

Praktiker

Annual Report

The financial year

2006

Key data

	2004*	2005*	2006	Change (%)
Profit & loss data				
Net sales in € m	2,934.0	3,033.9	3,162.1	4.2
Germany	2,248.9	2,264.5	2,281.9	0.8
International	685.1	769.5	880.2	14.4
International share in % of total net sales	23.4	25.4	27.8	—
Like-for-like sales growth in %	3.4	1.5	3.5	—
Germany	3.4	0.7	2.5	—
International	3.3	3.9	6.2	—
Gross profit on sales in € m	973.5	964.6	985.5	2.2
Gross margin on sales in %	33.2	31.8	31.2	—
Earnings before interest, taxes and goodwill amortisation (EBITA) in € m	80.4	105.8	111.1	5.0
Germany	35.2	63.4	58.5	-7.7
International	45.3	42.4	52.6	24.1
EBITA margin in %	2.74	3.49	3.51	—
Net financial income in € m	-8.6	-5.5	1.4	—
Earnings before taxes (EBT) in € m	71.9	100.3	112.5	12.2
Net income from continuing operations in € m	63.7	77.6	84.1	8.4
Earnings per share in € m**	1.08	1.32	1.43	8.3
Dividend per share in €	—	0.45	0.45***	—
Balance sheet data				
Total assets in € m	1,423	1,724	1,889	9.6
Equity in € m	633.2	871.0	945.5	8.6
Equity in % of total assets	44.5	50.5	50.1	—
Cash and cash equivalents in € m	32.7	349.1	466.3	33.6
Net cash in € m	30.2	204.8	172.5	—
Net working capital in € m	-289.5	-276.4	-336.0	—
Further financial data				
Capital expenditure in € m	55.6	86.3	68.0	-21.2
Free cash flow in € m	66.8	81.6	139.5	71.0
Return on equity (ROE) in %	10.1	8.91	8.89	—
Return on capital employed (ROCE) in %	—	5.6	6.2	—
Dividend yield in %	—	2.9	1.7	—
Capital market data				
Share price as of December, 12 in €	—	15.25	27.07	77.5
Market capitalisation as of December, 12 in € bn	—	0.9	1.6	77.5
Operative data				
Number of stores	335	340	341	0.3
Germany	278	275	268	-2.5
International	57	65	73	12.3
Selling space in sq m 1,000	1,958	2,012	2,026	0.7
Germany	1,555	1,549	1,515	-2.2
International	403	463	512	10.6
Number of employees, yearly average on a full-time basis	15,941	16,550	17,600	6.3
Germany	10,504	10,397	10,480	0.8
International	5,437	6,153	7,120	15.7
Part-time ratio, yearly average	42.7	43.9	44.2	—
Germany	54.7	58.6	61.9	—
International	12.4	10.9	8.6	—

* Combined Financials

** On a basis of 58 million shares

*** Dividend proposal

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Company profile

Praktiker Bau- und Heimwerkermärkte Holding AG with its registered head office based in Kirkel (Saarland, Germany) operates 341 do-it-yourself stores, offering a comprehensive range of products for the areas of construction and renovation, gardening and leisure as well as home repair and home improvement and serving the needs of retail customers in 8 European countries.

With 268 stores, Praktiker is the number 2 in the German DIY market. This is also where the company's business focus lies. Through the acquisition of Max Bahr, Praktiker will gain further market share and, at the same time, contribute to the necessary consolidation of the German market.

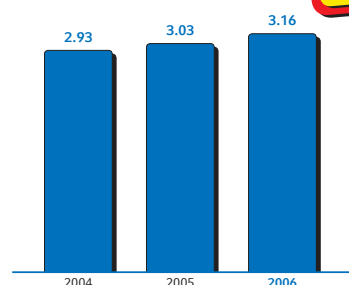
The international share in the business increased further in 2006 – to around one third of total sales. In all, Praktiker operates 73 stores in Bulgaria, Hungary, Greece, Luxembourg, Poland, Romania and Turkey. With the exception of Poland, Praktiker is already market leader or the number two in all of these countries.

In 2006, the Praktiker Group generated total sales of 3.16 billion euros and operating earnings (EBITA) of 111 million euros.

On average for the year, Praktiker employed 17,600 personnel, of whom 7,120 were based outside Germany.

Net sales

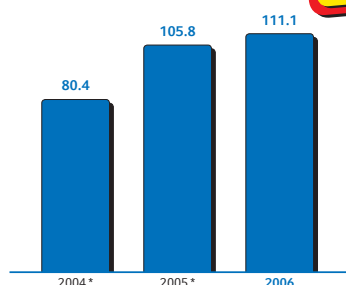
in € bn



+ 4.2 %

EBITA

in € m

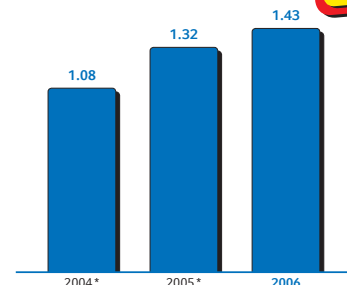


+ 5.0 %

* Combined Financials

EPS

in €



+ 8.3 %

* Combined Financials

Letter to the shareholders

Ladies and gentlemen,

Praktiker has successfully completed its first full financial year after its flotation on the stock market. One year ago, we had set ourselves the goal of increasing sales and earnings above the record level of the year 2005. The aim was for Praktiker to continue to grow profitably. Today, we are proud to present financial results confirming these objectives in full. Sales have increased by 4.2 percent while operating earnings have risen by 5.0 percent to a total of 111.1 million euros.

The basis of comparison in the 2005 financial year are the so-called combined financials. They convey a view of the economic development, which is free from the structural changes that were triggered by the company's flotation on the stock market. The combined financials show the earnings situation in the 2005 financial year as though Praktiker had already had the structure the company received only after flotation in November 2005 for the full financial year. In the following group management report, we are however obliged to report the previous year's figures as they were actually stated, which does not reflect the given structural impact in full.

You, our esteemed shareholders, shall benefit appropriately from these results. Both Management Board and Supervisory Board have submitted the proposal to the annual general meeting that a dividend of 0.45 euros per share be distributed. The resultant ratio of dividends to profit stands at 31.0 percent and thus lies within a range of between 30 and 40 percent. It is, as such, fully in line with our stated dividends policy.

As shareholders, you have of course been able to reap significantly greater benefits from the good performance our shares have enjoyed in 2006. With an increase of more than 70 percent, Praktiker shares numbered among the best performers on the German stock market. A success even more pleasant after the uneasy IPO in November 2005. The sharp rise in the market capitalisation of our company is, however, only partly attributable to the results of the past financial year. Instead it rather reflects the expectation that the strategic decisions taken in 2006 will keep Praktiker on a successful growth path.

For years Praktiker has been generating its highest growth rates abroad. In 2006 we opened eight new outlets in Romania, Bulgaria and Greece. Our aim for 2007 is to accelerate growth, double our 'stroke rate' and strengthen our market position further – with the exception of Poland, we are already the number one or two wherever we operate. In the past, our international activities have proven to be extremely profitable. They contribute around 30 percent to consolidated sales and approximately 50 percent to operating earnings. As such, foreign expansion is clearly one of the key elements in Praktiker's earnings capacity. Therefore, we are prepared to invest even more. When we look for new locations, we will also check options to acquire real estate wherever possible and financially reasonable. This change in strategy will provide additional potential to participate in the strong increase in property values in Eastern Europe.

We know how important the foreign operations are for our business. Therefore we are keen on ensuring the necessary funding for our expansion purposes as well. This was the reason why we issued convertible bonds in August 2006 to partially fund our acquisition of Max Bahr. Thus, we prevented this takeover of a domestic competitor from restricting our expansion in Eastern Europe.

The acquisition of Max Bahr, which was approved by the German Cartel Office in mid-January 2007 and came into effect at the beginning of February 2007, will bring with it a big sales leap in Germany. We are now advancing sales to around three billion euros, which makes us the runner-up for market leadership by a close margin only – in terms of store portfolio, we are already in the lead. The takeover will make us more productive and efficient because we will be able to harness synergies to which we previously had no access. Furthermore, the two-brand strategy will help us tap the market potential in Germany more effectively.

A further source of growth is also located in Germany: Our Easy-to-Shop concept. We redesigned the Praktiker DIY stores in Germany based on the experience that customers not only wish to save money but also time. We now help them to do so by streamlining the products and services on offer, providing enhanced order and orientation in the stores and on the shelves and presenting the goods in such a way that the customer easily finds what he

is looking for. Our customers perceive Praktiker as a price leader in the German DIY market. This is why they shop with us. Now we are offering them a pleasant, no-frills shopping ambience in addition. The experience gained in the six pilot stores which we opened in the middle of 2006 has reinforced us in our conviction that the concept should be implemented faster and in more stores than originally planned. Needless to say, we will have to invest in the conversion of the stores. But we are confident that the investment will pay off rapidly in the form of enhanced growth of sales and earnings.

Our Easy-to-Shop concept involves reducing the number of items offered. At first sight, this may seem to contradict the expectation that the concept will lead to strong sales growth. But a sensible pre-selection helps the customer in making his decision while, at the same time, it enhances price transparency. Moreover, the reduction in the products and services on offer has the advantage that logistics are simplified. As the quantities per item sold are expected to increase, inventory turns will go up and storage costs will fall. Easy-to-Shop therefore contributes to efficiency enhancement too.

The German market is highly competitive. Experts in the sector are forecasting that the current market structure with its large number of comparatively small suppliers may not be maintained for much longer. The number of stores will decline and larger corporate units will be created. Expectations are that this process will reduce competitive pressure and thus enable the remaining suppliers to achieve improved margins. The takeover of Max Bahr sees Praktiker as a driving force behind this development. Should, however, the competitive environment not change in the expected way, we are prepared too. For, after all, with the acquisition of Max Bahr and the introduction of Easy-to-Shop in our Praktiker stores we will enhance efficiency and competitiveness. We thus underpin the expectation that we can also increase our profits in Germany – despite the fact that the market has a limited growth potential only.

The results we have achieved and those we aim to achieve in the future are always based on the commitment of all employees: the management team, the head office staff, the colleagues in

the various international companies and in each and every store. I would like to take this opportunity of thanking them all for the hard work they have put in. In 2006, the Praktiker team has provided clear evidence that it is not only able to set the company on a successful course, but that it can keep it there too.

Knowing that our employees are motivated and committed ought to be reason enough for you, our esteemed shareholders, to continue to support our company now and in the future. In any case, we are delighted in the trust and confidence you have placed in us by your decision to invest in our company.

Yours sincerely,



Kirkel, Germany, April 2007
Wolfgang Werner

Chairman of the Management Board

The Management Board

The Management Board at Praktiker Bau- und Heimwerkermärkte Holding AG underwent significant changes in 2006.

With effect of July 1, 2006, Pascal Warnking was appointed to the Management Board as member with responsibility for category management and marketing. In this capacity, he succeeds Karlheinz B. Kockmann, who left the company in line with the relevant statutes.

Pascal Warnking also took over responsibility for the new brand Max Bahr as of February 1, 2007.

Wolfgang Werner



Michael Arnold



Chairman

Division

- 🛒 Distribution Germany
- 🛒 Location Management Germany
- 🛒 Auditing
- 🛒 extra Bau + Hobby
- 🛒 Top Bau

Labour Director

Division

- 🛒 International Business and Internationalisation
- 🛒 Personnel

In September 2006, Walter Weber announced he would not be extending his contract which runs until September 2007. In order to enable him to concentrate fully on the consolidation of Max Bahr, he additionally asked to have his area of responsibility reduced to accounting, balance sheet policy and taxes for the remaining months of his contractual term.

For this reason, responsibility for controlling, organisation and IT was transferred to Thomas Ghabel. Once Walter Weber steps down from his position, Thomas Ghabel will take over responsibility for accounting, balance sheet policy and taxes too.

As such, the Management Board at Praktiker Bau- und Heimwerkermärkte Holding AG will again comprise four persons at the end of 2007.

Thomas Ghabel



Pascal Warnking



Walter Weber



Division

- 🛒 Controlling
- 🛒 Finance
- 🛒 Investor Relations/Public Relations
- 🛒 Legal
- 🛒 IT/Organisation

Division

- 🛒 Category Management
- 🛒 Marketing
- 🛒 Logistics
- 🛒 Product Controlling
- 🛒 Max Bahr

Division

- 🛒 Accounting
- 🛒 Taxes

The year 2006

The first full financial year as an independent listed company commences.

Praktiker launches its new slogan "Hier spricht der Preis" ("The price is key").

January

The share price rises above 20 euros for the first time. At the IPO in November 2005, shares had been priced at 14.50 euros.

February

The long, hard winter sees a strong decline in gardening sales, particularly in Germany.

Praktiker enters into the MDAX, the index of the fifty medium-sized companies listed on the stock market in Germany.

March



July

The first six Easy-to-Shop pilot stores are opened after more than a year of preparatory work.

The second quarter results are published. Sharp sales increases contribute to offsetting the losses from the first quarter.

August

Praktiker acquires Max Bahr. The acquisition still needs clearance from the German Cartel Office before becoming effective.

Praktiker issues convertible bonds to partly fund the acquisition.

September

The first of the planned new international stores opens in Targu Mures (Romania).

METRO AG sells its remaining equity stake.

On its first annual press conference Praktiker announces excellent figures for the expired business year.

The first quarter earnings are published. They are significantly down on the previous year due to the poor weather in March.

Sharp growth in sales due to increased demand for gardening products.

Germany is in the grip of the Soccer World Cup. However, the do-it-yourself industry does not stand to benefit from the stimulating atmosphere.

The annual general meeting accepts the dividend proposal of 0.45 euros per share.

April

May

June



October

The third quarter results are published. They reflect the ongoing growth in sales and earnings.

November

The German Cartel Office initiates the second phase of the examination of the Max Bahr takeover. An integration team is set up. Its task is to prepare an integration plan to be rolled out immediately after the expected clearance.

December

With five store openings in Eastern Europe, the majority of expansion activities takes place in December. Above all Romania and Bulgaria see a significant increase in the number of outlets in 2006.

In Germany, the Top Bau brand will be merged into the extra Bau+Hobby brand in order to strengthen the franchise concept on which this particular line of distribution is based.

-  Solid position in MDAX secured
-  Free float increased to 100 percent
-  Share price in 2006 up 77.5 percent
-  Dividend of 0.45 euros per share proposed

Praktiker in the capital market

First full year on stock market completed with bravura

In its first full year on the stock market, Praktiker shares numbered among the most successful stocks traded on the German stock exchange. After Praktiker was successfully taken public on November 22, 2005, the share price increased by 77.5 percent to 27.07 euros in the course of 2006. As such, the share performed better than German retail stocks on average or the leading indices DAX and MDAX.

March 20, 2006 saw Praktiker shares entering into the MDAX, the index of fifty medium-sized companies listed in Germany. Measured in terms of trading volume and market capitalisation, Praktiker has meanwhile secured a solid middle position in this index. The relative weight in the MDAX increased during the course of the year.

In order to meet capital market requirements, an investor relations department was set up in 2006. Currently, analysts of 24 financial institutions report on Praktiker. Via regular roadshows, investor visits, analyst events and telephone conferences on quarterly results, the management keeps close contact with actual and potential investors.

The strong performance on the stock market is testimony to the confidence the capital markets have in the company's strategic alignment. Both now and in the future, Praktiker aims to expand

its position in the German market as a discount-oriented supplier and continues to push ahead with expansion in the growth markets of Eastern Europe.

EPS and dividends benefit from earnings growth

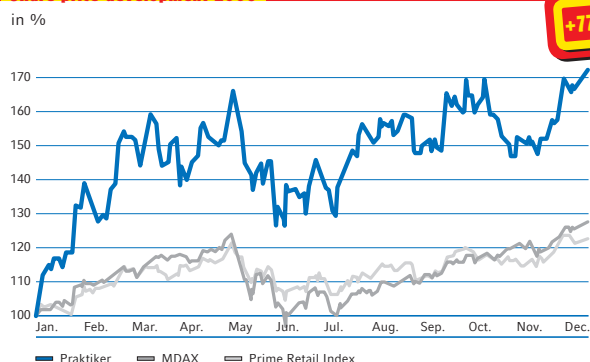
Operating earnings (EBITA) increased by 5.3 million euros or 5.0 percent to total 111.1 million euros in 2006. Earnings per share rose by 8.3 percent to 1.43 euros (1.32 euros in previous year) (2005: Combined Financials). Shareholders are going to participate in the good results. As in the previous year, both Management Board and Supervisory Board propose to distribute a dividend of 0.45 euros per share. This equates to a ratio of dividends to earnings of 31.0 percent. As such, the proposal is in line with the goals expressed at the time of flotation in respect to keeping dividend levels as constant as possible and the dividend to earnings ratio between 30 and 40 percent.

Free float increased to 100 percent

At the time of flotation in November 2005, METRO AG had sold 59.5 percent of the shares but, at the same time, had announced its intention not to hold on to the remaining stake in the long term. On April 13, 2006, METRO AG sold its remaining shareholding. Since then the free float of Praktiker Bau- und Heimwerkermärkte Holding AG is 100 percent.

Sporadically, financial investors exceed the reporting threshold of five percent of the voting rights. None of them has yet expressed

Share price development 2006



Praktiker share 2006

Share price on December 31	27.07 €
Year's high (daily closing prices)	27.07 €
Year's low (daily closing prices)	15.60 €
Market capitalisation on December 31	1.6 € bn
Earnings per share	1.43 €
Dividend per share *	0.45 €
Dividend yield *	1.7 %
Dividend payout rate *	31.0 %

*Subject to the resolution of the annual general meeting

any strategic intentions though. Thus, Eton Park Capital Management L.P. and T.Rowe Price Associates, Inc. increased their respective stakes briefly to a level just over the 5 percent mark in April 2006, but cut them back again to below this mark in June 2006 (Eton Park Capital Management L.P.) and December 2006 (T.Rowe Price Associates, Inc.). February 2006 had already seen Brandes Investment Partners reducing its stake acquired at the end of 2005 to below the statutory reporting threshold. In the course of the 2006 financial year (March 2006), Newton Investment Management Ltd. increased its inventory of Praktiker shares to above the 5 percent threshold. However, in accordance with the relevant Deutsche Börse AG definition, the stake concerned is not considered to be in fixed ownership as the given shares are subject to a short-term investment strategy. As such, all Praktiker shares were considered free float with effect of December 31, 2006

institutional investors and persons outside the United States of America, Canada, Australia, Italy and Japan. Subscription rights were excluded. The issue was eight times oversubscribed. Within the book-building range offered the best result was achieved. Praktiker has thus gained additional profile in the capital markets. In January 2007 the convertible bond was listed at the EuroMTF market of the Luxembourg stock exchange.

The majority of the shares are held by institutional investors, of whom the majority are institutions based in Anglo Saxon countries.

Convertible bond issue successfully placed

August 2006 saw Praktiker Bau- und Heimwerkermärkte Holding AG successfully placed convertible bonds with a total nominal value of 150 million euros. In so doing, the company made partial use of the authorisation it had been granted by the annual general meeting on June 27, 2006. The convertible bonds with subscription rights to around 4.44 million shares have a time to maturity of five years. They were offered exclusively to

Share data

Capital stock	58 € m
Total shares	58 m shares
Type of share	no-par shares
Indices	MDAX/Dow Jones Stoxx Retail
MDAX weighting	1.65 %
Security identification codes	WKN A0F6MD/ ISIN DE000A0F6MD5
Bloomberg	PRA
Reuters	PRAG

Convertible bond data

Aggregate principal amount	150 € m
Underlying	4.44 m shares
Interest rate	2.25 %
Conversion premium	40 %
Conversion price	33.77 €
Date of placement	August 24, 2006
Maturity	5 years

Financial calendar 2007

Annual report 2006	April 3, 2007
First quarter report 2007	April 26, 2007
Annual general meeting	May 30, 2007
Second quarter report 2007	July 25, 2007
Third quarter report 2007	October 24, 2007

Easy-to-Shop: Praktiker redefines the do-it-yourself store of the future



On July 31, 2006 Praktiker opened its first six Easy-to-Shop stores. Designed as pilot stores, they offer customers a new shopping experience. Easy-to-Shop means an optimised product range to facilitate and accelerate purchasing decisions. A transparent shop layout and a largely self-explanatory product presentation contribute to help the customers find everything they are looking for much faster than before.

Enhanced orientation in the store and on the shelves

This is achieved via visual orientation aids in the store and on the shelves. The main features here are

- 🛒 transparent shop layout with a broad central aisle, distinctive campaign areas and unambiguous signposting to the various departments,
- 🛒 easy to understand, pictogram-supported colour guidance systems in the departments and on the shelves,
- 🛒 logical product presentation, clearly distinguishing between the entry-price level, private labels and "A" brands,

- 🛒 information columns with product descriptions, providing answers to almost all potential questions,
- 🛒 direct allocation of samples and packaged goods as well as of core product ranges and matching accessories,
- 🛒 unambiguous price messages recognisable from any distance.

Clear brand and pricing architecture facilitates customers' decision

Easy-to-Shop also stands for the reduction in the variety of articles and brands on offer. With the introduction of the concept the number of stock keeping units will be reduced by 20 percent on average. The elaborate process of pre-selection helps customers with their purchase decisions, creates enhanced price transparency and, above all, improves time efficiency when shopping.

