

# HORNBAACH HOLDING AG Group

## Nine-month Interim Report (IAS) 2002/2003 (March 1 - November 30, 2002)

- Consolidated sales up by 14.3 %
- Like-for-like DIY sales up by 2.2% in Germany
- More customers, increased market share, but lower margins
- One-off charges reduce pre-tax earnings
- German Corporate Governance Codex:  
 HORNBAACH publishes its Statement of Compliance

In the first nine months of the 2002/2003 fiscal year (March 1 to November 30, 2002), HORNBAACH HOLDING AG increased its sales across the Group by more than 14%. Like-for-like sales at the HORNBAACH DIY superstores with garden centers in Germany rose by 2.2%. Given a decline in comparable key figures across the sector, HORNBAACH was able to further expand its share of the largest European DIY market and increase its number of customers. In the course of its regional expansion and thanks to its improved competitive position, the builders' merchant business was able to achieve considerable sales increases. The operating result for the overall HOLDING Group is reported at 11.8% up on the previous year. Due to reduced gross margins and to additional costs of expansion, however, earnings at the HORNBAACH-Baumarkt-AG Subgroup remained significantly below the previous year's level. The one-off charges resulting from flooding damage led to a deterioration of pre-tax earnings at a group level.

| <b>Key Figures (IAS)</b><br>HORNBAACH HOLDING AG Group | Change on<br>previous year<br>(%) | <b>9 months<br/>2002/2003</b><br>€m | 9 months<br>2001/2002<br>€m |
|--|-----------------------------------|-------------------------------------|-----------------------------|
| Gross sales  | 14.3                              | <b>1,562.7</b>                      | 1,367.4                     |
| Net sales  | 14.3                              | <b>1,346.8</b>                      | 1,178.2                     |
| • HORNBAACH DIY Germany                                | 7.7                               | 956.5                               | 888.0                       |
| • HORNBAACH DIY international                          | 31.6                              | 323.9                               | 246.2                       |
| • Germany - other                                      | 50.9                              | 66.4                                | 44.0                        |
| EBITDA   | -3.8                              | <b>124.1</b>                        | 129.0                       |
| EBIT   | 11.3                              | <b>74.7</b>                         | 67.1                        |
| Result from ordinary activities                        | 11.8                              | <b>52.3</b>                         | 46.8                        |
| Extraordinary result                                   | .                                 | <b>-8.3</b>                         | .                           |
| Earnings before taxes (EBT)                            | -6.0                              | <b>44.0</b>                         | 46.8                        |
| Net income before minority interests                   | 3.1                               | <b>27.0</b>                         | 26.2                        |
| Net income after minority interests                    | 17.9                              | <b>23.0</b>                         | 19.5                        |
| Earnings per share (€)                                 |                                   | <b>2.87</b>                         | 2.44                        |
| Capital investments                                    | 19.5                              | <b>180.8</b>                        | 151.3                       |

## The crisis in the German retail and construction sectors continues unabated through 2002

The underlying conditions in the German retail sector showed no sign of improvement in the fall of 2002. The economic climate is suffering acutely from the massive loss of confidence among German consumers who, being faced with imminent tax and social contribution increases, have further reduced their private consumption. According to data published by the Federal Office of Statistics, retail sales dropped by 1.9% in nominal terms and by 2.3% in real terms between January and October 2002 in comparison with the previous year.

The Federal Association of Specialist DIY and Garden Stores (BHB) calculated a fall in like-for-like sales of 2.6% for the first nine months of the year, despite the slight improvement seen in August and September. The BHB is forecasting a like-for-like decline of more than 3% for the 2002 calendar year.

Given that overall construction activity also failed to show any sign of improvement due to the ongoing decline in the number of home building permits issued, there was no stimulus for growth in the professional builders' merchant business.

