

Energy package establishes new incentives for energy-saving renovations

With its revision of the Energiesparverordnung (EnEV – Energy Conservation Regulations), the German government has created incentives for property owners and builders to invest in energy-efficient construction and renovation projects. The programme which was finalised in mid-2007 and has since entered into effect consists of financial incentives, an energy certificate and changes in regulations.

In the future, anyone intending to rent out or sell property will require an energy certificate. This certificate documents the level of energy consumption which is expected of a property. Thus, Germany is one of the first EU member countries to implement parts of the European Energy Performance of Buildings Directive (EPBD; see info box) regarding the overall energy efficiency of buildings.

A significant element of the energy certificate is a colour-graded scale which shows whether the building exhibits a high (green), average (yellow) or low (red) energy efficiency level. Thus, the energy certificate creates more transparency regarding the actual energy consumption of a property and subsequently with regard to expected heating costs as well. In the event of low energy efficiency, the lessor or seller will have to expect lower rents or a lower selling price in the market. High energy efficiency however, will increase a property's value. This creates an economic incentive to carry out energy-saving refurbishment and renovation work. In addition, the energy certificate also contains specific, though noncommittal, modernisation advice.

A sample of an energy certificate for residential structures can be found under the following link: http://energieausweis-fuer-wohngebaeude.de/Energieausweis_fuer_Wohngebaeude_Musterausweis.pdf (only in German).

The energy certificate is mandatory from as early as mid-2008 for the sale or letting of buildings constructed prior to 1965, then as of January 2009 for younger structures, and as of July 2009 for all newly constructed projects. Fines of up to €15,000 can be levied for failure to comply.

Editorial

Germany's retail industry has concluded a difficult year. The VAT increase at the start of last year as well as rising prices for oil and food in the second half of the year led to a stagnation of consumption. As with the entire retail industry, the DIY sector also suffered from the dull consumer climate. In addition, residential construction declined sharply in 2007. Accordingly, related impacts on demand mostly failed to materialise.

From today's standpoint, it is difficult to forecast what 2008 has in store. General economic conditions in Germany are considered to be robust. Thus, the German government expects economic growth amounting to 1.7%, mainly driven by an increase in private consumption.

Moreover, the DIY store sector still could benefit from a further impulse: upon enactment of Germany's revised Energiesparverordnung (EnEV – Energy Conservation Regulations) on 1 January 2008, the German government has created new incentives for energy-saving renovations.

The first edition of Investor News 2008 deals with these topics and provides some links in case you should require additional information.

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ENERGIEAUSWEIS für Wohngebäude
freiwillige Auswahlscheite verbrauchsbasierter Energieausweis

dena Deutsche Energie-Agentur

Gültig bis: 25.04.2017

Energieverbrauchskennwert

Dieses Gebäude: 213,4 kWh/(m² a)

Energieverbrauch für Warmwasser: enthalten nicht enthalten

Gebäude

| | |
|---------------------------------|-------------------|
| Gebäudetyp | Mehrfamilienhaus |
| Strasse, Haus-Nr. | Musterstr. 123 |
| PLZ, Ort | 12345 Musterstadt |
| Gebäudeart | Vorderhaus |
| Baujahr Gebäude | 1928 |
| Baujahr Anlagentechnik | 1982 |
| Anzahl Wohnungen | 9 |
| Gebäudefläche (A _g) | 575 m² |

Anlass der Ausstellung des Energieausweises: Neubau Modernisierung (Reparatur/Erweiterung) Sonstiges (freiwillig)

Vermietung / Verkauf Modernisierung (Reparatur/Erweiterung) Sonstiges (freiwillig)

Aussteller: Paul Mustermann, Ingenieurbüro Mustermann, Musterstraße 45, 12345 Musterstadt

