Annual Press Conference 2009
Annual Analyst Meeting 2009
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Wolfgang Werner, Chief Executive Officer

Revisions reserved – check against delivery!

Ladies and Gentlemen:

Welcome to this year's Annual Press Conference.

Everybody is talking about the crisis. Well, we too, because the recession, which has meanwhile reached the entire real economy, does not leave us unaffected. But we do not only talk, we act. And we concentrate on what is the most important thing in any economic crisis, which is

securing reasonable earnings and adequate liquidity.

We need liquidity in order to be able to act effectively in the crisis. Liquidity is also essential for us to instantly pull out into the fast track when the general economy revs up again after the crisis. And reasonable earnings are likewise essential for us in order to have access to further liquidity whenever it may be needed. A company can only maintain its capacity to act if it has both. That's why these two targets are of eminent importance at this stage in order to strengthen our resistance to the crisis.

At the close of the 2008 financial year, which was successful for the Praktiker Group all in all, we had accumulated around 233 million euro cash. Plus a comprehensive credit line and a relatively low level of liabilities. Mr. Ghabel will later present to you the key figures in detail. I can only say: our financial position is extremely healthy. And that's what it should be – also in the crisis year 2009, of which we do not know what surprises it still holds in store for us. So we have made up a sustainable package of measures to increase the resistence to crisis of the Praktiker Group. This package ranges from measures designed to enhance the gross margin via cost cutting through to flexibilisation of capital expenditure decisions. Later on, in the second part of my presentation, I will explain this package to you in more detail.

I only want to address one aspect in advance, and this part of the package is our dividend proposal for 2008. At first go it may not seem plausible that after three years in each of which 45 euro-cents were paid per share, the dividend should now be cut to 10 cents. Measured by the earnings position, it could have been more. And a higher dividend would have been popular anyway.

I say: We fully understand the interests of our investors. But despite this understanding we are convinced that securing the resistance of the Praktiker Group to the crisis serves the shareholder interests much better in the medium and long term. By retaining most of the earnings we contribute to providing our enterprise with a comfortable liquidity base throughout the financial year.

REVIEW of 2008

Ladies and gentlemen, let me now look back to 2008, a financial year which at its start promised to become the best ever in the 30-year history of the Praktiker Group. But then the downturn in the economic cycle was leaving a deep footprint in the second half of the year. Original expectations were not fully met. Nonetheless, 2008 was a good year overall.

- The Praktiker Group achieved its best ever operating result in its history. At euro 129.1 million, EBITA exceeded the prior-year result by 11.3 percent. This is a proud achievement despite the fact that we missed by a narrow margin our target corridor which we had envisioned 12 months ago in a much different economic climate.

- The Group's net sales, of around 3.91 billion euro, fell only one percent short of the record level of the year 2007 so that our expectations were almost met. This is quite respectable considering the change which the general economic situation has undergone since then.

- We have achieved our most important strategic goals. In Germany, we have succeeded in sharpening the profile of our two strong brands to the effect that the distinctive features of Max Bahr as premium supplier with a focus on expert customer service on the one hand and Praktiker as a discounter with aggressive prices on the other have become even better anchored in the customers' perception. We have optimised processes, centralised internal services and leveraged the synergy potential with Max Bahr after achieving full integration in the course of the year. And we have vigorously extended our activities outside Germany so that our international business was growing once again by a double-digit percentage, by 14.6 percent in terms of sales and 12.1 percent in earnings.

A short glance at the exchange rate trend in the countries in which Praktiker is active shows how much we were exposed to external influences which were beyond our control and were hardly foreseeable. Almost all currencies present nearly the same picture: stability until the end of the third quarter, followed by a deep fall. Without this negative turnaround, EBITA would have been by 2.5 million euro higher, and the Group sales, would have been 18.2 million euro higher. This is without any doubt a problem which will accompany us further in 2009.

On the other hand, management decisions were made which quite deliberately influenced these figures to lead them in the one direction or other. Let's take the marketing strategy in Germany as an example. It contributed crucially to an increase in the operational result while deliberately hazarding with the accompanying decline in sales.

GERMANY

And this leads us to the German market which was formative for the development of the Group as a whole. What was the business environment like?

In fact, they were heterogeneous, but all in all they were better for the DIY sector than for others. After the first half-year with a negative and the second half with a steadier development, domestic sales in the DIY sector did not reach the two percent plus that had been predicted by the industry association BHB exactly one year ago, but sales only declined moderately, by 0.5 percent. On a like-for-like basis, which means disregarding the increase in selling space, a minus of two percent was experienced. This figure had still been minus six percent in the previous year.

