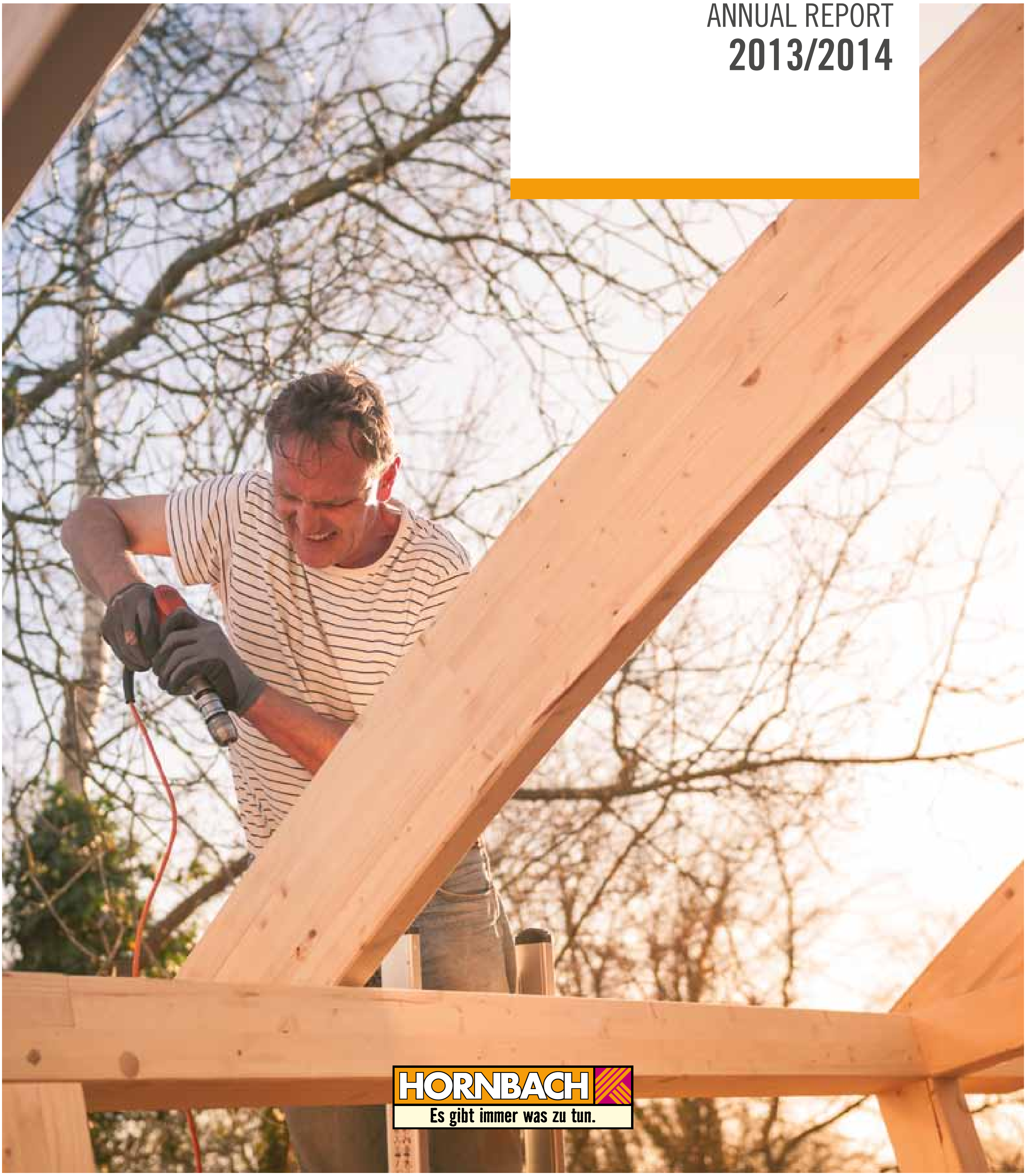
HORNBACH-BAUMARKT-AG
GROUP

ANNUAL REPORT
2013/2014



HORNBACH
Es gibt immer was zu tun.

CONTENTS

Key Group, Financial and Operating Data

Amounts shown in € million unless otherwise stated	Change financial year 2013/2014 on previous year	IFRS									
		2013/2014	2012/2013	2011/2012	2010/2011	2009/2010	2008/2009	2007/2008	2006/2007	2005/2006	2004/2005
Sales and earnings figures											
Net sales	4.4%	3,152	3,020	3,001	2,836	2,686	2,599	2,469	2,392	2,234	2,094
of which in other European countries	3.5%	1,325	1,279	1,272	1,195	1,109	1,065	962	862	788	688
Sales growth as % of net sales		4.4	0.6	5.8	5.6	3.4	5.2	3.2	7.1	6.7	8.9
EBITDA [1]	3.3%	161	156	184	173	169	193	142	160	137	152
as % of net sales		5.1	5.2	6.1	6.1	6.3	7.4	5.7	6.7	6.1	7.3
EBIT [2]	5.8%	105	99	128	119	115	137	79	96	70	91
as % of net sales		3.3	3.3	4.3	4.2	4.3	5.3	3.2	4.0	3.1	4.3
Earnings before taxes	17.4%	87	74	106	102	96	122	56	73	44	68
as % of net sales		2.8	2.5	3.5	3.6	3.6	4.7	2.3	3.0	1.9	3.2
Net income for the year	7.7%	56	52	77	76	68	95	47	61	25	43
as % of net sales		1.8	1.7	2.6	2.7	2.5	3.7	1.9	2.5	1.1	2.1
Gross margin as % of net sales		37.4	37.3	37.4	37.4	36.8	36.6	36.3	36.0	35.7	36.4
Store expenses as % of net sales		29.4	29.7	29.0	29.3	29.6	29.1	29.4	29.0	29.5	28.8
Costs of central administration as % of net sales		4.5	4.7	4.3	4.2	4.1	4.1	4.1	3.9	4.1	3.9
Pre-opening expenses as % of net sales		0.3	0.3	0.2	0.1	0.1	0.3	0.3	0.2	0.5	0.5
Cash flow figures											
Cash flow from operating activities	52.2%	144	95	104	153	156	124	67	197	16	124
Investments	(38.3)%	72	117	104	68	68	82	105	88	144	92
Proceeds from divestments		5	3	11	38	3	66	43	40	96	23
Earnings potential [3]	47.5%	155	105	111	158	160	132	74	202	27	134
as % of net sales		4.9	3.5	3.7	5.6	6.0	5.1	3.0	8.4	1.2	6.4
Dividend distribution	0.0%	15.9	15.9	15.9	15.9	13.7	13.7	13.6	13.5	13.2	13.1
Balance sheet and financial figures											
Total assets	4.6%	1,670	1,597	1,628	1,592	1,439	1,425	1,351	1,331	1,286	1,274
Non-current assets	0.9%	729	722	668	621	601	565	569	616	612	635
Inventories	4.8%	505	482	476	459	428	496	479	446	496	426
Cash and cash equivalents	17.0%	371	317	404	423	296	236	167	193	72	143
Shareholders' equity	4.7%	862	823	792	730	655	591	516	471	415	399
Shareholders' equity as % of total assets		51.6	51.5	48.6	45.9	45.5	41.5	38.2	35.4	32.3	31.3
Return on shareholders' equity based on net income - in %		6.7	6.5	10.2	10.9	11.0	17.1	9.4	13.7	6.1	11.4
Net working capital	(1.3)%	345	349	358	319	312	349	345	306	407	317
Additions to non-current assets	(38.3)%	72	117	104	68	68	84	105	87	140	88
Inventory turnover rate per year		4.0	4.0	4.0	4.0	3.7	3.4	3.4	3.3	3.1	3.1
Retail store data											
Number of stores		141	138	134	133	131	129	125	120	124	117
of which in Germany		92	92	91	92	92	92	91	89	92	88
of which in other European countries		49	46	43	41	39	37	34	31	32	29
Like-for-like sales growth in %		2.7	(1.4)	2.8	2.6	0.7	1.4	(0.2)	4.0	0.5	1.5
Sales area in m² (based on BHB)	3.1%	1,646,712	1,597,949	1,549,085	1,513,722	1,480,216	1,446,794	1,384,901	1,307,572	1,319,484	1,198,209
Weighted average net sales per m² in €	1.5%	1,940	1,912	1,933	1,903	1,828	1,839	1,810	1,833	1,753	1,796
Average store size in m²	0.9%	11,679	11,579	11,560	11,381	11,299	11,215	11,079	10,896	10,641	10,241
Weighted average sales per store		22.7	22.1	22.3	21.7	20.7	20.6	20.1	19.9	18.7	18.4
Other information											
Employees - annual average - converted into full-time equivalents	3.9%	13,170	12,674	12,188	11,520	11,357	11,005	10,528	10,091	10,046	9,407
Sales per employee in € 000s	0.4%	239	238	246	246	237	236	235	237	222	223
Number of shares [4]		31,807,000	31,807,000	31,807,000	15,903,500	15,903,500	15,740,060	15,685,020	15,506,120	15,200,320	15,097,830
Earnings per share in € [4]		1.77	1.64	2.43	4.76	4.32	6.04	2.98	3.95	1.64	2.88

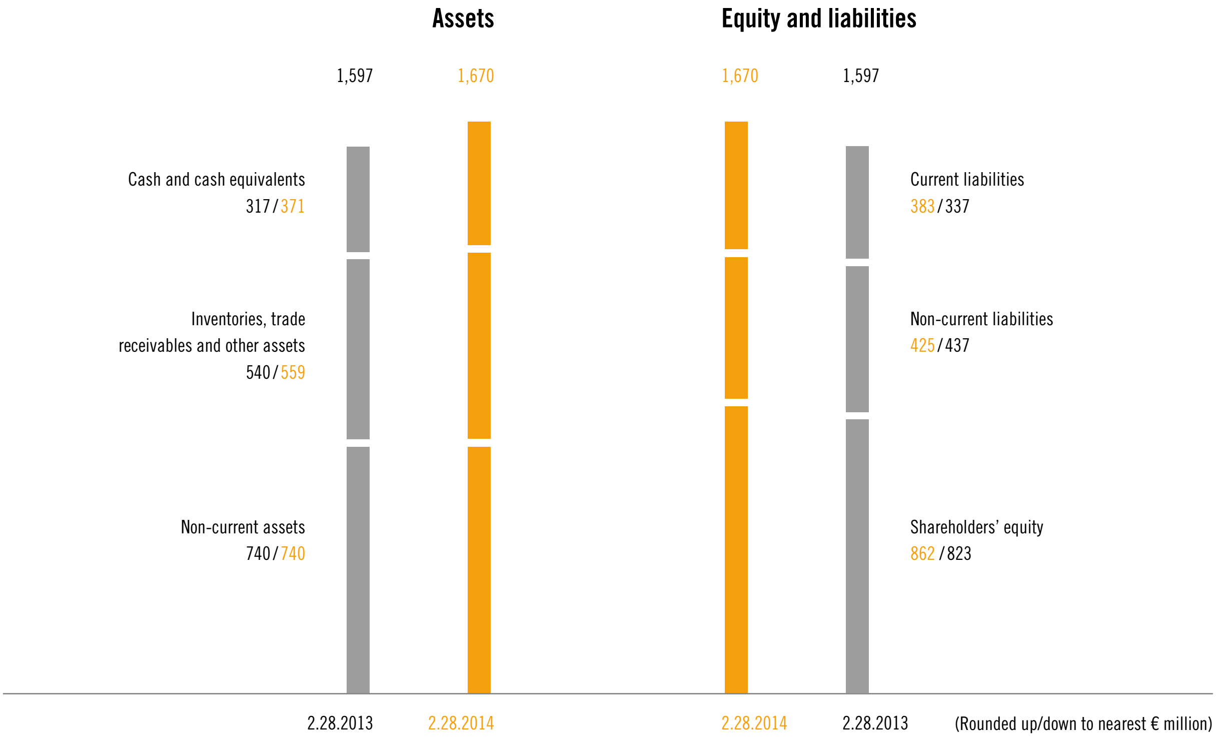
1) Earnings before interest, taxes, depreciation and amortization; starting in the 2007/2008 financial year: excluding net currency result

2) Earnings before interest and taxes; starting in the 2007/2008 financial year: excluding net currency result

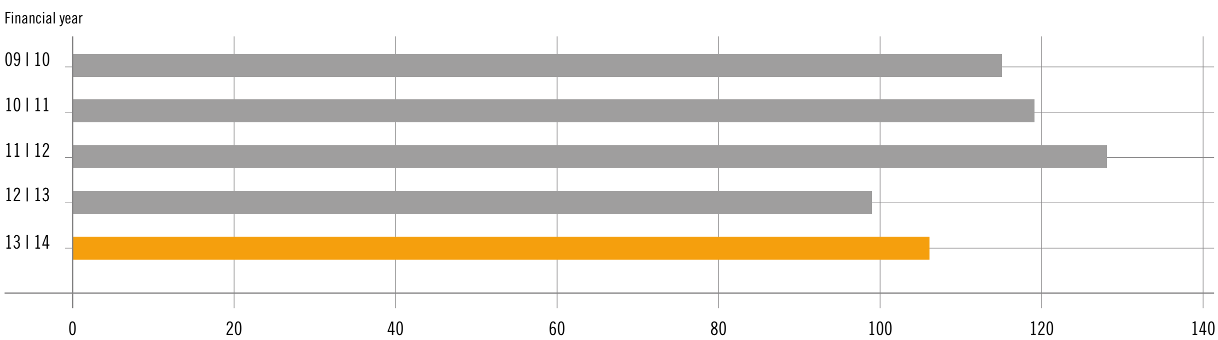
3) Cash flow from operating activities plus pre-opening expenses

4) Starting in the 2011/2012 financial year: change in number of shares following issue of bonus shares as of July 29, 2011

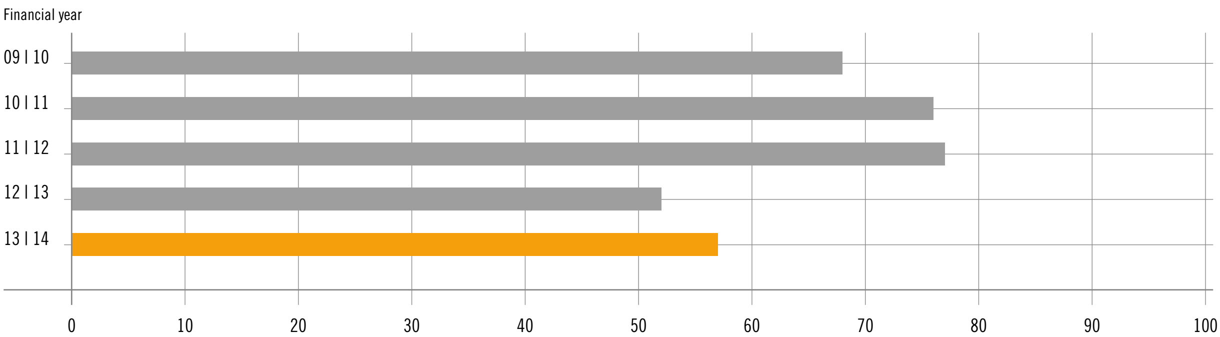
Structure of consolidated balance sheet
(€ million)



Earnings before interest and taxes
(€ million)



Net income for the year
(€ million)



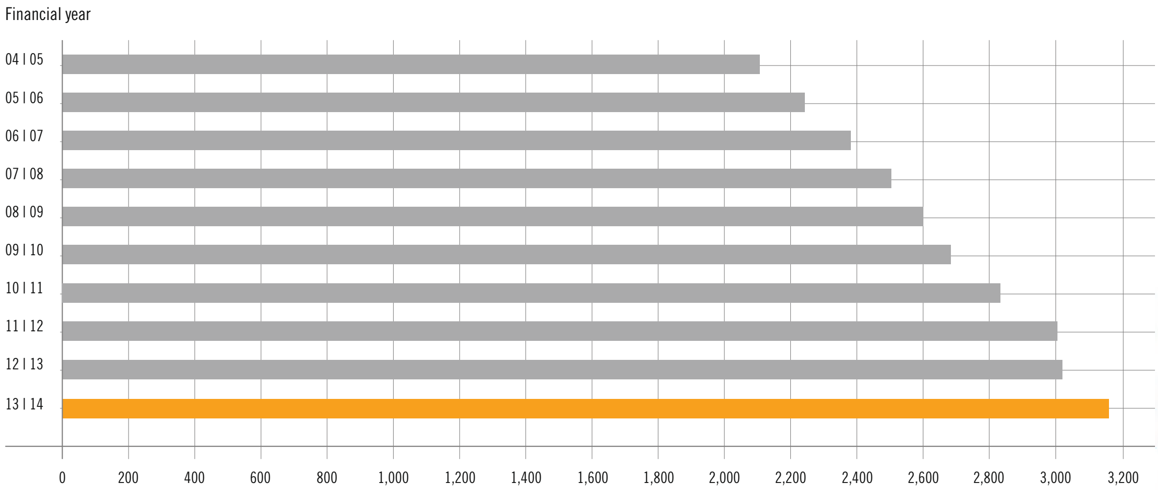
Sustainability

Companies aiming for long-term success have to think and act sustainably. This has always been a top priority at HORNBACH. We don't just talk sustainability, we actually do it – in all the economic, ecological, and social dimensions involved in responsible business activity.

Sustainably manufactured products, all-round energy and disposal concepts, support for social projects – these are just some of the areas we would like to communicate in the image series in this Annual Report.

COMPANY PROFILE

Sales performance of the HORNBACH-Baumarkt-AG Group
(net, € million)



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 the company was founded in 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, for the first time in 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 its time unique in Europe. This combination has since developed into a European standard in the DIY sector today.

In the second half of the 1980s, HORNBACH 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 and DIY enthusiasts, especially those on the lookout for solutions for extensive renovation and construction projects, the focus of their activities.

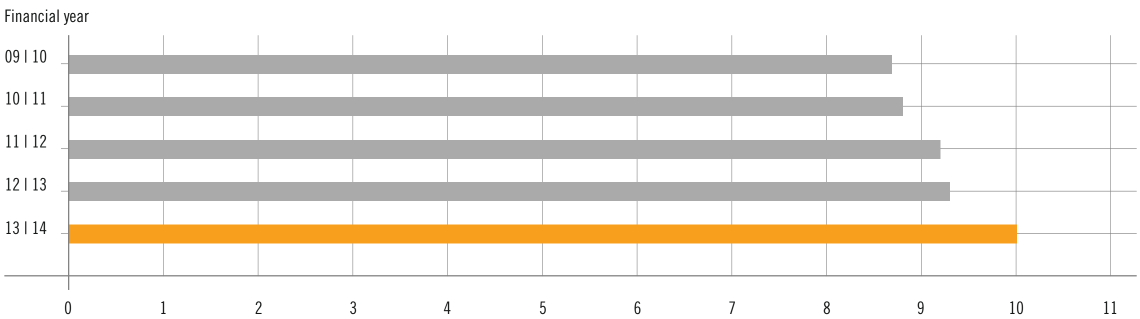
The consistent implementation of the company's concept, coupled with the high expectations it places in the quality of its locations, its stores, its product range and employees, have facilitated the dynamic growth shown by the company in recent years and form the basis for further expansion. With an average sales area of more than 11,000 m² per store, HORNBACH has underlined its unique position in the DIY megastore with garden center segment and also has the highest level of sales area productivity of any of the leading DIY companies in Germany. The net sales of the HORNBACH-Baumarkt-AG Group grew by 4.4 % to € 3,152 million in the 2013/2014 financial year. At the balance sheet date on February 28, 2014, the Group operated 141 DIY megastores with garden centers in nine countries across Europe (92 of which in Germany) with total sales areas of around 1.65 million square meters.

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 were subsequently opened in the Netherlands, Luxembourg and the Czech Republic. The company's international growth continued with its expansion to Switzerland, Sweden and Slovakia. The entry into the Romanian market followed in the summer of 2007. As of February 28, 2014, HORNBACH was operating a total of 49 DIY megastores with garden centers in eight countries outside Germany. The international share of consolidated sales amounted to 42.0 % in the 2013/2014 financial year. The Group will nevertheless also continue to pursue opportunities for expansion in Germany. Since December 1, 2010, the stationary retail business has been supplemented by HORNBACH's online shop, with which the Group is make targeted use of the opportunities presented by the internet.

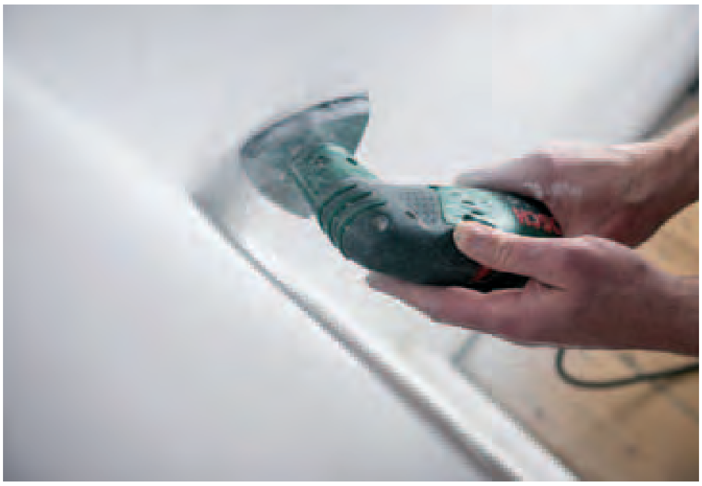
HORNBACH-Baumarkt-AG is a publicly listed stock corporation. The ordinary shares in the company (ISIN DE0006084403) are listed on the German Stock Exchange and are admitted to the subsection of the official market with additional admissions obligations (the "Prime Standard"). Of approximately 31.8 million ordinary shares in the company, 76.4 % are held by HORNBACH HOLDING AG, while 23.6 % are owned by independent shareholders.

HORNBACH is also present in the debt market with a corporate bond. On February 15, 2013, the company successfully placed a seven-year bond with a volume of € 250 million and an interest coupon of 3.875 % (ISIN: DE000A1R02E0). The issue proceeds were used to prematurely redeem the existing bond in place since November 2004 (interest coupon: 6.125 %) on February 25, 2013.

HORNBACH's DIY market share in Germany
(in %)



TO OUR SHAREHOLDERS



Healthy living

HORNBACH associates this prominent topic with its customers' desire to avoid pollution and contaminants when building and designing their interiors. Energy efficiency and permanently enhanced living quality are no unattainable dream.

With our «Healthy Living» product range, we show customers how they can achieve this. Our seal of approval also guarantees the quality of certified articles.

TO OUR SHAREHOLDERS

Dear Shareholders,

One year ago, my comments here about our forecast for the 2013/2014 financial year were still colored by the very poor start to the spring season. Europe covered in snow and ice, and that well into April 2013, led as expected to an unsatisfactory sales performance and substantial fall in earnings in the first quarter. At the time, it was difficult to give any indication as to whether we would be able to make up for the shortfall in 2013/2014 already. One year later, the answer is simple. Our race to catch up was an absolute success.

- The HORNBACH-Baumarkt-AG Group increased its net sales by 4.4 % to € 3,152 million in the 2013/2014 financial year. This figure includes sales at four new HORNBACH DIY megastores with garden centers. Outside Germany, we opened three new locations in Slovakia, Sweden, and the Netherlands. In Germany, we opened a replacement location in Heidelberg.

- On a like-for-like basis, i.e. excluding newly opened stores, we achieved the forecast turnaround on group level in the year under report. Adjusted consolidated sales grew by 2.7 %, contrasting with the downturn of 1.4 % in the previous year's period.

- Our DIY megastores with garden centers in Germany made the key contribution to this growth. The first quarter's like-for-like reduction of 5.8 % was more than offset by sales growth of 7.7 % in the second quarter. The German HORNBACH DIY megastores with garden centers then grew by 7.0 % in the third quarter and even posted double-digit growth of 14.1 % in the final quarter. We concluded the 2013/2014 financial year with like-for-like growth of 4.9 % in Germany and significantly expanded our market share from 9.3 % to 10.0 %.

- Sales momentum in the eight countries outside Germany also improved noticeably in the 2013/2014 financial year, benefiting in this respect from a more favorable macro economic framework. With a like-for-like sales performance of minus 0.1 %, our international stores more or less reached the previous year's figure. Given the positive growth rates since the second quarter of 2013/2014, we are now heading back to positive growth territory.

- Thanks to this pleasing sales performance and to great cost discipline at stores and administration departments, we significantly exceeded our original earnings forecast. In spring 2013, we had still assumed that our consolidated operating earnings (EBIT) for 2013/2014 would not match the previous year's figure of € 99.3 million. In actual fact, we can post slightly disproportionate earnings growth of 5.8 % to € 105.1 million.

All in all, the HORNBACH-Baumarkt-AG Group can look back on a very pleasing 2013/2014 financial year. With our project DIY store concept, we outperformed the DIY sector average in most of the countries in our European network. That is particularly true in Germany which, in retrospect, played a special role in the year under report. Given recent events, I would like to comment on this in greater detail.

Since summer 2013, the German DIY retail sector has been undergoing a period of historic transformation. Triggered by the bankruptcy of the Praktiker Group and the subsequent wave of location closures, the consolidation of the German DIY market has assumed unprecedented proportions. Having said this, the exit of what was Germany's second-largest DIY player did not really come as a surprise. Sector observers, and international observers in particular, had for many years predicted that market consolidation along British or French lines was long overdue. The highly fragmented DIY retail sector in what is by far the largest national market in Europe defied these mantra-like forecasts far longer than expected – that is until the "big bang" came in 2013.

In 2012, Praktiker and Max Bahr still accounted for around one seventh of the German sector's sales and total sales areas. Net sales volumes most recently amounting to around € 2.2 billion are now being redistributed among competitors. Locations are vanishing from the landscape on a grand scale.

Customer flows are shifting. The German DIY landscape is reorganizing itself. Against this backdrop, two questions are of prime importance.

What active role is HORNBACH playing in the consolidation?
We have always made it clear that we accord top priority to sustainable growth. We analyze exceptional options, such as taking over locations from competitors, very closely and apply the same strict decision-making criteria that we use for our organic expansion. These locations too have to be excellently situated and meet certain minimum size criteria. Only this way can we achieve sufficient sales volumes and adequate surface productivity rates. At the end of the day, the locations have to pay off. After all, we owe it not least to our shareholders to put the capital they have entrusted us with to the best possible use.

Only very few of the 164 Praktiker and 136 Max Bahr locations were able to meet our standards. Ultimately, we took over a total of six locations – in Kamen, Lüneburg, Saarbrücken, Schwabach, Trier, and Ulm. Following an intense period of conversion and reflagging, we aim to launch operations at these new locations in the course of the 2014/2015 financial year. This way, we will create additional momentum for our future sales performance in Germany.

What are the implications for our business performance?
In the catchment areas affected by the Praktiker bankruptcy, the remaining competitors have benefited from the sales potential at the stores thereby closed. Thanks to our attractive retail format, we successfully attracted new customers to the HORNBACH brand and expanded our regional market share. These consolidation factors impacted positively on our like-for-like sales performance in the second half of the 2013/2014 financial year. They created additional tailwind, one badly needed following the exceptionally weak first quarter due to weather conditions. However, I do not think we can simply extrapolate these consolidation effects into the future, particularly in respect of the 2014/2015 financial year. Why is that?

Of the 300 Praktiker and Max Bahr stores at the time of the bankruptcy, by May 2014 around 135 locations had been taken over, mostly by competitors in the DIY sector. Most of these stores can be expected to have been reflagged by summer/fall 2014. Gradually, the pressure from competitors is expected to increase once again in 2014. After all, the change of operator means that more successful concepts may be in place in future to attract customers' favor than was the case in the past. Ultimately, however, that is the usual trial of strength in a competitive business, one that we face and master every day. All in all, I have no doubt that we will remain among the winners of this restructuring of the German DIY store landscape.

Looking forward, the crucial factor is and remains HORNBACH's ability to grow on the basis of its own intrinsic strengths. It is the ability to offer our customers the right concepts and – whether at stationary stores or on the internet – to offer the best solutions for them to implement their construction and renovation projects. Not least, it is the ability to afford these concepts in economic terms.

We will consistently maintain our chosen growth course in the 2014/2015 financial year. In this, I will be relying as ever on the unfailing commitment and innovative power of more than 15,000 group employees, without whom HORNBACH's success story would not be possible. I would like to thank each and every one of them!

Steffen Hornbach
Chairman of the Board of Management
HORNBACH-Baumarkt-AG

REPORT OF THE SUPERVISORY BOARD

Albrecht Hornbach

Dear ladies and gentlemen,

In the past 2013/2014 financial year we dealt in great detail with the company's situation, perspectives, and strategic alignment. We advised the Board of Management in its management of the company and monitored its conduct in accordance with the requirements of the law, the Articles of Association and the Code of Procedure. At our meetings, the Board of Management provided us with regular, prompt and extensive written and oral reports on the business performance and the economic situation of the company and its subsidiaries. The Supervisory Board was involved in decisions of major significance for the company. Moreover, the Supervisory Board Chairman was in regular contact with the Board of Management, and especially with its Chairman, outside the framework of meetings to discuss significant issues and also to hold a number of working meetings.

Meetings of the Supervisory Board

Five Supervisory Board meetings were held in total in the 2013/2014 financial year. No member of the Supervisory Board attended fewer than half of the meetings. No conflicts of interest arose in the year under report.

At our meetings, we referred to the respective oral and written reports provided by the Board of Management and dealt in detail with the economic situation of the company, its business performance, corporate strategy and planning, investment and financial policy, opportunity and risk situation, risk management, and corporate governance and discussed these matters with the Board of Management. The Board of Management also provided regular written and oral reports on the company's current situation, and in particular on the development in its earnings and financial situation compared with the previous year and the budget. Budget variances were discussed and substantiated. Those actions of the Board of Management requiring our approval were discussed in detail. Following thorough examination and discussion of the proposals submitted by the Board of Management, the Supervisory Board approved all of the respective measures at its meetings.

At the meeting held on May 22, 2013 to approve the annual financial statements, we examined the annual and consolidated financial statements in great detail in the presence of the auditor, as was also the case on May 22, 2014. We also formally accepted the report from the Audit Committee on its work and the findings of its audit. All of the questions raised by Supervisory Board members were answered in detail by the auditors. The report of the Supervisory Board, the joint corporate governance report of the Board of Management and the Supervisory Board, the risk report, and the compliance report were also discussed and approved at this meeting. The agenda for the Annual General Meeting, including the proposed resolutions, was approved. In view of the company's growth in recent years and its medium-term growth outlook, the Board of Management and the Supervisory Board proposed to the Annual General Meeting to resolve that § 7 (1) Sentence 2 1st Alternative of the German Codetermination Act (MitBestimmG) should be applied to stipulate in the Articles of Association that the Supervisory Board be enlarged to include eight shareholder representative and eight employee representative members.

At the meeting held directly before the Annual General Meeting on July 4, 2013, the Board of Management reported on the current situation of the Group.

At the constitutive meeting of the newly elected Supervisory Board required following the election of new members, which was held on August 31, 2013, the Chairman, his Deputies, and committee members were elected. Moreover, dates for regular meetings up to and including the 2014/2015 financial year were also agreed at this meeting.

On December 18, 2013, the Board discussed the Group's current business situation and the risk compliance reports. At the same meeting, the updated Declaration of Conformity with the German Corporate Governance Code was adopted pursuant to § 161 of the German Stock Corporation Act (AktG) and then made permanently available to shareholders on the company's homepage. Apart from a few exceptions, HORNBACH-Baumarkt-AG has complied with and continues to comply with the recommendations of the Code. Only the following recommendations have not been complied with for the reasons outlined in the Declaration of Conformity: the agreement of a deductible in the D&O insurance policy for Supervisory Board members, the setting of a cap on severance pay for members of the Board of Management, the individualized disclosure of compensation of the Board of Management and the use of model tables, that the Supervisory Board Chairman also chairs the committee dealing with contracts with the Board of Management, the formation of a nomination committee, the statement of targets for diversity and a commensurate representation of women, that the Supervisory Board should not include more than two former members of the Board of Management, and the individualized disclosure of compensation of Supervisory Board members. Further information about corporate governance at HORNBACH-Baumarkt-AG can be found in the joint report of the Board of Management and the Supervisory Board from Page 20 onwards.

At its final meeting in the past 2013/2014 financial year, held on February 26, 2014, the Supervisory Board discussed the Group's current business situation, and examined and approved the budget for the financial years 2014/2015 to 2018/2019.

Committees and committee meetings
The Supervisory Board has established three committees. The current composition of the committees can be found on Page 17 of this Annual Report.

The Audit Committee met five times in the year under report, namely in May, June, September, December, and February.

In May 2013, the Audit Committee discussed the annual financial statements of HORNBACH-Baumarkt-AG and the consolidated financial statements, management reports, proposed appropriation of profits and audit reports, including the dependent company report, in the presence of the auditor and the Chairman of the Board of Management and CFO. Key focuses of discussion at this meeting also included the risk and compliance reports of the Board of Management, group internal audit reports, reports compiled by the Board of Management on the company's financial situation and the candidate to be proposed for election as auditor.

The financial report for the first quarter was discussed at the June meeting and on September 24, 2013 the half-year financial report was discussed in the presence of the auditors. In December 2013, key focuses for the audit of the annual financial statements were determined together with the auditors. At the same meeting, the Committee addressed the nine-month financial report, the risk and compliance reports, and the company's financial situation. In February 2014, the budget for the financial years 2014/2015 to 2018/2019 was discussed in detail and approved. The internal audit plan for the 2014/2015 financial year was adopted at the same meeting.

The Audit Committee Chairman reported in detail on the work of the committee to full Supervisory Board meetings.

The Personnel Committee held one meeting in February 2014. The purpose of the meeting was the proposal to the Supervisory Board to appoint Karsten Kühn as a further member of the Board of Management.

It was not necessary to convene the Mediation Committee established pursuant to § 27 (3) MitBestimmG.

Composition of the Board of Management
At its meeting on March 19, 2014, the Supervisory Board appointed Karsten Kühn as a member of the Board of Management as of October 1, 2014. Karsten Kühn will assume the role of Chief Marketing Officer. Following the departure of Jürgen Schröcker as of March 31, 2013, responsibility for this area was temporarily assumed by Steffen Hornbach, Chairman of the Board of Management.

Composition of the Supervisory Board
Regular elections were held for the Supervisory Board. Mohamed Elaouch, Martin Fischer, Christian Garrecht, Kerstin Holfert, Hans Kroha, Brigitte Mauer, and Michael Reiland were newly elected to the Supervisory Board as employee representatives. Kay Strelow was re-elected. Jörg Heine, Rudolf Helfer, Sabine Hoffmann, Christian Lilie, and Johannes Otto retired from the Supervisory Board.

Shareholder representatives were elected at the Annual General Meeting on July 4, 2013. John Declerck, Dr. John Feldmann, and Erich Harsch were newly elected. Albrecht Hornbach, Martin Hornbach, Dr. Wolfgang Rupf, Joerg Walter Sost, and Prof. Dr. Jens Wulfsberg were re-elected.

Albrecht Hornbach was elected as Chairman at the constitutive meeting of the newly elected Supervisory Board on August 30, 2013. Kay Strelow was elected as his Deputy and Dr. Wolfgang Rupf as a further Deputy Chairman.

John Declerck, Kingfisher plc, stood down from his Supervisory Board position as of September 11, 2013. Consistent with the respective submission, the local court in Landau appointed Christoph Hornbach, school principal, as a member of the Supervisory Board.

The Supervisory Board would like to thank all retiring members for their longstanding commitment.

Annual and consolidated financial statements
KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG), Berlin and Frankfurt am Main, audited the annual financial statements and the consolidated financial statements of HORNBACH-Baumarkt-AG as of February 28, 2014, as well as the combined management report and group management report of HORNBACH-Baumarkt-AG for the 2013/2014 financial year and provided them each with an unqualified audit opinion. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Moreover, KPMG confirmed that the Board of Management had suitably implemented the measures required by § 91 (2) of the German Stock Corporation Act (AktG), particularly those concerning the establishment of an early warning risk management system, and that the monitoring system was suitable for the early detection of any developments that could threaten the company's continued existence.

Key focuses of the audit in the 2013/2014 financial year included the functionality of internal controls of key financial reporting processes, the audit of the ongoing value of non-current assets, the assessment of stores with negative store results, the audit of the existence and measurement of inventories, the audit of the completeness and measurement of provisions, the audit of the recognition and measurement of deferred and current tax assets and liabilities, compliance with credit terms in connection with group financing, the delineation of the scope of consolidation, the correctness of the annual financial statements included in the consolidated financial statements, the consolidation of capital, the completeness and accuracy of (consolidated) note disclosures, and the completeness and accuracy of the disclosures made in the combined management report.

The financial statements and audit reports were provided to all Supervisory Board members in good time. They were examined in detail at the meeting of the Audit Committee on May 22, 2014 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 audit findings and was available to provide further information and to answer questions. Based on the findings of the preliminary audit performed by the Audit Committee and of our own examination of the documents provided by the Board of Management and the auditor, we do not raise any objections and endorse KPMG's audit findings. We approve the annual financial statements of HORNBACH-Baumarkt-AG prepared by the Board of Management as of February 28, 2014; the annual financial statements of HORNBACH-Baumarkt-AG are thus adopted. We endorse the appropriation of profits proposed by the Board of Management.

Furthermore, the Supervisory Board reviewed the report from the Board of Management on relationships with associated companies pursuant to § 312 of the German Stock Corporation Act (AktG). Neither this review nor KPMG's audit gave rise to any objections. KPMG granted the following audit opinion:

"Based on the audit and assessment we have undertaken in accordance with professional standards, we confirm that
1. the factual disclosures made in the report are correct
2. the performance of the company in the transactions listed in the report was not incommensurately high."

Based on the conclusive findings of its audit, the Supervisory Board has no objections to the statement provided by the Board of Management at the end of its report pursuant to § 312 of the German Stock Corporation Act (AktG).

Following a difficult start to the 2013/2014 financial year due to weather conditions, HORNBACH-Baumarkt-AG defied the tough competitive climate to achieve very pleasing overall results while also gaining additional market share. The Supervisory Board would like to extend its thanks and appreciation to the Board of Management and to all employees, both in Germany and abroad, for their great commitment and very successful work in the past financial year.

Bornheim, May 2014

The Supervisory Board

Albrecht Hornbach
Chairman

DIRECTORS & OFFICERS

Supervisory Board

Albrecht Hornbach
Chairman
Chairman of Board of Management
HORNBACH HOLDING AG

Dr. Wolfgang Rupf
Further Deputy Chairman
Managing Director of Rupf Industries GmbH
and Rupf Engineering GmbH

Kay Strelow*
Deputy Chairman
Section Manager, Berlin-Marzahn Store

John Declerck July 4, 2013 until September 11, 2013
Group Strategy Director
Kingfisher plc

Mohamed Elaouch* since July 4, 2013
Section Manager, Mainz Store

Dr. John Feldmann since July 4, 2013
Supervisory Board member
Former Management Board member of BASF SE

Martin Fischer* since July 4, 2013
Professional Customer Advisor, Kempten Store

Christian Garrecht* since July 4, 2013
Security Specialist

Erich Harsch since July 4, 2013
CEO
dm-drogerie markt GmbH & Co. KG

Jörg Heine* until July 4, 2013
Incoming Merchandise Manager, Duisburg Store

Rudolf Helfer* until July 4, 2013
Senior Occupational Safety Specialist

Sabine Hoffmann* until July 4, 2013
Customer Service Employee

Kerstin Holfert* since July 4, 2013
Section Manager, Dresden Store

Christoph Hornbach since Dec. 13, 2013
School Principal

Martin Hornbach
Member of Board of Management
Corivus AG

Hans Kroha* since July 4, 2013
State Retail Section Head at ver.di

Véronique Laury until July 4, 2013
CEO Castorama France
Kingfisher France S.A.S.

Christian Lilie* until July 4, 2013
District Manager, Germany South Region

Brigitte Mauer* since July 4, 2013
Section Manager, Tübingen Store

Johannes Otto* until July 4, 2013
Assistant Store Manager, Schwetzingen Store

Michael Reiland* since July 4, 2013
Store Manager, Karlsruhe Store

Joerg Walter Sost
Managing Partner
J. S. Consulting GmbH

Prof. Dr.-Ing. Jens P. Wulfsberg
Professor of Production Technology
Universität der Bundeswehr Hamburg

* employee representative

Supervisory Board Committees

Audit Committee

Dr. Wolfgang Rupf	Chairman
Dr. John Feldmann	since August 30, 2013
Erich Harsch	since August 30, 2013
Albrecht Hornbach	
Martin Hornbach	
Johannes Otto	until July 4, 2013
Michael Reiland	since August 30, 2013
Joerg Walter Sost	
Kay Strelow	since August 30, 2013

Personnel Committee

Dr. Wolfgang Rupf	Chairman
Christian Garrecht	since August 30, 2013
Erich Harsch	since August 30, 2013
Rudolf Helfer	until July 4, 2013
Michael Reiland	since August 30, 2013
Joerg Walter Sost	

Mediation Committee

Dr. Wolfgang Rupf	Chairman
Kerstin Holfert	since August 30, 2013
Albrecht Hornbach	
Kay Strelow	

Board of Management

Members and their areas of responsibility

Steffen Hornbach
Chairman
Graduate in Engineering
Strategic Development, New Distribution Channels, After Sales Services, Marketing, Market Research, Internal Communications, Public Relations (until February 28, 2014), Environmental Issues, Project Show/Sales Promotion

Roland Pelka
Deputy Chairman
Graduate in Business Administration
Finance, Accounting and Tax,
Group Controlling, Risk Management, Loss Prevention,
Information Technology, Investor Relations,
Public Relations (since March 1, 2014)

Frank Brunner
Graduate in Industrial Engineering (FH)
Operative Store Management, Sales and Services

Susanne Jäger
Businesswoman
Strategic and Operative Procurement, Store Planning,
Store Development, Imports, Quality Assurance

Wolfger Ketzler
Attorney and Tax Advisor
Personnel, Real Estate Development, Internal Audit and Legal,
Construction and Technical Procurement

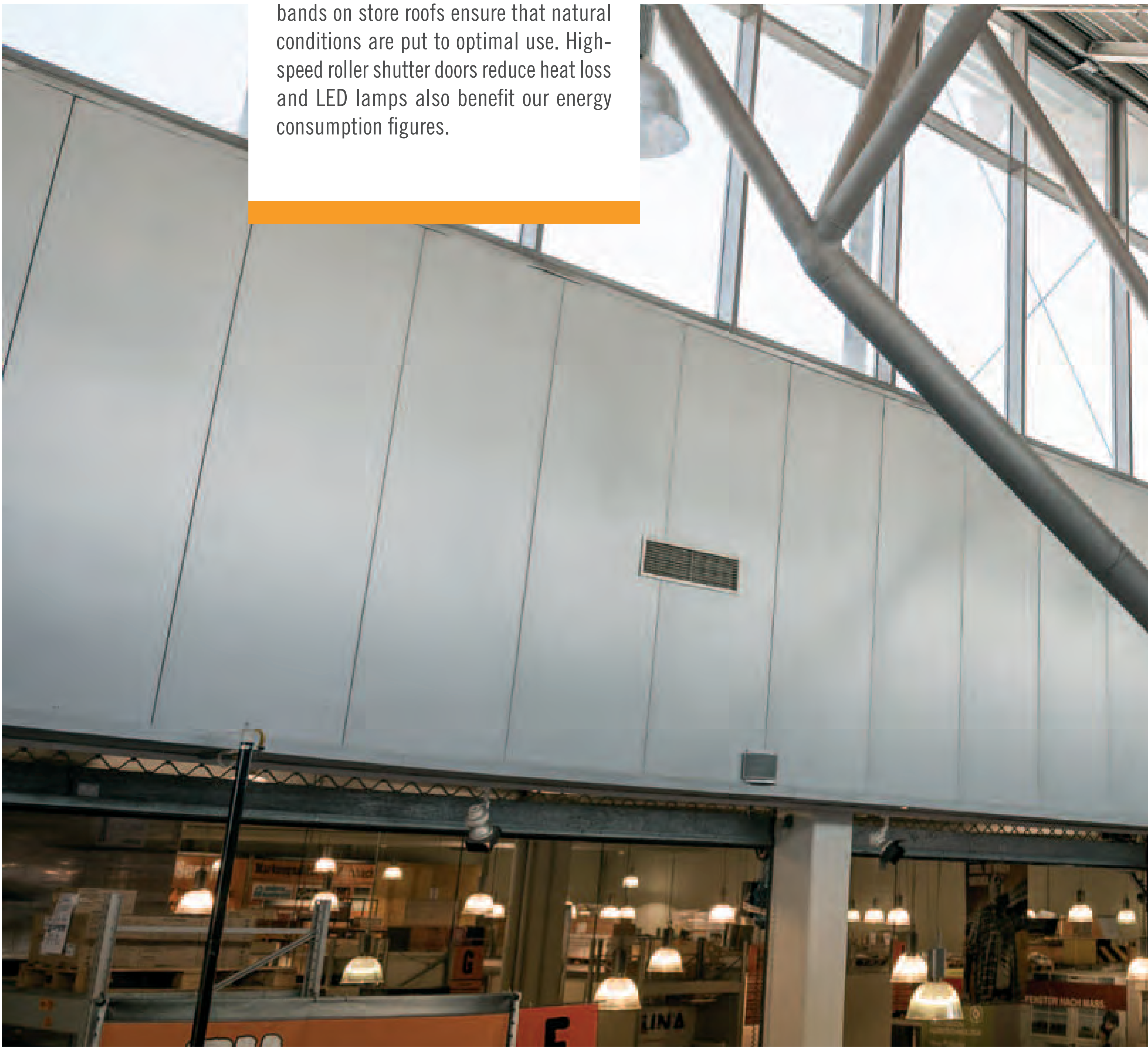
Ingo Leiner
Businessman
Logistics, Company Development, In-house Consulting

Jürgen Schröcker until March 31, 2013
Graduate in Business Administration
Marketing, Market Research, Internal Communications, Public Relations, Environmental Issues,
Project Show/Sales Promotion

Saving energy

Energy saving plays an outstanding role when it comes to building a new HORNBACH store. State-of-the-art building control technology to manage energy guzzlers and futuristic lighting technology have sharply cut average energy requirements at our stores. These systems are controlled by a central unit that is linked up to weather and light sensors.

Not only that, large light domes and light bands on store roofs ensure that natural conditions are put to optimal use. High-speed roller shutter doors reduce heat loss and LED lamps also benefit our energy consumption figures.



CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

Declaration on Corporate Governance with Declaration of Conformity

Our actions are guided by the principles of responsible, transparent corporate management and control (corporate governance). HORNBACH has always accorded priority to high-quality corporate governance. It forms the basis for sustainable economic success and helps us enhance the trust placed in our company by our customers, business partners, investors, employees and the financial markets. The standards and guidelines we adhere to at the company over and above legal requirements are summarized below in the company's Declaration on Corporate Governance (§ 289a of the German Commercial Code – HGB), which also includes the Corporate Governance Report of the Board of Management and Supervisory Board.

DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE PURSUANT TO § 161 AKTG DATED DECEMBER 18, 2013

The Board of Management and Supervisory Board of HORNBACH-Baumarkt-Aktiengesellschaft hereby declare pursuant to § 161 of the German Stock Corporation Act (AktG):

I. Future-related section

The recommendations of the "German Corporate Governance Code" in the version dated May 13, 2013 and published in the Federal Official Gazette on June 10, 2013 will basically be complied with in future. No application will be made of the recommendations in Points 3.8 (3), 4.1.5, 4.2.3 (4) and (5), 4.2.5 (3), 5.3.3, 5.4.1 (2) and (3), 5.4.2 Sentence 3 and 5.4.6 (3) Sentence 1.

These deviations from the recommendations are due to the following considerations:

a) Point 3.8 (3):
In Point 3.8 (3), the Code recommends agreeing a specified deductible in any D&O insurance policy taken out for supervisory board members. For supervisory board members as well, this should be based on the legal requirements for management board members arising due to the Act on the Appropriateness of Management Board Compensation (VorstAG) dated July 31, 2009. No such deductible has been agreed at the expense of Supervisory Board members. This would reduce the attractiveness of Supervisory Board activities, and thus also the company's chances in the competition to attract qualified candidates. Furthermore, it would also improperly apply to employee representatives. The recommendation made in Point 3.8 (3) is therefore not followed.

b) Point 4.2.3 (4) and (5):
Furthermore, no application is made of the recommendations in Point 4.2.3 (4) ("severance payment cap") and (5) ("change of control compensation cap") of the Code. The deviation to Point 4.2.3 (4) and (5) is due to competition-related factors. Apart from that, it still has to be definitively clarified whether and how the recommendations in Point 4.2.3 (4) are legally enforceable.

c) Point 4.2.5 (3):
The compensation paid to the Board of Management is not presented separately for each member. The Annual General Meeting held on July 7, 2011 resolved to uphold the more guarded approach towards reporting management board compensation. For the same reason, no use is made of the "model tables" included in the "German Corporate Governance Code".

d) Point 5.3.3:
In Point 5.3.3, the Code recommends that the supervisory board should form a nomination committee composed exclusively of shareholder representatives which proposes suitable candidates to the supervisory board for its election proposals to the Annual General Meeting. The company's Supervisory Board has not formed such a committee. Based on our experience to date, the establishment of such a committee would not appear to be necessary.

e) Point 5.4.1 (2) and (3) and Point 4.1.5:
The company deviates from the recommendations made in Points 5.4.1 (2) and (3) and in Point 4.1.5. In the interests of the company, in terms of the composition of its Board of

Management and Supervisory Board, as well as of other management positions, HORNBACH-Baumarkt-Aktien-gesellschaft accords priority above all to the knowledge, ability and expert experience of the individual in question.

f) Point 5.4.2 Sentence 3:
In Point 5.4.2 Sentence 3, the Code recommends that the supervisory board should not include more than two former management board members. This is intended to ensure the autonomy of the supervisory board in its advising and monitoring of the management board. However, the Code does not stipulate any number of years for which a former member of the management board is impaired in this respect following his departure from the management board. As a matter of precaution, the company therefore declares that it deviates from the recommendation made in Point 5.4.2 Sentence 3, even though Dr. Wolfgang Rupf, Albrecht Hornbach and Martin Hornbach retired from their positions on the Board of Management of HORNBACH-Baumarkt-Aktiengesellschaft on October 31, 1996, October 31, 2001 and December 31, 2001 respectively.

g) Point 5.4.6 (3) Sentence 1:
In Point 5.4.6 (3) Sentence 1, the Code recommends that the compensation of supervisory board members be reported in the notes to the financial statements or the management report on an individual basis and broken down into its constituent components. Given that the amount of compensation paid to the Supervisory Board is governed by the Articles of Association, we see no need to disclose individual compensation packages.

II. Past-related section

Period since submission of previous Declaration of Conformity on December 19, 2012 through to publication of new version of Code on June 10, 2013:
The recommendations of the "German Corporate Governance Code" in the version dated May 15, 2012 and published in the Federal Official Gazette on June 15, 2012 were complied with in the period since the submission of the previous Declaration of Conformity on December 19, 2012 through to publication of the new version of the Code on June 10, 2013 with the exception of the deviations already listed and substantiated for the future in Section I (apart from the deviation reported under c) (Point 4.2.5 (3)) – to the extent that such deviations refer to recommendations included in the version of the Code dated May 15, 2012. Furthermore, due to the reasons outlined below no application was made of the recommendation in Point 5.2 (2) Sentence 1:

> The recommendations in Point 5.2 (2) Sentence 1 of the Code included the recommendation that the supervisory board chairman should also chair the committee that handles contracts with management board members. The company deviated from this recommendation. This was to avoid any mere appearance of a conflict of interest on the part of the Supervisory Board Chairman that could result from the fact that he is the brother of the Chairman of the Board of Management of HORNBACH-Baumarkt-Aktiengesellschaft.

Period since publication of new version of Code on June 10, 2013:
The recommendations of the "German Corporate Governance Code" in the version dated May 13, 2013 and published in the Federal Official Gazette on June 10, 2013 were complied with apart from the deviations already listed and substantiated for the future in Section I.

Bornheim bei Landau, December 18, 2013

HORNBACH-Baumarkt-Aktiengesellschaft
The Supervisory Board The Board of Management

The above Declaration of Conformity dated December 18, 2013 has been published on the internet together with all earlier Declarations of Conformity and is also available as a download [www.hornbach-group.com/Declaration/HBM].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Relevant corporate governance practices

We base our entrepreneurial activities on the legal frameworks valid in the various countries in which we operate. This places a wide variety of obligations on the HORNBACH-Baumarkt-AG Group and its employees in Germany and abroad. As well as managing the company responsibly in accordance with the relevant laws, ordinances and other guidelines we have also compiled internal group guidelines setting out the system of values and management principles we adhere to at the Group.

Compliance

In a competitive climate, only those companies which manage to convince their customers with their innovation, quality, reliability, dependability and fairness on an ongoing basis will succeed in the long term. Here, we see compliance with legal requirements, internal company guidelines and ethical principles (compliance) as absolutely crucial. HORNBACH's corporate culture is based on these principles, key aspects of which are also formulated in the company's Corporate Compliance Policy [**Internet**: www.hornbach-group.com/Compliance_Policy/HBM]. These focus above all on the integrity of our business dealings, protecting our internal expertise, compliance with antitrust law and all requirements governing international trade, correct documentation and financial communications, and equality of opportunity and the principle of sustainability.

At HORNBACH, adherence with compliance requirements is consistently expected of its employees and business partners and is also monitored, with sanctions being imposed where necessary. The Board of Management entrusted the coordination and documentation of compliance activities across the Group to a Chief Compliance Officer in October 2009. This manager is responsible for establishing and permanently optimizing the organizational structures necessary to enforce the Group's Corporate Compliance Policy. The group internal audit department audits compliance with the Corporate Compliance Policy at regular intervals.

Our system of values: the HORNBACH foundation

HORNBACH is a forward-looking, family-managed company and is characterized by a clear system of values. The values on which this system is based are honesty, credibility, reliability, clarity and trust in people. This system of values, which had already been lived over many decades, was summarized in the so-called "HORNBACH foundation" in 2004. This model forms the cornerstone for our corporate strategy, everyday behavior, and responsibility towards society. It lays down the basic values governing how we behave towards our customers, as well how our employees behave towards each other. Moreover, this foundation helps our shareholders, customers and the general public, as well as our employees, to understand what the basis of our business success is [**Internet**: www.hornbach-group.com/Fundament].

Compliance with social, safety, and environment standards

The development of company guidelines governing minimum social standards, environmental protection, product safety and equality of opportunities forms an integral component of our corporate policy, as does monitoring compliance with such. Within our Corporate Social Responsibility (CSR) framework, we have issued group-wide guidelines to ensure that HORNBACH meets its responsibilities towards individuals, society at large and the environment. The CSR guidelines [**Internet**: www.hornbach-group.com/CSR-Guidelines] cover four areas of responsibility:

- **Minimum social standards**: In our procurement activities we ensure that acceptable minimum social standards are complied with in the manufacture of our products. We base our standards here on the conventions of the International Labor Organization (ILO). With the assistance of standardized factory audits and targeted checks on location, we are actively working to ensure compliance with these standards. These efforts are continuing to focus above all on direct imports from non-EU countries. We are endeavoring to make sure that a continuously higher share of our suppliers and upstream suppliers commit to these regulations.

- **Rainforest protection**: In procuring timber and related products we ensure that timber is cultivated and felled in accordance with generally accepted rules, especially those governing rainforest protection. For all timber products sold by HORNBACH, we make sure that the timber does not stem from forest depletion, but rather from sustainable forestry and that social welfare and occupational safety standards are adhered to in the timber production process. To this end, we work together with WWF Woodgroup and other environmental protection organizations, such as Greenpeace, Robin Wood etc. HORNBACH stocks a large number of articles bearing the Forest Stewardship Council (FSC) seal for sustainable forestry. We only offer tropical woods that are certified by the FSC.

- **Product safety**: We guarantee to our customers that all of our products meet the utmost safety standards. The company ensures this within the framework of an ongoing multistage process to assure the quality and audit the safety of its products. These checks are performed by employees in HORNBACH's quality management department with support from internationally certified inspection institutes. Alongside extensive product tests (initial sample inspections), the company focuses on auditing suppliers in the country of manufacture. The quality controllers also audit environmental and social welfare standards at the factories. This way, we ensure that no forced labor or child labor is involved in the production of our merchandise. Not only that, we also perform random checks to audit compliance with strict quality standards along the entire procurement chain – from production via transport to sale at our stores.

- **Equality of opportunity (diversity)**: We ensure that our employees enjoy equal opportunities. We consistently oppose any kind of discrimination. HORNBACH is committed to promoting a liberal and open society based on shared values both within and outside the company. In this spirit we also signed the corporate "Diversity Charter" initiated by the Federal Government in 2008 and have worked with "Tolerance within Society" print campaigns aimed at raising people's awareness of this topic.

Dualistic management structure

HORNBACH-Baumarkt-AG, based in Bornheim bei Landau, is governed by the requirements of German stock corporation, capital market and codetermination law, as well as by the provisions of its own Articles of Association. Accordingly, HORNBACH-Baumarkt-AG has a dualistic management structure, which assigns management of the company to the Board of Management and supervision of the company to the Supervisory Board.

Composition and modus operandi of Supervisory Board

The Supervisory Board of HORNBACH-Baumarkt-AG consists of sixteen members and, consistent with the German Codetermination Act (MitBestimmG), includes equal numbers of shareholder and employee representatives. Shareholder representatives are elected by the Annual General Meeting. The Supervisory Board Chairman coordinates the work of the Supervisory Board and attends to the affairs of the Supervisory Board externally. In the event of a parity of votes in the Supervisory Board, the Supervisory Board Chairman has the decisive vote in the second round, should renewed voting also produce a parity.

The Board of Management and Supervisory Board work together closely in the interests of the company. The Supervisory Board monitors the management of the company and accompanies the Board of Management in an advisory capacity. It appoints members of the Board of Management, dismisses them and is responsible for concluding, amending and terminating their employment contracts. Any actions by the Board of Management that could materially influence the company's net asset, financial or earnings position require prior approval by the Supervisory Board. The Code of Procedure for the Supervisory Board contains a catalog of the transactions and actions requiring such approval. The Supervisory Board may at any time resolve to extend or reduce the list of such transactions.

Supervisory Board members are solely bound by the company's best interests. They are not dependent on any assignments or instructions. In their decisions, they may not pursue personal interests or exploit business opportunities available to the company for their personal benefit. Supervisory Board members are obliged to disclose any conflicts of interest to the Supervisory Board Chairman, especially any such conflicts arising due to their performing any consultant or directorship function at customers, suppliers, lenders or other business partners of the company. Any conflicts of interest on the part of a Supervisory Board member that are material and not only temporary should result in the termination of the mandate. No conflicts of interest arose in the year under report. Advisory and other service agreements and contracts for work between a Supervisory Board member and the company require approval by the Supervisory Board. There were no contracts requiring such approval with Supervisory Board members of HORNBACH-Baumarkt-Aktiengesellschaft in the 2013/2014 financial year.

The Supervisory Board has the following committees:

- Mediation Committee
- Personnel Committee
- Audit Committee

The composition of the committees can be found on Page 17 of this report. Their activities have been described in detail in the Report of the Supervisory Board (Page 12 onwards).

Composition and modus operandi of Board of Management
The Board of Management of HORNBACH-Baumarkt-AG has a Chairman and a Deputy Chairman and consisted of six members at the end of the 2013/2014 financial year. The composition and areas of responsibility of the Board of Management are presented on Page 17 of this report.

The Board of Management has a self-imposed Code of Procedure. The management of the company's business is the joint responsibility of all of its members. Compliance activities to ensure that the company adheres to laws, legal requirements and its own internal guidelines represent a key management task. The Board of Management usually meets once a week, or on an ad-hoc basis when necessary.

The Board of Management provides the Supervisory Board with regular, prompt and extensive information on all matters relevant to the company's corporate strategy, planning, business performance, financial and earnings position, risk situation and risk management. Furthermore, it presents the group investment, financial and earnings budgets to the Supervisory Board both for the forthcoming financial year and for the medium term (five years). The Chairman of the Board of Management provides immediate report to the Supervisory Board Chairman of any significant events of material relevance for any assessment of the situation, development and management of the company. Transactions and measures requiring approval by 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 other members of the Board of Management. Members of the Board of Management may only pursue sideline activities, in particular Supervisory Board mandates outside the Group, with the approval of the Supervisory Board Chairman.

Annual General Meeting
Shareholders of HORNBACH-Baumarkt-AG exercise their rights, including their voting rights, at the Annual General Meeting. The Annual General Meeting resolves in particular on the appropriation of profits, the discharge of the acts of the Board of Management and Supervisory Board, and elects shareholder representatives to the Supervisory Board, as well as the auditor. Shareholders are regularly informed of all significant dates by means of the financial calendar published in the annual and quarterly reports and on the company's homepage. The Annual General Meeting is generally chaired by the Supervisory Board Chairman. HORNBACH-Baumarkt-AG provides its shareholders with the services of a voting proxy bound to vote in line with instructions.

Reporting and audit of financial statements

The HORNBACH-Baumarkt-AG Group prepares its financial reports in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The separate financial statements of HORNBACH-Baumarkt-AG are prepared 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's proposal to the Annual General Meeting with regard to the auditor to be elected. The auditor is independent and is responsible for the audit of the consolidated and separate financial statements, as well as for the audit review of half-year financial reports.

HORNBACH-Baumarkt-AG has a risk management system which is continuously developed and updated to account for any changes in underlying conditions. The functionality of the early warning 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 regularly provided with up-to-date information about the company's situation and any material changes in its business situation. Here, the internet represents the main channel of communication. All individuals with access to insider information in the course of their activities for the company are informed of the resultant obligations for them under insider law.

HORNBACH-Baumarkt-AG reports on its situation and results in its

- Quarterly reports and half-year financial report
- Annual report
- Annual results press conference
- Teleconferences with international financial analysts and investors
- Events with financial analysts and investors in Germany and abroad.

Dates of relevance to the company's regular financial reporting activities have been summarized in the financial calendar published on the internet communications platform of the HORNBACH Group at www.hornbach-group.com. Alongside this regular reporting, any information arising at HORNBACH-Baumarkt-AG which is not publicly known and which is likely to influence the company's share price significantly is published in the form of ad-hoc announcements.

Directors' dealings and shareholdings

Members of the Board of Management and the Supervisory Board of HORNBACH-Baumarkt-AG, as well as individuals closely related to such members, are required by § 15a of the German Securities Trading Act (WpHG) and Point 6.6 of the German Corporate Governance Code to disclose transactions involving shares in the company or related financial instruments. In the year under report, the company was not notified of any transactions performed by persons in management positions or individuals closely related to such pursuant to § 15a of the German Securities Trading Act (WpHG) (Directors' Dealings).

In line with Point 6.3 of the German Corporate Governance Code, we report ownership of shares in the company by members of the Board of Management and Supervisory Board where these directly or indirectly exceed 1 % of the shares issued by the company. Where the entire holdings of all members of the Board of Management and Supervisory Board exceed 1 % of the shares issued by the company, we report the entire holdings in the Corporate Governance Report broken down by Board of Management and Supervisory Board. At the balance sheet date on February 28, 2014, both individual holdings and the entire holdings by members of the Board of Management and Supervisory Board fell short of the 1 % threshold.

Compensation Report

The compensation report presents the basic features and structure of the compensation of the Board of Management and the Supervisory Board. It forms a constituent component of the group management report (see Page 96) and, apart from the disclosure of individual compensation, is based on the recommendations of the German Corporate Governance Code.

Compensation of the Board of Management

Compensation system at HORNBACH-Baumarkt-AG

The compensation of members of the Board of Management is determined in line with the requirements of stock corporation law and of the Act on the Appropriateness of Management Board Compensation (VorstAG), taking due account of levels of compensation customary in the market. Total compensation of members of the Board of Management comprises the components of fixed annual salary, annual variable compensation, plus ancillary benefits customary to the market and the company. Total compensation is regularly reviewed by the Supervisory Board in terms of its appropriateness.

- Fixed annual salary:
  Members of the Board of Management receive a fixed annual salary laid down in their individual contracts, which is paid monthly in twelve equal portions at the end of each calendar month. Fixed salaries are graded at different levels for the Chairman, Deputy Chairman, and regular members of the Board of Management.

- Variable compensation:
  Alongside fixed annual salaries, members of the Board of Management also receive annual variable compensation in line with the company's sustainable performance. This is based both on company targets and on targets agreed for individual members of the Board of Management. The key success factor used to determine variable compensation is average consolidated net income after taxes (IFRS) at HORNBACH-Baumarkt-AG. Variable compensation is calculated on the basis of the three-year average level of consolidated net income after taxes (IFRS) at HORNBACH-Baumarkt-AG.

  Individual variable compensation is separately graded at different levels for the Chairman, Deputy Chairman and for each regular member of the Board of Management. For no individual member of the Board of Management does it exceed 1 % of the three-year average level of consolidated net income after taxes (IFRS) at HORNBACH-Baumarkt-AG. Of variable compensation calculated on the basis of average consolidated net income after taxes (IFRS), up to 25 % is calculated and determined in several stages following achievement of the targets individually set for each member of the Board of Management for the respective financial year. This process is based on targets individually agreed in advance for each member of the Board of Management. To set these targets, the Supervisory Board of HORNBACH-Baumarkt-AG and the respective member of the Board of Management reach a target agreement before the beginning of each financial year in which the individual targets, their respective percentage weighting and the respective degree of target achievement are determined by the full Supervisory Board. Following completion of the financial year, the full Supervisory Board determines the degree of individual target achievement for the respective member of the Board of Management.

  The remaining 75 % of variable compensation is determined on the sole basis of the average level of consolidated net income after taxes (IFRS) at HORNBACH-Baumarkt-AG for the past three years. For all members of the Board of Management, the level of variable compensation is capped at a maximum of 150 % of the respective fixed salary of the individual member of the Board of Management. No further variable compensation is granted.

- Internal ratio of compensation components:
  No specific ratio of fixed salary to variable compensation components has been stipulated. In particular, apart from the cap at a maximum of 150 % of the fixed salary, no specific relationship has been determined for the amount of fixed annual salary compared with the amount of annual variable compensation.

The structure of annual variable compensation ensures that the overwhelming share of such compensation (75 %) is based on long-term factors, thus complying with the predominantly multiyear nature of such compensation called for in the relevant legislation. In individual cases, the compensation system may be adapted by the full Supervisory Board, taking due account of legal requirements, to the extent deemed necessary to account for the duties and performance of the respective member of the Board of Management.

Retirement and pension commitment
Members of the Board of Management of HORNBACH-Baumarkt-AG are granted individual contractually agreed pension commitments. These consist of a defined contribution pension scheme amounting to 25 % of their fixed salaries, payable in two equal shares of 50 % as of August 31 and February 28 of each year. The defined contribution pension scheme involves the following key aspects:

- Direct, defined contribution capital commitment executed by way of direct commitment
- Accumulation of policy reserve and netting with pension provisions in balance sheet
- Retirement pension payable upon retirement from age 65 or earlier if appropriate, but at the earliest from age 60 in line with the respective Supervisory Board resolution either as a one-off payment, in several annual installments or as a pension, one-off payment of pension capital upon death or invalidity
- Guaranteed return on pension capital of 2 % p.a. plus excess return on capital commitment
- The claims are vested for all current members of the Board of Management and after five years for future new members of the Board of Management, with the period of company affiliation being imputed
- Insurance against insolvency via the Pension Assurance Association (PSVaG), Cologne, with additional cover by recognizing trust assets for the pension contributions
- Annual 1 % indexing in current pensions
- Voluntary contributions permitted by members of Board of Management from fixed and variable compensation components due in future in unspecified amounts up to a maximum of one total annual compensation package.

Regulations governing premature departure from the company (severance pay regulations)
The employment contracts concluded with members of the Board of Management do not provide for the payment of compensation in the event of their activity on the Board of Management being terminated prematurely without compelling reason or due to a change of control. HORNBACH-Baumarkt-AG thus deviates from the recommendations made in Points 4.2.3 (4) and (5) of the German Corporate Governance Code. In individual cases, payments may nevertheless be made, based on a corresponding Supervisory Board resolution, to a member of the Board of Management retiring from the Board prematurely, particularly when the reasons for such retirement do not lie with the respective member.

Additional benefits
Members of the Board of Management of HORNBACH-Baumarkt-AG receive the following particular benefits to an extent customary to the market and the Group. Some of these are deemed benefits in kind and taxed accordingly:

- Reimbursement of travel and other expenses incurred in the interests of HORNBACH-Baumarkt-AG based on the actual amounts incurred
- Grants towards private health insurance, voluntary retirement pension scheme or alternatively contributions to a private life insurance policy
- Accident insurance covering fatality and invalidity
- Temporary continuation of payment of compensation in event of sickness or death
- Claim to provision of a company car for work-related and private use.

Compensation of the Board of Management for the 2013/2014 financial year

Total compensation of the Board of Management of HORNBACH-Baumarkt-AG for the 2013/2014 financial year amounted to € 5,187k. Of this sum, € 2,302k constituted fixed compensation and € 2,885k involved performance-related components. Termination benefits of € 543k were incurred for active members of the Board of Management in the 2013/2014 financial year. These involve expenses to endow pension provisions. There are corresponding value credits. Compensation for former members of the Board of Management totaled € 739k in the 2013/2014 financial year.

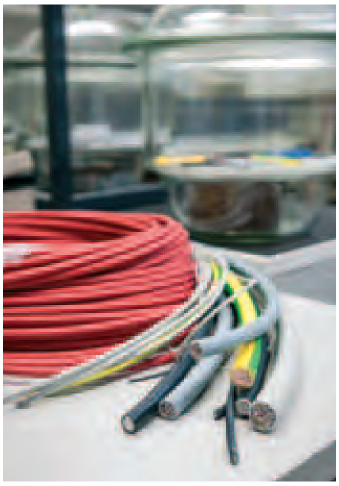
Given the company's size and its market position, we believe that the total compensation of the Board of Management is appropriate. At the 2011 Annual General Meeting, shareholders voted with a three-quarters majority to forego the disclosure of the compensation of members of the Board of Management on an individual basis up to and including the 2015/2016 financial year (opting-out clause).

Compensation of the Supervisory Board

Supervisory Board compensation is governed by § 15 of the Articles of Association of HORNBACH-Baumarkt-AG. As well as the reimbursement of his or her expenses, each Supervisory Board member receives fixed compensation of € 20,000 retrospectively payable on the day after the Annual General Meeting acknowledging the annual financial statements for the respective financial year. The Chairman receives two-and-a-half times and the Deputy Chairman twice the fixed compensation.

Supervisory Board members who also sit on a Supervisory Board committee receive additional fixed committee compensation of € 9,000 for the Audit Committee, € 6,000 for the Personnel Committee, and € 4,000 for the Mediation Committee, should this be convened. This compensation is retrospectively payable together with the fixed compensation. Supervisory Board members who chair a Supervisory Board committee receive two-and-a-half times the respective committee compensation.

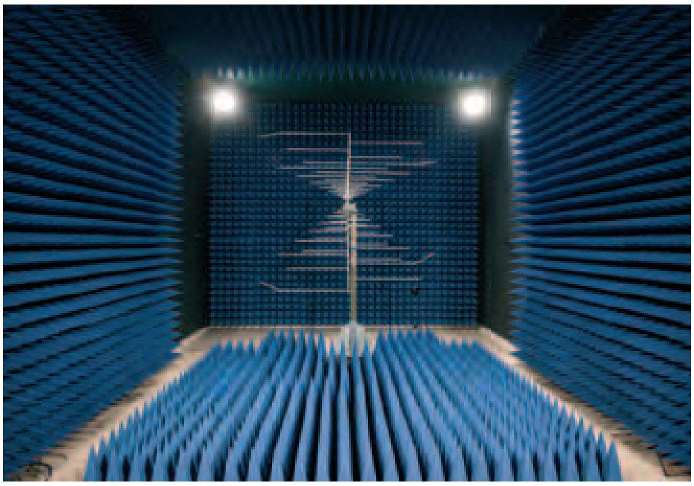
The compensation of the Supervisory Board for the 2013/2014 financial year totals € 461k. Of this total, € 358k relates to basic compensation and € 103k to committee activity.



Laboratory tests

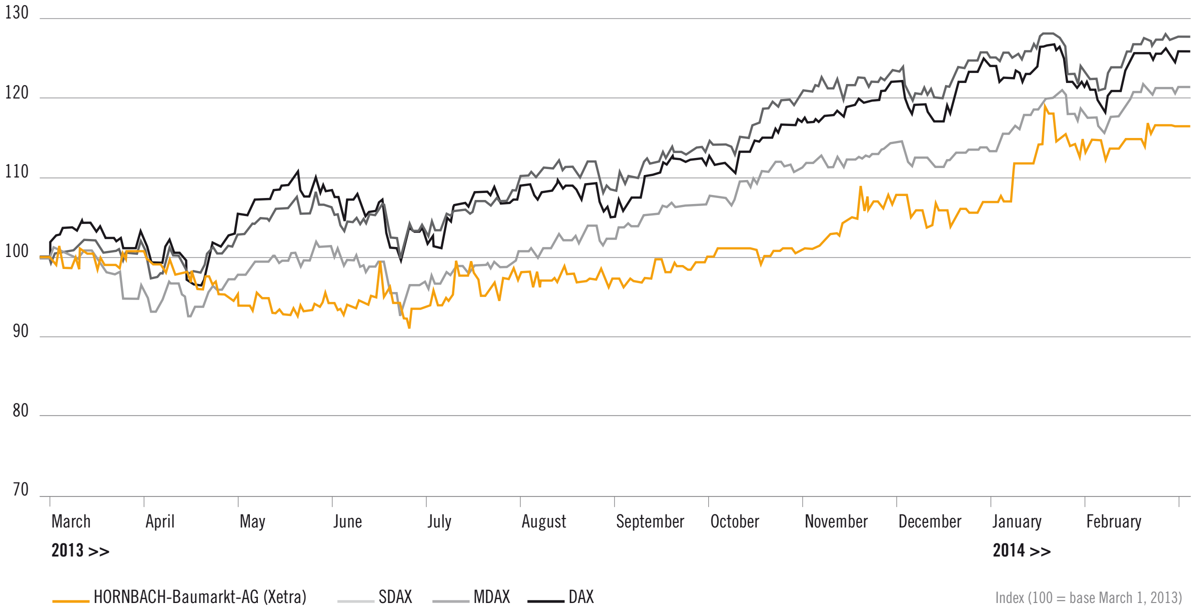
What use is the latest tool if it gives up the ghost after two minutes or suddenly threatens to kill you? Before a product reaches HORNBACH's shelves and thus our customers, it is put through numerous tests in the strictest conditions. Depending on the product involved, its safety, acoustic properties, chemical compatibility, electromagnetic susceptibility, and durability are closely scrutinized.

Only products meeting our utmost standards are ready for use by professionals and DIY enthusiasts.



THE HORNBACH-BAUMARKT SHARE

Share price performance: March 1, 2013 to February 28, 2014



Stock markets chase new records

Stock exchange participants had much to celebrate once again in 2013. Persistently low interest rates, a factor that sent prices soaring in 2012 already, pushed stock indices relentlessly upwards. Shares were and are still seen as the most attractive asset class. Confidence is driven by the expectation that the recovery in the global economy is gaining momentum and that company earnings will show strong growth. What's more, the sovereign debt crisis in Europe now seems far less threatening. As a result, investors are increasingly focusing on European stock markets. Based on global comparisons, the German stock market was once again among the major winners in the 2013 calendar year. The Dax, Germany's lead index, raced from one record high to the next as the year progressed and closed the trading year up 26 % at almost 9,600 points. Following growth of 29 % in 2012, the lead index thus bestowed further rich pickings on investors. By the end of our financial year (February 28, 2014), the Dax had gone one step further, closing at 9,692 points.

Over large periods of our 2013/2014 financial year, the share of HORNBACH-Baumarkt-AG (ISIN DE0006084403) moved in parallel with the overall market, albeit at a lower performance level. The share was listed on Xetra at € 26.13 on March 1, 2013. Soon afterwards, the price slipped on account of the extremely unfavorable weather conditions for the spring season. The entire DIY store sector suffered from snow and frost until well into April 2013. It was thus clear to investors that the sales and earnings performance of the HORNBACH-Baumarkt-AG Group in the first quarter of 2013/2014 (March 1 to May 31, 2013) would be far poorer than one year earlier. Weighed down by this factor, the Baumarkt share reached its annual low of € 24.00 on June 26, 2013. The publication of our quarterly results one day later and our financial communications concerning further growth prospects in the course of the financial year clearly created optimism among investors. In July 2013, our share set out on an impressive rally, one further stimulated by publication of HORNBACH's subsequent, highly positive quarterly figures.

Baumarkt share approaches all-time high

Our stock received additional momentum from the news in the sector surrounding the insolvency of the Praktiker Group in July 2013. This triggered a substantial shake-up in the market, the first in the history of the German DIY sector. Equity analysts and sector observers assumed that HORNBACH would be among the winners in the restructured German DIY store landscape. When it then also became clear that mild weather in the winter of 2013/2014 would allow construction and renovation work to continue without its customary winter break, the Baumarkt share took its all-time high from August 6, 2007 (€ 31.81) into its sights. On January 16, 2014, the share reached its annual high at € 31.10, just short of this mark. The HORNBACH-Baumarkt-AG share then closed at € 30.50 in Xetra trading on the balance sheet date on February 28, 2014. Within twelve months, the value of our stock grew by 16.7 %. Since its annual low at the end of June 2013, the share generated growth of 27.1 %.

Thanks to our outperformance of the German DIY sector and given positive consolidation factors, the level of interest shown in the Baumarkt share increased noticeably during the 2013/2014 financial year. Average daily trading volumes with the share more than doubled to around € 80,000 in the year under report. On average, 2,968 Baumarkt shares were traded each day, as against 1,548 shares in the previous year.

In the focus of value investors

In strong years on the stock exchanges, such as 2012 and 2013, the HORNBACH-Baumarkt share finds it difficult to keep up with the performance of the major stock indices. Its attractiveness is mainly apparent over a longer-term investment horizon. Anyone who bought the share at the beginning of March 2004, for example, and then kept it in the portfolio for ten years would have been pleased to see annual average share price growth of 8.6 %. By reinvesting the dividend, the value of the share would have grown by 13.4 % a year.

Given these figures, it is clear that our share is mostly found in the portfolios of so-called value investors who are particularly interested in the future prospects of the DIY store sector. This group of investors has accompanied our company over decades in some cases. They particularly trust the company's management, the quality and sustainability of its unmistakable business model, and our market position in Germany and eight other European countries. Not only that, HORNBACH can point to a stable financial structure, a further increase in its equity ratio and high cash holdings, factors that meet the investment needs of investors keen on safety and stability.

The trust investors place in HORNBACH is also reflected in the development in the price of our corporate bond (ISIN DE000A1R02E0). This bond, which has an interest coupon of 3.875 % and a term running until February 2020, was listed at 103.7 % on March 1, 2013. It maintained its ground above the 101 % mark, even during a weak phase in summer 2013, and then gradually rose to its annual high of 105.6 % at the end of the financial year (February 28, 2014). This most recently corresponded to a yield of almost 2.9 %.

Key data about the HORNBACH-Baumarkt-AG share (IFRS)		2013/2014	2012/2013
Nominal value of the share	€	3.00	3.00
Dividend[1]	€	0.60	0.50
Basic earnings per share	€	1.77	1.64
Total dividend payment	€ 000s	19,084	15,904
Shareholders' equity per share[2]	€	27.10	25.88
Market capitalization[2]	€ 000s	970,114	826,982
Share price (Xetra)[2]	€	30.50	26.00
12-month high	€	31.10	26.40
12-month low	€	24.00	24.20
Shares issued	Number	31,807,000	31,807,000
Price / earnings ratio[2]		17.2	15.9

[1] 2013/2014: subject to resolution by the Annual General Meeting
[2] At the end of the financial year (the last day in February)

Transparent financial communications

Our investor relations activities once again provided shareholders, analysts, the financial media and the general public with prompt information on the business performance of the HORNBACH-Baumarkt-AG Group 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 pool all information and services, especially for shareholders and press representatives. This separate corporate communications site complements the product-related and marketing content available at HORNBACH's website at www.hornbach.com.

The Annual General Meeting, annual results press conference, analysts' conferences and meetings with investors in Germany and abroad give us opportunity to maintain our dialog with the capital markets. Moreover, we draw on personal contacts with investors and the media to present our company's objectives and strategy. Here, we outline the special features of our concept, our market position, particularly given the consolidation in the sector, and the HORNBACH Group's future growth prospects, as well as our current performance figures.

Increased dividend proposed

The Board of Management and Supervisory Board of HORNBACH-Baumarkt-AG are proposing a 20 % increase in the dividend for approval by the Annual General Meeting on July 9, 2014. The dividend per no-par share with dividend entitlement (ISIN: DE0006084403) would thus rise from € 0.50 to € 0.60. Following the unchanged distribution in the past four years, shareholders should be enabled to participate appropriately in the pleasing earnings performance in the 2013/2014 financial year.

Changes in shareholder structure

On March 25, 2014, the British retail group Kingfisher plc announced its exit from all of its financial investments in the HORNBACH Group. This also included its 5.2 % stake in the ordinary shares in HORNBACH-Baumarkt-AG, which are listed in the Prime Standard of the German Stock Exchange. The total of around 1.65 million no-par shares involved was sold to an international circle of investors. The shareholder structure has changed significantly as a result. The free float share of the total of 31.8 million no-par shares has risen from 18.4 % to 23.6 %.

Basic data about the HORNBACH-Baumarkt share

Type of share	Bearer shares (individual ordinary shares)
Stock exchanges	Frankfurt, Xetra
Market segment	Prime Standard
Security identification numbers	ISIN DE0006084403 WKN 608440
Stock market code	HBM
Bloomberg	HBM GY
Reuters (Xetra)	HBMG.DE

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FINANCIAL CALENDAR 2014

May 27, 2014	Annual Results Press Conference 2013/2014 Publication of Annual Report DVFA Analysts' Conference
June 26, 2014	Interim Report: 1st Quarter of 2014/2015 as of May 31, 2014
July 9, 2014	Annual General Meeting Festhalle Landau, Landau/Pfalz
September 25, 2014	Half-Year Financial Report 2014/2015 as of August 31, 2014
December 22, 2014	Interim Report: 3rd Quarter of 2014/2015 as of November 30, 2014

COMBINED MANAGEMENT REPORT

Old appliance disposal

The demise of an electrical appliance is usually unspectacular. A light bulb goes out and a drill stops turning. Mostly, these appliances are then simply thrown into the non-recyclable trash container at home.

This approach is very bad for the environment and is also a waste of economic resources. That's why HORNBACH is pointing out targeted disposal alternatives. This way, a large share of resources can re-enter the materials cycle. It also relieves the strain on garbage dumps. What's, more, the new appliance is just a few aisles away.

COMBINED MANAGEMENT REPORT

The new German Accounting Standard 20 (DRS 20) "Group Management Report" has been applied for the first time in this Annual Report. This has led to a number of changes in the Group Management Report. A new chapter – "Group Fundamentals" – has been added, in which we provide an overview of the Group's structure and business model. Furthermore, in the "Management System" section we list the key management figures relevant for the internal management of the HORNBACH-Baumarkt-AG Group. Pursuant to DRS 20, the most important key management figures form the basis for describing the company's business performance in the year under report and its forecast for the following financial year. The report for the following year includes a comparison of the forecast and actual business performance by reference to the most important key management figures (budget/actual comparison).

In this year's Management Report, the company has for the first time drawn on the option of integrating the Management Report of HORNBACH-Baumarkt-AG into the Group Management Report and thus of publishing a Combined Management Report. Alongside information about the Group, in a separate chapter – "Notes on the Annual Financial Statements of HORNBACH-Baumarkt-AG" – this includes the disclosures required by the German Commercial Code (HGB) for the standalone company HORNBACH-Baumarkt-AG.

GROUP FUNDAMENTALS

The Group at a glance

The HORNBACH-Baumarkt-AG Group is one of Europe's leading do-it-yourself (DIY) retail companies. At the balance sheet date on February 28, 2014, the Group operated 141 DIY megastores with garden centers with a uniform market presence in nine countries. Of these, 92 locations are in Germany. A further 49 stores are located in the following other European countries: Austria (11), the Netherlands (10), Luxembourg (1), the Czech Republic (8), Switzerland (6), Sweden (5), Slovakia (3), and Romania (5). With total sales areas of around 1.65 million m², the average size of a HORNBACH DIY megastore with a garden center amounts to almost 11,700 m². In the 2013/2014 financial year (March 1, 2013 to February 28, 2014), the HORNBACH-Baumarkt-AG Group generated net sales of around € 3.15 billion. This makes HORNBACH the third-largest retail group in the German DIY sector and the fifth-largest player in Europe. At the balance sheet date on February 28, 2014, the Group had a total of 14,985 employees (2012/2013: 14,222), of which 6,088 outside Germany (2012/2013: 5,788).

The diagram on Page 41 presents the current group structure and provides an overview of the most important shareholdings of HORNBACH-Baumarkt-AG. Complete details about the scope of consolidation and consolidated shareholdings have been provided in the notes to the consolidated financial statements.

HORNBACH-Baumarkt-AG is a listed stock corporation. Its parent company HORNBACH HOLDING AG holds 76.4 % of the total of around 31.8 million ordinary shares in the company (ISIN DE0006084403, Prime Standard). 23.6 % of its shares are in free float (status: March 25, 2014). The company was founded in 1877 and is still family-managed, now in the fifth generation.

Group business model

Retail activities

HORNBACH has an absolute focus on project customers. On the one hand, those are home improvement enthusiasts and professional customers wishing to implement extensive renovation and construction projects under their own steam in their houses, apartments, or gardens (do-it-yourself). On the other hand, they also include customers wishing to select their products themselves, but then to have all of the work involved in their project, including all services, performed by a competent partner (do-it-for-me). All of the company's activities are tailored to these target groups. HORNBACH thus offers its customers easily accessible locations, a broad and deep product range stocked in sufficiently large quantities and meeting high quality standards, a reliable and transparent permanently low price policy, and professional advice and project-related services. Thanks not least to its innovative advertising, HORNBACH has successfully established itself as a brand among DIY customers and is regularly awarded the best customer satisfaction results in well-known consumer surveys.

The average product range stocked by HORNBACH stores encompasses around 50,000 articles in the five following divisions: Hardware/Electrical, Paint/Wallpaper/Flooring, Construction Materials/Timber/Prefabricated Components, Sanitary/Tiles, and Garden.

HORNBACH has decades of experience in operating DIY megastores with garden centers in major regional catchment areas. The company relies on the strengths offered by organic growth. Its portfolio of 141 locations (February 28, 2014) in Germany and abroad is highly homogenous. Most of the Group's stores have sales areas in excess of 10,000 m². This enables HORNBACH to benefit from economies of scale in its operations and conceptual store enhancement measures, as well as in its group logistics. The company is relying not just on its stationary retail business, but is dovetailing this with an ever more extensive e-commerce offering. As a high-performing virtual DIY store and garden center, HORNBACH's online store is gradually being rolled out to all of the countries in which HORNBACH operates stores. The guiding principle – HORNBACH should offer customers all the channels they need to implement their projects.

Real estate activities

The HORNBACH-Baumarkt-AG Group has a substantial real estate portfolio. This predominantly relates to retail properties used by the company itself. At the balance sheet date on February 28, 2014, 27 % of the sales areas were owned by HORNBACH-Baumarkt-AG. Its associate HORNBACH Immobilien AG owned a further 29 % of the Group's DIY sales areas. The overriding strategy is for the overall HORNBACH HOLDING AG Group to retain ownership of at least half of the real estate, measured in terms of sales areas, used for operating purposes.

Reporting segments

The delineation of business segments is consistent with the internal reporting structures used by the Board of Management of the HORNBACH-Baumarkt-AG Group to manage the company. The "DIY store" segment comprises the 141 DIY megastores with garden centers pooled at the HORNBACH-Baumarkt-AG Group (2012/2013: 138). Sales at the HORNBACH-Baumarkt-AG Group are primarily generated in the DIY store segment, i.e. in the operating retail business. The "Real estate" segment comprises the retail properties owned by the HORNBACH-Baumarkt-AG Group. In this segment, imputed rental payments are charged on at customary market conditions within the Group. In the segment report, the income from this imputed charging on of rental payments is fully consolidated as "Rental income from affiliated companies". Administration and consolidation items not attributable to segments are summarized in the "Headquarters and consolidation" reconciliation column.

Management system

The key management figures outlined below are used to manage both the HORNBACH-Baumarkt-AG Group and HORNBACH-Baumarkt-AG.

Most important key management figures

For a retail company like the HORNBACH-Baumarkt-AG Group, sales growth is the central management figure for its operating business. Sales directly indicate our success with customers. Our sales performance is reported on the one hand as net total sales in euros. On the other hand, we also present the change in like-for-like and currency-adjusted sales, which do not include sales at stores newly opened, closed or subject to major conversion work in the year under report. In the "Earnings Situation" section, we voluntarily supplement this information by reporting on the change in like-for-like sales including currency items.

The development in the gross margin offers information about our gross trading performance. This margin is defined as gross profit (net balance of sales and cost of goods sold) as a percentage of net sales. This key management figure is chiefly influenced by developments in procurement and retail prices, changes in the product mix, and currency items resulting from international procurement.

Selling and store, pre-opening, and administration expenses represent key parameters for assessing the Group's earnings strength. We use **cost ratios** calculated as a percentage of net sales as key management figures and also as indicators of trends.

Operating earnings (EBIT), i.e. earnings before interest and taxes, are also one of the most important key management figures at the Group. In the income statement, these are calculated as gross profit in euros less costs (selling, store, pre-opening, and administration expenses) plus other income and expenses (net balance of other income and other expenses). EBIT represents the central key management figure for planning, measuring and managing the Group's operating earnings performance. In the presentation of our earnings performance, we enhance the comparability of earnings between individual reporting periods by reporting on EBIT net of one-off items in cases where special factors have significantly influenced EBIT in the reporting or comparative period.

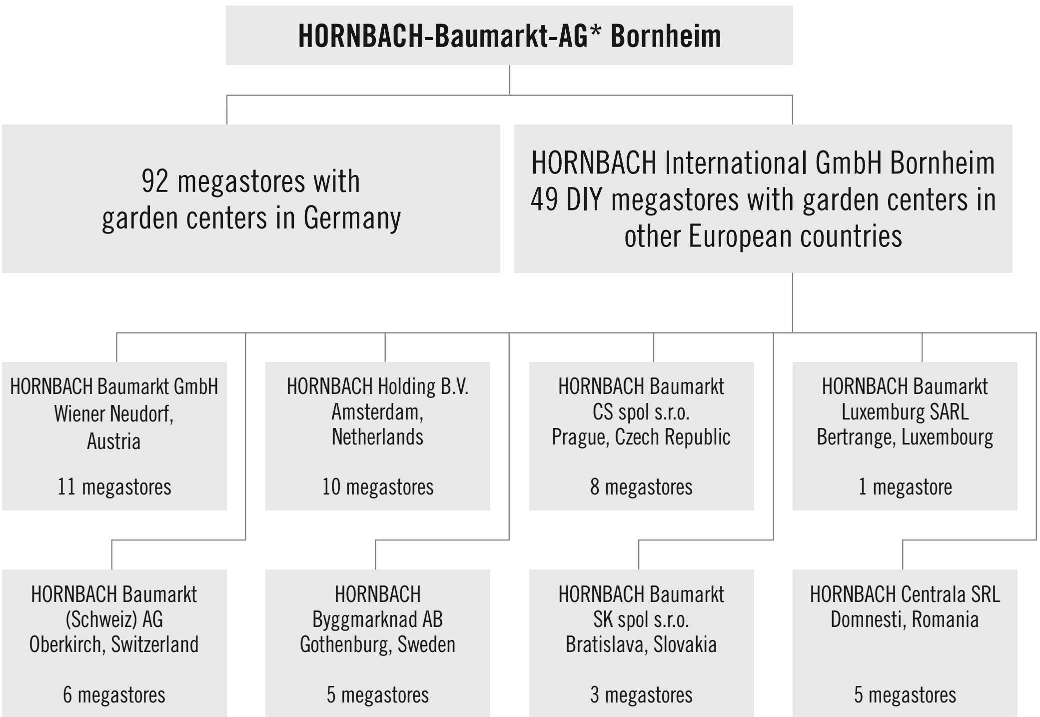
Further key management figures

In managing its financial and asset position, the HORNBACH-Baumarkt-AG Group pursues the objective of safeguarding the Group's liquidity at all times and of covering the financing requirements for the Group's sustainable growth at the least possible expense.

Other key management figures include cash-effective **investments** in land, buildings, plant and operating equipment for new and existing DIY megastores with garden centers, and intangible assets. Here, we aim to achieve a balanced relationship between our operating cash flow and our budgeted investments.

For retail companies, the **inventory turnover rate** is an important indicator of merchandising efficiency. We define inventory turnover as the ratio of material input costs to average inventories. The arithmetic mean of the period opening and period closing balances is taken as the average volume of inventories. The higher the inventory turnover rate, the lower the inventories and thus the volume of liquidity committed. Our aim is therefore to sustainably improve our inventory turnover rate at an above-average high level compared with competitors while simultaneously ensuring product availability.

The Group has not set any defined target for its shareholders' equity. To safeguard our financial stability and independence, our basic objective is rather to permanently ensure a stable, high **equity ratio**.



* Plus further shareholdings as presented in the complete overview provided in the notes to the consolidated financial statements. Status: February 28, 2014

BUSINESS REPORT

MACROECONOMIC AND SECTOR-SPECIFIC FRAMEWORK

International framework

Global economy

According to estimates compiled by the International Monetary Fund, global economic output grew by 3.0 % in 2013 (2012: 3.2 %). The **global economy** thus continued to fall short of its long-term growth trend of 3.5 % to 4.0 %. Global economic activity nevertheless gained momentum as the year progressed and is also thought to have retained this rate of growth at the beginning of the new year (2014).

Europe

In the second quarter of 2013, the **European economy** emerged from the recession endured since the fall of 2011. Gross domestic product (GDP) returned to moderate growth rates once again in subsequent quarters. Based on figures released by the European Union statistics authority (Eurostat), GDP in the European Union as a whole (EU 28) grew by 0.1 % in the 2013 calendar year, not least as a result of strong growth contributions from countries such as Romania and the Czech Republic in the final quarter.

