



**Half-Year Financial Report and Quarterly Report 2 / 2007  
Telephone Press Conference, Wednesday, 25 July 2007, 10:00 a.m.**

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**Statement by Wolfgang Werner, CEO**

Ladies and gentlemen,

I cordially welcome you to the telephone conference on the occasion of the publication of our financial statements for the second quarter and thus also for the first half of 2007. Before Mr. Gabel and I myself will be at your disposal to answer your questions, I would like to present and briefly explain the key financials of the period under review. However, there is one conclusion from what I will report, which I would like to present to you at the very beginning:

In view of the sales trend, our earnings situation and the circumstance that we have already absorbed the largest part of the one-off expenses anticipated for 2007 during the first six months, the management is raising its former earnings forecast from at least 115 million euros to now around 125 million euros. Regarding sales, we continue to expect a rise above the four billion euro mark.

But let us start with the facts from the first six months that have motivated our modified annual forecast.

1. Consolidated sales soared by 24.8 percent to a little over 2 billion euros during the first half. This strong boost in sales, which puts us full on schedule, is mainly attributable to two effects: the acquisition of Max Bahr, which took effect on 1 February, and the dynamic growth of our international operations. In the second quarter, we generated sales of around 1.13 billion euros – that is 26.9 percent up from the same period one year earlier. Net for the

acquisition and on a like-for-like basis, consolidated sales during the first half 2007 rose 1.6 percent.

2. Operating earnings (EBITA) of the first half 2007 came in at 49.1 million euros. This is 2.7 million euros or 5.7 percent more than in the first half 2006. In this context, the improvement in the second quarter was strong enough to more than compensate the backlog from the first quarter. At 69.0 million euros, operating earnings of the months April through June were 10.7 percent higher than during the same quarter one year earlier – despite a series of one-off effects that in particular affected our domestic earnings.
3. These effects, which I will present to you in more detail in the following, have concealed the fact that we have already leveraged tangible benefits from the acquisition of Max Bahr. Synergy effects have caused the gross profit margin to rise. Higher volumes and better purchasing conditions have resulted in more advantageous procurement prices already in the short term. The additional volume acquired with the takeover of Max Bahr is thus paying off directly. I will come back to this in the further course of my presentation.

So much for the key financials. Let us now look at the two segments of our financial reporting, namely our German and our international business.

## **Germany**

In Germany, we were able to report sales in the amount of 1.51 billion euros in the first half 2007– that is 24.2 percent more than last year. In the second quarter alone, sales climbed by 28.0 percent to 838.6 million euros. This rise has taken domestic sales of the Praktiker Group into a new dimension. It would be interesting to find out where the German OBI Group is standing now. I believe that we are making good progress in the fast lane. Regarding sales area presence, the Praktiker Group with its 343 stores has already risen to the number one position in Germany.

To be honest we have to admit that our plus in sales is exclusively attributable to the Max Bahr brand. Praktiker alone generated domestic sales of 1.16 billion euros

during the first six months, which is 4.3 percent below the very good figure reported for the same period in 2006. When using gross sales as the basis for comparison as the association for the German DIY industry BHB does, the figures would look much more favorable but even then we would not have reached the prior-year level.

There were manifold reasons for this decline, which exclusively related to the second quarter. On the one hand, the store portfolio shrank by three stores while, on the other hand, we experienced a noticeable but anticipated loss in sales during the conversion of now 33 stores to the Easy-to-Shop concept.

Add to this the fact that the merchandize on offer in the Praktiker stores during the second quarter was more strongly focused on traditional DIY core assortments than in the year of the FIFA World Cup. This abandonment of attractive non-DIY bargains like flat screens or motorcycles weighed on sales in the low double-digit million range during the first half 2007.

Allow me to add in this context that there is also another reason why it is difficult to arrive at a meaningful comparison with the corresponding prior-year figures. In 2006, we experienced a weather-related delay in demand in Germany that resulted in a distinct drop in sales during the first quarter and in a very strong rise in sales during the second quarter. Although the weather was better during the first three months of 2007, the early summer was basically drowned in rain. I cannot estimate what this will have cost in terms of sales volume during the second quarter, but I believe that the high expectations of the DIY sector for the second quarter did not materialize overall. This also holds true for the entire retail sector – beyond of any weather impact

Ladies and gentlemen,

Owing to numerous one-off effects, the very positive increase in consolidated sales did not fully translate into the operating result, which distinctly lagged behind in Germany during the first half and was still 2.3 million euros lower in the second quarter year-on-year. This notwithstanding, we believe that these one-off effects,

which weighed on the operating result of the first six months in a double-digit million amount, were of a temporary nature.