After Praktiker had performed distinctly better than the market in 2006 and 2007, the tide turned in 2008. This time, our domestic business, posting net sales of 2.67 billion euro, not only missed its own prior-year record by 6.9 percent but also fell short of the industry trend. When breaking down this figure further, it is becoming evident where this decline comes from. Domestic sales of the Praktiker brand alone, of 1.96 billion euro, missed the prior-year mark by 9.7 percent. Like-for-like, the decrease was 8.8 percent. It is noticeable that the sales curve of the Praktiker brand and that of the industry as a whole, after a conspicuous delta, were again approximating each other after 9 months and evening out at the same level in the fourth quarter.

This means that in the past year the Praktiker Group lost market shares in Germany. But this can be coped with. Considering the strongly fragmented sector as a whole, it is evident that at a sales share of 8.6 percent we continue to rank directly behind the market leader who has also lost ground. Only some smaller competitors have slightly gained weight – although they still remain at a large distance from the top.

This phenomenon has a plausible reason, which is already known to you. It is the new marketing strategy of the Praktiker brand launched at the beginning of the year and consistently pursued in the further course which was ultimately successful. The most important regulator was our sales-driving 20-percent promotions which we were turning back appreciably. The number of promotion days was reduced from 107 in 2007 to 61 in 2008. Compared to a year earlier, this naturally curbed the sales volume, but it contributed a decisive plus to gross margin.

But I frankly admit that the decline in sales which this strategy prompted could well have been somewhat more moderate. Despite this, in 2008 the Praktiker Group achieved an operating result of 45.2 million euro in Germany, which is 10 percent above the previous year's level.

Since the beginning of 2006 our central advertising message had been “Price is key”. This message itself was not changed, but the weighting of the marketing tools. Praktiker not only reduced the 20-percent promotions so that they were again becoming more attractive, but increasing attention was paid to permanently low shelf prices for selected products and discounts on individual merchandise categories.

The result is that customers perceive us more than ever before as the price leader in the market. At any rate, the most important German market survey, “Kundenmonitor 2008” demonstrated that Praktiker is not only seen as number one in price promotions. In the category “price compared to competitors”, we even extended our lead over our peers. Incidentally, in that same study Max Bahr could win marks in those areas in which it is strong: in service and advice, in assortment and feel-good factor of the stores.

Both brands – Max Bahr and Praktiker – are in the process of thoroughly revising their brand image at the point of sale and rearranging their assortments. You will remember that at Praktiker we interrupted the rollout of the innovative Easy-to-Shop concept in 2008. We took advantage of this break to optimise the concept which was introduced in 2006 and to define elements of it which can be transferred gradually to the entire outlet chain without requiring major modifications. In this case, optimising means:

- For existing stores, the adjustment of assortments which account for regional differences in supply and demand better than before.

- For all stores to be newly modified in 2009, the total expenses for the modification will be reduced distinctly.

If the total cost for installing Easy-to-Shop is lower, the benefits of the concept can be reaped more readily. And that is the crucial point.

Incidentally, a few weeks ago, another 11 stores were converted to the optimised concept. In addition, two newly built stores – in Marl and in Munster – were designed according to the Easy-to-Shop concept from the very beginning. Including the soft versions, which means the outlets where modules and presentations were aligned with Easy-to-Shop, we now have 134 stores where customers can do their shopping more easily, faster and more comfortably. As a matter of course, it will decisively depend on the further development of the economic environment, when and to what extent we are to proceed further on this route.

A few words about the assortments: In total, in 2008 more than 100 assortment modules were selected, tailored, compressed or extended to suit the market needs. In this connection, at Praktiker the profiling of the gardening assortment was in the focus. Plants and garden accessories are the top-selling individual category of the entire assortment. This resulted in changes to the structure of the offer, quality, article presentation and logistics. Another consequence was that the category of garden articles boasted the best selling results of all product groups – with plants even two-digit sales growth rates were achieved.

This is just another example of how one brand can benefit from the other within the Group. Max Bahr is strong in the garden sector, and Praktiker has learned much from it. Inversely, Praktiker’s experience and supplier relationships are applied at Max Bahr to other categories, such as paints, for example. When recently installing a sample store in Hamburg to test the selection and presentation of its assortments, Max Bahr followed the example of Praktiker in Kirkel too.

Until 2010, Max Bahr plans to have restructured the whole of its product portfolio. Part of the project has already been implemented. Max Bahr has introduced new assortments, such as the newly developed concept of “Dream Baths”. Moreover, Max Bahr is presenting more conspicuously its strengths in the area of product quality and an environment-friendly product range and has selectively strengthened its private labels whose share is to rise from 35 to 50 percent in the medium term.