## Hornbach strengthens its competitive position

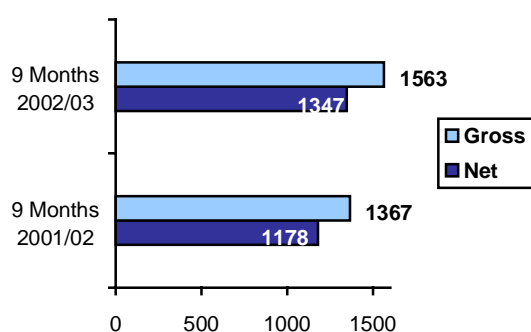
Despite difficult underlying conditions, the HORNBAACH Group was able to maintain its growth trajectory and expand its market share in the construction, DIY and garden product sectors.

With a 1.6% increase in like-for-like sales in the period of January to September 2002, HORNBAACH-Baumarkt-AG, the Group's largest operating subsidiary, clearly countered the trend in the German DIY sector. During the first nine months of its fiscal year (reporting date: November 30, 2002), like-for-like sales in Germany rose by 2.2%, and by 2.0% including its international activities.

## Consolidated sales up by 14.3%

In the first nine months of the current fiscal year (reporting date: November 30, 2002), consolidated net sales at HORNBAACH HOLDING AG rose by 14.3% to € 1,347m (previous year: € 1,178m). Gross sales (including VAT) also rose by 14.3% to reach € 1,563m (previous year: (€)1,367).

Graph.: HORNBAACH HOLDING AG: Consolidated Sales (€m)



The HORNBAACH HOLDING AG Group includes the subgroups HORNBAACH-Baumarkt-AG, HORNBAACH Baustoff Union GmbH and HORNBAACH Immobilien AG, as well as Lafiora HORNBAACH Florapark GmbH.

As at November 30, 2002, the HORNBAACH-Baumarkt-AG subsidiary was responsible for the operation of 99 DIY superstores with garden centers across Europe, with a total sales area of around 978,000 m<sup>2</sup>. Further details on the performance of this subsidiary

have been published separately to this report in the Interim Report of HORNBAACH-Baumarkt-AG.

Including the three Lafiora HORNBAACH Florapark GmbH garden centers, the total number of retail outlets within the HORNBAACH HOLDING Group amounted to 102, with around 991,000 m<sup>2</sup> of sales area (reporting date: November 30, 2002).

Following its takeover of regional builders' merchant companies, HORNBACH Baustoff Union GmbH was able to increase its market coverage in Rheinland-Pfalz and in Saarland. Sales rose year-on-year by more than 50 % to reach €57m. The sales network currently has 14 outlets. Three further outlets are expected to be added by the end of the fiscal year.

The performance of Lafiora HORNBACH Florapark GmbH was noticeably mixed. While the garden centers in Kassel and Neunkirchen reported very pleasing sales increases at the end of the first three quarters, the performance of the Germersheim market remained significantly below expectations.

## **Earnings development**

Lower gross margins and additional costs of expansion in the HORNBACH-Baumarkt-AG subgroup, coupled with start-up losses at Baustoff Union and Lafiora burdened the earnings development in the first nine months of 2002/2003. Since the financial investment of € 14.1m in the US American company Dekor Inc. was completely written off during the comparable period of the previous year, however, the result from ordinary activities at the HORNBACH HOLDING AG Group rose during the period under report by 11.8% to €52.3m as at November 30, 2002 (previous year: €46.8m).

Earnings before interest and tax (EBIT) rose by 11.3 % to € 74.7m (previous year: € 67.1m). Earnings before interest, tax, depreciation and amortization (EBITDA) showed a year-on-year decrease of 3.8 % to reach € 124.1m (previous year: € 129,0m).

As reported in the half-year report, the damage caused by the flooding gave rise to exceptional costs of around €8m. For this reason earnings before tax (EBT) for the first three quarters of 2002/2003 declined by around 6.0 % to €44.0m (previous year: €46.8). The consolidated net income before minority interests, however, rose by 3.1 % to €27.0m (previous year: €26,2m).

