taxes. Current income tax provisions are offset against corresponding income tax refund claims, provided that they relate to the same tax authority 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, as well as to foreign income taxes.

Reference is made to Note 16 with regard to the deferred taxes capitalized under a special item.

Other provisions

Provisions for personnel expenses mainly relate to outstanding holiday entitlements, overtime, holiday pay, Christmas bonuses, employee bonuses, disabled persons levy and pension contributions. The provisions for personnel expenses include long-term provisions amounting to € 5,222k (2004/2005: € 4,611k).

Other provisions mainly relate to gas, water, electricity, year-end expenses, litigation expenses, insurance expenses, and warranty costs.

More detailed information has been provided in this respect under Note 30. As in the previous year, all other taxation and other provisions reported here have an outstanding term of less than one year.

(31) Contingent liabilities

As in the previous year there were no contingent liabilities as of February 28, 2006.

(32) Other financial obligations

2005/2006 financial year € million	< 1 year	Maturities 1 to 5 years	> 5 years	Total
Purchase obligations for capital expenditures	32.6	0.0	0.0	32.6
Obligations under rental, hiring, leasehold and leasing contracts	74.0	283.7	556.4	914.1
Other financial obligations	2.3	0.1	0.0	2.4
	108.9	**283.8**	**556.4**	**949.1**

2004/2005 financial year € million	< 1 year	Maturities 1 to 5 years	> 5 years	Total
Purchase obligations for capital expenditures	100.5	0.0	0.0	100.5
Obligations under rental, hiring, leasehold and leasing contracts	59.9	229.0	459.6	748.5
Other financial obligations	1.4	0.1	0.0	1.5
	161.8	**229.1**	**459.6**	**850.5**

Furthermore, there is a mutual offer right relating to a leasing contract for an Austrian DIY store with a garden center with a sales area of 11,825 m^2.

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 Lease). Rental agreements mainly relate to DIY stores in Germany and at foreign locations. The terms of the rental agreements range from 15 to 20 years, and there are subsequent rental prolongation options. The respective agreements include rent adjustment clauses.

(33) Future income from rental and leasing contracts

Future income from rental and leasing contracts is as follows:

2005/2006 financial year € 000s	Short-term < 1 year	Maturities Long-term 1 to 5 years	> 5 years	Total
Rental income				
Third parties	2,367	8,776	6,418	**17,561**

2004/2005 financial year € 000s	Short-term < 1 year	Maturities Long-term 1 to 5 years	> 5 years	Total
Rental income				
Third parties	2,467	9,755	9,080	**21,302**

The rental income mainly results from the letting of retail real estate and office premises. In most cases, the rental contracts have terms of between 8 and 15 years.

Expenses amounting to € 2,106k (2004/2005: € 2,024k) were incurred in connection with the letting of properties to third parties during the year under report.

(34) 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 a material effect on the economic situation of the Group. Moreover, appropriate provisions have been taken or sufficient insurance benefits are anticipated for any financial charges in connection with other legal or arbitration proceedings involving the group companies. Such charges are therefore not expected to have any significant impact on the financial position of the Group.

In the previous year, additional risks had emerged as of February 28, 2005 in connection with possible disputes in respect of patent law. While any recourse to HORNBACH-Baumarkt-AG in this respect was not deemed likely, the possibility could not be completely excluded. The potential recourse amounted to € 13.3m as of the balance sheet reporting date on February 28, 2005. In the event of any recourse in this matter, HORNBACH-Baumarkt-AG has possible reimbursement claims in the same amount. As of the balance sheet reporting date on February 28, 2006 the legal dispute concerning this matter was no longer expected. The possibility of any recourse can therefore be almost completely excluded.

(35) Financial instruments

Financial instruments are financial transactions based on contracts involving a claim to payment. In line with IAS 32 “Financial Instruments: Disclosure and Presentation”, these include primary financial instruments on the one hand, such as accounts receivable and payable, as well as financial claims and financial liabilities. On the other hand, they also include derivative financial instruments, such as options, forward exchange transactions, interest rate swaps, and currency swaps.

