

Interim Report

HORNBACH-BAUMARKT-AG GROUP

FIRST HALF-YEAR 2004/2005
(MARCH 1 - AUGUST 31, 2004)



HORNBACH

Es gibt immer was zu tun.

HORNBACH-BAUMARKT-AG Group Interim Report (IFRS) for the First Half-Year 2004/2005 (March 1 – August 31, 2004)

- Consolidated sales up by 11.7%
- Like-for-like sales rise by 4.1% in the first half-year
- Sharp rise in earnings as percentage of sales
- Successful market entry in Slovakia

HORNBACH-Baumarkt-AG increased its consolidated sales by 11.7% in the first six months of the current financial year (March 1 to August 31, 2004). As a result of the further

improvement seen in its business performance in the second quarter, like-for-like sales rose by 4.1% across the Group and by 3.1% within Germany. The HORNBACH DIY megastores with garden centers have therefore maintained their growth trajectory in the 2004/2005 financial year and acquired additional market share.

Earnings have risen sharply as a percentage of sales compared with the first half of the 2003/2004 financial year. Consolidated earnings before taxes and extraordinary items improved by 53% to reach € 73m. The key EBITDA figure grew by 30% to € 112m.

Key Figures for HORNBACH-Baumarkt-AG Group (in € m, unless otherwise stated) €	2nd Quarter 2004/2005	2nd Quarter 2003/2004	± %	1st Half-Year 2004/2005	1st Half-Year 2003/2004	± %
Net sales	555.3	487.7	13.9	1,140.5	1,020.7	11.7
of which in other European countries	183.5	157.9	16.2	370.3	325.3	13.8
Like-for-like sales growth	6.1%	2.2%		4.1%	3.1%	
Gross margin (as % of net sales)	36.4%	34.6%		36.6%	35.1%	
EBITDA	52.8	34.4	53.5	112.0	86.4	29.7
Earnings before interest and taxes (EBIT)	37.6	20.3	85.2	83.0	58.0	43.1
Consolidated earnings before taxes and extraordinary items	32.6	15.5	110.3	73.1	47.7	53.2
Extraordinary items	0	0	0	0	1.1	-100.00
Consolidated net income	20.4	8.3	145.8	44.6	30.1	48.2
Earnings per share (€)	1.36	0.55	145.8	2.97	2.01	48.2
No. of employees				10,625	9,483	12.0
Investments				36.6	27.0	35.6
Total assets				1,158.2	1,084.5	6.8
Shareholders' equity				409.1	365.9	11.8
Shareholders' equity as % of total assets				35.4%	33.7%	
No. of stores				116	106	5.7
Sales area as per BHB (in 000 m ²)				1,174	1,062	7.3
Average store size (in m ²)				10,121	10,016	1.0

Three new openings in the second quarter of 2004/2005

Three DIY megastores with garden centers were opened during the second quarter of 2004/2005. In Germany, these were in Osnabrück (June 2004) and Fürth (August 2004). At around 16,400m², the Fürth outlet is now the largest in the HORNBAACH megastore network. It has replaced the location in Fürther Strasse in Nuremberg, which had a sales area of 6,300m². The beginning of August 2004 saw the opening of the first Slovakian HORNBAACH DIY megastore with a garden center at the Bratislava location. This marked the seventh European market entry undertaken by HORNBAACH outside of Germany.

All of the megastores opened in the current 2004/2005 financial year are equipped with a roofed-over construction materials facility accessible to road vehicles. In this way, HORNBAACH – the European market leader in DIY megastores with garden centers – has underlined its particular competence in the “hard” DIY product ranges of construction materials, wood and prefabricated construction products. These megastores will enable private and commercial customers with sizeable renovation or construction plans to purchase their materials even more conveniently.

As of August 31, 2004, the number of retail outlets including the substitution in the Nuremberg / Fürth catchment area and the four Lafiora garden centers integrated as of March 1 had risen to 116 (previous year: 106). With total sales areas of 1,174,000m², the average store size amounts to 10,121m². Of these, 88 are operated in Germany. The 18 HORNBAACH DIY megastores with garden centers in other European countries were distributed as follows: Austria (11), the Netherlands (8), the Czech Republic (4), Switzerland (2), Luxembourg (1), Sweden (1) and Slovakia (1).