Vergleichswerte Endenergiebedarf

| | |
|------------|------|
| Passivhaus | 15 |
| MFH Neubau | 25 |
| MFH Neubau | 35 |
| MFH Neubau | 45 |
| MFH Neubau | 55 |
| MFH Neubau | 65 |
| MFH Neubau | 75 |
| MFH Neubau | 85 |
| MFH Neubau | 95 |
| MFH Neubau | 105 |
| MFH Neubau | 115 |
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| MFH Neubau | 645 |
| MFH Neubau | 655 |
| MFH Neubau | 665 |
| MFH Neubau | 675 |
| MFH Neubau | 685 |
| MFH Neubau | 695 |
| MFH Neubau | 705 |
| MFH Neubau | 715 |
| MFH Neubau | 725 |
| MFH Neubau | 735 |
| MFH Neubau | 745 |
| MFH Neubau | 755 |
| MFH Neubau | 765 |
| MFH Neubau | 775 |
| MFH Neubau | 785 |
| MFH Neubau | 795 |
| MFH Neubau | 805 |
| MFH Neubau | 815 |
| MFH Neubau | 825 |
| MFH Neubau | 835 |
| MFH Neubau | 845 |
| MFH Neubau | 855 |
| MFH Neubau | 865 |
| MFH Neubau | 875 |
| MFH Neubau | 885 |
| MFH Neubau | 895 |
| MFH Neubau | 905 |
| MFH Neubau | 915 |
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| MFH Neubau | 965 |
| MFH Neubau | 975 |
| MFH Neubau | 985 |
| MFH Neubau | 995 |
| MFH Neubau | 1005 |

Datum: Unterschrift des Ausstellers

Soon to be mandatory: the „Energieausweis“.

Financial support for energy-saving modernisation

In addition to this regulatory measure, financial incentives should add impetus to the modernisation process: Approximately 17.3 million residential structures exist in Germany, almost three-quarters of which were built prior to 1978 and thus already are over 30 years old. Heating and warm-water costs comprise by far the biggest portion of utility costs. According to the German Tenants' Association "Deutscher Mieterbund", these add up to an average of 86 cents per square meter of living space each month. That amounts to €68.80 per month for a 80 square meters - with an upward tendency.

Substantial amounts of energy and consequential utility costs can be cut by modernising the heating system, replacement of windows, and insulation of external walls, cellar ceilings and roofs. In many cases, insulation of external walls and the roof account for the largest part of potential savings, reducing energy requirements by 30% to 50%.

The insulation of a cellar ceiling of a single-family dwelling costs just under €2,000 and currently saves about €150 in heating costs per year – and even more in light of rising oil and gas prices. A financial support program was established by the German government in order to shorten the amortisation period. Whoever renovates a

building to make it more energy-efficient, is entitled to receive either a subsidy or a reduced-interest loan within the scope of this program. Via the KfW Förderbank (German development bank), the federal government is providing a total of €1.4 billion for energy-saving renovations. Details regarding the various measures can be found at: http://www.kfw-foerderbank.de/EN/Home/Housing_Construction/index.jsp

Positive impact on the DIY sector

It is difficult to estimate the extent to which the DIY sector can benefit from this development. However, it is virtually certain that it will benefit. Rising energy prices and growing environmental awareness, increased transparency due to the energy certificate, and the opportunity to receive financial assistance for the refurbishment of buildings fuel expectations of an increase in renovation projects.

The BHB trade association also sees it this way: 'Enormous potential is opening up for the do-it-yourself sector. Home-improvement stores are an important source for renovation-minded people looking to stock up on necessary materials.'

Further information regarding the German government's energy and environment package can be found at http://www.bundesregierung.de/Content/EN/Artikel/2007/12/2007-12-05-energie-klima-programm__en.html

EU demands more transparency regarding energy efficiency of buildings

Within the scope of a market-oriented strategy for energy-saving in the building sector, the European Union is counting on an increase in market transparency. This should stimulate energy-efficient refurbishing of buildings and thus assist in achieving the reduction aims of the Kyoto Protocol. For this purpose, the European Energy Performance of Buildings Directive (EPBD) regarding the overall energy efficiency of buildings demands the introduction of energy certificates in all EU member countries. Energy certificates have been introduced in Denmark, Germany and the Netherlands.

Further information:

Internet page of the EU Commission regarding the building directive: www.buildingsplatform.eu.

The EU Commission's concerted effort for all member countries regarding implementation of the building directive: www.epbd-ca.org.

The European Commission's proposals to fight climate change and promote renewable energy: http://ec.europa.eu/commission_barroso/president/focus/energy-package-2008/index_en.htm#key.



Gardening: traditionally high sales, superior margins.

Easy-to-Shop: Roll-out-plan optimised

2007 Praktiker has converted 61 stores in Germany to the new Easy-to-Shop concept. Evenly spread throughout the year, 10 to 12 stores were converted every two months. The stores are not closed during this conversion phase that normally lasts for around six weeks. So sales continue but of course are effected by the reorganisation measures, e.g. the shifting of shelves.