Primary financial instruments

The volume of primary financial instruments can be seen in the balance sheet. In line with IAS 39 "Financial Instruments: Recognition and Measurement", asset-side financial instruments are stated at cost of acquisition or at fair value. Financial instruments which constitute liabilities are stated at their updated cost of acquisition. Shares in non-consolidated subsidiaries and shareholdings are also regarded as "financial assets available for sale", but they are generally valued at cost of acquisition in view of the fact that there is no active market for these companies and that their respective fair values cannot be reliably determined without disproportionate expense. Lower attributable values are stated in the event of there being indications to this effect.

Derivative financial instruments

Derivative financial instruments, such as forward exchange transactions, interest limitation agreements (caps), and interest rate swaps, are used to hedge exchange rate and interest risks. Derivative financial instruments are initially stated at cost of acquisition and subsequently reported at fair value. In line with our risk principles, no derivative financial instruments are held for trading purposes.

The fair values of forward exchange transactions (including the embedded forward exchange transaction) and foreign currency options are determined on the balance sheet reporting date on the basis of market conditions. The fair value of interest rate swaps on the balance sheet reporting date is determined by the financial institutions with which the swaps were concluded.

The following table provides an overview of the derivative financial transactions on the balance sheet reporting date together with their nominal and fair values.

At the same time, the values of opposing transactions, such as foreign exchange purchases or sales, are shown on a net basis. Nominal value totals are shown in the nominal value line without the offsetting of any opposing transactions.

Derivative financial instruments 2005/2006 financial year	Interest Limitation Agreements	Forward Exchange Transactions	Interest Swaps	Total
Nominal value (€ 000s)	4,261	37,322	146,276	187,859
Fair value in € 000s (before deferred taxes)	0	248	-3,519	-3,271

Derivative financial instruments 2004/2005 financial year	Interest Limitation Agreements	Forward Exchange Transactions	Interest Swaps	Total
Nominal value (€ 000s)	7,101	3,017	73,373	83,491
Fair value in € 000s (before deferred taxes)	0	-26	-5,430	-5,456

Accounting for hedging transactions

Hedging transactions act as a safeguard against the interest and currency risks associated with an underlying transaction. The risk of variable interest payments is mainly hedged by means of swaps which convert the variable interest payment into a fixed interest payment. The currency risk of future transactions, such as the purchase of goods in the Far East using US dollars, is hedged by means of forward exchange transactions. Hedging transactions are mainly deployed for currency risks relating to future transactions which are expected within a period of one year. The fair value of cash flow hedging transactions is shown in the balance sheet as an asset or liability and is reported as an opposing item in revenue reserves taking account of deferred taxes and only recorded as having an effect on earnings when the payment has actually materialized.

Risks of financial instruments

Currency risk

Currency risks, i.e. the potential reduction in value of a financial instrument on account of changes in foreign exchange rates, particularly apply wherever accounts receivable and accounts payable exist in a currency different from the local currency of the company, or will exist in the scheduled course of business.

The company is exposed to foreign currency risks. These risks derive from the purchase of goods in the Far East using US dollars, with the corresponding sales mainly being denominated in European currencies.

The company deploys forward exchange transactions to manage its foreign currency risks. The risks arising from operating activities are systematically recorded and analyzed. Decisions are taken on a regular basis as to the scope of hedging deals.

The fair value of forward exchange transactions, including embedded forward exchange transactions, amounted to € 258k as of February 28, 2006 (2004/2005: € 55k). Of this amount, € 313k (2004/2005: € 81k) has been stated as other assets and € 65k (2004/2005: € 26k) as other liabilities.

Interest risk

At the end of the year, the Group was principally financed by a euro bond amounting to € 250,000k and by long-term fixed interest euro loans amounting to € 469,618k (2004/2005: € 471,821k), by long-term CZK loans amounting to € 48,372k (2004/2005: € 36,733k) and by long-term SEK loans amounting to € 13,758k (2004/2005: 15,457k). The interest structure of the variable interest-bearing loans denominated in euros has been modified using derivative financial instruments. At the end of the 2005/2006 financial year, the Group had interest rate swaps amounting to € 146,276k (2004/2005: € 73,373k), with which a transformation from variable interest commitments to fixed interest commitments was achieved. The market value of the interest rate swaps amounted to € -3,519k (€ -2,507k after deferred tax) on February 28, 2006 and to € -5,430k (€ -3,675k after deferred tax) as of February 28, 2005 and was reported under other liabilities. The terms of the interest rate swaps are coordinated with the terms of the loans.