The selection of products on offer is smaller, but brand and pricing architecture is more transparent and easier for customers to comprehend.



Conversion costs to be amortised within two years

Praktiker invested nearly four million euros in its six pilot stores in 2006. Expenses are to be amortised within two years. Management expects Easy-to-Shop to produce enhanced customer satisfaction and to lift sales volume by some ten percent. Increased sales density combined with a slimmer product range should also result in enhanced efficiency. The goods will be turned around faster, handling and logistics expenses will be reduced and, due to higher volumes sold per item, the negotiating position vis-à-vis suppliers will improve. As such, Easy-to-Shop is not only good for the customer, but medium term, also positive for company profits.

Rapid expansion of concept planned

After the results of the pilot stores have been evaluated, the Easy-to-Shop concept will be rolled out from 2007 on. Current plans envisage converting 65 to 70 stores annually between 2007 and 2009. Conversion work will be undertaken in "waves" and last approximately six weeks per store. During the period of conversion the stores will be kept open in order to avoid any loss of sales. Expenditure for conversion work is expected to amount to 400,000 euros per store. As the major part of the expenditure incurred in store conversion has the quality of current expenses, the impact on earnings will be of a corresponding magnitude in the year of the conversion. On the other hand, overall sales in 2008 will already benefit from the expected positive impact of those Easy-to-Shop stores that have been converted in 2007.

Group management report

2006

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Gross domestic product

Annual percentage change

	2004	2005	2006
Bulgaria	5.5	5.6	6.0
Germany	0.9	2.0	1.3
Greece	3.7	3.7	3.5
Luxembourg	4.0	4.0	3.8
Poland	3.4	5.0	4.5
Romania	4.1	5.5	5.5
Turkey	7.4	5.0	5.0
Hungary	4.1	4.5	3.5

Source: International Monetary Fund, 2006 estimates

Private consumption

Annual percentage change

	2004	2005	2006
Bulgaria*	7.4	7.1	5.8
Germany	0.2	0.6	0.6
Greece	3.8	3.5	3.5
Luxembourg	2.3	2.8	2.3
Poland	2.1	3.0	3.7
Romania*	9.7	9.7	8.5
Turkey	8.8	6.7	4.8
Hungary	2.4	4.0	3.4

Source: OECD, 2006 estimates

*Economist Intelligence Unit, 2006 estimates

-  **Like-for-like growth in Germany despite stagnant market**
-  **High growth rate maintained in expanding international markets**
-  **Strongest growth in the second and third quarter**

Business-specific and general economic settings

General macro-economic conditions developed positively

According to the estimates available, the global economy grew at a real rate of approximately 3 percent in 2006 and, as such, somewhat stronger than in the previous year. Most countries in which Praktiker is operating are likely to report even above-average growth rates. Solely in Germany, the group's most important market, the growth in gross domestic product at 2.0 to 2.5 percent was below the world average, but was still significantly higher than in the previous year.

To the extent that appropriate estimates are available, private consumer spending in most countries roughly kept pace with general economic growth. Particularly in the countries of Eastern Europe, in which Praktiker is enjoying ongoing strong expansion, this was a good basis for growth in the do-it-yourself market too.

Do-it-yourself market in Germany stagnating

In Germany, still Praktiker Group's single most-important market, the do-it-yourself sector experienced only marginal or even zero growth in 2006. According to surveys carried out by the German Statistics Office, sales merely increased by around 1 percent. However, based on data provided by the industry's association BHB, the market shrank slightly by 0.3 percent. As such, a development that has characterised the entire decade so far persisted in the year under review too – namely stagnation.

In an environment of this kind, the only way to increase sales is by gaining market share. Such is the severity of price competition, particularly if the total available sales area remains unchanged or even increases slightly. According to calculations made by the BHB, the total sales area in Germany increased by 1.0 percent to 12.2 million square metres in 2006 despite the high level of competitive pressure, such that sales per square metre declined even further. Praktiker was able to clearly buck this negative trend with like-for-like sales growing by 2.5 percent in 2006.

A view cast beyond national boundaries shows just how intense the competitive environment has meanwhile become in the German market. In the UK, the sales area of the do-it-yourself sector per head of population is half of that in Germany with the corresponding impact on sales density and profitability.

In the German market, which is estimated to generate total net sales amounting to around 32 billion euros, Praktiker operates 268 do-it-yourself stores, offering a comprehensive range of products for construction and renovation, gardening and leisure as well as home repairs and improvement. The offer is tailored specifically to meet the needs of retail customers. Via these stores, the company was able to generate sales of 2.3 billion euros in 2006, equating to a market share of just over 7 percent.

By way of its acquisition of Max Bahr, which was cleared by the German Cartel Office in January 2007 and came into effect on February 1, 2007, Praktiker has contributed to the consolidation of the German market, increased its market share to in excess of 9 percent and caught up with the market leader.

As an independent company listed on the stock market, Praktiker enjoys something of a special status in the German do-it-yourself industry. In addition to Praktiker, merely one other company from this industry is listed on the stock exchange. Otherwise, the other key competitors are part of corporations or corporate groups with their main business focus on food retailing. Others are in private ownership or are members of a group of companies with joint purchasing activities and a common brand.

Vis-à-vis group-bound competitors, Praktiker has the advantage of being able to make independent decisions without having to give due consideration to any group-related issues. As compared with such competitors as are in private ownership, however, Praktiker is exposed to the high-level demands of the capital market in terms of returns and transparency. A private company is not necessarily subject to these requirements. Such demands provide for an overall management orientation to value and return, to transparent and plausible decisions and to the generation of adequate results.

Moreover, as a company listed on the stock market, Praktiker also has the advantage of having access to the capital market at all times. This proved its worth in the case of the capital increase in connection with the flotation in 2005 as well as in the case of the convertible bond issue in mid-2006 that was oversubscribed several times over.

As compared with the market leader, whose business is based to around 50 percent on franchise agreements, Praktiker has the additional advantage of being able to control all sales units directly and centrally. Decision-making processes are short and decisions made centrally can be implemented immediately throughout all the relevant sales units.

Furthermore, Praktiker has positioned itself in Germany rigorously as a brand associated with low prices. Praktiker presents itself as a discount-oriented, aggressively priced do-it-yourself store and is perceived as such by its customers. This positioning gives the brand an individual profile that is unique in the sector and is above all targeted at the large market segment of price-conscious customers.

Eastern Europe with dynamic growth

Outside Germany, Praktiker Group is present in seven European countries – with its focus in the south and east of the continent. For most of the countries concerned, comprehensive market analyses are even more difficult to obtain than in Germany. Yet, taking account of the available store capacities, the above-average growth rates in gross domestic products and the significantly lower level of competition, it can be justifiably assumed that the do-it-yourself sectors in most of these countries will be reporting growth rates for 2006 that are in line with the increases in private consumer spending.

In order to participate in this growth, the Praktiker Group further reinforced its presence in Eastern Europe in 2006 too and expanded its network of stores, above all in Romania and Bulgaria.

In the countries outside Germany, Praktiker has a different positioning than in its domestic market. In Eastern Europe, for instance, Praktiker relies on a full range of products and customer services with items on offer including furniture, consumer electronics and white goods. In Greece, Praktiker presents itself to customers even more as a “technical department store” than as a thoroughbred do-it-yourself store.

Via this concept, Praktiker is in all international markets in which the company has a presence either number one or number two – with the exception of Poland. In order to defend this position, the company has set itself the aim of continuing to sharply expand its market portfolio. Up to now, the strategy of setting up medium-sized stores with a standard sales area of around 6,500 square metres has proven successful. In this way, also the catchment areas of medium-sized cities and regions can be exploited, where larger units would have difficulty generating any profits at all.

In all the countries concerned, Praktiker has to contend with local competitors as well as with retail chains from Western Europe. Due to the high level of market growth, however, the competition is not of a cut-throat nature but instead oriented towards the tapping of new customer groups. What is more, the level of consolidation in the countries of Eastern Europe is comparatively low.

Strong growth in the second and third quarter

The 2006 financial year was characterised by a considerable degree of fluctuation as far as individual quarters are concerned. This was attributable largely to the German market, which continues to account for a good two thirds of consolidated sales. Due to an unusually persistent and hard winter, the sales generated in Germany via the garden assortment in the first three months declined significantly compared to the previous year. As gardening products account for a large share of sales in spring, sales and earnings in the first three months were totally disappointing.





In the second quarter, the company was able to largely offset this development with sales increasing sharply in the months of April and May. Thus, losses from the first quarter were largely compensated. The Soccer World Cup brought a very positive atmosphere to Germany in June and July but do-it-yourself companies were unable to turn this to their advantage.

Towards the end of the summer, sales recovered again such that the third quarter ended in very good shape too. Like-for-like sales in Germany even enjoyed sharp growth. The six Easy-to-Shop pilot stores, which opened on July 31, 2006, also contributed to this for the first time.

The company was however unable to maintain this momentum in the fourth quarter as growth in the comparable period of the previous year had been simply too strong. Moreover, December 2006 had two trading days less than December 2005. As expected, do-it-yourself stores were unable to benefit from purchases brought forward to the last few months of the year due to the increase in value-added tax in January 2007.

After the unusual fluctuations in the relevant quarters, Germany concluded the year with a like-for-like increase in sales totalling 2.5 percent and, as such, at the upper end of the range that had been forecast at the beginning of the year.

In the international markets, the fluctuations were less marked with sales increasing in all quarters at double-digit levels, a development largely attributable to the high rate of expansion in the store portfolio. The rate of growth would have been higher still had it not been for the devaluation of the Hungarian forint and the Turkish lira.

-  **Sales increase by 4.2 percent**
-  **Costs kept stable**
-  **EBITA up by 15.6 million euros**
-  **Net cash position strengthened**

Income, financial and asset position

Income position

Number of stores expanded in strong-growth countries

Praktiker Group expanded its portfolio of stores by a net amount of one to a total of 341 stores in the 2006 financial year. Internationally, it increased the number of stores by eight to a total of 73 locations. Five of the new openings are located in Romania, two in Bulgaria and one in Greece. In the company's expansion of its portfolio, the focus lay on the strong-growth countries of Eastern Europe. In Germany, by contrast, the number of outlets was reduced by seven to a total of 268 in order to retain and further improve the profitability in a strongly competitive environment.

The increase in the number of stores goes hand in hand with a corresponding expansion of the available sales area. At Praktiker Group, total available area increased by 0.7 percent to 2,026,404 square metres with the sales area located abroad expanding by 10.6 percent to 511,652 square metres and that in the domestic market declining by 2.2 percent to 1,514,752 square metres.

As such, Praktiker has adapted to suit the different market specifics prevailing in the various countries.

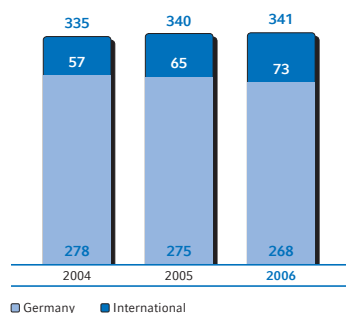
Sales up, sales productivity enhanced

Sales generated by Praktiker Group increased by 4.2 percent to total 3,162.1 million euros in the 2006 financial year (3,033.9 million euros in the previous year). Adjusted for changes in the sales area, this equates to a like-for-like increase of 3.5 percent.

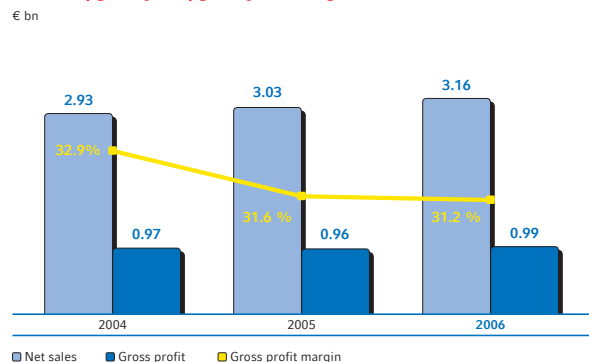
The key growth stimulus came from abroad and above all from Eastern Europe. In its international activities, the company was able to increase sales by 14.4 percent to a total of 880.2 million euros (769.5 million euros in the previous year). The new outlets made just as big a contribution to sales growth as did existing stores. Adjusted to take account of the changes in sales area, like-for-like sales generated abroad rose by 6.2 percent.

This development should be rated all the more highly as reporting in euros was subject to negative currency influences. Both the Hungarian forint and the Turkish lira depreciated significantly in the course of the year under review. The impact on sales could not be offset in full by the minor appreciation of the Polish zloty and Romanian lei. Adjusted for changes in currencies, that is assuming constant exchange rates, international sales would have increased by 16.2 percent.

Number of stores



Net sales, gross profit, gross profit margin



In Germany, sales reached 2,281.9 million euros (2,264.5 million euros in the previous year). This equates to an increase of 0.8 percent in a largely stagnant market. Giving due consideration to store closures and sales area adjustments, like-for-like sales were up by 2.5 percent. As such, Praktiker has outperformed the market on average. The rigorous continuation of its discount-oriented strategy and the special "20 Prozent auf alles" (Twenty percent off everything) campaigns made a significant contribution to this market success.

In Germany, declining prices prevailed in the 2006 financial year on average. The harsh nature of the competitive climate made it impossible to pass on in full the increase in procurement costs which was related to rising prices of raw materials. The increase in sales was therefore attributable exclusively to volume. Increasing volumes also meant that Praktiker in Germany was able to partially offset the rise in procurement prices via quantity-related improvement of procurement terms.

More customers, higher sales per purchase

The good growth in Germany was possible because – again – a higher number of customers visited Praktiker stores. In addition, the average sales per purchase increased too. In 2006 customers decided 80.8 million times to shop at Praktiker, 1.4 percent more than in the previous year. Average net customer expenditure stood at 25.74 euros, equating to an 1.7 percent increase over that of the previous year.

Building materials particularly in demand

The individual product groups made varying contributions to the growth in sales. Particularly in demand were building and construction materials with growth of 7.8 percent, followed by the product group of timber goods with a sales increase of 1.6 percent as compared with the previous year. By contrast, products from the electrical goods, gardening and tools ranges declined in popularity in 2006 with sales in these product groups falling by one percent and more respectively. The sales generated via the gardening products range suffered particularly from the inclement weather prevailing in March and April of the financial year under review.

The unusually persistent period of ice and snow caused sales of gardening products to collapse in spring – a decline that could not be offset in full in subsequent months. Despite the varying developments in sales, the relative significance of the individual ranges experienced minor changes only.

Gross profits up again

Gross profits reached 985.5 million euros in the year under review and, as such, were 27.2 million euros up on the level of the previous year (958.3 million euros). This equates to a rise of 2.8 percent. The gross profit margin of 31.2 percent was slightly weaker than in the previous year (31.6 percent). The reasons for this decline were twofold: in the German market, Praktiker pressed ahead with its discount-oriented policy of growth and market share gains, thereby consciously accepting certain reductions in the gross profit margin in an environment of persistently excessive capacities. The other reason is that gross profit margin automatically declines when the share of international sales increases as the international gross profit margin is typically lower than in Germany.

Other operating income above the previous year

Other operating income accounted for a total of 52.1 million euros in the 2006 financial year. This equated to an increase of 4.8 million euros or 10.2 percent over that of the previous year (47.3 million euros), attributable in the main to enhanced contribution from central A/P clearing for sales divisions and suppliers contributing to advertising activities.

Items in the other operating income line directly associated with the retail business – rental income, contributions from suppliers and cost reimbursement – were similarly up marginally over the level of the previous year. They account for around one third of total other operating income.

Costs remain under control

Operating expenses at Praktiker Group increased by 1.8 percent to total 926.5 million euros in the year under review (910.0 million euros in the previous year). As such, costs increased at a significantly lower rate than sales (4.2 percent).

Net sales

Annual percentage change

		2004 *	2005	2006
Group	total	5.3	3.4	4.2
	like-for-like	3.5	1.5	3.5
Germany	total	3.0	0.7	0.8
	like-for-like	3.4	0.7	2.5
International	total	13.5	12.3	14.4
	like-for-like	3.5	3.9	6.2

* Without Austria

This success can be attributed to the ongoing strict monitoring of all expenses.

Selling expenses increased overall by 1.5 percent to a total of 864.7 million euros (852.1 million euros in the previous year). Store closures and cost optimisation were the focus of activities in Germany. These were offset by the higher level of expenses incurred via the expansion of the company's international operations. The largest single in selling expenses are the costs of sales personnel, equating to around 42.1 percent of total selling expenses and increasing by 1.3 percent to 364.3 million euros (359.6 million euros in the previous year). This rise was attributable to the strong expansion of international operations, which lead to an increase in the average number of sales personnel by 7.1 percent to a total of around 22,600 employees. The expense items connected directly with the operation of the stores (rents, depreciation, energy costs, maintenance, cleaning) rose marginally by 1.6 percent to a total of 334.2 million euros. A total of 98.0 million euros was spent on advertising (100.8 million euros in the previous year). Other sales expenses accounted for 68.2 million euros, an increase of 8.9 percent over those of the previous year.

General administrative expenses also increased in the year under review, namely by 9.9 percent to a total of 59.8 million euros (54.4 million euros in the previous year), attributable largely to expenses incurred by way of the preparation of the integration of Max Bahr, amounting to 2.7 million euros. Personnel expenses, accounting for around half of the general administrative expenses, rose by 11.7 percent to 29.5 million euros (26.4 million euros in the previous year).

Selling and general administrative expenses include one-off expenses under various items that are primarily attributable to the conversion of six Easy-to-Shop stores in July 2006 as well as to the acquisition and integration of Max Bahr. They account for a total of 7.5 million euros and can be considered one-off expenses according to the management of Praktiker Holding AG, which is why they are given a special mention here. Moreover, the overall negative changes in currency – devaluation of the Hungarian forint

and Turkish lira – resulted in a currency-related negative impact on earnings amounting to –1.1 million euros.

Earnings up over previous year

Operating earnings (EBITA=earnings before interest, income taxes and amortisation of goodwill) amounted to 111.1 million euros in the year under review and were generated in more or less equal parts in Germany and in the international markets. This equated to an increase of 15.6 million euros or 16.3 percent over the previous year's level (95.5 million euros in the previous year), a development attributable largely to the growth in sales and the tight control of costs. Adjusted for currency changes and one-off expenses, EBITA would have improved by a further 8.6 million euros.

Comparison with the previous year is based on the results reported in the previous year's group management report. The current quarterly reporting also includes comparisons with the so-called "combined financials" of the previous year due to the fact that they reflect the earnings situation in the 2005 financial year as it would have been had Praktiker had the structure it implemented after flotation in November 2005 for the financial year as a whole.

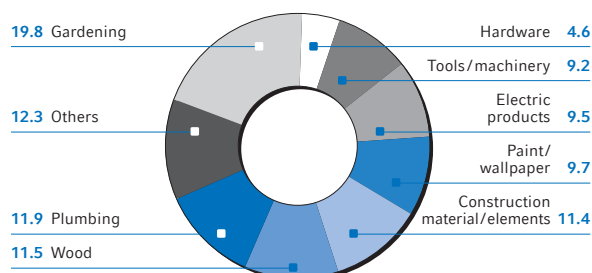
The return on sales amounted to 3.5 percent in the 2006 financial year (3.1 percent in the previous year).

The net financial result improved by 8.0 million euros to a total of 1.4 million euros (–6.6 percent euros in the previous year). Interest income amounted to 12.6 million euros (4.8 million euros in the previous year) while interest expenses came to 17.2 million euros (14.9 million euros in the previous year).

Taking account of the net financial result, earnings before taxes (EBT) totalled 112.5 million euros and, as such, were 23.5 million euros or 26.4 percent up on the previous year's level (89.0 million euro).

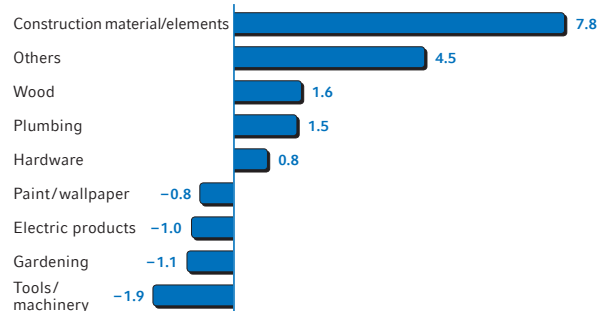
Sales Germany by product group

percentage to total net sales



Change in sales Germany by product group

Annual percentage change



The tax ratio amounted to 25.2 percent in the year under review (23.5 percent in the previous year) with tax expenses accounting for 28.3 million euros, 7.4 million euros more than in the previous year (20.9 million euros), resulting in a net income from continuing operations amounting to 84.1 million euros (68.0 million euros in the previous year). After the deduction of minority interests, consolidated income was reported at 83.2 million euros (84.1 million euros in the previous year). In the previous year, the one-off deconsolidation income generated via the winding down of the Praktiker Austria division had impacted on consolidated profits by an amount totalling 17.1 million euros.

Earnings per share (EPS) came to 1.43 euros (1.07 euros in the previous year).