## **Employees**

At the reporting date on November 30, 2002, the total number of staff employed under permanent contracts with HORNBACH HOLDING AG or with one of its subsidiaries was 9,321 (previous year: 8,123) Averaged over the year, the Group employed the equivalent of 7,805 full-time staff (previous year: 6,994).

## **Capital investment**

In the first nine months of the current fiscal year, a total of €180.8m (previous year: €151,3m) was invested, primarily in real estate and buildings (74 %), as well as in equipment and fittings (26 %). The cash flow statement in the notes to this report provides information on the financing and investment activities of HORNBACH HOLDING AG.

## **Other events during the reporting period**

Within the framework of its strategic partnership with Kingfisher plc., the companies' cooperation on an operational level took on more concrete form in October 2002. Some managers from HORNBACH-Baumarkt-AG took part in the annual "B&Q Supplier Conference". Strategy meetings were held with suppliers of international significance.

With regard to the new stock market segmentation scheduled to be introduced in March 2003, HORNBACH HOLDING AG has received admission to the Prime Standard segment. This is a requirement for being admitted into one of the new select indices of the Deutsche Börse. HORNBACH HOLDING AG was readmitted into the MDAX in October of this year.

HORNBACH HOLDING AG has published its Statement of Compliance with the German Corporate Governance Codex for the year 2002 on its website ([www.hornbach-holding.com](http://www.hornbach-holding.com)). The company thereby provides evidence to the outside of world of its orientation towards international standards and of its practicing competent and responsible corporate management and supervision. HORNBACH considers the Codex as making a valuable contribution to increasing transparency for investors, customers and staff, as well as to promoting confidence in the company.

## **Outlook**

The 100<sup>th</sup> HORNBACH-Baumarkt-AG DIY megastore was opened in Prag-Repy on December 11, 2002. Two further new openings have been scheduled in Switzerland and Austria before the end of the fiscal year (February 28, 2003). The total number of retail outlets in the HORNBACH HOLDING Group is therefore expected to rise to 105, with sales space of more than one million m<sup>2</sup>.

The HORNBACH Group expects to achieve consolidated net sales in excess of € 1.7bn (previous year: € 1.49bn) and gross sales of around € 2.0bn (previous year: € 1.73bn) during the entire 2002/2003 fiscal year. The result from ordinary activities is expected to be at roughly the same level as in the previous year.

Neustadt an der Weinstraße, December 19, 2002  
– The Board of Management –

## Financial Calendar

- April 16, 2003                    **Preliminary year-end results** 2002/2003
- June 25, 2003                    **Financial Statements Press Conference** 2002/2003  
Publication of annual report  
**Interim Report** for the period ending May 31, 2003
- August 29, 2003                **Annual General Meeting** in Frankfurt am Main
- September 25, 2003            **Interim Report** for the period ending August 31, 2003  
**DVFA Analyst Meeting**
- December 19, 2003            **Interim Report** for the period ending November 30, 2003

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## Income Statement

### HORNBACH HOLDING AG Group

| Figures in €m                                    | % change<br>on previous year | 9 months<br>2002/2003 | 9 months<br>2001/2002 |
|--|------------------------------|-----------------------|-----------------------|
| Sales  | 14.3                         | 1,346.8               | 1,178.2               |
| Other income                                     | 43.8                         | 19.7                  | 13.7                  |
| <b>Gross profit</b>                              | <b>11.0</b>                  | <b>480.1</b>          | <b>432.4</b>          |
| Staff expenses                                   | 15.4                         | 200.8                 | 174.0                 |
| Amortisation/depreciation                        | 3.3                          | 49.4                  | 47.8                  |
| Other operating expenses                         | 19.9                         | 155.2                 | 129.4                 |
| Result of financial activities                   | -34.9                        | -22.4                 | -34.4                 |
| <i>of which depreciation of financial assets</i> |                              | -                     | -14.1                 |
| <b>Result from ordinary activities</b>           | <b>11.8</b>                  | <b>52.3</b>           | <b>46.8</b>           |
| Extraordinary result                             |                              | -8.3                  | 0.0                   |
| Earnings before taxes (EBT)                      | -6.0                         | 44.0                  | 46.8                  |
| Taxes  | -17.5                        | 17.0                  | 20.6                  |
| <b>Net income before minority interests</b>      | <b>3.1</b>                   | <b>27.0</b>           | <b>26.2</b>           |
| Minority interests' share of profits for period  | -40.3                        | 4.0                   | 6.7                   |
| <b>Net income after minority interests</b>       | <b>17.9</b>                  | <b>23.0</b>           | <b>19.5</b>           |
| <i>Earnings per share (€)</i>                    |                              | 2.87                  | 2.44                  |