The one-off effects include the value added tax increase, which was not yet fully passed on to the customers in the first half, a general restraint in consumer spending that is only disappearing gradually, as well as additional one-off expenses for the integration of Max Bahr, which have temporarily also resulted in a strong rise in administration expenses.

They also include expenses for the already mentioned conversion of 33 Praktiker stores to the new Easy-to-Shop concept. While the Easy-to-Shop stores come up to our expectations and consistently report better contributions to sales and earnings than all other Praktiker stores on average, we also have expenses and a temporary loss in sales during the conversion. However, the first positive effects from the converted stores should already be felt during the second half of 2007.

Besides these negative impacts we also see some very positive effects on the domestic market. In this context, we are very proud of the contributions to sales and earnings achieved by Max Bahr. It seems that we made the right move at the right time. Max Bahr does not only help us to achieve an optimum tapping of the customer potential in the German DIY market, which continues to be strongly fragmented. The acquisition also gives us more volume, more strength and more flexibility in a competitive market. What these factors are worth is something we have been able to see in the past few months when business activity was not yet running smoothly, at least in the German retail sector. And we will feel this even more distinctly if the consolidation process in the German DIY industry continues. In future, volume, strength and flexibility will be even more decisive than now for determining who will be the winner and who will feature among the losers of this process.

## **International**

Let us now turn to the International segment, which generated some really impressive results: the dynamic growth that had already characterized the first quarter continued in the April-to-June period with sales coming in at 288.9 million euros, which is 24.0 percent above the previous year. Like for like – i.e. without the

ten new stores that have been added to our portfolio in the meantime – second quarter sales rose by 12.6 percent. This sales growth is thus attributable to both, the extension of the sales floor and also to improved sales density at the existing stores. When looking at the complete first half, international operations reported sales of 495.4 million euros. This is 26.8 percent more than one year earlier. Particular high growth rates were recorded by our Eastern European operations in Romania, Bulgaria and Poland.

EBITA of Praktiker's international business has more than doubled: it reached a record value of 25.7 million euros in the first half 2007. We have never done better in our international operations. This success was mainly attributable to the second quarter, where EBITA stood at 25.6 million euros. This in turn corresponds to a rise of 9 million euros or 54.3 percent over the second quarter 2006. All countries where Praktiker is active have made a positive contribution to earnings in the second quarter.

## **Summary and outlook**

Ladies and gentlemen,

Let me summarize the facts briefly and turn to the outlook:

First: Praktiker was able to raise sales and earnings during the first half of the current financial year. We expect this positive trend to continue and pick up speed during the second half in all countries where the Praktiker Group is active.

Second: International business remains our main growth driver. The dynamic growth it has shown during the first quarter continued in the second quarter. We expect this trend to persist also during the second half of the year. In terms of sales, growth should even accelerate because the majority of our 15 to 20 new stores are scheduled to open later this year. However, this will not reflect proportionally in earnings because the new stores require certain run-up costs and in addition also cause start-up losses during the first months after opening.

This notwithstanding, we are heading for a record year in our international business.

Third: In Germany, our consolidated sales reached a new dimension with the acquisition of Max Bahr, even if business of our Praktiker brand lagged behind the prior-year level. For the second half we expect a further improvement in terms of both, sales and earnings. We are excellently positioned, the Easy-to-Shop concept has stood the test in practice and there are many indications that private consumption will now follow the already good consumer sentiment. We entertain high expectations regarding Max Bahr, as the integration of this new subsidiary is progressing fast and already starting to yield a sustainable return. In addition to the contributions to operating earnings, we can already realize synergy effects in the amount of around 20 million euros during the current financial year.

All this motivated us to slightly modify our forecast for the financial year 2007 as already mentioned earlier. Our reliable but rather conservative forecasts have earned us some criticism in the past, but also a lot of trust. It is with the same seriousness that I can tell you today: we continue to expect annual sales of around four billion euros. However, we believe that we will be able to outperform our forecast earnings of at least 115 million euros. Based on the data available today, we therefore expect to generate EBITA of around 125 million euros for this financial year.

For completeness, please allow me to add the following: this forecast does not include the one-off effects on earnings resulting from the sale of four German stores required by the German Cartel Office. In our financial report for the first half 2007 we have noted that, the effect on earnings could range in the low double-digit million euro territory. As you may have learned, we have in the meantime finalized the sale of our store in Adendorf near Lüneburg to a Hagebau partner. We will only be able to assess how these transactions will weigh on earnings in the present or in the next financial year once we have clarity about the future of the three remaining stores in Cottbus, Schwerin and Rostock.

Thank you for your attention and patience. Mr. Ghabel and I will now be pleased to answer your questions.