Experience has shown that sales in these weeks are therefore generally declining in a low double-digit percentage rate. Especially in the gardening season, were

sales are traditionally high and margins are superior, this downturn has a notably negative effect. Sales losses of a similar percental magnitude have a stronger-than-average impact on the gross margin when occurring during high season. For this reason, the Praktiker management decided not to convert stores to Easy-to-Shop in the high season any more.

Nevertheless, this decision will not lead to a change in the original plan to convert more than 80 percent of the Praktiker store network to Easy-to-Shop by 2010. The total amount of the expected costs of conversion stay unchanged as well.

Ifo Business Climate Index rises slightly, but retailers remain negative

The business climate index for industry and trade in Germany is tending slightly upwards in January.

The business climate in the construction industry has brightened, but in retailing the indicator has fallen once again.

The last time the business climate in German retailing was this unfavourably assessed was nearly two years ago. This is the result of a decline in the non-food sector, while an upwards trend developed in the segments of food, beverages and tobacco. With regard to prospects for the coming half-year, retailers also responded more sceptically than in the previous month, led by the non-food sector again. Retail prices increased further. There are indications that price increases will accelerate over the next few months, particularly for food, beverages and tobacco.

Further information on the Ifo Business Climate Index can be found at <http://www.cesifo-group.de/portal/page/portal/ifoHome/a-wininfo/d1index/10indexgsk?lang=e>

GfK sees mixed picture of consumer confidence - despite more disposable income

In January, the German consumer sentiment, as surveyed by the Gesellschaft für Konsumforschung (GfK), reached 4.5 points. This was a slight improvement compared to December 2007 (4.4). For February, the overall consumer climate indicator is forecast to stay at the same level as in January.

The GfK sees the German consumers „to face a rollercoaster of emotions“. At nationwide level, the view is that the risk of inflation persists. In addition, the continued financial market crisis that is increasingly accompanied by fears of a recession in the USA is threatening to spill over into Germany. At the same time, some fundamental parameters such as the positive development in the labor market remain favorable.

Unemployment insurance declines – health insurance contributions increase

Numerous health insurance providers increased their premiums at the start of the year. Thus, the average rate has risen from 14.7% to 15.0% of gross wages. Half of that amount is covered by the employee and the other half by the employer. Contributions towards unemployment insurance have been reduced from 4.2% to 3.3%. Here, as well, one-half is covered by the employer. In sum, this results in a marginal reduction of social-insurance contributions and a slight increase in discretionary income for the average wage earner.

Federal government expects private consumption

In its most recent economic forecast for 2008, the German government is assuming economic growth amounting to 1.7%. This growth should be strongly driven by a recovery of private consumption. According to estimates, private consumption should pick up by 1.1% in real terms, following a slight drop in 2007.

Employment figures will rise further by

280,000 and will be pegged at over 40 million. At the same time, gross wages and salaries are likely to increase by 2.7%, thus at a higher rate than consumer prices, for which the annual economic report assumes a rise of considerably less than 2%.

The complete annual economic report can be found at: http://www.bundesregierung.de/Content/EN/Artikel/2008/12/23.01.08-energie-klima-programm__en.html

Retail trade association cautiously optimistic

The Federation of German Retailers (HDE) is also cautiously optimistic about the future. 2007 showed a less-than-pleasant overall performance, mainly due to the poor Christmas trade. As a consequence, the sector did not match the previous year's level of revenues. For 2008 the Federation expects 2% nominal growth. In real terms, a 0.75% increase should result at the end of the year. This expectation is supported by the fact that employment figures in Germany are rising further, the inflation rate remains moderate, and wage agreements are being concluded above the inflation rate.

700 euros more disposable income in 2008

According to the GfK survey on purchasing power German consumers will have an average of 700 euros more to spend in 2008 than in the current year. With this growth of approximately 3.8%, purchasing power is growing faster than inflation. German purchasing power has been continually rising for many years. Although there are no double digit increases, affluence is continuing to grow at a high level. Although there is still a significant discrepancy between East and West, the level of affluence is also constantly increasing in most of the eastern states of Germany.

Further information on the GfK survey on purchasing power in Germany can be found at http://www.gfk.com/group/press_information/press_releases/001885/index.en.html