The **euro area** (EA 17) failed to regain positive growth territory in 2013 but nevertheless managed to limit the downward economic trend to minus 0.4 %. This compares with the 0.6 % average contraction in macroeconomic output still seen in 2012. What counts for economic developments looking forward, however, is the fact that GDP gained traction across the board in the fourth quarter of 2013, a development that can be expected to offer upward momentum in 2014 as well. Not only that, the discrepancies in growth rates seen in the euro area since 2010 and triggered in particular by the sovereign debt crisis in states on the periphery of the currency area have noticeably reduced.

The macroeconomic framework in the nine European countries covered by **HORNBACH's network** gradually improved in the course of the calendar year, and in the fourth quarter of 2013 in particular. Based on the economic data available upon completion of this report, price-adjusted (real-term) GDP in Germany grew by 0.4 % in 2013. The export-driven German economy was adversely affected by the recession in several European countries and the slower rate of global growth. Thanks to strong consumer demand, however, it managed to gain new ground.

The Netherlands and the Czech Republic posted reductions in GDP of 0.8 % and 0.9 % respectively, but nevertheless managed to slightly limit the rate of economic contraction compared with 2012. The growth rates seen in the fourth quarter of 2013 have fed hopes that these two economies will return to positive growth once again in 2014.

All other countries in which HORNBACH operates across Europe outperformed the European average in the 2013 calendar year, in some cases substantially so. Like Germany, Austria reported moderate economic growth of 0.4 %. Macroeconomic output in Luxembourg, Sweden, Switzerland, and Slovakia grew at a rate of one to two percent. The highest growth momentum within HORNBACH's group of countries was shown by Romania, where GDP rose by 3.5 % in 2013, benefiting above all from a sharp upturn in the second half of the year.

Construction industry, consumer spending, and retail

Domestic demand in Europe emitted mixed signals in 2013. Gross fixed capital investments acquired further momentum from quarter to quarter, improving by 1.1 % in the fourth quarter of 2013. Construction investments clearly had no positive impact in the period under consideration. Construction industry output in the euro area, for example, fell by 1.0 % in the period from October to December 2013. The volume growth previously seen in the second and third quarters (plus 1.8 % and plus 1.6 %) was in any case insufficient to make up for the weather-related contraction in the first quarter (minus 4.0 %). In 2013 as a whole, construction output fell by 2.9 % and thus for the sixth consecutive year. In terms of HORNBACH's network, the 8.3 % downturn in construction output in the Czech Republic in 2013 was even more severe than in 2012 (minus 7.4 %). The downward trend in the Netherlands and Slovakia slowed in 2013. At around minus five percent in each case, however, the figures for these countries still fell notably short of the euro area average.

This development is to be viewed in particular in connection with the Europe-wide fall in demand for new residential construction. In some countries, demand noticeably suffered from high personal debt and unsatisfactory developments in household incomes. The cold winter lasting well into April 2013 also took its toll on construction activity across Europe. Not only that, ongoing high levels of unemployment in many countries in the wake of the financial and sovereign debt crises also placed a damper on private households' willingness to invest and consume.

Against this backdrop and despite lower rates of inflation, private consumer spending only managed to generate marginally positive demand. In some countries, this failed to reach the retail sector. Real-term retail sales (excluding vehicle retail) thus declined by 0.8 % in the euro area in 2013 (2012: minus 1.7 %). For the European Union as a whole, the downturn amounted to 0.1 % (2012: minus 1.1 %). The picture in the countries in which HORNBACH operates was somewhat better. According to Eurostat estimates, retailers in Germany, Austria, Romania, Slovakia, and the Czech Republic managed to maintain real-term retail sales at the previous year's level or slightly higher. Statistical estimates show real-term sales growth of around two percent in Sweden and Switzerland, and even of more than eleven percent in Luxembourg.

Indicators based on sector association surveys show that in most European countries the DIY store and garden center sector, i.e. DIY retail, once again underperformed the overall retail sector. This particularly reflects the correlation, in some cases close, with developments in housing construction and the highly negative weather factor in the period from January to April 2013.

Business framework in Germany

Overall, the central macroeconomic factors affecting domestic demand and thus of key relevance for assessing the business framework for German DIY stores and garden centers, developed positively in 2013. The annual inflation rate determined with the assistance of the harmonized consumer price index (HVPI) eased from 2.1 % to 1.6 %, thus impacting positively on private households' spending potential. According to the Federal Statistical Office, Germans saved one tenth of their disposable income in 2013, and thus less than at any time since 2001. Consumer spending rose accordingly. With a price-adjusted increase of 0.9 %, private consumer spending

GDP growth rates in countries with HORNBACH DIY megastores and garden centers

Percentage change on previous quarter Source: Eurostat (calendar year figures)	1st Quarter 2013	2nd Quarter 2013	3rd Quarter 2013	4th Quarter 2013	Calendar Year 2013 vs. 2012
Germany	**0.0**	**0.7**	**0.3**	**0.4**	**0.4**
Luxembourg	(0.8)	1.9	0.6	0.7	2.1
Netherlands	(0.3)	0.1	0.3	0.9	(0.8)
Austria	0.1	0.0	0.2	0.3	0.4
Romania	0.6	0.8	1.6	1.5	3.5
Slovakia	0.3	0.3	0.3	0.4	0.9
Sweden	0.8	0.0	0.5	1.7	1.5
Switzerland	0.6	0.5	0.5	0.2	2.0
Czech Republic	(1.3)	0.3	0.3	1.8	(0.9)
Euro area	**(0.2)**	**0.3**	**0.1**	**0.2**	**(0.4)**
EU28	**0.0**	**0.4**	**0.3**	**0.4**	**0.1**

was the key driver of economic growth in Germany and can be expected to continue to play a major role in the new year as well. This expectation is supported by rising real-term incomes and the further improvement in consumer confidence at an already high level. Low unemployment, ongoing employment growth, and favorable financing terms not only supported private consumer spending, but also boosted housing construction.

Construction activity and housing construction

Building permit totals in Germany showed further strong growth. The construction of almost 247,000 housing units was approved in the period from January to November 2013. According to the Federal Statistical Office, that represents a 12.9 % increase compared with the same period in the previous year. The positive development which began in 2010 thus continued. Particularly sharp growth was seen in the number of apartments in apartment blocks (plus 22.8 %) and in semi-detached houses (plus 13.5 %). Permits for detached houses rose by just under one percent.

New orders in the main construction trade grew by 3.8 % in nominal terms in 2013 (plus 1.9 % in real terms). Orders were driven in particular by dynamic growth in German housing construction, which generated nominal order book growth of 6.2 %. Aggregate sales in the main construction trade increased by 3.0 % to € 96.6 billion.

Retail and DIY

According to estimates from the Federal Statistical Office, the German retail sector (excluding vehicle retail) increased its sales by 1.4 % in nominal terms in 2013. On a price-adjusted basis, retail sales volumes were 0.1 % ahead of the previous year's figure. The retail sector was thus only able to profit to a marginal extent from the increase in private consumer spending.

High growth rates were reported once again for mail order and internet retail. According to figures released by the German E-Commerce and Distance Selling Trade Association (bvh), sales surged by 22.9 % to € 48.3 billion and thus accounted for a tax-adjusted share of 11.2 % of total retail sales (2012: 9.4 %). This was primarily due to the boom in internet retail. E-commerce volumes jumped 41.7 % to € 39.1 billion in 2013.

The German DIY retail sector had to absorb a reduction in sales in 2013. On the one hand, the exceptionally long winter encroached massively on the spring business. On the other hand, substantial shares of sales in Germany were no longer available for inclusion in the statistics for the second half of the year due to the insolvencies of Praktiker and Max Bahr, which had still generated domestic sales of almost € 2.2 billion in 2012. According to the BHB/GfK report (nominal) gross sales at DIY stores with sales areas of at least 1,000 m² per outlet thus fell by 2.9 % to € 18.1 billion in 2013 (2012: € 18.6 billion). On a like-for-like basis, i.e. excluding stores newly opened, closed or significantly renovated in the year under report, the DIY sector in Germany fell 2.6 % short of the previous year's sales; excluding Praktiker and Max Bahr, sales fell by 0.7 %. Gross sales at smaller-scale DIY stores (DIY shops) decreased by 2.0 % to € 3.7 billion. The market volume of all of Germany's DIY and home improvement stores contracted by 2.8 % to € 21.7 billion in 2013 (2012: € 22.4 billion).

By contrast, online stores in the German DIY sector posted strong growth in 2013. According to figures compiled by IFH Retail Consultants, stationary DIY players boosted their e-commerce sales by 18 % to € 405 million. Alongside internet stores operated by stationary DIY companies, other distribution channels are also participating in the online boom. Based on revised IFH calculations, German internet sales with core DIY products – across all distribution channels – grew by 12 % to € 2.05 billion in 2013.

BUSINESS PERFORMANCE

Impact of business framework on the business performance of the Group

The 2013/2014 financial year was extremely challenging. The disappointing start in the spring season was followed by a successful race to catch up. A number of factors had a considerable influence on the business performance of the HORNBACH-Baumarkt-AG Group in the year under report:

- **Weather**: The exceptionally long winter had a severe negative impact on the sales and earnings performance in all of the countries in which HORNBACH operates in the first three months of the financial year (March 1 to May 31, 2013). Consolidated sales for the first quarter of 2013/2014 thus declined by 3.0 %, and even by 5.9 % on a like-for-like basis. In March 2013 alone, adjusted sales plummeted by more than a fifth. Against this backdrop, first-quarter EBIT fell by almost € 25 million compared with the previous year's figure. Following this inauspicious start, a successful race to catch up enabled HORNBACH to regain its growth course in subsequent quarters. This was driven in particular by the highly dynamic sales performance in Germany.

- **Economic climate**: The European sovereign debt crisis continued to ensure a less favorable macroeconomic climate in some of the international markets in which we operate than in Germany, although the trend improved noticeably compared with the situation in the previous year. Due above all to the difficult situation on labor markets and subdued private consumer spending, the like-for-like sales performance of our HORNBACH DIY megastores with garden centers in other European countries still fell short of their German counterparts. Following a two-year period of weakness, from the second quarter of 2013/2014 our adjusted sales in other European countries nevertheless posted an upward trend for the first time again. By the end of the financial year, we thus virtually matched the previous year's figure (minus 0.1 %) in the eight countries outside Germany.

- **Market consolidation**: For the first time in the history of the German DIY sector, 2013 witnessed a significant shake-up in the market. This was triggered by the insolvency of the German DIY group Praktiker in July 2013, which affected both the Praktiker and the Max Bahr locations in Germany. Since then, massive location closures and customer migration in the catchment areas thereby affected have led to a redistribution of sales to the benefit of other competitors. HORNBACH also benefited from this restructuring of the German DIY store landscape in individual regional catchment areas.

HORNBACH asserted itself very well in this market climate. The HORNBACH-Baumarkt-AG Group increased its net sales by 4.4 % to € 3,152 million in the 2013/2014 financial year. Consolidated operating earnings (EBIT) showed slightly disproportionate growth of 5.8 % to reach € 105.1 million.

Development in HORNBACH's store network

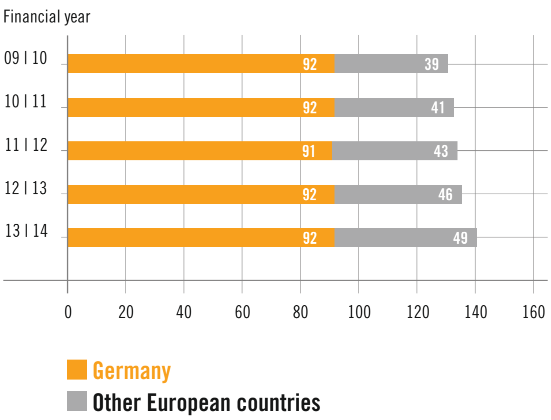
HORNBACH launched operations at four new DIY mega-stores with garden centers, of which three outside Germany, in the 2013/2014 financial year under report.

In April 2013, a new HORNBACH DIY megastore with a garden center opened its doors in **Bratislava**, now the second store in the Slovakian capital. As of February 28, 2014, our store network in Slovakia thus comprised three locations with sales areas of around 46,000 m².

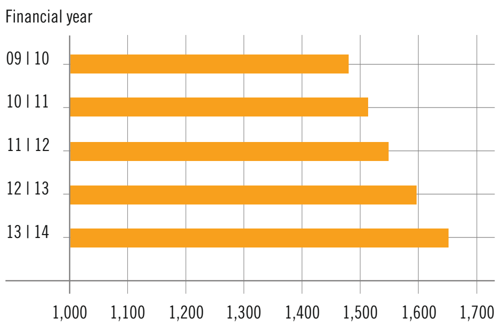
By opening a new store in **Helsingborg** in July 2013, we have also increased our market presence in Sweden. Sales areas at the total of five HORNBACH locations in Sweden now amount to more than 73,000 m².

We continued our expansion program with a further new store opening in the third quarter of 2013/2014. In November 2013, operations began at the tenth HORNBACH DIY megastore with a garden center in the Netherlands, in this case with sales areas of around 14,000 m² in **Nieuwerkerk**.

Stores and sales areas at the HORNBACH-Baumarkt-AG Group
(No. of HORNBACH DIY megastores with garden centers)



(Total sales areas in thousand square meters)



After Austria, where we continue to operate eleven stores with sales areas of around 140,000 m², our store network in the Netherlands, with total sales areas of around 115,000 m², is the second-largest outside Germany.

We completed the expansion program for the year under report by opening a newly built store at our **Heidelberg** location in February 2014. This store replaced the nearby existing location from 1985.

Including the three stores newly opened and the replacement location, we were operating 141 retail outlets across the group as of February 28, 2014 (February 28, 2013: 138). Sales areas at the 92 stores in Germany amounted to around 994,000 m². The 49 DIY megastores with garden centers in other European countries had sales areas of around 653,000 m². The international stores are located in Austria (11), Netherlands (10), Czech Republic (8), Switzerland (6), Romania (5), Sweden (5), Slovakia (3), and Luxembourg (1).
Total sales areas at the HORNBACH-Baumarkt-AG Group amounted to around 1,647,000 m² as of February 28, 2014. The average size of a HORNBACH DIY megastore with a garden center amounts to around 11,700 m².

Comparison of actual and forecast business performance

Expansion

In the Outlook section of last year's 2012/2013 Annual Report, we forecast that we would open up to four new HORNBACH DIY megastores and garden centers in the 2013/2014 financial year. Three new locations were planned outside Germany, namely in Slovakia, Sweden, and the Netherlands, while in Germany one replacement location was planned in Heidelberg. These plans have been successfully implemented.

Investments

Total investments in a range of € 120 million to € 150 million were originally budgeted at the HORNBACH-Baumarkt-AG Group for the 2013/2014 financial year. Given the postponement of land purchases and utilization of rental options, our actual investments of € 72 million mean that we did not exhaust this investment framework.

Sales and earnings performance

With regard to our sales performance, we predicted in our Outlook that consolidated sales for the 2013/2014 financial year would slightly exceed the figure for the 2012/2013 financial year. This sales forecast also remained unchanged during the financial year. Due not least to a final sprint in the fourth quarter, our actual consolidated sales for the 2013/2014 year under report grew by 4.4 %.

In our like-for-like sales performance, we also achieved the forecast turnaround on group level in the 2013/2014 financial year. Adjusted consolidated sales thus grew by 2.7 % following the downturn of 1.4 % in the previous year. We thus more than met our targets. This is also true for the budget/actual comparison in our geographical segments.

- For **Germany**, we had forecast like-for-like sales growth ahead of the group average in our Outlook. Given the expected shortfall in sales in the first quarter (March 1 to May 31, 2013), we nevertheless at that time saw increased likelihood that like-for-like sales would only match or fall short of the previous year's figure. Our actual like-for-like sales in Germany improved by 4.9 %. We thus surpassed our forecast and outperformed the sector average even more clearly than expected.

- For **other European countries**, we had forecast a lower rate of like-for-like sales growth than in Germany due to the more fragile overall macroeconomic framework. Moreover, we also did not expect like-for-like sales net of currency items in other European countries to match the figure for the 2012/2013 financial year. Driven by a strong recovery in the second half of the year, adjusted sales for the 2013/2014 reporting period more or less matched the previous year's figure (minus 0.1 %) and performed better than forecast.

Further key figures by segment

- **DIY store segment:** We set ourselves the target of maintaining the gross margin for the 2013/2014 financial year at the previous year's level (37.3 %). Our actual figure of 37.4 % shows that we met this target. According to the Outlook, our selling and store expense ratio should remain at around the same level as in the previous year. As a percentage of net sales, the actual margin decreased slightly from 31.1 % to 31.0 %. In line with expectations, pre-opening expenses increased due to the Group's expansion and reached € 10.0 million (2012/2013: € 9.6 million). The ratio remained constant at 0.3 %. With regard to our general and administration expenses, we assumed one year ago that the respective cost ratio would rise due to the planned build-up of resources, particularly for our online store and other key forward-looking projects. Our actual general and administration expense ratio reduced from 4.1 % to 3.9 %.

- Consistent with the Outlook, rental income in the **real estate segment** performed stably in line with our expansion. Rental income grew by 1.8 % to € 146.2 million, and thus within the expected framework.

Consolidated operating earnings (EBIT)

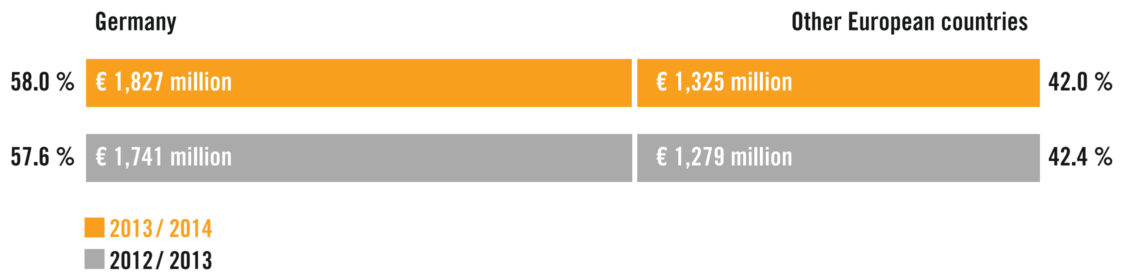
In summary for the HORNBACH-Baumarkt-AG Group, in our previous Annual Report we forecast that operating earnings (EBIT) would not match the figure for the 2012/2013 financial year (€ 99.3 million). Due to the successful process of making up lost ground after the first quarter (March 1 to May 31, 2013), in our half-year financial report we issued a slight upward revision in our original earnings forecast and predicted that Group EBIT for 2013/2014 would more or less match the previous year's figure. With slightly disproportionate growth of 5.8 % to € 105.1 million, we significantly exceeded the original forecast in the 2012/2013 Annual Report and slightly surpassed the upward revision in the earnings forecast issued during the financial year.

HORNBACH-Baumarkt-AG

In our separate financial statements we originally forecast that net sales in Germany for the 2013/2014 financial year would roughly match the previous year's figure. With growth of 5.7 %, this target was significantly exceeded. As forecast, the result from ordinary operations in the period under report fell short of the figure for the 2012/2013 financial year. Due to lower income from investments, the result amounted to € 42.8 million (2012/2013: € 53.4 million).

Earnings Situation

Sales by region



Sales performance

The HORNBACH-Baumarkt-AG Group’s sales are primarily generated in the DIY store segment (please see segment report in the notes on the consolidated financial statements). Sales in the real estate segment principally involve rental income from the group-internal letting of DIY store properties to operating units in the DIY store segment. This income is fully consolidated as “Rental income from affiliated companies” in the segment report. In view of this, the following comments refer exclusively to the sales performance of the DIY store segment. When commenting on our sales performance, we also subdivide our sales into geographical segments, namely “Germany” and “Other European countries”, where the activities in the eight countries outside Germany are summarized (please also see segment report in the notes on the consolidated financial statements).

The HORNBACH-Baumarkt-AG Group increased its net sales in the past financial year (March 1, 2013 to February 28, 2014) by 4.4 % to € 3,152 million (2012/2013: € 3,020 million). Net sales in Germany for the same period grew 5.0 % to € 1,827 million (2012/2013: € 1,741 million). Accounting for three newly opened stores, sales outside Germany (Other European countries) increased by 3.5 % to € 1,325 million (2012/2013: € 1,279 million). Due to the higher growth rate in Germany, the international stores' share of consolidated sales slipped from 42.4 % to 42.0 %.

The Group's business performance in 2013/2014 was shaped on the one hand by substantial weather-related downturns in sales in the first quarter and on the other hand by a successful race to catch up, with sales growth in the three subsequent quarters. These factors are reflected above all in the development in like-for-like sales.

The following comments refer to the development in like-for-like sales at the HORNBACH-Baumarkt-AG Group, which thus take no account of stores newly opened or closed in the past twelve months. The Group's like-for-like sales performance continued to be divided along geographical lines in the 2013/2014 financial year. Having said this, sales momentum improved significantly compared with 2012/2013, and that both in the Germany segment and in the Other European countries segment.

Like-for-like sales performance* by quarter
(in percent)

2013/2014 financial year 2012/2013 financial year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Group	**(5.9)**	**4.6**	**4.6**	**10.6**	**2.7**
	(1.1)	0.7	(2.0)	(3.9)	(1.4)
Germany	**(5.8)**	**7.7**	**7.0**	**14.1**	**4.9**
	(0.1)	2.8	(0.6)	(2.6)	0.0
Other European countries	**(6.1)**	**0.5**	**1.5**	**5.9**	**(0.1)**
	(2.4)	(1.8)	(3.8)	(5.7)	(3.2)

* Excluding currency items

Like-for-like sales net of currency items grew by 2.7 % across the Group in the 2013/2014 financial year, thus contrasting with the downturn of 1.4 % in the previous year. Including currency items, the Group's adjusted sales rose by 2.3 % (2012/2013: minus 1.4 %). On average, the number of business days in 2013/2014 was largely the same both at the Group and in terms of geographical segmentation. Seasonal influences on the Group's sales performance and the base effects from the previous year's periods are clearly apparent in the presentation by quarter (please see above table).

The first quarter (March 1 to May 31, 2013) was influenced by exceptional weather factors to an extent rarely seen before. Wintry weather persisting through to mid-April literally froze customer demand in Germany and other European countries. In March and April 2013, this had a particularly adverse effect on our garden business. By contrast, May showed a pleasing sales performance once again, but this was far from enough to make up for the loss of sales in the two preceding months. Cumulative consolidated like-for-like sales net of currency items fell by 5.9 % in the first three months (previous year's quarter: minus 1.1 %).

In the following months we managed to gradually make up for this shortfall. We increased our group-wide adjusted sales by 4.6 % in each of the second and third quarters. By the end of the first nine months, our sales had returned to positive growth territory. Given an extremely dynamic business performance in the fourth quarter (plus 10.6 %), one which when compared with the exceptional conditions in the previous year's quarter benefited additionally from the mild winter in 2013/2014, we were able to increase our adjusted sales growth to 2.7 % by the end of the financial year. The geographical segmentation figures clearly show that the Group's bedrock of sales rose both in Germany and in other European countries compared with the previous year.

- **Germany**
  HORNBACH's locations in Germany reported very pleasing sales growth in the 2013/2014 financial year. They performed significantly better than our stores in other European countries for the fifth consecutive year, also benefiting in this respect from the more robust macroeconomic framework by European standards and from one-off factors within the DIY sector.

Having said this, the important spring season began on an inauspicious note. Frost and snow led like-for-like sales in March 2013 to drop by around one fifth compared with the same month in the previous year. After this setback, developments in the following months pointed sharply upwards, with double-digit growth rates in some cases. The like-for-like downturn of 5.8 % in the first quarter was more than offset by sales growth of 7.7 % in the second quarter. Developments continued at a similar pace in the second half of the financial year. HORNBACH's DIY megastores with garden centers in Germany grew by 7.0 % in the third quarter, and even notched up double-digit growth of 14.1 % in the final quarter. We thus ended the 2013/2014 financial year in Germany with like-for-like sales growth of 4.9 %.

Our consistent focus on project customers enabled us to draw above-average benefit from high demand in the residential construction and renovation markets in the year under report. This was particularly true of the second business quarter, in which consumers caught up with various house, apartment and garden-related projects originally planned for the spring. Our combination of large-scale retail locations and a high-performing online store has become firmly established among private and professional customers. Not only that, individual regional locations secured part of the sales volumes redistributed among competitors from summer 2013 onwards in the market consolidation triggered by the Praktiker and Max Bahr insolvency. Finally, mild weather conditions in the final quarter (December 2013 to February 2014) compared with the previous year favored the implementation of construction and renovation projects usually put on hold in average winters.

Against this backdrop, HORNBACH posted a highly positive performance in Germany in the 2013/2014 year under report and extended its head start over the DIY sector as a whole.

According to the BHB/GfK Panel, like-for-like sales in the German DIY sector declined by 2.6 % in the period from January to December 2013. Excluding the share of sales attributable to the insolvent Praktiker Group, according to GfK Germany's DIY stores witnessed a 0.7 % downturn in like-for-like sales. By contrast, our domestic stores generated substantial sales growth of 2.3 % in the 2013 calendar year. This outperformance by around five percentage points (around three percentage points excluding Praktiker/Max Bahr) means that we have significantly extended our lead over the sector average compared with the previous year, in which our head start only amounted to one-and-a-half percentage points.

HORNBACH thus further expanded its market position. As a percentage of aggregate sales at all German DIY stores and garden centers (€ 21.7 billion), HORNBACH's market share grew from 9.3 % to 10.0 %. If the calculation is based only on those DIY stores and garden centers with sales areas of more than 1,000 m² in Germany (market volume: € 18.1 billion), then our market share in this segment improved from 11.1 % to 12.0 %.

- **Other European countries**

Our sales outside Germany also gained noticeable momentum compared with the previous year. The severe, prolonged winter resulted in a 6.1 % downturn in like-for-like sales net of currency items at HORNBACH's locations in other European countries in the first quarter of 2013/2014. From the summer months of 2013, however, we made good progress with our race to catch up in our international business as well. The growth of 0.5 % reported for the Other European countries segment for the second quarter represented the first increase in like-for-like sales net of currency items since spring 2011. By the end of the first six months, the shortfall from the first quarter had more than halved to minus 2.9 %.

While sales in the second half of the previous financial year still suffered noticeably from the implications of the sovereign debt crisis, in the third and fourth quarters of

2013/2014 we were able to gain further ground, with adjusted sales growth of 1.5 % and 5.9 % in other European countries. The 0.1 % downturn remaining at the end of the twelve-month period meant that our stores outside Germany more or less regained the previous year's level. Including currency items, the downturn in adjusted sales amounted to 1.1 %. All in all, it is apparent that since summer 2013 like-for-like sales outside Germany benefited from a pleasing upward trend, but that the sales performance of the international business continues to lag behind the domestic business.

The figures for other European countries also reflect the economic recovery that began in the second calendar quarter of 2013 after the end of the recession lasting since the fall of 2011. Key confidence indicators, such as the consumer confidence statistics published by the European Commission, have since improved noticeably in most countries in which we operate, even though the index figures still show room for improvement compared with confidence levels in Germany. This is due to the ongoing tougher macroeconomic framework outside Germany. In particular, in some countries private households' purchasing power continues to be held back by the ongoing tense situation on labor markets and the painstaking process of consolidating government spending. What's more, some countries, such as the Netherlands, the Czech Republic, and Slovakia, have witnessed a further sharp drop in construction demand, a factor that also left its mark on our sales performance. Having said this, the number of countries reporting adjusted sales growth has notably increased since the previous year.

Alongside our own sales performance, comparison with the sector is also of key significance for the performance capacity of our stores. Based on information available to us for the 2013 calendar year, we were virtually eye-to-eye with competitors in two countries. In five out of seven countries outside Germany HORNBACH was significantly ahead of the DIY sector average. This is particularly true for our activities in Eastern Europe.

Key earnings figures of the HORNBACH-Baumarkt-AG Group

Key figure (€ million, unless otherwise stated)	2013/2014	2012/2013	Change
Net sales	3,152	3,020	4.4%
EBITDA	161.0	155.8	3.3%
EBIT	105.1	99.3	5.8%
Earnings before taxes	87.3	74.4	17.4%
Consolidated net income	56.4	52.3	7.7%
EBITDA margin	5.1%	5.2%	
EBIT margin	3.3%	3.3%	
Tax rate	35.5%	29.7%	

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

Earnings performance of the HORNBACH-Baumarkt-AG Group

The earnings of the HORNBACH-Baumarkt-AG Group for the 2013/2014 financial year developed more positively than expected one year ago. This was mainly due to the company's success in making up lost ground after the first quarter, a process chiefly driven by accelerated like-for-like sales growth in the DIY store segment in conjunction with a stable gross margin and improved cost ratios.

Consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) grew by 3.3 % to € 161.0 million (2012/2013: € 155.8 million). The EBITDA margin (as a percentage of net sales) decreased slightly from 5.2 % in the previous year to 5.1 %. Consolidated operating earnings (EBIT) showed slightly disproportionate growth compared with sales, rising by 5.8 % to € 105.1 million (2012/2013: € 99.3 million). The EBIT margin, a key indicator of earnings strength, remained unchanged at 3.3 %, and that despite a significant reduction in other income and expenses, which dropped from € 18.4 million in the previous year to € 4.1 million in the year under report (please see comments on DIY store segment).

Consolidated earnings before taxes (EBT) grew significantly faster than consolidated EBIT, surging by 17.4 % to € 87.3 million (2012/2013: € 74.4 million). This was largely due to the positive change in net interest expenses, which improved from minus € 24.0 million to minus € 15.9 million. This in turn resulted above all from the more favorable refinancing of the former corporate bond with the new 3.875 % bond in February 2013, as well as from the redemption of non-current loans. Net financial expenses improved by 28.7 % to minus € 17.8 million (2012/2013: minus € 24.9 million).

Consolidated net income rose by 7.7 % to € 56.4 million (2012/2013: € 52.3 million). The Group's tax rate increased significantly from 29.7 % to 35.5 %. This was mainly attributable to the write-down of deferred tax assets of € 4.9 million recognized on losses carried forward from previous years in connection with the operating business in Sweden. Unlike the original positive assessment, it is now no longer expected to be possible to use these losses carried forward within the budgeting horizon. The return on sales after taxes rose slightly from 1.7 % to 1.8 %. Earnings per share (please see Note 9) are reported at € 1.77 (2012/2013: € 1.64).

Key earnings figures for the DIY store segment

Key figure (€ million, unless otherwise stated)	2013/2014	2012/2013	Change
Net sales	3,151	3,019	4.4%
of which: in Germany	1,827	1,741	5.0%
of which in other European countries	1,325	1,279	3.5%
Like-for-like sales growth	2.7%	(1.4)%	
EBITDA	105.9	107.7	(1.7)%
EBIT	71.2	74.2	(4.1)%
EBITDA margin	3.4%	3.6%	
EBIT margin	2.3%	2.5%	
Gross margin	37.4%	37.3%	
Store expenses as % of net sales	31.0%	31.1%	
Pre-opening expenses as % of net sales	0.3%	0.3%	
General and administration expenses as % of net sales	3.9%	4.1%	

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

Earnings performance of the DIY store segment

The DIY store segment comprises the operating retail business at the HORNBACH DIY megastores with garden centers within the Group. At the balance sheet date on February 28, 2014, we were operating 141 DIY retail outlets across Europe (2012/2013: 138). Net sales in this segment grew by 4.4 % to € 3,151 million in the 2013/2014 year under report (2012/2013: € 3,019 million).

Key earnings figures in the DIY store segment fell slightly short of the previous year's figures in the 2013/2014 financial year. Various items within other income and expenses meant that the pleasing performance of the operating retail business was not reflected to a correspondingly positive extent in the key figures.

Gross margin

The gross margin showed a slight improvement in the 2013/2014 year under report. As a percentage of net sales, the gross profit amounted to 37.4 % (2012/2013: 37.3 %). This moderate increase in the gross margin was due among other factors to more favorable procurement terms, which more than offset opposing items resulting from risks and changes in the product mix. Currency items once again played a negligible role in our international procurement activities in the year under report.

Selling and store, pre-opening and administration expenses

Selling and store expenses in the DIY store segment grew by 3.9 % to € 976.8 million (2012/2013: € 940.1 million), and thus decreased as a percentage of sales. Personnel expenses (excluding bonuses), the largest cost block within selling and store expenses, increased by 3.8 %. Apart from bonuses, all other items within selling and store expenses grew less rapidly than sales. Advertising expenses fell short of the previous year's figure. As a percentage of net sales, selling and store expenses eased from 31.1 % to 31.0 %.

Pre-opening expenses increased slightly from € 9.6 million to € 10.0 million in the 2013/2014 financial year (please also see Note 4). Four new stores were opened in the period under report, and thus one fewer than in the previous year, but pre-opening expenses were already incurred for the Lübeck and Prague-Čestlice locations subsequently opened at the beginning of the 2014/2015 financial year.

The earnings performance of the DIY store segment benefited from increased cost discipline in administration departments. Administration expenses thus grew by a mere 0.9 % to € 124.3 million (2012/2013: € 123.2 million). As a result, the administration expense ratio declined from 4.1 % to 3.9 %.

Other income and expenses

Other income and expenses fell sharply from € 20.5 million to € 5.2 million in the year under report.

Other operating income and expenses were adversely affected to a significant extent by a base effect from the previous year. In the 2012/2013 financial year, we posted a positive one-off operating item of € 5.5 million due to the conclusive clarification of outstanding issues in connection with the supply of utility energies in Germany. Furthermore, the figure for the 2013/2014 financial year was negatively affected by the reduction in advertising cost grants from € 3.1 million to € 0.6 million and the reduction in income from group allocations from € 4.1 million to € 3.3 million.

Whereas no material non-operating earnings items were posted in the previous year, in the year under report segment earnings were negatively affected by other non-operating items of minus € 5.2 million. These mainly related to provisions for the winding up of a former location and for onerous contracts, as well as to other expenses incurred in connection with real estate development.

EBITDA and EBIT

EBITDA in the DIY store segment showed a slight reduction of 1.7 % to € 105.9 million in the 2013/2014 financial year (2012/2013: € 107.7 million), equivalent to an EBITDA margin of 3.4 % (2012/2013: 3.6 %). Operating earnings (EBIT) decreased by 4.1 % to € 71.2 million (2012/2013: € 74.2 million). EBIT was equivalent to 2.3 % of net sales in the year under report (2012/2013: 2.5 %).

Earnings performance of the real estate segment

All the real estate activities in the HORNBACH-Baumarkt-AG Group are pooled in the real estate segment. Its main business activities involve building and subsequently letting DIY store properties within the Group. These either remain in group ownership or are sold following construction to an external investor and then leased back. The respective DIY store properties are charged to the DIY store segment on rental and other terms customary to the market. Earnings in the real estate segment were significantly ahead of the previous year's figures in the 2013/2014 financial year.

Key earnings figures for the real estate segment

Key figure (€ million, unless otherwise stated)	2013/2014	2012/2013	Change
Rental income	146.2	143.6	1.8%
Real estate expenses	92.9	97.8	(5.0)%
Net rental income	53.3	45.8	16.4%
Disposal gains/losses	(0.7)	0.3	-
Net real estate income	52.6	46.1	14.2%
EBITDA	66.4	57.7	15.1%
EBIT	51.3	42.8	19.8%

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

Earnings from rental activities

Rental income in the real estate segment, 99 % of which comprises internal rental income, grew by 1.8 % to € 146.2 million in the year under report (2012/2013: € 143.6 million). Due mainly to considerably lower operating expenses, real estate expenses for the same period fell by 5.0 % to € 92.9 million (2012/2013: € 97.8 million). Earnings from rental activities increased by 16.4 % to € 53.3 million in the year under report (2012/2013: € 45.8 million).

Disposal gains/losses and net real estate income

We posted disposal losses of € 0.7 million in the year under report, contrasting with the disposal gains of € 0.3 million generated from real estate transactions in the 2012/2013 financial year. Net income on real estate activities increased by 14.2 % to € 52.6 million (2012/2013: € 46.1 million).

Other income and expenses

Chiefly as a result of lower charges on earnings from real estate development, other income and expenses (excluding disposal gains/losses) improved from minus € 1.4 million to minus € 0.2 million in the 2013/2014 financial year. Impairment losses on land and provisions for real estate projects each declined by € 0.5 million.

EBITDA and EBIT

Thanks to slightly higher rental income, significantly lower real estate expenses, and an improvement in other income and expenses, we can report pleasing earnings growth in the real estate segment for the reporting period from March 1, 2013 to February 28, 2014. EBITDA thus rose by 15.1 % to € 66.4 million (2012/2013: € 57.7 million) and EBIT by 19.8 % to € 51.3 million (2012/2013: € 42.8 million).

Earnings performance by geographical region

Our German retail business gained further significance in terms of the Group's earnings performance in the 2013/2014 financial year. As is apparent from the breakdown by geographical regions in the segment report, the weighting of earnings contributions has shifted in favor of the Germany segment. This is primarily the result of the more dynamic like-for-like sales performance in the domestic business compared with other European countries. Furthermore, cost savings in administration departments (excluding innovation projects) impacted positively on the earnings strength of the German business.

EBITDA in Germany grew by 7.3 % from € 65.8 million to € 70.6 million, and thus more rapidly than on group level (plus 3.3 %). The domestic share of the Group's EBITDA rose slightly from 42 % to 44 %. EBIT in the Germany segment increased from € 29.6 million to € 36.7 million (plus 24.0 %). The domestic share of operating earnings thus improved from 30 % to 35 % in the 2013/2014 financial year. The EBIT margin amounted to 2.0 % in Germany, as against 1.7 % one year earlier.

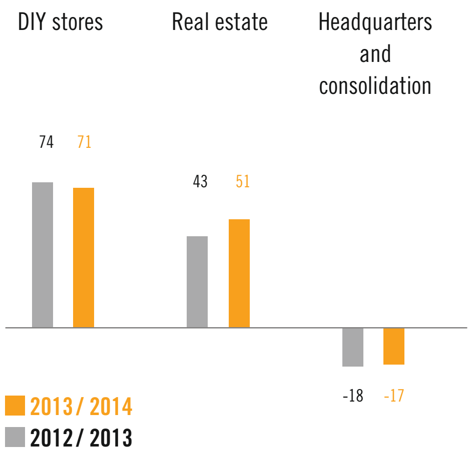
In the 2013/2014 financial year as well, the domestic share of operating earnings included substantial expenses for sustainable innovation projects. A major portion of the project-related administration expenses of around € 25 million (2012/2013: around € 22 million) related to the further expansion in our online store. The costs attributable to the international rollout of e-commerce have been charged on within group allocations. Alongside these projects, we also worked on a series of other development projects in the fields of procurement, logistics, and operations at DIY megastores with garden centers which are intended to promote the Group's further growth. Despite higher project expenses, we managed to reduce our administration expenses in the Germany segment by 1.3 % in the year under report. This was possible on account of the 5.2 % year-on-year reduction we achieved in expenses for purely administrative activities.

Earnings contributions from our international activities, which are pooled on the level of the HORNBACH International GmbH subgroup, were at roughly the same level as in the 2012/2013 financial year. With EBITDA of € 90.2 million in the period under report (2012/2013: € 90.1 million), the international business accounted for around 56 % (2012/2013: 58 %) of EBITDA at the HORNBACH-Baumarkt-AG Group. EBIT in the international business reduced from € 69.8 million to € 68.3 million. As a result, the international share of EBIT decreased from 70 % to 65 %. With an EBIT margin of 5.2 % (2012/2013: 5.5 %), the other European countries segment remains more profitable than the Germany segment.

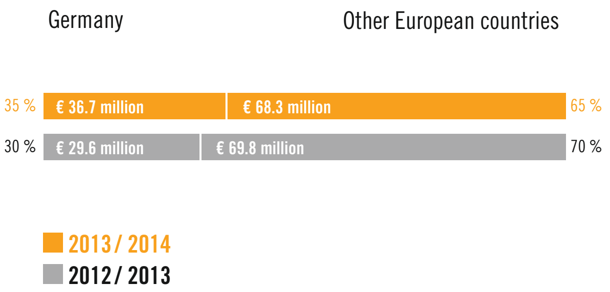
Dividend proposal

The Board of Management and Supervisory Board of HORNBACH-Baumarkt-AG will propose an increase in the dividend from € 0.50 to € 0.60 (plus 20 %) per no-par share with dividend entitlement (ISIN: DE0006084403) for approval by the Annual General Meeting on July 9, 2014. Following the unchanged distribution in the past four years, shareholders should thus be enabled to participate appropriately in the pleasing earnings performance in the 2013/2014 financial year.

EBIT by segment
(€ million)



EBIT by region
(share in %)



Financial Situation

Principles and objectives of financial management

Financing measures are performed by Group Treasury at HORNBACH-Baumarkt-AG. Central organization of financial management enables the HORNBACH Group to maintain a uniform presence on financial markets and to provide centralized liquidity management for the overall Group. HORNBACH-Baumarkt-AG grants financial assistance in the form of guarantees and letters of comfort only for its subsidiaries. The information required for efficient liquidity management is provided by rolling group financial planning covering all relevant companies, which is updated monthly and has a budgeting horizon of twelve months, as well as by short-term financial forecasting updated daily. Based on 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. Moreover, to date DIY store properties have been sold to investors upon completion, with utilization secured by rental agreements (sale and leaseback). Here, efforts have been made to meet the IAS 17 criteria governing classification as "Operating Leases". Due to the amendments expected in IAS 17 lease accounting and the expected discontinuation of the "operating lease" classification, future transactions will be reviewed in terms of their advantageousness. External financing generally takes the form of unsecured loans and real estate sales (sale and leaseback). Consistent with HORNBACH's forward-looking financial policy, financial liabilities due to mature are refinanced at the earliest opportunity.

In line with internal risk principles, derivative financial instruments are held solely for hedging purposes. The nominal values and measurement of existing derivative financial instruments are presented in the notes on the consolidated balance sheet in the notes to the financial statements.

Financial debt

At the balance sheet date on February 28, 2014, the net financial debt of the Group amounted to € 0.6 million (2012/2013: € 64.9 million) and was structured as follows:

Type of financing	Liabilities broken down into remaining terms						2.28.2014	2.28.2013
€ million	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	> 5 years	Total	Total
Short-term bank debt[1]	1.0						1.0	1.1
Mortgage loans	5.9	5.0	4.5	3.9	1.4	0.4	21.0	28.4
Other loans[2] [3]		18.1	79.8				97.9	99.0
Bonds[3]						246.4	246.4	245.8
Negative fair values of derivative financial instruments		0.5	3.2	0.8			4.4	6.5
Finance leases	0.2	0.3	0.3	0.3			1.0	1.3
Total financial debt	**7.1**	**23.8**	**87.7**	**4.9**	**1.4**	**246.8**	**371.7**	**382.1**
Cash and cash equivalents							371.1	317.2
Net financial debt							**0.6**	**64.9**

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

[1] Financing facilities with nominal terms of under one year (overdraft and short-term interim financing facilities) and interest deferrals

[2] Loans not secured by mortgages

[3] The costs relating to the taking up of the corporate bond and the promissory note bonds have been spread pro rata temporis over the respective terms.

The Group had no short-term financing facilities as of the balance sheet date on February 28, 2014. The current financial debt (up to 1 year) of € 7.1 million (2012/2013: € 8.6 million) mainly consists of interest deferrals of € 1.0 million (2012/2013: € 1.1 million) and the portion of long-term financing facilities maturing in the short term, amounting to € 6.1 million (2011/2013: € 7.3 million).

Solid capital structure

HORNBACH enjoys great flexibility in its financing and draws on a wide range of different financing instruments.

At the beginning of 2013, HORNBACH-Baumarkt-AG thus exploited the favorable capital market climate to place a seven-year corporate bond of € 250 million on the market on February 15, 2013. The proceeds from the issue were used to prematurely redeem the existing bond, issued in November 2004 with an interest coupon of 6.125 %, on February 25, 2013. This significantly improved the maturity profile of the Group's financial liabilities. The issue was several times oversubscribed, with great demand from both private and institutional investors. The new bond has an interest coupon of 3.875 %.

As of June 30, 2011, HORNBACH-Baumarkt-AG took up an unsecured promissory note bond of € 80.0 million with a term running until June 30, 2016. The funds served to redeem the promissory note bond of the same amount maturing on June 30, 2011. In addition, the Group still has the promissory note bond concluded by HORNBACH Baumarkt CS spol s.r.o. in CZK in the 2010/2011 financial year with an original volume of € 20 million and a term running until August 31, 2015.

The value of the financing facilities secured by land charges amounted to € 21.0 million at the balance sheet date (2012/2013: € 28.4 million). Land charges of € 66.3 million have been provided as security for mortgage loans (2012/2013: € 85.5 million).

At the balance sheet date on February 28, 2014, the HORNBACH-Baumarkt-AG Group had free credit lines amounting to € 289.5 million (2012/2013: € 300.2 million) at customary market conditions. These include a syndicated credit line of € 250 million with a term running until December 14, 2016. The credit line may also be drawn down in foreign currencies, particularly CHF, SEK and CZK, up to an amount of € 25 million. Furthermore, supplementary bilateral loan agreements of up to € 50 million may also be concluded within the credit framework (also in foreign currencies). Upon utilization of the credit line, the interest is based on the 3-month or 6-month Euribor, or the equivalent Ibor, plus an interest margin. The applicable interest margin is determined by reference to the company rating granted to HORNBACH-Baumarkt-AG by an internationally recognized rating agency. Margin premiums apply should the level of utilization exceed specified threshold values and when the facility is drawn down in foreign currencies. A provision fee dependent on the respective interest margin is charged for the unutilized portion of the credit line. To ensure the maximum possible degree of flexibility, all major group companies have credit lines denominated in their local currencies, generally at local banks.

No assets have been provided as security for the credit lines, the promissory note bonds, or the bond. The relevant contractual arrangements nevertheless require compliance with customary bank covenants, non-compliance with which could lead to a premature repayment obligation. These regularly involve pari passu clauses and negative pledge declarations, as well as cross default arrangements for major financing facilities. In the case of the syndicated credit line at HORNBACH-Baumarkt-AG and the promissory note bond agreements at the HORNBACH-Baumarkt-AG Group, they also require compliance with specific financial ratios. These key financial ratios are based on consolidated figures at the HORNBACH-Baumarkt-AG Group and require interest cover of at least 2.25 times and an equity ratio of at least 25 %. Maximum limits for financing facilities secured by land charges and financing facilities taken up by subsidiaries were also agreed. The interest cover, net debt/EBITDA ratio, equity ratio, agreed financing limits, and company liquidity (cash and cash equivalents, plus unutilized committed credit lines) are regularly monitored within the internal risk management framework. Further key figures are calculated on a quarterly basis. Should the values fall short of certain target levels, then countermeasures are initiated at an early stage. All covenants were complied with at all times in the year under report. Further information about financial debt can be found in Note 22 of the notes on the consolidated balance sheet.

Cash and cash equivalents amounted to € 371.1 million at the balance sheet date (2012/2013: € 317.2 million). As in the past, liquidity is managed in the form of fixed deposits on the money market with maximum investment horizons of three months. To enhance security, the Group has also set maximum deposit totals per bank.

