



Interim Report

HORNBACH HOLDING AG GROUP

FIRST HALF-YEAR **2006/2007**

(MARCH 1 – AUGUST 31, 2006)

HORNBACH ■
HOLDING AG

HORNBACH HOLDING AG Group

Interim Report (IFRS): First Half of 2006/2007

(March 1 – August 31, 2006)

- Business gains considerable momentum in 2nd quarter
- Sales up by 6.8 % in first six months – Like-for-like sales growth of 1.6 % at DIY megastores
- Earnings significantly up on previous year

The HORNBACH HOLDING AG Group further increased its earnings power in the first six months of the current financial year (March 1 to August 31, 2006). The sales of the HORNBACH HOLDING AG Group rose by 6.5% in the second quarter to € 682.8 million (previous year: € 641.1m). Cumulative sales for the first half rose by 6.8% to € 1,379.6 million (previous year: € 1,292.1m). Like-for-like sales at the DIY megastores with garden centers of the HORNBACH-Baumarkt-AG subgroup rose by 1.9% in the second quarter and by 1.6% in the first half. HORNBACH Baustoff Union GmbH also reported an increasingly dynamic sales performance, concluding the first half of the year with growth of 8.5%.

As a result of sales growth, cost savings and a year-on-year improvement in the gross margin, earnings showed significantly stronger growth than sales in the first half of 2006/2007. The operating earnings (EBIT) of the HORNBACH Group increased by 21.7% to € 99.8 million (previous year: € 82.0m). Consolidated earnings before taxes grew by 33.1% to € 81.1 million (previous year: € 61.0m). Earnings per preference share amounted to € 5.43 (previous year: € 4.20).

Key Figures for the Group (in € million, unless otherwise stated)	2nd Quarter 2006/2007	2nd Quarter 2005/2006	Change in %	1st Half 2006/2007	1st Half 2005/2006	Change in %
Net sales	682.8	641.1	6.5	1,379.6	1,292.1	6.8
of which in other European countries	233.4	216.1	8.0	467.6	427.7	9.3
Gross margin (as % of net sales)	34.7%	34.2%		35.2%	34.7%	
EBITDA	73.7	61.2	20.6	138.7	118.1	17.5
Earnings before interest and taxes (EBIT)	53.5	42.4	26.1	99.8	82.0	21.7
Consolidated earnings before taxes	43.9	31.5	39.5	81.1	61.0	33.1
Consolidated net income*	31.3	21.4	46.2	53.8	40.4	33.3
Undiluted earnings per preference share (€)	3.18	2.22	43.2	5.43	4.20	29.3
No. of employees at the HORNBACH Group				12,116	11,872	2.1
Investments				37.7	107.9	-65.1
Total assets				1,830.6	1,850.2	-1.1
Shareholders' equity				603.3	575.4	4.8
Shareholders' equity as % of total assets				33.0%	31.1%	

* pursuant to IFRS including minority interests.

Sales growth of 6.8% at the HORNBACH Group in the first half

The HORNBACH HOLDING AG Group consists of the HORNBACH-Baumarkt-AG, HORNBACH Baustoff Union GmbH and HORNBACH Immobilien AG subgroups.

The net sales of the HORNBACH Group rose by 6.5% in the second quarter of 2006/2007 (June 1 to August 31, 2006) to reach € 682.8 million (previous year: € 641.1m). On a cumulative basis for the first six months, consolidated sales increased by 6.8% to € 1,379.6 million (previous year: € 1,292.1m).

The HORNBACH-Baumarkt-AG subsidiary operated 121 DIY megastores with garden centers across Europe as of August 31, 2006. There were also no new store openings in the second quarter. The HORNBACH DIY megastore with a garden center in Darmstadt was closed as of August 31, 2006 in order to make space for the construction of a new, up-to-date megastore with a drive-in facility. The total sales area of all retail outlets amounted to around 1.31 million m² at the reporting date. Sales at the HORNBACH-Baumarkt-AG Group rose by 6.3% in the second quarter to € 638.5 million (previous year: € 600.8 million) and by 6.6% in the first half to € 1,297.8 million (previous year: € 1,217.5 million).