Ladies and gentlemen,

In the past financial year, we did quite some homework within the Group. The joint sourcing structures established after the acquisition of Max Bahr have meanwhile been firmly anchored in the Praktiker Group, they are now being networked in the international context. With our coordinated purchasing policy, concentrated supply management and larger-scale procurement we are leveraging synergies which pays off. This also relates to the areas of quality management and logistics where we have achieved a remarkable gain in competence through the integration of Max Bahr. We also hope to achieve more efficiency and effectiveness through the concentration of internal services in a new central service company, Praktiker Services GmbH. The anticipated cost benefits will mainly result from the harmonisation of IT systems and processes.

A third aspect shall find mention here: Group-wide we intend to increase the share of private labels. We see immense potential particularly in our international business. The share of private labels in our international business is particularly low so far. But as economic settings get tougher in these countries we expect to be able to sell private labels more successfully there.

INTERNATIONAL

Ladies and gentlemen,

We are now arriving at the international segment which is a rather ambivalent subject. Why ambivalent? On the one hand, because current developments, especially in the East European expansion markets, are all but encouraging. On the other, however, because long-term prospects in these countries continue to be positive and their market potential is attractive. I will revert to this point later.

You will remember that at the start of the year and still far into the summer season, expectations with respect to the economic climate and consumption in all countries in which Praktiker is represented were predominantly positive. It was only in the fourth quarter that a complex mixture of a declining economic cycle, devaluation of most exchange rates and deteriorating consumer mood expressed itself in dramatically decreasing sales dynamics.
At the end even to such a degree that the self-set targets for full year sales and earnings could not be met entirely.

The shadows of the quickly approaching crisis of the world economy were beclouding our international markets, still to varying extent in the individual regions. Countries with strong growth like Poland, Romania or Bulgaria contrasted with others which had to face gloomy consumer mood and weak growth from the very beginning, such as Greece, Turkey or Hungary.

This is the one side. The other side of the coin are the financial figures of the year 2008 which are actually noteworthy. In fiscal 2008, sales of the international segment totaled 1.24 billion euro. This amount is 14.6 percent up on the prior-year record when international sales surpassed the billion mark for the first time. This success was attributable to new store openings in the year under review, but also to those outlets which had been opened in the course of 2007 and contributed to segment sales for the first time over the full year. Like-for-like, net sales fell 0.5 percent short of the extremely high prior-year level.

It cannot be overlooked that the turnaround set in with the fourth quarter. Until then, even the like-for-like sales corresponded to a plus of 2.4 percent. But then the economic downturn became so dramatic that the cushion deflated instantly. The most surprising phenomenon was how abruptly the drop in demand set in and how quickly sales were following suit.

I mentioned already in the beginning what important role the exchange rate slump was playing in most international markets. Had it not been for the currency effects, international sales would have risen by 16.3 percent in nominal terms – and by 0.6 percent on a like-for-like basis. The fact that the value of an average sales slip decreased slightly from 31.54 to 31.29 euro was also mainly due to the devaluation of the national currencies of the East European countries.

But it should be stressed that despite the escalating economic crisis and currency devaluations, we earned good money outside Germany in 2008. This is demonstrated by the operating earnings. Here again, as in the case of sales, the prior-year record could be outperformed distinctly. At 83.9 million euro, EBITA were nine million euro or 12.1 percent above the level of 2007. The devaluations of most East European currencies had a negative effect. If the exchange rates had remained unchanged, we would have recognised about 2.5 million euro more EBITA.

I mentioned already that the expansion rate of Praktiker in South-East and Eastern Europe lost momentum in the past fiscal year: On the one hand, because procedures to obtain the necessary building permits took longer than planned in some cases. On the other, because potential investors were running out of steam and new partners had to be looked for. But partly also, because in the second half of the year management had already started setting the course in the direction of flexibility, with measures to secure liquidity and prepare the company for defying the crisis. This meant: reviewing all capital expenditure plans in the pipeline and, in the one case or other, also deferring investment decisions.

In total, 13 new stores were opened in the past fiscal year, among them the 100th international outlet which opened its gates in Mykolaiv, Ukraine, on December 12. 56.1 million euro were invested in the extension of the store portfolio. As planned, the focus of expansion was on Romania where five new outlets were opened. In the Ukraine, by contrast, we progressed much more slowly than expected. There, only two new locations were opened whilst twice as many had been planned. In Hungary, likewise two new stores became operative, and in

Poland, Turkey, Bulgaria and Greece, one each. In Romania and Hungary, moreover one existing store each was extended. The store in Greek Thessalonica which had been destroyed by a fire in mid-2007 was reopened in new splendour in September 2008. But around Christmas, the Zabrze store, one of the top-selling Polish locations, burnt down to the ground. In fact, a very unpleasant Christmas present.