## Balance Sheet

### HORNBACH HOLDING AG Group

|   | November 30, 2002 |                | November 30, 2001 |                |
|---|-------------------|----------------|-------------------|----------------|
|   | %                 | €m             | %                 | €m             |
| <b>ASSETS</b>                               |                   |                |                   |                |
| <b>A. Fixed assets</b>                      | <b>66.7</b>       | <b>1,081.4</b> | <b>67.5</b>       | <b>981.5</b>   |
| I. Intangible assets                        | 1.0               | 17.0           | 0.8               | 12.3           |
| II. Tangible assets                         | 65.6              | 1,062.1        | 66.6              | 968.4          |
| III. Financial assets                       | 0.1               | 2.3            | 0.1               | 0.8            |
| <b>B. Current assets</b>                    | <b>31.7</b>       | <b>513.3</b>   | <b>31.2</b>       | <b>454.2</b>   |
| I. Inventories                              | 22.1              | 357.8          | 21.9              | 319.3          |
| II. Receivables and other assets            | 4.2               | 67.4           | 3.2               | 46.3           |
| III. Cash                                   | 5.4               | 88.1           | 6.1               | 88.6           |
| <b>C. Deferred taxes</b>                    | <b>1.4</b>        | <b>22.0</b>    | <b>1.2</b>        | <b>17.3</b>    |
| <b>D. Deferred charges</b>                  | <b>0.2</b>        | <b>3.2</b>     | <b>0.1</b>        | <b>2.1</b>     |
| <b>BALANCE SHEET TOTAL</b>                  | <b>100.0</b>      | <b>1,619.9</b> | <b>100.0</b>      | <b>1,455.1</b> |
| <b>SHAREHOLDERS' EQUITY AND LIABILITIES</b> |                   |                |                   |                |
| <b>A. Shareholders' equity</b>              | <b>26.6</b>       | <b>430.5</b>   | <b>28.7</b>       | <b>418.1</b>   |
| I. Subscribed capital                       | 1.5               | 24.0           | 1.6               | 24.0           |
| II. Capital reserve                         | 8.0               | 130.4          | 9.0               | 130.4          |
| III. Revenue reserves                       | 15.7              | 253.1          | 16.8              | 244.2          |
| IV. Net income for year                     | 1.4               | 23.0           | 1.3               | 19.5           |
| <b>B. Minority interests</b>                | <b>4.5</b>        | <b>72.9</b>    | <b>4.9</b>        | <b>71.2</b>    |
| <b>C. Provisions and accruals</b>           | <b>4.1</b>        | <b>66.7</b>    | <b>3.7</b>        | <b>53.4</b>    |
| <b>D. Payables</b>                          | <b>59.2</b>       | <b>959.6</b>   | <b>56.4</b>       | <b>820.9</b>   |
| <b>E. Deferred taxes</b>                    | <b>5.4</b>        | <b>87.6</b>    | <b>6.1</b>        | <b>89.3</b>    |
| <b>F. Deferred income</b>                   | <b>0.2</b>        | <b>2.6</b>     | <b>0.2</b>        | <b>2.2</b>     |
| <b>BALANCE SHEET TOTAL</b>                  | <b>100.0</b>      | <b>1,619.9</b> | <b>100.0</b>      | <b>1,455.1</b> |