The fair values of the above-mentioned interest rate swaps which meet the requirements of IAS 39 with regard to hedge accounting amounted to € -4,501k on February 28, 2006 (€ -3,116k after deferred taxes). The fair value of the equivalent interest rate swaps as of February 28, 2005 had amounted to € -4,986k (€ -3,400k after deferred taxes). The changes in the fair values are recorded under shareholders' equity.

The change in the fair value of two interest rate swaps not meeting the requirements of IAS 39 with regard to hedge accounting has been directly recorded in the income statement at € 1,426k (€ 884k after deferred taxes). In the previous year, fair value changes amounting to € 355k (€ 220k after deferred taxes) were recorded in the income statement.

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 limited to the extent that financial assets and derivative financial instruments are concluded as far as possible with contractual parties of excellent credit standing. Moreover, transactions with individual contractual partners are subject to a maximum limit. The maximum credit risk is equivalent to the book value of the financial assets.

(36) Share option plans

1997 share option plan at HORNBACH-Baumarkt-AG

As part of a share option plan for its employees, HORNBACH-Baumarkt-AG issued convertible bonds (then denominated in DM) in the 1997/1998 financial year with the following conditions:

Term:	10 years (July 1, 1997 to June 30, 2007)
Interest:	5.6% p.a.

The convertible bonds entitle their holders to acquire shares in HORNBACH-Baumarkt-AG at a ratio of 1:1 (DM 2,500.00 convertible bonds in 500 shares with a face value of DM 5.00) by making a payment of DM 52.40 (€ 26.79) per share. The conversion price therefore amounts to DM 57.40 (€ 29.35).

Exercise hurdle:	The cash price of the share must be at least 20% higher than the conversion price (base price) on the day before the conversion is executed, i.e. DM 68.88 (€ 35.22).
Disposition restriction:	The convertible bond and the resultant right are restricted to the person entitled to make the subscription and therefore may not be transferred, encumbered or pledged.
Conversion date:	Two fixed conversion periods of 3 weeks each are envisaged for each calendar year for exercising the conversion right. These periods commence on the third banking day after the annual general meeting and on the third banking day after the publication of the nine-month report (mid-December of each year).

The beneficiaries of the share option plan were permitted to subscribe for nominal amounts of DM 2,500, DM 5,000 or DM 7,500 of the convertible bond.

The following conditions of conversion also apply:

Latest exercise date:	14 days before the end of the term
Holding period of the shares:	None
Lapse of the conversion right:	Upon termination of the employment contract, three years after retirement, three years after the death of the beneficiary. The convertible bonds are due for repayment when the conversion right lapses.

Subscription rights to 72,000 shares may still be acquired from the convertible bonds issued in the 1997/1998 financial year within the scope of the share option plan for employees.

As in the previous year, no bonds were converted into shares during the 2005/2006 financial year. An amount of € 4k (2004/2005: € 0k) was repaid to employees who had left the company.

1999 share option plan at HORNBACH-Baumarkt-AG

The annual general meeting of HORNBACH-Baumarkt-AG held on August 26, 1999 established a share option plan with the following principal features:

Subscription beneficiaries

A maximum of 1,500,000 subscription rights may be issued during the four-year term of the share option plan. Within this total, the following maximum allocations apply to the following groups:

		Number of Rights
Group 1:	Members of the Board of Management of HORNBACH-Baumarkt-AG	128,000
Group 2:	Members of managerial tiers below the Board of Management	1,100,000
Group 3:	Managing Directors of domestic and foreign subsidiaries	52,000
Group 4:	Members of managerial tiers below the Managing Directors at domestic and foreign subsidiaries	220,000
		1,500,000

Tranches and acquisition periods

Four annual tranches are issued during the respective term. These are issued within two months of the announcement of the company earnings for the third quarter of the financial year. The issue date for the tranches is therefore the date of the corresponding resolution on the issue by the Board of Management or the Supervisory Board.