Key financial figures of the HORNBACH-Baumarkt-AG Group

Key figure	Definition		2.28.2014	2.28.2013
Net financial debt	Current financial debt + non-current financial debt – cash and cash equivalents	€ million	0.6	64.9
Interest cover	Adjusted(*) EBITDA / Gross interest expenses		10.0	6.0
Net debt / EBITDA	Net financial debt / Adjusted(*) EBITDA		0.0	0.4

* EBITDA excluding changes in non-current provisions and gains/losses on the disposal of non-current assets as reported in the cash flow statement

Investments of € 72.0 million

The HORNBACH-Baumarkt-AG Group invested a total of € 72.0 million in the 2013/2014 financial year (2012/2013: € 116.6 million), mainly in land, buildings and plant and office equipment at existing DIY stores with garden centers, and at stores under construction. The funds of € 72.0 million (2012/2013: € 116.6 million) required for cash-effective investments were fully acquired from the cash flow of € 144.4 million from operating activities (2012/2013: € 94.9 million). Of investments, € 28.4 million related to the "Real estate" segment for new real estate, including properties under construction. The "DIY store" segment accounted for € 41.1 million, with investments here mainly being channeled into replacing and extending plant and office equipment.

The most significant investment projects related to the DIY megastores with garden centers opened in the 2013/2014 financial year in Heidelberg (Germany) and Nieuwerkerk (Netherlands), construction work on DIY megastores with garden centers due to be opened in subsequent financial years, the conversion and extension of existing stores, the acquisition of land for the Group's further expansion, investments in plant and office equipment, and in intangible assets, especially software.

Cash flow statement

Cash flow statement (abridged) € million	2013/2014	2012/2013
Cash flow from operating activities	144.4	94.9
of which: funds from operations[1)]	125.0	108.0
of which change in working capital[2)]	19.4	(13.1)
Cash flow from investing activities	(66.9)	(113.3)
Cash flow from financing activities	(23.2)	(68.6)
Cash-effective change in cash and cash equivalents	**54.3**	**(87.0)**

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

[1)] Consolidated earnings after taxes, plus depreciation of non-current assets and changes in provisions, minus gains/plus losses on the disposal of non-current assets, plus/minus other non-cash expenses/income
[2)] Difference between "Change in inventories, trade receivables and other assets" and "Change in trade payables and other liabilities"

The inflow of funds from operating activities increased from € 94.9 million in the previous year to € 144.4 million in the 2013/2014 financial year. Here, the inflow of funds from operations rose from € 108.0 million to € 125.0 million. This increase was chiefly due to like-for-like sales growth in Germany and improved cost ratios. The change in working capital (changes in inventories, trade receivables and other assets plus changes in trade payables and other liabilities) resulted in an inflow of funds of € 19.4 million, as against an outflow of funds of € 13.1 million in the previous year. The higher inflow of funds largely resulted from increased trade payables due to the weather-related pleasing operating business performance in the fourth quarter.

The outflow of funds for investing activities reduced from € 113.3 million to € 66.9 million. Here, the decrease in investments by € 44.6 million to € 72.0 million was opposed by a higher volume of proceeds from disposals of non-current assets, amounting to € 5.1 million (2012/2013: € 3.3 million). As in the previous year, no DIY megastores with garden centers were disposed of within sale and leaseback transactions in the 2013/2014 financial year.

The outflow of funds for financing activities totaled € 23.2 million in the 2013/2014 financial year, compared with an outflow of € 68.6 million in the previous year. This figure includes the scheduled redemption of non-current financial debt amounting to € 7.0 million. Current financial loans decreased by € 0.5 million (previous year: outflow of € 4.8m). Gross financial debt reduced from € 382.1 million in the previous year to € 371.7 million in the year under report.

Rating

Since 2004, the creditworthiness of the HORNBACH-Baumarkt-AG Group has been rated by the leading international rating agencies Standard & Poor's and Moody's Investors Service. Upon completion of this report, both agencies had in their most recent publications confirmed their ratings at "BB+" with a stable outlook in the case of Standard & Poor's and "Ba2" with a positive outlook at Moody's.

Asset Situation

Equity ratio rises to 51.6 %

Balance sheet of the HORNBACH-Baumarkt-AG Group (abridged version)

€ million	2.28.2014	2.28.2013	Change
Non-current assets	740.4	740.5	0.0%
Current assets	929.9	857.0	8.5%
Assets	**1,670.3**	**1,597.4**	**4.6%**
Shareholders' equity	862.0	823.2	4.7%
Non-current liabilities	425.3	437.1	(2.7)%
Current liabilities	382.9	337.1	13.6%
Equity and liabilities	**1,670.3**	**1,597.4**	**4.6%**

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

Total assets at the Group rose year-on-year by € 72.9 million, or plus 4.6 %, to € 1,670.3 million. This growth was chiefly due to the increase in cash and cash equivalents from € 317.2 million to € 371.1 million. Other than this, the increase was driven above all by the expansion-related rise in property, plant and equipment and inventories. The equity of the Group as stated in the balance sheet amounted to € 862.0 million at the end of the financial year (2012/2013: € 823.2 million). The equity ratio rose from 51.5 % in the previous year to 51.6 %.

Non-current and current assets

Non-current assets amounted to € 740.4 million at the balance sheet date (2012/2013: € 740.5 million), and thus accounted for around 44 % of total assets (2012/2013: 46 %). Property, plant and equipment and investment property rose by € 9.6 million (1.4 %) from € 708.1 million to € 717.7 million. Additions of € 70.4 million to property, plant and equipment were countered by depreciation of € 52.7 million and disposals of assets amounting to € 3.3 million. Adjustments to account for exchange rate movements led property, plant and equipment and investment property to decrease by € 4.8 million.

Non-current income tax receivables involve a claim to payment of a corporate income tax credit with a present value of € 4.8 million (2012/2013: € 6.4 million). This item was capitalized in the 2007/2008 and 2010/2011 financial years due to legislative amendments (SEStEG).

Current assets increased by 8.5 % from € 857.0 million to € 929.9 million, equivalent to around 56 % of total assets (2012/2013: 54 %). This resulted from the growth-driven increase in inventories from € 481.6 million to € 504.6 million and growth in cash and cash equivalents from € 317.2 million in the previous year to € 371.1 million in the year under report. Further measures to optimize capital committed enabled the inventory turnover rate to be maintained consistently high at 4.0. Receivables and other assets (including income tax receivables) amounted to € 54.2 million (2012/2013: € 57.1 million).

Non-current and current liabilities

Liabilities, including provisions, amounted to € 808.2 million at the balance sheet date, as against € 774.2 million in the previous year. Non-current liabilities fell from € 437.1 million to € 425.3 million. This reduction by € 11.8 million was chiefly due to the scheduled repayment of financial debt. The non-current liabilities reported include deferred tax liabilities of € 33.4 million (2012/2013: € 33.8 million).

Current liabilities rose from € 337.1 million to € 382.9 million. Largely due to repayments of existing financial liabilities, current financial debt fell by € 1.5 million to € 7.1 million (2012/2013: € 8.6 million). Trade payables and other liabilities totaled € 285.2 million at the balance sheet date, as against € 248.8 million in the previous year. Mainly due to higher provisions for bonuses and for onerous contracts, other provisions and accrued liabilities rose by € 11.1 million from € 58.3 million to € 69.4 million. The net debt of the HORNBACH-Baumarkt-AG Group, i.e. financial debt less cash and cash equivalents, fell to € 0.6 million at the balance sheet date, down from € 64.9 million in the previous year.

Off-balance sheet financing instruments and rental obligations

In addition to the DIY megastores with garden centers owned by the HORNBACH-Baumarkt-AG Group and those used on the basis of finance lease agreements, there are 43 stores and one logistics center that are let from the associate company HORNBACH Immobilien AG or its subsidiaries, as well as 57 DIY megastores with garden centers that are let from third parties. Moreover, the Group also has a small number of additional land leasehold, leasing and rental agreements.

Obligations under rental, hiring, leasehold and leasing contracts relate exclusively to rental agreements for which the companies of the HORNBACH-Baumarkt-AG Group are not the economic owners of the assets thereby leased pursuant to IFRS accounting standards (Operating Lease). The rental agreements principally relate to DIY megastores with garden centers in Germany and other countries. The terms of the rental agreements usually amount to between 15 and 20 years, with subsequent rental extension options. The respective agreements include rent adjustment clauses.

As of February 28, 2014, obligations under rental, hiring, leasehold and leasing contracts totaled € 1,246.6 million (2012/2013: € 1,125.0 million). This increase is mainly due to various rental adjustments and rental extensions implemented in the year under report. Furthermore, the amount already includes future rental obligations to be paid for former Praktiker/Max Bahr locations from when they are opened in the 2014/2015 financial year.

Key balance sheet figures of the HORNBACH-Baumarkt-AG Group

Key figure	Definition		2.28.2014	2.28.2013
Equity ratio	Equity / Total assets	%	51.6	51.5
Return on equity	Annual net income / Average equity	%	6.7	6.5
Return on total capital	NOPAT[1)]/ Average total capital[2)]	%	8.4	8.1
Debt / equity ratio (gearing)	Net debt / Equity	%	0.1	7.9
Additions to non-current assets, including advance payments for land	Additions to non-current assets, including advance payments for land	€ million	72.0	116.6
Net working capital	Inventories and receivables less trade payables	€ million	344.9	349.5
Inventory turnover rate	Cost of goods sold / Average inventories		4.0	4.0

[1)] Net operating profit after tax, defined as EBIT minus unchanged standardized tax rate of 30 % at the HORNBACH Group.
[2)] Average total capital, defined as average equity plus average net debt.

Overall Assessment of Group Earnings, Financial and Asset Situation

The HORNBACH-Baumarkt-AG Group showed pleasing developments in the 2013/2014 financial year and strengthened its market position as one of Europe's leading DIY retailers. Despite the inauspicious start due to weather conditions in the first quarter, a successful race to catch up enabled HORNBACH to regain its growth course in subsequent quarters. Consolidated sales for the period from March 1, 2013 to February 28, 2014 grew by 4.4 % to € 3,152 million.

This was due in no small part to the highly dynamic sales performance in Germany, which in turn was partly attributable to consolidation factors within the sector. On a like-for-like basis, HORNBACH's German locations defied the negative sector trend and posted significant growth in the year under report, thus also substantially expanding their market share.

The store network in other European countries also clearly gained ground in the course of the financial year, benefiting from an economic upturn in the European context. Net of currency items, like-for-like sales outside Germany in the twelve months under report more or less matched the previous year's figure once again.

Particularly remarkable is the fact that the Group managed to boost its earnings power in the 2013/2014 financial year despite the severe setback in the first quarter. At € 105 million, consolidated operating earnings (EBIT) showed slightly disproportionate growth compared with sales. This was largely driven by like-for-like sales growth in the DIY store segment in conjunction with a stable gross margin and improved cost ratios.

HORNBACH pressed ahead with its sustainable innovation projects in the year under report. A large share of the project-related administration expenses were incurred for consistently expanding our e-commerce activities. What's more, further development projects also helped improve the foundations for the Group's long-term growth.

The equity ratio has risen to 51.6 %. The capital structure and liquidity remain at good levels. In view of our broad spectrum of financing sources, we enjoy a high degree of security and flexibility to finance our further growth. Overall, the Group's economic situation is pleasing.

Notes on the Annual Financial Statements of HORNBACH-Baumarkt-AG (HGB)

HORNBACH-Baumarkt-AG, whose legal domicile is in Bornheim (Pfalz), Germany, does not prepare its annual financial statements in accordance with international accounting standards (IFRS), but rather in accordance with the requirements of the German Commercial Code (HGB) and the supplementary provisions of the German Stock Corporation Act (AktG). It is the parent company of the HORNBACH-Baumarkt-AG Group. HORNBACH-Baumarkt-AG includes the operating retail business at the HORNBACH DIY megastores with garden centers in Germany and head office functions for the Group, such as finance and accounting, taxes, legal affairs, and personnel.

Business framework

The macroeconomic and sector-specific framework for our operating business in Germany is described in detail in the Business Report from Page 42 onwards.

Earnings situation

Development in the store network

In Germany, HORNBACH-Baumarkt-AG launched operations at one new DIY megastore with a garden center at the Heidelberg location in the 2013/2014 financial year. This newly built store has replaced the adjacent former location built in 1985. As of February 28, 2014, we operated an unchanged total of 92 retail outlets across Germany with total sales areas of around 994,000 m².

Sales performance

Net sales (excluding sales taxes) as reported in the separate financial statements of HORNBACH-Baumarkt-AG grew by 5.7 % from € 1,961 million to € 2,072 million in the 2013/2014 year under report. Sales include an amount of € 244 million for deliveries from HORNBACH logistics centers to our foreign subsidiaries (2012/2013: € 228 million). The business performance of HORNBACH-Baumarkt-AG is largely determined by the development in domestic like-for-like sales. This is explained in detail in the Business Report from Page 49 onwards.

Earnings performance

The other operating income reported in the income statement, which mainly consists of income from group allocations, the reversal of provisions and exchange rate gains, reduced by € 10.3 million from € 50.1 million to € 39.8 million. This development was chiefly due to lower reversals of provisions, lower recognized exchange rate gains, and a slight year-on-year reduction in income from group allocations.

Income statement of HORNBACH-Baumarkt-AG pursuant to HGB (abridged version)

€ 000s	2013/2014	2012/2013
Sales	2,071,695	1,960,556
Other own work capitalized	124	60
Other operating income	39,814	50,132
Cost of materials	1,394,741	1,316,540
Gross profit	**716,892**	**694,208**
Personnel expenses	344,662	322,821
Depreciation and amortization	31,102	30,808
Other operating expenses	301,311	307,357
Operating result	**39,817**	**33,222**
Net financial expenses	2,933	20,221
Taxes on income	11,740	7,737
Annual net surplus	**31,010**	**45,706**
Allocation to other revenue reserves	11,926	22,802
Net profit	**19,084**	**22,904**

Cost of materials increased by 5.9 %, and thus slightly more rapidly than sales, to € 1,394.7 million (2012/2013: € 1,316.5 million). Gross profit amounted to € 716.9 million, or 34.6 % of net sales, as against € 694.2 million or 35.4 % in the previous year.

At € 42.8 million, the result of ordinary operations was around 20 % down on the previous year's figure of € 53.4 million. This € 10.7 million reduction in the result of ordinary operations was mainly attributable to increased personnel expenses (plus € 21.8 million), a € 6.0 million reduction in other expenses, and a reduction in income from investments from € 42.8 million to € 18.6 million. This was due to impairment losses of € 26.5 million recognized for two shareholdings at HORNBACH International GmbH, which resulted in a lower volume of profit transfer. Excluding the impairment of these shareholdings, the volume of profit transfer would have been € 2.4 million higher than in the previous year.

Personnel expenses rose by 6.8 %, and thus disproportionately compared with net sales, from € 322.8 million to € 344.7 million. At € 31.1 million, depreciation and amortization were slightly higher than the previous year's figure (€ 30.8 million). This figure includes impairment losses of € 0.1 million (2012/2013: € 0.4 million). At € 2.6 million, scheduled amortization of intangible assets was at roughly the same level as in the previous year (€ 3.1 million).

Other operating expenses decreased from € 307.4 million to € 301.3 million. Alongside lower advertising expenses, this was chiefly due to a reduction in expenses for external service providers.

Net financial expenses (including income from investments) declined by € 17.3 million from plus € 20.2 million to plus € 2.9 million in the year under report. In the 2013/2014 financial year, HORNBACH Baumarkt (Schweiz) AG, HORNBACH Holding BV, Netherlands, HORNBACH Baumarkt GmbH, Austria, HORNBACH Baumarkt Luxemburg SARL, Luxembourg, and HORNBACH Baumarkt SK spol s.r.o., Slovakia, distributed profit totaling € 43.3 million to HORNBACH International GmbH (2012/2013: € 41.9 million).

A profit and loss transfer agreement is in place between HORNBACH International GmbH and HORNBACH-Baumarkt-AG. The reduction by € 24.2 million in the profit thereby transferred to HORNBACH International GmbH in the year under report was principally due to the impairment losses of € 25.7 million and of € 0.8 million recognized at HORNBACH International GmbH on its shareholdings in HORNBACH Byggmarknard AB, Gothenburg, Sweden, and in HIAG Fastigheter i Sisjön AB, Gothenburg, Sweden, respectively.

Interest income fell to € 2.1 million (2012/2013: € 3.2 million). This was due in particular to the reduction in interest income from affiliated companies from € 2.6 million to € 1.8 million. Interest expenses fell by € 7.7 million from € 25.4 million to € 17.7 million in the year under report. This in turn was chiefly due to the more favorable refinancing of the € 250 million bond newly issued in February 2013.

At € 31.0 million, the annual net surplus for the 2013/2014 financial year fell short of the previous year's figure of € 45.7 million. It should be noted that the increase in gross profit was insufficient to offset the € 24.2 million reduction in income from investments.

Balance sheet of HORNBACH-Baumarkt-AG pursuant to HGB (abridged version)

Assets	2.28.2014 € 000s	2.28.2013 € 000s
Intangible assets	6,941	8,034
Property, plant and equipment	268,527	265,687
Financial assets	128,716	129,120
Non-current assets	**404,184**	**402,841**
Inventories	313,898	305,978
Receivables and other assets	362,959	290,144
Cash holdings, credit balances at banks, and checks	69,721	97,375
Current assets	**746,578**	**693,497**
Deferred expenses and accrued income	6,715	7,833
Deferred tax assets	3,489	3,526
Total assets	**1,160,966**	**1,107,697**
Equity and liabilities		
Shareholders' equity	506,383	491,276
Provisions	62,554	51,520
Liabilities	589,167	561,335
Deferred income and accrued expenses	2,862	3,566
Total equity and liabilities	**1,160,966**	**1,107,697**

Asset situation

At € 1,161.0 million, total assets as of February 28, 2014 were € 53.3 million, or 4.8 %, ahead of the previous year's figure (€ 1,107.7 million).

Non-current assets amounted to € 404.2 million, or to 34.8 % of total assets, at the balance sheet date (2012/2013: € 402.8 million / 36.4 %). Given investments of € 32.9 million, depreciation of € 28.5 million, and retirements of carrying amounts of € 1.6 million, property, plant and equipment increased to € 268.5 million (2012/2013: € 265.7 million). Furthermore, due largely to the merger of Ollesch & Fitzner GmbH, Bornheim, financial assets decreased by € 0.4 million in the 2013/2014 financial year.

Current assets excluding deferred expenses and accrued income grew from € 693.5 million in the previous year to € 746.6 million at the balance sheet date. Inventories rose by 2.6 %, or € 7.9 million, from € 306.0 million one year earlier to € 313.9 million. The inventory turnover rate increased slightly from 4.3 in the previous year to 4.5 in the year under report. Receivables from affiliated companies grew by € 75.9 million to € 324.4 million (2012/2013: € 248.5 million). This was chiefly due to higher variable loans within group financing. Cash and cash equivalents fell from € 97.4 million in the previous year to € 69.7 million.

At € 3.5 million, deferred tax assets were at the same level as in the previous year (2012/2013: € 3.5 million).

At € 506.4 million, shareholders' equity as of February 28, 2014 was 3.1 % higher than the previous year's figure (€ 491.3 million). The equity ratio is reported at 43.6 % (2012/2013: 44.4 %). Provisions rose from € 51.5 million to € 62.5 million at the balance sheet date. This largely resulted from higher provisions for taxes, provisions for personnel expense items, and outstanding invoices. Furthermore, a provision was recognized for the performance obligation in connection with planned abandonment of a DIY store.

Liabilities totaled € 589.2 million at the balance sheet date, as against € 561.3 million in the previous year. Due to scheduled repayments, liabilities to banks for non-current loans decreased from € 84.4 million in the previous year to € 82.6 million. Trade payables rose from € 138.6 million to € 155.0 million. Within the group-wide cash pooling system, liabilities to affiliated companies grew by € 6.0 million from € 58.7 million to € 64.7 million.

Financial situation

Information about the principles and objectives of financial management, an explanation of financial liabilities and the capital structure can be found in the Financial Situation of the HORNBACH-Baumarkt-AG Group (Page 57 onwards).

Shareholders' equity (after the planned dividend distribution) covers around 125 % of non-current assets. The cash-effective investments of € 34.4 million in intangible assets and property, plant and equipment in the financial year were fully financed from the cash flow from operating activities, which rose substantially from € 61.4 million in the previous year to € 104.0 million in the year under report. The increase in the cash flow from operations was chiefly driven by improved financing of net working capital (changes in inventories, trade receivables and other assets plus changes in trade payables and other assets).

HORNBACH-Baumarkt-AG invested a total of € 34.4 million in the 2013/2014 financial year (2012/2013: € 64.6 million) in intangible assets, land, buildings, and plant and operating equipment. Investments in land and buildings totaled € 11.5 million, while a sum of € 21.4 million was channeled into replacing and expanding plant and operating equipment. Of total investments, € 1.5 million (2012/2013: € 2.6 million) related to intangible assets acquired in return for payment.

Overall assessment of earnings, financial and asset situation of HORNBACH-Baumarkt-AG

The operating business at the domestic DIY megastores with garden centers pooled at HORNBACH-Baumarkt-AG performed positively in the 2013/2013 financial year. With their sales performance, HORNBACH's 92 locations significantly outperformed the DIY sector average in Germany. Positive earnings items resulting from the pleasing retail business in Germany were countered by a substantial reduction in income from investments, a development attributable to the impairment losses recognized for two shareholdings at HORNBACH International GmbH. The result of ordinary operations therefore fell significantly short of the previous year's figure. Adjusted to exclude the one-off investment write-down, the earnings strength of HORNBACH-Baumarkt-AG rose in the period under report.

The equity ratio was virtually maintained at the previous year's high level. Non-current assets and around 60 % of current assets are financed on a long-term basis by shareholders' equity (after the planned dividend distribution) or non-current debt capital. Overall, the company's economic situation is satisfactory.

Proposed appropriation of net profit of HORNBACH-Baumarkt-AG

HORNBACH-Baumarkt-Aktiengesellschaft concluded the 2013/2014 financial year with an annual net surplus of € 31,010,320.35.

Following the allocation of € 11,926,120.35 to revenue reserves, the Board of Management and Supervisory Board propose to appropriate the net profit of € 19,084,200.00 as follows:

- € 0.60 dividend per share with a nominal value of € 3.00 on 31,807,000 ordinary shares

- Dividend distribution: € 19,084,200.00.

EVENTS AFTER THE BALANCE SHEET DATE

New Chief Marketing Officer

At its meeting on March 19, 2014, the Supervisory Board of HORNBACH-Baumarkt-AG appointed a new member of the Board of Management. Karsten Kühn will become the new Chief Marketing Officer (CMO) as of October 1, 2014.

Kühn has built a reputation as an innovative marketing professional in the German and international retail sector. He most recently acted as longstanding director of international brand management for Media Markt at redblue Marketing GmbH, the Munich-based internal marketing company of the Media-Saturn Group. Before joining redblue in 1997, Kühn held various advisory positions in the communications industry. Within the Board of Management of HORNBACH-Baumarkt-AG, Karsten Kühn will assume responsibility for the department previously headed by Jürgen Schröcker, who stood down as of March 31, 2013. Interim responsibility for marketing through to the appointment of a successor lay with Steffen Hornbach, the Chairman of the Board of Management of HORNBACH-Baumarkt-AG.

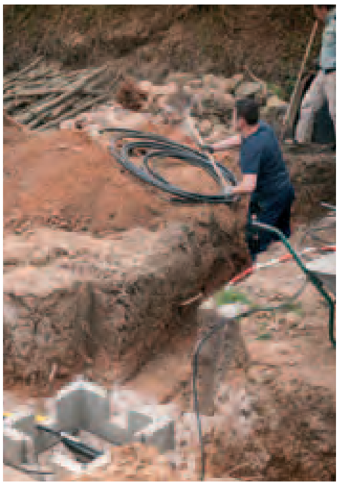
Changes in shareholder structure

On March 25, 2014, the British retail group Kingfisher plc announced its exit from all of its financial investments in the HORNBACH Group. This also included its 5.2 % stake in the listed ordinary shares in HORNBACH-Baumarkt-AG (ISIN DE0006084403). The total of around 1.65 million no-par shares involved was sold to an international circle of investors within an accelerated private placement on March 25, 2014. The shareholder structured has significantly changed as a result. The free float share of the total of 31.8 million no-par shares grew from 18.4 % to 23.6 %. Furthermore, Kingfisher also sold its capital investment in HORNBACH HOLDING AG.

The exit of Kingfisher plc, our former strategic alliance partner, was linked to its withdrawal from the Supervisory Boards of HORNBACH HOLDING AG and HORNBACH-Baumarkt-AG in September 2013. This move was made to avoid any conflicts of interest arising on account of Kingfisher's amended expansion plans.

Having taken over 15 Bricostore DIY stores in Romania in May 2013 and given the preparations underway for the market launch of the small-scale retail format "Screwfix" in Germany in summer 2014, Kingfisher was for the first time in direct competition with its German cooperation partner.

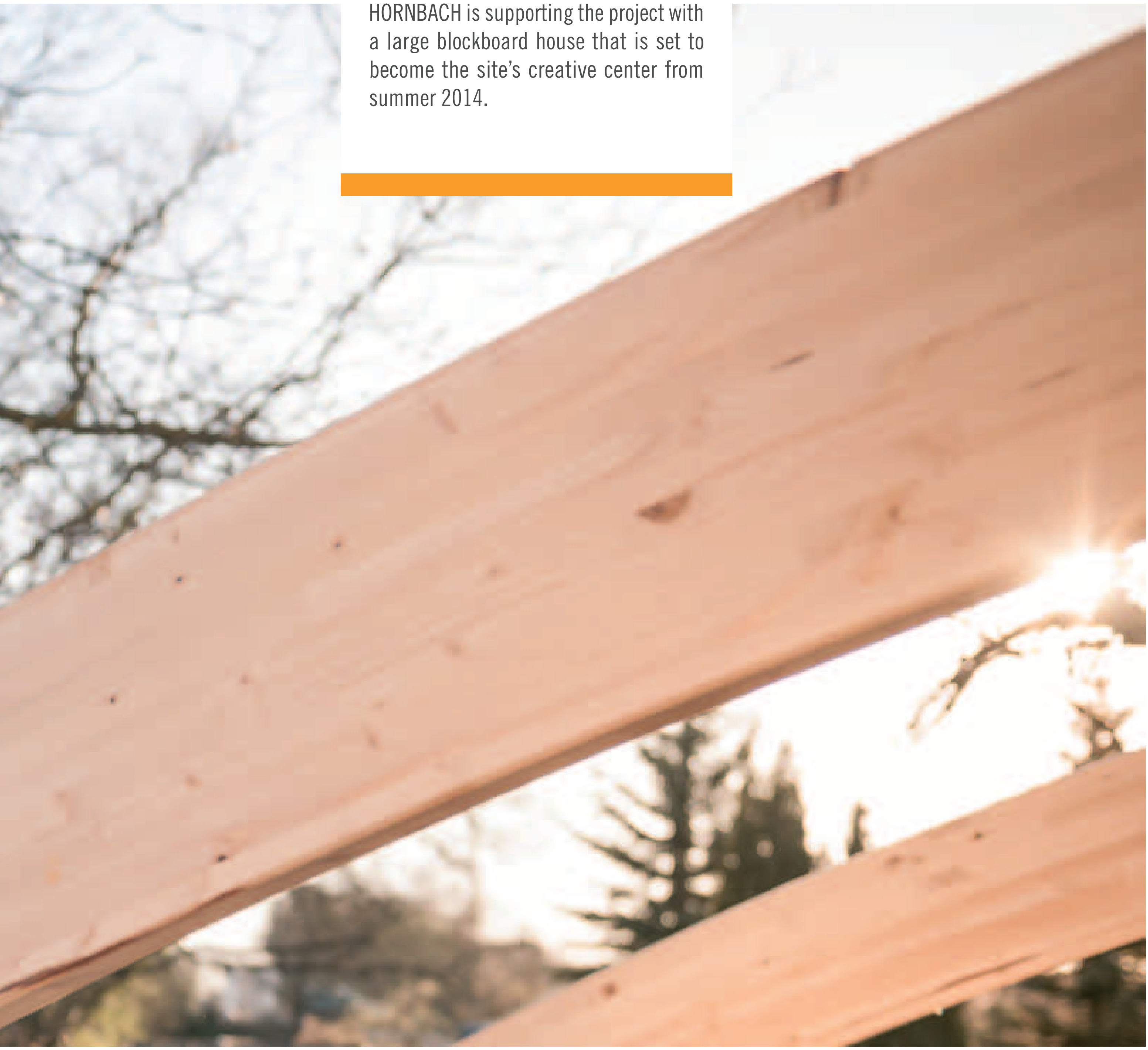
Other than this, no events that could be of material significance for the assessment of the net asset, financial or earnings position of HORNBACH-Baumarkt-AG or of the HORNBACH-Baumarkt-AG Group occurred between the balance sheet date on February 28, 2014 and the date of preparation of this Annual Report.



Children's farm in Landau

«Place the world in children's hands...». That's what a German hit once called for. And that's precisely what the team at the children's farm in Landau (Pfalz) is doing by building a theme and cultural center for children on the site of the 2015 National Garden Show.

Everyone involved is giving not only their best effort and patience, but also much of their free time and the odd euro or two. HORNBACH is supporting the project with a large blockboard house that is set to become the site's creative center from summer 2014.



CORPORATE RESPONSIBILITY

In the interests of corporate responsibility, the HORNBACH Group has imposed a set of rules governing its entrepreneurial activity [**Internet**: www.hornbach-group.com/CSR-Guidelines]. These ensure that the company meets its responsibilities towards the environment, its employees, and society as a whole.

Responsibility for the environment

Timber only from responsible forestry

We are committed to attracting customers' attention to timbers bearing the quality seal of the Forest Stewardship Council® (FSC®). Back in 1996, our company already provided the WWF and Greenpeace with a voluntary undertaking not to import any uncertified tropical timber. HORNBACH guarantees that all of the timber products it offers come from certified sources. One focus of the activities of our quality management and environmental department involves working to protect rainforests and promote responsible forestry which also meets social and work safety standards. Given this focus, HORNBACH was well-prepared for the European Timber Regulation (995/2010) that took effect as of March 3, 2013. Among other requirements, this regulation includes a duty of care for all timbers and timber products imported from outside the European Union and also bans the import of illegally felled timbers.

Most extensive FSC-certified product range

Many consumers see DIY stores as having a particular obligation to ensure that only products from responsible forestry are on offer. To meet our customers' expectations in this area while also doing justice to our own commitment to sustainability, in 2007 HORNBACH became the first international DIY chain to be awarded the FSC Chain of Custody certificate GFA-COC-002007. This enables the timber supply chain to be checked from the place of origin through to the end product. The company's entitlement to this certificate is reviewed in annual audits performed by an independent testing institute. At all HORNBACH stores, trade companies and DIY enthusiasts can now choose from a range of now more than 8,000 timber products bearing the FSC seal.

As part of our commitment to protecting the forests, HORNBACH participated in developing an information platform showing how forests can be put to rational use. Here, HORNBACH is cooperating with the Swiss company Papiliorama and the FSC Switzerland. Within this cooperation, HORNBACH also acts as official sponsor to the Papiliorama nature reserve in Shipstern in Belize (Central America) and thus covers a major share of the necessary budget.

Against hand-hewn natural stone

Stone is often hewn by hand in inhumane conditions. HORNBACH rejects this practice. By consistently delisting these products, we aim to set an example. Since spring 2013, HORNBACH can guarantee that only stone from responsible sources is on offer. All direct import suppliers and their manufacturing sites are audited by accredited, certified audit institutes at regular intervals, and at least every 12 months. We have based the audit scope and contents on the accepted BSCI, ISA 9001ff, ILO, ISO 14001, and SA 8000 standards and adapted these to our requirements. Upstream suppliers of our own suppliers – in this case quarries – have been directly instructed by our suppliers to comply with our guidelines.

HORNBACH relies on “Healthy Living” quality seal

Consumers' sensitiveness towards contaminants in the air and in products has increased sharply. DIY enthusiasts and construction clients are paying increasing attention to the composition of the materials used. In terms of housing construction and renovation, energy efficiency became the top priority at the latest upon the introduction of the Energy Savings Ordinance. The problem here is that insulation and suitably built windows mean that rooms are now virtually airtight. The climate in the room remains constant, but it is difficult for harmful substances in the air to escape. The "Healthy Living" project aims to help consumers avoid contaminant substances when building and designing their interiors. To enable our customers to recognize at first glance which products are especially low in pollutants, HORNBACH has introduced its own seal of approval. The quality of the articles thereby certified is checked in careful tests performed by independent institutes, such as the Sentinel-Haus Institut in Freiburg and the eco-Institut in Cologne, and subsequently awarded the "Healthy Living" seal of approval. These products stand for less polluted ambient air and permanently better quality of living. A separate website provides detailed information and answers frequently asked questions. We will be continually expanding our "Healthy Living" product range in the coming years.

Expanded: all-round waste concept with customer service

Given the increasing scarcity of resources, a commitment to the environment in today's world would be unthinkable without recycling. To minimize the number of journeys required, HORNBACH's stores use compressors for high-volume waste, such as paper and plastics. An all-round waste concept promotes the separation, and thus recycling, of recyclable fractions as secondary commodities, while also helping to reduce the volume of non-recyclable waste.

Since the 2012/2013 financial year, customers in Germany have been able to deposit broken energy-saving light bulbs, LEDs, and luminescent tubes free of charge in suitable containers at the stores. With this voluntary service, HORNBACH is making it easier for consumers to dispose of these items during its usual opening hours, which are significantly more generous than at municipal collection points. Since November 2013, HORNBACH has played a leading role in the framework negotiated by the BHB DIY sector association and the VKU municipal company association for the voluntary acceptance of all old electrical appliances. This involves voluntarily accepting broken small electrical appliances, such as drills, fret saws, and battery-powered drills as previously, as well as non-DIY products such as shavers and toasters. The old appliances accepted are then collected free of charge by municipal disposal companies. The aim here also involves helping to protect the environment and avoid such products being illegally disposed of in normal household waste.

Logistics: fewer miles, less packaging

With its logistics centers, HORNBACH is also making a sustainable contribution towards protecting the environment. In its logistics activities, the Group continued to work on reducing its CO_2 emissions in the year under report as well. Enhanced tour planning and optimal use of available freight capacities have enabled us to reduce the number of miles traveled, and thus also our truck requirements. The use of specialist equipment to bundle recyclable materials has also saved further freight space upon collection. This has been accompanied by a reduction in the volume of emissions per loading unit. The company also checks whether the haulers have engines corresponding as a minimum to the Euro 5 standard, in which the Emissions Directive governing pollutant emissions has been set out since 2009.

Having said this, group logistics by no means rely solely on truck-based transport. Heavy goods, such as tiles, are transported across the Alps by rail. Containers from the import hubs of Rotterdam and Hamburg are also returned not by truck, but by inland waterway and rail.

A further field of action involves freeing the merchandise delivered from unnecessary packaging material. This is achieved, for example, by working with reusable, durable transport containers in circuits between suppliers, our stores and logistics centers. One of our logistics locations is also piloting the use of modern central building control technology, which has achieved energy savings.

By consistently managing time slots at incoming merchandise gateways at the logistics centers, we have managed to reduce truck waiting times, thus enhancing working conditions for drivers and employees alike.

Renewed reduction in car pool CO_2 statistics

The Group's car pool continues to account for ecological and economic factors. CO_2 limits for the three vehicle classes listed range between 140 and 170 grams per kilometer. In the ongoing process of updating the portfolio, priority is being given to models using up-to-date, low-consumption engine technologies. Alongside the hybrid vehicles already listed, a first electrical vehicle has also been included in the vehicle portfolio. This has already been ordered by some drivers. By accounting for fuel consumption in the calculation of the monthly mobility installment, drivers are incentivized to select lower consumption vehicles.

For the vehicles ordered in the year under report, average consumption reduced by 4.7 % and CO_2 emissions by 6.9 % compared with the previous year. The average consumption of the vehicles ordered currently amounts to 4.4 liters per 100 kilometers, while average CO_2 emissions amount to 112.5 grams per kilometer.

Energy-saving measures at stores

The company also actively takes account of environmental protection factors when building and operating its stores. The new lighting technology introduced in 2009 has benefited not only all new stores - further existing stores were upgraded in the year under report, so that 122 stores now have the new technology (2012/2013: 117). The rollout of this new lighting technology was completed in the year under report. At its core, this sustainable lighting technology involves introducing electronic control gear for the operation of halogen metal vapor lamps. Central lighting control now allows the lighting to be dimmed and means that only that volume of light actually required in a given area is used. What's more, the lighting system is tailored to make optimal use of daylight. The installation of large light domes and long light bands in the roofs of new stores also assists in using natural light. The new lighting technology not only increases the operating lifetime of the lighting equipment by around 50 %, but also helps reduce annual energy costs. Not only that, it has also noticeably improved lighting quality in the shelves.

A further contribution towards saving energy is due to the Building Control Technology (BCT) that we included in our new building standards in 2008. This system manages the operating times of energy-consuming systems in line with requirements, thus optimizing energy consumption volumes. The system has so far been installed in 22 new DIY stores and rolled out to 104 existing stores. A total of 126 of our stores are thus equipped with the latest technological standard (2012/2013: 105). The rollout was completed in the year under report.

Efficiency is also the top priority in terms of heating energy. Here, consistent waste heat recovery in the ventilation system ensures a lower volume of consumption. This technology is used when building new stores, as is enhanced heat insulation based on a new façade system. This has benefited the new stores opened in the year under report.

Based on weekly consumption statistics, each HORNBACH store is able to gain a precise picture of its own energy efficiency. By drawing on various energy-saving technologies, we managed to further reduce the annual CO_2 emissions of our group-wide store network in the year under report.

Responsibility for our employees

Diversity and equality of opportunity in our workforce

The rejection of any kind of discrimination is an absolute priority in our behavior toward our employees. Ethnic origin, gender, age, sexuality, physical restrictions and religious affiliation play no role in the assessment of applicants. The only qualities that count are specialist competence, a willingness to learn, and team spirit. By signing the "Diversity Charter" in 2008, the company clearly underlined its commitment to a working environment that is free of prejudice. People from a total of 67 countries across four continents work together in the nine countries in which HORNBACH operates.

In the year under report, HORNBACH supported the CHANCENWERK project, thus underpinning its claim to offer the same training opportunities to young people irrespective of their origins, gender, or religion. The aim of the project is to promote young people from different, in some cases difficult social backgrounds. In cooperation with CHANCENWERK, HORNBACH is supporting school pupils in three towns. Among other measures, our employees offer active job application training, our own trainees report to schools on their day-today work, and the DIY stores on location offer work experience and – in the best case – training posts.

The company's success is closely linked to the competence and motivation of its employees. Their willingness to roll up their sleeves, and thus to improve the Group's earnings, is honored by our bonus model. The possibility of acquiring employee shares represents another way of enabling employees to participate in the company's success.

Key focus on employee satisfaction

Even in a positive working environment, the possibility of conflicts arising between employees or with their superiors cannot be excluded. To provide a neutral point of contact, one which may also be initially approached without involving the opponent in the conflict, the company has created the position of ombudsman. His job is to listen to both sides, moderate and if possible solve the problem without this resulting in any disadvantage for the employee. This point of contact is used by employees from across the Group and has met with high acceptance levels.

Responsibility for society

Focus on children and young people

One particular sign of our social responsibility towards our employees was the establishment in 2002 of the HORNBACH Foundation "People in Need". This has since offered assistance in cases of fatality, accidents and severe illness. Employees in turn document their solidarity with the Foundation with their "Employees help Employees" campaign, in which HORNBACH-Baumarkt-AG doubles the donations collected. Moreover, the Foundation is also a contact point for people outside the company who are in situations of dire need. All in all, the Foundation supported 127 individuals with a total of more than € 180,000 in the year under report.

However, our commitment to society is not limited to the work performed by the Foundation. HORNBACH supports the work of many local associations and organizations at our locations. When selecting projects, priority is generally accorded to projects benefiting children and young people. Environmental protection and heritage conservation are two other areas in which the company is active to the benefit of society.

As a member of the Rhine-Neckar European Metropolitan Region, our Group is helping promote our region. The aim is to communicate the attractiveness, power of innovation, and economic strength of the region to the outside world.

Compliance with minimum social standards

For more than ten years now, HORNBACH has voluntarily ensured that minimum social standards are complied with at factories producing goods for the company. To this end, HORNBACH commissions independent audit institutes to check and evaluate factories' compliance with international standards at regular intervals. The institutes audit and assess aspects such as child labor, inhumane working conditions, inadequate safety standards, e.g. too small escape routes or inadequate fire protection, as well as compliance with local laws and suitability of accommodation.

No products from child labor

Over and above this, our basic rules of social responsibility include recognizing the international standards set out in the conventions of the International Labor Organization (ILO). The company thus only procures its products from factories meeting minimum standards, such as exclusion of child and forced labor, no intimidation of employees through maltreatment or verbal threats, no depositing of ID papers with employers, adherence to work safety regulations, and compliance with environmental legislation. Where accommodation is provided, it must be located outside production and materials storage areas. Suppliers have to ensure that these standards are also met by their upstream suppliers. Compliance with these regulations is checked with annual factory audits.




RISK REPORT

Risk management at the Group

All entrepreneurial activity directly involves opportunities and risks. Effectively managing opportunities and risks therefore represents a critical success factor in sustainably securing the company's value. The Board of Management of HORNBACH-Baumarkt-AG is committed to risk-conscious corporate management which accords top priority at all times to safeguarding the continued existence of the overall company and its subsidiaries. The risk management system (RMS) implemented by the Board of Management is intended to achieve ongoing enhancements in the early identification of risks with the aim of proactively managing such risks, as well as continuously optimizing the company's opportunity/risk profile. On this basis, the Board of Management has adopted the following principles.

Risk policy principles

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

Organization and process

The risk management system in place at the HORNBACH-Baumarkt-AG Group forms an integral part of the company's management structure. It consists of the central components of early risk identification, controlling and planning processes, reporting and an internal control system, and is continually enhanced and optimized. Responsibility for establishing, organizing and maintaining a suitable, target-based risk management system, and the internal control system in particular, lies with the Board of Management. In terms of the organization and maintenance of the system, the Board of Management is supported by the Director of Group Controlling / Risk Management.

Risk managers at the Group's operations in Germany and abroad are responsible for taking suitable measures to manage risks in their area of responsibility. When identifying and evaluating risks and determining appropriate measures to manage such risks, risk managers are supported by a central risk controller responsible for coordinating risk management processes and aggregating the risks thereby reported.

Earnings risks are analyzed with the assistance of a risk matrix. This records both the probability of occurrence and the potential level of damages of the relevant risks. This way, we can assess the existence and extent of any need for action. Where risks cannot be quantified, they are assessed in terms of their qualitative implications.

Company risk assessment categories in ascending order

Probability of occurrence		Potential implications (in €)	
low	≤ 25%	low	≤ 2.0 million
medium	25% - 50%	medium	2.0 million - 5.0 million
high	50% - 75%	high	> 5.0 million
very high	>75%		

The principles and regulations underlying the risk management system are documented in a risk management handbook. This sets out uniform principles for the overall Group concerning the structures and processes necessary for the early detection of risks. To support the risk management process, a standard software solution has been implemented across the Group which offers assistance in recording and documenting risks and the relevant risk management measures.

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

The internal control system currently in place is based on standardized documentation requirements at the Group for all processes and related risks which could have a material impact on the financial reporting process. The internal control system is supported in this respect by the relevant work instructions and handbooks available on the Group's intranet.

Within the framework of its activities, the Group Internal Audit Department regularly audits the functionality of the existing risk management system. When auditing the annual financial statements, the external auditor also assesses whether the early warning risk identification system is suitable to provide early warning of any developments that could threaten the continued existence of the company.

Internal control and risk management system in respect of the group financial reporting process (report and explanatory comments pursuant to § 315 (2) No. 5 HGB)

The objective of the internal control and risk management (IKS) system in respect of the financial reporting process is to identify and evaluate those risks which could prevent the consolidated financial statements from conforming to the relevant requirements. Corresponding control measures and clear responsibilities are allocated for the risks thereby identified. These are intended to provide reasonable assurance of the possibility of preparing financial statements for the overall Group and those subsidiaries requiring consolidation that conform to the relevant requirements in spite of the risks thereby identified.

At the HORNBACH-Baumarkt-AG Group, the group-wide process of structuring and documenting the existing internal control (IKS) system in respect of the financial reporting process and compilation of a group-wide uniform risk matrix was largely completed in the 2013/2014 financial year. To this end, subsidiaries supplemented the group-wide documentation to account for country-specific features. These additions to the documentation by the subsidiaries have now virtually been finalized. The appointment of IKS mangers at the country companies and the parent company will ensure that future process changes are documented and suitable checks implemented. In this respect, IKS managers will be required to submit annual declarations of conformity.

Alongside defined control mechanisms, such as technical system and manual agreement processes, key elements of the internal control system include the separation of functions and the existence of guidelines and work instructions, and compliance with such. The principle of dual control is applied throughout the financial reporting process, and compliance is required with specified approval processes. Clearly defined company and management structures, clearly allocated responsibilities and adequate regulations governing access to the information and accounting systems relevant to the financial statements based on a standard authorization concept valid for the entire Group serve to further manage and control risks. These principal control measures are integrated into financial reporting processes.

Group companies prepare their financial statements locally. They are responsible for taking due account of local requirements and compliance with group-wide guidelines in the form of work instructions and accounting and organization handbooks, as well as for the correct reconciliation of local separate financial statements with the IFRS financial statements prepared in accordance with group-wide uniform accounting policies. The accounting handbook in particular sets out clear instructions limiting employees' discretionary scope in terms of the recognition, measurement and disclosure of assets and liabilities, thus reducing the risk of accounting inconsistencies within the Group. The managers responsible for the accounting treatment of the relevant items at individual group companies submit quarterly group-internal declarations of completeness confirming the correctness and completeness of the respective separate financial statements. On group level, the Group Accounting Department and Group Controlling Department perform further checks on the plausibility and correctness of the accounting data input into the financial statements. The process of preparing consolidated financial statements is centrally coordinated by way of a specified deadline and activity plan and monitored both centrally and locally. Subsidiaries are supported by central contact partners throughout the entire financial reporting process.

Major changes to financial reporting processes due to new laws, legislative amendments or changes in internal processes are discussed prior to implementation at international finance conferences for all managers with significant involvement in the group financial reporting process. Specialist accounting or financial reporting issues and complex matters either involving particular risks or requiring special expertise are monitored and processed centrally. External experts, such as chartered surveyors, are drawn on in particular to assess the fair values of real estate for impairment tests or to measure pension provisions.

All significant processes relevant to financial reporting are uniformly portrayed across the Group in a common IT system for the overall Group. This complete integration of all major finance systems within a uniform IT system ensures the integrity of the data on which the separate and consolidated financial statements are based. In conjunction with the accounting handbook valid for the whole Group, the use of uniform account codes across the Group and central management of the account system ensure uniform accounting treatment of transactions of the same nature.

This also serves as a basis for group consolidation in accordance with the relevant requirements. Consolidation measures and the necessary agreement activities are performed centrally by a consolidation department. The checks to be undertaken in the consolidation processes, such as the consolidation of liabilities, expenses or revenues, are performed both automatically by the system and manually.