 **Financial position**

Capital expenditure with focus on international markets

Praktiker Group invested a total of 68.0 million euros in the 2006 financial year, equating to 18.3 million euros less than in the previous year (86.3 million euros), of which 39.5 million euros were attributable to an outflow of liquid funds (53.6 million euros in the previous year) and 28.5 million euros to finance lease liabilities for newly opened stores in Romania (5) and Bulgaria (2) (32.7 million euros in the previous year). As a new outlet was additionally acquired in Romania, total capital expenditure for new stores abroad amounted to 18.2 million euros (27.4 million euros in the previous year). For maintenance and repairs, 21.3 million euros were expenses within the group (24.0 million euros in the previous year), of which 11.5 million euros domestically and 6.3 million euros abroad.

Capital expenditure was significantly up on the depreciation on fixed assets which accounted for 38.7 million euros in the year under review (40.1 million euros in the previous year). As a result, net capital expenditure amounted to 29.3 million euros (46.2 million euros in the previous year) while the funding ratio of capital expenditure from depreciation stood at 56.9 percent (46.5 percent in the previous year).

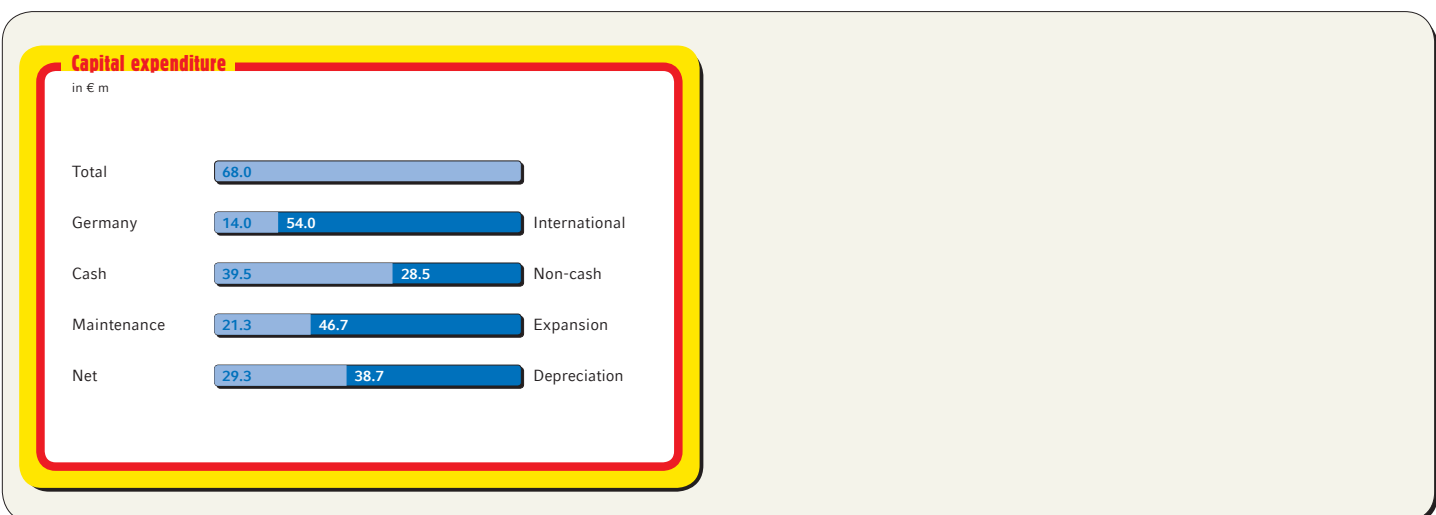
Positive cash flow generated, liquidity improved

In financial year 2005 Praktiker still belonged to METRO AG up until the company's stock market flotation in November. As a result, a number of functions such as cash and accounts receivable management were not the responsibility of Praktiker Group, but were in the hands of METRO AG. This is why many items in the cash flow statement cannot be meaningfully compared to the previous year.

The operating cash flow in the 2006 financial year is characterised by a reduction in liabilities vis-à-vis suppliers and a reduction in inventories at the end of the year. In 2005, liabilities vis-à-vis suppliers and inventories had risen at the end of the year due to special marketing campaigns carried out in December and continuing into January 2006.

August 2006 saw Praktiker Bau- und Heimwerkermärkte Holding AG successfully place a convertible bond with a total nominal value of 150 million euros and, in so doing, make partial use of the authorisation it had been granted by the annual general meeting in June 2006. The convertible bonds with their entitlement to the subscription of around 4.44 million shares, have a term to maturity of five years. They were offered exclusively to institutional investors and persons based outside the United States, Canada, Australia, Italy and Japan. Based on the book-building method, the coupon was set at 2.25 percent and the conversion premium at 40 percent. As a consequence, the conversion price stands at 33.77 euros. The bond was issued on September 28, 2006 via Praktiker Finance B. V. in units worth 100,000 euros and a term to maturity running until September 28, 2011. Interest is payable on the nominal value of the bond amounting to 2.25 percent per annum and is due for payment retrospectively on the interest payment date of the year concerned. The first interest payment is due on September 28, 2007. When mature, the bonds will be repaid at their nominal value plus the interest earned to the extent that they have not been repaid, converted or repurchased and invalidated previously.

The cash flow from financing activities reflects receipts from the bond as well as the first-time dividend payment to Praktiker shareholders.



The receipts from the convertible bond issue also increased liquid funds to a level of 466.3 million euros with effect of the end of the financial year, a rise of 117.2 million euros as compared with the level prevailing at the beginning of the year under review (349.1 million euros).

Asset position

Balance sheet extended, equity ratio maintained at high level

The issue of the convertible bonds for the partial funding of the Max Bahr acquisition was the key factor for changes in the balance sheet. According to the provisions set out under IAS 32.29, the book value of the convertible bond issue was split into an external capital component (130.4 million euros) and an equity component (20.5 million euros) at the point in time of issuance. This impacted correspondingly on both the balance sheet total as well as on its structure. As compared with the level prevailing at the end of the previous financial year, the balance sheet total rose by 9.6 percent to a total of 1,888.9 million euros (1,723.6 million euros in the previous year). Short-term assets increased by 123.6 million euros or 10.7 percent to a total of 1,277.7 million euros (1,154.1 million euros in the previous year), a development primarily attributable to the rise in liquid funds due to the issue of the convertible bond. By contrast, inventories declined by 1.6 percent amounting to 626.0 million euros (635.9 million euros in the previous year) despite the growth in sales. The net cash position, namely the difference between liquid funds and financial liabilities, amounted to 172.5 million euros in the year under review (204.8 million euros in the previous year), equating to a decline of 32.3 million euros or 15.8 percent.

Fixed assets increased from 367.5 million euros reported in the previous year to 401.5 million euros in 2006. As such, fixed assets continue to account for 21.3 percent of total assets.

Consolidated net income of 84.1 million euros and the impact of the convertible bond issue both contributed to the further increase in equity to a total of 945.5 million euros (871.0 million euros in the previous year). Due to the increase in the balance sheet total,

the equity ratio fell marginally to a level of 50.1 percent (50.5 percent in the previous year). Asset coverage (the ratio of equity to fixed assets) reached a level of 235.5 percent in 2006 (236.9 percent in the previous year).

Long-term liabilities amounting to 397.9 million euros (235.2 million euros in the previous year) were reported with effect of financial year-end and largely comprised financial liabilities amounting to 285.3 million euros (137.4 million euros in the previous year) and provisions totalling 53.2 million euros (46.9 million euros in the previous year). The increase in financial liabilities is attributable to the first-time reporting of the convertible bond issue in the balance sheet and liabilities from newly concluded finance lease contracts.

Financial management ensures coverage of funding needs

Immediately after its stock market flotation, Praktiker set up its own central finance department. It is responsible for the group's financial management. The department's key duty is to ensure the coverage of the funding needs arising from the group's operating activities and investments made at home and abroad.

Funding needs are secured via a range of different instruments including appropriate agreements with banks concerning credit lines and equity-related instruments such as the convertible bond issue that was successfully placed in the first year following the company's stock market listing.

The information required for the determination of funding needs and the coverage thereof is obtained, regularly monitored and adjusted on the basis of the group-wide three-year plan and a rolling twelve-month liquidity forecast. The resultant scenarios are also monitored regularly in regard to compliance with contractually agreed side letters (financial covenants).

Future funding needs are covered via authorised capital of an amount set out in the resolution passed by the 2005 annual general meeting, via contingent capital of an amount set out in the resolution passed by the 2006 annual general meeting and via available credit lines of a sufficient amount.

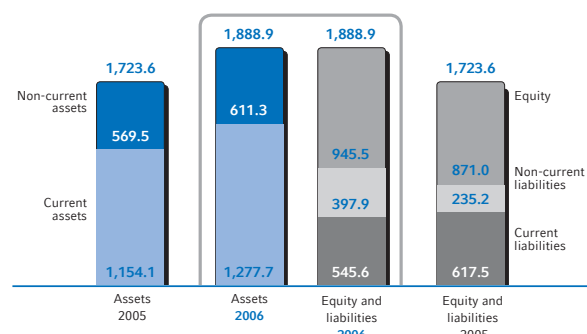
Key data

in € m

	2004	2005	2006
Sales	2,934.0	3,033.9	3,162.1
Gross profit	966.5	958.3	985.5
EBITA	70.1	95.5	111.1
Net financial income	-10.2	-6.6	1.4
EBT	60.0	89.0	112.5
Taxes	-6.8	-20.9	-28.4
Net profit	53.1	68.1	84.1
EPS in euro	0.79	1.07	1.43
EVA	—	-23.6	-14.9
ROCE in %	—	5.6	6.2

Balance sheet structure

in € m



Overall development in line with expectations

The group's income, financial and asset position developed in the financial year under review in accordance with former expectations. In the annual report of the previous year, it was formulated as follows: "We aim to continue to grow profitably both at home and abroad and increase our return on sales and capital." These aims have largely been achieved. On the funding side, an additional source of finance was tapped via the convertible bond issue for the partial funding of the Max Bahr acquisition. This resulted in changes in asset structure, which should however only be of a temporary nature insofar as an outflow of liquid funds equating to the purchase price occurred at the time of the closing of the acquisition of Max Bahr in 2007 and was replaced by the acquired assets.

Value-oriented management

EVA enhanced yet again

Praktiker Group focuses on the objectives of value-oriented corporate governance based on the principle of economic value added (EVA). EVA is an internationally proven control and management system to value and align all strategic, operative and investment activities and decisions in the group in accordance with their contribution to enterprise value enhancement.

The high effectiveness of Praktiker Group is demonstrated by its ability to increase its enterprise value sustainably via the successful deployment of its assets. This is reflected by the rising EVA level. A positive EVA is considered to have been achieved when the earnings exceed the costs of capital required for the funding of all assets. Earnings are defined as operating profits before funding costs but after the deduction of income taxes. Total assets are based on the balance sheet total minus all non-interest-bearing liabilities plus the present value of rental and lease liabilities. Costs of capital represent the expected remuneration of investors for the capital they have provided and the investment risk they have entered into. The weighted average cost of capital at Praktiker Group amounts to 6.8 percent.

Key to the evaluation of entrepreneurial success is the so-called delta EVA, namely the difference between the current EVA and that of the previous year independent of the question whether EVA is positive or negative. Delta EVA development is the key element in the variable remuneration system applying to all management at Praktiker. From the members of the Management Board at Praktiker Holding AG through to store managers, in excess of 450 management staff are measured against the delta EVA system. As such, the incentive system is designed so as to guarantee as high a degree of conformity as possible between the primary interests of the shareholders and those of the management.

In the 2006 financial year, an EVA level of –14.9 million euros was achieved (–23.6 million euros in the previous year) resulting in an improvement of 8.7 million euros. The return on capital employed (ROCE) amounted to 6.2 percent (5.6 percent in the previous year). As such, the most important value-oriented success indicator improved further.

Data pursuant to § 315 Section 4 of German Commercial Code

Management Board – composition and representation

In accordance with the statutes of Praktiker Bau- und Heimwerkermärkte Holding AG, the Management Board must consist of at least two members. The Supervisory Board appoints the Management Board members and, moreover, determines the number of Management Board members and the number of any deputy Management Board members. It can appoint a chairman of the Management Board and a deputy chairman. Otherwise, the statutory provisions set out under the Companies Act (AktG) apply, above all those set out under § 84 AktG. Praktiker Bau- und Heimwerkermärkte Holding AG is legally represented by two Management Board members or by one Management Board member together with an authorised signatory.

Amendment to statutes

The Supervisory Board is entitled to make such amendments to the statutes as only affect the formulation thereof. Otherwise, the provisions set out under § 179 AktG (Companies Act) apply, whereby the annual general meeting is responsible for amendments to the statutes.

Subscribed capital

The company's share capital amounts to 58 million euros and is divided into 58 million individual, no-par shares.

Authorised share capital

On September 26, 2005, the annual general meeting of Praktiker Bau- und Heimwerkermärkte Holding AG authorised the Management Board subject to Supervisory Board approval to increase the level of the company's share capital on a one-off basis or in part amounts by a total of 25 million euros via the issue of new shares in return for cash or non-cash contributions (authorised share capital) until September 25, 2010. Following the resolution passed by the annual general meeting, the authorised share capital can be used up to a level of 25 million euros via the issue of new shares in return for cash. Shareholders are to be granted subscription rights.

A part of the authorised share capital can be used up to a level of 5 million euros via the issue of new shares in return for non-cash contributions, whereby shareholder subscription rights are excluded.

A part of the authorised share capital can be used up to a level of 5 million euros via the issue of new shares in return for cash for the purpose of issuing shares to company employees or employees of companies it controls, whereby shareholder subscription rights are excluded.

Within the framework of the authorised share capital concerned, any of the above-mentioned capital measures can be used up to the maximum level quoted therein. The total amount of the capital

measures may not exceed the overall scope of the authorised share capital. The further content in respect of share rights and the terms of share issuance is decided upon by the Management Board subject to Supervisory Board approval.

The resolution passed by the annual general meeting held on September 26, 2005 with regard to the creation of authorised share capital was entered in the commercial register on November 2, 2005.

Contingent capital for issue of convertible and optional bonds

The annual general meeting held on November 3, 2005 had authorised the Management Board subject to Supervisory Board approval to issue optional and/or convertible bonds with a total nominal value of maximum 400 million euros as well as create contingent capital amounting to 5 million euros until November 2, 2010. No use was made of either the authorisation or the contingent capital.

In order to enhance the company's options in respect of setting up an optimum funding structure, the annual general meeting held on June 27, 2006 proposed granting the Management Board a new authorisation to issue optional and/or convertible bonds and create new contingent capital with the intention of increasing the maximum permissible amount of the total nominal value of the optional and/or convertible bonds issued to 600 million euros and the level of contingent capital to 29 million euros. Moreover the aim was to authorise the Management Board subject to Supervisory Board approval to issue optional and/or convertible bonds up until June 26, 2011 instead of just until November 2, 2010. At the point in time of this resolution becoming effective, the resolution valid hitherto and the contingent capital set out therein were rendered invalid. The annual general meeting approved the proposal.

In the event that optional and/or convertible bonds are issued in return for non-cash contributions, the Management Board has undertaken to make use of the authorisation excluding shareholder subscription rights to the optional and/or convertible bonds up to an amount of maximum 20 percent of the existing share capital only at the point in time of the authorisation becoming effective or – should the amount concerned be less – at the point in time of the usage of the authorisation. As such, the increase in contingent capital for the purposes of making use of such optional and/or convertible bonds as are issued in return for non-cash contributions with the exclusion of subscription rights is limited to a maximum amount of 11.6 million euros, equating to 11.6 million individual, no-par shares.

Authorisation to repurchase the company's own shares

The company was authorised via the resolution passed by the annual general meeting held on September 26, 2005 to acquire company shares up until March 25, 2007. The authorisation is limited to the acquisition of a maximum of 10 percent of the share capital existing at the point in time of the initial exercising of this right. The acquisition can occur via the stock market or via a purchase offer addressed to all company shareholders.

Should the acquisition take place via the stock market, the price per share paid by the company (excluding ancillary purchase costs) may not exceed or fall short of the price determined in XETRA trading (or via a functionally comparable successor system replacing the XETRA system) on the Frankfurt stock exchange at the opening auction on the given trading day by more than 5 percent.

Should the acquisition take place via a public purchase offer addressed to all company shareholders, the offered purchase price per share (excluding ancillary purchase costs) may not exceed or fall short of the final auction price in XETRA trading (or via a functionally comparable successor system replacing the XETRA system) on the Frankfurt stock exchange three trading days prior to the date of the publication of the offer by more than 20 percent. The preferential acceptance of smaller units of up to 100 shares per shareholder can be envisaged.

Personnel report

Further increase in total number of personnel

The total number of persons employed at Praktiker Bau- und Heimwerkermärkte Holding AG showed a further increase in the financial year under review. Due to expansion above all in the company's Eastern European markets, the focus of the growth in the workforce lay in Praktiker's international operations. The opening of eight new outlets and the setting up of a new national agency in the Ukraine resulted in an increase in the personnel employed abroad of 1,216 employees or 18.4 percent. In all, Praktiker employed a total of 7,810 personnel in the company's non-German markets at the end of the financial year under review.

In Germany, total workforce numbers grew marginally by 1.5 percent to 10,373 employees. However, the increase in the workforce was attributable exclusively to the fact that part-time employment enjoyed further strong growth. By contrast, the number of full-time employees declined further in 2006.

Share of part-time employment at a high level

Praktiker is relying on the increasing deployment of part-time personnel in Germany, particularly in areas with close contact to customers. This is also why flexible working hours were introduced throughout the company with the support of a standard time management system. In this way, personnel deployment can be better adjusted to suit the daily, weekly and monthly fluctuations in customer numbers with a resultant positive impact on personnel productivity and cost efficiency. However, the provision of part-time employment also meets the increasing desire of many employees for the highest possible level of flexibility in combining their working and private lives. In Germany, the proportion of part-time employment rose by 3.4 percentage points to a total of 61.7 percent as of financial year-end (58.3 percent in the previous year).

By contrast, the provision of part-time activities in the international markets is limited due to differing labour specifics in the



various countries. Moreover, the newly opened stores require a larger number of full-time personnel. Thus, the international full-time employment ratio rose by 3.6 percentage points to a total of 93.1 percent (89.5 percent in the previous year).

These two counteracting factors more or less neutralised each other with the result that the part-time employment ratio, namely the share of part-time employees measured against total personnel numbers, at Praktiker Group stood at 42.3 percent or 9,454 employees as of the end of the 2006 financial year, more or less the same level as in the previous year (42.4 percent or 8,722 employees).

Praktiker's workforce in Germany is relatively young with three quarters of employees under 45 years of age. At the same time, many employees commit themselves to the company in the long term – almost half has been working at Praktiker for between 5 and 20 years. Employees' workplace satisfaction is thus reflected by the fluctuation rate of less than ten percent, a below-average level for the retail sector.

The personnel policy pursued at the international outlets is largely autonomous. Furthermore, it accommodates differing market-specific requirements and labour regulations. At the same time, Praktiker endeavours to guarantee market-compliant social standards throughout the group.

Human resources development and education with enhanced status

Following the company's stock market flotation, a realignment of human resources development activities became necessary. Previously, some were carried out by the group's former parent company. These particular activities had to be integrated into the company's own structures.

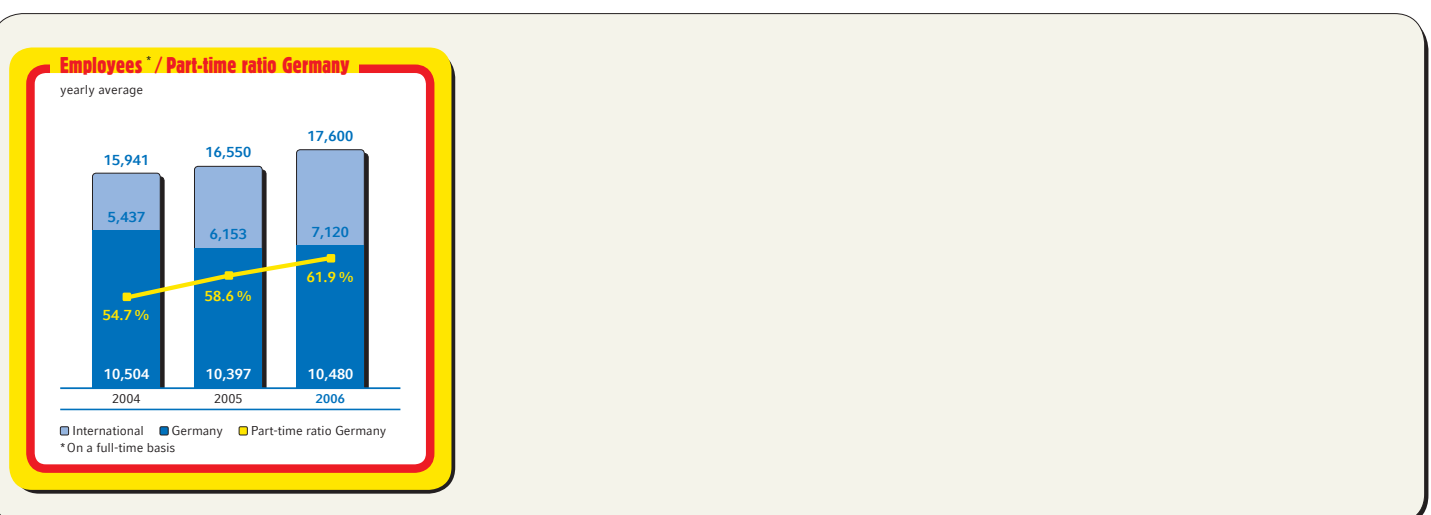
Praktiker is fully aware that corporate success is largely determined by the qualification, commitment and motivation of the company's personnel. Sustainable success in business can only be guaranteed with an excellent workforce.

