



**Speech of the Management Board Chairman Wolfgang Werner**

**Annual General Meeting  
of Praktiker Bau- und Heimwerkermärkte Holding AG**

**Tuesday, 27 June 2006  
Saarbrücken, "Saarlandhalle"**

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Ladies and Gentlemen,

on behalf of my colleagues on the Board I am pleased to welcome you to the first Annual General Meeting of Bau- und Heimwerkermärkte Holding AG after the IPO in November 2005. We appreciate it that you have come to Saarbrücken today and we thank you for your lively interest in our company which is, after all, also your company.

Should you have come from afar, please seize the opportunity of taking a look at the beauties of our federal state, the Saarland. You might as well visit our local Praktiker store at Mainzer Strasse. It is doubtless one of the flagships of our company.

Ladies and gentlemen,

Praktiker's going public last November was the climax and culmination of the 2005 financial year. It marked the start of the process of severing our company from the scope of consolidation of Metro AG; a process that came to its close in April 2006 with the sale of the remaining shares which Metro AG had still held until that date. Since then Praktiker AG has been a listed company without a major strategic shareholder.

In the course of the next half hour or so I would like to analyse the three most important issues which are certainly of interest to you, our shareholders: What did we achieve in 2005? Where are we today? And what are our goals?

### **1. 2005 financial year ended successfully**

Our Annual Report provides detailed information about the financial results of the year 2005. In case you should not yet have received it, help yourself to one of the copies which we have made available for you today.

You will certainly also have taken note of the reports in the media about our Annual Press Conference on 4 April. Therefore, I should rather confine myself today to the most important highlights of the year 2005.

Firstly: In year-on-year comparison, sales of the Praktiker Group rose in the 2005 financial year by 3.4 %, surpassing the three-billion-euro mark for the first time.

Secondly: In the hard-fought German market, Praktiker won further market shares. Whilst in 2005 domestic retail sales in home improvement and DIY articles shrank 1.7 % according to the data of the Federal Statistical Office, we succeeded in raising our domestic sales by 0.7 %, reaching a volume of EUR 2.264 billion. I should especially emphasise that, on a like-for-like basis, we even succeeded in stepping up sales by 3.7 % in Germany in an extremely busy last quarter. That was against the general market trend too.

Thirdly: On an international scale, we again we experienced a two-digit percent growth. International sales of the Praktiker Group rose by more than 12 % to EUR 770 million. This means that for the first time one fourth of the Group's sales came from outside Germany. Particularly Romania, Turkey and Bulgaria contributed to this growth. On a like-for-like basis, that is: excluding the 8 stores newly opened in the course of the year, the plus was almost four percent.

Fourthly: EBITA rose faster than sales, namely by almost 32 % to about EUR 106 million. Outside Germany we succeeded in boosting earnings by almost 14 %, to EUR 51.5 million, thus outperforming once again the high prior-year result. The EBITA margin in our international business, including the service companies, now stands at 6.7 %. This and other reference figures are based on the Combined Financials, which map Praktiker's business retroactively after the IPO.

In Germany, EBITA was increased by 54 % to more than EUR 54 million, and the margin improved from 1.6 to 2.4 %.

As demonstrated by these figures, business in Germany and in the other countries contributed almost in equal measure to the earnings before interest, taxes, depreciation and amortization. In Germany in particular, progress in cost cutting initiatives along with our strong, discount-orientated market position is clearly taking effect.

Fifthly: The financial position is very sound. From EUR 33 million at the end of 2004 we succeeded in lifting cash and cash equivalents to EUR 349 million at the end of 2005, net of interest-bearing liabilities the remaining short term liquidity amounts to EUR 205 million. The free cash flow of about EUR 88 million exceeded the previous year's level by about EUR 21 million.

This means that the 2005 financial year has been successful throughout. You, our shareholders, are also to benefit from this success. That is why today we are proposing the payout of a dividend of 45 euro-cents per share. We thus keep the promises we made to potential investors before our public offering, namely the payout to fall into the bracket of 30 to 40 percent of the net year-end income. Measured by the current market price level this dividend corresponds to a return of between 2 and 3 % of the year.