Consolidated sales up by 11.7% – like-for-like sales growth of 4.1%

The net sales of the HORNBAACH-Baumarkt-AG Group including its newly opened outlets rose by 13.9% to € 555.3m in the second quarter (June 1 to August 31, 2004), compared with € 487.7m in the equivalent period in the previous year. Cumulative consolidated sales rose by 11.7% to reach € 1,140.5m in the first six months of the financial year (previous year: € 1,020.7m). At € 370.3m, the share of overall sales generated by the HORNBAACH DIY megastores and garden centers outside Germany amounted to 32.5% (previous year: 31.9%).

Like-for-like sales in Germany and abroad rose by 4.1% during the reporting period of March to August 2004, once again surpassing the pleasing level of growth reported for the previous year (3.1%) by a clear margin. The strongest growth was reported for the second quarter, with an increase of 6.1% following 2.3% in the first quarter. Like-for-like sales in the highly competitive German DIY market rose by 3.1% in the first six months

(previous year: 2.3%). In other European countries, this key figure improved by 6.3% (previous year: 5.5%).

HORNBAACH has been able to pull further ahead of the German DIY sector in 2004 and has acquired additional market share. According to the Federal Association of German Home Improvement, DIY and Specialist Garden Stores (BHB), the German DIY store and garden center segment grew by only 0.6% between January and June 2004 following a poor garden season due to weather conditions in the early months of the year. Comparable store sales at HORNBAACH, by contrast, rose by 5.1% in the first half of the calendar year.

Development of Earnings

Further improvements were seen in the second quarter in the positive development of earnings at the HORNBAACH-Baumarkt-AG Group. Consolidated earnings before taxes and extraordinary items for the period from June to August 2004 jumped by 110.1% to € 32.6m (previous year: € 15.5m). Earnings before interest and tax (EBIT) showed a marked improvement of 85.2% to € 37.6m (previous year: € 20.3m).

The pleasing business performance during the reporting period of March to August 2004 means that cumulative consolidated earnings before taxes and extraordinary items rose by 53.2% to € 73.1m (previous year: € 47.7m). Operating earnings (EBIT) increased by 43.1% to € 83.0m (previous year: € 58.0m). The EBIT margin rose from 5.7% to 7.3%. Earnings before interest, taxes, depreciation and amortization (EBITDA) reported a year-on-year increase of 29.7% to € 112.0m (previous year: € 86.4m). The EBITDA margin rose from 8.5% to 9.8%. The net income of the Group grew by 48.2% during the first half of 2004/2005 to reach € 44.6m (previous year: € 30.1m). Earnings per share calculated in line with IFRS rose from € 2.01 to € 2.97.

The very pleasing development of earnings in the first half of the year is primarily due to ongoing growth in like-for-like sales, earnings contributions from newly opened megastores and an improvement in the gross margin compared with the previous year. In spite of further reductions in retail prices, the gross profit rose as a percentage of net sales at the HORNBAACH-Baumarkt-AG Group from 35.1% to 36.6%. This was principally the result of improved procurement conditions and of minor adjustments to the product range. Moreover, the lower level of pre-opening expenses compared with the equivalent period in the previous year (minus 12%) and a slight reduction in the store expenses quota also had a positive impact on the level of earnings.

Personnel

At the reporting date on August 31, 2004, there were 10,625 (previous year: 9,483) individuals across Europe in fixed employment at HORNBAACH-Baumarkt-AG or one of its subsidiaries.

Investments

A total of € 36.6m was invested during the first six months of the current financial year (previous year: € 27.0m), primarily in plant and equipment and in software (64%) and in land and buildings (36%). Information as to the financing and investment activities of HORNBACH-Baumarkt-AG has been provided in the cash flow statement in the notes to this report.