A central task relevant to personnel development is therefore to attract appropriately qualified and committed staff to the company at all levels, encourage their development in the company and prepare them for new challenges – such as the increasing degree of internationalisation, changing customer expectations or new technological developments. In an environment of this kind, flexibility and knowledge enhancement become strategic success factors.

Developing human resources in a systematic manner

In addition to financial incentive systems, Praktiker also relies on the systematically structured education and development of its human resources. Within the framework of annual assessments and individual target settings, much attention is also attached to social and intercultural competence in addition to specialist qualifications. Staff wishing to recommend themselves for more demanding duties must demonstrate a high level of potential in these "soft skills" too. Seen against this backdrop, assessments represent a central instrument for selection and promotion. In this way, employees understand that special skills alone are not enough for further promotion, but that the right personality needed for management duties is required too. Through this comprehensively structured promotion system, vacant management positions can mostly be filled by members of the existing workforce. In turn, this is an important factor in motivating all employees and identifying with "their" company.

In order to underline the serious intent behind the endeavours concerned, Praktiker offers its employees a wide variety of options to enhance both their technical and personal competences. The range includes individual training measures and development programmes through to management seminars. In the 2006 financial year, numerous employees and management staff took advantage of this opportunity of obtaining further qualifications via in-house training schemes. The Management Board members of Praktiker AG contribute to the programmes concerned as lecturers or discussion partners. As such, the further education courses also serve as a cross-hierarchical experience. Participants gain insight into the strategic alignment and economic objectives of the company by way of personal contact.



Large number of trainees as token of social responsibility

In addition to the recruitment of suitable new employees and human resources development, Praktiker also attaches considerable importance to the training of its own junior staff. Familiarising school-leavers with the world of Praktiker as part of their training to become qualified retail and office personnel gives the company a key advantage – the trainees gain marked experience at the start of their careers that they are subsequently able to use successfully in their daily work. Traditionally, Praktiker trains more staff than it needs for its own purposes, thus complying with its social responsibility in terms of offering young persons appropriate traineeships.

Praktiker AG not only trains qualified retail and office personnel but also offers retail assistant apprenticeships as well as the chance of studying at a vocational academy. Joint ventures with colleges and vocational academies constitute key partnerships for Praktiker AG. In view of the increasing demand for qualified junior staff, it is increasingly important to intensify these relations in order to be perceived as an attractive employer both now and in the future. The aim is to make a key contribution in this area as from the 2007 financial year via targeted college/academy marketing activities.

With effect of the start of the 2006/07 training year, 204 new trainees were taken on in Germany to learn a commercial profession at the Praktiker stores or in the group's head office at Kirkel or, in some cases, to study at a vocational academy. In the 2007/08 training year, Praktiker will be further increasing the number of traineeships on offer – by more than 10 percent to a total of 228.

During their period of training, trainees also participate in non-school development measures. The options available to them are provided by the human resources development department with the aim of enhancing the vocational prospects of the persons concerned at the end of their period of training.

Stimulating and integrating young people

In addition to its own training activities, Praktiker endeavours to stimulate young people's interest in the retail business and, above all, to integrate such young people into everyday work life as otherwise have only limited opportunities due to personal or social disadvantages. To this end, Praktiker cooperates closely with vocational training institutes in Germany in order to help young, handicapped persons enter the labour market.

Moreover, Praktiker supports the pupil scholarship programme START. The aim of this scholarship is to support talented, socially committed children of immigrants in their social integration in the German state of Saarland. The intention is to provide them with the best possible basis for their future and increase their chance for an academic career.

Young people are also in the focus of close cooperation with chambers of commerce and schools which aim at giving them better insight into the operations of a trading company and to arouse interest for the varied employment options of the retail sector.

Social responsibility fully accepted

Praktiker is fully aware of its social responsibility and accepts it without qualification. Harmonising the company's own business activities with requirements of environmental protection, opening up vocational opportunities for people from all levels of society and acting as a good corporate citizen – these are all issues of high priority. This is why Praktiker is actively involved in a large number of social initiatives - for instance, to help even more young people to find suitable employment. Praktiker supports diverse regional and national clubs and associations in their mostly charitable activities. In addition to the rigorous implementation of its anti-discrimination guidelines, Praktiker also sponsors measures aimed at avoiding any form of unequal treatment within the company. Internal guidelines for interaction with external partners define a code that is intended to prevent all unethical business practices. Environmental protection issues, even if they are of minor importance in the retail business, are taken very seriously. Obligations concerning the return of used electrical appliances (electrical scrap) or packaging material are met either alone or in partnership with third parties. Since 1998, Praktiker has already been supporting the marketing of the quality seal of the Forest Stewardship Council (FSC), which is committed to the realisation of ecologically, socially and economically compatible forestry management practices. All items made of tropical timber sold at Praktiker stores – such as windows or garden furniture – originate from plantations certified by the FSC.

Praktiker has existed as an autonomous company only since November 2005. In line with its extremely short history, some structures and processes aimed at improving environmental protection and exploiting opportunities to stand out as a partner of business and society are still in the development stage.

 **Segment report Germany**

In Germany, the 2006 financial year saw the continued pursuit of the successful strategy of the previous years, involving the further consolidation of the store portfolio, the reinforcement of price leadership and above-average growth in like-for-like sales.

Gain in market share despite store closures

At the end of the 2006 financial year, Praktiker was operating a total of 268 stores in Germany, seven less than compared with the same point in time of the previous year. In line with practices employed in previous years, such outlets as were perceived to be unlikely to meet their earnings targets on a sustained basis were closed.

Despite the decline in sales area of 2.2 percent, the company was able to increase sales in Germany by 0.8 percent to a total of 2,281.9 million euros. Adjusted to take account of the changes in the sales area that equates to a like-for-like increase of 2.5 percent. Sales per square metre rose to 1,506 euros (1,462 euros in the previous year).

Measured against the general development of the sector, as determined via a survey carried out by BHB, the industry's German association, Praktiker has grown by around 110 basis points faster than the market and, as such, has gained additional market share.

The financial year in Germany was characterised by the fact that the 2005/06 winter was unusually severe and long. As a result, sales of garden products had suffered, above all in March. As a consequence, sales and profit went down in the first quarter. However, the company was able to offset this decline in the course of the year. Earnings before interest, tax and goodwill amortisation (EBITA) amounted to 58.5 million euros and, as such, increased by 4.2 million euros or 7.7 percent over those generated in the previous year (54.3 million euros).

In the financial year under review, a total of 72.2 percent of overall consolidated sales were generated in Germany.

That equates to 2.5 percentage points less than in the previous year, reflecting the group's overall strategy of expanding abroad only while banking on consolidation and market share gains - also via acquisition - in the hotly contested German market.

Marketing – “Hier spricht der Preis” (“The price is key”)

The slogan “Hier spricht der Preis” (“The price is key”), newly created at the end of 2005, played a major role in the market success. Practically all marketing activities revolved around this core statement which makes it unmistakably clear to the customer how Praktiker differs from its competitors. In the 2006 financial year, Praktiker deliberately refrained from differentiating between advertising messages, focusing instead even more intensely on campaigns such as “20 Prozent auf alles – ausser Tiernahrung” (Twenty percent off everything – except pet food) and, as such, enjoyed further success in reinforcing its position as price leader in the German market.

Streamlined assortments retained

Praktiker sees itself in Germany as a full assortment supplier in the DIY and gardening branch. Around 75,000 items are listed in the product management system, which are available in varying configurations in the outlets and are divided into the categories of gardening, plumbing, timber, building materials and elements, electrical appliances, tools/machines, paint/wallpaper, hardware and miscellaneous.

The products concerned are supplemented by a range of services – such as an ordering service, transport service, hire purchase brokerage, etc. But the focus of the assortment on offer at Praktiker is on a simple, transparent and, above all, low cost selection of products from the above-mentioned core areas.

In order to enhance cost efficiency, assortments have been concentrated in the last years on items and item groups with a comparatively large contribution to profits. The aim is to continue to pursue this policy in the future. A major contributing factor here is the Easy-to-Shop concept, which has been introduced and tested in six pilot stores since the middle of the financial year under review. In the pilot stores, the selection of products on sale was reduced by a further 20 percent.

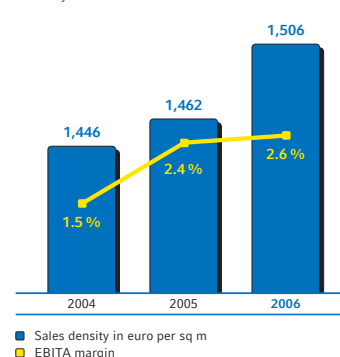
Segment Germany

in € m

	2005	2006	Change in %
Sales	2,264.5	2,281.9	0.8
EBITA	54.3	58.5	7.7
Capital expenditure	25.1	13.9	-44.6
Number of stores	275	268	—
Employees (on a full-time basis)	9,696	10,480	0.8

Sales density and EBITA margin

Germany



An intelligent pre-selection process and an easily comprehensible price and brand architecture have helped the customer to find the right product for his or her purposes much more easily. Easy-to-Shop is customer-friendly while, at the same time, plays a key role in reducing complexity and logistical costs.

Brand portfolio enhanced via acquisition of Max Bahr

August 2006 saw Praktiker take over Max Bahr Holzhandlung GmbH & Co KG, the number eight in the German DIY market. Up until the end of the financial year, the acquisition was conditional upon clearance by the German cartel office. On January 10, 2007, the German Cartel Office gave its clearance subject to certain conditions. Praktiker intends to retain Max Bahr as an autonomous brand in the German market. The positioning of Max Bahr will remain unchanged – the brand name stands for a full range of products, a high level of service and competence in handling large stores. As such, Max Bahr is oriented towards a different market segment than the Praktiker brand, which addresses above all price-conscious customers. At the time of the takeover, Max Bahr ran 77 stores in Germany with a total sales area of 556,200 square metres.

Parallel to the takeover of Max Bahr, Praktiker decided to merge the two distribution lines Top Bau and extra Bau+Hobby into a single, more powerful unit under the brand umbrella of extra Bau+Hobby. This step was intended to bolster the underlying franchise concept. The renaming of the 20 Top Bau outlets is set to be completed in the spring of 2007. Once the renaming activities have been concluded, the distribution line extra Bau+Hobby will number a total of 32 do-it-yourself stores with a total sales area of around 113,000 square metres. The brand is positioned as a low-price local supplier.

Customer loyalty strengthened further

The customer loyalty card is Praktiker's main tool in strengthening customer loyalty. The card offers different levels of discounts related to the amount of individual customers' overall purchases. This instrument has proven to be very effective. At the end of the financial year under review, a total of 1.7 million customers possessed a customer loyalty card, almost twice as many as one year previously. In excess of 25 percent of the sales generated in Germany was transacted via loyalty cards (15 percent in the previous year). For the first time ever, a mailing campaign was carried out to major foreign customers, who live in border regions and regularly shop at German Praktiker stores.

Procurement – share of direct imports and private labels constant

In procurement too, efficiency reserves were tapped in 2006. As of financial year-end, Praktiker was working together with around 700 suppliers, approximately the same number as in the previous year. However, through further consolidation of procurement volumes the supplier structure was optimised even more. The share of the 20 most important suppliers in terms of overall procurement volumes increased to 32.3 percent (29.2 percent in the previous year). As a result, average order volumes placed with this supplier

group grew as well – with a corresponding impact on procurement prices. Moreover, the higher average level of order volumes simplified logistics with the result that the relevant expense per unit declined. Due to the streamlining of product ranges, which is related to the imminent conversion of the German Praktiker stores to Easy-to-Shop, the number of suppliers is also set to decline even further over the coming years.

Praktiker has set itself the target of raising the share of direct imports and the share of private labels in terms of overall sales because this typically results in an improvement in the gross profit margin. In 2006, the company was unable to achieve this goal as planned due to the weather-related weakness in the sales of gardening and camping products. This particular segment commands a relatively high share of imports and private labels. Despite this negative trend at the beginning of the financial year under review, the share of direct imports – mainly from the People's Republic of China – remained at 8.3 percent in 2006, the same level as in the previous year, as did the share of private labels at a level of 17.4 percent.

Innovation and development – introduction of Easy-to-Shop pilot stores

As a retail company, Praktiker, by virtue of its very nature, does not develop any product innovations. In line with this, no expense for research and development in the classical sense is incurred either.

Nonetheless, Praktiker looks constantly at improving work flows and processes in order to offer its customers as much value as possible. By 2005, Praktiker had already developed its Easy-to-Shop concept for its German store portfolio. 2006 saw this innovation brought to market with six pilot stores being converted to this concept at the middle of the year. Easy-to-Shop is based on a broad-ranging analysis of customer behaviour and is aimed at making shopping easier, quicker and more convenient. The concept is set to be transferred to the vast majority of the store portfolio in the course of the next few years. In so doing, the experience gained from the launch of the pilot stores will be fed into the restructuring of the other outlets.

Innovations drive companies forwards. This is why it is the duty of the management to promote and test innovation. The fact that not all innovations can turn out to be successful is a normal experience often made in business life. This applies to Praktiker too. As the first European DIY company, Praktiker introduced self-service cash points at three test locations in 2005. However, this innovation has not worked out in daily practice. The automation benefits were insufficient due to the relatively high share of unpacked and individualised products (e.g. cut-to-size timber). As a result, the self-service cash points were dismantled in 2006 with no plans of developing the concept further in the future.

 **Segment report International**

Leading market position retained via growth

Apart from its German operations, Praktiker is also active in seven European countries – in Bulgaria, Greece, Hungary, Luxembourg, Poland, Romania and Turkey. These countries are grouped together in the International segment.

The positioning of Praktiker in the various European markets differs fundamentally from its activities in the German market. In the countries of southern and eastern Europe, Praktiker is positioned as a DIY supplier, offering a full range of products including a wide variety of services and counselling. Moreover, the selection of available products also includes items from the areas of consumer electronics, household goods and white goods. As such, Praktiker presents itself internationally with product ranges that clearly exceed the bounds of those traditionally offered in DIY outlets. This concept was exceptionally successful in previous years and will be expanded further in the future too. The International division is Praktiker Group’s growth segment.

Praktiker has set itself the target of adopting a leading position in the countries in which it is represented, either as number one or number two if at all possible. In Greece, Luxembourg and Romania, this is already the case. In Bulgaria, Hungary and Turkey, Praktiker shares the position of market leader with a main competitor. Only in Poland – the first country in Eastern Europe to be tapped for its potential by Praktiker in 1997 – is the company currently neither market leader nor the number two.

Romania is an ideal example of the company’s successful growth strategy in Eastern Europe. In Romania, the do-it-yourself sector is still underdeveloped. But sustainable economic growth prospects exist and sufficient potential purchasing power is available.

Following its market entry in 2002, the company quickly secured the best possible locations, built up its network of outlets and established the brand throughout the country as a whole. Praktiker considers the securing of the right locations to be a key success factor. The selection of appropriate sites follows the same pattern in all countries. Initially, the population and economic structures

of a given target region are analysed carefully. Population density, purchasing power and anticipated demand are checked to be sufficient in order to justify the opening of a store. Availability of land, quality of infrastructure as well as the price and location of the site concerned also play a role later in the decision. Preferred sites are well-developed peripheral urban locations, as are large-scale multi-functional shopping centres with an attractive mix of established suppliers.

New outlets have so far always been rented. In 2006, Praktiker decided to also examine the option of acquiring property. In this way, Praktiker would also be able to participate in the increase in the value of property in Eastern Europe anticipated in the medium term. The first step in this direction was taken in 2006 with the acquisition of one plot of land each in Greece, Hungary and Romania.

High rate of growth maintained

In the 2006 financial year, the international store network was further expanded and condensed. In all, a total of eight new stores were opened, five of which in Romania, two in Bulgaria and one in Greece. Two branches in Poland and Romania were enlarged. With effect of the end of the financial year under review, Praktiker operated a total of 73 DIY stores internationally with an overall sales area of 511,652 square metres.

As such, the growth strategy of the previous year was pursued without interruption.

The expansion of the store portfolio was reflected by the increase in sales. Via its foreign operations, Praktiker generated total net sales amounting to 880.2 million euros in 2006, up by 110.8 million euros or 14.4 percent over the previous year. Adjusted to take account of changes in the sales area, like-for-like sales rose sharply by 6.2 percent.

Earnings generated abroad were affected by two factors – pre-opening expenses for new locations and negative exchange rate effects. A high rate of growth brings with it corresponding pre-opening expenses, which impact negatively on earnings growth in the short term. Furthermore, devaluation of the Hungarian

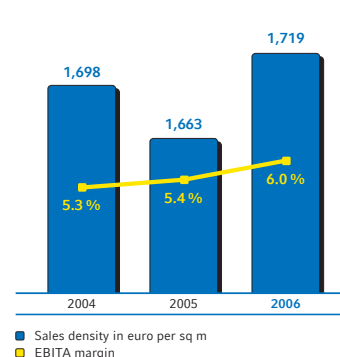
Segment International

in € m

	2005	2006	Change in %
Sales	769.5	880.2	14.4
EBITA	41.3	52.6	27.4
Capital expenditure	61.1	54.0	-11.6
Number of stores	65	73	—
Employees (on a full-time basis)	6,572	7,120	15.7

Sales density and EBITA margin

International



forint and Turkish lira also impacted negatively on earnings as profits had to be converted at a lower exchange rate. Nevertheless, the company was able to increase earnings before interest, taxes and amortisation of goodwill by 27.4 percent to a total of 52.6 million euros. Without the negative impact of exchange rate changes, earnings would have been around 1.1 million euros higher.

Marketing tailored to meet country-specific needs

In its international operations, Praktiker pursues an autonomous marketing strategy tailored to meet the market needs and spending habits of the countries concerned. Thus international marketing differs radically from the aggressive pricing strategy pursued in Germany. As a result, there are no discount campaigns and the question of price leadership simply is not relevant. Instead, Praktiker presents itself as a solution-oriented, competent supplier of products and services and also addresses individual customer needs in an appropriate manner. Praktiker not only sells quality at fair prices, it also advises and supports customers in the realisation of their respective projects. In addition to the outstanding market experience Praktiker has gained over time, this is a key competitive advantage over other suppliers.

Procurement largely customer-oriented on national levels

In the international markets, Praktiker offers ranges of products of lesser depth than in Germany. Moreover, it is adapted to meet the different regional needs, which vary greatly in terms of depth of product range and product quality. On average, the total number of products offered for sale in international markets is around the 36,000 mark, sourced on average from around 350 suppliers. As such, product variety and supplier numbers are significantly lower compared to those in Germany. In order to be able to meet locally varying demand to the satisfaction of all customers, national organisations work together with local suppliers to an extent of around 80 percent. The share of private labels sold at foreign outlets stood at a level of 3.7 percent in 2006, an increase of 0.8 percentage points over the level of the previous year (2.9 percent).

Key events occurring in the individual countries

In Greece, the company’s market leadership was reinforced by the opening of a further store. The new outlet based in Volos in the eastern part of Greece enhances the network of outlets in that country and has so far exceeded expectations significantly. Greece numbers among the most profitable countries in the international portfolio.

In Poland, the number one task was to optimise the marketing concept. To this end a garden centre was added to the store in Zabrze in order to better meet the needs of the customers. In addition, the basis for further expansion was laid in 2006.

Romania is currently the focus of group expansion with a further five new openings in the period under review, increasing the network of outlets to 16 stores. The first store in Bucharest Voluntari was enlarged, two others are set to follow suit. That way, Praktiker has defended its market leadership despite the intensifying level of competition.

In Hungary, no new stores were opened in the period under review. However, with the acquisition of a site in the south-western part of the country the foundations have been laid for further expansion.

In Bulgaria, Praktiker opened two new outlets, both of which, Pleven and Veliko Turnovo, are experiencing a positive development, thus endorsing the success of the Praktiker concept.

In Turkey, Praktiker benefited from the ongoing strong recovery of the economy. This was reflected in the significant improvement in the earnings’ situation. Under these circumstances, expansion activities will be reinforced and the store network enlarged in 2007.

International – the countries

	Sales in € m	Change in %		Number of stores	Market position
			Currency-adjusted		
Luxembourg	39.6	1.4	1.4	3	#1
Greece	259.3	8.5	8.5	8	#1
Poland	154.5	10.1	6.6	17	#4
Hungary	146.1	3.5	10.2	15	#2
Turkey	86.2	-4.6	8.0	8	#1
Romania	153.6	56.4	52.1	16	#1
Bulgaria	40.9	91.3	91.3	6	#2



Remuneration report

In our remuneration report, we provide a summary of the key principles applied for setting the remuneration of both our Management Board and Supervisory Board and also explain the structure and level of the remuneration concerned.