The business performance gained further momentum in the course of the second quarter. Our like-for-like sales increased by 1.9% across the Group in the period from June to August (previous year: 2.1%). The downturn in sales during the 2006 football world cup was lower than expected. Sales showed pleasing developments in the months of July and August, both in Germany and at the international stores. In the German market, we succeeded by the end of the first half in virtually making up for the shortfall in the first quarter (minus 0.7%). The cumulative like-for-like sales growth of 6.1% in other European countries underlines HORNBACH's continuing high level of growth momentum outside Germany. Further details concerning the business performance of HORNBACH-Baumarkt-AG can be found in the interim report published separately by the subgroup.

As a result of a further revival during the summer months, net sales at the HORNBACH Baustoff Union GmbH subgroup increased by 8.5% in the first half of 2006/2007 to reach € 82.8 million (previous year: € 76.3m).

Earnings power further increased in second quarter

We further improved the earnings performance of the overall HORNBACH HOLDING AG Group in the second quarter of 2006/2007 compared with the previous quarter. Earnings before interest, taxes, depreciation and amortization (EBITDA) rose by 20.6% to € 73.7 million (previous year: € 61.2m). Operating earnings (EBIT) increased by 26.1% in the second quarter to reach € 53.5 million (previous year: € 42.4m).

The earnings performance of the Group for the reporting period from March to August 2006 has therefore shown a further improvement. At € 138.7 million, the EBITDA reported are 25.0% higher than in the previous year (€ 118.1m). Operating earnings (EBIT) rose by 21.7% in the first half of the year to € 99.8 million (€ 82.0m). Consolidated earnings before taxes showed growth of 33.1% compared with the previous year to reach € 81.1 million (previous year: € 61.0m). Consolidated net income increased by 33.3% in the first half of 2006/2007 to € 53.8 million (previous year: € 40.4m). Earnings per preference share calculated in accordance with IFRS rose from € 4.20 to € 5.43.

One main reason for the rise in key operating earnings figures in the first half of 2006/2007 is the like-for-like sales growth, coupled with a slight year-on-year increase in the gross margin. The gross profit rose as a percentage of net sales across the Group from 34.7% to 35.2%.

Selling and store expenses were reported at € 346.6 million (previous year: € 326.5m). The store expenses ratio thus declined from 25.3% to 25.1%. A decline was also seen in general and administrative expenses, which reduced as a percentage of net sales from 3.9% to 3.6%. Moreover, the earnings performance was also positively affected by the considerable reduction of € 5.1 million in pre-opening expenses compared with the previous year. An improvement in net financial expenses of € 2.4 million (plus 11.4%) contributed to the marked increase in consolidated earnings before taxes.

The key earnings figures of the overall Group are largely dependent on the earnings performance of HORNBAACH-Baumarkt-AG, the largest operating subgroup. This subgroup's operating earnings (EBIT) improved by 41.6% in the second quarter to € 47.0 million (previous year: € 33.2m). Cumulative earnings for the first six months rose from € 65.6 million to € 87.9 million (plus 34.0%).

The lower level of growth rates at the overall Group compared with HORNBAACH-Baumarkt-AG are principally attributable to the lower level of operating earnings at HORNBAACH Immobilien AG. In the first half of the previous 2005/2006 financial year, this subgroup reported profits of around € 6.1 million on the disposal of real estate. HORNBAACH Immobilien AG has not generated any disposal profits in the current financial year to date.

HORNBAACH Baustoff Union GmbH, by contrast, achieved significant year-on-year operating earnings growth. By the end of the first six months, the subgroup had reached breakeven on the level of its annual net income.

More than 12,000 employees at the HORNBAACH Group

At the reporting date on August 31, 2006, there were 12,116 individuals (previous year: 11,872) across Europe in fixed employment at the HORNBAACH HOLDING AG Group.