The risk of any system breakdown or loss of data is minimized by centrally managing and monitoring all significant IT systems involved in the financial reporting process and regularly performing system backups. As an integral component of the internal control system, within the framework of its activities the Group Internal Audit Department regularly audits the effectiveness of the internal control system in respect of the financial reporting process on the basis of trial samples reviewed in line with a risk-oriented audit plan. Alongside these internal audits, the external auditor also assesses the effectiveness of internal checks of relevance to the financial reporting process within the framework of its audit. Having said this, even suitable, functional systems cannot provide absolute certainty concerning the identification and management of risks.

Overview of overall risks

	Probability of occurrence	Potential implications
Financial risks		
Foreign currency risks	medium	medium
Interest rate risks	low	low
Liquidity risks	low	high
Credit risks	low	high
External risks		
Macroeconomic and sector-specific risks	high	high
Natural hazards	low	high
Operating risks		
Location and sales risks	high	high
Procurement risks	medium	high
Legal risks		
Legislative and regulatory risks	low	high
Risks relating to legal disputes	low	low
Management and organizational risks		
IT risks	low	high
Personnel risks	medium	low

Financial risks

The Group's financial risks comprise foreign currency, interest rate, liquidity, and credit risks. Responsibility for managing these risks lies with the treasury department.

Foreign currency risks

In general, HORNBACH is exposed to foreign currency risks on account of its activities in countries with currencies other than the euro. Specifically, these involve Swiss francs, Czech crowns, Swedish crowns, and Romanian leis. Any depreciation in a foreign currency against the euro can lead to a reduction in consolidated earnings when translating the separate financial statements of foreign subsidiaries into euros, the Group's currency. These risks are not hedged at the Group.

Furthermore, the increasingly international business activities of the Group result in rising foreign currency requirements both for handling international merchandise procurement and for financing objects of investment in foreign currencies. Any change in the exchange rate between the respective national currency and the procurement currencies (chiefly EUR and USD) could have a direct negative impact on earnings. Open foreign currency positions in USD are largely secured by hedging transactions (forward exchange contracts and USD fixed-term deposits). Where possible, investments are financed in the functional currency of the respective country company (natural hedging). Open foreign currency positions arising at the Group in EUR, which mainly relate to intragroup deliveries and services invoiced in EUR and intragroup EUR loans, are not hedged.

Interest rate risks

Fixed-rate agreements or interest rate exchange agreements (interest swaps) have been concluded to secure the interest rates on existing non-current 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 Group's annual earnings.

Liquidity risks

The acquisition of land, investments in DIY megastores with garden centers and procurement of large quantities of merchandise require high volumes of liquidity to be permanently available. The financing of the company's further expansion is secured by the inflow of funds from the operating cash flow and where necessary by sale and leaseback transactions, as well as by bilateral bank loans and credit lines, a syndicated credit line of € 250 million with a term running until December 14, 2016, a promissory note bond at HORNBACH-Baumarkt-AG with a volume of € 80 million and a term running until June 30, 2016, a promissory note bond taken up in local currency by a subsidiary of HORNBACH-Baumarkt-AG with an equivalent volume of € 20 million and a term running until August 31, 2015, and not least the € 250 million bond issued by HORNBACH-Baumarkt-AG in February 2013, which has a term running until February 15, 2020.

HORNBACH counters the risk of no longer being able to obtain longer-term financing for new locations from banks or via sale and leaseback transactions due to financing conditions on the capital markets by flexibly adjusting its investments, maintaining a substantial liquidity cushion, and with short and medium-term financing based on existing credit lines. No security in the form of assets was granted in connection with the bond and the syndicated credit line at HORNBACH-Baumarkt-AG, or the promissory note bonds at the HORNBACH-Baumarkt-AG Group. The contractual terms nevertheless require compliance with specified customary covenants. Failure to do so may possibly result in immediate repayment being required for the funds drawn down. This would necessitate follow-up financing, which would only be possible on stricter refinancing terms. Alongside general covenants, such as pari passu, negative pledge, and cross default covenants, specific financial covenants were also agreed for the promissory note bonds and the syndicated credit line. These require compliance with an equity ratio of at least 25 % and interest cover (adjusted EBITDA / gross interest expenses) of at least 2.25 on the level of the HORNBACH-Baumarkt-AG Group. Furthermore, maximum limits have been set for financial liabilities secured by land charges and for financial liabilities at subsidiaries. The bond is only governed by general covenants, such as pari passu, negative pledge, and cross default covenants, but not by financial covenants.

Compliance with these covenants is monitored on an ongoing basis. All covenants were complied with at all times during the 2013/2014 financial year. As of February 28, 2014, the equity ratio amounted to 51.6 % (2012/2013: 51.5 %) and interest cover amounted to 10.0 (2012/2013: 6.0).

The information required for efficient liquidity management is provided by rolling group financial planning with a twelve-month budgeting horizon, which is updated monthly, as well as by a daily financial forecast. The Group currently faces no risks in connection with any follow-up financing necessary to cover maturing financial liabilities. At present, no liquidity risks are discernible.

Credit risks

The company limits the risk of any financial loss in connection with financial investments and derivative financial instruments by working exclusively with contractual partners of strong creditworthiness and selecting banks covered by collective deposit security arrangements. Moreover, bank deposits have been distributed among several financial institutions in order to counter the increased risk of bank deposit default in the context of the financial market crisis and the subsequent European credit and sovereign debt crisis. This approach was also maintained in the 2013/2014 financial year. The company's retail format (cash and carry) means that the risk of receivables defaults in its operating divisions is already considerably reduced.

Further detailed information about financial risks and sensitivity analyses can be found in Note 33 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 unwillingness on the part of customers to make purchases in periods of low economic growth. Not only that, the positive overall economic trend in Europe may also turn out weaker than expected due to the influence of negative developments in the global political and economic framework.

Irrespective of this, a major dependency on economic developments in Germany has been identified. The further expansion into other European countries is intended to achieve an ongoing diversification of risk. Furthermore, the company generates a substantial share of its sales with seasonal articles whose turnover is significantly affected by external factors, such as weather conditions. Prolonged winter weather, for example, might shorten the spring season and result in lower sales in the gardening division in the important 1st quarter of the financial year.

Natural hazards

The climate change observable around the world also directly affects HORNBACH locations in Germany and other European countries. In addition to potential natural catastrophes (e.g. flooding), the Group is also exposed to risks resulting from fire and explosions. The principal insurable natural hazards and any potential interruption to operations arising as a result 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 Group's earnings power. To minimize such risks, investments in new locations are therefore prepared 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 due to additional existing factors, such as customer behavior and the local competitive situation, can nevertheless not be excluded entirely. Ongoing investments therefore have to be made in locations, enhancing customer service levels, and in new concepts in order to maintain the company's competitiveness, especially in countries with low market growth and intense competition.

Procurement risks

To avoid the loss of major suppliers, the Group has developed an efficient early warning system that monitors suppliers continuously on the basis of various quantitative and qualitative criteria. The implications of any potential supplier loss are further reduced by probing the market for alternative substitutes at an early stage and maintaining a multi-supplier strategy. Should there be any deterioration in the macroeconomic situation, however, then the risk of the Group losing suppliers and being unable to procure such products elsewhere at short notice cannot be excluded entirely. The overall Group has a total of four central warehouses in order to reduce the risk of any interruption to the logistics chain and optimize the supply of merchandise. In its procurement of merchandise, HORNBACH is subject, among other risks, to increasing purchasing prices for articles involving a high share of crude oil, copper or steel as a result of volatile prices on the international commodities markets. Furthermore, higher prices for products involving energy-intensive manufacturing processes could lead to an increase in overall procurement costs, one which it might not be possible to pass on to customers, or only following a certain delay.

Legal risks

Legislative and regulatory risks

As a result of its business activities in various countries, the HORNBACH-Baumarkt-AG Group is subject to various national legislative frameworks and regulations. Legislative amendments may therefore lead to higher compliance costs. Alongside risks such as those relating to damages claims due to infringements of patents or industrial property rights, or of damages resulting from environmental or product liability, the Group's future earnings situation may also be negatively affected in particular by any tightening up of national construction laws or regulations governing the acquisition of land. To help avert fraudulent actions, the Board of Management adopted a group-wide Corporate Compliance Policy in the 2010/11 financial year already.

Risks relating to legal disputes

In the course of their business operations, the companies of the HORNBACH-Baumarkt-AG Group are inevitably confronted with legal claims on the part of third parties, both in court and out of court. Precautionary accounting measures are taken by recognizing a suitable level of provisions for existing risks in connection with legal disputes. At present, HORNBACH is not involved in any current or foreseeable court or arbitration proceedings which could have any significant impact on the Group's economic situation.

Management and organizational risks

IT risks

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

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 is therefore evaluated in regular employee surveys carried out by external service providers, while employee qualification levels are continually improved with appropriate training and development measures. Performance-based bonus models support the company in reaching this objective. In its retention of highly qualified specialist and management personnel, however, HORNBACH is dependent on a variety of external factors, such as overall developments on the labor market or in the sector, and is also subject to the country-specific impact of demographic changes.

Overall assessment of risk situation

There were no risks to the continued existence of the HORNBACH-Baumarkt-AG Group in the 2013/2014 financial year. From a current perspective, there are also no discernible risks that could endanger the continued existence of the company in future or sustainably impair its earnings, financial or net asset position.

OPPORTUNITY REPORT

The European DIY sector will continue to provide HORNBACH with growth opportunities in future as well. These are to be assessed in conjunction with the risks outlined in the Risk Report and the evaluation of the future macroeconomic framework provided in the Outlook.

The business performance of DIY and garden stores may be affected in the coming years by a series of sector-specific development trends (megatrends). Against this backdrop, the company is consistently enhancing its retail format and corporate strategy, aiming to ensure continuity, reliability and sustainability so as to make optimal use of potential opportunities for future growth.

Sector-specific opportunities

Megatrends play a key role for DIY store and garden center operators. These harbor various degrees of potential in individual country markets in terms of rising demand for products and services relating to construction, renovation and gardens.

In the hunt for growth factors, one key aspect of relevance to the entire European construction and modernization sector is the great need for solutions in terms of energy-saving building technology and energy efficiency and of contemporary interior fittings. Overall, we believe that the outlook is favorable for increasing sales and earnings in the DIY sector in Germany and abroad. These growth prospects are backed up by, among other factors, the opportunities briefly described below.

Opportunities due to sustainability

Construction work on existing buildings (the modernization and renovation market) has become an ever more important factor in the business performance of DIY and garden stores in recent years. The share of construction work involving new housing, by contrast, is declining across Europe and most recently accounted for significantly less than half of total housing construction investments. In Germany, sales in the modernization market have exceeded new construction volumes since 1998. Due to favorable financing terms, the share of new construction work has risen slightly once again since 2011. Nearly three quarters of the total construction volumes of around € 170 billion nevertheless involved modernization projects. Three key trends are responsible for this development:

- The **age structure of existing real estate** indicates an increasing need for maintenance and modernization. In Germany, for example, three quarters of all apartments are more than 30 years old. Almost one in three detached houses in Germany is in need of renovation. Half of the owner-occupied houses built between 1949 and 1960 have not yet been comprehensively renovated and no longer meet current technology standards in terms of energy efficiency. Given that the property will decline in value and attractiveness on the housing market unless renovation measures are undertaken, the need for construction services and materials can be expected to increase. Interest rates, still at record lows, have improved private households' financing opportunities here.

- Given the long-term increase in energy costs and climate protection, renovating buildings in terms of their energy efficiency is becoming an ever more important factor – one promoted not least by numerous laws, directives, ordinances and subsidies on European and national levels. **Energy-efficient construction and renovation** enable a residential property's energy costs to be cut by up to three quarters and the property's operating costs to be sustainably reduced over its lifecycle. Energy-efficiency renovation also makes a major contribution towards cutting CO_2 emissions. Energy efficiency is therefore one of the top themes in the European DIY sector.

- Given demographic developments in Europe, **barrier-free construction** involves the challenge of adapting existing living space and urban infrastructure to enable elderly people to retain their freedom and live independently in their familiar surroundings for as long as possible. Demand for senior citizen-friendly construction solutions, such as barrier-free access to buildings and apartments, the installation of elevators, and doorway-widening and sanitary conversion measures, will therefore continue to rise.

These trends can also be summarized under the heading of "sustainability". The ecological, economic and social dimension of sustainable construction is ever more important as a key competitive factor, not only in the real estate market. At the same time, by offering the right range of products and services, high-performing industrial and retail players, as well as tradesmen, stand to benefit from the ever greater sales potential resulting from this development.

Opportunities due to consumer trends

Past experience shows that people are more likely to withdraw into their private sphere during periods of uncertainty than at other times ("homing"). Consumers spend more time at home again and are prepared to invest in decorating and equipping their own four walls. This is not just a German phenomenon but also a key international motivation for home improvement as a popular leisure activity. This is all the more relevant at present, as consumers in numerous regions across Europe are benefiting from low mortgage interest rates and prefer to channel their resources into private house construction or renovation projects than into alternative capital investments that are increasingly viewed as unsafe or unattractive.

The realization of "living worlds" is playing an ever greater role in modernization projects in consumers' houses, apartments and gardens. Consumers are showing growing awareness of trends and influences from the realms of fashion, art, architecture and the media. Consumers' desire to map these living trends onto their own four walls is socially motivated by a desire for durable values, quality (of living), individualism and emotional flair. Compared with specialist retailers, the DIY store sector still has great potential for development, and thus new opportunities, in terms of addressing its target groups in ways which arouse their emotions, presenting "living worlds", and advising consumers on complex interior design projects.

Opportunities due to new market potential

Numerous different sales formats are competing for the favor of DIY enthusiasts, construction clients and garden lovers in the European DIY market. By offering suitable customer focus and specialist retail concepts, DIY store operators have the opportunity to acquire additional market share at the cost of other sales formats. This growth potential is inversely proportionate to the share of the total DIY market accounted for by DIY stores in a given country.

Germany is the largest DIY market in Europe. Having said this, DIY and home improvement stores in Germany have so far only exhausted part of their customer potential. In Germany, this distribution channel only covers around half of the core DIY market, which has a market volume of around € 44 billion. The other half of the market is accounted for by specialist retailers (e.g. specialist tile, interior decoration, lighting or sanitary stores), builders' merchants, and timber merchants. In other European countries, DIY stores account for a higher share of the market, in some cases considerably so.

Alongside activities to boost competitiveness in stationary retail formats, since 2010 the DIY store and garden center sector has also increasingly relied on the internet as a distribution channel. Online retail has reported by far the strongest growth rates within the overall retail sector. E-commerce with DIY product ranges has so far posted an above-average performance in this respect. According to forecasts compiled by IFH Retail Consultants, online sales in Germany involving typical DIY store product groups are set to grow by more than 11 % to around € 2.3 billion in 2014. The experts expect online sales with all DIY and home improvement formats available in the stationary retail sector to shown even more dynamic developments, with forecast growth 14 % to around € 460 million.

Specialists see multichannel retailing, in which the stationary business is closely dovetailed with online retail, as representing one of the most promising sales formats within e-commerce. Not only that, e-commerce is also set to become even more sociable. Social media offer innumerable platforms for consumers to share their experience with projects, products, and prices, as well as with providers and their service and quality standards. Ever more companies in the DIY sector are dealing closely with these networks and entering into active dialog with their customers.

Opportunities due to internationalization

Over and above the opportunities available in the German DIY market, the company's expansion into other countries offers additional growth prospects. Numerous leading German DIY store players already took the decision to expand outside their own borders years ago. Outside Germany, they hope to benefit from greater sales potential and higher profitability than in the saturated German market. Not only that, internationalization also helps companies spread their market risks more widely. It should be noted, however, that regional DIY markets are increasingly gaining in maturity and that some EU countries are having trouble recovering from the downstream impact of the financial and sovereign debt crisis on employment and income levels. These factors increase the strategic, as well as the equity requirements placed in DIY retail players if they wish to generate attractive sales and earnings growth in their international businesses in the longer term as well.

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 offering above-average growth potential in Germany and abroad.

- The company's strategy focuses on the concept of projects. HORNBACH is increasingly able to differentiate itself from its competitors with this approach, which is reflected in its product range, service and pricing policies. Our solid financial resources, public corporate rating and the flexibility available to us in refinancing the business on the capital market will enable us to invest considerable sums in **differentiating HORNBACH's format** in future as well.

- One unshakable component of our uniform strategy across the Group is our reliable **permanent low price policy**. We believe that we are better able to retain customers at HORNBACH in the long term by offering and guaranteeing the best market price on a permanent basis. In particular, our main target group of project customers, who often undertake large-scale renovation work, needs to be able to budget in the long term. This is not possible with temporary discount campaigns.

- DIY customers are increasingly according priority not only to competitive prices, but also to the **quality** and **sustainability** of the products and advisory services on offer. Above all the lifestyle-driven customer target group, who base their lifestyles on health and sustainability factors, is playing an increasingly important role in this respect. These so-called "LOHAS" (lifestyle of health and sustainability) mostly have above-average incomes, and are conscious, critical consumers. They accord great value to quality, brand and design. With our focus on the quality and sustainability of our product ranges, accompanied by professional advice, we are particularly well-placed to meet the high standards of these target groups. We are the DIY sector leaders, for example, in trading FSC-certified timber products.

- We believe that we are excellently positioned in the sector with regard to the ever more important **modernization market** and, within this market, especially with regard to the increasingly strict legal requirements governing building **energy efficiency**. We will in future continue to present complex projects, such as the insulation of facades or the replacement of windows and doors, as "Project Shows" at the stores. The "Project Show" is an innovative marketing instrument aimed at intensifying the project concept. Presentations held in special event sections at the stores provide customers with specialist advice, information and suggestions as to how they can undertake renovation projects or realize their dream living space either under their own steam or with specialist support. These activities are accompanied by service packages from our tradesman service. Moreover, further sales momentum may also be provided by public sector programs subsidizing the renovation of old properties in terms of energy efficiency or to make them senior citizen-friendly. Here, we offer an extensive database of subsidy opportunities on our homepage.

- Furthermore, we are expanding our range of services, information and advice in order to attract **new customer groups** to HORNBACH. These include home improvement demonstrations at the stores intended to motivate customers to do it themselves, and special workshops for women. These measures are backed up by the promotion of specialist skills on the part of the store personnel with the aim of achieving a further increase in product expertise and advisory competence, and thus in customer satisfaction. Our DIY megastores with garden centers are also increasingly of interest to professional customers. Generous opening hours, the stocking of large quantities, the rapid handling of purchases at our drive-in stores and builders' merchant centers, and the uncomplicated acceptance of residual volumes no longer required make HORNBACH an attractive alternative to traditional specialist retail or wholesale procurement sources.

- We see the **Buy-it-yourself** (BIY) or Do-it-for-me market segment as offering promising growth opportunities. This segment includes the target group of those customers who are on the lookout for solutions for their home improvement projects and who wish to purchase the product ranges themselves, but who then prefer to have the work undertaken by a specialist. We also view this market segment within the broader context of the ageing population in Germany and other parts of Europe. Our tradesman service aims to tap this potential.

- For many of our project customers, it has become absolutely normal to plan construction and renovation projects and the related purchases in detail on the internet. Since its launch in December 2010, our online store (www.hornbach.de) has grown into a high-performance virtual DIY megastore and garden center. The internet plays a key role in flanking our stationary retail business. To account for this, we now offer this opportunity to prepare purchases at our stores with the assistance of our website not only to customers in Germany, but also to those in Switzerland and Austria.

  One core aspect of our internet presence is the direct relationship our customers have to their preferred HORNBACH store. This way, our customers can inform themselves online about our current products, prices and availability and also compare articles. Numerous text and image guidelines offer ideas and assistance in preparing and implementing projects. Customers in Germany and Austria can have articles delivered directly to their homes by mail order. Here and in Switzerland, customers can also opt for our "Reserve online and pick up at the store" service. From just four hours after the reservation, all of the articles in stock are ready to be collected from the desired HORNBACH store. This service is a real timesaver, especially for our professional customers. Not only that, the online shop offers us the opportunity of acquiring new customers outside our store network catchment areas and arousing their interest in the HORNBACH brand.

- The exploitation of opportunities is not limited to further enhancing our concept or accessing market segments. We are also focusing on **optimizing our operating processes**. The processes involved in store organization, sales and the links to procurement and logistics are subject to a process of ongoing enhancement. This is expected to have a sustainable positive impact on the Group's sales and earnings performance.

- The **internationalization** of group procurement provides us with broad-based access to global procurement markets, and enables us to forge strategic, long-term partnerships with suppliers and industry. These partnerships benefit both sides. We offer each supplier the opportunity to supply all of our stores as efficiently as possible. Suppliers are able make large-scale logistical deliveries directly to each location, or to supply the merchandise indirectly via our central logistics hubs. We thus provide regional manufacturers as well with the opportunity of growing outside their existing sales regions and supplying goods to additional countries. The fact that our retail format is increasingly attracting professional customers to HORNBACH has enabled us to acquire production specialists who would otherwise only supply professional specialist retailers. The flexible dovetailing of our suppliers with the company's logistics structures optimizes our value chain and secures a significant competitive advantage for us. The proximity of our suppliers to procurement structures in the individual countries enables us to optimally adapt our product selection to regional requirements in those countries and to improve our margins due to benefits of scale. We are tapping further earnings potential by increasingly developing private labels in cooperation with partners. These provide our customers with attractive value for money, while at the same time differentiating us from competitors.

- HORNBACH is committed to **organic growth**. We will continue to track down opportunities in our expansion across Europe in future as well. In the densely occupied German DIY market, we are relying on selective growth in attractive catchment areas. Here, we can draw on our structural advantages and benefits of scale, especially our high surface productivity together with the largest average store size in the market. In our expansion, we will be focusing on countries outside Germany. Due to their lower degree of market saturation in the DIY megastore and garden center segment compared with Germany, most other European regions harbor above-average growth opportunities.

Explanatory comments on risk and opportunity report of HORNBACH-Baumarkt-AG

The risks and opportunities at HORNBACH-Baumarkt-AG are largely consistent with those presented for the HORNBACH-Baumarkt-AG Group.

OUTLOOK

FORECAST MACROECONOMIC AND SECTOR-SPECIFIC FRAMEWORK

Upon completion of this report, the future macroeconomic framework for the retail activities of the HORNBACH-Baumarkt-AG Group still involved great uncertainties. On the one hand, these relate to the question as to how sustainably Europe is able to master the sovereign debt crisis and whether the economic recovery in the EU will gain in strength and breadth. On the other hand, geopolitical risks, such as the Crimean crisis and the surrounding turbulence in and around the Ukraine, are increasingly relevant to the forecast basis. A high volume of risk factors thus continue to apply. Market volatility has generally increased. Short and medium-term developments on sales, procurement, and refinancing markets remain difficult to predict.

One key factor for the business prospects of the HORNBACH-Baumarkt-AG Group is the future development in consumer demand in those countries in which we operate. Private consumer spending is crucially dependent on developments in employment and disposable incomes, factors that are also influenced not least by developments in inflation, austerity measures to consolidate public finances, or reforms to welfare and healthcare systems. Forward-looking parameters, such as economic and income expectations, or consumers' propensity to spend, provide early indications of developments in consumer confidence ahead of the real macroeconomic data. Not only that, exceptional weather conditions can severely impact on consumer behavior and our seasonal business, even though this factor cannot be accounted for in our advanced planning.

Macroeconomic framework in Europe

The IMF sees the global economy as gaining additional momentum. According to the Global Economic Outlook published in April, global growth should amount to 3.6 % in 2014, following growth of 3.0 % in 2013. Industrialized economies are the main sources of growth momentum. This macroeconomic overview also accounts on the one hand for the signs of weakness recognizable in China and other emerging economies in spring 2014 and on the other hand for the comeback in the euro area forecast by economists.

The development in early indicators at the beginning of 2014 pointed to a continuing revival in economic activity in the euro area. In the median forecast issued by the Centre for European Economic Research (ZEW), economists and bank analysts expect to see GDP growth of 1.2 % in the euro area in 2014. This forecast, which is consistent with the expectations of the European Commission, would represent a comparatively strong burst of growth following the downturns in economic output in previous years. According to the ZEW, the rising volume of capital investment is the key harbinger for more dynamic economic activity. Private consumer spending in the currency area, by contrast, is only expected to show slight growth of 0.6 %. The main reason here is presumably the ongoing high level of unemployment in Europe. The upward trend seen since the fall of 2012 in consumer confidence as calculated by the European Commission nevertheless continued in spring 2014.

The Commission's forecasts for most countries in which HORNBACH operates its DIY megastores with garden centers are significantly more positive than the EU average. The respective estimates range from plus 1.5 % (Austria) to plus 2.5 % (Sweden). In Germany and the Czech Republic, real-term GDP is set to grow by 1.8 % in 2014. Luxembourg, Slovakia, and Romania are forecast to achieve growth rates of 2.2 % to 2.3 %. Only in the Netherlands is the forecast GDP growth of plus 1.0 % slightly lower than the euro area average. That would nevertheless be a welcome turnaround following the downturn of 0.8 % in 2013.

In 2014, the European retail and construction sectors can hope to emerge from the downturn arising in the wake of the financial and debt crisis. By analogy with the moderate outlook for private consumer spending, both sectors can expect slight sales growth in the forecast period covering the 2014 calendar year. According to Eurostat figures, the retail sector in the euro area (EA 18) posted price-adjusted sales growth of 1.0 % and 0.4 % in January and February 2014 compared with the previous month. The equivalent figures for the EU 28 countries are 0.6 % and 0.5 %.

After two years of declining construction activity, European housing construction volumes are expected to show slight growth once again in 2014. This is the conclusion reached by the Euroconstruct research and consulting network in its forecast dated February 2014. Following price-adjusted contractions in housing construction output in the 19 EU countries analyzed of more than 4 % in 2013 and slightly above 2 % in 2012, the construction experts now expect to see growth of almost 1.5 % in 2014. Great regional disparities can nevertheless still be expected. While Euroconstruct has forecast a noticeable revival in new housing construction in Germany, Switzerland, and Sweden, for example, the number of apartments completed in the Netherlands and the Czech Republic in 2014 is set to fall compared with the previous year.

The extent to which further geopolitical developments in the Crimea and Ukraine will impact on confidence indicators as 2014 progresses remains to be seen. Should there be any further intensification in the crisis, then economists see substantial downside risks for the economic outlook for Germany and Europe.

Macroeconomic framework in Germany

Economists surveyed by the ZEW in April forecast economic growth of 1.8 % for Germany in 2014. In their home economy, German consumers and investors are expected to ensure dynamic growth in domestic demand, which could replace exports as the most important growth driver in 2014. Economists have forecast an average rise in real-term private consumer spending by 1.3 % (2013: plus 0.9 %). Average forecasts for capital investment predict strong growth of 4.3 %, compared with minus 0.7 % in 2013. Consumer confidence as measured in Germany by the GfK in March 2014 – before the escalation in the Crimea crisis – remained buoyant. In particular, German consumers' propensity to spend continued on its high. The GfK saw this as being due above all to the stable labor market, pleasing developments in incomes, low interest rates, and low inflation. According to the GfK, only part of this strong propensity to spend will arrive in the retail sector. The services sector, such as in the renovation market, stands to benefit far more clearly. Not only that, ongoing high numbers of building permits lead the GfK to conclude that substantial sums will continue to flow into the real estate sector.

The German construction industry has forecast nominal sales growth of 3.5 % for 2014. The sector still sees housing construction, where sales are expected to show nominal growth of 5 %, as the driving force behind construction activity. Having said this, according to the sector association forecast commercial and public sector construction are also set to perform positively, with nominal sales growth rates of 2.5 % and 3.5 % respectively.

Based on figures released by the Federal Statistical Office, turnover in the German retail sector grew by 1.5 % in real terms and by 2.6 % in nominal terms in the first two months of 2014 compared with the period from January to February 2013. For the 2014 calendar year, the Association of German Retailers (HDE) expects nominal sales growth of 1.5 % to around € 440 billion. Online retail is set to maintain its double-digit growth. The HDE expects sales here to grow by 17 % to around € 39 billion in 2014.

The BHB sector association is optimistic in its outlook for DIY retail in 2014. It would be necessary to make up for the previous year's downturn in sales by around 3 %. Given the stable economic situation and positive consolidation factors following the Praktiker/Max Bahr era, however, DIY store operators are expected to be able to achieve positive growth rates, in some cases substantial, in the German market in 2014.

FORECAST BUSINESS PERFORMANCE OF THE HORNBACH-BAUMARKT-AG GROUP IN 2014/2015

The statements made concerning the expected business performance in the 2014/2015 financial year are based on the company's medium-term planning, which has a budgeting horizon of five years and is extrapolated annually. The budget for the financial years 2014/2015 to 2018/2019, into which the annual budget for 2014/2015 is integrated, was approved by the Supervisory Board at the end of February 2014.

Expansion

We still have not planned any market entry in a new country for the one-year forecast period, but will rather focus on expanding and modernizing our store network in our existing country markets, i.e. in Germany and eight other European countries. Depending on the progress made in the building permit and construction planning stages, store openings may be rescheduled between individual years.

The focus of our expansion activities in the 2014/2015 financial year will shift to Germany. This is due to the takeover of former locations from the German store network of the Praktiker Group, which has been broken up. HORNBACH has secured a total of six locations that are due to be added to its network during the forecast period. Between June 2014 and January 2015, we will thus gradually be launching operations as the new lessee and following several months of conversion work at the former Praktiker or Max Bahr outlets in Trier (replacement location), Schwabach, Ulm, Lüneburg, and Kamen. Furthermore, we intend to open the former Praktiker store in Saarbrücken, acquired by our associate HORNBACH Immobilien AG, most probably by the end of February 2015 and at a later date to merge this with the directly adjacent HORNBACH location to form a large project DIY megastore.

Two new HORNBACH DIY megastores with garden centers were opened in Lübeck and in Prague-Čestlice (Czech Republic) in March 2014 already. Including the replacement location in Trier, which has a larger sales area and is better located than the existing store opened in 1990, the group-wide total number of HORNBACH DIY megastores with garden centers is expected to increase to up to 147 by February 28, 2015 (February 28, 2014: 141), of which up to 97 in Germany and 50 in other European countries.

Investments

Gross investments of € 100 million to € 120 million have been budgeted at the HORNBACH-Baumarkt-AG Group for the 2014/2015 financial year. This significant increase compared with the 2013/2014 financial year (€ 72 million) is chiefly due to the accelerated expansion program. Whereas four new stores launched operations in the 2013/2014 financial year, nine new store openings (including two replacement locations and one location extension) are on the agenda for the forecast period. Not only that, advance work will also already be performed on the expansion program for the following 2015/2016 financial year. The overwhelming share of these funds will be channeled into building new stores, equipping new and existing stores, converting and extending existing stores, and IT infrastructure.

HORNBACH enjoys maximum flexibility in terms of financing its investments. Alongside the free cash flow from operating activities, the company's cash resources and free credit lines mean that a large volume of disposable liquidity is available. In the forecast period there is no need to finance investment projects by taking up additional financial debt, for example. No sale and leaseback transactions have been budgeted for the 2014/2015 financial year.

Sales performance

The base scenario for the 2014/2015 budget year assumes that consolidated sales will significantly exceed the figure for the 2013/2014 financial year under report. Given the macroeconomic and sector-specific framework outlined above, the base scenario also assumes that the Group's like-for-like sales will be ahead of the previous year's figure. This reflects the broad-based economic recovery with a further improvement in consumer confidence assumed for the countries in our European sales network in 2014.

The start to the 2014/2015 financial year, which began on March 1, 2014 after completion of the budgeting process, was thoroughly successful, thus contrasting starkly with the disastrous overture one year earlier. While sales at the HORNBACH-Baumarkt-AG Group in March 2013 plummeted by 18.5 % due to the exceptionally severe winter, sales in the mild month of March 2014 virtually exploded, with growth of 34.5 %. April 2014 also witnessed group-wide double-digit sales growth well ahead of budget expectations. Upon the completion of this report, it was apparent that the first quarter of 2014/2015 (March 1 to May 31, 2014) would prove significantly better than the previous year's period, and that both in Germany and in other European countries.

Against this backdrop, in April 2014 the Board of Management made an upward revision to the 2014/2015 base scenario and is now more optimistic in its assessment of the sales performance of the HORNBACH-Baumarkt-AG Group.

In conjunction with the higher number of new store openings, the revival in consumer demand and residential construction activity forecast for 2014 should lead to a further increase in sales momentum at the HORNBACH-Baumarkt-AG Group in the 2014/2015 financial year. By introducing numerous measures and concepts, we aim to achieve ongoing improvements in operating processes at our stores and in our logistics activities, sustainably enhance our products and services, and consistently boost customer satisfaction both in our stationary business and at our online store.

Germany

In Germany, we expect to see like-for-like sales growth ahead of the group average once again in the 2014/2015 financial year. Due to the expected jump in sales in the important first quarter business, the likelihood that like-for-like sales will exceed the growth target originally set for the financial year as a whole has risen significantly. Given our strong competitive position, we are confident that HORNBACH will significantly outperform the German sector average and thus acquire further market share in future as well. We expect HORNBACH's DIY megastores with garden centers to continue benefiting in the forecast period as well from the shake-up in the German DIY market in the wake of the departure of the competitor Praktiker. We have been able to attract numerous new customers to the HORNBACH brand and thus acquire additional shares of sales. Having said this, we do not expect the positive consolidation factors, which led to substantial sales growth in some catchment areas in the 2013/2014 financial year, to simply continue at the same rate. Following the takeover of former Praktiker and Max Bahr locations by high-performing DIY store operators, a counter-reaction in the form of increased competition can be expected in individual regional HORNBACH catchment areas following the rebranding process, and at the latest from summer 2014. These structural factors can, on the whole, be expected to slow down the company's sales performance in Germany in the second half of the financial year. Moreover, the pressure from seasonal and weather-related base effects in the 2013/2014 financial year is set to intensify as the year progresses. Our sales performance for the third and fourth quarters in particular will have to stand up to comparison with the high standards set in the previous year.

Our forecast is based on the assumption that the consumer climate in Germany will largely remain stable and continue to be supported by robust developments in employment and income levels. However, any significant macroeconomic disruptions during the forecast period, for example as a result of geopolitical crises such as any unexpected intensification in the Ukraine conflict or exogenous price shocks on commodity or energy markets, would lead to a deterioration in consumer confidence and thus also to downside risks for the development in our like-for-like sales.

Other European countries

We believe that the sales performance at our stores in other European countries will improve further in the 2014/2015 forecast period compared with the 2013/2014 financial year. This expectation is also backed up by the economic revival in Europe forecast by economists for 2014. Given the more difficult situation in terms of labor markets, the construction industry, the real estate sector and consumer confidence in some EU countries compared with Germany, we still expect the international business to show a lower rate of like-for-like sales growth than Germany.

We have also raised our sales expectations for other European countries to account for substantially above-budget growth rates at our international HORNBACH stores in March 2014 and the positive trend already apparent for the first quarter of 2014/2015. We see this revision to our forecast scenario as appropriate not only because of the positive economic outlook for 2014 in the countries in which we operate, but also due to the ongoing substantial backlog of work in the European construction and modernization market. Thanks to our focus on project and professional customers, we have above-average growth potential in this regard compared with our competitors.

Any significant deterioration in the macroeconomic framework would also involve a downside risk to like-for-like sales at our locations in other European countries.

Sales forecast for the HORNBACH-Baumarkt-AG Group

We expect our consolidated sales, i.e. net sales including new openings, closures and extensions of stores, to show growth in a medium single-digit percentage range in the 2014/2015 financial year and probably at a higher rate than in the previous 2013/2014 financial year (plus 4.4 %). For like-for-like sales, we expect to see group-wide growth in a low to medium single-digit percentage range.

Earnings performance

Our future earnings performance is mainly based on the earnings contributions expected from the "DIY store" and "Real estate" segments.

DIY store segment

The operating earnings performance of the DIY store segment is principally determined by the rate of change in like-for-like sales. A further key factor is the gross margin, which we expect to match the level seen in the previous year (37.4 %) in the 2014/2015 financial year. Positive and negative margin items should more or less balance each other out. We foresee ongoing high pressure on prices in the competitive climate for stationary DIY. We believe that the rapid growth in online retail and resultant increase in price transparency in the DIY store sector will tend to raise pressure on margins in future. We intend to counter the negative impact on prices largely with positive volume effects and with the targeted expansion of our share of private labels.

According to our 2014/2015 annual budget, selling and store expenses are set to rise less rapidly than sales. As a result, the store expense ratio should fall slightly short of the previous year's figure (31.0 %). Due to collectively agreed pay rises and the expansion-related increase in staff totals, personnel expenses will exceed the previous year's figure but should nevertheless grow less rapidly than sales. Following the reduction seen in the 2013/2014 financial year, advertising expenses are expected to grow, albeit less rapidly than sales due to increasing use of innovative advertising formats. The energy optimization measures implemented in recent years (building control and lighting technology) should help enable utility expenses in the DIY store segment to rise less sharply than sales. By contrast, we expect to see a disproportionate increase in general operating expenses. Maintenance measures on land and buildings will be significantly extended. Some of the properties used for DIY retail are already more than 20 years old. To maintain their substance while also ensuring an up-to-date store appearance, it will be necessary to make more funds available to renovate our properties in the forecast period than in previous years. Moreover, we have budgeted higher outlays to modernize our sales areas and for the innovative enhancement of our merchandise presentation.

Pre-opening expenses will rise significantly in 2014/2015. Four new store openings in the 2013/2014 financial year are set to be followed by nine planned new store openings in the forecast period. Moreover, costs for store openings planned for the first months of the subsequent 2015/2016 financial year have already been included in the budget.

The budget for the 2014/2015 financial year accounts for a disproportionate rise in administration expenses. Project-driven expenses are set to play a key role in this respect. We will channel targeted resources into strategic forward-looking projects, and in particular into consistently further expanding our online activities in Germany and other European countries. In view of this, the administration expense ratio will increase significantly in the 2014/2015 financial year.

EBIT in the DIY store segment is expected to show disproportionate growth compared with sales in 2014/2015.

Real estate segment

In the real estate segment, rental income is set to maintain its stable increase in line with the Group's expansion in the forecast period from March 1, 2014 to February 28, 2015. Earnings will be negatively affected, by contrast, by a significantly disproportionate increase in real estate expenses. These will mainly be attributable to expenses incurred to refit the stores taken over from the Praktiker/Max Bahr portfolio. The one-off conversion costs budgeted for this purpose are in some cases not eligible for capitalization and will thus adversely affect the budget for the forecast year. The EBIT of the real estate segment for the 2014/2015 financial year is expected to match the previous year's level.

Earnings forecast for the HORNBACH-Baumarkt-AG Group

This earnings forecast is based on the assumption that there will not be any unexpected macroeconomic downturn or any significant deterioration in consumer confidence in the forecast period.

The earnings performance of the Group will be determined by the development in earnings in the DIY store segment. We expect operating earnings (EBIT) at the HORNBACH-Baumarkt-AG Group to show disproportionate growth compared with sales in the 2014/2015 financial year.

Separate financial statements (HGB)

In the separate financial statements of HORNBACH-Baumarkt-AG, which will be shaped by business developments at the HORNBACH DIY megastores with garden centers in Germany, we expect to see sales growth in a medium single-digit percentage range in the 2014/2015 financial year. Furthermore, we assume that pre-opening and administration expenses will rise sharply compared with 2013/2014 and have a correspondingly negative impact on earnings. By contrast, the base effect resulting from the write-down of an investment in the previous 2013/2014 financial year will have a markedly positive impact on earnings in the 2014/2015 forecast year. Based on our assessment, the result of ordinary operations in the one-year forecast period will significantly exceed the figure for the 2013/2014 financial year.

OTHER DISCLOSURES

Disclosures under § 315 (4) and § 289 (4) HGB and explanatory report of Board of Management

As the parent company of the HORNBACH-Baumarkt-AG Group, HORNBACH-Baumarkt-AG participates in an organized market as defined in § 2 (7) of the German Securities Acquisition and Takeover Act (WpÜG) by means of the shares with voting rights thereby issued and therefore reports in accordance with § 315 (4) and § 289 (4) of the German Commercial Code (HGB).

Composition of share capital

The share capital of HORNBACH-Baumarkt-AG, amounting to € 95,421,000, is divided into 31,807,000 ordinary bearer shares with a prorated amount in the share capital of € 3.00 per share. Each no-par ordinary share entitles its holder to one vote at the Annual General Meeting. Reference is made to the relevant requirements of stock corporation law in respect of the further rights and obligations for ordinary shares.

Direct or indirect capital shareholdings

HORNBACH HOLDING AG, based in Le Quartier Hornbach 19, 67433 Neustadt an der Weinstrasse, Germany, holds more than 10 % of the voting rights. Its shareholding, and thus its share of voting rights, amounted to 76.4 % as of February 28, 2014.

Statutory requirements and provisions in Articles of Association relating to appointment and dismissal of members of Board of Management and amendments to Articles of Association

The appointment and dismissal of members of the Board of Management (§ 84 and § 85 of the German Stock Corporation Act – AktG) and amendments to the Articles of Association (§ 133 and § 179 AktG) are based on the requirements of stock corporation law.

Change of control

Substantial agreements taking effect upon any change of control are in place between HORNBACH-Baumarkt-AG and third parties in respect of contracts relating to the long-term financing of the Group.

Powers of Board of Management to issue shares

Pursuant to § 4 of the company's Articles of Association (Share Capital), the Board of Management is authorized until July 7, 2016, subject to approval by the Supervisory Board, to increase the company's share capital by a total of up to € 15,000,000.00 by issuing new ordinary shares on one or several occasions in return for cash contributions (Authorized Capital I). The new shares may in each case be issued as ordinary shares with voting rights or as non-voting preference shares. The Board of Management is authorized, subject to approval by the Supervisory Board, to determine the further details concerning the execution of capital increases. Shareholders are generally to be granted subscription rights when the authorized capital is drawn on. However, the Board of Management is entitled, subject to approval by the Supervisory Board, to exclude shareholders' subscription rights:

- in order to settle residual amounts
- to the extent necessary to grant subscription rights to the holders of conversion or option rights issued or still to be issued by the company or by direct or indirect wholly-owned subsidiaries to the extent that they would be entitled to such shares having exercised their respective conversion or option rights
- to offer new shares up to a total volume of € 1,500,000.00 to employees of the company and its subsidiaries for subscription as employee shares
- to the extent that the proportion of share capital attributable to the new shares for which subscription rights are excluded does not exceed a total of ten percent of the existing share capital either at the time of this authorization being adopted or at the time at which such authorization takes effect or is exercised and that the issue price of the new shares does not fall significantly short of the stock market price. Shares issued, disposed of or to be issued by any other direct or analogous application of § 186 (3) Sentence 4 of the German Stock Corporation Act (AktG) are to be imputed to this restriction to ten percent of the share capital. This relates in particular to the disposal of treasury stock undertaken on the basis of an authorization to dispose of treasury stock pursuant to § 71 and § 186 (3)

Sentence 4 of the German Stock Corporation Act (AktG), as well as to shares issued or to be issued in order to service bonds with conversion and/or option rights in cases where the respective bonds were issued on the basis of an authorization pursuant to § 221 (4) and § 186 (3) Sentence 4 of the German Stock Corporation Act (AktG).

The Board of Management is authorized until July 7, 2016, subject to approval by the Supervisory Board, to increase the company's share capital by a total of up to € 30,000,000.00 by issuing new individual shares on one or several occasions in return for cash or non-cash contributions (Authorized Capital II). The new shares may in each case be issued as ordinary shares with voting rights or as non-voting preference shares. The Board of Management is authorized, subject to approval by the Supervisory Board, to determine the further details concerning the execution of capital increases. Shareholders are generally to be granted subscription rights when the authorized capital is drawn on. However, the Board of Management is authorized, subject to approval by the Supervisory Board, to exclude shareholders' subscription rights to the extent that the capital increases in return for non-cash contributions are undertaken for the purpose of acquiring companies or shareholdings in companies.

The Board of Management is further authorized, subject to approval by the Supervisory Board, to exclude shareholders' subscription rights to the extent required to grant subscription rights to owners of conversion or option rights issued or still to be issued by the company or its direct or indirect wholly-owned subsidiaries to the extent that the holders of these rights would be entitled to such shares following the exercising of their conversion or option rights. Moreover, residual amounts may also be excluded from shareholders' subscription rights.
The Supervisory Board is authorized to adjust the wording of the Articles of Association in line with the respective volume and level of utilization of the authorized capital and of any conditional capital.

Dependent company report

A report on relationships with associate companies has been compiled for the 2013/2014 financial year pursuant to § 312 of the German Stock Corporation Act (AktG). With regard to those transactions requiring report, the report states: "Our company has received adequate counterperformance for all legal transactions executed with associate companies in accordance with the circumstances known to us at the time at which the legal transactions were performed and has not been disadvantaged by such transactions. No measures requiring report arose during the financial year."

Compensation report

The compensation report sets out the basic features and structure of the compensation paid to the Board of Management and Supervisory Board. It is a constituent component of the Group Management Report and has been presented in the Corporate Governance chapter from Page 27 onwards of this Annual Report.

DISCLAIMER

Our combined management report should be read in conjunction with the audited financial data of the HORNBACH-Baumarkt-AG Group and the disclosures made in the notes to the consolidated financial statements which can be found in other sections of this Annual Report. It contains statements referring to the future based on assumptions and estimates made by HORNBACH's Board of Management. Forward-looking statements are always 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 also turn out to be accurate. The assumptions may involve risks and uncertainties which could result in actual results differing significantly from the forecast statements. The factors which could produce such variances include changes in the economic and business 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.

CONSOLIDATED FINANCIAL STATEMENTS

The wood giant

Time is money, as they say, but space also comes at a price. Where HORNBACH used to fill twelve large containers a month with timber residues and packaging cuttings, the "Wood Giant" is now saving masses of space. Using three tonnes of pressure, it compresses timber residues to four times their previous payloads. Thanks to the extended collection cycle, this has cut transport CO_2 emissions. The compressed timber residues are then used to generate energy at a biomass power plant.

CONSOLIDATED FINANCIAL STATEMENTS

Income Statement of the HORNBACH-Baumarkt-AG Group

for the Period from March 1, 2013 to February 28, 2014

	Notes	2013/2014 € 000s	2012/2013 € 000s	Change %
Sales	1	3,151,988	3,019,959	4.4
Cost of goods sold	2	1,973,876	1,892,307	4.3
Gross profit		**1,178,112**	**1,127,652**	**4.5**
Selling and store expenses	3	925,394	896,251	3.3
Pre-opening expenses	4	10,130	9,896	2.4
General and administration expenses	5	141,561	140,615	0.7
Other income and expenses	6	4,076	18,422	(77.9)
Earnings before interest and taxes (EBIT)		**105,102**	**99,312**	**5.8**
Other interest and similar income		959	2,100	(54.3)
Other interest and similar expenses		16,850	26,119	(35.5)
Other financial result		(1,888)	(928)	103.4
Net financial expenses	7	**(17,779)**	**(24,947)**	**(28.7)**
Consolidated earnings before taxes		**87,323**	**74,365**	**17.4**
Taxes on income	8	30,973	22,066	40.4
Consolidated net income		**56,350**	**52,299**	**7.7**
Basic/diluted earnings per share (€)	9	1.77	1.64	7.9

Statement of Comprehensive Income of the HORNBACH-Baumarkt-AG Group

for the Period from March 1, 2013 to February 28, 2014

	Notes	2013/2014 € 000s	2012/2013 € 000s
Consolidated net income		**56,350**	**52,299**
Actuarial gains and losses on defined benefit plans [1]	23	1,827	(3,437)
Deferred taxes on actuarial gains and losses [1]		(369)	674
Other comprehensive income that will be recycled at a later date		**1,458**	**(2,763)**
Measurement of derivative financial instruments (cash flow hedge)			
Measurement of derivative hedging instruments directly in equity		(392)	(2,604)
Gains and losses from measurement of derivative financial instruments transferred to profit or loss		2,203	1,798
Exchange differences arising on the translation of foreign subsidiaries		(4,434)	(2,739)
Deferred taxes on gains and losses recognized directly in equity	8	(494)	298
Other comprehensive income that will be recycled at a later date		**(3,117)**	**(3,248)**
Total comprehensive income		**54,691**	**46,288**

[1] Previous year's figures adjusted due to IAS 19R.

