

### Expansion comes in two colours: blue and yellow

Praktiker is the first Western DIY retail company to open a store in the Ukraine. The Ukraine's national colours are blue and yellow. With a rapid and country-wide expansion strategy, Praktiker will soon be making blue and yellow synonymous with DIY. The chances of success are promising because the need for renovation is high and the economy is growing strongly.

As in the case of Romania and Bulgaria, the Ukraine also has major potential for renovation and home improvement. At a good 70 percent, the ratio of homeowners is far above the European average.

The economy is growing at a fast pace, development is primarily supported by private consumption and the need to catch up is enormous. The gross domestic product grew by over 6 percent in the first nine months of the year, for instance. Construction and trade increased by more than 10 percent in the same period.

Using the slogan "Easy with Praktiker," Praktiker is now the first Western DIY retail company to offer all that is needed for renovation: a broad DIY assortment and professional service.

The assortment of 40,000 articles focuses on traditional renovation areas such as plumbing fixtures, floor coverings, tiling, construction materials and tools/machinery. As in most international markets, the entire range is complemented by brown and white goods as well as furniture. In terms of service, Praktiker is distinguishing itself in se-



The opening of the new Praktiker store in the Ukraine was a big success.

#### Editorial

Expansion into Eastern European growth markets is a mainstay of our business strategy. Entering the market in a new country is always something very special because it unlocks completely new growth potential.

On 29 November, we took this step in the Ukraine and opened our first store in Donezk. This was also our 85th store outside of Germany and the 425th in the entire Praktiker Group.

When the current year ends, more than 28,000 employees in nine countries will have generated sales of around €4 billion throughout the Group. The stores outside Germany will have contributed a good 25 percent of these sales – with the trend rising!

The Ukraine is the largest and most populous country that we have expanded into to date. For this reason, it will constitute the main focus of expansion over the next few years. In 2008, we will open at least three new stores in the country which will also include the first store in the capital of Kiev. Three to five additional locations a year will then follow in the foreseeable future.

We would like to use the store opening in Donezk as an opportunity to present this interesting and promising growth market in more detail to you.

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veral respects: customers have access to active, informed and friendly advice that is far above the standard currently offered in the country. Customers are not only advised on the individual product specifications. Upon request, they are also made more familiar with how to use the respective tool or device, including simple DIY techniques. Special areas are available in the store for this purpose. Here, customers can, for instance, test several brands of hammer drills on different material or apply the paint desired on various undercoats to evaluate the final appearance better. A large number of additional services such as equipment for hire, wood and curtain cutting or free home delivery are offered as well – which is also a novelty in the Ukraine.

The crowd for the opening of the Praktiker store in Donetsk was equally large. More than 3,500 customers took advantage of the diverse opening offers, making the new store one of the locations with the highest sales in the entire Praktiker Group on this day. This was more than just a promising start.

Praktiker's Ukrainian country management in Kiev spent around two years working towards this moment. The date for the store opening had to be postponed several times due to delays in the approval process. Yet experience from other Eastern European countries shows that once the first step has been taken successfully, everything else goes smoothly.

With around 4.7 million inhabitants, the region around Donetsk is the Ukraine's most populous metropolitan area and along with Kiev, it is the most impor-

tant centre of commerce in the country. These are the best conditions for a successful start to the network. The store in Donetsk is expected to break even within 12 to 18 months. It will take a little more time before the Ukraine is able to make a positive contribution to earnings as a country. The economies of scale required cannot be leveraged until a larger portfolio of stores has been set up.

Praktiker is the first Western DIY retail company to enter the Ukraine. In contrast to countries into which Praktiker has entered before, such as Romania, the market has local providers with DIY store concepts that can be similar to Western formats (see the "Competition environment" section). However, one look at the market penetration and it quickly becomes clear that Praktiker has



Successful market entry in Donetsk. Soon to be followed by stores in Kiev and L'viv.

The costs of the country management will then be distributed across a broader network, marketing activities will become more efficient and larger order volumes will strengthen Praktiker's bargaining position with suppliers.

Time is also needed until a brand has taken hold amongst customers and it is able to develop its appeal. "We aim to have established a network of up to 25 stores and net sales of around €300 million in the medium term," says Michael Arnold, the Management Board member responsible for international expansion in the Praktiker Group.

major growth potential in the Ukraine without entering into direct competition with local providers. The selling space per 10,000 inhabitants on average in the country – based on the competitors mentioned – is merely between 50 sq m and 70 sq m. In the highly competitive German market, more than 1,500 sq m are available per 10,000 inhabitants.

The positive response that the label "made in Germany" enjoys in the Ukraine should not be underestimated either. This automatically gives Praktiker as a new market participant an important edge in terms of trust.

Competitive environment			
brand	name	stores	store size
	Budmaks	19	1,000 - 1,500 sq m
	Epicenter	12	10,000 - 15,000 sq m
	Tvoja Kimnata	21	1,000 - 1,500 sq m
	Nova Linia	8	6,000 - 8,000 sq m
	Oldi	3	5,000 - 6,000 sq m

Donetsk location profile	
size	weighted total selling space of 8,435 sq m, thereof 2,090 sq m garden center 120 employees
capital expenditure	€ 11.5 m, thereof € 10 m net present value of rental obligations and € 1.5 m equipment
assortment	about 40,000 articles in the categories tools/machinery, car accessories, electrical installations, lights, sanitary, tiling and construction materials, wood and furniture, paint and household goods, gardening. Special focus on sanitary, tools/machinery, construction materials, tiling and floor coverings.
services	equipment for hire, wood and curtain cutting, colour mixing machine, free home delivery, hire purchase, IT-based planning for plumbing and tiling, handling advice for paints, tools/machinery and air conditioners.