

# HORNBAACH HOLDING AG Group

## Interim Report (IFRS) for the First Quarter of 2003/2004 (March 1 - May 31, 2003)

- Consolidated sales rise by 25.0 %
- 3.9% increase in like-for-like sales
- First-quarter earnings show even stronger growth than sales
- Number of group employees exceeds 10,000 for the first time

In the first three months of the current fiscal year (March 1 to May 31, 2003), the consolidated sales of HORNBAACH HOLDING AG increased by 25 %. The market leader in DIY megastores with garden centers in Germany has therefore seen a marked acceleration in its growth compared with the previous year and has been able to increase its market share in a difficult competitive environment.

The investments made in the Group's international expansion, price leadership and customer retention, which had negatively impacted on the 2002/2003 fiscal year, have strengthened the market position of the Group since the start of the new fiscal year. In comparison with the equivalent period in the previous year, earnings in the first quarter of 2003/2004 showed markedly stronger growth than sales. This development was primarily attributable to like-for-like sales growth coupled with an increase in the gross margin primarily resulting from improved procurement conditions.

<b>Key Figures for the First Quarter (IFRS)</b> HORNBAACH HOLDING AG Group	± %	1st Quarter 2003/2004 €m	1st Quarter 2002/2003 €m
<b>Sales</b>	25.0	<b>572.3</b>	457.9
EBITDA	29.0	<b>61.4</b>	47.6
Earnings before interest and tax (EBIT)	35.5	<b>43.9</b>	32.4
<b>Consolidated earnings before taxes, extraordinary items and minority interests</b>	35.1	<b>35.8</b>	26.5
Consolidated earnings after taxes, before extraordinary items and minority interests	38.4	<b>22.0</b>	15.9
Extraordinary income	-	<b>1.1</b>	-
Consolidated earnings before minority interests	45.3	<b>23.1</b>	15.9
<b>Consolidated net income</b>	43.8	<b>18.7</b>	13.0
Earnings per preference share (€)	43.6	<b>2.37</b>	1.65
Investments (in €m)	-15.0	<b>27.7</b>	32.6
Balance sheet total	12.2	<b>1,666.3</b>	1,485.0
Shareholders' equity	2.7	<b>439.7</b>	428.2

## **Retail and Construction Sectors Hope for Improvements**

The retail sector suffered a poor start to 2003, although there are also signs that the consumer climate will stabilize in the course of the year. According to figures released by the Federal Office of Statistics, overall sales for the first three months of the year were 1.1% in nominal terms and 0.8% in real terms below the equivalent figures for the previous year. On the basis of the available figures it is not possible to identify any clear trend in the DIY and home improvement sector in Germany. While the official statistics for specialist trade in household, DIY and home improvement goods show an even larger decline (-2.1% nominal, -1.9% real), the retail panel of the Association of German Retailers (HDE) reported a slight improvement of 0.6% for the DIY sector during the period January to March 2003.

The slight improvement in the level of investment in construction seen at the end of the past year following a period of decline lasting almost three years was interrupted once more during the first quarter of the 2003 calendar year, with poor weather restricting the level of construction activity. The rise of more than 37% in the number of building permits issued between January and March 2003 can be considered to be a ray of hope, even if the Federal Office of Statistics largely attributes the increase to the reaction to the reduction in the owner-occupied home subsidy currently under discussion.

## **HORNBACH Increases Consolidated Sales by 25.0 %**

Consolidated net sales at HORNBACH HOLDING AG have shown a considerable year-on-year increase. Net sales soared by 25.0% to € 572.3m as of May 31, 2003 (previous year: € 457.9m).

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

Following two new openings during the first quarter, the HORNBACH-Baumarkt-AG subsidiary was operating 104 DIY superstores with garden centers across Europe as of May 31, 2003, with a total sales area of around 1,036,000 m<sup>2</sup>. Like-for-like sales at the subgroup rose by 3.9% during the period under report. The share of international sales rose from 23.3% in the previous year to 31.4%. Further details can be found in the separately published interim report of HORNBACH-Baumarkt-AG.