Qualifying period and exercise period

The qualifying period amounts to two years following the issue of each tranche. After two years, a maximum of 20% and an additional maximum of 20% each year thereafter up to the end of the sixth year may be exercised. The exercise period ends seven years after the issue of the final tranche.

Subscription price

The subscription price is based on the average closing rate of the share in trading on the Frankfurt Stock Exchange during the ten trading days prior to the issue date of the subscription right.

Exercise hurdle and exercise window

For the subscription rights to be exercised, the exercise hurdle has to be achieved within a period of six weeks prior to the exercise date. The exercise hurdle is achieved when the share price of HORNBACH-Baumarkt-AG in trading exceeds the subscription price, which ranges from € 22.25 to € 29.86 depending on the tranche in question, by at least 30%.

Furthermore, subscription rights may only be exercised within one month following publication of the quarterly results or the preliminary sales and earnings figures for the previous financial year ("Exercise Window"), whereby restrictions based on legal regulations have to be observed, particularly those contained in the German Securities Trading Act (WpHG).

Non-transferability and employment relationship

The subscription rights are not transferable and may not be exercised by third parties, but may be inherited by the wife, husband or children of the subscription beneficiary. A non-terminated contract of employment is basically required in the exercise period in order to be able to exercise subscription rights. Permission may be granted to exercise subscription rights in the year after the termination or rescission of the employment relationship.

As in the previous year, no more subscription rights were issued during the 2005/2006 financial year on account of the acquisition period having expired.

The total number of subscription rights issued, including those converted during the 2005/2006 financial year and the subscriptions of employees who have left the company or which have changed hands, was as follows:

2005/2006	2.28.2005 Number	Exercised Number	Lapsed Number	2.28.2006 Number
To members of Group 1:	78,300	-7,200	0	71,100
To members of Group 2:	739,530	-70,290	-23,560	645,680
To members of Group 3:	37,200	-4,800	-2,000	30,400
To members of Group 4:	137,000	-20,200	-1,120	115,680
	992,030	**-102,490**	**-26,680**	**862,860**

2004/2005	2.28.2004 Number	Exercised Number	Lapsed Number	2.28.2005 Number
To members of Group 1:	85,500	-2,700	-4,500	78,300
To members of Group 2:	843,800	-67,870	-36,400	739,530
To members of Group 3:	40,000	-2,800	0	37,200
To members of Group 4:	183,800	-12,960	-33,840	137,000
	1,153,100	**-86,330**	**-74,740**	**992,030**

The fourth tranche of the 1999 share option plan has been valued and accounted for in accordance with IFRS 2 “Share-based Payment”. The arithmetical value per share option for the fourth tranche of options issued during the 2002/2003 financial year amounts to € 3.89 per share option. This calculation is based on computing models for determining option prices for freely tradable European options (OTC options). The option price calculation includes an appropriate discount for the exercise hurdle and the exercise window. The exercise price of the share options amounts to € 22.25. Expenses of € 243k have been accounted for in connection with the valuation of the share option plan in the 2005/2006 financial year (2004/2005: € 329k) and correspondingly recorded under shareholders’ equity.

The total number of rights in this tranche showed the following developments in the 2005/2006 financial year:

2005/2006	2.28.2005 Number	Exercised Number	Lapsed Number	2.28.2006 Number
To members of Group 1:	22,500	-900	0	21,600
To members of Group 2:	252,000	-23,610	-7,240	221,150
To members of Group 3:	12,000	-1,600	0	10,400
	286,500	**-26,110**	**-7,240**	**253,150**

2004/2005	2.28.2004 Number	Exercised Number	Lapsed Number	2.28.2005 Number
To members of Group 1:	22,500	0	0	22,500
To members of Group 2:	265,200	0	-13,200	252,000
To members of Group 3:	12,000	0	0	12,000
	299,700	**0**	**-13,200**	**286,500**

Phantom Stock Plan 2003

On the basis of its resolution dated July 7, 2003, the Board of Management of HORNBACH-Baumarkt-AG adopted a phantom stock plan in order to avoid any disadvantaging of members of managerial tiers below the managing directors at domestic and foreign subsidiaries (Group 4 of the 1999 share option plan). The introduction of the 2003 phantom stock plan is intended to provide such employees with the opportunity of also participating in the final tranche of the 1999 share option plan in a comparable manner in terms of the economic outcome.