This success has not come by sheer coincidence. It is the result of a partly painful, long-term learning and restructuring process we pursued for years. It would not have been possible, had it not been for the valuable contribution made by all of our employees and for the commitment of a Management Team that acted in concert, always keeping an eye on its targets and on how to achieve them. I take pride in saying that all parties involved in our Group passionately joined forces in an extreme effort to achieve the results I can present to you today. And I should add: in spite of our going public and the massive additional burdens which it imposed on all of us, we have never lost sight of our fundamental responsibilities and duties: to secure the success of our business and continuously add to the value of our company.

We have been successful. And we can be proud of it. That is why at this point I want to expressly convey the gratitude of the entire Management Board to our employees. Starting from this base, we can look into the future with confidence.

## **2. Market price reflects commercial success and positive outlook for the future**

The market price of the Praktiker stock reflects this confidence. The capital markets, both in Germany and abroad, consider our business model conclusive, they trust the Management and are aware of the strong potential of the Praktiker brand. That is why the advance in our stock price has remained sustainable and proved not to be a mere flash in the pan which flares up spontaneously and rapidly goes out again.

Let us review once again the most important milestones of our appearance on the stock market. On 22 November 2005, 34.5 million shares, that is 59.5 % of the total capital were placed on the German Stock Exchange. Offered at an issue price of 14.50 euro, the share issue was oversubscribed by a multiple of more than three. As early as at the end of January 2006, the 20-euro limit was surpassed. Ever since then it has remained fairly constant above this threshold, although the stock price was not left unaffected by the latest sentiment changes on the stock market.

On 20 March – around 100 days after the listing and following a short interlude in SDAX -, Praktiker moved up to the MDAX. This means that your company belongs to the group of the 50 most important mid-cap securities in the German capital market. Finally, on 11 April, our former parent company METRO AG disposed of its remaining 40.5 % share. This second placement was immediately oversubscribed by a multiple despite the higher stock price level. This again marked a positive signal and constituted an excellent foundation for continuing our profitable growth strategy.

## **3. Strategy focus on growth**

### **3.1 Leveraging strong growth potential in Eastern Europe**

Ladies and gentlemen,

satisfactory commercial results are an important prerequisite for a positive stock price trend. However, stock prices are mainly driven by the anticipation of a positive future, not by looking back into the past.

So, where are our potentials, where are the opportunities for growth and earnings that would also make an investment in Praktiker shares interesting in future?

As you will know, Praktiker is number two among the operators of home improvement centres in Germany, and holds rank four in Europe. This means that Praktiker has the necessary power to influence the shaping of the market in every respect.

Praktiker was in the process of being successfully restructured and strategically repositioned since the end of the 1990s. The sustainability of the turnaround was distinctly confirmed in the past financial year. The company is profitable and financially sound. We possess the funds needed for further growth.

To underpin this position, the Management Board and the Supervisory Board will ask you for a certain leap of faith in the further course of this Meeting, under Item 8 on the Agenda. It concerns the authorisation to issue option bonds and convertible bonds. The Management Board has had such an authorisation, which is customary company practice, since November 2005. This authorisation is limited in time and should now be renewed and extended to a total nominal amount of up to EUR 600

million. In this context a conditional capital increase by up to EUR 29 million is also recommended. We will explain this later in greater detail, but I would ask you already now for your approval of this authorisation.

Ladies and gentlemen,

fast and profitable growth is primarily viable in the international environment. Praktiker operates 65 stores outside Germany, in seven countries. In five of those seven countries we are the unchallenged number 1: in Luxembourg, in Greece, in Turkey, in Hungary and in Romania. Greece is the country from which we started our internationalisation in Southern and Eastern Europe in 1991. It continues to be our strongest country and contributes one third of our international sales volume.

The direction of our expansion has shifted, however. Today the EU accession states of Eastern Europe are in the focus. Romania, for example, already accounts for a share of 13 % in our international sales – at a further increasing trend.

Our Romanian commitment is a blueprint for successful, value-orientated international growth. We started there in 2002 and soon became the market leader. In 2004, we already reached breakeven, sales and earnings have developed extremely well ever since. In 2008, we want to be present in all major cities of Romania with more than 20 stores.