Outlook

The outlook for the current 2004/2005 financial year remains unchanged on the forecast provided at the end of the first quarter. A total of five HORNBACH DIY megastores with garden centers is scheduled to be opened during the 2004/2005 financial year. Following the opening of new megastores in Osnabrück, Bratislava and Fürth in the second quarter, the locations in Braunschweig and in Villeneuve on Lake Geneva (Switzerland)

will commence operations in the third quarter. Taking account of the two location substitutions in Nuremberg and Braunschweig and including the Lafiora garden centers, the number of retail outlets operated by the HORNBACH-Baumarkt-AG Group is expected to amount to 117 by the end of the 2004/2005 financial year. The total net sales of the HORNBACH-Baumarkt-AG Group including newly opened stores are expected to rise to more than € 2.1bn. Like-for-like sales are expected to show growth in excess of the sector average. On account of the company's scheduled expansion, like-for-like sales growth and a stable gross margin, consolidated earnings are expected to rise as a percentage of sales.

Bornheim, September 29, 2004
– The Board of Management –

Financial Calendar 2004

December 21, 2004	Interim Report as of November 30, 2004
April 14, 2005	Preliminary Results 2004/2005
June 24, 2005	Financial Statements Press Conference 2004/2005 and Publication of Annual Report DVFA Analysts Conference Interim Report as of May 31, 2005
September 01, 2005	Annual General Meeting in Frankfurt am Main
September 29, 2005	Interim Report as of August 31, 2005
December 21, 2005	Interim Report as of November 30, 2005

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HORNBACH-Baumarkt-AG Group

Income Statement

€ m	2nd Quarter	2nd Quarter	± %	1st Half-Year	1st Half-Year	± %
	2004/2005	2003/2004		2004/2005	2003/2004	
Sales	555.3	487.7	13.9	1,140.5	1,020.7	11.7
Cost of goods sold	353.2	318.8	10.8	722.6	662.3	9.1
Gross profit	202.1	168.9	19.7	417.9	358.4	16.6
Store expenses	148.1	132.8	11.5	297.4	267.5	11.2
Pre-opening expenses	3.0	2.1	42.9	4.5	5.1	-11.8
General administration expenses	19.0	16.7	13.8	39.8	34.1	16.7
Other operating income and expenses	5.6	3.0	86.7	6.8	6.3	7.9
Earnings before interest and taxes (EBIT)	37.6	20.3	85.2	83.0	58.0	43.1
Net financial expenses	-5.0	-4.8	4.2	-9.9	-10.3	-3.9
Consolidated earnings before taxes and extraordinary items	32.6	15.5	110.3	73.1	47.7	53.2
Taxes on income	12.2	7.2	69.4	28.5	18.7	52.4
Consolidated earnings after taxes and extraordinary items	20.4	8.3	145.8	44.6	29.0	53.8
Extraordinary items	0.0	0.0	0.0	0.0	1.1	-100.0
Consolidated net income	20.4	8.3	145.8	44.6	30.1	48.2
Undiluted earnings per share (in €)	1.36	0.55	145.8	2.97	2.01	48.2

HORNBACH-Baumarkt-AG Group

Balance Sheet

ASSETS	August 31, 2004		August 31, 2003		February 29, 2004	
	€ m	%	€ m	%	€ m	%
A. Long-term assets	630.9	54.5	639.6	59.0	654.2	56.2
I. Intangible assets	16.8	1.5	12.3	1.1	15.2	1.3
II. Property, plant & equipment	600.6	51.9	614.3	56.6	621.6	53.4
III. Financial assets	0.9	0.1	1.1	0.1	0.8	0.1
IV. Other long-term assets	1.6	0.1	1.6	0.1	1.5	0.1
V. Deferred tax claims	11.0	0.9	10.3	0.9	15.1	1.3
B. Short-term assets	527.3	45.5	444.9	41.0	508.1	43.8
I. Inventories	410.5	35.4	364.9	33.6	425.0	36.6
II. Receivables and other assets	75.6	6.5	31.9	2.9	34.5	3.0
III. Liquid funds	41.2	3.6	48.1	4.4	48.6	4.2
TOTAL ASSETS	1,158.2	100.0	1,084.5	100.0	1,162.3	100.0