HORNBACH Baustoff Union GmbH increased the number of its outlets by means of an acquisition to 19 in April 2003. This acquisition marks the end of the expansion stage of Baustoff Union by means of such purchases for the time being. Optimized operating processes and synergies resulting from the acquisitions are expected to have a positive impact on earnings in the construction materials and builders merchants division in the course of the current year.

On April 2, 2003, Lafiora HORNBACH Florapark GmbH opened the fourth specialist Lafiora garden center at its Ludwigshafen location. Business at the new 3,475 m<sup>2</sup> center (measured as per BHB) at the beginning of the new gardening season was promising. Including the Lafiora garden centers, the total number of retail stores within the HORNBACH HOLDING Group now amounts to 108 with around 1,054,000 m<sup>2</sup> of sales area (reporting date: May 31, 2003).

## Strong Earnings Growth

Thanks to the pleasing course of business during the first quarter of the 2003/2004 fiscal year, HORNBACH has been able to report a rapid recovery from the fall in earnings seen in 2002/2003, which had been caused by a series of one-off factors. It can be seen that the investments made during the previous year in customer retention and in expanding the company's market share have paid off and made a permanent contribution to strengthening the competitive position of HORNBACH. The earnings figures have improved both on the previous year and on the 2001/2002 fiscal year.

Consolidated earnings before tax and the extraordinary result rose year-on-year by 35.1% to € 35.8m during the period from March to May 2003 (previous year: € 26.5m). Operating earnings (EBIT) grew by 35.5% to € 43.9m (previous year: € 32.4m). As of May 31, 2003, the EBIT margin had risen from 7.1% in the previous year to 7.7%. Earnings before interest, tax, depreciation and amortization (EBITDA) reported a year-on-year increase of 29.0% to € 61.4m (€ 47.6m). Group net earnings after minority interests grew by 43.8% during the first quarter of 2003/2004 to reach € 18.7m (previous year: € 13.0m). Earnings per preference share pursuant to IFRS rose from € 1.65 to € 2.37 as of May 31, 2003.

The marked improvement in the key earnings figures for the first quarter is primarily due to the increase in like-for-like sales and to the fact that the gross margin rose in spite of lower retail prices, but remained below the level seen in the 2001/2002 fiscal year. The gross margin across the Group rose as a percentage of sales from 34.6% to 35.3%. This was principally the result of an improvement in international procurement conditions. The relative decline in administration costs as a percentage of net sales also had a positive impact on the development of earnings.

## Personnel

At the reporting date on May 31, 2003 the number of employees at the HORNBACH Group exceeded 10,000 for the first time. Across Europe, there were 10,029 individuals in fixed employment at HORNBACH HOLDING AG or one of its subsidiaries (previous year: 8,446). Calculated as an annual average and converted into full-time equivalents, the company had 8,754 employees (previous year: 7,375).

## Investments

A total of € 27.7m was invested during the first three months of the current fiscal year (previous year: € 32.6m), primarily in land and buildings (64%) and in office equipment (36%). Information as to the financial and investment activities of HORNBACH HOLDING AG has provided in the cash flow statement appended to this report.

## Outlook

Up to seven new openings of HORNBACK DIY superstores and garden centers are scheduled to take place in Germany and other European countries by the end of the fiscal year (February 28, 2004). The overall number of retail stores is therefore expected to rise to 115 (previous year: 105) with a total sales area of just under 1,140,000 m<sup>2</sup>. The overall net sales of the HORNBACK Group are predicted to grow to more than € 2.0bn.

Consolidated earnings before tax and one-off items are expected to grow faster than sales and surpass the level seen in the 2001/2002 fiscal year (€ 46.5m). This improvement is to be achieved by means of enhanced efficiency – partly due to synergies and the exchange of best-practice experience with Kingfisher plc., the strategic partner of the HORNBACK Group – and a relative decline in costs as a proportion of sales.

