

Praktiker back on course for success in Poland

Praktiker Poland is on the up once more. There have been no new openings for two years. However, three new stores are planned for 2007 – the first two of them are already open. Optimisation of the existing branch network is also continuing apace. Like-for-like sales growth of over 30 percent in the first half of 2007 speaks volumes.

Polen Poland is the most difficult of all the foreign countries where Praktiker operates. This chiefly due to huge competitive pressure. In addition to strong local providers such as Nomi, the biggest European DIY store companies also have a presence there. Kingfisher (Castorama) is the market leader, followed by OBI and Leroy Merlin. Praktiker occupies fourth position with 19 DIY stores in 16 locations. Therefore Praktiker's situation in Poland is totally different from that in other foreign markets. Customers are much more critical and competitors are highly active and aggressive.

The fact that Praktiker – once market leader in Poland – has to prove itself from

this position mainly stems from the period under the auspices of METRO. Investment in Poland was deferred in favour of other countries – for example market entry in Romania. Consequently, market share was gradually lost in Poland. Negative earnings contributions have been posted in the last two financial years.

In other foreign markets, in addition to the construction and DIY ranges, Praktiker also sells a series of other product groups such as furniture and consumer electronics. However, this concept did not work in Poland's intensely competitive market environment. Praktiker therefore faced the challenge of positioning itself more clearly and standing

Editorial

Foreign countries are our growth engine. The number of stores, sales and income – we further increased all key ratios last year. We go where demand is high and the market potential is not yet fully utilised.

To leverage the potential of the international market, we have decided to accelerate our expansion abroad. This year, we intend to open a total of 15 to 20 new locations worldwide. These include countries where we have recently taken a step back, such as Poland.

In contrast to the former Eastern Bloc countries, where we are extending our existing market leadership by expanding our range of locations or fighting hard to maintain it, there are other main objectives in Poland. Here, it is a matter of catching up with the leading DIY store operators and returning to profitability by optimising the branch network.

The financial reports of the last few quarters suggest that we are already on the right track here. We hope to show you how far we are down this road and what we plan to do in the next few years with the following brief location portrait.

Praktiker Bau- und Heimwerkermärkte Holding AG
Am Tannenwald 2
D-66459 Kirkel
Tel.: +49 (0) 68 49/95 37 03
Fax: +49 (0) 68 49/95 37 09
E-mail: InvestorRelations@praktiker.de
www.praktiker.com



In spite of foul weather the opening of the new Praktiker store in Rzeszow was a big success.

out from competitors. This challenge was taken into account in 2005 with the appointment of a new country management team. Through fundamental changes in the sales concept and in the stores, the former „problem child“ of the international Praktiker family is now making good progress.

For instance, in contrast to other Praktiker international companies, the non-DIY store ranges such as household items, car accessories and fitness goods have been reduced in favour of conventional DIY store items. Firstly, demand for the latter is very high, as many buildings are run down. Secondly, it is easier for Praktiker to create a clear profile as a flawless DIY store operation on the Polish market. Therefore, Praktiker Polska is concentrating on house and garden items as well as renovation materials. Bathrooms, tiles, gardens, tools, machines, doors and wood are particularly important.

Another special feature in Poland is that the 19 Praktiker stores can independently



19 Praktiker stores in 16 locations.

change their pricing structure in order to respond individually to local competition. For this reason, the stores have access to the purchase prices and, on this basis, can make individual decisions and adapt sale prices if required. Furthermore, each store has its own advertising budget that it can structure and arrange in line with its own requirements in cooperation with the Marketing department. Consequently, there are hardly any boundaries to utilisation of the regional marketing budget.

All these measures have already taken effect. The 10 percent increase in sales that Poland achieved in 2006 with no new locations clearly demonstrates this. What is more, business was more profitable and break-even was only narrowly missed. The fact that Poland continued to boom in the first half of 2007 and is one of the leading countries with like-for-like sales growth of 30 percent provides further cause for encouragement. These improvements were sufficient reason

to resume the expansion activities in 2007. In Rzeszow, the first new store for nearly two years was opened in January. In July, a further one followed in Rybnik. This means that a total of almost 2,000 employees now work for Praktiker Polska on more than 150,000 square metres of retail space.

The Praktiker Poland team has several plans for the future. Market share is to be increased and the operating business is to be improved in the long term. Overall, two to three new stores are to be opened each year over the next few years. Preferred locations are towns with more than 75,000 inhabitants. In terms of earnings, break-even is to be attained in 2007. The medium-term target must be to at least cover the cost of capital with an EBITA margin of over 4 percent.

Poland location profile	
Market entry:	1997
Net sales in 2006:	€ 154.5 million
Sales growth in 2006:	+ 10.1 %
Number of stores*:	19
Retail space*:	150,637 sq m
Number of employees*:	2,163
* as at 07/31/07	

Switching locations

Our two-brand strategy gives us greater flexibility in optimising our store portfolio. We now have the opportunity of exchanging locations if this is in the best interests of balanced market coverage and appears logical. We are going to use this opportunity for the first time in the regions of Lueneburg (Lower-Saxony) und Villingen-Schwenningen (Baden-Wuerttemberg).

In the cause of the acquisition of Max Bahr, the Federal Cartel Office commissioned us with the sale of the Praktiker store in Adendorf (Lueneburg). We used this transaction – which is now completed – as an opportunity to restructure and optimise the presence of the Praktiker Group in this region. We will therefore be opening a new

location, originally planned as a Max Bahr store, under the Praktiker brand. The existing small Praktiker outlet in Lueneburg will remain in operation as a branch of our distribution channel extra BAU + HOBBY. The Max Bahr store will retain its outstanding location in the south east of the city. For the first time ever Max Bahr and Praktiker will thus be in a position to offer customers in the Lueneburg region the entire product range of the Praktiker Group, meeting a wide variety of different requirements.

In Villingen-Schwenningen, we intend to convert the existing Praktiker store into a Max Bahr store as this location matches the Max Bahr portfolio perfectly in terms of its market environment. As the only Max Bahr market in the south of Baden-Wuerttemberg, this location has a very good opportu-

nity to create a competitive profile for itself in the region and win new target groups. The nearest Praktiker stores in Tuttlingen and Albstadt are far enough away not to encroach on the catchment area of the Villingen-Schwenningen location, but close enough to offer local Praktiker customers an alternative within easy reach.

The conversion of Praktiker into Max Bahr and vice versa will be implemented rapidly. The new Lueneburg Praktiker store is set to be inaugurated in September. The conversion of the Praktiker store in Villingen-Schwenningen will commence on 1 October. The store will remain open for business throughout the conversion process. The opening of the store under the Max Bahr brand is scheduled to take place before the end of the year.