Balance Sheet of the HORNBACH-Baumarkt-AG Group

as of February 28, 2014

Assets	Notes	2.28.2014 € 000s	2.28.2013 € 000s
Non-current assets			
Intangible assets	11	11,281	12,949
Property, plant, and equipment	12	711,854	702,110
Investment property	12	5,862	6,005
Financial assets	13	94	1,278
Non-current receivables and other assets	14/23	3,098	3,822
Non-current income tax receivables	26	4,842	6,422
Deferred tax assets	15	3,358	7,870
		740,389	**740,456**
Current assets			
Inventories	16	504,568	481,584
Other receivables and assets	17	48,896	51,795
Income tax receivables	26	5,320	5,340
Cash and cash equivalents	18	371,110	317,178
Non-current assets held for sale and disposal groups	19	0	1,076
		929,894	**856,973**
		1,670,283	**1,597,429**

Equity and liabilities	Notes	2.28.2014 € 000s	2.28.2013 € 000s
Shareholders' equity	**20**		
Share capital		95,421	95,421
Capital reserve		143,623	143,623
Revenue reserves [1)]		622,942	584,154
		861,986	**823,198**
Non-current liabilities			
Non-current financial debt	22	364,650	373,442
Provisions for pensions [1)]	23	757	2,027
Deferred tax liabilities [1)]	15	33,384	33,843
Other non-current liabilities	24/27	26,557	27,826
		425,348	**437,138**
Current liabilities			
Current financial debt	22	7,095	8,620
Trade payables and other liabilities	25	285,247	248,764
Income tax liabilities	26	21,248	21,459
Other provisions and accrued liabilities	27	69,359	58,250
		382,949	**337,093**
		1,670,283	**1,597,429**

[1)] Previous year's figures adjusted due to IAS 19R.

Statement of Changes in Equity of the HORNBACH-Baumarkt-AG Group

2012/2013 financial year € 000s	Notes	Share capital	Capital reserve	Hedging reserve	Cumulative currency translation	Other revenue reserves	Total equity
Balance at March 1, 2012		**95,421**	**143,623**	**(3,773)**	**29,976**	**526,758**	**792,005**
Changes in accounting policy because of IAS 19R						826	826
Balance at March 1, 2012 (adjusted)		**95,421**	**143,623**	**(3,773)**	**29,976**	**527,584**	**792,831**
Consolidated net income						52,299	52,299
Actuarial gains and losses on defined benefit plans, net after taxes 1)	23					(2,763)	(2,763)
Measurement of derivative financial instruments (cash flow hedge), net after taxes				(509)			(509)
Foreign currency translation					(2,739)		(2,739)
Total comprehensive income				**(509)**	**(2,739)**	**49,536**	**46,288**
Dividend distribution	21					(15,904)	(15,904)
Treasury stock transactions	20					(17)	(17)
Balance at February 28, 2013		**95,421**	**143,623**	**(4,282)**	**27,237**	**561,199**	**823,198**

2013/2014 financial year € 000s	Notes	Share capital	Capital reserve	Hedging reserve	Cumulative currency translation	Other revenue reserves	Total equity
Balance at March 1, 2013 [1)]		**95,421**	**143,623**	**(4,282)**	**27,237**	**561,199**	**823,198**
Consolidated net income						56,350	56,350
Actuarial gains and losses on defined benefit plans, net after taxes	23					1,458	1,458
Measurement of derivative financial instruments (cash flow hedge), net after taxes				1,317			1,317
Foreign currency translation					(4,434)		(4,434)
Total comprehensive income				**1,317**	**(4,434)**	**57,808**	**54,691**
Dividend distribution	21					(15,904)	(15,904)
Treasury stock transactions	20					1	1
Balance at February 28, 2014		**95,421**	**143,623**	**(2,965)**	**22,803**	**603,104**	**861,986**

[1)] Previous year's figures adjusted due to IAS 19R.

Cash Flow Statement of the HORNBACH-Baumarkt-AG Group

	Notes	2013/2014 € 000s	2012/2013 € 000s
Consolidated net income		**56,350**	**52,299**
Depreciation and amortization of non-current assets	10	55,885	56,493
Change in provisions		6,600	2,058
Gains/losses on disposals of non-current assets and of non-current assets held for sale		206	(861)
Change in inventories, trade receivables and other assets		(26,312)	(5,762)
Change in trade payables and other liabilities		45,735	(7,370)
Other non-cash income/expenses		5,925	(1,977)
Cash flow from operating activities		**144,389**	**94,880**
Proceeds from disposal of non-current assets and of non-current assets held for sale		5,090	3,346
Payments for investments in property, plant, and equipment		(70,366)	(113,324)
Payments for investments in intangible assets		(1,530)	(2,729)
Payments for investments in financial assets		(104)	0
Payments for acquisitions of shareholdings and other business units		0	(545)
Cash flow from investing activities		**(66,910)**	**(113,252)**
Dividends paid	21	(15,904)	(15,904)
Proceeds from taking up long-term debt and bond issue	22	0	248,125
Repayment of long-term debt and bond		(7,036)	(293,657)
Proceeds from group financing activities		222	(76)
Payments for transaction costs		0	(2,304)
Change in current financial debt		(510)	(4,779)
Cash flow from financing activities		**(23,228)**	**(68,595)**
Cash-effective change in cash and cash equivalents		54,251	(86,967)
Change in cash and cash equivalents due to changes in exchange rates		(319)	(105)
Cash and cash equivalents at March 1		317,178	404,250
Cash and cash equivalents at balance sheet date		**371,110**	**317,178**

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

The other non-cash income/expenses item mainly relates to deferred taxes and unrecognized exchange rate gains/losses.

The cash flow from operating activities was reduced by income tax payments of € 25,065k (2012/2013: € 29,469k) and interest payments of € 17,889k (2012/2013: € 30,206k) and increased by interest received of € 959k (2012/2013: € 2,100k).

The proceeds from disposal of non-current assets and of non-current assets held for sale include proceeds of € 1,222k from disposals in previous years (2012/2013: € 1,348k).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of preparation

In line with § 315a of the German Commercial Code (HGB), HORNBACH-Baumarkt-AG prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as requiring mandatory application in the European Union. HORNBACH-Baumarkt-AG and its subsidiaries are included in the consolidated financial statements of HORNBACH HOLDING AG. The consolidated financial statements and group management report of HORNBACH HOLDING AG are published in the electronic Federal Official Gazette (Bundesanzeiger).

HORNBACH-Baumarkt-AG is a publicly listed stock corporation whose legal domicile is in Bornheim, Germany. HORNBACH-Baumarkt-AG and its subsidiaries develop and operate DIY megastores with garden centers on an international basis.

The financial year of HORNBACH-Baumarkt-AG and thus of the Group runs from March 1 of each year through to the final day of February of the following year.

To enhance clarity, individual income statement and balance sheet items have been grouped together. These items are reported separately in the notes. In line with IAS 1 "Presentation of Financial Statements", a distinction is made in balance sheet reporting between non-current and current debt capital. Debt items are treated as current if they are due within one year. The consolidated financial statements have been compiled in euros. This represents the functional currency at HORNBACH-Baumarkt-AG. The figures have been rounded off to the nearest thousand or million euros. Such rounding up or down may result in minor discrepancies between the figures depicted in the various sections of these notes.

Assumptions and estimates are made when preparing the consolidated financial statements which have an effect on the recognition and/or measurement of assets, liabilities, income and expenses as presented. These assumptions and estimates mainly relate to uniform procedures applied across the Group for economic useful lives, the recognition and measurement of provisions, the calculation of current market values, and the ability to obtain future tax relief. The assumptions and estimates relevant to the preparation of the consolidated financial statements are continually reviewed. Changes in estimates are accounted for in the period of such changes and in future periods when they relate both to the reporting period and future periods. The principal assumptions and estimates which, due to their uncertainty, may lead to discrepancies in the level of assets and liabilities reported have been outlined in the respective notes. Changes are accounted for as a credit or charge to operations upon receipt of further information.

The Board of Management of HORNBACH-Baumarkt-AG prepared the consolidated financial statements and approved them for publication on May 6, 2014. The period in which adjusting events could be accounted for thus expired as of this date.

Amendments to recognition and measurement methods as a result of new standards

Application has been made of all International Financial Reporting Standards and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) valid and requiring mandatory application at the balance sheet date, to the extent that such are relevant for the HORNBACH-Baumarkt-AG Group.

The following new standards, revised standards and interpretations required application for the first time in the 2013/2014 financial year:

- IAS 19 (revised 2011) "Employee Benefits": Due to the first-time application of IAS 19 (revised 2011), the option of using the so-called corridor method is no longer available. The elimination of this option has no implications for the level of shareholders' equity, as actuarial gains and losses were recognized in equity in full and in line with their respective periods in the past already. The amendment requiring any future retrospective service cost to be recognized through profit or loss directly in the year in which the plan is adjusted also has not had any implications for the current or past consolidated financial statements.

  As a result of the amended definition of termination benefits, the top-up payments committed in the context of part-time early retirement agreements now constitute other long-term employee benefits requiring accrual by installment. Moreover, when determining the net interest expense for the return on plan assets, reference now has to be made to the rate used to discount pension obligations. The Group has analyzed the implications of the aforementioned amendments to IAS 19 (revised 2011) for its current and past consolidated financial statements and has concluded that these amendments have no material impact on its consolidated financial statements.

  Material implications have resulted in respect of the pension commitments in Switzerland. The recognition of risk sharing between the employer and the employees has given rise to the following items not affecting earnings:

€ 000s	February 28, 2013	March 1, 2012
Assets		
Non-current assets		
Other non-current receivables and other assets	0	1,027
Equity and liabilities		
Shareholders' equity		
Revenue reserves	1,493	826
Non-current liabilities		
Provisions for pensions	-1,857	0
Deferred tax liabilities	364	201

  Earnings-effective items that arose in the comparative period had no material implications for the consolidated financial statements for the comparative period and were thus already recognized in full as of March 1, 2012.

  Alongside the aforementioned change in recognition, these amendments have also resulted in extended note disclosures.

- IFRS 13 (2011) "Fair Value Measurement": This standard has introduced a uniform definition of fair value applicable to all standards and governs the calculation of fair value and the respective disclosure obligations. Application has led to extended note disclosures.

- Amendments to IAS 1 (2011) "Presentation of Items of Other Comprehensive Income": This amendment affects the structure of the statement of comprehensive income. Items reclassified at a later date to the income statement (recycling) must be presented separately from items that will never be reclassified. Application has led to an extension in the statement of comprehensive income. The comparative information has been adjusted accordingly.

The following standards, revisions, and interpretations requiring mandatory application from the 2013/2014 financial year have no material implications for the consolidated financial statements of HORNBACH-Baumarkt-AG:

- Annual Improvements to IFRSs, 2009 – 2011 Cycle

- Amendments to IFRS 1 (2012) "Government Loans"

- Amendments to IFRS 1 (2010) "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters"

- Amendments to IFRS 7 (2011) "Disclosures: Offsetting Financial Assets and Financial Liabilities"

- Amendments to IAS 12 (2010) "Recovery of Underlying Assets"

- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"

Premature application was made in the 2013/2014 financial year of the following amendment:

- Amendments to IAS 36 (2013) "Recoverable Amount Disclosures for Non-Financial Assets": This amendment has adjusted the unintended disclosure obligations introduced by IFRS 13 in respect of the recoverable amount for non-financial assets. On the other hand, the scope of disclosures has been extended in cases where write-downs or write-ups are recognized during the reporting period for an individual asset or a cash-generating group. Premature application of this amendment has averted the mandatory disclosure of the recoverable amount for cash-generating units.

Standards and interpretations not applied prematurely

The IASB has issued the following standards, interpretations, and revisions to existing standards of relevance to the HORNBACH-Baumarkt-AG Group which only require mandatory application in later financial years and which the HORNBACH-Baumarkt-AG Group has also not applied prematurely:

- Amendments to IAS 27 "Separate Financial Statements": Upon the adoption of IFRS 10 "Consolidated Financial Statements", the requirements governing the principle of control and preparation of consolidated financial statements will be transferred out of IAS 27 and definitively treated in IFRS 10 (please see comments on IFRS 10). As a result, IAS 27 will in future only include those requirements governing the accounting treatment of subsidiaries, joint ventures and associates in IFRS separate financial statements. The amendment requires first time application in financial years beginning on or after January 1, 2014.

The amendments to IAS 27 will not have any implications for the net asset, financial and earnings position of the HORNBACH-Baumarkt-AG Group.

- Amendments to IAS 28 "Investments in Associates and Joint Ventures": The adoption of IFRS 11 "Joint Arrangements" also resulted in adjustments being made to IAS 28. As previously, IAS 28 governs application of the equity method. However, its scope of application will be significantly extended due to the adoption of IFRS 11. In future, not only investments in associates, but also investments in joint ventures will have to be measured using the equity method (please see IFRS 11). Application of proportionate consolidation for joint ventures will thus become obsolete. In future, potential voting rights and other derivative financial instruments will also have to be accounted for when assessing whether a company has significant influence and/or when determining the share held by an investor in the company's assets.

  A further amendment relates to recognition pursuant to IFRS 5 in cases where only part of the investment in an associate or a joint venture is intended for sale. IFRS 5 should then be partially applied when only one share or part of an investment held in an associate (or in a joint venture) meets the "held for sale" criterion. The amendment requires first time application in financial years beginning on or after January 1, 2014. The amendments to IAS 28 are not expected to have any implications for the net asset, financial, or earnings position of the HORNBACH-Baumarkt-AG Group.

- IFRS 10 "Consolidated Financial Statements": In this standard, the concept of control is provided with a new, comprehensive definition. If one company controls another company, then the parent company must consolidate the subsidiary. Under the new concept, control exists when voting or other rights mean that the potential parent company can exercise power over the potential subsidiary, when it participates in positive or negative variable returns from the potential subsidiary, and when it can influence these returns on account of its power over the potential subsidiary. This new standard might have implications for the scope of consolidation, such as for special purpose entities. Where differing qualifications in terms of subsidiary status are ascertained under IAS 27/SIC-12 and IFRS 10, retrospective application must be made of IFRS 10. Early application is only permitted if undertaken in parallel with the application of IFRS 11 and IFRS 12, as well as with the amendments to IAS 27 and IAS 28 introduced in 2011. The new standard requires first-time application in financial years beginning on or after January 1, 2014.

  HORNBACH-Baumarkt-AG directly or indirectly holds 100 % of the capital in its subsidiaries. This share of capital generally corresponds to the share of voting rights with which "control" as defined in IFRS 10 can be exercised. No other legal arrangements are in place that could influence "control" as defined in IFRS 10. As a result, first-time application of IFRS 10 will not have any implications for the future presentation of the consolidated financial statements of HORNBACH-Baumarkt-AG.

- IFRS 11 "Joint Arrangements": This standard provides new requirements for the accounting treatment of joint arrangements. The decisive criterion under the new concept is whether the entity constitutes a joint operation or a joint venture. A joint operation exists when the parties exercising joint control have direct rights over the assets and obligations for the liabilities. The individual rights and obligations are recognized on a prorated basis in the consolidated financial statements. In a joint venture, by contrast, the parties exercising joint control have rights over the net asset surplus. This right is presented in the consolidated financial statements by application of the equity method. The option of proportionate consolidation in the consolidated financial statements is thus obsolete. The new standard requires first-time application in financial years beginning on or after January 1, 2014. Specific transitional requirements have been laid down for the transition, e.g. from proportionate consolidation to the equity method. Premature application is only permitted in parallel with IFRS 10 and IFRS 12, as well as with the amendments to IAS 27 and IAS 28 introduced in 2011.

Given the share of capital and voting rights held by HORNBACH-Baumarkt-AG in its subsidiaries, these do not constitute joint operations as defined in IFRS 11. There are also no other contractual arrangements that could result in a joint operation. The first-time application of IFRS 11 will therefore not have any implications for the future presentation of the consolidated financial statements of HORNBACH-Baumarkt-AG.

- IFRS 12 "Disclosure of Interests in Other Entities": This standard governs the disclosure obligations for interests held in other entities. The disclosures required are considerably more extensive than those required to date under IAS 27, IAS 28 und IAS 31. The new standard requires first-time application in financial years beginning on or after January 1, 2014. First-time application of the amended standard is expected to lead to extended note disclosures in the consolidated financial statements of HORNBACH-Baumarkt-AG.

- Amendments to IFRS 10, IFRS 12 and IAS 27 “Investment Entities”: The amendments include a definition of the concept of investment entities and remove such companies from the scope of IFRS 10 “Consolidated Financial Statements”. Accordingly, investment entities do not consolidate the companies they control in their IFRS consolidated financial statements. This exception to general principles is not to be viewed as an option. Rather than fully consolidating participating interests held for investment purposes, investment entities recognize such interests at fair value and recognize period-based fluctuations in value through profit or loss. The amendments require first-time application in financial years beginning on or after January 1, 2014. First-time application of these amendments will not have any implications for the future presentation of the consolidated financial statements of HORNBACH-Baumarkt-AG.

- Amendments to IFRS 10, IFRS 11 and IFRS 12 “Transition Guidance”: These amendments include clarification and offer additional relief upon the transition to IFRS 10, IFRS 11, and IFRS 12. Adjusted comparative information is thus only required for the preceding comparative period. Furthermore, in connection with note disclosures on non-consolidated structured entities, the obligation to disclose comparative information for periods prior to first-time application of IFRS 12 has also been waived. The amendments to IFRS 10, IFRS 11 and IFRS 12 require first-time application in financial years beginning on or after January 1, 2014. First-time application of these amendments will not have any implications for the future presentation of the consolidated financial statements of HORNBACH-Baumarkt-AG.

- Amendments to IAS 32 "Financial Instruments Presentation – Offsetting Financial Assets and Financial Liabilities": This supplement to IAS 32 clarifies the requirements in place for offsetting financial instruments. The supplement explains the significance of the current legal right to set-off and clarifies which methods involving gross settlement may be deemed to constitute net settlement pursuant to the standard. The amendment to IAS 32 requires first-time application in financial years beginning on or after January 1, 2014. First-time application of the amended standard is not expected to have any implications for the future consolidated financial statements of HORNBACH-Baumarkt-AG.

- Amendments to IAS 39 (2013) "Novation of Derivatives and Continuation of Hedge Accounting": This amendment introduces relief in respect of the continuation of hedge accounting. Under the new requirements, the novation of the counterparty to a designated hedging instrument is permitted when such novation results in particular from laws or regulations. The amendment requires first-time application in financial years beginning on or after January 1, 2014. Premature application is permitted. First-time application of this amendment is not expected to have any implications for the future consolidated financial statements of HORNBACH-Baumarkt-AG.

Standards, interpretations and amendments published as of the balance sheet date, but not yet adopted into European law by the EU Commission

The following requirements had been published in English by the IASB and the IFRIC but not yet endorsed by the EU as of the balance sheet date:

- IFRS 9 "Financial Instruments": The recognition and measurement of financial instruments in line with IFRS 9 is set to replace IAS 39. In future, financial assets will be classified and measured in only two groups: "at amortized cost" and "at fair value". The group of financial assets measured "at amortized cost" consists of those financial assets which only provide for a right to payment of interest and principal amounts at specified dates and which are also held within a business model whose objective is the holding of assets. All other financial assets belong to the group measured at fair value. As previously, financial assets in the first category may be redesignated to the fair value category in specific circumstances ("fair value option"). Changes in the value of financial assets in the fair value category must basically be recognized through profit or loss. For specific equity instruments, however, use may be made of the option of recognizing changes in value under other comprehensive income; dividend claims relating to these assets must nevertheless be recognized through profit or loss. The requirements for financial liabilities have basically been taken over from IAS 39. The main difference relates to the recognition of value changes for financial liabilities measured at fair value. In future, these will have to be broken down. The portion allocable to a company's proprietary credit risk must be recognized under other comprehensive income, while the remaining portion of the change in value must be recognized through profit or loss.

  The date of first-time application for IFRS 9 is still unclear, but is not expected before January 1, 2017.

- IFRS 9 "Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39": The additions to IFRS 9 published in November 2013 have extended the standard to include the hedge accounting chapter and introduced amendments to IFRS 9, IFRS 7, and IAS 39. The new hedge accounting model provided for under IFRS 9 is intended to achieve closer links between companies' risk management systems and hedge accounting presentation. The hedge relationships still permitted are "cash flow hedge accounting", "fair value hedge accounting", and "hedge of a net investment in a foreign operation". First-time application of the new hedge accounting requirements is consistent with the requirements governing first-time application of IFRS 9. Hedge relationships do not have to be terminated due to the transition from IAS 39 to IFRS 9, provided that the relevant requirements and qualitative characteristics continue to be met. The existing requirements under IAS 39 remain applicable as an option under IFRS 9 as well. The date of first-time application of the new hedge accounting requirements is based on the requirements governing first-time application of IFRS 9.

- Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date and Transition Disclosures”: These amendments enable users to forego stating adjusted previous year’s figures upon the first-time application of IFRS 9. Originally, this relief was only possible if premature application was made of IFRS 9 prior to January 1, 2012. This relief involves additional note disclosures for IFRS 7 upon the date of transition. By analogy with the IFRS 9 requirements, the date of first-time application of these amendments is still unclear, but is not expected before January 1, 2017.

- IFRIC 21 "Levies": This interpretation deals with the accounting treatment of public dues (levies) and clarifies when such obligations have to be recognized as liabilities in the financial statements. The scope of the interpretation specifically does not include fines, duties resulting from public law contracts or duties covered by the scope of other IFRS standards, such as IAS 12 "Income Taxes". Subject to adoption into EU law, which is still outstanding, this interpretation requires first-time application in financial years beginning on or after January 1, 2014. Premature application is permitted.

- Amendments to IAS 19 (revised 2011) "Employee Contributions": This amendment allows companies to recognize contributions made by employees or third parties to defined benefit plans as a reduction in current service cost in the period in which the associated work is performed. This approach is conditional on the contributions being independent of the number of service years. Subject to adoption into EU law, which is still outstanding, this amendment requires first-time application in financial years beginning on or after July 1, 2014. Premature application is permitted.

- Annual Improvements to IFRS 2010 – 2012 Cycle and Annual Improvements to IFRSs 2011 – 2013 Cycle: Within the IASB's annual improvements process, amendments are introduced within individual IFRS standards in order to eliminate inconsistencies with other standards or to specify their content in greater detail. Unless otherwise stipulated in individual cases, these amendments require first-time application in financial years beginning on or after July 1, 2014. Their adoption into EU law is still outstanding.

- IFRS 14 "Regulatory Deferral Accounts": This standard allows first-time adopters of IFRS to continue recognizing regulatory deferral accounts under national law in their IFRS financial statements as well where specific conditions are met. Subject to adoption into EU law, which is still outstanding, this standard will require first-time application in financial years beginning on or after January 1, 2016. Premature application is permitted.

The implications of IFRS 9, which is expected to require application from 2017, for the consolidated financial statements are currently being investigated. From a current perspective, the other new requirements are not expected to have any material implications.

Consolidation principles

The annual financial statements of the companies included in the consolidated financial statements are based on uniform recognition and measurement principles.

The separate financial statements of the companies included in the consolidated financial statements have been prepared as of the balance sheet date for the consolidated financial statements.

In the case of acquisitions based on contracts concluded prior to March 31, 2004, the capital consolidation was based on the purchase method by offsetting the relevant acquisition costs of the investment against the reassessed 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 hidden burdens and were subject to straight-line amortization in line with their anticipated useful lives up to the end of the 2004/2005 financial year, with a corresponding charge to operations. 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 thus based on the purchase method. Any resultant goodwill and the residual carrying amount 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 tested for impairment at least once a year pursuant to IAS 36.

Intercompany profits relating to non-current 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.

Scope of consolidation

In addition to HORNBACH-Baumarkt-AG, the consolidated financial statements include 8 domestic and 27 foreign subsidiaries by way of full consolidation.

As the sole shareholder in HORNBACH International GmbH, HORNBACH-Baumarkt-AG holds, either directly or indirectly, 100 % of the voting rights in the consolidated subsidiaries.

As in the previous year, all direct and indirect subsidiaries of HORNBACH-Baumarkt-AG have been included in the consolidated financial statements for the 2013/2014 financial year.

The real estate companies HORNBACH Real Estate Almelo B.V., Almelo (Netherlands), HORNBACH Real Estate Den Haag B.V., Den Haag (Netherlands), and HORNBACH Real Estate Zwolle B.V., Zwolle (Netherlands), have been included for the first time in the consolidated financial statements. These companies were founded in the 2013/2014 financial year.

Furthermore, TIM HB SRL, Timisoara Bd. (Romania), was merged into HORNBACH Centrala SRL, Domnesti (Romania), and Ollesch & Fitzner GmbH, Bornheim (Germany), was merged into HORNBACH-Baumarkt-AG, Bornheim (Germany).

The changes in the scope of consolidation in the 2013/2014 financial year had no implications for the net asset, financial, and earnings position.

The development in the scope of consolidation was as follows:

	2013/2014	2012/2013
March 1	**35**	**34**
Companies consolidated for the first time	3	1
Mergers	2	0
February 28	**36**	**35**

The changes resulted in the following aggregate changes in individual asset and liability items.

€ 000s	Additions 2013/2014	Additions 2012/2013
Property, plant, and equipment	0	566
Other assets	0	1
Non-current liabilities	0	0
Current liabilities	0	551

Consolidated shareholdings

Company name and domicile	Shareholding in %	Equity[1] in thousands, local currency	Local currency
Germany [2]			
HORNBACH International GmbH, Bornheim	100	106,019	EUR
AWV-Agentur für Werbung und Verkaufsförderung GmbH, Bornheim	100	276	EUR
BM Immobilien Gamma GmbH, Bornheim	100	(5)	EUR
BM Immobilien Lambda GmbH, Bornheim	100	19	EUR
HB Reisedienst GmbH, Bornheim	100	7,316	EUR
HB Services GmbH, Bornheim	100	19	EUR
HORNBACH Versicherungs-Service GmbH, Bornheim	100	96	EUR
HORNBACH Solar-, Licht- und Energiemanagement GmbH, Bornheim	100	(35)	EUR
Other European countries			
HORNBACH Baumarkt CS spol s.r.o., Prague, Czech Republic	100[4]	1,775,651	CZK
HORNBACH Baumarkt GmbH, Wiener Neudorf, Austria	100	70,959	EUR
EZ Immobilien Beta GmbH, Wiener Neudorf, Austria	100	7,285	EUR
HL Immobilien Lambda GmbH, Wiener Neudorf, Austria	100	(206)	EUR
HS Immobilien Sigma GmbH, Wiener Neudorf, Austria	100	(748)	EUR
HORNBACH Baumarkt Luxemburg SARL, Bertrange, Luxembourg	100	10,268	EUR
HORNBACH Baumarkt (Schweiz) AG, Oberkirch, Switzerland	100	103,909	CHF
HORNBACH Byggmarknad AB, Gothenburg, Sweden	100	(10,505)	SEK
HIAG Fastigheter i Sisjön AB, Gothenburg, Sweden	100	1,886	SEK
HORNBACH Holding B.V., Amsterdam, Netherlands	100	79,552	EUR
HORNBACH Bouwmarkt (Nederland) B.V., Driebergen-Rijsenburg, Netherlands	100	9,197	EUR
HORNBACH Real Estate Breda B.V., Breda, Netherlands	100	2,065	EUR
HORNBACH Real Estate Best B.V., Nieuwegein, Netherlands	100	12	EUR
HORNBACH Real Estate Amsterdam-Sloterdijk, Amsterdam, Netherlands	100	(40)	EUR
HORNBACH Real Estate Den Haag B.V., Den Haag, Netherlands	100	7	EUR
HORNBACH Real Estate Zwolle B.V., Zwolle, Netherlands	100	11	EUR
HORNBACH Real Estate Almelo B.V., Almelo, Netherlands	100	18	EUR
HORNBACH Real Estate Tilburg B.V., Tilburg, Netherlands	100	582	EUR
HORNBACH Real Estate Groningen B.V., Groningen, Netherlands	100	574	EUR
HORNBACH Real Estate Wateringen B.V., Wateringen, Netherlands	100	1,077	EUR
HORNBACH Real Estate Alblasserdam B.V., Alblasserdam, Netherlands	100	523	EUR
HORNBACH Real Estate Nieuwegein B.V., Nieuwegein, Netherlands	100	1,121	EUR
HORNBACH Real Estate Nieuwerkerk B.V., Nieuwerkerk, Netherlands	100	527	EUR
HORNBACH Real Estate Geleen B.V., Geleen, Netherlands	100	129	EUR
HORNBACH Reclame Activiteiten B.V., Nieuwegein, Netherlands	100	(54)	EUR
HORNBACH-Baumarkt SK spol. s.r.o., Bratislava, Slovakia	100	17,645	EUR
HORNBACH Centrala SRL, Domnesti, Romania	100[3]	68,292	RON

[1] Shareholders' equity corresponds to the local equity; in the case of HORNBACH Centrala SRL, however, equity has been determined in accordance with IFRS.
[2] Of which: 100 % direct shareholding.
[3] Of which: 1.6854 % direct shareholding.
[4] Of which: 0.0033 % direct shareholding.

A control and profit and loss transfer agreement is in place between HORNBACH-Baumarkt-AG and HORNBACH International GmbH.

Currency translation

In the separate financial statements of HORNBACH-Baumarkt-AG and its consolidated subsidiaries, transactions in currencies other than the respective company's functional currency have been translated into the relevant functional currency at the transaction rate. All receivables and liabilities in currencies other than the respective company's functional currency have been measured, irrespective of any currency hedges, at the reporting date rate. The resultant exchange gains and losses have generally been included in the income statement. Forward exchange transactions have been recognized at fair value.

In line with IAS 21, the annual financial statements of foreign group companies have been translated 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, non-current assets, other assets and liabilities have been translated at the median rate on the reporting date. Income and expense items have been translated using average rates. Exchange rate differences arising from the translation of the annual financial statements of foreign subsidiaries are recognized directly in equity in a separate item within revenue reserves.

The most important foreign exchange rates applied are as follows:

Country	Rate on reporting date		Average rate	
	2.28.2014	2.28.2013	2013/2014	2012/2013
RON Romania	4.5018	4.3588	4.43973	4.46426
SEK Sweden	8.8525	8.4475	8.69850	8.66173
CHF Switzerland	1.2153	1.2209	1.23045	1.20870
CZK Czech Republic	27.3440	25.6370	26.31141	25.18442
USD USA	1.3813	1.3129	1.33332	1.28992

Accounting policies

Assets and liabilities have generally been measured at amortized cost. Derivative financial instruments and assets measured at fair value through profit and loss have been recognized at fair value. Revenues such as rental income, interest income and dividends have been deferred.

Goodwill

Goodwill is tested for impairment once a year. Should any events or changes in circumstances indicate any impairment in value, then such impairment test must be performed more frequently. Pursuant to IAS 36, the carrying amounts of the smallest cash generating units, including the share of goodwill allocated to such units, are compared with the higher of the fair value less costs to sell and the value in use (so-called recoverable amount) of such units.

If the carrying amount of the cash generating unit exceeds 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 recognized for the other assets in the cash generating unit. However, assets may only be written down at maximum to the recoverable amount of the individual identifiable asset. Goodwill is not written up.

Individual DIY stores are viewed as cash generating units at the HORNBACH-Baumarkt-AG Group. The value in use is calculated on the basis of the discounted future cash flows of a cash generating unit expected on the basis of the detailed financial budget for the coming financial year within the strategic five-year plan. Periods reaching further into the future have been based on growth factors of 1.0 % to 1.5 % (2012/2013: 1.0 %). The strategic five-year plan is largely based on the developments expected in consumer spending as stated in economic forecasts published by economic research institutes. A detailed financial budget for the coming financial year is then compiled on this basis.

Discounting is based on average equity and debt capital costs after taxes (WACC= Weighted Average Cost of Capital). The calculation of the costs of equity is based on the yield expected on a long-term risk-free federal bond. The costs of debt capital are based on the aforementioned base rate and include a risk premium. This risk premium is appropriate to the rating of HORNBACH-Baumarkt-AG or of a relevant peer group. The discount rates applied for the respective cash generating units take account of the specific equity capital structures of a peer group, and of country risk. Discount rates of between 5.4 % and 6.7 % were applied in the 2013/2014 financial year (2012/2013: 5.1 % to 7.2 %). The company basically assumes that those changes in key assumptions that are deemed possible would not lead to the carrying amounts of the cash generating units exceeding their respective recoverable amounts.

Intangible assets (except goodwill)

Intangible assets with finite useful lives are recognized at amortized cost.

Amortization is determined using the straight-line method based on the following economic useful lives:

	Years
Software and licenses	3 to 8
Other intangible assets	3 to 8

Impairment losses are recognized when there are indications of impairment and the recoverable amount falls short of the carrying amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. Corresponding write-ups are recognized when the reasons for impairment losses recognized in previous years no longer apply.

There are no intangible assets with indefinite useful lives.

Property, plant and equipment and investment property

Property, plant and equipment and investment property are recognized at amortized cost.

Depreciation is undertaken on a straight-line basis. If there are indications of any impairment in value and if the recoverable amount is less than the amortized cost, then impairment losses are recognized for the respective items of property, plant and equipment. Corresponding write-ups are recognized when the reasons for impairment losses recognized in previous years no longer apply.

Depreciation is uniformly based on the following economic useful lives across the Group:

	Years
Buildings and outdoor facilities (including rented property)	15 to 33
Other equipment, plant, and office equipment	3 to 15

Should major components of property, plant and equipment have different useful lives, then these components are recognized and measured separately.

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

Leases

Leased items of property, plant and equipment which are to be viewed in economic terms as asset purchases with long-term financing (finance leases) are recognized pursuant to IAS 17 “Leases” at fair value at the beginning of the leasing relationship, unless the present value of the leasing payments is lower. The relevant assets are depreciated over their economic useful lives or over the term of the contract if shorter. Application is made of the same method of depreciation applicable to comparable assets acquired or manufactured. Moreover, an equivalent financial liability is capitalized at the amount of the fair value of the asset or the present value of the minimum leasing payments, if lower. Where group companies act as lessees within an operating lease, i.e. when all significant risks and rewards remain with the lessor, then the leasing expenses are recognized on a straight-line basis in the income statement.

Inventories

Inventories are carried at cost or at their net sale value, if lower. The net sale value is taken to be the expected realizable sales proceeds less the costs incurred up to disposal. The acquisition costs of inventory holdings are determined using weighted average prices. Costs of unfinished services relate to customer orders for merchandise deliveries, including services provided, with tradesmen commissioned by HORNBACH. Unfinished products and unfinished services mainly involve directly allocable costs of material and invoiced tradesman services.

Taxes

Taxes levied by the respective countries on taxable income and changes in deferred tax items are recognized as taxes on income. These are calculated in accordance with the relevant national legislation on the basis of the tax rates applicable at the balance sheet date, or due to be applicable in the near future.

Other taxes are allocated to the respective functional divisions and recognized under the corresponding expenses for the relevant function.

In line with IAS 12, deferred taxes are recognized and measured using the balance sheet liability method based on the tax rate expected to be valid at the realization date. Deferred tax assets are recognized for the tax benefits expected to arise from future realizable losses carried forward. Deferred tax assets arising from deductible temporary differences and tax losses carried forward which exceed temporary taxable differences are only recognized to the extent that it can be assumed with reasonable certainty that the company in question will generate sufficient taxable income in future.

Deferred tax assets and liabilities are netted for each company or fiscal unity provided that such are due to or from the same tax authority.

Non-current assets held for sale and disposal groups

Land, buildings and other non-current assets and disposal groups which are very likely to be sold in the coming financial year are measured at fair value less costs to sell, if such is lower than the carrying amount.

Pensions and similar obligations

Consistent with legal requirements in the respective countries and with individual commitments made to members of the Board of Management, group companies of HORNBACH-Baumarkt-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 (revised 2011) "Employee Benefits". When determining the pension obligation in accordance with actuarial principles, this method accounts for the pensions known of and claims vested as of the balance sheet date, as well as for the increases in salaries and pensions to be expected in future. The plan assets are deducted at fair value from the obligations. Should this result in a net asset, then this is recognized, provided that it does not exceed the present value of future reductions in contributions or repayments or any retrospective service costs. Actuarial gains or losses are recognized directly in equity, having accounted for any deferred taxes. In the case of defined contribution plans, the contributions are recognized as expenses upon becoming due for payment.

Provisions and accrued liabilities

Provisions are recognized for uncertain obligations to third parties where such are likely to result in a future outflow of resources. Provisions are stated at the expected settlement amount, having accounted for all identifiable risks, and are not offset against recourse claims. If the overall effect is material, non-current provisions are measured at present value discounted to the end of the respective terms. Provisions for pending losses and onerous contracts are recognized if the contractual obligations in connection with stores rented from third parties are higher than the expected economic benefits. In the case of accrued liabilities, the date and level of the respective liability are no longer uncertain.

Financial instruments

Financial instruments are contracts which result in a financial asset at one company and a financial liability or equity instrument at another company. On the one hand, these include primary financial instruments such as trade receivables and payables, financial receivables and financial liabilities. On the other hand, they also include derivative financial instruments, such as options, forward exchange transactions, interest swaps and currency swaps. Derivative financial instruments are recognized at fair value as of the transaction date. Primary financial instruments are basically recognized at the time at which the company becomes a contractual party. Upon initial recognition, these are recognized at fair value. This generally corresponds to the transaction price. Where there are indications that the fair value deviates from the transaction price, the fair value is determined in accordance with the logic outlined in "Fair Value Measurement" and then used as the basis for initial recognition.

Financial assets are basically derecognized once the contractual rights to payment have expired. Furthermore, financial assets are derecognized when the contractual rights to payment, and thus all significant risks and rewards or powers of disposal over these assets, have been assigned. Financial liabilities are derecognized once they have been settled, i.e. once the liability has been repaid, cancelled or has expired.

Primary financial instruments

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", asset-side financial instruments are subsequently measured at amortized cost, at cost, or at fair value. Primary financial instruments constituting liabilities are measured at amortized cost. The HORNBACH-Baumarkt-AG Group has so far not made any use of the option of classifying financial assets or financial liabilities as measured at fair value through profit or loss.

Financial assets are classified pursuant to IAS 39 as available for sale, as they cannot be allocated to any other of the IAS 39 categories. They are measured at fair value, where this can be reliably determined, and otherwise at cost. Investments and prepayments for financial assets are recognized at cost, as there is no active market for these items and their fair values cannot be reliably determined at reasonable expense. These exclusively relate to equity instruments.

Receivables and other assets (except derivatives) are carried at amortized cost or at present value, if lower. Value reductions are stated to account for all identifiable risks. These are determined on the basis of individual risk assessments and depending on the maturity structure of overdue receivables. Specific cases of default lead to the receivable in question being derecognized. Impairment accounts are maintained for trade receivables and the financial assets recognized under other receivables and assets. Amounts from impairment accounts are derecognized, with a corresponding charge to the carrying amount of the impaired assets, in cases such as when insolvency proceedings against the debtor have been completed, or when the receivable is deemed irretrievably lost.

Cash and cash equivalents include cash on hand and short-term deposits with maturity dates of less than three months. These items are measured at amortized cost.

Financial debt (bank loans, bonds) are recognized at the respective loan amount, less transaction costs, and subsequently measured at amortized cost. The difference to the repayment amount is recognized as an expense over the term of the bond and the promissory note bonds using the effective interest method. All other debt items are also recognized at amortized cost. This mostly corresponds to the respective repayment amount.

Derivative financial instruments

Derivative financial instruments, such as forward exchange transactions and interest swaps, are used to hedge exchange rate and interest risks. In line with the Group's risk principles, no derivative financial instruments are held for speculative purposes. Upon addition, derivative financial instruments are recognized in the balance sheet at fair value. Any transaction costs incurred are immediately recognized as expenses.

Derivatives which are not integrated into an effective hedging relationship as defined in IAS 39 are subject to mandatory classification as held for trading (financial assets/liabilities held for trading) and are thus measured at fair value through profit or loss. The fair values of forward exchange transactions (including the embedded forward exchange transactions) are determined on the basis of market conditions at the balance sheet date. The fair value of interest and interest-currency swaps is determined by the financial institutions with which they were concluded. The financial institutions use customary market valuation models (e.g. discounted cash flow method) that refer to the interest and currency information available on the market. This corresponds to Level 2 input factors in the fair value hierarchy.

Upon entering into a hedging transaction, the HORNBACH-Baumarkt-AG Group classifies certain derivatives as hedging future cash flows or planned transactions (cash flow hedges). Changes in the fair value of those cash flow hedges viewed as effective are recognized directly in equity under revenue reserves, taking due account of deferred taxes, until the result of the hedged item is recognized. Non-effective gains and losses are recognized through profit or loss.

Fair value measurement

Fair value represents the price on a given valuation date which a company would receive to sell an asset or to transfer a liability (exit price). Fair value is determined in line with the three-level measurement hierarchy set out in IFRS 13. Based on the availability of information, fair value is determined by reference to the following hierarchy:

Level 1 information –	current market prices on an active market for identical financial instruments
Level 2 information –	current market prices on an active market for comparable financial instruments or using valuation methods whose key input factors are based on observable market data
Level 3 information –	input factors not based on observable market prices

The level of information and/or valuation methods used to determine the fair value of assets and liabilities is explained in the respective chapter.

Sales

Income from the sale of goods is recognized upon transfer of ownership, taking due account of the expected level of goods returned.

Cost of goods sold

As well as the direct acquisition costs of the merchandise in question, the cost of goods sold also includes ancillary acquisition costs, such as freight charges, customs duties and other services rendered, as well as write-downs on inventories.

Rental income

Rental income from operating lease arrangements is recognized on a straight-line basis under sales over the term of the rental contract.

Government grants

Government grants awarded to cover expenses incurred and for assistance purposes are recognized as income in the income statement. Grants awarded for non-current assets reduce the cost of such assets accordingly.

Expenses

Rental expenses for operating lease arrangements are recognized on a straight-line basis as expenses over the term of the rental contract.

Outlays on advertising campaigns and sales promotion measures are recognized as expenses once the relevant powers of disposal have been granted or the respective service received.

The reversal of provisions and accrued liabilities has generally been recognized as a reduction in expenses within the functional expense group in which the costs of recognizing the corresponding provision or accrued liability were originally presented.

Interest expenses and interest income are recognized in accordance with the period of the respective financial debt.

Tax expenses include current and deferred taxes unless they relate to facts or circumstances accounted for directly in equity.

Segment Report

Segment reporting is consistent with the accounting policies applied in the consolidated financial statements (IFRS). Sales to external third parties represent net sales. Transfer prices between the segments are equivalent to those applied to external third parties.

Segment delineation

The allocation of business fields (segments) corresponds to the internal reporting system used by the Board of Management of the HORNBACH-Baumarkt-AG Group for managing the company. The “DIY store” segment includes the 141 (2012/2013: 138) DIY megastores and garden centers grouped together in the HORNBACH-Baumarkt-AG Group. The “Real estate” segment includes the retail properties owned by companies in the HORNBACH-Baumarkt-AG Group, which let and charge the properties to the respective DIY stores with garden centers within the Group at normal market conditions. The “Headquarters and consolidation” reconciliation column includes administration and consolidation items not attributable to the individual segments.

Segment earnings

Earnings before interest and taxes (EBIT) have been taken to represent the segment earnings.

Segment assets and liabilities

Apart from income tax receivables, income tax liabilities and deferred taxes, asset and liability items in the consolidated balance sheet have been directly allocated to the individual segments as far as possible. Remaining assets and liabilities have been allocated as appropriate. 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 in line with their causation. The resultant adjustments have been eliminated in the “Headquarters and consolidation” reconciliation column. Investments relate to the non-current assets allocable to the respective segment.

2013/2014 in € million 2012/2013 in € million	DIY stores	Real estate	Headquarters and consolidation	HORNBACH-Baumarkt-AG Group
Segment sales	**3,151.0**	**146.2**	**(145.2)**	**3,152.0**
	3,019.0	143.6	(142.6)	3,020.0
Sales to third parties	3,150.9	0.0	0.0	3,150.9
	3,018.9	0.0	0.0	3,018.9
Sales to affiliated companies	0.1	0.0	0.0	0.1
	0.1	0.0	0.0	0.1
Rental income from third parties	0.0	1.0	0.0	1.0
	0.0	1.0	0.0	1.0
Rental income from affiliated companies	0.0	145.2	(145.2)	0.0
	0.0	142.6	(142.6)	0.0
Segment earnings (EBIT)	**71.2**	**51.3**	**(17.4)**	**105.1**
	74.2	42.8	(17.7)	99.3
of which: depreciation and amortization	34.8	15.1	6.0	55.9
	33.5	14.9	8.1	56.5
Segment assets	**733.0**	**582.9**	**340.9**	**1,656.8**
	711.4	580.1	286.3	1,577.8
of which: credit balances at banks	42.4	0.0	307.4	349.8
	54.6	0.0	246.2	300.8
Investments	**41.1**	**28.4**	**2.5**	**72.0**
	45.4	60.0	11.2	116.6
Segment liabilities [1)]	**344.1**	**60.6**	**348.9**	**753.6**
	296.7	70.1	352.2	719.0
of which: financial debt	11.3	114.1	246.4	371.7
	7.3	49.0	325.8	382.1

Reconciliation in € million	2013/2014	2012/2013
Segment earnings (EBIT) before "Headquarters and consolidation"	**122.5**	**117.0**
Headquarters	(17.4)	(17.7)
Net financial expenses	(17.8)	(24.9)
Consolidated earnings before taxes	**87.3**	**74.4**
Segment assets	**1,656.8**	**1,577.8**
Deferred tax assets	3.4	7.9
Income tax receivables	10.2	11.7
Total assets	**1,670.3**	**1,597.4**
Segment liabilities [1)]	**753.6**	**719.0**
Deferred tax liabilities [1)]	33.4	33.8
Income tax liabilities	21.2	21.5
Total liabilities [1)]	**808.2**	**774.2**

[1)] Previous year's figures adjusted due to IAS 19R.

Geographical disclosures

In the interests of comprehensibility, the mandatory geographical disclosures for sales to third parties and non-current assets have been supplemented on a voluntary basis with additional information.

The geographical disclosures have been subdivided into the "Germany" and "Other European countries" regions. The "Other European countries" region includes the Czech Republic, Austria, the Netherlands, Luxembourg, Switzerland, Sweden, Slovakia, and Romania.

Sales are allocated to the geographical regions in which they were generated. Apart from income tax receivables, income tax liabilities and deferred taxes, all assets have been allocated to the region in which they are located. Investments relate to non-current assets allocated to the respective region. The reconciliation column includes consolidation items.

