



**Speech by Thomas Gabel,
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**on the occasion of the presentation of the financial
results of the first quarter 2008**

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The spoken word is valid.

Good morning ladies and gentlemen,

Welcome to our telephone conference on the results of the first half of 2008.

One of you wrote in his preview that he expected a mixed bag of results. I think this expression hits the nail on the head. The first half of 2008 has been characterized by

- substantial changes in the Praktiker strategy, particularly in Germany,
- by a general change in the outlook for the overall economic development in many of the countries in which we are active,
- by strong changes in exchange rates in some of those countries
- by an unexpected event that left a mark in our financials, and
- a very positive earnings development in the German market.

All of this I will line out to you in the next couple of minutes.

Let me start with our strategy. Following our announcement in the beginning of the year, we

- stopped the roll-out of the Easy-to-shop concept, reworked the concept and will take the first steps of implementing them in the already existing Easy-to-Shop

stores in the course of the third quarter. But we will not convert any new stores any more this year.

- We recalibrated our marketing strategy for the Praktiker brand in Germany, reduced the number of promotion days in the first six months by some 40 percent from 51 to 30 days, and at the same time started with our new advertising campaign to promote the reduction of shelf prices for a selected number of articles
- We continued to expand our international business by opening up 5 more stores.

We still recorded falling like-for-like sales in Germany in the second quarter. But, and this shows how successful we were with our new marketing approach, we also increased the gross margin considerably and improved EBITA in Germany in the second quarter by 30 percent.

The growth in our international sales would have led to higher earnings too, had it not been for fine that the Polish cartel authorities imposed on us and most other large DIY retailers in Poland on the allegation of fixing prices with a local supplier in certain assortments. We have given notice of appeal, but nevertheless had to add 4 million euros to provisions.

After this preliminary remark, let us take a closer look at the figures.

Let us start with a look at Group sales.

Net sales in the Group were down by 0.4 percent in the first half of 2008 to reach 1,997.2 million euros. The slight decline is exclusively linked to Germany, partly because the market is still in decline, but also because the Praktiker brand is still in the transition phase to a new marketing approach. In Germany, net sales were 6.0 percent down on last year in the first half and amounted to 1,418.9 million euros.

In international activities, Praktiker achieved a solid growth of 16.7 percent, reaching net sales of 578.3 million euros.

Like-for-like, group sales were down by 5.9 percent in the first half, in Germany the figure was minus 8.4 percent, international saw like-for-like growth of 2.1 percent.

Small as this international like-for-like figure may seem, we are proud of it as it compares to a like-for-like increase of 15.3 percent in the first half of last year. So we were up against very strong comparables.

Also, the performance of the Group in the second quarter was better than in the first three months.

A look at the different **product categories** may help to understand what the main drivers were in the first six months of the year. In Germany, all categories were down on last year, but top performers were what I would call “soft DIY” categories. Gardening products showed the best performance of all.

In the international business, the picture looks completely different. All categories showed strong increases, the top performers being construction materials and plumbing or what I would call “hard core DIY” categories. To me that is a strong indication that, particularly in Eastern Europe, people are still prepared to spend on construction and renovation regardless of the fact that economic experts are predicting a cooling down of the economies.

Gross profit on sales in the first half year rose by 7.0 percent to 665.7 million euros. Gross profit margin increased by 2.3 percentage points to 33.3 percent. Germany was the driver for this very positive development:

- Compared to the previous year, prices now cover the VAT increase that became effective from January 2007.
- The new marketing approach, in particular the reduction of 20 percent off promotions had a very positive impact on gross margins.

In the second quarter the gross profit margin increased by 2.0 percentage points to 35.0 percent. We have thus seen a continuation of the very positive trend that we started in the first quarter this year.

When we reported on the first quarter, we had included **EBITDA** for the first time, as in years of strong growth it can give you a much better idea of the underlying operating strength than EBITA.

The EBITDA in the first half of 2008 was reported at 92.0 million euros, an improvement over the same quarter of the previous year of 15.5 million euros.

Due to the ongoing expansion of the international store network, depreciation was up by 19.8 percent to 32.8 million euros.

As we temporarily discontinued the roll-out of E2S, there were no further expenses for conversions in Q2. EBITDA profited from that. On the other hand, we had to add 4.0 million euros to provisions in Poland, which had a negative impact. I will come back to this issue in a minute.

Despite the increasing depreciation charges, our operating results improved strongly too. In the first half year, **EBITA** increased by 10.1 million euros to 59.2 million euros. This corresponds to an increase of 20.5 percent.

Part of this performance is due to the fact that one-offs in the first six months of 2007 were higher than this year. But even when you account for the difference we are left with an operating improvement that we find impressive particularly when you bear in mind the continuing weakness of the German market.