Neustadt an der Weinstraße, June 25, 2003  
– The Board of Management –

## Financial Calendar

- June 25, 2003 **Financial Statements Press Conference** 2002/2003  
Publication of Annual Report  
**Interim Report** as of May 31, 2003
- August 29, 2003 **Annual General Meeting**  
in the Congress Center Messe Frankfurt (11.00 a.m.),  
Frankfurt am Main
- September 25, 2003 **Interim Report** as of August 31, 2003  
**DVFA Analysts' Conference**
- December 19, 2003 **Interim Report** as of November 30, 2003

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## Income Statement

HORNBACH HOLDING AG Group

	1st Quarter 2003/2004	1st Quarter 2002/2003	+/- %
	€m	€m	
Sales	572.3	457.9	25.0
Change in work-in-process inventory	-0.1	-0.2	-50.0
Other income of which non-operating €0.9m (previous year: 0)	6.8	3.8	78.9
Cost of materials	372.8	301.1	23.8
<b>Gross margin</b>	<b>206.2</b>	<b>160.4</b>	<b>28.6</b>
Personnel expenses	81.4	64.4	26.4
Amortization of intangible assets and depreciation of property, plant & equipment	17.5	15.2	15.1
Other operating expenses	63.4	48.4	31.0
<b>Earnings before interest and tax (EBIT)</b>	<b>43.9</b>	<b>32.4</b>	<b>35.5</b>
Net financial expenses	-8.1	-5.9	37.3
<b>Consolidated earnings before taxes, extraordinary items and minority interests</b>	<b>35.8</b>	<b>26.5</b>	<b>35.1</b>
Taxes on income	13.1	9.9	32.3
Other taxes	0.7	0.7	0.0
<b>Consolidated earnings after taxes, before extraordinary items and minority interests</b>	<b>22.0</b>	<b>15.9</b>	<b>38.4</b>
Extraordinary income (after income tax of €0.5m)	1.1	0.0	-
<b>Consolidated earnings before minority interests</b>	<b>23.1</b>	<b>15.9</b>	<b>45.3</b>
Minority interests	-4.4	-2.9	51.7
<b>Consolidated net income</b>	<b>18.7</b>	<b>13.0</b>	<b>43.8</b>

## Balance Sheet

### HORNBAACH HOLDING AG Group

	May 31, 2003		May 31, 2002		February 28, 2003	
	€m	%	€m	%	€m	%
<b>ASSETS</b>						
<b>A. Long-term assets</b>	<b>1,077.2</b>	<b>64.7</b>	<b>1,004.3</b>	<b>67.6</b>	<b>1,100.4</b>	<b>69.5</b>
I. Intangible assets	16.3	1.0	15.6	1.1	16.4	1.0
II. Property, plant & equipment	1,031.1	61.9	966.5	65.1	1,052.4	66.5
III. Financial assets	2.2	0.1	5.0	0.3	2.2	0.1
IV. Other long-term assets	2.8	0.2	0.3	0.0	2.8	0.2
V. Deferred tax claims	24.8	1.5	16.9	1.1	26.6	1.7
<b>B. Short-term assets</b>	<b>589.1</b>	<b>35.3</b>	<b>480.7</b>	<b>32.4</b>	<b>481.5</b>	<b>30.5</b>
I. Inventories	400.6	24.0	349.6	23.5	376.4	23.8
II. Accounts receivable and other assets	97.9	5.9	55.2	3.7	49.9	3.2
III. Liquid funds	90.6	5.4	75.9	5.1	55.2	3.5
<b>TOTAL ASSETS</b>	<b>1,666.3</b>	<b>100.0</b>	<b>1,485.0</b>	<b>100.0</b>	<b>1,581.9</b>	<b>100.0</b>
<b>EQUITY AND LIABILITIES</b>						
<b>A. Shareholders' Equity</b>	<b>439.7</b>	<b>26.4</b>	<b>428.2</b>	<b>28.8</b>	<b>421.5</b>	<b>26.6</b>
I. Subscribed capital	24.0	1.4	24.0	1.6	24.0	1.5
II. Capital reserve	130.4	7.9	130.4	8.8	130.4	8.2
III. Revenue reserves	266.6	16.0	260.8	17.6	249.7	15.8
IV. Consolidated net income	18.7	1.1	13.0	0.9	17.4	1.1
<b>B. Minority interests</b>	<b>75.9</b>	<b>4.6</b>	<b>73.2</b>	<b>4.9</b>	<b>71.1</b>	<b>4.5</b>
<b>C. Long-term liabilities</b>	<b>620.8</b>	<b>37.2</b>	<b>611.4</b>	<b>41.2</b>	<b>608.0</b>	<b>38.4</b>
I. Financial liabilities	534.0	32.0	518.1	34.9	521.1	32.9
II. Deferred taxes	84.9	5.1	91.1	6.1	84.9	5.4
III. Other liabilities	1.9	0.1	2.2	0.1	2.0	0.1
<b>D. Short-term liabilities</b>	<b>529.9</b>	<b>31.8</b>	<b>372.2</b>	<b>25.1</b>	<b>481.3</b>	<b>30.5</b>
I. Financial liabilities	193.8	11.6	116.4	7.8	209.9	13.3
II. Trade accounts payable and other liabilities	260.7	15.7	187.6	12.6	214.6	13.6
III. Tax provisions	29.1	1.7	19.3	1.3	22.6	1.4
IV. Other provisions	46.3	2.8	48.9	3.3	34.2	2.2
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,666.3</b>	<b>100.0</b>	<b>1,485.0</b>	<b>100.0</b>	<b>1,581.9</b>	<b>100.0</b>