LIABILITIES	August 31, 2004		August 31, 2003		February 29, 2004	
	€ m	%	€ m	%	€ m	%
A. Shareholders' equity	409.1	35.4	365.9	33.7	363.4	31.2
I. Subscribed capital	45.0	3.9	45.0	4.1	45.0	3.9
II. Capital reserve	122.5	10.6	122.5	11.3	122.5	10.5
III. Revenue reserve	197.0	17.0	168.3	15.5	167.9	14.4
IV. Consolidated net income	44.6	3.9	30.1	2.8	28.0	2.4
B. Long-term liabilities	334.6	28.9	339.0	31.3	335.4	28.8
I. Financial liabilities	283.5	24.5	289.9	26.7	286.5	24.6
II. Deferred taxes	44.3	3.8	43.4	4.0	42.0	3.6
III. Other liabilities	6.8	0.6	5.7	0.6	6.9	0.6
C. Short-term liabilities	414.5	35.7	379.6	35.0	463.5	40.0
I. Financial liabilities	106.8	9.2	79.1	7.3	129.0	11.1
II. Trade accounts payable and other liabilities	220.1	19.0	242.3	22.4	271.4	23.4
III. Tax provisions	30.5	2.6	20.0	1.8	14.2	1.2
IV. Other provisions	57.1	4.9	38.2	3.5	48.9	4.3
TOTAL LIABILITIES	1,158.2	100.0	1,084.5	100.0	1,162.3	100.0

HORNBACH-Baumarkt-AG Group

Cash Flow Statement

	1st Half-Year 2004/2005	1st Half-Year 2003/2004
	€ m	€ m
Consolidated earnings after taxes and before extraordinary items	45	29
Depreciation and amortization of fixed assets	29	28
Change in provisions	24	19
Profits / losses on the sale of fixed assets	0	-1
Change in inventories, trade accounts receivable and other assets	-9	-11
Change in trade accounts payable and other liabilities	29	17
Other income / expenses with no cash effect	7	3
Receipts / payments of extraordinary items	0	2
Inflow of funds from ordinary trading activities	125	86
Receipts from disposals of fixed assets	5	38
Payments for investments in tangible assets	-37	-26
Payments for investments in intangible assets	-3	-1
Outflow / inflow of funds for / from investments activities	-35	11
Payments to shareholders	0	-13
Receipts from the proceeds of financial loans	12	18
Payments for the redemption of financial loans	-18	-16
Receipts / payments from group financing activities	-71	-12
Change in short-term financial loans	-21	-49
Outflow of funds for financing activities	-98	-72
Change in liquid funds	-8	25
Liquid funds at March 1	49	23
Liquid funds at August 31	41	48

HORNBAACH-Baumarkt-AG Group

Change in Consolidated Shareholders' Equity

1st Half-Year 2003/2004							
€ m	Subscribed capital	Capital reserve	Hedging reserve	Cumulative currency conversion	Other revenue reserves	Net income	Total equity
Balance at 03.01.2003	45	122	-2	1	168	15	349
Dividend distributions						-13	-13
Currency adjustments				-1			-1
Valuation of derivative financial instruments, net after tax			1				1
Transfer to reserves					2	-2	0
Net income						30	30
Balance at 08.31.2003	45	122	-1	0	170	30	366

1st Half-Year 2004/2005							
€ m	Subscribed capital	Capital reserve	Hedging reserve	Cumulative currency conversion	Other revenue reserves	Net income	Total equity
Balance at 03.01.2004	45	122	-2	0	170	28	363
Currency adjustments				1			1
Transfer to reserves					28	-28	0
Net income						45	45
Balance at 08.31.2004	45	122	-2	1	198	45	409

HORNBAACH-Baumarkt-AG Group

Notes to the Group Interim Report (IFRS) as of August 31, 2004

(1) Accounting Principles

This non-audited group interim report of HORNBAACH-Baumarkt-AG and its subsidiaries for the first half-year as of August 31, 2004 has been compiled in accordance with the accounting principles promulgated by the International Accounting Standards Board (IASB), London. Application has been made of all International Financial Reporting Standards (IFRS) and interpretations of the International Financial Reporting Interpretation Committee (IFRIC), previously the Standing Interpretation Committee "SIC" valid as of August 31, 2004.