We have copied and transferred the Romanian success story to the neighbouring country Bulgaria. There, too, since the end of 2004 we have been the first mover in a market with an enormous potential. What is especially interesting: after the political turnaround in the 1990s, the two countries have experienced an astounding privatisation campaign. Today, about 97 % of the households there own their homes, which, what is more, require thorough renovation and modernisation. For comparison: in Germany the percentage of home owners is only 43 %.

So, in Eastern Europe there is much to do for DIY enthusiasts, handymen and passionate home improvers. And Praktiker is the address of choice where they find the material and the tools they need for this purpose.

This year, the Ukraine is on our agenda: a market which is still largely unexploited but at the same time offers an enormous potential. The manager we have assigned to the task to build up the business there has already made Greece and Bulgaria a success. His team is working under high pressure to prepare the opening of the first location in Kiev, others are to follow. We expect the name of Praktiker to become a synonym for home improvement and DIY centres before long in the Ukraine, too.

We have the management capacities, know how and the resources which are needed to expand in Eastern Europe. We will strengthen our presence in those areas where we are already represented. And we will tap new markets where this is reasonable. Our lean processes help us to realise a satisfactory margin in new markets from the very beginning. Our medium-term goal is to increase the Group's sales outside Germany to 35 – 40 % of total sales - with the correspondingly positive impact on our profitability.

### ***3.2 Extending cost and price leadership in Germany***

Ladies and gentlemen,

let us now throw a glance at the German DIY market. It continues to be characterised by overcapacities, pressure on prices and low margins. Some competitors are making losses, others are looking for partners because they are getting short of funds. Market observers therefore are of the opinion that a consolidation is necessary and probable. We, too, are observing the market trends carefully. This is part of our responsibility as Management, and this can be expected by you, our shareholders. However, we will only actively participate in the consolidation of the market if this proves to be economically advantageous for us. From our point of view we are in a comfortable situation, because we are not under pressure to act. But we have the necessary financial power to become active when we see an opportunity.

Even without consolidation of the German market we can stay commercially successful. Because we have a clear strategy which we have implemented step by step in the aggressive German competitive environment and which we will continue to pursue. Three pillars of our business are in the focus of our strategy:

1. Price leadership
2. Cost leadership
3. Optimisation of the location portfolio

Let me go into further details of each of these three pillars.

Price leadership is not a label to be attached, it is an issue of customers' awareness. To become recognised as a price leader, we have done much and made untiring efforts for Praktiker. Examples are permanently low prices, of course at constantly high product quality, or weekly changing bargain offers and a price guarantee which goes beyond what competitors can offer.

However, our image has been and is being mainly shaped by our popular campaign "20 percent on everything – except pet food". It is an important component of the special charm of shopping at Praktiker's from the viewpoint of our customers.

Independent market studies have confirmed that for every second customer the price is the most important criterion in choosing the store where to buy. And we make prices attractive. This is the most important cornerstone of our success.

Price leadership implies cost leadership. Because in the long run low prices are only feasible with lean cost structures. Here, too, Praktiker is setting standards with the permanent optimisation of its assortment and improved adjustment of its workforce to demand fluctuations.

Cost leadership cannot be achieved if one does not have the courage to submit the location portfolio to constant critical review.

We invest in stores which we expect to yield an appropriate return on invest. But we also pull the rip cord when red figures are written over a long time. Since the year 2000 we have slimmed down the Praktiker store network in Germany by around 50 sites. In 2005, we opened two new stores, but we closed five. In the current financial year we will part with six unprofitable locations.

There is no alternative to a location management exclusively and consistently geared to commercial success, because there is

- no cost leadership without optimisation of locations,
- no price leadership without cost leadership,
- no success without price leadership in a market which is so extremely driven by price competition as the German market.

### **3.3 Easy-to-Shop**

Ladies and gentlemen,

success has a short half-life. We know that. Accordingly, applying the Easy-to-Shop concept we have fine-tuned our strategy which is based on price and cost leadership.

Easy-to-Shop has a long-term orientation and is being implemented on the basis of sustainability. Easy-to-Shop is above all a promise towards our customers. Shopping at Praktiker should not only be value for money but also easy and comfortable.