The remuneration of our Management Board and our Supervisory Board is being published with individual details for the first time ever in the financial year under review. The report contains data that are a constituent part of the notes to the consolidated financial statements as per § 314 HGB (German Commercial Code) and/or of the group management report as per § 315 HGB (German Commercial Code) in accordance with the requirements of German commercial law including the provisions set out under the Management Board Remuneration Disclosure Act. The company has decided to dispense with an additional presentation in the notes to the consolidated financial statements of the information explained in the remuneration report.

Remuneration of the Management Board

The overall structure and level of management remuneration is stipulated by the personnel committee of the Supervisory Board. Remuneration is determined by the size and global alignment of the group as well as by its economic and financial position. Additionally, the duties and contribution of the Management Board member concerned are taken into account as is the performance of the Management Board as a whole. The remuneration is set in such a way as to be competitive on an international basis and offer a clear incentive to our Management Board members to work in a committed, successful manner and meet the targets set.

The overall remuneration of the Management Board is performance linked and comprises three components – one component which is independent of success (salary), one component which is linked to success (bonus) and components with a long-term incentive impact (share value increase bonuses).

The following criteria apply to the individual components of Management Board remuneration:

- The success-independent remuneration component is paid out as a monthly salary taking account of other, material benefits.

- In the case of the performance-related remuneration component, the bonus is a variable cash payment based on value generation, the level of which is determined via EVA-based remuneration entitlements (economic value added) giving due consideration to results and the costs of capital incurred for capital employed. The remuneration component received on an annual basis by Management Board members is determined via the share of the total bonus exceeding the standard EVA bonus, which is deposited in a bonus bank. Depending on the level of the EVA factors in future years and the given recalculation of the bonus bank credit, the bonus bank deposits thus become due for payment in the subsequent years.

Furthermore, when setting bonus levels, the personnel committee of the Supervisory Board has the option of taking account of the personal performance of the individual Management Board members as is not directly reflected via the EVA remuneration system, such as in respect of corporate takeovers.

- As far as the components with long-term incentive impact are concerned, these are bonuses related to the share price development and the ensuing increase in value. In the 2006 financial year, a five-year share bonus scheme was introduced, the first tranche of which was awarded in 2006. This scheme is based on cash bonuses which are dependant on the development of the share price. The level of the cash bonuses concerned depends on the development of Praktiker shares seen against that of appropriate indices. The entire share bonus scheme is divided up into tranches granted annually, the target parameters being calculated separately for each tranche. The term to maturity of each tranche runs for three years with the last tranche becoming due for payment in 2010.

The level of the given bonus is initially determined via the ratio of the base price against the target price of the shares. The base price per tranche equates to the arithmetical average of the closing price of the Praktiker share on the last 20 consecutive trading days prior to the cut-off date (four weeks after the given annual general meeting). The target share price, which guarantees the full bonus payment in case it is reached, is worked out on the basis of the base price plus an increase of 15 percent over a period of three years.

The level of the given bonus also depends on the performance of Praktiker shares as compared with that of other key listed trading companies. In the case of Praktiker shares outperforming the market, the share bonus is increased to 120 percent, if they underperform, the bonus is cut to 80 percent. Outperformance/Underperformance is considered to be the case when price development of Praktiker shares exceeds/falls short of the above-mentioned mean value by more than 10 percent on average.

The payment of the share bonus is limited to the fixed individual gross salary of the year in question.

The share bonus is only awarded if, at the point in time of it becoming due, the contract of employment at Praktiker Group has neither been terminated nor has a mutually agreed cancellation of the contractual relationship occurred.

No loans are granted to Management Board members nor are any liability commitments entered into on their behalf.

No pension entitlements exist in respect of Management Board members either. Upon their departure from the company, Management Board members have no right to severance payments.

For the 2006 financial year, the following remuneration applied to the individual Management Board members with the corresponding impact on group expenses as shown in the 2006 consolidated financial statements.

The share bonuses awarded in 2006 were recorded under the relevant provisions at their market values.

	2006					2005	
	Success-independent remuneration		Success-linked remuneration	Components with a long-term incentive impact	Total	Total	
	Salary	Miscellaneous	Bonus	Entitlement to share bonus granted			
Data in € thousand							
Wolfgang Werner (Chairman)	450	19	713	58	1,240	—	
Michael Arnold	408	16	341	38	803	—	
Thomas Gabel	300	14	662	38	1,014	—	
Karlheinz Kockmann (until 06/30/2006)	132	7	40	0	179	—	
Pascal Warnking (from 07/01/2006)	112	8	188	19	327	—	
Walter Weber	256	17	197	0	470	—	
	1,658	81	2,141	153	4,033	2,836	

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is based on a proposal submitted by the Management Board and Supervisory Board and passed by the annual general meeting as a constituent part of the company statutes. Supervisory board remuneration takes account of the size and global alignment of the group, the duties and responsibilities of the Supervisory Board members as well as the economic position of the group. It comprises a fixed remuneration component and a success-linked remuneration component based on company earnings.

As part of the fixed remuneration component of the Praktiker Bau- und Heimwerkermärkte Holding AG pay scheme, the positions of chairman, deputy chairman as well as chairman and member of committees are awarded additional compensation. The chairman receives three times, the deputy and the chairmen of the various committees receive two times, and the other committee members one and a half times the fixed and success-linked amounts of remuneration. All members are reimbursed for the expenses they incur. The success-linked remuneration component is based on the amount by which consolidated earnings before the deduction of taxes and minority interests as an average of the past financial year and the two previous financial years exceed 25 million euros.

In the initial years after the foundation of the company, this period of comparison is reduced accordingly.




No loans are granted to Supervisory Board members nor are any liability commitments entered into on their behalf.

No pension entitlements exist in respect of Supervisory Board members either. Upon their departure from the company, Supervisory Board members have no right to severance payments.

In addition, the company reimburses any value-added tax imposed on the Supervisory Board remuneration components.

The remuneration of the members of the Supervisory Board of the Praktiker Group presents itself as follows:

Remuneration	Praktiker Group				Praktiker Bau- und Heimwerkermärkte Holding AG (included in group remuneration)			
	2006		2005	2005	2006		2005	2005
	Fixed	Variable			Total	Fixed		
Data in € thousand								
Dr. Kersten v. Schenck (Chairman)	64	90	154	—	54	90	144	—
Marliese Grewenig (Deputy Chairwoman)	44	60	104	—	36	60	96	—
Barbara-Viktoria Beckers	32	45	77	—	27	45	72	—
Dr. Norbert Bensel	23	30	53	—	18	30	48	—
Helmut Biegel	32	45	77	—	27	45	72	—
Hans-Dieter Clingen	32	45	77	—	27	45	72	—
Dr. Rolf Giebeler (until 06/27/2006)	11	15	26	—	9	15	24	—
Ulrich Grillo (from 06/27/2006)	17	23	40	—	14	23	37	—
Dr. Kay Hafner (from 06/27/2006)	12	15	27	—	9	15	24	—
Johann C. Lindenberg	32	45	77	—	27	45	72	—
Dr. Wolf-Dietrich Loose	23	30	53	—	18	30	48	—
Zygmunt Mierdorf	32	45	77	—	27	45	72	—
Rainer Reichenstetter	23	30	53	—	18	30	48	—
Frank Schuster	23	30	53	—	18	30	48	—
Prof. Dr. Harald Wiedmann	41	60	101	—	36	60	96	—
Thomas Unger (until 06/27/2006)	16	22	38	—	13	22	35	—
Axel Willrath	23	30	53	—	18	30	48	—
Rüdiger Wolf	23	30	53	—	18	30	48	—
	503	690	1,193	133	414	690	1,104	133

-  **Risk management system firmly established**
-  **Implementing a wide range of measures to reduce risks**
-  **No existence-threatening risks identifiable**

Risk report

The Management Board at Praktiker Holding AG has implemented a group-wide risk management system that serves the purpose of risk identification as well as risk elimination or reduction and covers all corporate areas of Praktiker Holding AG.

Business activities are unavoidably exposed to risks. However, no action nor decision may allow an existential risk to arise. To the extent possible and economically viable, non-avoidable risks must be insured. All residual risks must be controlled via risk management tools.

The principles of the group's risk management system have been documented in a group risk management manual approved by the Management Board. In this manual, the organisational principles for the structure of the company and all processes within Germany and in the international subsidiaries are laid out. The Management Board is responsible for stipulating the given principles and structuring the organisation of the risk management system. In this connection, it assumes the role of information provider vis-à-vis the Supervisory Board and the shareholders. Below Management Board level, a risk management coordinator organises risk reporting activities within the group. The risk management coordinator is above all responsible for the further development of the risk management system, the coordination of risk reporting and the production of monthly risk reports for the Management Board. The monthly risk reports ensure that the Management Board is informed regularly and timely about all key developments relevant to risk management.

Divisional coordinators are responsible for identification, logging and evaluation of risks relevant to the given division as well as for controlling and monitoring the risks over time. To this end, a standardised risk matrix is used and updated regularly in which all key risks are shown together with their respective probabilities of occurrence and potential financial implications. In each corporate division, countermeasures are defined for potential and existing risks. Likewise, developments of risks are observed and countermeasures logged.

The risk management coordinator arranges for a risk inventory to be drawn up every six months taking account of all risks reported and all changes in risk evaluation. The result of the analysis is presented to the Management Board in the form of an extract of the risk inventory covering the key risk issues.

Responsibility for monitoring the risk management system lies with the internal audit department of Praktiker Group, which checks the risk management system to assure its functionality once a year.

The following key risks apply to Praktiker Group:

Political risks cannot be eliminated, but only have minor impact

The management is fully aware of the fact that certain risks, above all those attributable to changes in the given legal framework, to a lack of reliability in the given legal framework or to a general instability of the political sphere, cannot be reduced via risk management measures. Cases in point of relevance here include the political decision to withdraw the home ownership tax allowance in Germany (which caused changes in the demand for building services), the brief outbreak of political unrest in Hungary (which unsettled consumers in the short term) and the political system in the Ukraine. Delays were incurred in the setting up of Praktiker operations in the Ukraine due to the fact that the respective competences were not always adequately demarcated.

The category of political risks also includes risks arising from amendments to tax legislation. In Germany, a reform of the corporation tax system is currently under discussion. If, as planned, the tax burden for companies were to fall to below 30 percent from 2008, that would already cause deferred taxes to decline significantly in 2007. The one-off impact of this change would see a sharp rise in the tax ratio in the 2007 financial year.

Such political risks have to be accepted by companies as they cannot be reduced or eliminated. However, as compared with the income that can be generated in the various countries, they only play a minor role.

Country risks diversified

For the countries of Eastern Europe, the following applies – anyone wishing to exploit the enormous growth potential must accept certain political risks. At the moment, they would seem to be bearable. Romania and Bulgaria joined the European Community in 2007 and, as such, number among the group of nations that have committed themselves to the principles of free trade of goods and services. In the Ukraine, people and politicians have similarly understood that they can only profit from good economic relations with the neighbouring countries to the west. Nevertheless, Praktiker is pursuing a recognisable strategy of country risk diversification via the expansion of its portfolio of stores in additional countries. This has become clear over the past few years in the form of the sharp expansion in Romania and Bulgaria. This strategy will be pursued further in the future via the expansion into additional countries of the Eastern European region.

Expansion abroad reduces the company's dependence on the German market with its traditionally low margins.

Currency risks largely hedged

Expansion of the group's presence in additional countries leads to a reduction in currency risks too. This also became apparent in 2006. The depreciation in the value of the Hungarian forint and Turkish lira was offset by the appreciation in the value of the Polish zloty and Romanian lei – albeit not quite in full. The conversion risk in the profit transfer of the group's international companies that do not account in euros was reduced by the company's presence in countries with devaluing currencies as well as countries with appreciating currencies.

Otherwise, Praktiker secured the risks arising from currency changes to the extent that they arise from payment transactions. This is above all the case in connection with procurement activities in the dollar region. The imports from Asia invoiced in dollars are secured against exchange fluctuations versus the euro. As the majority of products sold internationally are provided by suppliers originating from the countries concerned, a natural process of hedging takes place in most of these countries.

Nonetheless, a minor residual risk still remains despite all hedging measures due to the fact that such foreign exchange risks as can arise from the valuation of balance sheet positions cannot be secured at economically viable expense.

Financial risks managed centrally

Following the group's stock market flotation and its associated separation from METRO AG, Praktiker set up a central finance department, whose assumed duties include the identification, valuation and securing of financial risks.

Within the group, no credit risks of any significance exist. Sales to customers are transacted in cash or via standard credit cards. Cash deposits or derivative financial instruments with positive market values at banks are subject to maximum limits, which are primarily based on the ratings published by international agencies and vary from case to case.

Furthermore, since the company's flotation, group head office also acts as a cash consolidator for the entire Praktiker group with the result, among others, that it has the task of ensuring that sufficient liquidity is available at all times. Surplus liquidity is invested in short-term money market transactions with German banks. Any potential short-term liquidity bottlenecks can be bridged via a consorted credit line amounting to a triple-digit million figure. As such, the liquidity risk is practically secured in full in the eyes of the management.

General business risks countered via a high level of flexibility

General business risks are covered by Praktiker Group via its constant observation of changes in supply and demand in the various markets. In this way, demand trends are identified at an early stage, products subject to declining demand or sharply intensified competition can be withdrawn from the range of products on offer and replaced by others enjoying greater popularity among customers. Country by country, due account is taken of regional differences in terms of customer preferences and the product ranges adapted to meet country-specific needs.

In Germany, this form of market observation led to seven outlets being closed in 2006 – stores with little chance of meeting the return targets set. As such, the company pressed ahead with its optimisation of the store portfolio that had already involved numerous closures in previous years.

Within the framework of the existing network of stores, due consideration is given to ensuring that the level of dependence on individual suppliers is kept as low as possible. The most important twenty suppliers provide just under 30 percent of the total procurement volume, whereby no single supplier exceeds a volume of five percent. Diversification on the level of the individual products is even greater with the ten items generating the highest sales accounting for around 2.5 percent of total sales. No single item has a share of overall sales of more than 0.3 percent. This form of diversification enables Praktiker Group to avoid any potential bottlenecks in respect of individual suppliers. Moreover, sales and earnings are practically independent of any fluctuations in demand that may affect individual products.

Location risks also number among the general business risks. As a rule, decisions concerning new outlets are not made before careful analysis of the catchment area, the purchasing power, the potential of demand and of the local competitive situation has been carried out. Additionally, a new site is only acquired or rented if the location is right, i.e. preferably in the vicinity of other retail outlets or on busy main roads. Such outlets as prove

to be loss-makers in the course of time (onerous contracts) are examined and evaluated regularly. If necessary, appropriate provisions are made for outlets of this kind.

General business operations and the associated various relations to suppliers, customers and a variety of public sector institutions result almost invariably in legal disputes from time to time. In order to be prepared for any payment commitments arising from such disputes, provisions are made to cover the threat of such liabilities. It is the duty of the legal department to keep risks of this nature as minor as possible – by way of cooperation with internationally active and appropriately specialised law firms. Provisions amounting to 4.9 million euros for risks arising from legal disputes are in existence in the financial year under review.

IT risks re-evaluated

Praktiker's business operations depend decisively on a smoothly functioning IT infrastructure. This is why 2006 saw steps being taken to initiate examination of the entire IT infrastructure in terms of its security and safety while, at the same time, ensuring that sufficient spare capacity is available at all times. The, in any case, minor risk of unexpected events leading to massive disruptions or even the total failure of the IT system has thus been further reduced.

Risks in the procurement of suitable personnel reduced

In the last annual report, explicit mention was made of the risk that Praktiker might not be in a position to obtain qualified personnel in sufficient quantities. From the point of view of the management, this risk has been significantly reduced. Qualification measures that have meanwhile been set up internally are starting to bear fruit. Furthermore, the IPO and strong results have enhanced Praktiker's image as a solid company with a clear strategy in a changing industry. Applications for vacant positions are received in greater numbers today than was the case one year ago. Praktiker clearly enjoys an enhanced image in the labour market.

Financial risks arising from acquisition limited

The acquisition of Max Bahr involves risks - by virtue of its very nature. From the outset, the management endeavoured to keep these as minor as possible. To acquire a company with a good history of its own in terms of income generation is a key element of a risk-conscious strategy. The decision to retain Max Bahr as an autonomous brand is another one. In order to keep the risks of integration as low as possible, a management consultancy firm with many years' experience in such matters had been contracted to provide advice in the preparation of all individual measures. Moreover, the funding of the acquisition was guaranteed in part via the placement of a convertible bond. It ensured that the simultaneously planned expansion in Eastern Europe was in no way put at risk.

Existence-threatening risks not identifiable

The risks described above have the potential to impact on the income, financial and asset position of Praktiker Group. This is the reason why the management observes the risks concerned very closely, asks to be informed about changes in the risk landscape via monthly risk reporting and reacts correspondingly. However, in management's view none of the risks identified is capable of posing a threat to the existence of Praktiker Group as a whole.



-  **2007 characterised by a high level of investment into Easy-to-Shop and stepped-up international expansion**
-  **Acquisition of Max Bahr making increased contribution to earnings after successful integration**
-  **Sustainable growth in sales and earnings anticipated**

Outlook

General economic settings remain positive

In the countries in which Praktiker is represented, ongoing positive economic development is expected to continue.

Upswing in Germany persists

The uniform message announced by economic research institutes is that Germany can look forward to a growth rate in gross domestic product of between one and two percent in 2007, which would be well above the average level of the past five years. Private consumption is also expected to show a positive development, albeit at a rate of only one percent, despite the increase in value-added tax.

For 2008, the forecasts predict similar but, in most cases, slightly higher levels. Germany is expected to experience growth in gross domestic product amounting to two percent in 2008 and an increase in private consumption of one percent.

All in all, these macro-economic prospects give reason to believe that DIY retailers in Germany can probably look forward to growing sales over the next two years, even though growth will probably not exceed that of private consumer spending. Business in Germany is likely to receive support from a general recovery in the building sector, a gradual increase in the share of home ownership and from the fact that the increase in value-added tax has made the relevant services more expensive. Thus, home improvement work is more likely to be carried out in a do-it-yourself manner.

In the coming years the competitive intensity in Germany is forecast to stay at its current high level. In the medium term, however, the competitive landscape ought to change. Praktiker Group itself is making a key contribution here. The takeover of Max Bahr creates a larger, more efficient unit that will further increase the pressure on the competition. Moreover, the first signs became apparent in 2006 that strong competitors were cutting back their expansion plans while weak competitors were considering closing stores and implementing other restructuring measures. All this will stop supply and demand becoming even more unbalanced. Moreover, Praktiker Group management expects competitive pressure to ease marginally, although it will still stay at a high level compared to neighbouring countries in Europe. Store closures are anticipated above all in the eastern parts of Germany over the next few years

because major excess capacities were created in the euphoria of German reunification in the early nineties.

Consolidation and capacity reductions can be expected to dominate the DIY sector in the course of the coming years, thus contributing to the re-establishment of improved, more balanced conditions in terms of supply and demand. Under these circumstances, competition on price and margin should become less intense with the result that the earnings position for the remaining suppliers will improve. A consolidation of the market would also help to bring productivity and earnings of the DIY sector nearer to the much higher levels generated in neighbouring European countries.

Good growth prospects abroad

The growth forecasts for the countries outside Germany in which Praktiker is active are positive in all cases. On average, anticipated growth rates fluctuate between 2.6 and 6.0 percent for 2007 and 2008. Expectations in terms of growth in private consumption are in some cases even higher as consumption constitutes a key growth stimulus in some countries. The absolute levels of per-capita income are still well below the average for Europe as a whole – particularly in the countries of Eastern Europe – but this is also why the potential for achieving high growth rates is huge in these countries.

The successful integration of the eastern and central European countries into the European Community has seen the creation of the world's largest economic block. Praktiker AG is benefiting from the political stability and positive economic development the new member states are enjoying. Many countries in which Praktiker is represented are experiencing a fully fledged building boom and, as such, new sales potential is being opened up. Now that Romania and Bulgaria have joined the European Community in 2007, this trend will persist, all the more so because a focus of internationalisation was placed precisely in these two countries.

These developments combined with enhanced monetary stability have generated a generally positive climate in most of the countries concerned, thereby favourably influencing consumer sentiment as well.

The success Praktiker has recently enjoyed shows that an increasing demand for products in the construction and do-it-yourself sector exists in the countries of southern and eastern Europe. Moreover, it also shows that good marketing concepts can shape and influence such markets. Modern retail concepts guarantee availability of products at all times – for many customers in many regions for the first time. Comprehensive product ranges are accessible under one roof and a wide choice exists within any given range. Competitive activity manifests itself in the form of product and service availability and less so via price.

The faster the markets of Eastern Europe develop, the greater is, of course, the risk that further competitors build a presence there, thus increasing the level of competition and creating margin pressure. The management at Praktiker Group is fully aware of this risk. In order to keep it as minor as possible, the aim is to secure the best locations for new Praktiker stores as quickly as possible. After all, location has a key impact on business success everywhere and in Eastern Europe too. This strategy has already been of benefit to Praktiker in the past in countries like Greece and Hungary. Therefore management proceeded in a similar manner in Romania and Bulgaria.