## Cash Flow Statement

HORNBACH HOLDING AG Group

	1st Quarter 2003/2004 €m	1st Quarter 2002/2003 €m
<b>Consolidated earnings after tax and before extraordinary items and minority interests</b>	<b>22</b>	<b>16</b>
Depreciation and amortization of fixed assets	18	15
Change in provisions	18	11
Profits/losses on the sale of fixed assets	-1	0
Change in inventories, trade accounts receivable and other assets	-34	-30
Changes in trade accounts payable and other liabilities	44	3
Other income/expenses with no cash effect	2	1
Receipts/payments of exceptional items	2	0
<b>Inflow of funds from ordinary trading activities</b>	<b>71</b>	<b>16</b>
Receipts from disposals of fixed assets	1	1
Payments for capital expenditure	-26	-31
<b>Outflow of funds for investment activities</b>	<b>-25</b>	<b>-30</b>
Receipts from the proceeds of financial loans	23	0
Payments for the redemption of financial loans	-11	-17
Change in short-term financial loans	-22	19
<b>Outflow/inflow of funds for financing activities</b>	<b>-10</b>	<b>2</b>
Change in liquid assets	36	-12
Liquid funds at March 1	55	88
<b>Liquid funds at May 31</b>	<b>91</b>	<b>76</b>

## Statement of Changes in Shareholders' Equity

### HORNBACH HOLDING AG Group

<b>1st Quarter 2002/2003</b> € m	Subscribed capital	Capital reserve	Hedging reserve	Cumulative currency conversion	Other revenue reserves	Net income	<b>Total equity</b>
<b>As at March 1, 2002</b>	<b>24</b>	<b>130</b>	<b>0</b>	<b>1</b>	<b>242</b>	<b>18</b>	<b>415</b>
Transfer to reserves					18	-18	<b>0</b>
Net income						13	<b>13</b>
<b>As at May 31, 2002</b>	<b>24</b>	<b>130</b>	<b>0</b>	<b>1</b>	<b>260</b>	<b>13</b>	<b>428</b>

<b>1st Quarter 2003/2004</b> € m	Subscribed capital	Capital reserve	Hedging reserve	Cumulative currency conversion	Other revenue reserves	Net income	<b>Total equity</b>
<b>As at March 1, 2003</b>	<b>24</b>	<b>130</b>	<b>-2</b>	<b>1</b>	<b>251</b>	<b>17</b>	<b>421</b>
Transfer to reserves					17	-17	<b>0</b>
Net income						19	<b>19</b>
<b>As at May 31, 2003</b>	<b>24</b>	<b>130</b>	<b>-2</b>	<b>1</b>	<b>268</b>	<b>19</b>	<b>440</b>

# Notes to the Interim Report (IFRS) for the First Quarter of 2003/2004

## 1. ACCOUNTING PRINCIPLES

This non-audited group interim report of HORNBACH HOLDING Aktiengesellschaft and its subsidiaries for the first quarter as of May 31, 2003 has been compiled in accordance with the accounting principles promulgated by the International Accounting Standards Board (International Financial Reporting Standards – “IFRS”). Application has been made of all International Financial Reporting Standards and interpretations of the International Financial Reporting Standing Interpretation Committee “SIC” valid as of May 31, 2003.