Lower level of investment

A total of € 37.7 million was invested during the first six months of the current financial year (previous year: € 107.9m), primarily in plant and office equipment, and in land and buildings. The sharp decline in investment is principally due to the fact that no new HORNBAACH DIY megastores with garden centers were opened in the first half of 2006/2007 (previous year: four). Information concerning the financing and investment activities of HORNBAACH HOLDING AG can be found in the cash flow statement in the notes to this report.

Outlook

As already announced, we will not be opening any new HORNBAACH DIY megastores with garden centers in the current 2006/2007 financial year. There will be no changes in the store network of 121 DIY megastores with garden centers before the end of the financial year. All new store openings originally planned for the 2006/2007 financial year will be postponed until the next financial year. The first new store opening is expected to take place in March 2007, when the second HORNBAACH DIY megastore with a garden center in Munich will open its doors. This market is currently under construction. Work has started in Bucharest on building the first HORNBAACH DIY megastore with a garden center in Rumania, which is scheduled to open in June 2007. Overall, we expect to open up to ten new HORNBAACH DIY megastores with garden centers, most of which in other European countries, in the 2007/2008 financial year. The international expansion is targeted on the Netherlands, Switzerland, the Czech Republic, Sweden and Rumania.

Sales at the HORNBAACH-Baumarkt-AG subgroup will increase in the current financial year in spite of the absence of any new store openings by a medium single-digit percentage level. Earnings for the overall year are also set to show a marked increase as a proportion of sales.

The HORNBAACH Baustoff Union GmbH subgroup is expected to outperform its sector and to generate medium range single-digit sales growth. The subgroup expects to generate positive earnings on an operating level (EBIT). As a result of a lower level of profits on the sale of real estate, operating earnings (EBIT) at the HORNBAACH Immobilien AG subgroup will fall slightly short of the previous year's figure.

The earnings of the overall HORNBAACH HOLDING AG Group are expected to rise as a proportion of sales for the financial year as a whole.

Neustadt an der Weinstrasse, September 28, 2006

– The Board of Management –

Financial Calendar 2006/2007

September 28, 2006	DVFA Analysts Conference Interim Report as of August 31, 2006
December 21, 2006	Interim Report as of November 30, 2006
March 22, 2007	Trading Statement for the 2006/2007 Financial Year
May 24, 2007	Annual Results Press Conference 2006/2007 and Publication of Annual Report

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HORNBACH HOLDING AG

Balance Sheet

ASSETS	August 31, 2006		August 31, 2005		February 28, 2006	
	€ million	%	€ million	%	€ million	%
Long-term assets	981.4	53.6	1,071.8	57.9	991.4	55.3
Intangible assets	24.7	1.3	25.9	1.4	25.9	1.4
Property, plant and equipment	873.0	47.7	959.3	51.9	875.0	48.8
Investment property	53.9	2.9	54.1	2.9	55.9	3.1
Financial assets	2.2	0.1	1.9	0.1	2.0	0.1
Other long-term assets	5.1	0.3	3.0	0.2	5.1	0.3
Deferred tax claims	22.5	1.2	27.5	1.5	27.5	1.5
Short-term assets	849.3	46.4	778.4	42.1	802.3	44.7
Inventories	476.8	26.0	447.0	24.2	512.2	28.6
Accounts receivable and other assets	73.8	4.0	68.9	3.7	94.9	5.3
Income tax claims	6.7	0.4	6.2	0.3	16.4	0.9
Cash and cash equivalents	287.5	15.7	256.4	13.9	161.4	9.0
Non-current assets held for sale	4.5	0.2	-	-	17.5	1.0
TOTAL ASSETS	1,830.6	100.0	1,850.2	100.0	1,793.7	100.0