Ladies and gentlemen,

This was my report on the international business which accounted for nearly one third of the Group sales and almost two thirds of earnings before taxes. My colleague, Thomas Ghabel, is now going to provide you with more figures and will explain the annual financial statements in detail. Afterwards, I will deal with the 2009 financial year, its risks and, what's more, its opportunities.

Thomas Ghabel, Chief Financial Officer

Ladies and Gentlemen,

I am pleased to take you through the financials relating to the 2008 business year. The key data of our Consolidated Income Statement for 2008, sales and EBITA, were already mentioned by Mr. Werner. Now I would like to explain to you all other essential aspects of the Income Statement, Balance Sheet and Cash Flow Statement.

Before entering into details, let me briefly recall the general situation.

In the run of the second half of 2008 the global downturn also arrived at our Group. Ever since then, uncertainty with respect to the further course of business has spread appreciably. In an environment in which all economic experts predict a marked slowdown of economic activity, we too deem it reasonable to get prepared for an emerging crisis. And to make best efforts to overcome it unscathed. To this end, we already took action in 2008.

We have huge financial scope because we command sufficient liquid funds and additionally have access to comprehensive credit lines. By improving working capital further, which means reducing inventories and improving the terms of payment, we can even do better in future. Moreover, our business risks are well diversified now, at least much better than at the time of our IPO in 2005 - because we have selectively streamlined our brand and country portfolio. In Germany, we are meanwhile successfully marketing two brands so that we no longer depend on one only. In Eastern Europe we continued the profitable development of markets like Romania or Bulgaria in 2008 and in Poland we managed to achieve an attractive result again. This means that today we can resort to many countries that contribute to our earnings.

However, there is one aspect where we are not yet positioned as desired. Most of our stores are rented. This is the legacy of our going public. As a result, we have to recognize a high operating leverage which is something currently not liked by the capital markets and which was one reason for the latest decline in the share price. In order to reduce this high operating leverage, we have already extended the portfolio of freehold stores, last year alone by four locations abroad and one in Germany. But it's in the nature of things that it takes some time until we will have reached the right ratio of freehold to leasehold stores. As we can hardly influence the rental payments, it is all the more important for us to render all other cost items even more flexible.

After this preliminary note, let me now turn to the accounts.

As already explained in detail by Mr. Werner, in 2008 we demonstrated once again great operational strength and increased earnings. This growth is not reflected in the net income though as the financial result was affected by currency losses and in addition, there was a one-off allowance to deferred tax assets. This related to the financial crisis inasmuch as we applied higher risk markdowns on anticipated earnings in connection with the impairment test of the tax loss carry forwards. By contrast, when looking at the result adjusted for non-cash items, financial 2008 appears in a much more favorable light. I will revert to this point.

From the viewpoint of the chief financial officer the annual financial statements bear evidence to strength, even if this may not be visible at first glance. I say strength, not least because in spite of declining sales we succeeded in financing substantial capex from self-generated resources and keeping our liquidity as well as our financial flexibility at a high level.

I would refrain from commenting on the sales trend by region once again as Mr. Werner already dwelled on this subject. After deducting the cost of the goods sold, consolidated gross profit on sales amounted to 1.3 billion euro in 2008, corresponding to an increase by 3.1 percent. The gross margin increased 1.3 percentage points to 33.6 percent.

In international business, the margin only increased slightly. In Germany it rose in line with the recalibration of the marketing strategy of the Praktiker brand. In the first six months, improvements were more substantial than in the second half of the year. One reason was that at the beginning of the year 2007 the value-added tax had been raised, but prices could only be adjusted to this new situation in the course of the year. Consequently the price delta compared to the previous year was more pronounced in the first few months of the year 2008 than in the further course of the year.

The other operating income rose by 10.6 percent to 77.5 million euro in fiscal 2008. Besides income from advertising services this item also includes income from insurance payments in the amount of 8.7 million euro, as indemnity mainly for costs and lost profit in connection with the fire at our Thessalonikca store. By the way, this store was reopened in September 2008 after more than one year of selling at temporary facilities. This item accounted for 9.9 million euro in the previous year.

The operating expenses rose by 2.8 percent in 2008, amounting to 1.26 billion euro. On account of the steady extension of the international store portfolio and the fact that Max Bahr was consolidated for the full 12 months in 2008 for the first time – as compared to 11 months in the previous year -, selling expenses increased somewhat more, at 3.1 percent.

By contrast, general administrative expenses fell by 1.8 percent. This attests to the efforts made to keep control of costs. After making allowance for the other operating income and operating expenses, we recognize EBITA of 129.1 million euro for 2008. This is 11.3 percent more than a year earlier. Incidentally, the prior-year result is even surpassed when taking account of the expenses from the disposal of three stores which had to be sold in 2007 because the Federal Cartel Office had made this a prerequisite for approving the acquisition of Max Bahr.