 **Germany**

Sharp increase in sales via acquisition of Max Bahr

The acquisition of Max Bahr is probably set to generate a contribution to sales of more than 700 million euros in 2007 in the eleven months it will have been part of the group. Praktiker stores will increase their sales in line with the general market development. The overall number of Praktiker stores will further decline in 2007 due partly to the conditions imposed by the German Cartel Office requiring three Praktiker outlets and one Max Bahr outlet to be sold. Stimulus encouraging a positive development in sales is anticipated from the introduction of the Easy-to-Shop concept. According to current plans, the aim is to convert 67 stores in 2007, followed by a further 65 to 70 in each of the subsequent two years. The impact on sales in 2007 will be minor due to the fact that the stores are being converted successively in the course of

the year. In the 2007 financial year, total sales generated by the two German brands Praktiker and Max Bahr are expected to exceed the three billion euro mark.

Contribution to sales via Easy-to-Shop not before 2008

2008 should then clearly see the anticipated positive impact on sales coming from the conversion to Easy-to-Shop. The development in the pilot stores has reinforced the expectation that sales can be increased by up to ten percent within two years after the conversion.

Moreover, as a major part of the efficiency gain from the integration of Max Bahr should already have been realised in 2008, the market position of the two brands Praktiker and Max Bahr in Germany ought to be so strong that sales growth significantly in excess of the market average can be expected. The estimates for the 2008 financial year do not incorporate any assumed consolidation measures in the German market. Should it occur, though, that competitors join forces and merge their businesses, discontinue operations or reduce their activities substantially, this would tend to have a positive effect on expectations.

“Buy more – save more“ continues to be a convincing argument

In the 2005 annual report, Praktiker dared to forecast that the number of loyalty cards issued to private persons and used at least once a year would increase to significantly more than one million within a period of two years. The share of sales generated in Germany was initially expected to slightly exceed the 20 percent mark. Both targets were easily met by a large margin in 2006 with the number of loyalty cards rising to around 1.7 million and the share in sales to more than 25 percent.

This positive trend is expected to continue. By the end of 2007, the aim is to have more than two million private loyalty card holders generating around 30 percent of sales in the German market.

Expectations 2007

Annual percentage change

	GNP	Private consumption
Germany	1.6	0.2
Greece	3.5	2.8
Poland	5.0	4.7
Hungary	2.6	-0.5
Turkey	4.5	4.0
Romania	5.9	8.5
Bulgaria	5.4	5.8
Ukraine	6.0	8.6

Source: Economist Intelligence Unit 2007

Expectations 2008

Annual percentage change

	GNP	Private consumption
Germany	1.9	1.2
Greece	3.3	2.5
Poland	4.4	4.0
Hungary	3.0	0.5
Turkey	5.6	4.9
Romania	5.2	5.5
Bulgaria	4.9	6.0
Ukraine	5.7	7.9

Source: Economist Intelligence Unit 2007

Apart from the benefits of a loyalty card that have already become firmly established – price discounts scaled according to purchasing volume and additional opportunities to purchase at a 20-percent discount – the plan is to achieve this above all via direct mailings actively addressing customers.

Operating results – investment made in 2007 to pay off already in 2008

In Germany, 2007 is a year characterised by one-off expenses. The conversion of the first 67 Praktiker stores to the Easy-to-Shop concept will incur expenses in the low double-digit millions. The integration of Max Bahr will generate costs in the upper single-digit millions. Operating results, on the other hand, will be given a boost due to the fact that Max Bahr will be making a positive contribution to earnings for the first time. An amount in the lower to mid double-digit millions is expected for the eleven months of its being part of the group.

2008 should see operating results benefit from the Easy-to-Shop conversions of the previous year already. They are expected to contribute to earnings enhancement in an amount that more or less offsets the ongoing expenses stemming from the implementation and the conversion of further Praktiker stores to Easy-to-Shop.

Max Bahr is expected to profit even more from the anticipated synergies one year after integration. Furthermore, no further integration costs are likely to be incurred in 2008. A sharp improvement in earnings can therefore be expected in 2008.

Capital expenditure in the German market is likely to be around the 50 million euro mark in 2007 and 2008. In 2007, capital expenditure in the new Max Bahr stores is planned in addition to the usual maintenance capex of existing stores and in the conversion to the Easy-to-Shop concept. Current plans do not foresee further capital expenditure in Max Bahr in 2008. Therefore total capital expenditure volume in Germany in 2008 is expected to be lower than in 2007.

 **International**

International growth continues at double-digit rate

Praktiker Group aims to pursue its policy of strong international expansion over the next few years with the focus on Eastern Europe. The intention is to further reinforce its presence in those markets in which the company is already active as well as to set up operations in additional markets.









In both 2007 and 2008, 15 to 20 new openings are planned respectively with the focus continuing to be on the current growth market Romania. However, new openings are planned in all other countries too.

Moreover, Praktiker plans to enter the market in the Ukraine and thus to tap further sales and earnings potential in Eastern Europe. The aim here is to position the Praktiker brand vis-à-vis local competitors and establish it quickly in the country’s key cities. The opening of the first two or three stores is planned in the country’s major business centres for 2007. For the rate of growth in a new market like the Ukraine, the decisive question is how the concept performs in the given regional competitive environment. Praktiker is confident that additional stores will be added in 2008 and the number of outlets in the Ukraine will grow rapidly.

In Romania, main targets are to develop the position of market leader further, to strengthen the presence throughout the country and to secure the best possible locations. In so doing, Praktiker raises the barriers of entry and is always at least one step ahead of those competitors that contemplate starting operations in this country. Praktiker aims to underpin its ambitious strategy of expansion by opening a further four or five outlets in both 2007 and 2008 respectively.

In Bulgaria, plans are to open two further stores in both 2007 and 2008 respectively in the northern and south-eastern part of the country.

In Greece and Hungary, both relatively mature markets, Praktiker has already secured a leading position for itself. In order to further

Expectations Praktiker key data		
	2007	2008
Sales		
EBITA		
Capital expenditure		
Employees		

* Due to acquisition Max Bahr

reinforce this position, the company is planning to improve some of the existing stores and to regionally expand the network of stores.

In Greece, the aim is to bolster market leadership via two openings in 2007 and 2008 respectively.

In Hungary, Praktiker is planning to open one or two further outlets in both 2007 and 2008 and to underline its claim to market leadership that way.

The ongoing positive economic development in Turkey has prompted Praktiker to develop its distribution network further. Potential for expansion exists above all in conglomeration areas and along the west coast. Accordingly, two or three new stores will be opened in Turkey in both 2007 and 2008, one of which is to be located in the capital Ankara, the company's second store to be based there.

After a number of years of low expansion in Poland, the aim now is to regain ground on the competition through an enlargement of the store network. Focus is clearly set on increasing market share after the realignment of the distribution activities has been commenced in 2006. In Poland too, the aim is to establish a presence above all in those areas in which Praktiker is not yet represented. The company's declared aim for Poland is to return to the group of market leaders by increasing the store network – two or three outlets are planned to be opened in 2007 and 2008 respectively. The ground work for the opening of a new location has already been terminated.

For both the 2007 and 2008 financial years, sales growth of a double-digit magnitude is expected for the company's international operations. A large part of the additional sales is expected to be generated via newly opened outlets. Nevertheless, Praktiker also anticipates like-for-like growth in its existing store network. In its international markets, Praktiker is expecting a sales volume of around one billion euros in 2007, with 2008 clearly exceeding this mark.

Operating results reflect rate of expansion

The increase in sales in 2007 will also see operating results (EBITA) in the international markets rise sharply. However, due to the opening of numerous new stores, corresponding pre-opening expenses will be incurred, impacting negatively on the EBITA level. 2008 should see the enhanced expansion rate impacting more clearly on earnings than in 2007.

Reinforced expansion activities equate automatically to higher levels of capital expenditure. The opening of 15 to 20 new outlets per year is planned. Praktiker has the intention of acquiring some of the new locations in order to be able to participate in the anticipated increase in the value of real estate in Eastern Europe. Up until now, new stores were largely rented. Property acquisition inadvertently involves higher capital expenditure than renting a location. This is why a significant increase in total capital expendi-

ture to around 100 million euros per year is expected in the international markets over the next two years.

Praktiker Group

Acceleration in sales expected

The integration of Max Bahr and the international expansion are expected to lift sales in the group sharply by a good double-digit rate in 2007. Consolidated sales will probably reach more than four billion euros. Due to the company's reinforced position in Germany and its ongoing drive for growth abroad, Praktiker Group anticipates a growth in sales of more than five percent in 2008. As such, the group is envisaging growth clearly in excess of that achieved in previous years.

Ongoing increase in EBITA, EVA and ROCE

The high level of sales growth of the group will not result in an equally good improvement in operating results in 2007. This is due to the fact that the earnings generated by Praktiker stores in Germany are set against expenses incurred in the conversion to Easy-to-Shop, against one-off expenses being incurred in the integration of Max Bahr and against international operations having to cope with a high level of pre-opening expenses on account of the accelerated expansion. Nevertheless, the dynamics of the operating business ought to be strong enough for consolidated earnings in 2007 to outperform those of the previous year.

The German Cartel Office has cleared the acquisition of Max Bahr under the condition that four stores are sold. The potential impact on earnings of the sales concerned has not been taken into account in the earnings forecast for 2007.

2008 ought to see a significant increase in operating results. The high rate of expansion in eastern and south-eastern Europe is expected to produce a sharply enhanced contribution to operating results from the international operations. Moreover, one year after the integration of Max Bahr, Praktiker Group can expect to profit more clearly from the expected synergies. Additionally, no or only very limited further integration expenses are expected to be incurred. Although a continued high level of expenditure is planned in Germany for further store conversions to the Easy-to-Shop concept, those stores that will have been converted in 2007 will already be generating improved earnings. As such, 2008 could prove to be a year in which an unprecedented level of operating results will be achieved.

The decisive element in the financial controlling of Praktiker Group is the return on capital employed (ROCE). This is the key criterion for the group's value orientation. An increase in operating results enhances the ROCE level, but it rises too when capital intensity declines. Praktiker has therefore set itself the goal of significantly reducing capital employed in the course of the next two years. To this end, inventories shall be further optimised, inventory turnover shall be increased and payment terms enhanced. These goals



are to be realised step by step in connection with the introduction of the Easy-to-Shop concept. Due to the improved level of earnings and a reduction in capital intensity, the company is anticipating a continued rise in EVA and ROCE levels in 2007 and 2008.

Capital expenditure significantly up over previous levels

Praktiker Group is planning to increase capital expenditure in the 2007 and 2008 financial years significantly over the levels of 2005 and 2006.

A level of around 150 million euros is anticipated per year. The main reason for the sharp increase in capital expenditure is the acceleration in the rate of expansion abroad, which, in addition, is planned to involve the acquisition of property. But Germany too will see capital expenditure – in the conversion to the Easy-to-Shop concept, the maintenance of existing stores and, in 2007, in new Max Bahr outlets.

Praktiker is expecting to be able to fund capital expenditure in full via its cash flow. Furthermore, the acquisition of Max Bahr should make an additional contribution to cash flow which is why a positive free cash flow is anticipated over the coming years.

Dividend policy oriented towards capital market expectations

Praktiker Group's dividend policy will continue to be aligned to a number of different criteria, the expectations of the shareholders being the first priority. It will, however, remain important to keep a sensible balance between these expectations, planned growth, the associated funding needs and the debt situation.

Résumé

Settling at relatively high rate of growth

Following its acquisition-based leap in sales in 2007, Praktiker Group expects to settle at a relatively high rate of growth in the following year. 2007 is seen as a year of investment – the conversion of the German Praktiker stores to the Easy-to-Shop concept will be undertaken rapidly, Max Bahr will be integrated and expansion in foreign markets will be driven forwards, for which purposes Praktiker is prepared to invest 150 million euros per year in 2007 and 2008.

At the same time, the group is making great efforts to improve capital efficiency via optimisation of inventories, faster inventory turnover and improved payment terms.

Higher earnings and improved capital efficiency together are expected to ensure that Praktiker Group earns its costs of capital in the medium term and reports a positive EVA. The measures planned for 2007 and 2008 are therefore anticipated to contribute sustainably to value generation at Praktiker Bau- und Heimwerkermärkte Holding AG.

-  **Acquisition of Max Bahr cleared by the German Cartel Office in January 2007**
-  **Closing on January 31, 2007**
-  **Max Bahr integrated into Praktiker Group as from February 1, 2007**

Report on subsequent events

After the end of the 2006 financial year, events occurred that are of significance to the asset, financial and income position of Praktiker Group.

On January 10, the German Cartel Office cleared the takeover of Max Bahr Holzhandlung GmbH & Co KG. The purchase contract, which had been signed on August 16, 2006, was closed and came into effect on January 31, 2007. As of February 1, 2007, Max Bahr has been integrated into the consolidated financial statements of Praktiker Bau- und Heimwerkermärkte Holding AG. The purchase price for Max Bahr became due for payment immediately after the conclusion of the transfer of ownership contract on January 31, 2007.

Preparations for the takeover concluded in due time

Despite the fact that the individual steps towards the integration of Max Bahr could not be taken prior to the German Cartel Office's clearance, the management still made good use of the time between the signing of the contract and the transfer of ownership. Within the framework of the legal restrictions all necessary steps for integration were planned in order to be in a position to implement the measures quickly as soon as the contract became effective. The former owners had released two of the three managing directors from their duties in January 2007 due to differing opinions about the future alignment of Max Bahr. Therefore, a new management team was appointed as of February 1, 2007, which is now in the process of pushing ahead with all the steps necessary for integration jointly and in collaboration with Praktiker's management team.

It was the declared intention of Praktiker Group that the acquisition of Max Bahr should not be allowed to put the goal of further international expansion at risk. In order to ensure that sufficient funds would be available for both the acquisition and expansion, it was decided to fund the purchase of Max Bahr, at least in part, via the borrowing of new funds. August 24, 2006 saw the successful placement of a convertible bond issue worth 150 million euros.

Additional stake in real estate company

The real estate owned by Max Bahr was not the object of the takeover. They were sold separately to a subsidiary of Nomura Group. Praktiker has acquired a minority stake in this company, which is the rental partner for all Max Bahr stores. In this way, Praktiker

is able to participate in the anticipated increase in value of the Max Bahr real estate without having to take any additional financial risks.

Conditions imposed by German Cartel Office to be met in due time

The German Cartel Office cleared the takeover subject to certain limiting conditions. Praktiker has been obliged to dispose of four outlets in the regions of Cottbus, Rostock, Schwerin and Lüneburg. Praktiker initiated the sale process without delay. As of the date of the conclusion of this report, no buyers for the four outlets had been found yet.

Consolidation in first quarter

As Max Bahr was consolidated with effect of February 2007, the first impact on the income, financial and asset position will become visible in the first quarter of 2007. Praktiker is expecting Max Bahr to make a positive contribution to earnings and cash flow for the 2007 financial year as a whole. In the balance sheet, the acquisition will result above all in an increase in inventories and in intangible goodwill as well as, potentially, in the capitalisation of some stores, should the rental agreements qualify as finance leases. Once the purchase price has been paid, liquid funds will be reduced accordingly, in the short term at least. The financial year at Max Bahr will be adjusted to the calendar year.

Further investors demonstrate their confidence in Praktiker

Lansdowne Partners Limited Partnership is a further investment company to have increased its stake in Praktiker to above the statutory reporting threshold of five percent on January 8, 2007 and, as such, had a voting right entitlement of 6.89 percent as of the reporting deadline. Following the coming into effect of the Transparency Guideline Implementation Act (TUG) with effect of January 20, 2007, an additional three percent reporting threshold was introduced. This was crossed for the first time by Ivory Investment Management (Los Angeles, USA, 3.20 percent) on February 7, 2007, and BlueCrest Capital Management (London, UK, 3.02 percent) on February 22, 2007.

Other Events after the end of the 2006 financial year

Other events that are of significance to the asset, financial and income position of Praktiker Group did not occur after the end of the 2006 financial year.

Max Bahr: strengthening the position in the German market via two - brand strategy



Praktiker acquires operating business of Max Bahr

On January 10, 2007 the German Cartel Office gave the go-ahead for the takeover of Max Bahr Holzhandlung GmbH & Co KG. Transfer of ownership occurred on January 31, 2007. Max Bahr was consolidated into the group with effect of February 1, 2007.

Two-brand strategy covers wide areas of the do-it-yourself market

Praktiker intends to retain Max Bahr as an autonomous, service-oriented brand and, in so doing, operate in the German market with two brands. Max Bahr is – and will continue to be – positioned as a service-oriented brand with a core competence for large-format stores, while Praktiker will remain the discount-oriented, aggressively priced brand, as which it has already made a name for itself in the past few years. Each brand will be operating at opposite ends of the market with clearly distinct profiles.

In this way, the Praktiker group will attain a unique position in the German do-it-yourself market, it will be able to address additional target groups and, at the same time, cover the market more effectively. Products and services on offer will increase. At the same time a new quality can be attained, as the Praktiker brand will be addressing particularly price-sensitive customers whereas the Max Bahr brand appeals more to a quality- and service-oriented clientele.

Significant strengthening of store portfolio

Furthermore, the store portfolios of Max Bahr and Praktiker complement each other excellently in terms of regional presence too. Max Bahr covers above all the northern part of Germany where Praktiker has not had a very strong presence yet. From this excellent fit arise additional options for optimisation of the store portfolio. By converting singular Max Bahr stores into Praktiker outlets and vice versa – in each case, of course, focusing on the given core competences – the respective brand positioning can be still further reinforced.



Acquisition to improve earnings sustainably

The takeover opens up additional potential for improvements in procurement, logistics and administration. The potential economies of scale can be translated into enhanced efficiency and profitability. Admittedly, synergies cannot be achieved from one day to the next, but Praktiker's management expects synergies worth 20 million euros and more per annum once integration has been completed. But even in the first full financial year, Max Bahr will already be contributing positively to the earnings of the Praktiker Group.

Key data Max Bahr 2006

Net sales 2006 in € m	726
Employees*	3,178
Number of stores (12/31/2006)	77
Selling space in sq m 1,000	556
Strengths	service orientation
Core competence	big locations

*yearly average on a full-time basis

Consolidated financial statements

2006

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Consolidated income statement for the fiscal year from January 1 to December 31, 2006

in € thousands	2006	2005	Note / Page
Net sales	3,162,090	3,033,938	1 / 67
Cost of goods sold	-2,176,598	-2,075,682	9 / 71
Gross profit on sales	985,492	958,256	
Other operating income	52,133	47,322	2 / 67
Selling expenses	-864,711	-852,117	
General administrative expenses	-59,765	-54,434	
Other operating expenses	-2,066	-3,493	3 / 67
Operating earnings	111,083	95,534	
Financial income	27,199	19,562	
Financial expenses	-25,828	-26,144	
Net financial income	1,371	-6,582	4 / 68
Earnings before taxes	112,454	88,952	
Income taxes	-28,330	-20,904	5 / 68
Net income from continuing operations	84,124	68,048	
Income from discontinued operations	0	17,062	6 / 70
Group net income	84,124	85,110	
of which allocable to minority interest	973	990	7 / 71
of which allocable to equity holders of the company	83,151	84,120	
	84,124	85,110	

Earnings per share in €	2006	2005	Note / Page
from continuing operations – basic	1.43	1.07	12 / 72
from continuing operations – diluted	1.41	1.07	12 / 72
from discontinued operations – basic	0.00	0.27	12 / 72
from discontinued operations – diluted	0.00	0.27	12 / 72

Consolidated balance sheet as at December 31, 2006

Assets in € thousands	Dec. 31, 2006	Dec. 31, 2005	Note / Page
Non-current assets			13 / 73
Goodwill	116,590	116,590	14 / 74
Other intangible assets	10,795	10,110	14 / 74
Property, plant and equipment	273,792	240,423	15 / 75
Financial assets	322	389	17 / 78
Other receivables and other assets	10,921	3,146	21 / 81
Deferred income tax assets	198,831	198,837	18 / 79
	611,251	569,495	
Current assets			
Inventories	625,983	635,878	19 / 80
Trade receivables	16,372	20,442	20 / 81
Other receivables and other assets	168,746	148,491	21 / 81
Income tax receivables	345	203	
Cash and cash equivalents	466,251	349,073	22 / 82
	1,277,697	1,154,087	
Total assets	1,888,948	1,723,582	



Consolidated balance sheet as at December 31, 2006

Equity and liabilities in € thousands	Dec. 31, 2006	Dec. 31, 2005	Note / Page
Equity			23 / 82
Share capital	58,000	58,000	
Additional paid-in capital	705,896	688,278	
Balance sheet profit	180,225	123,174	
	944,121	869,452	
Minority interest	1,417	1,504	
	945,538	870,956	
Non-current liabilities			
Provisions for pensions and similar commitments	516	474	24 / 84
Other provisions	52,715	46,415	25 / 85
Financial liabilities	285,264	137,395	26 / 86
Other liabilities	9,148	9,712	27 / 86
Deferred income tax liabilities	50,212	41,157	28 / 87
	397,855	235,153	
Current liabilities			
Other provisions	27,266	37,586	25 / 85
Financial liabilities	8,485	6,870	26 / 86
Trade payables	417,767	488,925	29 / 87
Other liabilities	81,603	77,475	27 / 86
Current income tax liabilities	10,434	6,617	30 / 87
	545,555	617,473	
Total equity and liabilities	1,888,948	1,723,582	