The accounting principles applied in the compilation of this interim report correspond to those applied in the consolidated financial statements as of February 29, 2004. The Group has made additional application of IAS 34 "Interim Reporting". This interim report is to be read in conjunction with the consolidated financial statements of HORNBAACH-Baumarkt-AG for the 2003/2004 financial year. Reference is made to these financial statements on account of the additional information they contain as to the particular accounting and valuation methods applied. The notes included therein also apply to this interim report unless expressly indicated otherwise.

(2) Reporting Entity

The company BM Immobilien Alpha GmbH was sold on the basis of the contract dated August 24, 2004. The company was removed from the reporting entity as of August 31, 2004.

(3) Newly issued accounting standards

The IASB issued new or revised and supplemented standards in March 2004. The new standards and those standards revised within the framework of the "improvement projects" are only required to be applied by HORNBAACH-Baumarkt-AG from March 1, 2005. No application is to be made of the possibility of voluntarily applying the standards at an earlier stage.

In line with the transitional requirements outlined in IFRS 3 "Business Combinations", the standard is to be applied to all business combinations for which contracts are concluded on or after March 31, 2004. At HORNBAACH-Baumarkt-AG, the standard is only applicable with effect from the 2005/2006 financial year to goodwill resulting from earlier business combinations. Overall, the standard has no implications for the interim financial standards as of August 31, 2004.

(4) Seasonal influences

Due to weather conditions, the HORNBAACH-Baumarkt-AG Group is subject to lower sales in the autumn and winter than in the spring and summer months. These seasonal variations are reflected in the figures for the first half of the financial year. The results of business operations for the first six months up to August 31, 2004 do not necessarily provide an accurate indication of the results to be expected for the overall financial year.

(5) Amendment of contingent liabilities and receivables

Additional risks relating to possible legal disputes were identified as of August 31, 2004. Any recourse on the part of HORNBAACH-Baumarkt-AG is not deemed probable, but cannot be entirely excluded. The potential recourse amounts to € 11.3m. In respect of the recourse relating to this matter, HORNBAACH-Baumarkt-AG has a reimbursement claim in the same amount.

(6) Adjustments made to the Interim Financial Statements

With effect from the first quarter of 2004/2005, the income statement of HORNBAACH-Baumarkt-AG was compiled for the first time using the standard international cost of sales accounting method. The resultant harmonization of internal and external reporting structures also reflects in aggregate form in the company's external accounting that information considered to be useful and of relevance to the internal management of the company. This provides a common language both within the company and in its communications with the capital markets. The harmonization involved the restructuring and revised summarization of items within the income statement. The figures contained in the income statement for the previous year have been adjusted accordingly. This has

resulted in particular in an amendment of earnings before interest and taxes (EBIT), given that the other taxes previously reported under tax expenses have been allocated to the functional divisions in which they arise.

The adjustments made are structured as follows:

# m	2nd Quarter 2003/2004	1st Half-Year 2003/2004
(EBIT) as reported	20.9	59.1
Other taxes	0.6	1.1
(EBIT) following adjustment	20.3	58.0

The segment results (c.f. Segment Reporting) have been adjusted to take account of the amended earnings before interest and taxes (EBIT).

(7) Store expenses

Store expenses include costs incurred in connection with the operation of DIY megastores with garden centers. They primarily consist of personnel, advertising, general operating, depreciation and rental expenses.

(8) Pre-opening expenses

Direct costs incurred in connection with the construction of a new DIY megastore with a garden center and which arise at or close to the time of such construction are reported as pre-opening expenses. These primarily consist of personnel expenses and other expenses.

(9) Administration expenses

Administration expenses include all those administration costs incurred in connection with the operation or construction of DIY megastores with garden centers which cannot be directly allocated to such projects. These primarily relate to personnel expenses, legal and advisory expenses, IT expenses, as well as to depreciation and other administration expenses.