When you go through the P & L you find that selling expenses have increased by more than 7 percent. It does not mean though that we have lost control on our expenses. Nearly half of the increase is due to the fact that Max Bahr was included for the full six months for the first time. Last year, remember, we only integrated Max Bahr from February on. The provision in Poland impacts the comparison too. And the rest of the increase is explained by the expansion in the international business and the associated expenses.

General administrative expenses, on the contrary, fell considerably as they had comprised one time integration expenses for Max Bahr last year.

All in all we have our costs under control. In order to keep it that way, we have taken the decision to bundle the areas of IT, logistics and organisational issues into a separate company, the "Praktiker Services GmbH". The idea behind this step is to harmonize and standardize support functions for the whole group, at the same time creating higher efficiencies and lowering costs.

Coming back to the P&L. **Net result** is reported at 32.2 million euros, 1.1 million euros below the figure of last year, when it stood at 33.3 million euros.

There are two main reasons why the improvement in the operating result did not transfer into an increase in the net result.

First: The financial result was down to minus 14.4 million euros – from minus 4.7 million euros last year.

Again, several factors played a role here:

- Interest income was down on last year as liquid funds declined with the payment of the purchasing price for Max Bahr beginning of February 2007.
- On the interest expense side, a higher number of finance leases had to be considered following the international expansion.
- On top, financial results were impacted by a strong reduction in currency gains. This factor alone accounted for a swing of 5.5 million euros.

As I have done at the last telephone conference, I would like again to point out, that 0.3 million euros of the financial expenses were not cash effective.

The second point:

The tax rate increased to 28.0 percent. This is more a technical effect than anything else as the addition to provisions in Poland reduces the pre-tax profit, but in the tax accounts it is not considered.

2.2 million euros of taxes are not cash effective.

Why do I stress this so much?

When you calculate H1 EPS according to the stated figures, you get 0.54 euros per share as against 0.56 euros for the first half year of 2007. This is a small decrease.

When you do the same kind of calculation on a cash basis, that is taking consideration of the above mentioned non-cash positions in the financial result and the tax position, then you end up with an adjusted EPS of 0.59 euros per share, which is five cents more than the stated figure. For 2007 the same adjustments would have led to an EPS of 0.49 euros, which is seven cents less than stated due to the fact that last year we profited strongly from non cash currency gains. The comparison of adjusted EPS thus shows an increase of 10 cents per share.

Coming now to the **balance sheet** and **capital expenditure**.

As compared to the end of last year, the balance sheet total increased by 137 million euros to 2.3 billion euros on account of the seasonal build-up of inventories. On the liabilities side trade payables showed a strong increase too. All other positions showed minor changes at the most.

The equity ratio was at 41.4 percent, it thus stayed at a comfortable level despite the lengthening of the balance sheet.

Net debt amounted to 181.4 million euros, reflecting the increase of liabilities from finance leases which are again related to the expansion of the store network in Eastern Europe.

Liquid funds were maintained at 247.3 million euros. At the end of Q1 liquid funds were at 263.8 million euros. The decline is exclusively related to the fact that we have paid out dividends of 26.1 million euros in total in the meantime. When it comes to liquid funds, I would also like to remind you that we can draw on a syndicated loan of 200 million euros anytime and unconditionally. On top, some bilateral lines are at our disposal too.

Capex was down to 57.6 million euros from 64.5 in the first half of the previous year. The reasons for the decline lie in the German market, as in the first six months of 2007 Max Bahr had opened 5 stores, but none in 2008. In addition, the lower number of

conversions to Easy-to-shop in 2008 also necessitated a lower amount of capex, despite the fact that most of the expenses related to the conversions come under current expenses.

Internationally however, capex increased with the number of store openings.

Chart 10

Let me now turn to our **German** operations, starting with **Net sales**.

In the beginning of the year, I had lined out to you the imminent changes in the marketing approach of the Praktiker brand in Germany. I had also explained the intention to shift focus from volumes to margin in order to increase operating earnings and the operating margin again.

The H1 results reflect both. Net sales were down by 6.0 percent in the first six months. Like for like sales declined even stronger at 8.4 percent. And when you split sales between the two brands of Praktiker and Max Bahr, you find that Max Bahr was down at 4.6 percent and Praktiker at 9.7 percent.

Although we do not have any hard facts about the development of the German market yet, we estimate that Max Bahr performed more or less in line with the market.

The Praktiker performance, however, has to be interpreted in the light of the new marketing approach. In H1 2008 we had 30 promotion days as opposed to 51 such days in 2007. It is no surprise that such a change has brought about a decline in sales well below market average.

Meanwhile we have also proceeded with our campaign to reduce shelf prices for a selected range of products. At the end of the reporting period it was 500 articles. In the meantime, 600 articles are permanently reduced in price – out of the planned 1.200 at the end of the year.