## Cash Flow Statement

### HORNBACH HOLDING AG Group

|  | 9 months<br>2002/2003 | 9 months<br>2001/2002 |
|--|-----------------------|-----------------------|
|  | €m                    | €m                    |
| <b>Net income for year (including minority interests)</b>                        | <b>27</b>             | <b>26</b>             |
| Amortisation/depreciation of fixed assets  | 50                    | 48                    |
| Additional depreciation of financial assets                                      | 0                     | 14                    |
| Changes in provisions and accruals   | 8                     | 4                     |
| Profit/loss on disposal of fixed assets  | -2                    | 1                     |
| Change in inventories, trade accounts receivable<br>and other asset items        | -47                   | -38                   |
| Change in trade accounts payable<br>and other liability items                    | 34                    | 19                    |
| <b>Net cash from operating activities</b>  | <b>70</b>             | <b>74</b>             |
| Proceeds from the disposal of fixed assets                                       | 4                     | 67                    |
| Investments in tangible fixed assets   | -154                  | -128                  |
| Investments in intangible assets   | -2                    | -2                    |
| Investments in acquisition of consolidated<br>companies and other business units | 0                     | -17                   |
| Investments in other financial assets  | -1                    | -2                    |
| <b>Net cash used in investing activities</b>                                     | <b>-153</b>           | <b>-82</b>            |
| Payments to shareholders   | -12                   | -12                   |
| Proceeds from borrowings   | 32                    | 39                    |
| Repayment of borrowings  | -37                   | -28                   |
| Change in current account payables   | 100                   | 33                    |
| <b>Net cash from financing activities</b>  | <b>83</b>             | <b>32</b>             |
| Net change in cash and cash equivalents  | 0                     | 24                    |
| Effect of foreign exchange rate changes  | 0                     | 0                     |
| Cash and cash equivalents as at 1 March  | 88                    | 65                    |
| <b>Cash and cash equivalents as at 30 November</b>                               | <b>88</b>             | <b>89</b>             |

## Statement of Changes in Shareholders' Equity

HORNBACH HOLDING AG Group

| <b>9 months 2002/2003</b>        | Subscribed capital | Capital reserves | Retained earnings | Net income for year | Total shareholders' equity | Minority interests | Total shareholders' equity (incl. minority interests) |
|----------------------------------|--------------------|------------------|-------------------|---------------------|----------------------------|--------------------|---|
| in €m                            |                    |                  |                   |                     |                            |                    |   |
| <b>As at 01.03.2002</b>          | <b>24</b>          | <b>130</b>       | <b>245</b>        | <b>17</b>           | <b>416</b>                 | <b>71</b>          | <b>487</b>  |
| Dividends paid                   |                    |                  |                   | -9                  | -9                         | -3                 | -12   |
| Change in Companies consolidated |                    |                  |                   |                     |                            | 1                  | 1   |
| Exchange adjustments             |                    |                  |                   |                     |                            |                    |   |
| Transfer to reserves             |                    |                  | 8                 | -8                  | 0                          |                    | 0   |
| Net income for year              |                    |                  |                   | 23                  | 23                         | 4                  | 27  |
| <b>As at 30.11.2002</b>          | <b>24</b>          | <b>130</b>       | <b>253</b>        | <b>23</b>           | <b>430</b>                 | <b>73</b>          | <b>503</b>  |