We make sure that the customers find quickly what they need:

- through clearly structured store layouts with a reliable navigation system
- through a transparent assortment classified according to entry-level brands, private labels and brand products,
- through self-explanatory presentation and labelling of the merchandise which does not leave any doubts.

However, Easy-to-Shop also means that we make a reasonable pre-selection on behalf of our customers by further reducing the depth of the assortment. Formerly we had 300,000 articles in our portfolio. Today we have not more than 72,000 maximum. And with Easy-to-Shop we are saving another 10 to 20 %. This way we fight the waste of time which consumption researchers have identified in mega stores with a huge range of articles on offer. The Easy-to-Shop concept is also devised to accelerate the merchandise turnover on the shelf. We thus increase the efficiency of the capital employed and improve our earnings situation.

We are sure of what we do: the new shopping experience Easy-to-Shop is bound to convince customers. Originally we wanted to convert three pilot stores to the new selling concept in August. Now we do not only integrate three, but six stores in the concept. Next year, another 50 Easy-to-Shop stores are to follow after we have built any modifications arising from the initial practical experience gathered.

In 2008, a further 100 stores are to be converted. Maybe you will find an opportunity to convince yourselves of this customer-friendly innovation.

#### **4. Market trends are fostering growth expectations**

Ladies and gentlemen,

our growth targets are ambitious. We will keep working hard to achieve them. On the other hand, we are in the fortunate situation that we may draw upon some general trends that promise a consistently positive market demand for our products:

- The high percentage of home owners and the growing purchasing power in the East European foreign markets,
- increasing need for rehabilitation, renovation and modernisation of German homes and flats,
- and the trend towards the acquisition of real estate as part of private old-age provision.

All this will benefit Praktiker and fosters our confidence in continuing strong growth – not only abroad but also in Germany. We should not forget that in spite of enhanced internationalisation, the German market continues to be the most important pillar of our business.

#### **5. Current course of business in line with expectations**

Dear shareholders,

the key figures of the past financial year have turned out to be highly satisfactory. They are the result of our straightforward but convincing strategy which is geared to a leading price position. We have maintained this strategy without changing it in any way. That is why in the current business year we can smoothly carry on with the success of the year 2005. Here you have a brief overview of the current course of business:

- We started well into the new year and after two months we had achieved a clear plus, both in Germany and abroad.
- Because of the persistent winter weather, we experienced a seasonal slump in Germany. This caused a certain drawback and imposed a burden on the quarterly result.
- After that we were vigorously catching up and succeeded in substantially boosting sales in April and May. Meanwhile both sales and earnings are again absolutely within the scope of our expectations.
- We will publish our half-year figures at the end of July. You may firmly expect them to turn out positive and satisfactory.

What does that mean for the full year?

So far our target has been that in 2006 we want to increase sales in a low one-digit percent range and accomplish EBITA above the prior-year level. We formulated these goals at our Annual Press Conference on 4 April 2006. As matters stand now, we do not see any reason for revising this prediction.

#### **6. Conclusion**

Ladies and gentlemen,

In the first part of my report I said that the success of which we can all be rightly proud is the fruit of our common efforts: Of all employees - and of a Management Team that has acted in concert. But I would like to take the opportunity of making a special mention of the merits of one member of this team because he is leaving us today. It is our colleague on the Management Board, Karlheinz Kockmann. Exactly three days are left before he is going into well-deserved early retirement.

Mr. Kockmann: I thank you very much for your outstanding commitment and your excellent performance at the helm of Praktiker's Category Management. You have contributed much to our company that will outlast the day-to-day business. I take pleasure in adding: you have found a young, competent successor in Pascal Warnking.

To you, Mr. Kockmann, I wish all the best for the future. My best wishes also go to Mr. Warnking for his new, challenging responsibility in an ever-changing environment.

I would also like to take this opportunity of expressing my thanks to all those who work for this well positioned enterprise or who, like you as our shareholders, are loyally associated with it, for your personal commitment and your constructive support. I assure you on behalf of the Management Board: you will not repent your investment of manpower and financial resources. In future, too, Praktiker will present itself as a company that is managed with entrepreneurial vision, commercial circumspection and the typical trust and confidence of the people from Saarland. We set clear aims and pursue them consistently.

I beg you, dear shareholders, to give us your continuing support and confidence.

Thank you for your attention.