2013/2014 in € million 2012/2013 in € million	Germany	Other European countries	Reconciliation	HORNBACH-Baumarkt-AG Group
Sales	**2,052.0**	**1,324.7**	**(224.7)**	**3,152.0**
	1,950.1	1,279.4	(209.5)	3,020.0
Sales to third parties	1,827.4	1,323.5	0.0	3,150.9
	1,740.6	1,278.3	0.0	3,018.9
Sales to affiliated companies	224.5	0.2	(224.6)	0.1
	209.4	0.2	(209.5)	0.1
Rental income from third parties	0.1	0.9	0.0	1.0
	0.1	0.9	0.0	1.0
EBIT	**36.7**	**68.3**	**0.1**	**105.1**
	29.6	69.8	0.0	99.3
Depreciation and amortization	**33.9**	**22.0**	**0.0**	**55.9**
	36.2	20.3	0.0	56.5
EBITDA	**70.6**	**90.2**	**0.1**	**161.0**
	65.8	90.1	0.0	155.8
Assets	**1,249.6**	**951.6**	**(544.5)**	**1,656.8**
	1,188.4	833.8	(444.4)	1,577.8
of which: non-current assets*)	361.5	368.0	0.0	729.5
	361.2	360.6	0.0	721.8
Investments	**35.0**	**37.1**	**0.0**	**72.0**
	65.3	51.4	(0.1)	116.6

*) These involve property, plant and equipment, investment property, intangible assets and non-current deferrals and accruals. This item does not include non-current income tax receivables of € 4.8 million (2012/2013: € 6.4 million) for the Germany region.

Notes on the Consolidated Income Statement

(1) Sales

Sales mainly involve revenues in the DIY store segment. Furthermore, revenues of € 1,047k (2012/2013: € 1,037k) from the letting of real estate have also been reported under sales.

The sales of the Group broken down into business fields and regions have been depicted in the segment report.

(2) Cost of goods sold

The cost of goods sold represents the expenses required for the generation of sales and is structured as follows:

	2013/2014 € 000s	2012/2013 € 000s
Expenses for auxiliary materials and purchased goods	1,941,634	1,864,434
Expenses for services rendered	32,242	27,873
	1,973,876	**1,892,307**

(3) Selling and store expenses

Selling and store expenses include those costs incurred in connection with the operation of DIY megastores with garden centers. These mainly involve personnel expenses, costs of premises and advertising expenses, as well as depreciation and amortization. Moreover, this item also includes general operating expenses, such as administration expenses, transport costs, maintenance and upkeep, and rental expenses for plant and office equipment.

(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. Pre-opening expenses mainly consist of personnel expenses, advisory expenses, costs of premises, advertising expenses, administration expenses, miscellaneous personnel expenses, and depreciation and amortization.

(5) General and administration expenses

General and administration expenses include all costs incurred by administration departments in connection with the operation or construction of DIY stores with garden centers which cannot be directly allocated to such. They mainly consist of personnel expenses, legal and advisory expenses, depreciation and amortization, costs of premises and miscellaneous administration expenses, such as IT, travel and vehicle expenses.

(6) Other income and expenses

Other income and expenses are structured as follows:

	2013/2014 € 000s	2012/2013 € 000s
Other income from operating activities		
Income from advertising allowances and other reimbursements of suppliers	1,214	3,683
Income from allocations within the HORNBACH HOLDING Group	2,053	2,414
Income from disposal of non-current assets	893	867
Income from damages	1,838	941
Income from payment differences	389	330
Miscellaneous other income	9,579	16,775
	15,966	**25,010**
Other income from non-operating activities		
Income from disposal of real estate	270	532
Income from reversal of provisions for onerous contracts	0	55
Other non-operating income	306	101
	576	**688**
Other income	**16,542**	**25,698**

As in the previous year, miscellaneous other income for the current year under report principally relates to ancillary revenues at the DIY stores with garden centers, income from disposal activities, other income from personnel grants, and income from the writing back of receivables. The miscellaneous other income from operating activities reported for the previous year also includes income of € 6.1 million in connection with energy tax compensation. This resulted from the reversal of provisions recognized in the 2010/2011 financial year (€ 3.9 million) and from compensation not yet settled (€ 2.2 million).

	2013/2014 € 000s	2012/2013 € 000s
Other expenses from operating activities		
Losses due to damages	2,412	1,311
Impairments and defaults on receivables	1,162	1,007
Losses on disposal of non-current assets	340	376
Expenses from payment differences	276	198
Miscellaneous other expenses	1,564	2,432
	5,754	**5,324**
Other expenses from non-operating activities		
Impairment of property, plant, and equipment, intangible assets and investment property	315	514
Losses on disposal of non-current assets	1,030	263
Additions to provisions for onerous contracts	5,367	190
Other non-operating expenses	0	985
	6,712	**1,952**
Other expenses	**12,466**	**7,276**
Net income from other income and expenses	**4,076**	**18,422**

The miscellaneous other expenses reported for the previous year include settlements of € 1.0 million for third-party legal claims. Furthermore, the figure reported for the 2012/2013 financial year includes service fees of € 0.6 million due in connection with energy tax compensation.

The other non-operating expenses reported for the previous year included an amount of € 0.8 million for the addition to a provision for the refurbishment obligation at a DIY store property sold and leased back.

(7) Net financial expenses

	2013/2014 € 000s	2012/2013 € 000s
Other interest and similar income		
Interest income on financial instruments measured at amortized cost	759	1,950
of which: from affiliated companies	8	23
Other	200	150
of which: from affiliated companies	200	150
	959	**2,100**
Other interest and similar expenses		
Interest expenses on financial instruments measured at amortized cost	13,254	22,982
of which: to affiliated companies	0	1
Interest expenses on financial instruments used as hedging instruments	2,203	1,798
Interest expenses from compounding of provisions	110	16
Other	1,283	1,323
of which: to affiliated companies	138	160
	16,850	**26,119**
Net interest expenses	**(15,891)**	**(24,019)**
Other financial result		
Gains/losses on derivative financial instruments	429	(576)
Gains and losses from foreign currency exchange	(2,317)	(352)
	(1,888)	**(928)**
Net financial expenses	**(17,779)**	**(24,947)**

In line with IAS 17 “Leases”, financial leasing contracts are recognized under property, plant and equipment, with the interest component of the leasing installments, amounting to € 78k (2012/2013: € 93k) being recognized 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 € 1,724k in the year under report (2012/2013: € 2,637k) and has been capitalized as a component of the costs of the property, plant and equipment concerned. The average financing cost rate used to determine the volume of borrowing costs eligible for capitalization amounted to 4.4 % (2012/2013: 5.9 %).

(Deferred) interest payments on interest swaps included as a hedging instrument within cash flow hedges pursuant to IAS 39 are netted for each swap contract and recognized on the basis of their net amount either as interest income or interest expenses.

Gains/losses on derivative financial instruments include gains and losses of € 429k on derivative currency instruments (2012/2013: € -576k).

The gains and losses from foreign currency exchange for the 2013/2014 financial year chiefly result from the measurement of foreign currency receivables and liabilities. This resulted in net expenses of € 535k (2012/2013: income of € 4,265k). Furthermore, this item also includes realized exchange rate gains of € 3,582k (2012/2013: € 3,629k) and realized exchange rate losses of € 5,364k (2012/2013: € 8,246k).

(8) Taxes on income

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

As in the previous year, the German companies included in the HORNBACH-Baumarkt-AG Group are subject to an average trade tax rate of approximately 14 % of their trading income. The corporate income tax rate continues to amount to 15 %, plus 5.5 % solidarity surcharge.

As in the previous year, all domestic deferred tax items have been valued at an average tax rate of 30 %. The calculation of foreign income taxes is based on the relevant laws and regulations in force in the individual countries. The income tax rates applied to foreign companies range from 16 % to 31 %.

The actual income tax charge of € 30,973k (2012/2013: € 22,066k) is € 4,776k higher (2012/2013: € 244k lower) than the expected tax charge of € 26,197k (2012/2013: € 22,310k) which would have been payable by applying the average tax rate of 30 % at HORNBACH-Baumarkt-AG (2012/2013: 30 %) to the Group's pre-tax earnings of € 87,323k (2012/2013: € 74,365k).

Deferred tax assets have been stated for as yet unutilized losses carried forward amounting to € 630k (2012/2013: € 23,918k). HORNBACH-Baumarkt-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 have been reported in the case of losses carried forward amounting to € 37,040k (2012/2013: € 4,330k), as future realization of the resultant benefit is not expected. Of these, losses carried forward of € 3,481k and of € 4,104k are due to expire within the next 5 and 7 years respectively. The previous year's figures included losses carried forward of € 3,481k whose use is limited to 5 years. There are no time limits on the utilization of all other losses carried forward for which no deferred tax assets have been stated.

As in the previous year, no deferred tax assets were recognized for the first time in the 2013/2014 financial year for losses carried forward whose utilization was previously not deemed possible. Furthermore, deferred tax assets of € 5,118k, and thus corresponding to the balance at the end of the previous year, were derecognized in the 2013/2014 financial year for losses carried forward whose utilization is no longer deemed likely (2012/2013: € 0k). The expenses for derecognition of these deferred tax items are included in deferred tax expenses.

Breakdown of the tax charge:

	2013/2014 € 000s	2012/2013 € 000s
Current taxes on income		
Germany	10,795	5,741
Other countries	15,659	17,633
	26,454	**23,374**
Deferred tax expenses/income		
due to changes in temporary differences	4,550	(1,412)
due to changes in tax rates	(40)	859
due to losses carried forward	9	(755)
	4,519	**(1,308)**
Taxes on income	**30,973**	**22,066**

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

	2013/2014		2012/2013	
	€ 000s	%	€ 000s	%
Expected income tax charge	26,197	100.0	22,310	100.0
Difference between local tax rate and group tax rate	(4,413)	(16.8)	(5,205)	(23.3)
Tax-free income	(403)	(1.5)	(320)	(1.4)
Tax reductions/increases due to changes in tax rates	(40)	(0.2)	859	3.9
Tax increases attributable to expenses not deductible for tax purposes	3,608	13.8	4,551	20.4
Tax increases attributable to unstated losses carried forward	1,939	7.4	50	0.2
Non-period current and deferred taxes	4,085	15.6	(179)	(0.8)
Taxes on income	**30,973**	**118.3**	**22,066**	**99.0**
Effective tax rate in %	35.5		29.7	

Taxes on income include non-period current tax income of € 844k (2012/2013: € 251k) and non-period deferred taxes of € 4,929k (2012/2013: € 72k). The non-period current tax income includes tax income of € 86k from the change in the present value of corporate income tax claims.

The taxes recognized directly in equity in the financial year under report relate to the following items:

	2013/2014 € 000s	2012/2013 € 000s
Actuarial gains and losses on defined benefit plans [1]		
Actuarial gains and losses on defined benefit plans before taxes	1,827	(3,437)
Change in deferred taxes	(369)	674
	1,458	**(2,763)**
Measurement of derivative financial instruments (cash flow hedge)		
Changes in fair value of derivative financial instruments before taxes	1,811	(807)
Change in deferred taxes	(494)	298
	1,317	**(509)**
Exchange differences arising on the translation of foreign subsidiaries	**(4,434)**	**(2,739)**
Other comprehensive income, net after taxes	**(1,659)**	**(6,011)**
of which: other comprehensive income before taxes	(796)	(6,984)
of which: change in deferred taxes	(862)	973

[1] Previous year's figures adjusted due to IAS 19R.

(9) Earnings per share

Basic 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-Baumarkt-AG by the weighted average number of shares in circulation during the financial year. As in the previous year, no dilutive effects arose in the 2013/2014 financial year.

	2013/2014	2012/2013
Weighted number of shares issued	31,807,000	31,807,000
Consolidated net income allocable to shareholders in HORNBACH-Baumarkt-AG (in €)	56,349,703	52,299,112
Earnings per share in €	**1.77**	**1.64**

(10) Other disclosures on the income statement

Personnel expenses

The individual expense items include the following personnel expenses:

	2013/2014 € 000s	2012/2013 € 000s
Wages and salaries	453,834	428,470
Social security contributions and pension expenses	98,388	92,358
	552,222	**520,828**

Wages and salaries also include expenses for temporary employees.

Depreciation and amortization

	2013/2014 € 000s	2012/2013 € 000s
Scheduled amortization of intangible assets and depreciation of property, plant, and equipment and investment property	55,570	55,979
Impairment of property, plant, and equipment, intangible assets and investment property	315	514
	55,885	**56,493**

The impairment losses recognized in the 2013/2014 financial year relate to land not used for operations and plant and office equipment. In the previous year, impairment losses related exclusively to land not used for operations. Reference is also made to the disclosures on intangible assets and property, plant and equipment in Notes 11 and 12 respectively.

Depreciation and amortization is included in the following items in the income statement:

2013/2014 financial year € 000s	Intangible assets	Property, plant, and equipment and investment property	Total
Selling and store expenses	549	46,812	47,361
Pre-opening expenses	0	116	116
General and administration expenses	2,660	5,433	8,093
Other income and expenses	0	315	315
	3,209	**52,676**	**55,885**

2012/2013 financial year € 000s	Intangible assets	Property, plant, and equipment and investment property	Total
Selling and store expenses	925	44,920	45,845
Pre-opening expenses	0	75	75
General and administration expenses	5,186	4,873	10,059
Other income and expenses	0	514	514
	6,111	**50,383**	**56,493**

Notes on the Consolidated Balance Sheet

(11) Intangible assets

The development in intangible assets in the 2012/2013 and 2013/2014 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				
Balance at March 1, 2012	77,692	3,271	40	81,003
Additions	2,483	0	246	2,729
Disposals	1,095	0	4	1,099
Reclassifications	60	0	(16)	44
Foreign currency translation	(6)	0	0	(6)
Balance at February 28/March 1, 2013	**79,134**	**3,271**	**266**	**82,671**
Additions	1,479	0	51	1,530
Disposals	448	0	0	448
Reclassifications	178	0	(165)	13
Foreign currency translation	(15)	0	0	(15)
Balance at February 28, 2014	**80,328**	**3,271**	**152**	**83,751**
Amortization				
Balance at March 1, 2012	64,712	0	0	64,712
Additions	6,111	0	0	6,111
Disposals	1,094	0	0	1,094
Foreign currency translation	(7)	0	0	(7)
Balance at February 28/March 1, 2013	**69,722**	**0**	**0**	**69,722**
Additions	3,209	0	0	3,209
Disposals	448	0	0	448
Foreign currency translation	(13)	0	0	(13)
Balance at February 28, 2014	**72,470**	**0**	**0**	**72,470**
Carrying amount at February 28, 2014	**7,858**	**3,271**	**152**	**11,281**
Carrying amount at February 28, 2013	9,412	3,271	266	12,949

Additions to franchises, industrial property rights and similar rights and values and licenses to such rights and values and to assets under construction mainly relate to the acquisition of software licenses and expenses incurred to prepare the software for its intended use.

The goodwill relates to garden centers in the Netherlands.

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

(12) Property, plant and equipment and investment property

The development in property, plant and equipment in the 2012/2013 and 2013/2014 financial years was as follows:

€ 000s	Land, leasehold rights, and buildings on third-party land	Investment property (IAS 40)	Other equipment, plant, and office equipment	Assets under construction	Total
Cost					
Balance at March 1, 2012	676,688	9,047	501,464	22,057	1,209,256
Reclassifications to/from non-current assets held for sale	0	(1,639)	0	0	(1,639)
Changes in scope of consolidation	0	0	0	566	566
Additions	53,047	0	47,934	12,343	113,324
Disposals	102	0	29,091	269	29,462
Reclassifications pursuant to IAS 40	(2,257)	2,257	0	0	0
Reclassifications	16,885	0	589	(17,518)	(44)
Foreign currency translation	(3,526)	0	(740)	(137)	(4,403)
Balance at February 28/March 1, 2013	**740,735**	**9,665**	**520,156**	**17,042**	**1,287,598**
Additions	25,230	0	36,417	8,719	70,366
Disposals	1,638	18	24,339	1,025	27,020
Reclassifications	6,305	0	4,402	(10,720)	(13)
Foreign currency translation	(4,919)	0	(3,190)	(78)	(8,187)
Balance at February 28, 2014	**765,713**	**9,647**	**533,446**	**13,938**	**1,322,744**
Depreciation					
Balance at March 1, 2012	154,663	3,223	401,109	0	558,995
Reclassifications to/from non-current assets held for sale	0	(320)	0	0	(320)
Additions	15,213	602	34,568	0	50,383
Disposals	46	0	28,546	0	28,592
Reclassifications pursuant to IAS 40	(156)	156	0	0	0
Foreign currency translation	(579)	0	(404)	0	(983)
Balance at February 28/March 1, 2013	**169,095**	**3,661**	**406,727**	**0**	**579,483**
Additions	15,944	133	36,599	0	52,676
Disposals	11	8	23,694	0	23,713
Foreign currency translation	(1,167)	0	(2,251)	0	(3,418)
Balance at February 28, 2014	**183,861**	**3,786**	**417,381**	**0**	**605,028**
Carrying amount at February 28, 2014	**581,852**	**5,862**	**116,065**	**13,938**	**717,716**
Carrying amount at February 28, 2013	571,640	6,005	113,429	17,042	708,115

The impairment losses included in depreciation relate to assets whose carrying amounts exceed their recoverable amounts. These impairment losses have been recognized under other expenses from non-operating activities.

In the 2013/2014 financial year, impairment losses of € 46k were recognized for items of investment property, which were written down to their net sale prices (2012/2013: € 514k). The net sale prices of these assets were determined by reference to current value surveys.

In the 2013/2014 financial year, the annual impairment test performed in the Czech region identified an impairment requirement of € 269k on marketing-oriented and sales promotional plant and office equipment pursuant to IAS 36.

Impairment losses are included in non-current asset items as follows:

	2013/2014	2012/2013
DIY stores segment		
Other equipment, plant, and office equipment	269	0
	269	**0**
Real estate segment		
Land	46	514
	46	**514**
Total	**315**	**514**

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

The real estate assets are predominantly owned by HORNBACH-Baumarkt-AG and by real estate companies established for this purpose.

Other equipment and plant and office equipment mainly relate to HORNBACH-Baumarkt-AG in the case of German consolidated companies and to HORNBACH Baumarkt GmbH, HORNBACH Baumarkt Luxemburg SARL, HORNBACH Baumarkt CS spol s.r.o., Hornbach Bouwmarkt (Nederland) B.V., Hornbach Baumarkt (Schweiz) AG, HORNBACH-Baumarkt SK spol s.r.o., Hornbach Byggmarknad AB, and HORNBACH Centrala SRL in the case of foreign consolidated companies.

Investment property mainly relates to retail properties at various locations in Germany. The respective rental contracts have basic rental periods of 1 to 15 years and in some cases provide extension options for the lessee. The properties let to third parties are recognized at amortized cost. A useful life of 33 years has been assumed. The fair value of investment property amounts to approximately € 8.5 million (2012/2013: € 8.5 million). The fair values have been determined by independent experts and classified as Level 3 fair values based on the valuation methods and input data outlined below.

Valuation is performed using various methods. Use is made on the one hand of capitalized value methods, and here generally of the discounted cash flow method. This involves deriving the present value from future (rental) income by application of a discount rate. On the other hand, application is also made of market price methods by reference to the analogy method. Reference is made here to standard land values determined on the basis of comparisons with the prices of suitable comparative pieces of land or determined by surveyor committees on the basis of corresponding land sales. Furthermore, use is also made of the multiplier method, in which the rental income surplus is multiplied by land-specific factors. Alongside the aforementioned input data, the surveyors also factor in additional premiums and discounts to account for individual property-specific characteristics (e.g. size, location, conversion/demolition costs still to be incurred).

Rental income of € 431k was generated on properties let to third parties in the year under report (2012/2013: € 429k). Expenses of € 242k were incurred for the maintenance of the properties let to third parties (2012/2013: € 236k). Expenses of € 11k were incurred for all other items of investment property (2012/2013: € 39k).

The real estate acts as security for bank loans in the form of registered land charges amounting to € 66.3 million (2012/2013: € 85.5 million).

Property, plant and equipment include a building with a carrying amount of € 665k (2012/2013: € 831k) that is allocable to the Group as economic owner on account of the structure of the underlying lease agreement (finance lease). The finance lease has been concluded for a basic rental period of 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. Furthermore, the contract provides for an index-based rent adjustment clause and for pre-emptive purchase rights on customary market terms. The leased asset acts as security for the leasing obligation.

(13) Financial assets

The development in financial assets in the 2012/2013 and 2013/2014 financial years was as follows:

€ 000s	Investments	Advance payments for financial assets	Total
Cost			
Balance at March 1, 2012	94	1,135	1,229
Foreign currency translation	0	49	49
Balance at February 28/March 1, 2013	**94**	**1,184**	**1,278**
Additions	0	104	104
Disposals	0	(1,234)	(1,234)
Foreign currency translation	0	(54)	(54)
Balance at February 28, 2014	**94**	**0**	**94**
Carrying amount at February 28, 2014	**94**	**0**	**94**
Carrying amount at February 28, 2013	94	1,184	1,278

The additions of € 104k to advance payments for financial assets result from the planned acquisition of a stake in a Swedish real estate company. The intention to make this acquisition was abandoned in the course of the financial year, as a result of which the values of € 1,234k incurred at this time are reported as a retirement in the financial year. This resulted in a loss of € 755k.

All financial assets have been recognized at cost as it was not possible to determine reliable fair values. The Group currently has no intention to sell investments.

(14) Other non-current receivables and assets

Other non-current receivables and assets mainly consist of deposits of € 2,140k (2012/2013: € 2,188k) paid as security for possible subsequent claims to purchase price reductions on the part of the buyer. The deposits have a maximum remaining term of 6 years.

Furthermore, as of February 28, 2014 this item also includes receivables of € 382k (2012/2013: € 874k) due from the Federal Employment Agency in connection with payments governed under the relevant part-time early retirement legislation.

Other non-current receivables and assets also include deferred expenses of € 482k (2012/2013: € 760k) in connection with an as yet unutilized syndicated credit line of € 250 million concluded in the 2011/2012 financial year with a term until December 14, 2016.

(15) Deferred taxes

Deferred taxes relate to the following items:

	2.28.2014		2.28.2013	
	Assets € 000s	Liabilities € 000s	Assets € 000s	Liabilities € 000s
Intangible assets and property, plant, and equipment	805	33,007	810	35,121
Inventories	581	3,830	436	2,128
Other assets and liabilities	1,029	34	1,110	49
Other provisions [1)]	5,396	1,395	4,519	1,589
Liabilities	1,144	758	1,704	836
Tax-free reserves	0	129	0	129
Losses carried forward	172	0	5,300	0
	9,127	**39,153**	**13,879**	**39,852**
Set-off [1)]	(5,769)	(5,769)	(6,009)	(6,009)
Total [1)]	**3,358**	**33,384**	**7,870**	**33,843**

[1)] Previous year's figures adjusted due to IAS 19R.

(16) Inventories

	2.28.2014 € 000s	2.28.2013 € 000s
Auxiliary materials and supplies	1,501	1,555
Unfinished products, unfinished services	2,272	1,320
Finished products and merchandise	509,491	486,503
Inventories (gross)	**513,264**	**489,378**
less valuation allowances	8,696	7,794
Inventories (net)	**504,568**	**481,584**
Carrying amount of inventories measured at net realizable value	24,240	24,653

Expenses of € 1,932,938k were recognized as merchandise input expenses for merchandise and auxiliary materials and supplies in the 2013/2014 financial year (2012/2013: € 1,856,016k).

(17) Receivables and other assets

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

	2.28.2014 € 000s	2.28.2013 € 000s
Trade receivables	8,506	6,128
Receivables from affiliated companies	1,884	1,622
Positive fair values of derivative financial instruments	280	146
Other receivables and assets	38,226	43,899
	48,896	**51,795**

Trade receivables include receivables of € 1,181k (2012/2013: € 1,090k) assigned within factoring agreements that have not been derecognized as the credit risk remains at the HORNBACH-Baumarkt-AG Group. A corresponding liability has been recognized in the same amount.

Other receivables and assets mainly consist of receivables in connection with pledged funds, receivables from credit card companies, receivables from product reimbursements and bonus agreements, and deferred charges and prepaid expenses.

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

The following tables provide an analysis of the financial assets included under receivables and other assets. Only those receivables for which individual allowances have been recognized have been portrayed as impaired. The HORNBACH-Baumarkt-AG Group also accounts for credit risks by recognizing portfolio-based allowances.

2.28.2014 € 000s	Carrying amount	of which: neither impaired nor overdue	of which: not impaired, but overdue within the following time bands (days)			
			< 60	61-90	91-180	> 180
Trade receivables	8,506	3,589	3,377	486	433	49
Receivables from affiliated companies	1,884	1,884				
Positive fair values of derivative financial instruments	280	280				
Other receivables and assets	26,793	25,112	1,417	57	67	140
	37,463	**30,865**	**4,794**	**543**	**500**	**189**

2.28.2013 € 000s	Carrying amount	of which: neither impaired nor overdue	of which: not impaired, but overdue within the following time bands (days)			
			< 60	61-90	91-180	> 180
Trade receivables	6,128	3,530	1,192	189	233	60
Receivables from affiliated companies	1,622	1,622				
Positive fair values of derivative financial instruments	146	146				
Other receivables and assets	26,959	25,566	910	37	238	97
	34,855	**30,864**	**2,102**	**226**	**471**	**157**

There were no indications of impairment at the balance sheet date for financial assets that were neither impaired not overdue.

Allowances for trade receivables and for other receivables and assets developed as follows:

€ 000s	Trade receivables		Other receivables and assets	
	2013/2014	2012/2013	2013/2014	2012/2013
Allowances at March 1	**560**	**521**	**622**	**728**
Utilization	252	123	327	192
Reversals	140	99	77	374
Additions	461	264	131	462
Foreign currency translation	2	(3)	(1)	(2)
Allowances at end of financial year	**632**	**560**	**348**	**622**

The complete retirement of receivables resulted in expenses of € 608k (2012/2013: € 494k). The receipt of receivables already derecognized resulted in income of € 16k (2012/2013: € 55k).

(18) Cash and cash equivalents

	2.28.2014 € 000s	2.28.2013 € 000s
Cash balances at banks	349,843	300,749
Checks and cash on hand	21,267	16,429
	371,110	**317,178**

(19) Non-current assets held for sale and disposal groups

This item includes assets which are highly likely to be sold in the coming financial year.

No items were reclassified out of property, plant and equipment in the 2013/2014 financial year.

The previous year's figure of € 1,076k includes two pieces of land sold in the past financial year. The resultant gain has been recognized under other non-operating income.

(20) Shareholders' equity

The development in the shareholders’ equity of the HORNBACH-Baumarkt-AG Group is shown in the statement of changes in group equity for the 2012/2013 and 2013/2014 financial years.

Share capital

The Annual General Meeting held on July 7, 2011 resolved the creation of Authorized Capital I and Authorized Capital II in line with the following provisions:

- The Board of Management is authorized until July 7, 2016, subject to approval by the company’s Supervisory Board, to increase the company’s share capital by up to € 15,000,000 by means of a single or repeated issue of new shares – ordinary shares with voting rights or non-voting preference shares – in exchange for cash contributions (Authorized Capital I). Shareholders’ subscription rights may be excluded in specified circumstances.

- The Board of Management is authorized until July 7, 2016, subject to approval by the company’s Supervisory Board, to increase the company’s share capital by up to € 30,000,000 by means of a single or repeated issue of new shares – ordinary shares with voting rights or non-voting preference shares – in exchange for cash or non-cash contributions (Authorized Capital II). Shareholders’ subscription rights may be excluded in specified circumstances.

Total authorized capital therefore amounts to € 45,000,000. As in the previous year, this is equivalent to 47.16 % of the current share capital.

On the basis of a resolution adopted by the Board of Management on July 1, 2013, the employees of HORNBACH-Baumarkt-AG and its foreign subsidiaries were offered employee shares at a preferential price of € 12.50 per share. A total of 42,080 shares were acquired via the stock exchange at an average price of € 26.18 and subsequently assigned to employees. An amount of € 1k was recognized in equity to account for the difference between the acquisition price and the stock market price upon the date on which the shares were assigned to employees. The difference per share between the preferential sale price and the stock market price (€ 13.68) has been recognized through profit or loss.

Publication of WpHG voting right notifications

HORNBACH-Baumarkt-AG published the following notification in the Stock Exchange Gazette (Börsen-Zeitung) on April 20, 2002 pursuant to § 41 (3) of the German Securities Trading Act (WpHG):

HORNBACH HOLDING AG, Bornheim/Pfalz, has notified us pursuant to § 41 (2) Sentence 1 WpHG that it held 80.29 % of the voting rights in HORNBACH-Baumarkt-AG on April 1, 2002. These related exclusively to its own voting rights.

HORNBACH-Baumarkt-AG published the following notification in the Stock Exchange Gazette (Börsen-Zeitung) on August 16, 2002 pursuant to § 25 (1) WpHG:

HORNBACH Familien-Treuhandgesellschaft mbH, Annweiler am Trifels, has notified us pursuant to § 21 (1) and § 22 (1) No. 1 WpHG that its share of the voting rights in HORNBACH-Baumarkt AG exceeded the 5 % threshold on August 6, 2002 and now amounts to 80.29 %. These related exclusively to voting rights attributable under § 22 (1) No. 1 WpHG:

HORNBACH-Baumarkt-AG published the following voting rights notification electronically on April 23, 2009 pursuant to § 26 (1) WpHG:

Platinum Investment Management ltd. (formerly Platinum Asset Management ltd.), Sydney/Australia, has notified us pursuant to § 26 (1) WpHG (formerly § 25 (1) WpHG) that the notification dated May 30, 2003 has been withdrawn, as the 5 % threshold was not exceeded at that date (or subsequently).

HORNBACH-Baumarkt-AG published the following voting right notification electronically on March 31, 2014 pursuant to § 26 (1) WpHG:

Kingfisher plc, 3 Sheldon Square, Paddington, London W2 6PX, United Kingdom, notified us on March 28, 2014 pursuant to § 21 (1) WpHG that the share of voting rights held by Kingfisher plc in HORNBACH-Baumarkt-Aktiengesellschaft fell short of the 5 % and 3 % thresholds on March 27, 2014 and on that date amounted to 0 % (corresponding to 0 voting rights).

Furthermore, Kingfisher plc notified us on March 28, 2014 that the share of voting rights held by Eijsvogel Finance Limited, 3 Sheldon Square, Paddington, London W2 6PX, United Kingdom, in HORNBACH-Baumarkt-Aktiengesellschaft fell short of the 5 % and 3 % thresholds on March 27, 2014 and on that date amounted to 0 % (corresponding to 0 voting rights).

Capital reserve

The capital reserve includes the equity components generated over and above the par value of the shares issued.

Revenue reserves

Revenue reserves include the "statutory reserve", "other revenue reserves", and accumulated earnings and equity components recognized directly in equity.

Disclosures concerning capital management

The capital management practiced by HORNBACH-Baumarkt-AG pursues the aim of maintaining a suitable equity base in the long term. The equity ratio is viewed as representing an important key figure for investors, analysts, banks and rating agencies. The company aims on the one hand to achieve the growth targets it has set itself while maintaining healthy financing structures and a stable dividend policy, and on the other hand to achieve long-term improvements in its key rating figures. The capital management instruments deployed include active debt capital management.

The company has entered into covenants towards some providers of debt capital which, among other conditions, require it to maintain an equity ratio of at least 25 %. The equity ratio, interest cover, debt/equity ratio and company liquidity (cash and cash equivalents plus available committed credit lines) are monitored monthly as part of the company's internal risk management. Further key figures are calculated on a quarterly basis. Should the values fall short of certain target levels, then suitable countermeasures are initiated at an early stage. The covenants were complied with at all times during the 2013/2014 financial year. The equity ratio amounted to 51.6 % as of February 28, 2014 (2012/2013: 51.5 %).

No changes were made to the company's capital management approach in the financial year under report.

(21) Distributable earnings and dividends

The distributable amounts involve the unappropriated net profit reported in the balance sheet of HORNBACH-Baumarkt-AG prepared in accordance with German commercial law.

HORNBACH-Baumarkt-AG concluded the 2013/2014 financial year with an annual net surplus of € 31,010,320.35.

Following the allocation of € 11,926,120.35 to other revenue reserves, the unappropriated net profit amounts to € 19,084,200.00.

The Board of Management and the Supervisory Board of HORNBACH-Baumarkt-AG will propose to the Annual General Meeting that the unappropriated net profit of HORNBACH-Baumarkt-AG reported as of February 28, 2014 be appropriated as follows:

	€
Dividend of € 0.60 on 31,807,000 shares	19,084,200.00
	19,084,200.00

By resolution of the Annual General Meeting held on July 4, 2013, a dividend of € 0.50 (2012/2013: € 0.50) per share was distributed on a total of 31,807,000 (2012/2013: 31,807,000) individual shares in the 2013/2014 financial year. The total amount distributed thus amounted to € 15,904k (2012/2013: € 15,904k).

(22) Financial debt

Total current and non-current financial debt is structured as follows:

€ 000s	Maturities			Carrying amount
	Current < 1 year	Non-current 1-5 years	Non-current > 5 years	2.28.2014 Total
Bonds	0	0	246,401	246,401
Liabilities to banks	6,876	112,617	413	119,906
Liabilities in connection with finance leases	219	820	0	1,039
Negative fair values of derivative financial instruments	0	4,400	0	4,400
Total	**7,095**	**117,837**	**246,814**	**371,745**

€ 000s	Maturities			Carrying amount
	Current < 1 year	Non-current 1-5 years	Non-current > 5 years	2.28.2013 Total
Bonds	0	0	245,794	245,794
Liabilities to banks	8,170	118,464	1,858	128,492
Liabilities in connection with finance leases	223	1,059	0	1,282
Negative fair values of derivative financial instruments	227	6,267	0	6,494
Total	**8,620**	**125,790**	**247,652**	**382,062**

Current financial debt (up to 1 year) amounted to € 7.1 million at the balance sheet date on February 28, 2014 (2012/2013: € 8.6 million). This consists of interest deferrals of € 1.0 million (2012/2013: € 1.1 million) and the portion of long-term financing facilities maturing in the short term, amounting to € 6.1 million (2012/2013: € 7.3 million). No liabilities relate to the measurement of derivative financial instruments (2012/2013: € 0.2 million).

HORNBACH-Baumarkt-AG took up a seven-year corporate bond of € 250 million on February 15, 2013. The bond has an interest coupon of 3.875%. In combination with the issue price of 99.25 %, this results in a yield of 4.00 % p.a. The total costs of € 2,355k arising in connection with the corporate bond and the disagio of € 1,875k have been spread over the term using the effective interest method.

As of June 30, 2011, HORNBACH-Baumarkt-AG took up an unsecured promissory note bond of € 80.0 million with a floating rate and a term running until June 30, 2016. To secure the interest rate, a forward swap with congruent terms was concluded in the 2010/2011 financial year already. The swap enabled the half-yearly interest payable to be secured at a level of 2.11 % p.a., plus a bank margin, for the entire term.

In addition, the Group still has the promissory note bond concluded by HORNBACH Baumarkt CS spol s.r.o. in the 2010/2011 financial year with a volume of CZK 496.6 million, a floating interest rate and a term running until August 31, 2015. The interest payable was hedged with a congruent interest swap. The half-yearly interest payable via the interest swaps was secured at a level of 2.08% p.a. plus a bank margin for the entire term.

Alongside the aforementioned bond and promissory note bonds, the Group has further non-current liabilities, generally secured by mortgages, to banks.

Non-current liabilities to banks are structured as follows:

2013/2014 financial year	Currency	Interest agreement in % (including swap)	Maturity	Amount 2.28.2014 € 000s
Loans	EUR	4.86	2016	79,778
	CZK	4.83	2015	18,125
Mortgage loans	EUR	5.00 to 6.36	2014 to 2019	15,771
	CZK	5.08	2018	5,217
				118,890

2012/2013 financial year	Currency	Interest agreement in % (including swap)	Maturity	Amount 2.28.2013 € 000s
Loans	EUR	4.86	2016	79,682
	CZK	4.83	2015	19,306
Mortgage loans	EUR	4.70 to 6.36	2013 to 2019	21,647
	CZK	5.08	2018	6,801
				127,436

Non-current liabilities to banks either have fixed interest rates, or have floating interest rates based on the short-term Euribor, or a corresponding foreign currency Ibor, plus a bank margin of 0.75 to 2.75 percentage points (2012/2013: 0.45 to 2.75 percentage points). Interest swaps have been concluded to secure the interest rate on non-current liabilities with floating interest rates. These enable the interest payments to be secured on those loans which could have a significant influence on the Group's annual earnings.

In the third quarter of the 2011/2012 financial year, HORNBACH-Baumarkt-AG agreed a syndicated credit line of € 250 million with a term running until December 14, 2016. This credit may also be drawn down in foreign currencies, particularly CHF, SEK and CZK, up to an amount of € 25 million. Furthermore, supplementary bilateral loan agreements of up to € 50 million may also be concluded within the credit framework (also in foreign currencies). Upon utilization of the credit line, the interest is based on the 3-month or 6-month Euribor, or the equivalent Ibor, plus an interest margin. The applicable interest margin is determined by reference to the company rating granted to HORNBACH-Baumarkt-AG by an internationally recognized rating agency. Margin premiums apply should the level of utilization exceed specified threshold values and when the facility is drawn down in foreign currencies. A provision fee dependent on the respective interest margin is charged for the unutilized portion of the credit line.

As of February 28, 2014, the HORNBACH-Baumarkt-AG Group had total credit lines of € 291.8 million (2012/2013: € 302.2 million) on customary market terms. Unutilized credit lines amounted to € 289.5 million (2012/2013: € 300.2 million). Furthermore, HORNBACH-Baumarkt-AG has a credit line for import credits amounting to USD 40.0 million (2012/2013: USD 40.0 million). Of this, an amount of USD 6.2 million had been drawn down as of the balance sheet date (2012/2013: USD 8.9 million).

Land charges amounting to € 66.3 million have been provided as security for liabilities to banks (2012/2013: € 85.5 million).

No assets have been provided as security for the credit lines, the promissory note bonds referred to above, or the bond. The relevant contractual arrangements nevertheless require compliance with customary bank covenants, non-compliance with which could lead to a premature repayment obligation. These regularly involve pari passu clauses and negative pledge declarations, as well as cross default arrangements for major financing facilities. In the case of the syndicated credit line at HORNBACH-Baumarkt-AG and the promissory note bond agreements at the HORNBACH-Baumarkt-AG Group, they also require compliance with specific financial ratios. These key financial ratios are based on consolidated figures at the HORNBACH-Baumarkt-AG Group and require interest cover of at least 2.25 times and an equity ratio of at least 25 %. Maximum limits for financing facilities secured by land charges and financing facilities taken up by subsidiaries were also agreed. The interest cover, net debt/EBITDA ratio, equity ratio, agreed financing limits, and company liquidity (cash and cash equivalents, plus unutilized committed credit lines) are regularly monitored within the internal risk management framework. Should the values fall short of certain target levels, then countermeasures are initiated at an early stage. All covenants were complied with at all times in the year under report.

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

€ 000s		Maturities		2.28.2014
	Current < 1 year	Non-current 1-5 years	Non-current > 5 years	Total
Liabilities in connection with finance leases	219	820	0	1,039
Interest component	58	86	0	144
Total lease payments to be made in future	**277**	**906**	**0**	**1,183**

€ 000s			Maturities	2.28.2013
	Current < 1 year	Non-current 1-5 years	Non-current > 5 years	Total
Liabilities in connection with finance leases	223	1,059	0	1,282
Interest component	79	150	0	229
Total lease payments to be made in future	**302**	**1,209**	**0**	**1,511**

(23) Pensions and similar obligations

As a result of legal requirements in individual countries and individual commitments made to members of its Board of Management, the HORNBACH-Baumarkt-AG Group has obligations relating to defined benefit and defined contribution pension plans.

Defined contribution plans

Apart from payment of contributions, the defined contribution plans do not involve any further obligations on the part of the HORNBACH-Baumarkt-AG Group. The total of all defined contribution pension expenses amounted to € 43,049k in the 2013/2014 financial year (2012/2013: € 41,922k). Of this total, an amount of € 25,771k involved the employer's share of contributions to the state pension scheme in Germany (2012/2013: € 25,663k).

Multiemployer defined benefit pension plans

Joint pension plans are in place for staff employed in the Netherlands. As the pension providers for these plans do not provide the necessary information in the form required for recognition as defined benefit plans, these plans are recognized as defined contribution plans. Consistent with the requirements of this plan, HORNBACH-Baumarkt-AG has no obligation to assume liability for the contributions of other employers participating in the plan. No probable material risks have been identified in connection with the multiemployer defined benefit pension plan. The company expects to pay contributions of € 2,100k in the 2014/2015 financial year.

Defined benefit plans

Switzerland

The HORNBACH-Baumarkt-AG Group has one fund-financed pension plan which is financed via an external pension provider. This pension plan exists due to legal requirements in Switzerland (Swiss Occupational Pensions Act - BVG) and grants old-age, invalidity and fatality pensions and payments for around 820 beneficiaries.

The employee covers around 35 % of the premiums to be paid for the savings balances, as well as further clearly defined costs. The remaining expenses are covered by the employer. Risk and cost premiums are calculated by the insurance company on an individual basis and reassessed each year. The actuarial risk in connection with this plan is borne by HORNBACH-Baumarkt-AG. The pension plan must be fully covered on the basis of a statistical evaluation performed in accordance with BVG provisions. In the event of a shortfall, the pension authority may adjust the respective employer and employee contributions or payments.

The pension provider constitutes a separate legal entity. This is responsible for managing the pension plan and has issued investment regulations defining the respective investment strategy. The highest decision-making body for the pension provider is the Board of Trustees. This consists of an equal number of employer and employee representatives from the companies participating in the plan.

Germany

Since the 2011/2012 financial year, HORNBACH-Baumarkt-AG has undertaken to provide members of its Board of Management with a fund-financed pension plan. This model offers the opportunity of increasing pension claims, while the company simultaneously guarantees a minimum return of 2 % p.a. for members of its Board of Management. The assets contributed by the company or additionally paid in by members of the Board of Management are held in a fiduciary capacity and invested in diversified funds by Allianz Treuhand GmbH, Frankfurt am Main. The funds are invested in line with a capital investment concept jointly defined by HORNBACH-

Baumarkt-AG and Allianz Treuhand GmbH. Provided that amendments to the capital investment concept do not contravene the fiduciary objective, HORNBACH-Baumarkt-AG is itself entitled to have such amendments made. The risk that the trust assets do not generate the minimum return of 2% p.a. is borne by HORNBACH-Baumarkt-AG.

The scope of obligation towards plan beneficiaries has been set in each case at a maximum of the fund assets and the present value of contributions paid, including the guaranteed return. To this end, the contributions paid by the employer and by the Board of Management are separately compared in each case with the fund assets.

Furthermore, company employees also have the possibility of participating in a "working time account model". Salary claims can be converted into so-called value credits in line with individual employee's requirements. These value credits may be used, for example, for premature retirement. Directly before the termination of the employment relationship for age-related reasons, these credits can then be used to enable the employee to retire early. Non-disbursed salary claims can be invested in various investment funds in line with the individual employee's risk preference. HORNBACH-Baumarkt-AG guarantees the value retention of amounts contributed to value credits and thus bears the investment risk. Salary components contributed by the company or employees are managed within a so-called double fiduciary model by Allianz Treuhand GmbH, Frankfurt am Main. Provisions for obligations in connection with working time accounts have been offset as of the balance sheet date against the corresponding cover assets in the form of fund shares.

Pensions and similar obligations are structured as follows [1]:

	2013/2014 € 000s	2012/2013 € 000s
Present value of pension obligation	37,654	34,619
less fair value of plan assets	(36,898)	(32,592)
Pension commitments as reported in balance sheet	**757**	**2,027**
of which: pension provisions	757	2,027

[1] Previous year's figures adjusted due to IAS 19R.

The plan assets were structured as follows at the balance sheet date:

	2.28.2014 %	2.28.2013 %
Debt securities	83.5	85.4
Shares	3.4	2.3
Real estate	10.6	10.1
Other	2.5	2.2
	100.0	**100.0**

Change in pension obligation [1)]

	2013/2014 € 000s	2012/2013 € 000s
Present value of pension obligation at beginning of period	34,619	26,827
Current service cost of employer	3,200	2,596
Interest cost	694	672
Remeasurement effects because of changes in demographic assumptions	0	1,034
Remeasurement effects because of changes in financial assumptions	(2,066)	2,367
Remeasurement effects because of experience adjustments	303	371
Employee contributions	2,577	2,132
Net balance of payments contributed and paid out	(876)	(162)
Insurance premiums	(942)	(889)
Foreign currency translation	145	(329)
	37,654	**34,619**

[1)] Previous year's figures adjusted due to IAS 19R.

Change in plan assets

	2013/2014 € 000s	2012/2013 € 000s
Plan assets at beginning of period	32,592	27,920
Interest income	677	592
Return on plan assets (excluding interest income)	(132)	348
Employer contributions	2,865	2,993
Employee contributions	2,577	2,132
Net balance of payments contributed and paid out	(876)	(162)
Insurance premiums	(942)	(889)
Foreign currency translation	136	(342)
	36,898	**32,592**

Responsibility for the plan asset investment strategy has been assigned to Allianz Treuhand GmbH for the German plans and to the top management body (Board of Trustees) at the BVG-Sammelstiftung Swiss Life for the Swiss plans. These external asset managers perform portfolio risk management and synchronize the development in plan assets and pension obligations in line with the conceptual and legal structure of the defined benefit plans.

HORNBACH-Baumarkt-AG analyses the portfolio structure and performance at regular intervals in order to identify any need for action.

The following expenses have been recognized through profit or loss as personnel expenses:

	2013/2014 € 000s	2012/2013 € 000s
Current service cost of employer	3,200	2,596
Interest cost	694	672
Interest income	(677)	(592)
Effects recognized in P&L	**3,217**	**2,676**
Remeasurements	1,763	(3,772)
Return on plan assets (excluding interest income)	(132)	348
Effects recognized in OCI	**1,631**	**(3,424)**
Costs for defined benefit plans	**1,586**	**6,100**

The amounts recognized through profit or loss are included in the personnel expenses allocated to the following items in the income statement:

	2013/2014 € 000s	2012/2013 € 000s
Selling and store expenses	2,299	1,781
Pre-opening expenses	0	55
General and administration expenses	918	840
	3,217	**2,676**

Actuarial assumptions

The calculation has been based on the following actuarial assumptions. These vary depending on the country in which the plan is based.

	2.28.2014		2.28.2013	
	Weighted average	Range	Weighted average	Range
Discount interest rate	2.5%	2.4% to 3.0%	2.1%	2.0% to 3.4%
Expected long-term credit interest rate	2.0%	2.0%	1.8%	1.8%
Future salary increases	1.7%	1.5% to 3.0%	1.7%	1.5% to 3.0%
Future pension increases	0.0%	0.0%	0.0%	0.0%

The discount rate used has been determined on the basis of the return on blue-chip fixed-income bonds. The assumptions concerning future mortality rates are based on published statistics and mortality tables. For plans in Germany, reference has been made to the "Heubeck Richttafeln 2005 G". Swiss plans are governed by the "BVG 2010 Generationentafel".