Consolidated statement of changes in equity

in € thousands	Share capital	Capital reserves	Other revenue reserves	Balance sheet profit	Equity attributable to Praktiker Holding AG shareholders	Minority interests	Total
December 31, 2004	168,726	542,249	-119,728	39,054	630,301	1,401	631,702
Currency translation	—	—	5,509	—	5,509	—	5,509
Initial consolidation of Praktiker Holding AG	50	—	—	—	50	—	50
Change in capital structure due to reverse acquisition	-118,776	118,776	—	—	0	—	0
Additional paid-in capital	—	35,795	—	—	35,795	—	35,795
Capital increase due to IPO	8,000	108,000	—	—	116,000	—	116,000
IPO costs recognised directly in equity	—	-3,950	—	—	-3,950	—	-3,950
Taxes thereon	—	1,546	—	—	1,546	—	1,546
Gains on cash flow hedges recognised directly in equity	—	—	81	—	81	—	81
Group net income	—	—	—	84,120	84,120	—	84,120
Changes in minority interests	—	—	—	—	—	103	103
December 31, 2005	58,000	802,416	-114,138	123,174	869,452	1,504	870,956
Currency translation	—	—	-2,642	—	-2,642	—	-2,642
Component of the convertible bond recognised directly in equity	—	20,525	—	—	20,525	—	20,525
Costs of convertible bonds recognised directly in equity	—	-256	—	—	-256	—	-256
Losses on cash flow hedges recognised directly in equity	—	—	-9	—	-9	—	-9
Pay-out to shareholders	—	—	—	-26,100	-26,100	—	-26,100
Group net income	—	—	—	83,151	83,151	—	83,151
Changes in minority interests	—	—	—	—	—	-87	-87
December 31, 2006	58,000	822,685	-116,789	180,225	944,121	1,417	945,538

Consolidated cashflow statement

in € thousands	Jan. 1 – Dec. 31, 2006	Jan. 1 – Dec. 31, 2005
Earnings before taxes	112,454	88,952
Depreciation and amortisation (+)/Reversal of impairment losses (-)	37,177	40,089
Decrease (Increase) in provisions	-3,977	4,558
Gain (Loss) from the disposal of fixed and intangible assets	-182	272
Increase (Decrease) in inventories	9,895	-29,486
Increase (Decrease) in trade payables	-71,158	79,106
Gain from foreign currencies	-5,990	-3,563
Other non-cash transactions	-18,145	-14,164
Decrease (Increase) in other assets	2,963	-30,817
Increase in other liabilities	4,456	14,629
Income taxes paid	-15,213	-4,474
Interest result	4,658	10,145
Interest received	11,633	4,795
Cash flow from operating activities (continuing operations)	68,571	160,042
Cash flow from operating activities (discontinued operations)	0	382
Cash flow from operating activities (total)	68,571	160,424
Proceeds from disposal of fixed and intangible assets	1,326	10,229
Net cash used in investing activities	-39,539	-53,609
Cash flow from investing activities (total)	-38,213	-43,380
Interest paid	-940	-2,676
Payment to minorities	-976	-900
Pay-out to shareholders	-26,100	0
Gain on cash flow hedges recognised directly in equity	9	0
Additional paid-in capital	0	8,000
Proceeds from initial public offering	0	105,596
Decrease in liabilities from finance leases	-7,659	-5,669
Change financial balance	0	100,727
Equity component of convertible bond	20,269	0
Financial liabilities from convertible bond	127,856	0
Cash flow from financing activities (continuing operations)	112,459	205,078
Cash flow from financing activities (discontinued operations)	0	-30,818
Cash flow from financing activities (total)	112,459	174,260
Change in cash and cash equivalents	142,817	291,304
Effect of foreign exchange rate changes	-248	-359
Cash and cash equivalents at beginning of period (total)	323,682	32,737
Cash and cash equivalents at end of period (total)	466,251	323,682
Reconciliation cash and cash equivalents to reporting in Group Balance Sheet		
Cash and cash equivalents at beginning of period (total)	323,682	32,737
Pledged cash and cash equivalents at beginning of period	25,391	0
Cash and cash equivalents at beginning of period (total) according to the Group Balance Sheet	349,073	32,737
Change in cash and cash equivalents	142,817	291,304
Effect of foreign exchange rate changes	-248	-359
Change in pledged cash and cash equivalents	-25,391	0
Cash and cash equivalents at end of period (total)	466,251	323,682
Pledged cash and cash equivalents at end of period	0	25,391
Cash and cash equivalents at end of period (total) according to the Group Balance Sheet	466,251	349,073



Notes to the consolidated cash flow statement

The consolidated cash flow statement has been drawn up in accordance with the provisions set out under IAS 7 as per the indirect method and structured by payment flow arising from business, investment and funding activities.

In the period under review, non-cash additions amounting to € 28.435 m (€ 32.649 m in the previous year) were reported as fixed assets from finance leases. Non-cash disposals amounted to € 443,000 (€ 815,000 in the previous year) from finance lease assets and € 1.776 m (€ 1.407 m in the previous year) from finance lease liabilities.

With effect of December 31, 2005, a sum amounting to € 25.391 m from liquid funds had been pledged with the amount concerned not allocated to the item cash and cash equivalents but instead to the item cash flow from operating activities (continuing operations), where it was allocated to the item "increase in other assets".

The cash and cash equivalents item comprises cash on hand and bank balances.

Notes to the consolidated financial statements

Introductory remarks

Praktiker Bau- und Heimwerkermärkte Holding AG (Praktiker Holding AG) is a stock corporation under German law and is based in Kirkel, Saarland, Federal Republic of Germany. The responsible central register court is located in Saarbrücken. Praktiker Holding AG and its subsidiaries deal in the purchase of stakeholdings in wholesaling, retailing and service companies, and in the wholesaling and retailing of home improvement and DIY products as well as all kinds of food and non-food merchandise, the importing and exporting of these products and, in particular, the operation of home improvement and DIY stores in Germany and abroad.

In September 2005, Praktiker Bau- und Heimwerkermärkte AG ("Praktiker AG") was integrated into the newly established Praktiker Bau- und Heimwerkermärkte Holding AG. This integration was entered into the balance sheet in accordance with the IFRS 3 regulation regarding reverse acquisitions. The legal subsidiary, Praktiker AG, is the economic acquirer of the legal parent company, Praktiker Holding AG. As a result, the present consolidated financial statements are compiled under the name of the legal parent company, Praktiker Holding AG, but in economic terms represent a continuation of the consolidated financial statements of Praktiker AG as the economic acquirer.

The fiscal year corresponds to the calendar year.

The consolidated financial statements have been drawn up in EUR thousand. The items shown in the balance sheet differentiate between non-current and current assets and liabilities, which are set out in part in detail in the notes to the statements. The income statement was prepared using the cost of sales method.

Notes to the group accounting principles and methods

Accounting principles

The consolidated financial statements of Praktiker Holding AG were prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, which have been adopted under Articles 2, 3 and 6 of the Regulation (EG) No. 1606/2002 of the European Parliament and the European Council of July 19, 2002, and the complementary commercial regulations according to sec. 31 5a para. 1 of the German Commercial Code (HGB).

The regulations of the International Financial Reporting Standards (IFRS) that were applied – under consideration of the aforementioned Regulation (EG) – were those that were obligatory as per the balance sheet date of December 31, 2006.



The consolidated financial statements were drawn up on the basis of historical costs, supplemented via the market valuation of financial assets available for sale as well as via the valuation at fair value through profit or loss of financial assets and financial liabilities (including derivative financial instruments).

IFRS 6, "Exploration for and evaluation of mineral resources" to be applied for annual periods beginning on or after January 1, 2006, is not applicable for the Praktiker Group.

In December 2004, the IASB issued an amendment to IAS 19, "Employee benefits." The IASB has decided to allow the option of recognising actuarial gains and losses in full in the period in which they occur, outside profit or loss, directly in equity. The amendment also specifies how Group entities should account for defined benefit group plans in their separate or individual financial statements and requires entities to give additional disclosures. This provision is effective for financial years beginning on or after January 1, 2006 but it had no material impact on Praktiker Group's results of operations, financial position or cash flows, all the more so since no use was made of the option of recognising actuarial gains and losses outside profit and loss directly in equity.

In December 2005, the IASB issued an amendment to IAS 21, "The effects of changes in foreign exchange rates." The amendment to IAS 21 provides that if an exchange difference arises on a monetary item that forms part of a reporting entity's net investment in a foreign operation, that exchange difference should be reclassified to the separate component of equity in the financial statements in which the foreign operation is consolidated, proportionately consolidated, or accounted for using the equity method. This requirement applies regardless of the currency in which the monetary item is denominated and of which Group entity transacts with the foreign operation. The provisions of this amendment are effective for reporting periods beginning on or after January 1, 2006. The adoption of this amendment to IAS 21 had no material impact on Praktiker Group's results of operations, financial position or cash flows in the reporting period.

In June 2005, the IASB issued an amendment to IAS 39, "Financial Instruments: Recognition and Measurement – The Fair Value Option," to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit or loss (the fair value option). The provisions of this amendment are effective for reporting periods beginning on or after January 1, 2006. Praktiker Holding AG Group did not make use of the fair-value option in the past and, as such, the amendment is of no relevance.

In April 2005, the IASB issued an amendment to IAS 39, "Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions." Under this amendment, it is possible to recognise the foreign currency risks of a highly probable forecast intragroup transaction as a hedge in the consolidated financial statements. This requires the transaction to be denominated in a currency other than the functional currency of the entity entering into that transaction and the resulting currency risk to be recognised in net profit/loss in accordance with IFRS. This amendment to IAS 39 had no impact on Praktiker Group's results of operations, financial position or cash flows in the reporting period.

In August 2005, the IASB issued an amendment to IAS 39, "Financial Instruments: Recognition and Measurement" and IFRS 4, "Insurance Contracts". The amendments were intended to ensure that all financial guarantees provided are shown in the balance sheet. The amendments become effective for financial years beginning on or after January 1, 2006. This amendment had no impact on Praktiker Group's results of operations, financial position or cash flows in the reporting period.

IFRIC 4 ("Determining whether an arrangement contains a lease") specifies which contractual arrangements not taking the legal form of a lease ("constructive leases") should be accounted for as leases in accordance with IAS 17. This interpretation becomes effective for financial years beginning on or after January 1, 2006. The provisions had no impact on Praktiker Group's results of operations, financial position or cash flows in the reporting period.

Standards, interpretations and amendments issued requiring mandatory application in 2006



In December 2004, the International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 5, "Rights to Interests arising from Decommissioning, Restoration and Environmental Funds." IFRIC 5 explains how to treat expected reimbursements from funds set up to meet the costs of decommissioning assets or in undertaking environmental restoration or rehabilitation. The provisions are effective for financial years beginning on or after January 1, 2006. The adoption of IFRIC 5 had no impact on Praktiker Group's results of operations, financial position or cash flows in the reporting period.

IFRIC 6 ("Liabilities arising from the Participation in a Specific Market – Waste Electrical and Electronic Equipment") clarifies that the participation in the market during the measurement period is the obligating event in accordance with para. 14(a) of IAS 37. This interpretation is effective for financial years beginning on or after December 1, 2005. The provisions of IFRIC 6 had no impact on Praktiker Group's results of operations, financial position or cash flows in the reporting period.

Standards, interpretations and amendments issued not yet requiring mandatory application

IFRS 7
"Financial Instruments: Disclosures"

The following standards and interpretations have already been approved, but only require mandatory application for reporting periods starting on or after January 1, 2007. The company decided not to exercise its option of premature voluntary application:

IFRS 7 replaces IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and the requirements set out in IAS 32 on disclosures on financial instruments in the notes to financial statements. As a result, IAS 32 now deals only with the presentation of financial instruments. The new standard increases the range of disclosure requirements for financial instruments.

Amendments to IAS 1
"Presentation of financial statements"

In August 2005, the IASB issued an amendment to IAS 1, "Presentation of Financial Instruments – Capital Disclosures." The amendment requires disclosures regarding an entity's objectives, policies and processes for managing capital. The provisions are effective for reporting periods beginning on or after January 1, 2007. As the amendment to IAS 1 only affects disclosure requirements, it will not have an impact on Praktiker Group's results of operations, financial position or cash flows.

IFRIC 7
"Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies"

In November 2005, the IFRIC issued IFRIC 7, "Applying the Restatement Approach under IAS 29 Reporting in Hyperinflationary Economies." IFRIC 7 clarifies that in the period in which the economy of an entity's functional currency becomes hyperinflationary, the entity shall apply the requirements of IAS 29 as though the economy had always been hyperinflationary. The effect of this requirement is that non-monetary items carried at cost shall be restated from the dates at which those items were first recognised; for other non-monetary items the restatements are made from the dates at which revised carrying amounts for those items were established. Deferred tax amounts in the opening balance sheet are determined in two stages: (a) Deferred tax items are remeasured in accordance with IAS 12, "Income Taxes," after restating the nominal carrying amounts of the non-monetary items in the opening balance sheet by applying the measuring unit at that date; (b) the deferred tax items remeasured in this way are restated for the change in the measuring unit from the date of the opening balance sheet to the date of the closing balance sheet. The provisions are effective for reporting periods beginning on or after March 1, 2006. The adoption of IFRIC 7 is not expected to have a material impact on Praktiker Group's results of operations, financial position or cash flows.

IFRIC 8
"Scope of IFRS 2"

In January 2006, the IFRIC issued IFRIC 8, "Scope of IFRS 2." The interpretation clarifies that IFRS 2 applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. If the identifiable consideration given appears to be less than the fair value of the equity instruments granted, under IFRIC 8 this situation typically indicates that other consideration has been or will be received. IFRS 2 therefore applies. IFRIC 8 becomes effective for financial years beginning on or after May 1, 2006. The adoption of this interpretation is not expected to have a material impact on Praktiker Group's results of operations, financial position or cash flows.



IFRIC 9 essentially specifies that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative under the standard IAS 39 when the entity first becomes a party to the contract. IFRIC 9 becomes effective for financial years beginning on or after June 1, 2006. The adoption of this interpretation is not expected to have a material impact on Praktiker Group's results of operations, financial position or cash flows.

IFRIC 9
 "Reassessment of Embedded Derivatives"

In 2005, Praktiker Holding AG applied a new method to account for location risks.

Changes in accounting and measurement methods

Under the previous practice, for assessments of the impairment of non-current assets under IAS 36, the locations in one country were subsumed into one cash generating unit (CGU). With the exception of goodwill, the new method considers individual markets or groups of markets in one region. Since location risks may also arise from leased objects, provisions for deficient rental cover are determined on the basis of individual locations. The same applies to continued locations insofar as a comparison of unavoidable costs and anticipated sales over the lease term in present corporate planning yields a deficient rental cover. The recognised provision maximally amounts to the deficient cover resulting from a possible subleasing.

Praktiker Holding AG believes that this method of presentation provides a more transparent picture of the risk and opportunity structure of the location portfolio. The accounting method is also in line with international customs in the sector, fulfills the purpose of regional customer retention and is better suited to identifying possible location risks at an early stage. In accordance with IAS 8, the accounting changes were implemented retrospectively and resulted in the following adjustments compared with the values that would have applied in 2004 and 2005 without changes in the accounting for location risks.

Despite the fact that this involves an amendment to the accounting and valuation methods applied in the fiscal year 2005, the following table additionally shows the impact it had on the fiscal year 2006.

The adjustments concern:

in € thousands	2006	2005	2004
Non-current assets	-1,651	-3,048	-5,443
Equity	-33,349	-30,330	-27,187
Other provisions	31,698	27,282	21,744
Other operating income	1,550	3,211	5,245
Selling expenses	4,569	6,354	-1,866

Besides Praktiker Holding AG, the consolidated financial statements comprise 9 domestic subsidiaries (7 in the previous year) and 12 foreign subsidiaries (10 in the previous year) in which Praktiker Holding AG directly or indirectly holds the majority of voting rights.

Basis of consolidation
 a) General remarks

Subsidiaries are entities controlled by the group. Control is achieved where the company has the power to govern the financial and operating policies of an entity as well as a regular share of more than 50 percent of the voting rights. The assessment of whether a controlling position exists considers the existence and impact of exercisable or convertible voting rights.



The results of subsidiaries acquired during the year are included in the consolidated financial statements (full consolidation) from the date on which control is transferred to the group. They are deconsolidated at the date that control ceases.

b) New company foundations during the reporting year

With the Articles of Association dated March 3, 2006, KIG Import GmbH, Kirkel, was founded as a 100 percent subsidiary of Praktiker Services Holding GmbH. The nominal capital of KIG Import GmbH amounts to € 25,000. The object of the company mainly relates to the purchase and sale of goods in the food and non-food sector, in particular the import of such goods and all other activities that are directly or indirectly conducive to this business objective. The company was entered in the commercial register on March 24, 2006.

The scope of consolidation was further expanded through the foundation of Praktiker Grundstücksbeteiligungsgesellschaft mbH, Kirkel, with the Articles of Association dated August 28, 2006. Praktiker Bau- und Heimwerkermärkte AG has a 100 percent stake in this company. The nominal capital of Praktiker Grundstücksbeteiligungsgesellschaft mbH amounts to € 25,000. The object of the company is to maintain and administer properties as well as possessing direct and indirect shareholdings in real estate companies. The company was entered in the commercial register on September 12, 2006.

Praktiker Finance B.V., Amsterdam, The Netherlands, was founded on September 25, 2006 with subscribed capital of € 18,000. Praktiker Bau- und Heimwerkermärkte Holding AG has a 100 percent stake in this company. The object of the company, according to Articles of Association of September 25, 2006, is principally the raising of credit and extension of loans, the acquisition of cash and cash equivalents, including the issuance of bonds, liabilities or other securities or debt instruments, the financing of businesses and commercial operations, and consultation of and provision of services to the companies and joint-stock companies within the Praktiker Group.

The company was entered in the commercial register on September 25, 2006.

Praktiker Real Estate Kft., Budapest, Hungary was founded on December 7, 2006. Praktiker Grundstücksbeteiligungsgesellschaft mbH, Kirkel, has a 100 percent stake in this company. The reporting company is the sole shareholder in Praktiker Grundstücksbeteiligungsgesellschaft mbH. The nominal capital of Praktiker Real Estate Kft. amounts to HUF 3,000,000 (€ 11,915.64). The object of the company mainly relates to leasing, purchase and selling of land, buildings and apartments.



The following overview shows the basis of consolidation in the consolidated financial statements of Praktiker Holding AG as per December 31, 2006:

Overview
of group companies

Name and location of company	Share of equity in % Dec. 31, 2006
Germany	
Praktiker Bau- und Heimwerkermärkte Holding AG, Kirkel	
Praktiker Bau- und Heimwerkermärkte AG, Kirkel	100.00 %
Praktiker GmbH, Kirkel	100.00 %
Praktiker Baumärkte GmbH, Kirkel	100.00 %
Praktiker Vierte Baumärkte GmbH, Kirkel	100.00 %
BMH Baumarkt Holding GmbH, Kirkel	100.00 %
Praktiker Services Holding GmbH, Kirkel	100.00 %
KIG Import GmbH, Kirkel	100.00 %
Praktiker Grundstücksbeteiligungsgesellschaft mbH, Kirkel	100.00 %
Calixtus Grundstücksverwaltungsgesellschaft mbH, Kirkel	94.80 %
International	
Praktiker Finance BV, Amsterdam (Netherlands)	100.00 %
Batiseif S.A., Foetz-Mondercange (Luxembourg)	62.00 %
Praktiker HELLAS HANDELS- UND AKTIENGESELLSCHAFT, Tavros (Greece)	100.00 %
Praktiker Polska Sp. z o.o., Warsaw (Poland)	100.00 %
Praktiker Ungarn Kft., Budapest (Hungary)	100.00 %
Praktiker Romania SRL, Voluntari (Romania)	100.00 %
Praktiker Bulgaria EOOD, Sofia (Bulgaria)	100.00 %
Praktiker Yapi Marketleri A.S., Istanbul (Turkey)	100.00 %
Praktiker International AG, Chur (Switzerland)	99.99 %
Praktiker Group Buying Ltd., Hong Kong (China)	100.00 %
Praktiker Ukraine TOV, Kiev (Ukraine)	100.00 %
Praktiker Real Estate Kft., Budapest (Hungary)	100.00 %

Investments in associated companies did not exist during the reporting period.

In the period under review, Praktiker Bau- und Heimwerkermärkte Holding AG acquired a 100 percent stake in the do-it-yourself market business operations of Max Bahr Group. A corresponding purchase contract was concluded on August 16, 2006. The German Cartel Office gave its approval on January 10, 2007, albeit with the obligation that four do-it-yourself markets have to be sold. The following regional markets are affected by the obligation: Lüneburg, Rostock, Schwerin and Cottbus.

c) Corporate merger

The closing date on which the business combination as per the purchase contract could be considered effective and, as such, the point in time of acquisition as defined in the provisions set out under IFRS 3p25, was January 31, 2007.

The provisional purchase costs amount to € 273.219 m and break down as follows:

- Purchase price: € 270.968 m
- Incidental acquisition costs: € 2.251 m



The incidental acquisition costs are still provisional and include among others the costs incurred for tax and legal advisory services which accrued up to December 31, 2006. The purchase price was paid in cash.