(10) Other operating income and expenses

Other operating income and expenses are structured as follows:

€ m	2nd Quarter 2004/2005	2nd Quarter 2003/2004	± %
Other operating income	9.3	4.8	93.8
Other operating expenses	3.5	1.8	94.4
Other operating income and expenses	5.6	3.0	86.7

€ m	1st Half-Year 2004/2005	1st Half-Year 2003/2004	± %
Other operating income	14.3	11.0	30.0
Other operating expenses	7.5	4.7	59.6
Other operating income and expenses	6.8	6.3	7.9

Other operating income primarily relates to advertising grants, income from transfers within the HORNBACH HOLDING AG Group and other income generated within the framework of operating activities.

Other operating expenses principally consist of expenses which cannot be accurately allocated to any particular functional division and which are incurred within the framework of operating activities. These include in particular exchange rate differences, losses incurred on the disposal of fixed assets and losses resulting from damages.

(11) Net financial expenses

Net financial expenses are structured as follows:

€ m	2nd Quarter 2004/2005	2nd Quarter 2003/2004	± %
Interest and comparable income	0.1	0.1	0.0
Interest and comparable expenses	5.1	4.9	4.1
Net financial expenses	5.0	4.8	4.2

€ m	1st Half-Year 2004/2005	1st Half-Year 2003/2004	± %
Interest and comparable income	0.3	0.2	50.0
Interest and comparable expenses	10.2	10.5	-2.9
Net financial expenses	9.9	10.3	-3.9

(12) Other disclosures

The personnel expenses of the HORNBAACH-Baumarkt-AG Group amounted to € 167.0m at the end of the first half-year on August 31, 2004 (previous year: € 149.4m). Personnel expenses have been restructured in the course of the conversion to cost of sales accounting. This has resulted in an increase of € 2.5m in the level of personnel expenses reported for the previous year. Depreciation and amortization totaling € 29.0m was undertaken on intangible assets and property, plant and equipment at the HORNBAACH-Baumarkt-AG Group in the first six months of the 2004/2005 financial year (previous year: € 28.4m).

(13) Taxes on income

Taxes on income are structured as follows:

€ m	2nd Quarter 2004/2005	2nd Quarter 2003/2004	± %
Current tax expenses	9.2	6.4	51.6
Deferred tax expenses	3.0	0.8	275.0
	12.2	7.2	69.4

€ m	1st Half-Year 2004/2005	1st Half-Year 2003/2004	± %
Current tax expenses	21.8	15.9	37.1
Deferred tax expenses	6.7	2.8	139.3
	28.5	18.7	52.4

(14) Earnings per share

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

Earnings per share

	2nd Quarter 2004/2005	2nd Quarter 2003/2004
Number of shares issued	15,011,500	15,011,500
Net income allocable to the shareholders of HORNBAACH-Baumarkt-AG (in € m)	20.4	8.3
Earnings per share (in €)	1.36	0.55

	1st Half-Year 2004/2005	1st Half-Year 2003/2004
Number of shares issued	15,011,500	15,011,500
Net income allocable to the shareholders of HORNBAACH-Baumarkt-AG (in € m)	44.6	30.1
Earnings per share (in €)	2.97	2.01

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

(15) Segment reporting

1st Half-Year 2004/2005 in € m (1st Half-Year 2003/2004 in € m)	DIY Megastores	Real Estate	Other and Consolidation	HORNBAACH- Baumarkt-AG Group
Segment income	1,140.1	44.0	-43.6	1,140.5
	(1,020.0)	(34.3)	(-33.6)	(1,020.7)
- Sales proceeds from external third parties	1,139.7	0,0	0,0	1,139.7
	(1,019.4)	0,0	0,0	(1,019.4)
- Sales proceeds from affiliated companies	0.4	0.0	0.0	0.4
	(0.6)	(0.0)	(0.0)	(0.6)
- Rental income from affiliated companies, internal rental income	0.0	43.6	-43.6	0.0
	(0.0)	(33,9)	(-33.6)	3
- Rental income from external third parties	0.0	0.4	0.0	0.4
	(0.0)	(0.4)	(0.0)	(0.4)
Segment Result (EBIT)	76.3	11.9	-5.2	83.0
	(50.4)	(10.4)	(-2.8)	(58.0)

Bornheim, September 29, 2004

The Board of Management of
HORNBAACH-Baumarkt-Aktiengesellschaft