The value of the option rights is directly dependent on the performance of the share of HORNBACH-Baumarkt-AG, but is exclusively based on the payment of a cash amount. The direct acquisition of shares, as provided for in the 1999 share option plan, is not possible (cash-settled share-based payment).

Subscription beneficiaries and issue date

A total of 108,400 option rights were issued in one tranche on July 7, 2003 for members of managerial tiers below the managing directors at domestic and foreign subsidiaries.

Qualifying period and exercise period

The option rights may only be exercised following the conclusion of a qualifying period beginning on the issue date and expiring on February 3, 2005. Following the conclusion of the qualifying period, a maximum of 20% and an additional maximum of 20% each year thereafter up to the end of the sixth year may be exercised. The exercise period ends on February 3, 2010.

Subscription price

The subscription price is based on the average closing rate of the share in floor trading on the Frankfurt Stock Exchange during the ten trading days prior to the issue date of the subscription right and amounts to € 22.25.

Exercise hurdle and exercise window

For the subscription rights to be exercised, the exercise hurdle has to be achieved within a period of six weeks prior to the exercise date. The exercise hurdle is achieved when the share price of HORNBACH-Baumarkt-AG in trading exceeds the subscription price by at least 30%.

Furthermore, subscription rights may only be exercised within one month following publication of the quarterly results or the preliminary sales and earnings figures for the previous financial year (“Exercise Window”), whereby restrictions based on legal regulations have to be observed, particularly those contained in the German Securities Trading Act (WpHG).

Non-transferability and employment relationship

The subscription rights are not transferable and may not be exercised by third parties, but may be inherited by the wife, husband or children of the subscription beneficiary. A non-terminated contract of employment is basically required in the exercise period in order to be able to exercise subscription rights. Permission may be granted to exercise subscription rights in the year after the termination or rescission of the employment relationship.

As in the previous year, as a result of the acquisition period having expired, no more subscription rights were issued during the 2005/2006 financial year.

The options showed the following developments:

	2005/2006 Number	2004/2005 Number
Total at beginning of financial year	96,000	106,800
Lapsed options	-4,840	-10,800
Exercised options	-10,060	0
Total at balance sheet reporting date	**81,100**	**96,000**

At the reporting date on February 28, 2006, the option was valued at an amount of € 9.89 (2004/2005: € 12.26). This calculation is based on computing models for determining option prices for freely tradable European options (OTC options). The option price calculation includes an appropriate discount for the exercise hurdle and the exercise window. Expenses of € 94k have been recorded in connection with the valuation of the share option plan in the 2005/2006 financial year (2004/2005: € 196k).

Share option plan at HORNBACH HOLDING AG

The Board of Management of HORNBACH HOLDING AG decided on June 8, 2001 to establish a share option plan for the company in order to prevent any disadvantaging of former executives of HORNBACH-Baumarkt-AG who for overriding strategic reasons have now assumed duties and responsibilities at HORNBACH HOLDING AG or one of its subsidiaries. This share option plan is based on that introduced at HORNBACH-Baumarkt-AG in 1999. In particular, options are granted on the shares of that company. If appropriate, this will also be replaced by a share option plan for the acquisition of shares in HORNBACH HOLDING AG at a later date. The plan currently has the following principal features:

Subscription beneficiaries

During the term of the option plan, subscription rights may be issued to members of Board of Management of the company (Group 1), members of the boards of management of associate companies of HORNBACH-Baumarkt-AG and to further managerial staff of the company and of such associate companies, as well as of their respective subsidiaries, if appropriate (Group 2).

The total number of subscription rights issued, including those converted during the 2005/2006 financial year and the subscriptions of employees who have left the company or which have changed hands, was as follows:

2005/2006	2.28.2005 Number	Exercised Number	Lapsed Number	2.28.2006 Number
To members of Group 1:	27,800	0	0	27,800
To members of Group 2:	45,720	-4,080	0	41,640
	73,520	**-4,080**	**0**	**69,440**

2004/2005	2.28.2004 Number	Exercised Number	Lapsed Number	2.28.2005 Number
To members of Group 1:	27,800	0	0	27,800
To members of Group 2:	51,600	-3,920	-1,960	45,720
	79,400	**-3,920**	**-1,960**	**73,520**

Tranches and acquisition periods

Four annual tranches are issued during the respective term. The option rights for the first two tranches were issued retrospectively as of January 21, 2000 and January 15, 2001, with the issue of the third taking place in January 2002 and the fourth in February 2003.