EQUITY AND LIABILITIES	August 31, 2006		August 31, 2005		February 28, 2006	
	€ million	%	€ million	%	€ million	%
Shareholders' equity	603.3	33.0	575.4	31.1	558.6	31.1
Share capital	24.0	1.3	24.0	1.3	24.0	1.3
Capital reserve	130.4	7.1	130.4	7.0	130.4	7.3
Retained earnings	352.9	19.3	331.3	17.9	318.6	17.8
Minority interests	96.0	5.2	89.8	4.9	85.6	4.8
Long-term liabilities	789.0	43.1	769.1	41.6	741.2	41.3
Financial debt	684.8	37.4	675.0	36.5	639.7	35.7
Pensions and similar obligations	3.5	0.2	0.0	0.0	3.5	0.2
Deferred taxes	93.0	5.1	87.0	4.7	90.8	5.1
Other long-term liabilities	7.7	0.4	7.1	0.4	7.2	0.4
Short-term liabilities	438.3	23.9	505.7	27.3	493.9	27.5
Financial debt	146.5	8.0	154.9	8.4	187.6	10.5
Accounts payable and other liabilities	217.0	11.9	272.8	14.7	241.1	13.4
Tax provisions	23.4	1.3	23.7	1.3	18.7	1.0
Other provisions	51.4	2.8	54.4	2.9	46.5	2.6
TOTAL EQUITY AND LIABILITIES	1,830.6	100.0	1,850.2	100.0	1,793.7	100.0

Rounding up or down may lead to discrepancies between totals and percentages.

HORNBACH HOLDING AG Group

Cash Flow Statement

€ million	1st Half 2006/2007	1st Half 2005/2006
Consolidated net income	54	40
Depreciation and amortization of long-term assets	39	36
Change in provisions	-1	0
Profits / losses on the sale of long-term assets	0	-10
Change in inventories, accounts receivable and other assets	43	-19
Change in accounts payable and other liabilities	-13	64
Other income / expenses with no cash effect	7	0
Cash flow from operating activities	129	111
Proceeds from disposals of long-term assets	36	102
Payments for investments in property, plant and equipment	-32	-105
Payments for investments in intangible assets	-1	-3
Payments for acquisitions of shareholdings and other business units	-4	0
Cash flow from investing activities	-1	-6
Receipts from capital increases	6	0
Payments to shareholders	-12	2
Proceeds from long-term debt	80	3
Repayment of long-term debt	-82	-25
Change in short-term debt	6	9
Cash flow from financing activities	-2	-11
Change in cash and cash equivalents	126	94
Cash and cash equivalents at March 1	161	162
Cash and cash equivalents at August 31	287	256

HORNBACH HOLDING AG Group

Statement of Shareholders' Equity

1st Half 2005/2006	Share Capital	Capital Reserve	Hedging Reserve	Cumulative Currency Conversion	Other Retained Earnings	Equity Attributable to Shareholders	Minority Interests	Total Equity
€ million								
Balance at March 1, 2005	24	130	-3	2	300	453	83	536
Change in reporting entity							-2	-2
Capital increase from share option plans							2	2
Valuation of derivative financial instruments, net after taxes			-1			-1		-1
Net income for the year					33	33	7	40
Balance at August 31, 2005	24	130	-4	2	333	485	90	575

1st Half 2006/2007	Share Capital	Capital Reserve	Hedging Reserve	Cumulative Currency Conversion	Other Retained Earnings	Equity Attributable to Shareholders	Minority Interests	Total Equity
€ million								
Balance at March 1, 2006	24	130	-3	4	318	473	86	559
Dividend distributions					-9	-9	-3	-12
Change in reporting entity						0	-4	-4
Capital increase from share option plans						0	6	6
Net income for the year					43	43	11	54
Balance at August 31, 2006	24	130	-3	4	352	507	96	603

HORNBACH HOLDING AG Group

Notes to the Group Interim Report as of August 31, 2006

(1) Accounting principles

This non-audited group interim report of HORNBACH HOLDING AG and its subsidiaries for the first half as of August 31, 2006 has been compiled in accordance with Section 315a of the German Commercial Code (HGB) based on International Financial Reporting Standards (IFRS) in the form requiring mandatory application in the European Union.

The accounting principles applied in the compilation of this interim report correspond to those applied in the consolidated financial statements as of February 28, 2006. The Group has made additional application of IAS 34 "Interim Reporting". This interim report is to be read in conjunction with the consolidated financial statements of HORNBACH HOLDING AG for the 2005/2006 financial year. Reference is made to these financial statements on account of the additional information they contain as to the specific accounting and valuation methods applied. The notes included therein also apply to this interim report unless any amendments are expressly indicated.