EBITA margin stood at 3.3 percent at group level in financial 2008, which is 0.4 percentage points more than in the previous year. As before, the international EBITA margin is distinctly higher than in Germany. It was 6.8 percent abroad and 1.7 percent in Germany. In addition, the EBITA of the International Segment include one-off expenses of 4 million euro. This amount had been allocated to provisions because in Poland Praktiker is accused of price rigging by the local antitrust agency. We are currently taking legal action against this decision.

For the Praktiker Group, a financial result of minus 49.3 million euro is disclosed. In the previous year it amounted to minus 22.5 million euro. The difference is to be explained with several factors:

In 2007, we achieved income of 6.8 million euro from the sale of our shares in the companies which are rental partners of Max Bahr. Similar income did not occur in 2008.

Interest income declined year on year, because on average the level of liquidity was lower in the year under review. Moreover, after the bankruptcy of Lehman Brothers we also put up with lower interest rates if the security of the investment could thus be enhanced. On the other hand, interest expenses rose because expenditure for finance leases went up.

The other financial result is marked by currency gains or losses. Liabilities under finance lease have to be value-adjusted to the current value at each closing date. As the East European currencies were drastically devalued specifically in the fourth quarter, the year-end rate was in almost all cases clearly below the prior-year rate. This induced high currency losses. In the previous year, we recognized a balance of minus 8.7 million euro in the other financial result, in 2008 the corresponding balance was minus 23.3 million euro. This means an impairment by 14.6 million euro. Most expenses resulting from currency losses are not cash-effective. In total, including the increase in the fair value of the liabilities from the convertible bond, the financial result thus includes 22.5 million euro non-cash expenses.

Pretax earnings in 2008 are recognized at 79.8 million euro as against 93.5 million euro one year earlier. Tax expenses were also decisively influenced by an extraordinary effect. One should add: again, because already in the previous year deferred taxes had to be value-adjusted on account of the reform of corporate taxation in Germany. This had caused a one-off tax expense of 42.0 million euro.

In 2008, there was a different reason. Based on an impairment test of all assets, deferred tax assets were depreciated in the total amount of 53.9 million euro. 50.0 million euro of this depreciation relates to deferred tax assets on tax loss carry forwards in Germany. On account of the insecurity caused by the financial crisis, a higher risk markdown was applied to expected future earnings. This expenditure is non-cash, it will not restrict the possibility to take advantage of the tax loss carry forwards in future either. As a result of this effect, the tax rate rose to 91.1 percent in 2008. By contrast, the rate of cash-effective taxes was 27.8 percent. A net income of 7.1 million euro has been stated. Accordingly, earnings per share amounted to 0.10 euro.

A completely different picture presents itself on the basis of cash earnings. In this statement, we have adjusted the net income for certain non-cash items. Following this reasoning, the balance of non-cash currency losses and gains are added back to earnings before taxes in the same way as the increase in the fair value of the debt component of the convertible bond which likewise does not imply cash payments. From the pretax earnings thus determined only the cash-effective taxes are then deducted.

The result of this operation is a cash net income in the amount of 80.1 million euro. The resulting earnings per share amount to 1.36 euro. Looking at it that way, net income is quite respectable.

In 2008, the Praktiker Group spent a total of 117.6 million euro on capital expenditure. This is a good 50 million euro less than the year before. At 69.7 million euro, around 60 percent of total capex was made outside Germany. A good 54 percent of the total capital expenditure related to the extension of the store portfolio, which means investments in growth. 46 percent was spent on the maintenance and revamp. Of the total capex amount, 100.5 million euro were cash-effective – as against 121.9 million euro in the previous year. 17.1 million euro were in the form of finance leases for new stores in Eastern Europe. This was distinctly less than in the previous year. In 2008, we acquired four locations abroad, two each in Romania and Hungary, of which one each is already operative. In Germany one location was acquired.

Total investments are clearly below the plans which we established at the beginning of the year. This demonstrates that we responded early on to the situation of less favorable business prospects in the wake of the financial crisis.

The Cash Flow Statement shows that we have preserved our room for maneuver despite a reduced sales volume and persistently high capital expenditure in 2008. In 2008, we achieved 112.4 million euro of operating cash flow. This is 86.4 million euro less than in the previous year. An important effect in this context was the change in the settlement of supplier bonuses in 2007 which had a positive influence on the previous year's cash flow. Another point is that we could not improve the working capital situation in 2008. But, on the other hand, as we succeeded in reducing cash-capex below the prior-year mark, liquidity remained at a satisfactorily high level – even after paying the accruing taxes and the dividend. Liquid funds stood at 233.3 million euro at year end. So, in 2008 too, there was no need to draw on external financial resources.