| <b>9 months 2001/2002</b>        | Subscribed capital | Capital reserves | Retained earnings | Net income for year | Total shareholders' equity | Minority interests | Total shareholders' equity (incl. minority interests) |
|----------------------------------|--------------------|------------------|-------------------|---------------------|----------------------------|--------------------|---|
| in €m                            |                    |                  |                   |                     |                            |                    |   |
| <b>As at 01.03.2001</b>          | <b>24</b>          | <b>130</b>       | <b>230</b>        | <b>23</b>           | <b>407</b>                 | <b>68</b>          | <b>475</b>  |
| Dividends paid                   |                    |                  |                   | -9                  | -9                         | -3                 | -12   |
| Change in Companies consolidated |                    |                  | 0                 |                     | 0                          | -1                 | -1  |
| Exchange adjustments             |                    |                  | 1                 |                     | 1                          | 0                  | 1   |
| Transfer to reserves             |                    |                  | 14                | -14                 |                            |                    | 0   |
| Net income for year              |                    |                  |                   | 19                  | 19                         | 7                  | 26  |
| <b>As at 30.11.2001</b>          | <b>24</b>          | <b>130</b>       | <b>245</b>        | <b>19</b>           | <b>418</b>                 | <b>71</b>          | <b>489</b>  |

## Notes to the interim financial statements

### Accounting and Consolidation Principles

This interim report has been compiled pursuant to International Accounting Standards (IAS). Application has been made of the same accounting and valuation principles as were used for the interim statements as of August 31, 2002.

The interim statements of HORNBACH HOLDING Aktiengesellschaft as of August 31, 2002 were prepared for the first time in accordance with the accounting principles of the International Accounting Standards Board. Application was made of all International Accounting Standards and interpretations of the Standing Interpretations Committee ("SIC") valid as of August 31, 2002.

A representation of those accounting and valuation methods applied which deviate from German Commercial Law, as well as their implications for the equity as of March 1, 2002, is explained in detail in the notes to the interim report as of August 31, 2002.

### Reporting Entity

The reporting entity has changed since August 31, 2002 as a result of the inclusion for the first time of three real estate companies in the Czech Republic, Slovakia and in Austria.

### Seasonal Influences

The Hornbach Holding AG Group reports lower sales in the fall and in the winter months than in the spring and summer months as a result of weather conditions. These seasonally induced fluctuations are reflected in the figures of the particular quarters.

### Dividends

A dividend pertaining to the 2001/2002 fiscal year and amounting to € 1.14 per preferential share and € 1.08 per ordinary share was distributed to shareholders on August 31. The distribution was structured as follows:

|                                       | € m |
|---------------------------------------|-----|
| Annual net income Hornbach Holding AG | 0.5 |
| Profit carried forward                | 0.1 |
| Withdrawn from revenue reserve        | 8.3 |
| Dividend payment                      | 8.9 |

### Comments on the Asset, Financial and Earnings Situation

Provisions amounting to € 3.9m have been accrued to cover the risks arising from an external tax audit currently being undertaken. The risks involve the amount of hidden reserves transferred pursuant to § 6b of the German Income Tax Law (EStG). At the same time, the adjustments which might be necessary in the tax balance sheet would reduce the deferred tax liability by an amount of € 2.4m. The result for the period covered in this interim report is therefore burdened by additional tax expenditure amounting to € 0.9m and interest expenditure amounting to € 0.6m.

### Extraordinary Result

The extraordinary result of € 8.3m contains expenses relating to damage incurred in the flood catastrophe and amounting to € 11.5m. The proceeds were received from the sale of damaged goods and from government grants and from grants made by suppliers.

The expenses primarily involve the write-off of destroyed stock, expenses pertaining to waste removal and cleaning, the obligation to replace one rented superstore and garden center, as well as the losses incurred on other assets, plant and office equipment and the ongoing operational costs during the period in which the superstore was required to be closed by the flooding.

The extraordinary result is structured as follows:

|   | € m  |
|---|------|
| Extraordinary expenditure                                     | 11.5 |
| Extraordinary income  | 3.2  |
| Extraordinary result before tax                               | 8.3  |
| Tax relief  | -3.1 |
| Extraordinary result after tax                                | 5.5  |
| Share of other shareholders in extraordinary result after tax | 1.0  |
|   | 4.5  |