Qualifying period and exercise period

The qualifying period amounts to two years following the issue of each tranche. After two years, a maximum of 20% and an additional maximum of 20% each year thereafter up to the end of the sixth year may be exercised. The exercise period ends seven years after the issue of the final tranche.

Subscription price

The subscription price is based on the average closing rate of the HORNBACH-Baumarkt-AG share in floor trading on the Frankfurt Stock Exchange during the ten trading days prior to the issue date of the subscription right.

Exercise hurdle and exercise window

For the subscription rights to be exercised, the exercise hurdle has to be achieved within a period of six weeks prior to the exercise date. The exercise hurdle is achieved when the share price of HORNBACH-Baumarkt-AG in floor trading exceeds the subscription price, which ranges from € 22.25 to € 29.86 depending on the tranche in question, by at least 30%.

Furthermore, subscription rights may only be exercised within the month following publication of the quarterly results or the preliminary sales and earnings figures for the previous financial year at HORNBACH-Baumarkt-AG ("Exercise Window"), whereby restrictions based on legal regulations have to be observed, particularly those contained in the German Securities Trading Act (WpHG).

Non-transferability and employment relationship

The subscription rights are not transferable and may not be exercised by third parties, but may be inherited by the wife, husband or children of the subscription beneficiary. A non-terminated contract of employment is basically required in the exercise period in order to be able to exercise subscription rights. Permission may be granted to exercise subscription rights in the year after the termination or rescission of the employment relationship.

The shares in HORNBACH-Baumarkt-AG which are required in order to cover the option rights granted are, if necessary, to be acquired on the Stock Exchange by ING BHF-Bank AG and kept in safe custody in a share deposit account of HORNBACH HOLDING AG at the bank.

The terms and conditions of the share option plan as they relate to members of the Board of Management of HORNBACH HOLDING AG were specified in a separate resolution passed by the Personnel Committee of the Supervisory Board on June 18, 2001.

As in the previous year, no more subscription rights were issued during the 2005/2006 financial year as a result of the acquisition period having expired.

Expenses of € 1k have been recorded in connection with the valuation of the 4th tranche of the share option plan in the 2005/2006 financial year (2004/2005: € 78k).

(37) Relationships with closely related companies and persons

In addition to the subsidiaries included in the consolidated financial statements, HORNBACH HOLDING AG has direct or indirect relationships with affiliated companies in the course of its customary business activities.

The affiliated companies are as follows:

HORNBACH Familien-Treuhandgesellschaft mbH, Annweiler am Trifels

Subsidiaries and sub-subsidiaries (non-consolidated)

Etablissements Camille Holtz et Cie S.A., Phalsbourg/France

The Supervisory Board members and former longstanding members of the Board of Management, Messrs. Albert Wilhelm Hornbach and Otmar Hornbach, are continuing to put their extensive experience at the disposal of the company within the framework of a consulting contract. Their advisory services are remunerated by means of a symbolic amount of one euro each per month.

(38) Events subsequent to the balance sheet reporting date

A DIY megastore with a garden center in Germany was sold for a price of € 18.0m and rented back on a long-term basis at the beginning of the 2006/2007 financial year. The disposal generated a profit of € 5.6m.

The Lafiora garden centers in Ludwigshafen and Germersheim are scheduled to be closed at the end of the spring season on May 31, 2006.

The Supervisory Board will pass resolution on the approval of the consolidated financial statements for publication at its meeting on May 18, 2006.