Sensitivity analysis

Any changes in actuarial assumptions would correspondingly affect the measurement of the present value of the pension obligation. The influence of those actuarial assumptions which, if changed, would materially impact on the measurement of the present value of the pension obligation, has been presented in the following sensitivity analysis. This presents that change in the present value of the pension obligation that would have arisen if different actuarial assumptions had been used as of the balance sheet date. The other parameters influencing the respective values have remained constant.

€ 000s	Present value of pension obligation	
	Increase	Decrease
Discount rate (0.25 basis points change)	(1,332)	1,454
Rate of pension increase (0.10 basis points change)	399	(336)

Future cash flows

Payments of contributions amounting to € 2.7 million are expected for the 2014/2015 financial year.

Expected Payments	2.28.2014 € 000s
2014/2015	286
2015/2016	396
2016/2017	478
2017/2018	568
2018/2019	652
2019 to 2013	11,702

(24) Other non-current liabilities

Other non-current liabilities mainly involve non-current provisions. These include personnel provisions, provisions for contractually assumed structural maintenance obligations, and a provision required by law for the storage of business documents. The rental agreements underlying the maintenance obligations have remaining terms of between 1 and 21 years. The provision for the storage of business documents chiefly relates to statutory storage periods of between 7 and 11 years.

The development in provisions is presented in Note 27.

This item also includes an accrual stated for the amounts paid by HORNBACH Immobilien AG as settlement for the disadvantages sustained by HORNBACH-Baumarkt-AG in connection with the termination of existing rental agreements and the conclusion of new rental agreements with increased rent and the assumption of maintenance expenses. The accrual item established for this purpose is being written back to earnings over the remaining term of the original rental agreements (18 years).

Non-current personnel provisions have been recognized mainly for part-time early retirement commitments and for the statutory reserve required in Austria to cover potential claims on the part of employees in the event of their leaving the company (severance pay).

Part-time early retirement

The provisions for part-time early retirement mainly involve the part-time early retirement agreements concluded by HORNBACH-Baumarkt-AG in the 2005/2006 and 2006/2007 financial years. The work undertaken by part-time early retirees is performed within the framework of the so-called block model. Provisions amounting to € 958k (2012/2013: € 1,810k) have been recognized to cover the performance backlog up to the balance sheet date and for top-up payments. This provision is expected to be reversed upon the final employee thereby entitled reaching regular retirement age in the 2016/2017 financial year. Claims from an existing reinsurance policy have been netted with the existing obligations. The provisions have been calculated by an independent expert on the basis of the 2005 G mortality tables published by Heubeck-Richttafeln-GmbH and using a discount rate of 1.46 % p.a. (2012/2013: 1.64 % p.a.). Moreover, provisions of € 31k (2012/2013: € 12k) were recognized to cover part-time early retirement obligations in Austria.

Severance payments

Upon reaching retirement age (or if their employment is terminated), employees at Austrian subsidiaries are entitled to severance payments provided that they joined the company by December 31, 2002. The level of severance payment entitlement is based on the number of years of service and the most recent level of compensation from the employment relationship. The volume of obligation is reviewed annually and adjusted accordingly on the basis of an external survey. The actuarial risks associated with this plan are borne by HORNBACH-Baumarkt-AG.

Severance payments represent other defined benefit post-employment benefits and are therefore recognized under other non-current liabilities. The provision for severance payments is measured at the present value of the pension obligation.

Change in pension obligation and costs of plan

	2013/2014 € 000s	2012/2013 € 000s	2011/2012 € 000s
Present value of pension obligation at beginning of period	4,126	3,553	3,109
Current service cost of employer	306	284	272
Interest cost	134	148	151
Remeasurement effects because of changes in financial assumptions	(52)	515	340
Remeasurement effects because of experience adjustments	(143)	(92)	2
Net balance of payments contributed and paid out	(368)	(282)	(321)
	4,003	**4,126**	**3,553**

	2013/2014 € 000s	2012/2013 € 000s	2011/2012 € 000s
Current service cost of employer	306	284	272
Interest cost	134	148	151
Effects recognized in P&L	**440**	**432**	**423**
Remeasurements	195	(423)	(342)
Effects recognized in OCI	**195**	**(423)**	**(342)**
Total costs for the plan	**245**	**855**	**765**

The average remaining term of the obligation amounts to 14.8 years (2012/2013: 15.4 years).

Actuarial assumptions and sensitivity analysis

	2.28.2014	2.28.2013	2.29.2012
Discount interest rate	3.3%	3.3%	4.2%
Future salary increases	3.0%	3.0%	3.0%

The discount rate used has been determined on the basis of the return on blue-chip fixed-income bonds. The biometric calculation has been based on "AVÖ 2008 P – Rechnungsgrundlage für die Pensionsversicherungen".

Any changes in actuarial assumptions would correspondingly affect the measurement of the present value of the pension obligation. The influence of those actuarial assumptions which, if changed, would materially impact on the measurement of the present value of the pension obligation, has been presented in the following sensitivity analysis. This presents that change in the present value of the pension obligation that would have arisen if different actuarial assumptions had been used as of the balance sheet date. The other parameters influencing the respective values have remained constant.

€ 000s	Present value of pension obligation	
	Increase	Decrease
Discount rate (0.5 basis points change)	(271)	300
Rate of salary increase (0.25 basis points change)	160	(153)

(25) Trade payables and other liabilities

	2.28.2014 € 000s	2.28.2013 € 000s
Trade payables and advance payments received for orders	226,813	198,253
Liabilities to affiliated companies	1,237	715
of which: to shareholders	165	289
Other liabilities	57,197	49,796
of which: other taxation	17,473	15,116
of which: social security contributions	2,593	2,650
	285,247	**248,764**

As in the previous year, all trade payables and other liabilities have remaining terms of less than one year.

Trade payables are secured by reservations of title to the customary extent.

Other taxation liabilities include amounts for which the individual group companies are liable. Liabilities for social security contributions particularly include contributions yet to be remitted to the social security funds. In addition to the aforementioned items, other liabilities mainly include deposits and pledged funds, merchandise credits not yet redeemed, and amounts due for outstanding invoices.

(26) Income tax receivables and liabilities

The receivables and liabilities relating to taxes on income involve current tax liabilities / receivables and taxes, and tax risks relating to previous financial years. Current income tax provisions are offset against corresponding income tax refund claims, provided that they relate to the same tax jurisdiction 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.

The "German act on fiscal measures accompanying the introduction of the European Company and amending further tax legislation (SEStEG)" came into force on December 13, 2006. Among other aspects, this act allows refunds of corporate income tax credits resulting from the retention of profit in accordance with previous corporation tax law requirements no longer to be linked to the distribution of profits. Furthermore, due to the 2010 Annual Tax Act, corporate income tax claims previously viewed as irrecoverable and amounting to a – discounted – total of € 3.0 million were recognized in the 2010/2011 financial year. The corporate income tax credits will be disbursed in ten equal amounts on September 30 of each year through to 2017. As of February 28, 2014, the HORNBACH-Baumarkt-AG Group had corporate income tax refund claims amounting to € 6.7 million in total (2012/2013: € 8.3 million), which have been recognized at a present value of € 6.5 million (2012/2013: € 8.1 million) under non-current and current income tax receivables.

Reference is made to the information about deferred taxes included in Note 15 with regard to the deferred tax assets and liabilities recognized under non-current assets and non-current liabilities.

(27) Other provisions and accrued liabilities

Other provisions and accrued liabilities developed as follows in the 2013/2014 financial year:

€ 000s	Opening balance at 3.1.2013	Utilization	Reversals	Additions	Interest compounding	Foreign currency translation	Closing balance at 2.28.2014	of which: non-current
Other provisions								
Personnel	7,652	2,984	0	2,162	35	0	6,866	6,866
Miscellaneous	19,812	6,338	757	10,946	111	(38)	23,736	14,418
	27,464	**9,322**	**757**	**13,109**	**146**	**(38)**	**30,602**	**21,284**
Accrued liabilities								
Other taxes	875	523	233	93	0	1	213	0
Personnel	36,217	34,304	607	42,290	0	(262)	43,334	0
Miscellaneous	15,284	12,319	1,303	14,893	0	(60)	16,495	0
	52,376	**47,147**	**2,143**	**57,276**	**0**	**(321)**	**60,042**	**0**
Total	**79,840**	**56,469**	**2,900**	**70,385**	**146**	**(359)**	**90,643**	**21,284**

Miscellaneous other current provisions mainly relate to provisions for onerous contracts, recognized at € 3,548k (2012/2013: € 1,169k), for customers' expected utilization of their rights of return, at € 1,911k (2012/2013: € 1,605k), for litigation risks, at € 793k (2012/2013: € 926k), and for clean-up agreements, at € 280k (2012/2013: € 1,020k).

Reference is made to Note 24 with regard to details of non-current provisions.

Other taxes largely involve the deferral of land tax.

The accrued liabilities for personnel obligations primarily relate to outstanding holiday entitlements, overtime, holiday pay, Christmas bonuses, and employee bonuses.

Miscellaneous accrued liabilities relate in particular to the costs of gas, water, electricity, property duties and advertising, as well as to year-end expenses and legal advisory expenses.

Other Disclosures

(28) Guarantees and other commitments

As in the previous year, there were no guarantees or other commitments as of February 28, 2014.

(29) Other financial obligations and contingent assets

€ million	Maturities Current < 1 year	Non-current 1-5 years	Non-current > 5 years	2.28.2014 Total
Purchase obligations for investments	46.0	55.8	0.0	101.7
Obligations under rental, leasehold and leasing contracts	164.6	568.9	513.1	1,246.6
Other financial obligations	10.0	0.6	0.0	10.6
	220.6	**625.2**	**513.1**	**1,358.9**

€ million	Maturities Current < 1 year	Non-current 1-5 years	Non-current > 5 years	2.28.2013 Total
Purchase obligations for investments	52.5	0.0	0.0	52.5
Obligations under rental, leasehold and leasing contracts	151.4	527.2	446.5	1,125.0
Other financial obligations	10.0	0.6	0.0	10.6
	213.9	**527.8**	**446.5**	**1,188.2**

HORNBACH-Baumarkt-AG draws on the services of various temporary employment agencies to offset seasonal and sickness-related personnel requirements. Some service providers drawn on in the past were organized within the Christian Trade Unions for Temporary Employment and Temporary Employment Agencies Payment Association (CGZP), whose eligibility to negotiate collective payment agreements was not recognized in a verdict passed by the Federal Labor Court (BAG) on December 14, 2010. HORNBACH-Baumarkt-AG is thus exposed to a low risk of recourse claims in the event of insolvency at the relevant temporary employment agencies. These claims would correspond to that portion of the social security contributions not covered by statutory limitation, amounting to a maximum of € 0.9 million.

HORNBACH-Baumarkt-AG agreed a credit line of up to € 50 million with HORNBACH Immobilien AG within the framework of its expansion strategy. The agreement has a term running up to and including June 29, 2018. No funds had been drawn down as of the balance sheet date on February 28, 2014.

The obligations resulting from rental, hiring, leasehold and leasing contracts relate exclusively to those rental contracts in which the companies of the HORNBACH-Baumarkt-AG Group do not constitute the economic owners of the rented assets pursuant to IFRS regulations (operating leases). Rental agreements mainly relate to DIY stores in Germany and abroad. The terms of the rental agreements mostly range from 15 to 20 years, with subsequent rental extension options and purchase options at market value. The agreements include rent adjustment clauses.

An amount of € 154,888k, excluding ancillary expenses, was recognized in the 2013/2014 financial year as rental expenses in connection with operating lease agreements (2012/2013: € 149,225k).

(30) Future income from rental and leasing contracts

Future income from rental and leasing contracts is structured as follows:

Rental income from third parties € 000s	Maturities			Total
	Current < 1 year	Non-current 1-5 years	Non-current > 5 years	
February 28, 2014	1,993	3,348	371	5,712
February 28, 2013	2,968	5,255	292	8,515

Rental income results from the letting of retail real estate. The rental contracts mostly have terms of between 5 and 15 years.

Rental income has only been reported for up to one year in the case of rental contracts with indefinite contractual terms.

(31) Legal disputes

HORNBACH-Baumarkt-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 any material effect on the economic situation of the Group. Moreover, appropriate provisions have been stated and adequate insurance benefits are anticipated at the relevant group companies for any financial charges in connection with other legal or arbitration proceedings. Such charges are therefore not expected to have any material impact on the financial position of the Group.

(32) Supplementary disclosures on financial instruments

The following tables show the carrying amounts of the financial instruments in each IAS 39 measurement category, and their fair values broken down by balance sheet category:

€ 000s	Category	Carrying amount 2.28.2014	Fair value 2.28.2014	Carrying amount 2.28.2013	Fair value 2.28.2013
Assets					
Financial assets	AfS	94	94	1,278	1,278
Other receivables and assets					
Derivatives without hedge relationship	FAHfT	280	280	146	146
Other financial assets	LaR	39,917	39,917	37,780	37,780
Cash and cash equivalents	LaR	371,110	371,110	317,178	317,178
Equity and liabilities					
Financial debt					
Bonds	FLAC	246,401	263,250	245,794	259,500
Liabilities to banks	FLAC	119,906	121,148	128,493	129,515
Liabilities in connection with finance leases	n.a.	1,039	1,056	1,282	1,314
Derivatives with hedge relationship	n.a.	4,400	4,400	6,267	6,267
Derivatives without hedge relationship	FLHfT	0	0	227	227
Trade payables and other liabilities	FLAC	239,232	239,232	210,238	210,238
Accrued liabilities	FLAC	16,495	16,495	15,284	15,284

The following items are outside the scope of IFRS 7: receivables and other assets of € 11,797k (2012/2013: € 17,691k), trade payables and other liabilities of € 72,572k (2012/2013: € 66,351k), and accrued liabilities of € 43,547k (2012/2013: € 37,092k).

Aggregate totals by measurement category: € 000s	Category	Carrying amount 2.28.2014	Carrying amount 2.28.2013
Loans and receivables	LaR	411,027	354,958
Available for sale financial assets	AfS	94	1,278
Financial assets held for trading	FAHfT	280	146
Financial liabilities measured at amortized cost	FLAC	622,034	599,808
Financial liabilities held for trading	FLHfT	0	227

Cash and cash equivalents, financial assets held for sale, other financial assets, accrued liabilities, trade payables, and other liabilities mature in the short term in the majority of cases. Their carrying amounts therefore basically correspond to their fair values as of the balance sheet date.

The derivative financial instruments within hedges recognized in the balance sheet involve interest hedges (interest swaps). Derivative financial instruments outside of hedges include foreign currency items for outstanding orders. Their fair value measurement has been based on customary valuation models (e.g. discounted cash flow method) by reference to interest and foreign exchange curves available on the market and with congruent terms, and thus corresponding to Level 2 input factors in the fair value hierarchy. The fair values of fixed-interest liabilities to banks and of finance leases have been measured by analogy. The credit risk for the aforementioned financial instruments has been accounted for by reference to risk discounts available on the market.

The fair value of the publicly listed bond corresponds to the nominal value multiplied by the market value at the balance sheet date. The fair value has thus been determined by reference to Level 1 data in the fair value hierarchy.

The following financial instruments whose measurement has been based on fair value hierarchy input data have been recognized at fair value in the balance sheet:

€ 000s	2.28.2014	2.28.2013
Assets		
Valuation based on level 2 input data		
Financial assets held for trading	280	146
Equity and liabilities		
Valuation based on level 2 input data		
Derivatives with hedge relationship	4,400	6,267
Financial liabilities held for trading	0	227

Net result by measurement category	2013/2014 € 000s	2012/2013 € 000s
Loans and receivables (LaR)	(1,976)	(619)
Available-for-sale financial assets (AfS)	(755)	0
Financial instruments held for trading (FAHfT and FLHfT)	574	(54)
Financial liabilities measured at amortized cost (FLAC)	(1,108)	(501)

The net results of the measurement category “financial instruments held for trading” are attributable to derivative financial instruments. The net results of the measurement categories “loans and receivables”, "available-for-sale financial assets", and “financial liabilities measured at amortized cost” involve foreign currency translation items, the results of disposals and write-downs.

No financial instruments are reported on a net basis in the balance sheet. Supplementary arrangements permitting the economic netting of recognized financial instruments exist for swap transactions concluded by the Group. Given the current fair values of these transactions, it would not be possible to net these transactions were the triggering event to occur.

The following breakdown presents the economic netting volumes for the previous year:

2.28.2013 € 000s	Gross amount	Set-off	Net amount	Potential netting volume		Potential net amount
				Netting arrangements	Financial collateral	
Assets						
Derivatives without hedge relationship	146	0	146	(76)	0	70
Equity and liabilities						
Derivatives with hedge relationship	6,267	0	6,267	76	0	6,191

(33) Risk management and financial derivatives

Risk management principles

The assets, liabilities and planned financial transactions of the HORNBACH-Baumarkt-AG Group are subject in particular to risks resulting from changes in exchange rates and interest rates.

The aim of the company's risk management is therefore to minimize these market risks by means of suitable financial market-based hedging activities. To achieve this aim, derivative financial instruments are deployed to limit interest rate and foreign currency risks. In general, however, the company only hedges those risks which could impact materially on its financial result.

The necessary decisions may only be taken on the basis of the strategic requirements determined by the Chief Financial Officer. These requirements focus on hedging interest rate and foreign currency risks. Moreover, these requirements do not permit financial transactions to be undertaken for speculative purposes. Furthermore, certain transactions also require prior approval by the Supervisory Board.

The treasury department regularly reviews and monitors the current and future interest charge and the foreign exchange requirements of the overall Group. The Board of Management is informed of its findings on a regular basis.

Market risks

For the presentation of market risks, IFRS 7.40 "Financial Instruments: Disclosures" requires the hypothetical impact on profit and loss and equity which would have resulted if those changes in the relevant risk variables (e.g. market interest rates or exchange rates) which could reasonably be assumed to be possible at the balance sheet date had actually materialized to be presented on the basis of sensitivity analyses. The market risks faced by the HORNBACH-Baumarkt-AG Group consist of foreign currency risks and interest rate risks. The company does not face any other price risks.

Foreign currency risk

Foreign currency risks, i.e. potential reductions in the value of a financial instrument or future cash flow due to changes in foreign exchange rates, particularly apply wherever monetary financial instruments, such as receivables or liabilities, exist in a currency other than the local currency of the company, or will exist in the scheduled course of business. The foreign currency risks of the HORNBACH-Baumarkt-AG Group mainly result from financing measures and from the company's business operations. Exchange rate differences arising from the translation of financial statements into the group currency do not constitute a foreign currency risk as defined by IFRS 7.

The group companies are largely financed by means of external financing measures denominated in the functional currency of the corresponding group company (natural hedging). Moreover, there are also intragroup loans denominated in euros, thus resulting in foreign currency risks at those group companies which have a functional currency other than the euro. These risks are basically not hedged.

The foreign currency risks faced by the HORNBACH-Baumarkt-AG Group in its business operations mainly relate to the purchase of goods in the Far East using US dollars and from intragroup supplies and services, which are basically handled in euros. The US dollar currency risk is hedged using forward exchange transactions and fixed deposits denominated in US dollars.

Including hedging measures, the Group had the following main foreign currency items open as of the balance sheet date:

€ 000s	2.28.2014	2.28.2013
EUR	(31,461)	(31,057)
USD	7,349	2,876
CZK	(681)	(519)

The above EUR currency position results from the following currency pairs: CHF/EUR € -8,254k (2012/2013: € 4,276k), CZK/EUR € 9,457k (2012/2013: € 4,393k), RON/EUR € -14,379k (2012/2013: € -37,473k), and SEK/EUR € -18,285k (2012/2013: € -2,253k).

The most important exchange rates have been presented under "Currency Translation".

In the sensitivity analysis provided below for foreign currency risks, it has been assumed that the foreign currency holdings as of the balance sheet date are representative of the financial year as a whole.

If the euro had **appreciated by 10 %** compared with the Group's other main currencies at the balance sheet date, and all other variables had remained unchanged, consolidated earnings before taxes would have been € 3,944k lower (2012/2013: € 3,236k). Conversely, if the euro had **depreciated by 10 %** compared with the Group's other main currencies at the balance sheet date, and all other variables had remained unchanged, then consolidated earnings before taxes would have been € 3,944k higher (2012/2013: € 3,236k). The hypothetical impact on earnings of € +3,944k (2012/2013: € +3,236k) is the result of the following sensitivities: EUR/RON € 1,458k (2012/2013: € 3,659k), EUR/CHF € 830k (2012/2013: € -432k), EUR/USD € 850k (2012/2013: € 288k), EUR/CZK € -1,051k (2012/2013: € -499k), and EUR/SEK € 1,857k (2012/2013: € 220k).

Interest rate risk

At the end of the year, the Group was principally financed by a euro bond with a nominal total of € 250,000k and by unsecured promissory note bonds with total equivalent nominal values of around € 100,000k (2012/2013: € 100,000k). Furthermore, the Group also has long-term fixed-interest euro loans amounting to € 15,771k (2012/2013: € 21,647k), and long-term CZK loans amounting to € 5,217k (2012/2013: € 6,801k).

The principal long-term financial liabilities with floating interest rates have been converted into fixed-interest financial liabilities using derivative financial instruments.

The sensitivity analysis provided below is based on the following assumptions:

In the case of fixed-interest primary financial instruments, changes in market interest rates only impact on profit and loss or equity when such instruments are measured at fair value. Primary financial instruments measured at amortized cost are therefore not subject to any interest rate risk as defined in IFRS 7. The same applies to financial liabilities which originally had floating interest rates, but which have been converted into fixed-interest financial liabilities by means of cash flow hedges.

Changes in the market interest rates of interest derivatives designated to hedge primary financial instruments with floating interest rates within the framework of a cash flow hedge impact on the hedging reserve within equity and have therefore been accounted for in the equity-related sensitivity analysis.

Changes in the market interest rates of primary financial instruments with floating interest rates impact on the income statement and have therefore been accounted for in the sensitivity analysis.

In the sensitivity analysis for interest rate risks, it has been assumed that the volumes as of the balance sheet date are representative of the financial year as a whole. A parallel shift in the interest rate structure curve has been assumed.

If the market interest rate had been **100 basis points higher** at the balance sheet date, and all other variables had remained unchanged, then consolidated earnings before taxes would have been € 3,498k higher (2012/2013: € 3,007k) and equity before deferred taxes would have been € 1,997k higher (2012/2013: € 2,678k). Conversely, if the market interest rate had been **100 basis points lower** at the balance sheet date, and all other variables had remained unchanged, then consolidated earnings before taxes would have been € 3,498k lower (2012/2013: € 3,007k) and equity before deferred taxes would have been € 2,049k lower (2012/2013: € 2,812k).

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 strictly limited to the extent that financial assets and derivative financial instruments are concluded as far as possible with contractual parties of good credit standing. Moreover, transactions with individual contractual partners are subject to a maximum limit. The risk of receivables default in the operating business is already considerably reduced on account of the retail format (cash & carry). The maximum credit risk is basically equivalent to the carrying amounts of the financial assets, which do not include any material risk clusters.

Liquidity risk

The following tables show the contractually agreed (undiscounted) interest and principal repayments for primary and derivative financial liabilities:

€ 000s	Carrying amount 2.28.2014	Cash flows < 1 year	1-5 years	> 5 years
Primary financial liabilities				
Bonds	246,401	9,688	38,750	259,714
Liabilities to banks	119,906	10,664	118,089	421
Liabilities in connection with finance leases	1,039	277	906	0
Trade payables and other liabilities	239,232	239,188	44	0
Accrued liabilities	16,495	16,495	0	0
	623,073	**276,311**	**157,789**	**260,135**
Derivative financial liabilities				
Foreign currency derivatives without hedge relationship	0	0	0	0
Interest derivatives in connection with cash flow hedges	4,400	1,609	2,791	0
	4,400	**1,609**	**2,791**	**0**
		277,920	**160,580**	**260,135**

€ 000s	Carrying amount 2.28.2013	Cash flows < 1 year	1-5 years	> 5 years
Primary financial liabilities				
Bonds	245,794	10,000	40,000	269,616
Liabilities to banks	128,493	12,238	127,780	1,928
Liabilities in connection with finance leases	1,282	302	1,209	0
Trade payables and other liabilities	210,238	209,904	335	0
Accrued liabilities	15,284	15,284	0	0
	601,090	**247,728**	**169,324**	**271,545**
Derivative financial liabilities				
Foreign currency derivatives without hedge relationship	227	227	0	0
Interest derivatives in connection with cash flow hedges	6,267	2,234	5,924	0
	6,494	**2,461**	**5,924**	**0**
		250,189	**175,248**	**271,545**

All financial liabilities held at the balance sheet date have been included. No account has been taken of budget figures for future new liabilities. Floating-rate interest payments were calculated on the basis of interest rates valid at the balance sheet date. Liabilities denominated in foreign currencies were translated at the relevant reporting date rate.

Reference is made to Note 22 with regard to the management of liquidity risk.

Hedging measures

Hedging transactions serve to hedge the interest rate and foreign currency risks associated with an underlying transaction (hedged item).

Cash flow hedge – interest rate risk

Payer interest swaps are concluded for major long-term financial liabilities with floating interest rates. These enable the variable interest rates on the loans to be converted into fixed interest rates. Creditworthiness risks are not hedged.

As of June 30, 2011, HORNBACH-Baumarkt-AG took up an unsecured promissory note bond of € 80.0 million with a floating interest rate and a term running until June 30, 2016. The funds served to provide follow-up financing for the promissory note bond of the same amount maturing as of June 30, 2011. To secure the interest rate, a forward swap with congruent terms was taken up in the 2010/2011 financial year already. The swap enabled the half-yearly interest payable to be secured for the entire term at a level of 2.11 % p.a., plus a bank margin.

In the 2010/2011 financial year, HORNBACH Baumarkt CS spol s.r.o. took up a floating-rate promissory note bond in CZK with an equivalent value of € 20 million and a term running until August 31, 2015. The interest payable was hedged with a congruent interest swap. The half-yearly interest payable for the CZK promissory note bond via the interest swap was secured at a level of 2.08 % p.a., plus a bank margin, for the entire term.

At the end of the 2013/2014 financial year, the Group had interest swaps amounting to € 107,482k (2012/2013: € 111,177k), with which a transformation from floating interest commitments to fixed interest commitments was achieved. The fair value of the interest swaps amounted to € -4,400k as of February 28, 2014 (2012/2013: € -6,267k) and has been recognized under financial debt.

All interest rate swaps met hedge accounting requirements as of February 28, 2014. Changes in the fair values are recognized in the hedging reserve within equity until the results of the hedged transaction are also recognized.

The following table presents the contractually agreed maturities for the payments, i.e. the time at which the hedged item is recognized through profit or loss:

Start	End	Nominal value at 2.28.2014 in € 000s	Nominal value at 2.28.2013 in € 000s	Reference rate
6.30.2011	6.30.2016	80,000	80,000	6-month Euribor
9.30.2002	9.30.2017	5,550	7,030	3-month Euribor
9.30.2002	9.30.2017	3,771	4,777	3-month Euribor

Start	End	Nominal value at 2.28.2014 in CZK 000s	Nominal value at 2.28.2013 in CZK 000s	Reference rate
8.31.2010	8.31.2015	496,600	496,600	6-month CZK-Pribor

The HORNBACH-Baumarkt-AG Group meets the hedge accounting requirement set out in IAS 39 in that it already documents the relationship between the derivative financial instrument deployed as a hedging instrument and the hedged item, as well as the hedging objective and strategy, at the beginning of any hedging measure. This also includes an assessment of the effectiveness of the hedging instruments thereby deployed. The effectiveness of the hedging relationship is assessed prospectively using the critical terms match method. Retrospective effectiveness is calculated at each balance sheet date using the dollar offset method. A hypothetical derivative is taken as the hedged item. A hedging relationship is termed effective when the changes in the value of the hedging instrument and the hypothetical derivative are compensated by between 80 % and 125 %. Hedging relationships are cancelled without delay upon becoming ineffective.

Other hedging measures – foreign currency risk

The HORNBACH-Baumarkt-AG Group also deploys hedging measures which do not meet the hedge accounting requirements set out in IAS 39, but which nevertheless make an effective contribution towards hedging the Group's financial risks in line its risk management principles. For example, the HORNBACH-Baumarkt-AG Group hedges the foreign currency risks involved in select (planned) transactions, including the embedded foreign currency derivatives potentially resulting from the transactions, such as those involved in the purchase of merchandise in the Far East using US dollars, by working with forward exchange transactions or by making fixed deposit investments denominated in foreign currencies in the form of macro hedges.

The fair value of forward exchange transactions, including the embedded forward exchange transactions, amounted to € 280k at February 28, 2014 (2012/2013: € -81k). Of this sum, € 0k (2012/2013: € 226k) has been recognized under financial debt and € 280k (2012/2013: € 146k) under other assets.

No fair value hedges or net investment in a foreign operation hedges have been undertaken to date.

Derivatives

The following table provides an overview of the nominal and fair values of derivative financial instruments as of the balance sheet date. The values of opposing transactions, such as foreign exchange purchases or sales, have been shown on a net basis. Nominal value totals are shown in the nominal value line without offsetting any opposing transactions.

2.28.2014	Forward exchange transactions	Interest swaps	Total
Nominal value in € 000s	17,730	107,482	125,212
Fair value in € 000s (before deferred taxes)	280	(4,400)	(4,120)

2.28.2013	Forward exchange transactions	Interest swaps	Total
Nominal value in € 000s	33,297	111,177	144,474
Fair value in € 000s (before deferred taxes)	(81)	(6,267)	(6,348)

As all interest swaps are included in effective hedging relationships, the changes in their value, less deferred taxes, have basically been recognized in the hedging reserve within equity. The ineffective portion is recognized through profit or loss under net financial expenses.

The nominal value of forward exchange transactions presented above also includes the nominal value of open foreign currency orders for which IAS 39 requires the foreign currency components to be recognized at fair value. In the 2013/2014 financial year, the Group had foreign currency orders with a nominal value of € 17,730k (2012/2013: € 22,633k).

(34) Sundry disclosures

Employees

The average number of employees was as follows:

	2013/2014	2012/2013
Salaried employees	14,446	13,892
Trainees	768	766
	15,214	**14,658**
of which: part-time employees	3,041	2,832

In terms of geographical regions, 9,030 of the average workforce were employed in Germany during the 2013/2014 financial year (2012/2013: 8,740) and 6,184 in other European countries (2012/2013: 5,918).

Auditor's fee

The fees charged by the auditor of the annual and consolidated financial statements of HORNBACH-Baumarkt-AG, KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, for the year under report were as follows:

	2013/2014 € 000s	2012/2013 € 000s
Auditing of financial statements	411	439
Other certification services	153	410
Tax advisory services	78	38
Other services	35	24
	677	**911**

Information on the German Corporate Governance Code

The annual Declaration of Conformity with the German Corporate Governance Code required by § 161 of the German Stock Corporation Act (AktG) was submitted by the Board of Management and Supervisory Board of HORNBACH-Baumarkt-AG on December 18, 2013 and made available to shareholders on the company's homepage.

(35) Related party disclosures

In addition to the subsidiaries included in the consolidated financial statements, HORNBACH-Baumarkt-AG has direct or indirect relationships with associated companies in the course of its customary business activities. These include the parent company HORNBACH HOLDING AG and its direct and indirect subsidiaries.

The associated companies are:
HORNBACH-Familien-Treuhandgesellschaft mbH

Parent company
HORNBACH HOLDING AG

Associates
HORNBACH Immobilien AG
HORNBACH Baustoff Union GmbH

Subsidiaries and second-tier subsidiaries of associates
Union Bauzentrum Hornbach GmbH
Ruhland-Kallenborn & Co. GmbH
Ruhland-Kallenborn Grundstücksverwaltungsgesellschaft mbH
Robert Röhlinger GmbH
Etablissements Camille Holtz et Cie S.a., Phalsbourg
Saar-Lor Immobilière S.C.I., Phalsbourg
HORNBACH Baustoff Union Grundstücksentwicklungs GmbH
HIAG Immobilien Gamma GmbH
HIAG Immobilien Delta GmbH
HIAG Immobilien Jota GmbH
HIAG Fastigheter i Göteborg AB
HIAG Fastigheter i Helsingborg AB
HIAG Fastigheter i Stockholm AB
HIAG Fastigheter i Göteborg Syd AB
HIAG Fastigheter i Botkyrka AB
HO Immobilien Omega GmbH
HR Immobilien Rho GmbH
HC Immobilien Chi GmbH
HM Immobilien My GmbH
HORNBACH Real Estate Nederland B.V.
HORNBACH Immobilien HK s.r.o.
HORNBACH Immobilien SK-BW s.r.o.
HORNBACH Imobiliare SRL
HB Immobilien Bad Fischau GmbH
SULFAT GmbH & Co. Objekt Bamberg KG
SULFAT GmbH & Co. Objekt Düren KG
SULFAT GmbH & Co. Objekt Saarbrücken KG

The following principal transactions were performed with associates:

	2013/2014 € 000s	2012/2013 € 000s
Rent and ancillary costs for rented DIY stores with garden centers and other real estate	74,133	69,401
Interest charge for group financing	138	160
Interest income for group financing	208	173
Allocations paid for administration expenses	398	385
Allocations received for administration expenses	2,053	2,414
Purchase of non-current assets	0	14,022
Deliveries and services to HORNBACH HOLDING AG and its subsidiaries	160	138
Deliveries and services from HORNBACH HOLDING AG and its subsidiaries	705	805

At February 28, 2014 there were receivables of € 1,884k (2012/2013: € 1,622k) and liabilities of € 1,237k (2012/2013: € 715k) due to HORNBACH HOLDING AG and its subsidiaries. All transactions are undertaken at normal market prices and with customary delivery conditions.

HORNBACH HOLDING AG has provided guarantee declarations for liabilities at the HORNBACH-Baumarkt-AG Group amounting to € 25,938k (2012/2013: € 30,800k). Guarantee fees of € 138k (2012/2013: € 160k) were recognized as expenses at the HORNBACH-Baumarkt-AG Group in this respect during the year under report.

Otmar Hornbach, a former longstanding member of the Supervisory Board and Board of Management, is continuing to put his extensive experience at the company's service within the framework of a consulting agreement. These advisory services are remunerated with a symbolic amount of one euro each month.

Some of the companies included in the consolidated financial statements of HORNBACH-Baumarkt-AG make use of Kurhaus Trifels Seminarhotel GmbH, Annweiler, for seminars and conferences. This company is represented by its managing director, Bettina Hornbach, wife of Albrecht Hornbach. Services of € 11k were performed by the seminar hotel in the 2013/2014 financial year (2012/2013: € 33k). These services were invoiced at customary rates. Liabilities of € 2k were outstanding at the balance sheet date on February 28, 2014 (2012/2013: € 0k).

(36) Events after the balance sheet date

At its meeting on March 19, 2014, the Supervisory Board of HORNBACH-Baumarkt-AG appointed a new member of the Board of Management. Karsten Kühn will become the new Chief Marketing Officer as of October 1, 2014. Within the Board of Management of HORNBACH-Baumarkt-AG he will assume the divisional responsibilities held by his predecessor Jürgen Schröcker, who stood down from his position as of March 31, 2013.

The consolidated financial statements of HORNBACH-Baumarkt-AG for the 2013/2014 financial year were approved for publication by the Board of Management on May 6, 2014.

(37) Supervisory Board and Board of Management

Members of the Board of Management:

Steffen Hornbach — Chairman
Strategic Development, New Distribution Channels, After Sales Services, Marketing*, Market Research*, Internal Communications*, Environmental Issues*, Project Show/Sales Promotion* (* since April 1, 2013)
Public Relations* (until February 28, 2014)

Roland Pelka — Deputy Chairman
Finance, Accounting and Tax, Group Controlling,
Risk Management, Loss Prevention,
Information Technology, Investor Relations,
Public Relations (since March 1, 2014)

Frank Brunner
Operative Store Management, Sales and Services

Susanne Jäger
Strategic and Operative Procurement, Store Planning,
Store Development, Imports, Quality Assurance

Wolfger Ketzler
Personnel, Real Estate Development, Internal Audit and Legal,
Construction and Technical Procurement

Ingo Leiner
Logistics, Company Development, In-house Consulting

Jürgen Schröcker — until March 31, 2013
Marketing, Market Research, Internal Communications, Public Relations, Environmental Issues, Project Show/Sales Promotion

The total compensation paid to the Board of Management of HORNBACH-Baumarkt-AG for performing its duties for the Group in the 2013/2014 financial year amounts to € 5,187k (2012/2013: € 5,505k). Of this sum, € 2,302k (2012/2013: € 2,653k) relates to fixed compensation and € 2,885k (2012/2013: € 2,852k) to performance-related components. Post-employment benefits amounting to € 543k were incurred for active members of the Board of Management in the 2013/2014 financial year (2012/2013: € 625k). These involve expenses incurred to endow pension provisions, which are offset by corresponding asset balances (Note 23). Total compensation paid to former members of the Board of Management amounted to € 739k in the 2013/2014 financial year (2012/2013: € 631k).

Members of the Supervisory Board:

As representatives of the shareholders

Albrecht Hornbach Chairman of the Board of Management HORNBACH HOLDING AG	Chairman
Dr. Wolfgang Rupf Managing Director of Rupf Industries GmbH and Rupf Engineering GmbH	Deputy Chairman
John Declerck Group Strategy Director Kingfisher plc	July 4, 2013 to September 11, 2013
Dr. John Feldmann Supervisory Board member	since July 4, 2013
Erich Harsch CEO dm-drogerie markt GmbH & Co. KG	since July 4, 2013
Christoph Hornbach School Principal	since December 13, 2013
Martin Hornbach Member of the Board of Management Corivus AG	
Véronique Laury CEO Castorama France Kingfisher France S.A.S.	until July 4, 2013
Joerg Walter Sost Managing Partner J.S. Consulting GmbH	
Prof. Dr.-Ing. Jens P. Wulfsberg Professor of Production Technology Universität der Bundeswehr Hamburg	

As representatives of the employees

Kay Strelow Section Manager	Deputy Chairman for the trade unions
Mohamed Elaouch Section Manager	since July 4, 2013 for salaried employees
Martin Fischer Professional Customer Advisor	since July 4, 2013 for salaried employees
Christian Garrecht Security Specialist	since July 4, 2013 for salaried employees
Jörg Heine Incoming Merchandise Manager	until July 4, 2013 for salaried employees
Rudolf Helfer Senior Occupational Safety Specialist	until July 4, 2013 for salaried employees
Sabine Hoffmann Customer Service Employee	until July 4, 2013 for salaried employees
Kerstin Holfert Section Manager	since July 4, 2013 for salaried employees
Hans Kroha State Retail Section Head at ver.di	since July 4, 2013 for the trade unions
Christian Lilie District Manager	until July 4, 2013 for senior employees
Brigitte Mauer Section Manager	since July 4, 2013 for salaried employees
Johannes Otto Assistant Store Manager	until July 4, 2013 for the trade unions
Michael Reiland Store Manager	since July 4, 2013 for senior employees

The total compensation of the Supervisory Board for the 2013/2014 financial year amounted to € 461k (2012/2013: € 392k). Of this sum, € 358k (2012/2013: € 310k) related to basic compensation and € 103k (2012/2013: € 82k) to committee activities.

Mandates in supervisory boards and other control bodies

(Disclosures pursuant to § 285 Number 10 HGB)

Members of the Supervisory Board

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

Albrecht Hornbach
a) HORNBACH Immobilien AG (Chairman)
b) Inception Exploration Ltd. (Member of Board)
Rheinland-Pfalz Bank (Member of Advisory Board)

Dr. Wolfgang Rupf
a) HORNBACH HOLDING AG (Chairman)
IVA Valuation & Advisory AG (Deputy Chairman)
b) Inception Exploration Ltd. (Member of Board)

Dr. John Feldmann
a) Bilfinger SE
HORNBACH HOLDING AG
KION Group AG (Chairman)
KION Material Handling GmbH (Chairman)

Erich Harsch
a) HORNBACH HOLDING AG
b) GS 1 Germany GmbH (Chairman)

Christoph Hornbach
a) Corivus AG
HORNBACH HOLDING AG (Deputy Chairman)

Martin Hornbach
b) Corivus Swiss AG
Corivus GmbH (Chairman of Advisory Board)

Hans Kroha
a) WASGAU Produktions & Handels AG

Joerg Walter Sost
a) HORNBACH HOLDING AG
DUOPLAST AG (since February 2014)
b) Atreus GmbH (Member of Advisory Board)
Aurelius AG (Member of Advisory Board)
Bürger GmbH (Member of Advisory Board)
Deutsche Bank AG (Member of Advisory Board)
DUOPLAST Holding GmbH (Member of Advisory Board since February 2014)
Freudenberg Schwab Vibration Control AG (Member of Advisory Board until December 2013)
Spirella AG (Member of Administrative Board until end of July 2013)
Spirella Holding AG (Member of Administrative Board until end of July 2013)

Members of the Board of Management

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

Steffen Hornbach

a) HORNBACH Immobilien AG

Roland Pelka

a) HORNBACH Immobilien AG (Deputy Chairman)
   WASGAU Produktions & Handels AG
b) Commerzbank AG (Member of Regional Advisory Board, Central Region)

Frank Brunner

b) Hornbach Baumarkt GmbH, Austria (Deputy Chairman)

Wolfger Ketzler

a) RNR AG (Chairman)

Bornheim bei Landau, May 6, 2014

HORNBACH-Baumarkt-Aktiengesellschaft
The Board of Management

Steffen Hornbach

Roland Pelka

Frank Brunner

Susanne Jäger

Wolfger Ketzler

Ingo Leiner

RESPONSIBILITY STATEMENT (BALANCE SHEET OATH)

We hereby affirm that, to the best of our knowledge, the consolidated financial statements give a true and fair picture of the assets, liabilities, financial position and results of operations of the Group in accordance with the applicable reporting principles, and the group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Bornheim bei Landau, May 6, 2014

HORNBACH-Baumarkt-Aktiengesellschaft
The Board of Management

Steffen Hornbach

Roland Pelka

Frank Brunner

Susanne Jäger

Wolfger Ketzler

Ingo Leiner

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by Hornbach-Baumarkt-AG, Bornheim bei Landau/Pfalz, comprising the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements and its report on the position of the company and the Group for the business year from March 1, 2013 to February 28, 2014. 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 (1) HGB are the responsibility of the 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 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 internal control system in respect of the financial reporting process 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 the 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.

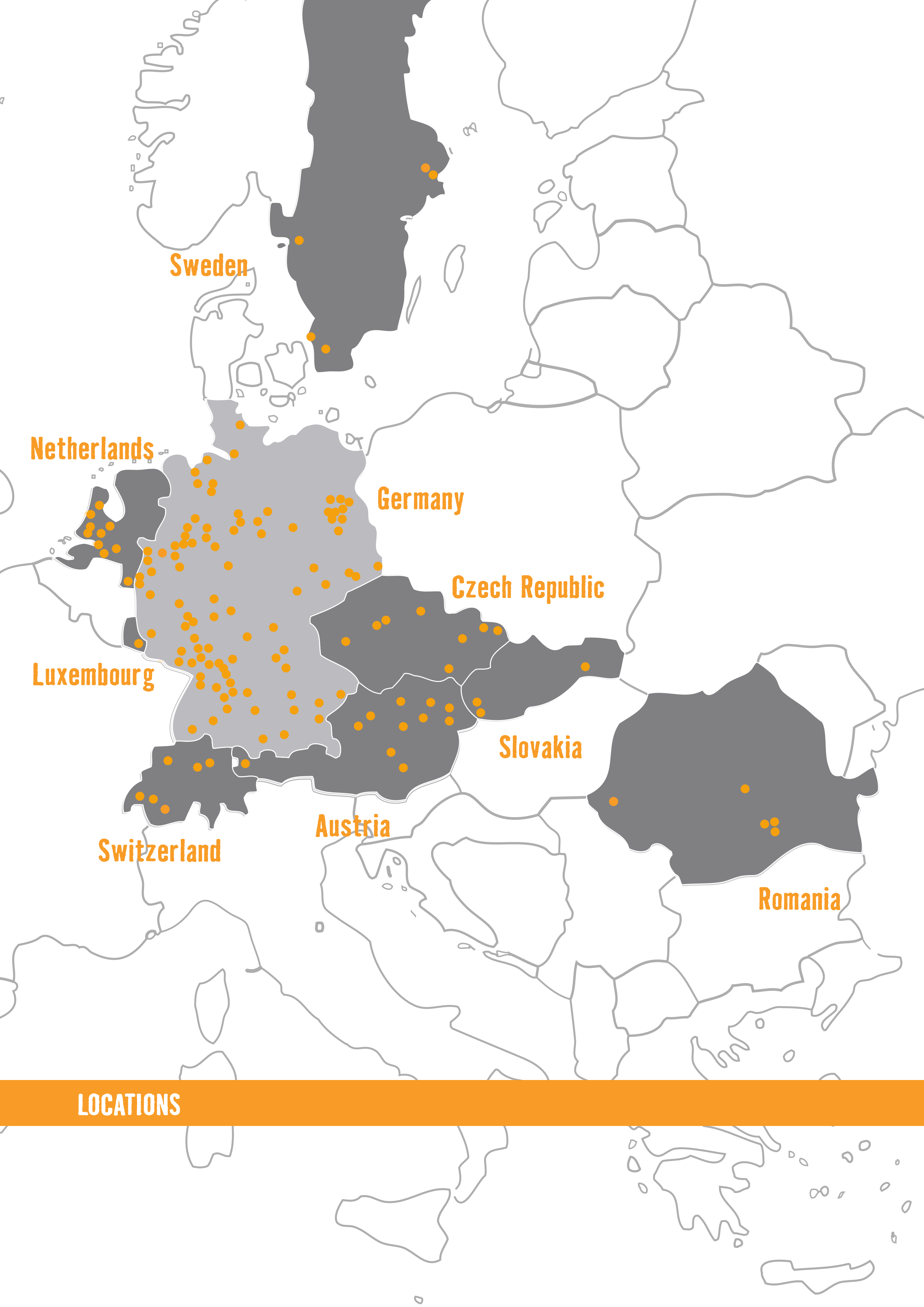
In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a (1) HGB, and give a true and fair view of the net assets, financial position and results of operations 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 6, 2014
KPMG AG Wirtschaftsprüfungsgesellschaft

Bertram
German Public Auditor

Palm
German Public Auditor


HYMER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Germany
Czech Republic
Luxembourg
Slovakia
Romania
Austria
Switzerland

LOCATIONS

Germany

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Binzen
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Karlsruhe-Grünwinkel
Karlsruhe-Hagsfeld
Ludwigsburg
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Mosbach
Pforzheim
Remseck
Rottweil
Schwetzingen
Sindelfingen
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Tübingen

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Berlin-Bohnsdorf
Berlin-Mariendorf
Berlin-Marzahn
Berlin-Neukölln
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Brandenburg
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Ludwigsfelde
Marquardt
Velten

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Bremen, Duckwitzstraße
Bremen, Weserpark
Bremerhaven

Hamburg
Hamburg-Eidelstedt

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Frankfurt-Niedereschbach
Hanau
Lohfelden (Baumarkt)
Lohfelden (Gartencenter)
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Wiesbaden-Biebrich

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Gothenburg
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Biel/Bienne
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Galgenen
Luzern-Littau
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* newly opened in 2013/2014 financial year

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