Above and beyond our good cash situation, our financial strength was underpinned by a syndicated credit line of 200 million euro which was granted to us in May 2007 and contractually guaranteed in the full amount until 2012 and at a slightly lower level until 2013. In addition, we have access to bilateral credit lines. Our financial scope is secured in the total amount of around 500 million euro.

At the end of fiscal 2008, we recognized a net debt of 189.3 million euro. At the same time one year earlier, net debt amounted to 147.1 million euro. This change is essentially attributable to the decrease in liquid funds. On the other hand, finance lease liabilities only rose slightly in 2008. Outside Germany, only four further stores were classified as finance lease under IFRS.

In 2008, the net working capital changed only marginally in year-on-year comparison. Short-term financing requirements amounted to 411.6 million euro in the year under review, compared to 403.0 million euro in the previous year.

At this point I should like to make a rather technical note. It relates to the question of Praktiker's actual level of indebtedness. Like in many other cases, the answer is: it depends on how you look at it. If debt is understood as repayment obligations ensuing from the raising of liquidity, which means loans in the widest sense, then the debt of the Praktiker Group only consists of the convertible bonds. If this debt is deducted from the available liquidity, the result is that at the end of 2008 Praktiker had a positive net financial position of 95.2 million euro. For practical reasons, we described this as "financial" net cash.

In the balance sheet statement, the 284.5 million euro liabilities are added which originate from the finance leases. The result is the net debt of 189.3 million euro which I just mentioned. This figure needs interpretation inasmuch as it is based on the classification of our lease contracts under IFRS. Of all leasing contracts, 61 are accounted for as finance leases and are treated in our accounts as if they were freehold locations. The underlying reason is that due to different criteria – the most important being length of contract, level of rental payments and market value of the real estate – it is assumed in those cases that we also acquired the so-called "commercial" property right to those stores. This figure, however, which is stated in the Annual Report, is a hybrid.

Why? If the logic is right that a lease contract concluded for a long term represents debt, then it would have to be applied consistently to all lease contracts. This is the opinion of the rating agencies and also of the banks when it comes to the definition of financial covenants. In the table you can see the figure of 2.2 billion euro. This is the total of our payment obligation resulting from our lease contacts qualified as operating lease when weighting the net lease by a factor of eight. This factor is oriented to the average residual term of these lease contracts. And this figure is used by the banks when calculating the covenants.

From my point of view this comparison leads to two important conclusions:

Firstly: Yes, Praktiker has a comparatively high operating leverage. Or in other words: we have lease contracts which have to be served month after month. This is the initially mentioned issue on which we still have to work.

Secondly: No, Praktiker does not have a financial leverage because liquidity is higher than the pure financial debt. As rental contracts constitute payment obligations, but are no debt in the classical sense, there is no need for Praktiker to raise new funds on the capital market for the purpose of financing capex or for re-financing of maturing financial liabilities. There is no liquidity issue.

The topic of financial flexibility ranked at the top of the list in 2008, not only on the capital markets. It was also a concern for us. In a year in which sales were on the decrease we were granted room for maneuver with facilities of around 500 million euro. I have just explained what this sum is composed of.

I also described already that financial liabilities arise only from the convertible bonds which will not mature until in a good two and a half years. Praktiker does not have material pensions obligations that could lead to additional expenses, contribution payments or other charges. We have an additional flexibility reserve in the form of freehold stores which carry a market value of around 100 million euro and are unmortgaged. By improving the working capital further we can even stretch our financial scope. We are working on this in 2009.

From my point of view our flexibility cannot be great enough because 2009 will no doubt be a difficult year for us and for our industry as a whole. And if you don’t know exactly what will be ahead of you, it is advisable to set up your own financial umbrella generously as a precaution. And this, among other aspects, explains our proposal to reduce the dividend to 10 cents per share. It also explains why in 2009 we are distinctly curbing capital expenditure. These are precautionary measures designed to ensure that Praktiker will overcome a potentially emerging crisis unscathed. “Cash is king”, this is the customary slogan in times of recession. We share this view and take account of it with our decisions.

Another point in connection with the preservation of the room to move is the equity ratio which reached 42.2 percent at the closing date for 2008. Compared to the previous year, equity slightly decreased in 2008: Details can be inferred from the Statement of Changes in Equity, to be found on page 62 of our Annual Report. The balance sheet total remained virtually unchanged in year-on-year comparison. However, there have been some changes to the structure. In line with the increasing number of stores, inventories and trade payables also went up. Because of the mentioned allowance, deferred tax assets experienced a marked decrease.

Let me summarize:

- 2008 was a year in which Praktiker again testified to its earnings potential. However, this potential can only be detected at second glance in the accounts.

- We have increased the operating results considerably.

- In Germany, we have improved the EBITA margin, and on an international scale, maintained it at a high level.