(39) Supervisory Board and Board of Management

The following persons were **members of the Board of Management** in the 2005/2006 financial year:

Albrecht Hornbach, Graduate in Civil Engineering	Chairman
Eduard Zimmerle, Businessman	Deputy Chairman
Roland Pelka, Graduate in Business Administration	

The total remuneration paid to the Board of Management of HORNBACH HOLDING AG for performing their duties for the Group amounted to € 1,608k in the 2005/2006 financial year (2004/2005: € 1,657k). Of the aforesaid amount, € 704k (2004/2005: € 718k) related to fixed remuneration and € 904k (2004/2005: € 939k) to performance-related components. The members of the Board of Management owned a total of 158,334 ordinary shares (2004/2005: 158,334) and 3,405 publicly listed preference shares (2004/2005: 2,050) in HORNBACH HOLDING AG at the reporting date on February 28, 2006.

The following persons were **members of the Supervisory Board** in the 2005/2006 financial year:

Gerhard Wolf Graduate in Business Administration, Worms	Chairman
Dr. Wolfgang Rupf Director AKV Altkönig Verwaltungs GmbH Königstein	Deputy Chairman
Ian Cheshire Chief Executive Officer B&Q plc Eastleigh	
Albert Wilhelm Hornbach Director HORNBACH Familien-Treuhandgesellschaft mbH Annweiler am Trifels	
Otmar Hornbach Director HORNBACH Familien-Treuhandgesellschaft mbH Annweiler am Trifels	until September 2, 2005
Sir Francis Mackay Chairman Kingfisher plc London	
Dr. Susanne Wulfsberg Veterinary Surgeon Neritz	since September 2, 2005

The remuneration of the Supervisory Board amounted to € 180k during the 2005/2006 financial year (2004/2005: € 165k). Of this sum, € 105k (2004/2005: € 87k) related to basic remuneration and € 75k (2004/2005: € 78k) to performance-related components. The members of the Supervisory Board owned a total of 378,096 ordinary shares (2004/2005: 219,763) and 19,636 publicly listed preference shares (2004/2005: 19,636) in HORNBACH HOLDING AG as of the balance sheet reporting date on February 28, 2006.

The term in office of all members of the Supervisory Board expires upon the conclusion of the annual general meeting releasing them from responsibility for the 2007/2008 financial year.

Mandates in supervisory boards and other control bodies
(Disclosures pursuant to Section 285 No. 10 of the German Commercial Code – HGB)

Members of the Supervisory Board of HORNBACH HOLDING AG

a) Membership of statutory supervisory boards
b) Membership of comparable control bodies

Gerhard Wolf
a) HORNBACH-Baumarkt-AG (Chairman)
K+S Aktiengesellschaft (Chairman)
Kali und Salz GmbH (Chairman)

Dr. Wolfgang Rupf
a) HORNBACH-Baumarkt-AG (Deputy Chairman)
GC Corporate Finance AG (Member)
PEIKER acoustic GmbH & Co KG (Member) until December 31, 2005

Ian Cheshire
b) Medicinema Enterprises (Chairman)
Baby Fund Ltd (Member)
Bradford and Bingley plc (Member)

Albert Wilhelm Hornbach
a) HORNBACH-Baumarkt-AG (Member)
WASGAU Produktions & Handels AG (Member) until July 20, 2005

Otmar Hornbach
a) HORNBACH Immobilien AG (Chairman)
WASGAU Produktions & Handels AG (Deputy Chairman)
HORNBACH-Baumarkt-AG (Member) until September 1, 2005

Sir Francis Mackay
b) Compass Group plc (Chairman)
Kingfisher plc (Chairman)

Members of the Board of Management of HORNBACH HOLDING AG

a) Membership of statutory supervisory boards
b) Membership of comparable control bodies

Albrecht Hornbach

a) HORNBACH-Baumarkt-AG (Member)
WASGAU Produktions und Handels AG (Member) since July 20, 2005

Roland Pelka

a) WASGAU Produktions & Handels AG (Member)

Neustadt an der Weinstrasse, May 17, 2006

HORNBACH HOLDING Aktiengesellschaft
The Board of Management

Albrecht Hornbach Eduard Zimmerle Roland Pelka

Auditor's Report

We have audited the consolidated financial statements prepared by Hornbach Holding Aktiengesellschaft, Neustadt/Weinstraße, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the Group Management Report for the business year from March 1, 2005 to February 28, 2006. 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 section 1 HGB are the responsibility of the parent 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 [Handelsgesetzbuch "German Commercial Code"] 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 accounting-related internal control system 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 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 section 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.