(2) Reporting entity

There were no changes in the reporting entity during the first half of 2006/2007.

(3) Seasonal influences

Due to weather conditions, the HORNBACH HOLDING AG Group is subject to lower sales in the autumn and winter months than in the spring and summer months. These seasonal variations are reflected in the figures for the first quarter. The results of business operations for the first six months up to August 31, 2006 do not necessarily provide an accurate indication of the results to be expected for the overall financial year.

(4) Other income and expenses

Other income and expenses are structured as follows:

€ million	2nd Quarter 2006/2007	2nd Quarter 2005/2006	Change in %
Other income	8.3	10.8	-23.1
Other expenses	5.3	2.7	98.9
Other income and expenses	3.0	8.1	-62.7

€ million	1st Half 2006/2007	1st Half 2005/2006	Change in %
Other income	23.0	23.4	-1.6
Other expenses	10.9	7.2	52.5
Other income and expenses	12.1	16.2	-25.4

Other operating income primarily relates to advertising grants, income from exchange rate and payment differences.

Moreover, the income for the first half of 2006/2007 also includes other non-operating income amounting to € 6.4 million (previous year: € 10.0m) resulting from the disposal of a DIY store property and of other real estate. The DIY store property was rented back on a long-term basis within the framework of an operating lease. At the end of the non-terminable basic rental period, there is the option of extending the rental period or of repurchasing the property.

Other operating expenses principally consist of expenses incurred on exchange rate and currency differences and losses incurred on the sale of long-term assets. Non-operating expenses amounting to € 4.5 million (previous year: € 0.5m) were reported under this item at the end of the first half of 2006/2007. The non-operating expenses relate to extraordinary depreciation of € 3.5 million undertaken on buildings and to € 1.0 million of losses incurred on disadvantageous contracts. The non-operating expenses are reported in the real estate segment.

(5) Taxes on income

Taxes on income are structured as follows:

	2nd Quarter 2006/2007	2nd Quarter 2005/2006	Change in %
€ million	8.0	11.1	-27.1
Current tax expenses	4.6	-1.0	-
	12.6	10.1	25.4

	1st Half 2006/2007	1st Half 2005/2006	Change in %
€ million	20.3	21.1	-3.8
Current tax expenses	7.1	-0.5	-
	27.3	20.6	32.7

(6) Earnings per share

Undiluted earnings per share are calculated pursuant to IAS 33 (Earnings per Share) as the quotient of the income 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

€ million	2nd Quarter 2006/2007	2nd Quarter 2005/2006
Consolidated net income	25.2	17.5
Additional dividend for preference shares	0.2	0.2
Consolidated net income adjusted to account for additional dividend claims	25.0	17.3
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 (in €)	3.12	2.16
Additional dividend claim per preference share (in €)	0.06	0.06
Earnings per preference share (in €)	3.18	2.22

€ million	1st Half 2006/2007	1st Half 2005/2006
Consolidated net income	43.2	33.4
Additional dividend for preference shares	0.2	0.2
Consolidated net income adjusted to account for additional dividend claims	43.0	33.1
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 (in €)	5.37	4.14
Additional dividend claim per preference share (in €)	0.06	0.06
Earnings per preference share (in €)	5.43	4.20

(7) Other disclosures

The personnel expenses of the HORNBAACH HOLDING AG Group amounted to € 197.5 million at the end of the first half as of August 31, 2006 (previous year: € 192.4m).

Depreciation and amortization totaling € 38.9 million was undertaken on intangible assets and property, plant and equipment at the HORNBAACH HOLDING AG Group in the first six months of the 2006/2007 financial year (previous year: € 36.1m).

(8) Dividends

In accordance with the proposal made by the Board of Management and Supervisory Board of HORNBAACH HOLDING AG, following the approval by the Annual General Meeting held on July 14, 2006 dividends of € 1.08 per ordinary share and € 1.14 per preference share were distributed to shareholders for the 2005/2006 financial year.