- Charges on the annual accounts were primarily imposed by the non-cash allowance of the deferred tax assets.

- At the same time, we have kept the equity ratio and liquid funds at a high level.

- Net debt continues to stay at a low level. Follow-up financing is not required currently.

Overall, in my view - and that is the view of the chief financial officer – these are excellent preconditions for mastering the challenges that are ahead of us.

How we want to go about it will now be explained by my Board colleague,
Mr. Werner.

Wolfgang Werner, Chief Executive Officer

OUTLOOK

Many thanks, Mr. Ghabel.

And now, ladies and gentlemen, after the short review of our accounts for the year 2008, I am getting to the crucial question: what will 2009 look like? How did we prepare for a potential downturn and how for the opportunities which are inherent in every crisis?

First to the general economic situation and the anticipated trend of the gross domestic product in those countries in which Praktiker is active. When comparing today's prognoses with those made in autumn last year, the conclusion for the countries in which Praktiker is active, is obvious: overall economic dynamics have lost much impetus everywhere, despite the fact that growth continues to be predicted for many East European countries. It remains to be seen how valid these prognoses will be.

One thing is clear, however: In such an environment it is difficult, if not impossible to make forecasts. Or it is absolutely easy, because everything seems possible. Will the gross domestic product of Germany recede by two percent? Or by five or nine percent, as predicted by pessimists? Investors, analysts and economists are ignorant of such scenarios because they have never experienced them and know them only from the horror stories of the twenties and thirties of the past century.

Well, nobody doubts that Germany is undergoing recession. But how long will it last? And how about other countries? Economic trends there are even more difficult to predict. Are we to believe experts who think that Eastern Europe will need a total of 400 billion euro only to solve its national budget problems? Or should we rather believe in the prognoses according to which economic growth in countries like Romania or Bulgaria will only slow down but not undergo a recession? Or are they all in a state of sweeping depression?

We should not waste time by joining in with this panic orchestra with all its discords. Let's rather explain what we at the Praktiker Group are doing in order to make our enterprise weatherproof so that we can withstand even a heavy tempest, which means that <u>in the crisis</u> we seize the opportunity to position ourselves such that <u>after the crisis</u> we can act faster, more efficiently and profitably than others. Because we will be among the winners then!

In the first part of my report, I already mentioned that at the Praktiker Group we have started to, make preparations already. Last year, securing our earnings and liquidity was high at the top of the list of priorities. We will strictly continue on this route – and we have prepared a package of measures to protect the gross margin, adjust costs, secure earnings and flexibilise the capital expenditure decisions. And, what is most important, to stimulate sales!

For this year we have coined a motto composed of just two words: “Sleeves up!”

“Sleeves up!” was created as a marketing initiative, but it is more. “Sleeves up!” is a signal against downheartedness. With this challenge we go up to people in Germany, offer them incentives to invest in their own homes right now and to save money. With new campaigning ideas, new perks for the low budget. Because without any doubt there is an investment backlog with respect to home improvement, and the obsolescence of our housing stock is no matter for discussion. The trend towards retirement to the private sphere, which we describe as homing or cocooning, is the typical individualistic response to the crisis. This should entice people to pretty up, extend and renovate their home. Add to that the CO2 home refurbishment program of the KfW development bank: in 2008, 10 billion euro were earmarked for initiating such measures. After all, there is a high degree of likelihood that part of the three billion euro additionally made available for the years 2009 to 2011 will ultimately also be spent at DIY stores.

“Sleeves up!” means: looking for the opportunity inherent in the crisis. True, economic activity in the house building sector is stagnant. But we know from LBS-real estate, the largest German real estate broker group that in 2008 two percent more of already existing property was sold than in the preceding year. For single-family homes, the growth rate was even four percent. And all these old houses have to be revamped.

In view of this scenario I am convinced that specifically in times of crisis like now prices are an even more important decision-making criterion for consumers than before. That’s why the positioning of Praktiker as a proactive, price-aggressive discounter is exactly the right one. Right now we can observe in the automotive sector that buying incentives can boost sales. The scrap bonus can well spur consumers’ propensity to buy. So, why not offer a scrap bonus for lawnmowers? More than ever before people want to have the feeling that they do not only get good quality at fair prices; they do not want to miss the taste of success they get from bargain hunting. And that’s what is offered by Praktiker like no other .

“Sleeves up!” is also a self-commitment for us to focus all activities on the targets of securing earnings and liquidity which I mentioned repeatedly before.

This starts with the gross margin. If we start now to concentrate our international sourcing activities in a central procurement organisation, this will be beneficial for the purchasing terms and hence the gross margin. The same applies to the targeted extension of private labels for both Praktiker and Max Bahr. The formula is simple: a higher share of private labels will lead to a better gross profit.