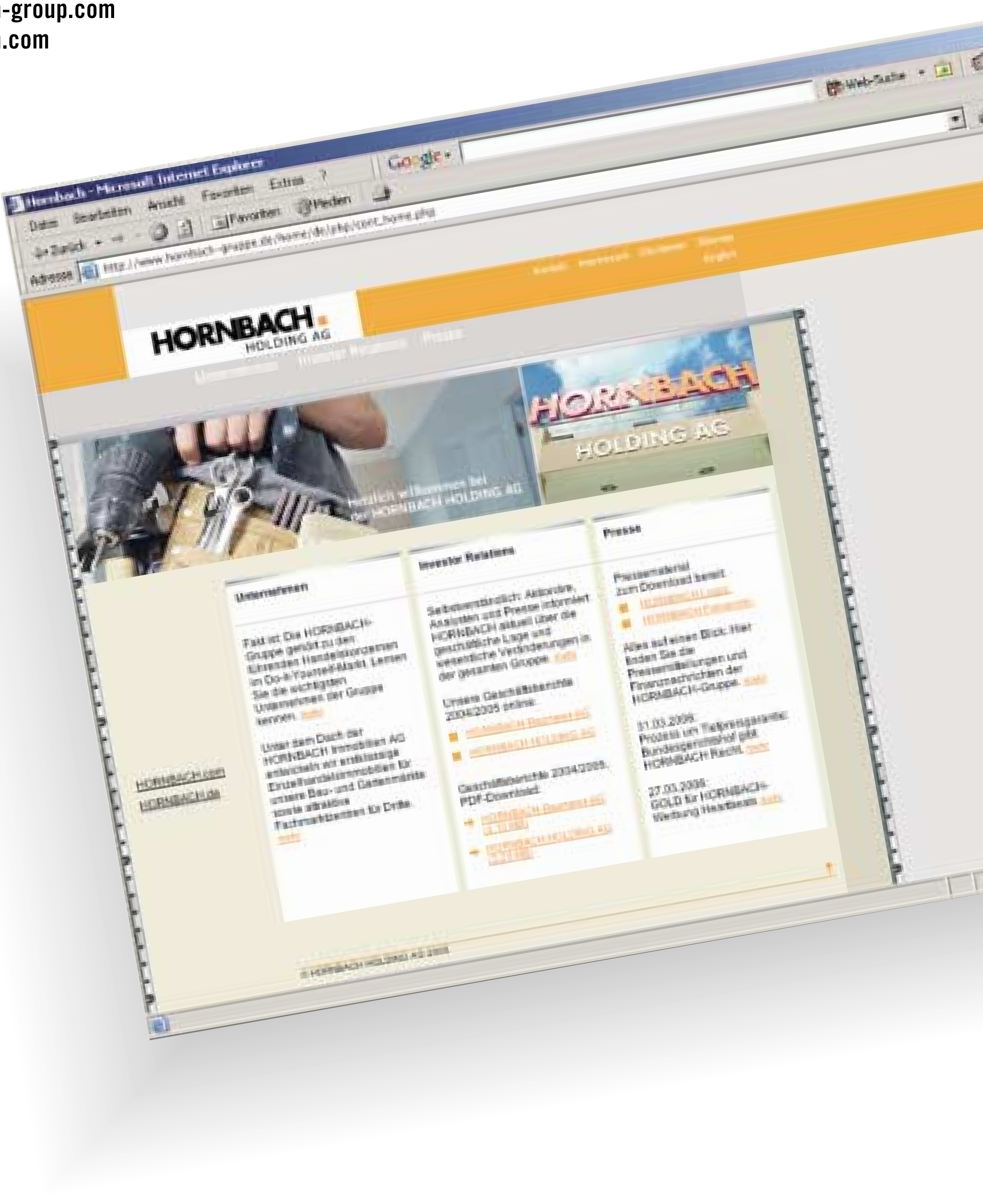
Frankfurt am Main, May 17, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Laubach	Peters
German Public Auditor	German Public Auditor

Have a look at our homepages!

www.hornbach-group.com
www.hornbach.com



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