(9) Financial debt

In the first half of the 2006/2007 financial year, HORNBAACH-Baumarkt-AG took up an unsecured borrowers' note loan amounting to € 80 million, mainly for the purpose of redeeming mortgage loans reaching final maturity. The borrowers' note loan has a floating interest rate based on the 6-month EURIBOR rate and is to be repaid at the end of its term of five years. A forward swap with identical terms was already concluded in the 2005/2006 financial year in order to hedge the interest rate. The swap enables the half-yearly interest to be paid on the basis of the 6-month EURIBOR rate to be secured at a level of 3.128% plus a bank margin. Given that the requirements governing hedge accounting were fulfilled upon the issuing of the borrowers' note loan on June 30, 2006, the changes in the value of the swap have been reported in the hedging reserve from this date onwards.

Furthermore, HORNBAACH-Baumarkt-AG has agreed a syndicated credit line of € 200 million, mainly to replace bilateral credit lines. This syndicated credit line is linked to compliance with customary bank covenants, such as the EBITDA/interest ratio. Any failure to comply with the covenant ratios or other obligations, which mainly correspond to the obligations also governing the bond issued in 2004, may result in the immediate termination of the credit line. This credit line had not been drawn down as of August 31, 2006. The HORNBAACH HOLDING AG Group had total credit lines of € 468.9 million at the reporting date, of which € 410.6 million were not utilized.

(10) Share option plans

Within the framework of the 1999 share option plan at HORNBAACH-Baumarkt-AG, a total of 202,585 subscription rights were exercised in accordance with the terms and conditions of the share option plan during the exercise windows from May 20 to May 27 and from July 7 to July 14, 2006. Moreover, a total of 12,004 share options relating to the 2003 phantom stock plan at

HORNBACH-Baumarkt-AG and of 8,610 share options relating to the share option plan at HORNBACH HOLDING AG were exercised during the same period.

Moreover, within the framework of the 1997 share option plan at HORNBACH-Baumarkt-AG, 15,000 convertible bonds were converted into shares in HORNBACH-Baumarkt-AG within the conversion period from July 18 to August 7, 2006.

(11) Events subsequent to the reporting date

On September 11, 2006, the Board of Management of HORNBACH-Baumarkt-AG resolved pursuant to Section 71 (1) No. 2 of the German Stock Corporation Act (AktG) to acquire up to 20,000 own shares. The shares are to be acquired for the issuing of shares to employees scheduled to take place at the end of 2006. The buyback of shares on the basis of this management board resolution is to be undertaken in accordance with the safe harbour regulations set out in Section 20a (3) of the German Securities Trading Act (WpHG) in conjunction with Regulation (EC) No. 2273/2003 of the European Commission dated December 22, 2003.

The buyback of shares will begin on September 11, 2006 and is limited to a period ending on December 31, 2006.

(12) Segmental reporting

1st Half 2006/2007 in € million 1st Half 2005/2006 in € million	Retail	Real Estate	Miscellaneous and Consolidation	HORNBACH HOLDING AG Group
Segment income	1,378.2 1,290.6	76.1 69.0	-74.7 -67.5	1,379.6 1,292.1
Sales to external third parties	1,378.2 1,290.6	0.0 0.0	0.0 0.0	1,378.2 1,290.6
Rental income from affiliated companies, internal rental income	0.0 0.0	74.7 67.5	-74.7 -67.5	0.0 0.0
Rental income from external third parties	0.0 0.0	1.4 1.5	0.0 0.0	1.4 1.5
Segment earnings (EBIT)	76.2 54.6	31.5 36.6	-7.9 -9.2	99.8 82.0
Depreciation and amortization	20.6 20.3	13.8 11.7	4.5 4.1	38.9 36.1
EBITDA	96.8 74.9	45.3 48.3	-3.4 -5.1	138.7 118.1

Neustadt an der Weinstrasse, September 28, 2006

The Board of Management of HORNBACH HOLDING Aktiengesellschaft