This can be extended to all expenditure items. After all, “Sleeves up!” also means: “Expenses down”. For the current year, the Praktiker Group has launched a set of measures to this end. Following the first cost cutting round in autumn last year, we have once again curbed the budgeted total expenditure at our holding company in early 2009. The budgets of the total organisation were adjusted to the decline in sales volume. We have proclaimed a freeze for the remuneration of our executives and staff outside the general pay scale. A hiring freeze was ordered at the Group's headquarters. In order to render the staff assignment more flexible, we have introduced short-time working in one third of the Praktiker stores in Germany. This measure relieved our HR budget by around half a million euro in March although the underlying motivation for using this labor-market tool was to secure employment.

Short-time working is also a good example to demonstrate that we at Praktiker are prepared to break new ground in changing times. With this move, we have not endeared ourselves everywhere. And it was not easy to win over the Federal Labor Agency to grant a retailer for the first time access to the instrument of short-time work as this was originally tailored to the manufacturing industry. But we negotiated with circumspection and defined plausible criteria for acknowledging economy-induced short-time working jointly with the Labor Administration so that we could strictly comply with the applicable statutory prerequisites. We have thus taken on a pioneering role. It was not our intention to assume this role, but we accept it. The Labor Agency's decision to approve of short-time working at Praktiker on the grounds of the economic situation is a trailblazing decision, not only for us, but for the German retail sector as a whole.

Finally, this package includes all measures essential to securing our liquidity. In the day-to-day business, this means above all to reduce inventories and optimise terms of payment. We also keep our liquidity at a comfortable level by putting all investment projects to test. We check every three months what is required, what can be adjourned and what is dispensable. This means for example that we are slowing down our international expansion for the time being. We have to analyse even more thoroughly where it is worthwhile entering a market and where not. We thus ensure that we do not spend more money on capex than we earn with our operating activities. That's why in 2009 we want to realise not more than a handful of new international locations.

In order to secure liquidity in insecure times, we have also decided to propose to the Annual General Meeting a reduction of the dividend to 0.10 euro per share. This decision did not meet with the approval of the capital markets. But we feel that we have acted in the interest of our shareholders. Moreover, we are convinced that the charges of adjustment measures should be borne rather evenly by all stakeholders.

From the multitude of measures taken for cost cutting, securing profit and liquidity you can infer that the current course of business leaves much to be desired. The East European business is suffering not only from weak demand which in the fourth quarter 2008 emerged for the first time and persists up until today, but also from the enduring winter weather. In addition, however, it is affected by adverse changes in exchange rates which impact the translation into the Group currency, the euro.

In Germany, we are also experiencing a certain consumer reticence. Otherwise we would not have introduced short-time working. But part of this reticence is due to the situation that the demand for gardening articles is not yet in full swing this year. Just as in other countries, this is attributable to the cool weather.

So the first quarter on which we will report to you on April 22, cannot yet give an orientation for the full year. For seasonal reasons, the first three months are always a relatively weak selling period. The decisive months are still ahead of us.

Now, because in this year a clear trend is not yet observable, because uncertainties concerning the general development of the economy are more pronounced than ever before, because in addition many different scenarios are conceivable, it is very difficult to forecast the trend for the full year. In this respect, we are not better off than other companies. We expect to be in a better position to appraise the sales trend for the full year in the course of the second quarter. Therefore we are not in a position right now to provide guidance for the development of sales and earnings in 2009, not least against the backdrop of the heavily fluctuating currency rates.

But what we can say already now is that we will be able to achieve reasonable operating earnings (EBITA) even when sales are receding. And reasonable clearly means: positive.

You will understand that at this point we cannot give more precise information – just like many other companies. The predictions we made before were always oriented to what was feasible at the time of the forecast and not to what appeared to be desirable. In the present situation we also feel committed to this principle. So it would be unsound in the present situation to give you more details than are provided with this qualitative statement.

CONCLUSION

Ladies and gentlemen,

We are right amidst the worst crisis of the world economy since the post world war period. We cannot elude it. That is why we will, by all means, see to it that at the end of the year our company is in a condition that allows us to quickly turn around to the growth path in 2010 – provided that until then the general economic environment has recovered again. We are well positioned to overcome the difficult phase in between:

- In Germany, we have two strong, clearly positioned brands.
- In the countries outside Germany we are among the market leaders almost everywhere and can build on sound structures.
- Appropriate liquidity and available credit lines provide us with the financial strength and flexibility that are essential in these times.

It is uncertain what the coming months are holding in store. What is certain, however, is that with the package of measures I have described we are improving, step by step, our resistance to the crisis.

Thank you very much for your attention. My colleagues on the board and I will be pleased to answer your questions now.