The accounting principles applied in the compilation of this interim report correspond to those applied in the group annual report as of February 28, 2003.

This interim report is to be read in conjunction with the group annual report for the 2002/2003 fiscal year. The notes included therein also apply to this interim report unless expressly indicated otherwise. Particular reference is made to Note 12 in the annual report “Amendments to the Accounting and Valuation Methods”. Account has been taken of the resultant amendments in the comparable figures for the quarter ending as of May 31, 2002.

## 2. REPORTING ENTITIES

HORNBACH Baustoff Union GmbH acquired shares in Robert Röhlinger GmbH during the first quarter. The company was fully consolidated at the time of its acquisition.

## 3. SEASONAL INFLUENCES

Due to weather conditions, the HORNBACH HOLDING AG Group is subject to lower sales in autumn and winter than in the spring and summer months. The seasonal variations are reflected in the figures for the first quarter. The results of business operations for the first three months up to May 31, 2003 do not automatically constitute an indicator for the results to be expected for the overall fiscal year.

## 4. NON-OPERATIVE RESULT

The non-operative earnings of € 0.9m include profits on the sale of two DIY superstores with garden centers (€ 0.7m), which were subsequently rented back for the long term on the basis of operating leasing agreements. Following expiry of the basic rental period, which may not be terminated, the agreements provide for an extension of the rental period and also include purchase options. Furthermore, the non-operative earnings also include belated income amounting to € 0.2m resulting from the final payment relating to the sale of an investment undertaken during the 2002/2003 fiscal year.

## 5. EXTRAORDINARY RESULT

The extraordinary income includes a grant of € 1.6m made by the state government of Upper Austria to cover the damage caused by the flood disaster in 2002. There are no conditions or performance contingencies in connection with the assistance thereby granted. The tax expense related to the extraordinary income amounts to € 0.5m.

## 6. EARNINGS PER SHARE

Undiluted earnings per share are calculated pursuant to IAS 33 (Earnings per Share) as the quotient of the result allocable to the shareholders of HORNBAACH HOLDING AG for the period under report and the weighted average number of shares in circulation.

### Earnings per share

	May 31, 2003 (€m)	May 31, 2002 (€m)
Consolidated net income	18.7	13.0
Additional dividend for preference shares	0.2	0.2
Consolidated net income adjusted by additional dividend claims	<u>18.5</u>	<u>12.8</u>
Number of ordinary shares issued	4,000,000	4,000,000
Number of preference shares issued	<u>4,000,000</u>	<u>4,000,000</u>
	<u>8,000,000</u>	<u>8,000,000</u>
Earnings per share (in €)	2.31	1.59
Additional dividend claim per preference share (in €)	0.06	0.06
Earnings per preference share (in €)	2.37	1.65

Due to share option plans there are some shares which may potentially be diluted. These have no influence on the earnings per share figure, however, as the hurdles for exercising such options have not been reached.

## 7. SEGMENTAL REPORTING

1st Quarter 2003/2004 in €m (1st Quarter 2002/2003 in €m)	Retail	Real Estate	Other and Consolidation	HORNBAACH HOLDING AG Group
<b>Segment Income</b>	<b>571.5</b> (457.2)	<b>27.5</b> (23.0)	<b>-26.7</b> (-22.3)	<b>572.3</b> (457.9)
- Sales proceeds from external third parties	571.5 (457.2)	0.0 0.0	0.0 0.0	571.5 (457.2)
- Rental income from affiliated companies, internal rental income	0.0 0.0	26.7 (22.3)	-26.7 (-22.3)	0.0 (0.0)
- Rental income from external third parties	0.0 (0.0)	0.8 (0.7)	0.0 (0.0)	0.8 (0.7)
<b>Segment Result (EBIT)</b>	<b>34.0</b> (23.1)	<b>14.3</b> (12.1)	<b>-4.4</b> (-2.8)	<b>43.9</b> (32.4)

Neustadt an der Weinstraße, June 25, 2003  
– The Board of Management –