What impact did these changes have on the **EBITA** in Germany? One would assume that a decrease of like-for-likes of the magnitude we experienced would lead to a severe

decline in profits too. The opposite is the case. EBITA in Germany was reported at 34.9 million euros, an increase of 11.5 million euros against last year.

Admittedly, a large part of this increase is related to the fact that we had lower one-offs in 2008 than in 2007. In the first half of 2007, expenses for Easy-to-Shop were around 12 million euros, the integration expenses for Max Bahr around 6 million euros. This year we had to consider the Max Bahr January losses of around 3 million euros for the first time. Expenses for Easy-to-Shop were reduced to around 5 million euros and fell exclusively into the first quarter. In sum, one-offs this year were around 10 million euros lower than last year.

That leaves an increase of 1.5 million euros as a result of the improvement in the gross margin. That may not sound much, but we achieved it in a period when our like-for-likes were coming down by 8.4 percent. As such this is quite an achievement. It shows that we worked on the gross margin very successfully.

Capex amounted to 14.8 million euros in the first half against 25.3 million euros in the previous year. The decline mainly reflects the fact that Max Bahr opened 5 stores last year, but none this year.

Net Sales generated via the **international** activities increased by 16.7 percent to 578.3 million euros in the first half. Like-for-like sales increased by 2.1 percent, which we consider a very good performance as we were up against very strong comparables of a 15.3 percent like-for-like increase in H1 2007.

Again, all countries with the exception of Luxembourg showed sales growth, the highest rates coming from Bulgaria, Poland and Romania.

Sales were affected by exchange rate changes negatively in Romania as the Lei devalued, and positively in Poland as the exchange rate of the Zloty increased. Had exchange rates stayed unchanged, net sales would have increased at an even higher rate, namely by 17.4 percent.

The share of international sales in group sales increased to 29.0 percent, up from 24.7 percent.

EBITA in the **international** business amounted to 24.3 million euros, down 1.4 million euros against the first half of the previous year.

There are two reasons for this decline. First, the currency impact was negative. Had exchange rate stayed unchanged, EBITA would have been nearly one million euros higher. But the more important factor was an addition to provisions of 4.0 million euros which came thoroughly unexpected. The Polish cartel authorities fined us, together with most other large DIY retailers in the Polish market, for fixing prices with a local supplier. We have given notice of appeal, but nevertheless had to provide for a potential penalty payment and had to add 4 million euros to provisions.

This issue has killed our earnings growth in the first half of 2008.

Coming back to the operating part of the business: Greece, Romania, Bulgaria and Poland contributed to the operating performance. In the Ukraine and in Albania we encountered the expected and unavoidable start-up losses. In Turkey, regrettably, we were not able to turn our business into profits yet.

In the first six months of the business year we opened 5 stores, 2 in Romania, 1 each in Bulgaria, Poland and in Turkey.

Capital expenditure amounted to 42.8 million euros against 39.2 million euros last year.

Ladies and gentlemen,

We cannot ignore that the overall economic environment is deteriorating. Expectations for GDP growth are coming down everywhere. We do not, however, subscribe to a doomsday scenario, neither in Germany nor in Eastern Europe. But we are aware that people in all countries suffer from the ripple effects of the worldwide financial crisis and the strong price increases for raw materials, most notably oil. Inflation is coming back in all countries and consumers gradually seem to lose confidence.

In such an environment we have to check our guidance. In Germany, with inflation on the rise and consumer confidence on the decline, we saw the need to reduce our sales

targets. Sales will be down more than we thought at the beginning of the year. The market in June was dull, there are currently no signs of any change in trend.

In the international business, we maintain our sales expectation of an increase of around 20 percent. We have not quite made it in the first half, but are confident that we will still achieve the target as our like-for-likes are still growing and additional stores will be opened in the months to come.

For the group as a whole, we thus expect sales to increase in 2008, but not at a mid single-digit rate, but a low single digit rate instead.

As far as earnings are concerned, we keep our guidance unchanged, even after we had to digest the unexpected provision in Poland. The reason lies in the strong margin improvement that we have seen in the German market during the first six months. Also, the moratorium for the Easy-to-shop rollout provides us with a certain degree of flexibility to further invest in prices or to protect our profits.

That means we still expect EBITA to fall into a range between 135 and 140 million euros.

Following the changes in the overall economic settings we have also re-examined the capex plans at the half year stage. In the German market we will reduce capex further, partly as a consequence of the Easy-to-Shop moratorium. Internationally however, we still plan to open between 15 and 20 stores, with the final number most likely falling into the lower part of the range. As a consequence, group cash capex is now planned to be around 140 million euros for the 2008 business year.

Thank you very much for your attention, I will now take your questions