With effect of December 31, 2006, Max Bahr Holzhandlung GmbH & Co. KG reported liquid assets amounting to € 9.636 m in its financial statements drawn up according to the German Commercial Code as well as a loan receivable totalling € 45.190 m against the real estate company Max Bahr Holzhandlung GmbH & Co. KG, which was repaid in cash on January 31, 2007 immediately before the closing date.

In accordance with the provisions stipulated under IFRS 3p67(f), the amounts recognised at the acquisition date must be reported for each class of the acquiree's assets, liabilities and contingent liabilities and the carrying amounts of each of those classes, determined in accordance with IFRSs, immediately before the combination. At the current point in time, the data concerned cannot be provided as the determination of the corresponding values has not yet been concluded by the company acquired. For this reason, the data as per IFRS 3p67(h) – description of the factors that contributed to a cost that results in the recognition of goodwill – cannot be supplied conclusively yet.

d) Acquisition of participating interests after financial year-end

The land owned by Max Bahr Group that was all held by the real estate company Max Bahr Holzhandlung GmbH & Co. KG was acquired by a foreign financial investor. Ownership of the land concerned was transferred to two newly founded limited partnership companies – Moor Park MB OHG & Co. MBE KG, Oststeinbeck and Moor Park MB OHG & Co. PSK KG, Norderfriedrichskoog. Since January 31, 2007, Praktiker Grundstücksbeteiligungsgesellschaft mbH has held a stake in the former totalling € 2.457 m (equates to a share in equity of 19.96 percent) and a stake in the latter totalling € 13.922 m (also equating to a share in equity of 19.96 percent).

Consolidation principles

The financial statements of German and foreign subsidiaries included in the consolidated financial statements are prepared according to uniform accounting methods pursuant to IAS 27.

The acquisition of subsidiaries is accounted for using the purchase method. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. In the context of a business combination, identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date, irrespective of the size of the minority interests. Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the group's interest in the net fair value of the identifiable net assets. If the group's interest in the net fair value of the acquiree's identifiable net assets exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

With the first-time application of IFRS 3 in combination with IAS 36/38 rev, amortisation of goodwill was discontinued from January 1, 2004. From this date, goodwill must be tested for impairment regularly once a year or more frequently if changes in circumstances indicate a possible impairment, and if applicable written down to the lower recoverable amount.

Intra-group profits and losses, revenues, expenses and income as well as receivables and payables or liabilities among consolidated subsidiaries are eliminated. Third-party liabilities are consolidated to the extent that the prerequisites for such consolidations are met. No interim results had to be eliminated. The accounting and valuation methods applied by subsidiaries were amended, where necessary, in order to guarantee standard accounting practices.

The consolidated financial statements are compiled in euros, the company's functional and reporting currency.

In the subsidiaries' separate financial statements, financial currency transactions are translated at the rates of exchange prevailing on the dates of the transactions. Exchange differences incurred on the translation of receivables and liabilities up to the balance sheet date are recognised in equity. Gains and losses from exchange rate fluctuations are recognised in profit or loss.

The year-end financial statements of such foreign subsidiaries as have a functional currency deviating from the (group) report currency are converted into euros as per the concept of functional currency in accordance with the provisions set out under IAS 21. As all consolidated companies run their businesses autonomously in financial, economic and organisational terms, the given national currency is the functional currency. The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

Goodwill and adjustments of the fair value arising from the acquisition of a foreign company are treated as assets and liabilities of the foreign company and translated at the exchange rate prevailing on the balance sheet date.

In the consolidated financial statements for the 2005 fiscal year, the accounts for the subsidiary company based in Turkey were drawn up in accordance with the provisions set out under IAS 29 "Financial reporting in hyperinflationary economies". In the 2006 fiscal year, Turkey no longer fulfilled the criteria to qualify as a hyperinflationary country as set out under IAS 29 and has therefore not been treated as such in accounting terms since January 1, 2006.

The following exchange rates were applied in the translation of key currencies outside the European Monetary Union that are of major significance to the consolidated financial statements:

1 € =	Average exchange rate		Rate at closing date	
	2006	2005	Dec. 31, 2006	Dec. 31, 2005
Polish zloty	3.89517	4.02327	3.83100	3.84570
Hungarian forint	264.19671	248.05260	251.77	252.47
Romanian leu	3.52351	3.62292	3.38350	3.68450
Bulgarian lev	1.95583	1.95583	1.95583	1.95583
Ukrainian hryvnia	6.34049	6.38699	6.65236	5.97163
Turkish lira	1.80716	1.67685	1.86400	1.59580
Swiss franc	1.57332	1.54843	1.60690	1.55530
Hong Kong dollar	9.76158	9.68207	10.26250	9.17960

Currency translation

- a) Functional currency and reporting currency
- b) Transactions and balances

c) Group companies



Accounting and measurement methods

The key accounting and measurement methods that were applied in the preparation of the present consolidated financial statements are described in the following. The described methods were applied consistently to the presented reporting periods unless indicated otherwise.

Goodwill

Goodwill represents the excess of the cost of acquisition over the group's interest in the net fair value of the acquiree's net assets recognised at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets.

Until the end of fiscal year 2003, goodwill was subject to straight-line scheduled amortisation over a period of 15 years as a matter of principle. In the process, the strategic importance of the acquisition and other factors impacting the useful life, such as the term of acquired lease contracts, were considered.

From 2004, in accordance with IFRS 3 and IAS 36/38 rev, goodwill is tested for impairment once a year – or more frequently if changes in circumstances indicate a possible impairment – and if applicable written down to the recoverable amount. Impairment losses on goodwill are not reversed.

The carrying amount is compared with the recoverable amount. The determination of the recoverable amount is based on the value in use, i.e. it is premised on the useful life as the cash value of expected future cash flows. If the recoverable amount is lower than the carrying amount, the difference is written down.

The underlying planning period comprises three years. It is followed by a reconciliation to perpetuums. For goodwill accounting, the locations of one legal entity are treated as a cash-generating unit (CGU).

On disposal of a company, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Other intangible assets

a) Computer software

Acquired computer software licenses are capitalised at cost incurred to acquire plus the cost of implementation. These costs are amortised over their estimated useful lives (three to five years).

Costs related to the development or maintenance of computer software are recognised as expenses at the time they arise. Costs that are directly related to the production of identifiable, individual software products controlled by the group are recognised as intangible assets insofar as it is likely that the company will draw economic benefits from these assets for more than a year and that these benefits will exceed the costs. The directly attributable costs include personnel costs for employees involved in the development of the software as well as other costs that are directly related to the development of the software.

Capitalised development costs for computer software are amortised over their estimated useful lives (max. three years).

b) Concessions, rights, licences, brand names

Concessions, rights, licenses and brand names are recognised at cost plus the cost of implementation. They are measured at cost less cumulative amortisation. Depreciation is written off on a straight-line basis over the probable useful economic life of the item concerned, which lies between three and fifteen years. Borrowing costs are not capitalised.

In the reporting year, no costs for research and development were recognised as expense.

Tangible assets used in operations for a period of more than one year are recognised at cost less scheduled, usage-based depreciation. The acquisition or production costs include direct costs. Financing costs are not included in subsequent acquisition or production costs.

Property, plant and equipment

Subsequent costs are recognised only as a portion of the acquisition or production costs of the asset or, where relevant, as a separate asset, if and when it is likely that the group will draw future economic benefits from this and that the cost of the asset can be reliably determined. All other repair and maintenance costs are expensed during the fiscal year in which they arise.

If there are any indications of impairment and if the recoverable amount is lower than its carrying amount, the assets are subjected to impairment charges. Impairment losses are reversed when indications for impairment no longer exist.

The residual carrying amount and economic useful life are tested and, if necessary, adjusted at each balance sheet date. Land is not subject to depreciation. All other assets are depreciated on a straight-line basis. Depreciation of acquisition and production costs to the residual value is based on the following useful lives:

Useful life of tangible asset	
Buildings	25 to 30 years
Plant, machinery and equipment	3 to 10 years
Fixtures, furniture and office equipment	3 to 10 years
Shop fittings	8 years
Vehicles	2 to 4 years

Leasehold improvements are written down over the respective rental contract duration.

Gains and losses from asset disposals are determined and recognised in income as the differential value between the sale proceeds and the carrying amount.

Intangible assets with an indefinite useful life are not amortised, but tested for impairment regularly once a year. Assets subject to scheduled depreciation are tested for impairment if the relevant events or changes in circumstances indicate that the carrying amount may no longer be attainable. An impairment loss is recognised at the amount in excess of the recoverable carrying amount. The recoverable amount is the higher of fair value less costs to sell and value in use. For the impairment test, assets are grouped at the lowest level for which cash flows arise largely independently from other assets and other groups of assets (cash generating units).

Impairment of assets

The group leases certain fixed asset items (leasing objects). Leasing contracts concerning fixed asset items, in the case of which the group carries the key risks and enjoys the benefits of ownership in respect of the given leasing object, are classed as finance lease contracts.

Leasing relationships



Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. A leasing liability is then recorded as a deferred item for the same amount under non-current liabilities. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest component of the leasing instalment is recorded in the income statement.

The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Financial assets

Financial assets are categorised as loans and receivables and financial assets available for sale. The classification depends on the respective purpose for which the financial assets were acquired. The management determines the classification of financial assets upon first-time application and reviews the classification at each balance sheet date.

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or definable payments that are not listed on an active market. They arise when the group directly provides a debtor with money, goods or services without any intent of trading these receivables. They are classified as current assets insofar as their maturity does not exceed 12 months after the balance sheet date. The latter are recognised as non-current assets. Loans and receivables are included in the financial loans, trade payables and other receivables items in the balance sheet. Loans and receivables are recognised at amortised cost using the effective interest method.

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that either were designated as such or were not designated to any of the aforementioned categories. They are designated as non-current assets if and when the group does not intend to sell them within 12 months after the balance sheet date.

Available-for-sale financial assets are included in the financial investments (investments) item in the balance sheet.

Regular purchases or sales of financial assets are recognised on the day of trading, the day on which the company commits to the purchase or sale of the asset. All financial assets are initially measured at fair value plus directly attributable transaction costs. They are derecognised when the rights to payments from the investment have expired or have been transferred and the group has substantially transferred all risks and opportunities of ownership. Loans and receivables and financial investments held to maturity are recognised at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as financial assets available for sale are recognised in equity. If such securities classified as financial assets available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains or losses from investment securities.

Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.



The fair value of listed shares is based on the current offer price. If an active market does not exist for financial assets or if the assets in question are unlisted assets, the fair values are determined based on suitable measurement methods.

These comprise references to recent transactions between independent business partners, the use of the current market prices of other assets that bear a large similarity to the asset in question, discounted cash flow methods and option pricing models that consider the specific circumstances of the issuer.

Impairment tests are carried out for financial assets and groups of financial assets at each balance sheet date. In the case of equity instruments, which are classified as available-for-sale financial assets, a substantial or sustained decline in the fair value below the acquisition cost of these equity instruments is taken into consideration. If there is an indication of such an impairment of available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition costs and the current fair value less impairment – that was previously recognised in equity is included in loss for the period. Impairment losses recognised in profit or loss for equity instruments are not subsequently reversed through profit or loss.

Deferred taxes are determined through the liabilities method, according to which tax assets and liabilities are recognised for temporary differences between the carrying amounts of assets or liabilities in the IRFS consolidated financial statements and their tax base.

Deferred taxes

However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets in respect of deductible temporary differences and tax loss carry-forwards exceeding the deferred tax liabilities in respect of taxable temporary differences are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred taxes are measured in accordance with the tax rates (and tax regulations) that apply on the balance sheet date or have been legislated to a substantial measure and are anticipated to be applicable at the time of the realisation of the deferred tax assets or the redemption of the deferred tax liabilities.

While domestic loss carry-forwards may be carried forward without restrictions, the frequent country-specific limitations of loss carry-forwards have been considered in the measurement.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Merchandise carried as inventories is stated at the lower of cost and net realisable value. Cost is determined retroactively and includes direct personnel costs as well as other direct acquisition costs. The acquisition costs do not include debt capital costs. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Inventories



When merchandise has been sold, the carrying amount of this merchandise is recognised as an expense during the reporting period in which the related revenues have been realised. Any impairment of inventories to the net realisable value and all losses on inventories are recorded as expenses during that period in which the impairment or the losses occurred. All reversals of inventory writedowns resulting from an increase in the net realisable value are recognised as impairments of material costs during the period in which the write-down reversal occurs.

When the reasons for a write-down of the merchandise have ceased to exist, the write-down is reversed.

Trade receivables

Trade receivables are initially recognised at their fair values and subsequently at amortised cost using the effective interest method and by deduction of impairment. An impairment of trade receivables is recognised when objective indications exist that the receivables cannot be fully recovered. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the impairment is recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, sight deposits, other current, highly liquid financial assets with an original term of no more than three months and open credits. Bank overdrafts are shown with borrowings in current liabilities on the balance sheet.

Equity capital

Common shares are classed as equity.

Costs that are directly allocable to the issuance of new shares or options are recognised in equity as a deduction, net of tax, from the issue proceeds.

Financial liabilities

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised in shareholders' equity, net of tax.

Loan liabilities are classified as current liabilities insofar as the group does not have the unconditional right to delay the settlement of the liability until at least 12 months after the balance sheet date.

Financial liabilities from leases are carried as liabilities insofar as the economic ownership of the leased objects is allocable to the companies of the Praktiker Holding AG Group and capitalised under tangible investments (finance lease). The leasing liabilities are initially recognised at fair value or at the lower present value of the lease payments to ensure that the financing costs are spread across the term of the lease and produce a constant rate of interest on the residual lease finance liability (annuity character of the liability).

The group carries commitments from regulations regarding company pensions, salary waivers, early retirement and part-time work for older workers, severance pay, death and anniversary benefits.

The actuarial measurement of pensions and similar commitments is effected in accordance with the projected unit credit method stipulated by IAS 19. This method takes account of future pay and pension increases.

These measurements are based on the legal, economic and tax parameters in the respective country. Commitments affecting exclusively the European economic region are recognised at an actuarial interest rate of 4.4 percent (4.0 percent in the previous year), a wage and salary trend of 2.0 percent (2.5 percent in the previous year) and a pension trend of 1.5 percent (1.5 percent in the previous year). Employee fluctuation is determined at the individual plant level in consideration of age and service life. The actuarial measurements are based largely on country-specific mortality tables.

A defined benefit plan is a pension plan that prescribes a pension benefit volume that an employee will receive upon retirement and whose size typically depends on one or several factors, including age, service life and salary. The plan relevant to Praktiker Group is not fund-based.

The provisions for defined benefit plans in the balance sheet correspond to the present value of the defined benefit obligation (DBO) on the balance sheet date, adjusted for cumulative, not recorded actuarial gains and losses and not recorded past service cost that must be accounted for. The DBO is calculated annually in an independent actuarial evaluation by applying the projected unit credit method. The present value of the DBO is calculated by discounting projected future benefits using rates based on high-quality corporate bonds denominated in the currency in which the benefits are paid and whose maturities correspond to the term of the pension commitment.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10 percent of the value of plan assets or 10 percent of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives. The commitments concerned are valued annually by independent, qualified actuarial experts.

Past service costs are recognised immediately in income unless the changes to the pension plan are conditional on the employees' remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Termination benefits are made when an employee voluntarily ends an employment contract in return for a severance payment. The group recognises severance payments when it is demonstrably committed either to terminate the employment of an employee or to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. The company will be committed to a termination if, and only if, it has a detailed formal plan for the termination that cannot be withdrawn. Where termination benefits fall due after more than 12 months after the balance sheet date, they are discounted to their present value.

A commitment and expense determined in consideration of the profit due to group shareholders after certain adjustments is carried as a liability for bonus payments and profit sharing. The company recognises a provision under liabilities only when it has a legal or constructive obligation to make such payments as a result of past events.

Benefits to employees

a) Pension commitments

b) Termination benefits

c) Profit sharing and bonus schemes



d) Share-linked remuneration

In the period under review, a share bonus programme designed to run for five years was introduced, starting in August 2006. The programme concerned comprises five tranches that are awarded annually, whereby the target parameters are worked out separately for each tranche. The last tranche is set to be awarded in 2010. The target parameters are worked out four weeks after the annual general meeting held by Praktiker Bau- und Heimwerkermärkte Holding AG (cut-off date for the approval of the share bonus).

Payment of the individual annual share bonuses automatically occurs in cash in the month following the expiry of the three-year term of the given tranche, provided the conditions to which payment is subject have been fulfilled. Payment of the tranche 2006, for instance, will occur in 2009 and payment of the final tranche from 2010 correspondingly in 2013.

Initially, the level of the bonus is determined on the basis of the ratio of the starting price to the target share price. The starting price per tranche equates to the arithmetical average of the final prices of Praktiker shares in the 20 last consecutive stock market trading days prior to the cut-off date (four weeks after the given annual general meeting). The target share price, in the case of the attainment of which the full bonus is awarded, is calculated on the basis of the starting price, whereby a price rise of 15 percent is set over a period of three years.

The level of the bonus concerned also depends on the performance of Praktiker shares as compared with that of the shares of other relevant trading companies listed on the stock exchange. For comparison purposes, the MDAX and the Dow Jones Euro Stoxx "General Retailers" are used. They permit the valuation of the price development in Praktiker shares on a national or Europe-wide basis. Should the development in Praktiker shares with effect to the cut-off date not deviate by more than ten percent from the average value of both indices, the share bonus is paid out in full. In the event that the price development in Praktiker shares exceeds the average value by more than 10 percent (outperformance), the amount paid out as a share bonus is increased to a total of 120 percent. However, should it fall short of the average value of the indices mentioned by more than ten percent (underperformance), the level of the share bonus is reduced to 80 percent.

The share bonus is only awarded if, at the point in time of it becoming due, the contract of employment of the employee concerned at Praktiker Group has neither been terminated nor has a mutually agreed cancellation of the contractual relationship occurred. Payment of share bonuses is limited in each case to the level of the current, individually agreed basic annual salary (gross).

Obligations arising from the share bonus programme are valued at fair value at year-end and the expenses are recorded under personnel expenses over the period in which payment is made. For the purposes of fair value calculation, such costs are applied that would have arisen if a hedge activity had been concluded to secure the full amount as of year-end.

Total expenses arising from share-based remuneration reported in the period under review amounted to € 322,000.

The fair value of all share bonuses granted during the period determined using our valuation model was € 322,000. The significant inputs into the model were an option price of € 6.34 at the balance sheet date, the expected share returns of 15 percent over the period of three years, the above mentioned option life and an annual risk-free interest rate of 3.75 percent. The supposed volatility was 34.38 percent based on statistical analysis of the Praktiker share price over the last 250 stock exchange days.

Provisions

Provisions are recognised if and when legal or constructive obligations to third parties that are based on past business transactions or events will more likely than not result in a cash outflow and can be reliably determined. They are stated at the anticipated settlement amount with due regard to all identifiable risks attached and are not offset against any claims to recourse.

Where several of the same obligations exist, the likelihood of an outflow of funds based on this group of obligations is determined. A provision is also carried as liability when the likelihood of an outflow of funds with respect to individual obligations included in this group is low.

Provisions are valued at the cash value of the anticipated costs, whereby a value-added tax rate is raised taking account of current market expectations in respect of the impact of interest and of risks specific to the obligation concerned. Any increases in provisions resulting exclusively from the compounding of interest are recorded in the income (profit and loss) statement as interest expenses with the corresponding impact on income.

Location risks can arise from leased objects. Provisions for deficient rental cover are determined based on a consideration of individual locations. This also applies to continued locations if and when a comparison of unavoidable costs and planned sales in current corporate planning yields a deficient rental cover during the rental term. The provision may be no higher than the deficient rental cover remaining after a possible subleasing. For 2006, a sales growth rate of 1.5 percent – 2 percent is applied in line with the three-year planning horizon. The discount rate is 4.5 percent. The reversal of the provisions occurs against the corresponding expense item.

Trade liabilities are recognised at amortised cost. Their carrying amounts correspond largely to their market value. They are due within one year.

Trade liabilities

Contingent liabilities are possible on present obligations that arise from past events for which an outflow of resources is not considered probable. According to IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), such liabilities should not be recognised in the balance sheet but disclosed in the notes.

Contingent liabilities

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added-tax, returns, rebates and discounts and after eliminating sales within the Group.

Income and expense realisation

a) Net sales

Income is recognised as follows :

Net sales from the sale of merchandise to wholesalers are recognised when a group company has supplied products to a customer, the customer has accepted the products and the recoverability of the respective liability can be considered sufficiently certain.

a1) Sale of goods – wholesale

Net sales from the sale of merchandise are recognised when a group company sells products to a customer. Retail sales are generally settled in cash or by credit card. The recorded net sales correspond to the gross revenues from the sale, including possible transaction-related credit card fees. These fees are recognised under selling expenses.

a2) Sale of merchandise – retailing

Expenses for the formation of provisions for discounts are considered during the period in which the sales are realised in line with statutory provisions. Net sales are adjusted for these amounts. Revenues from vouchers are realised at the time of their redemption. Merchandise commission claims are recognised as income or expense following the completion of the audit.

Other operating income is realised at the time of the sale or the transfer of risk to the customer.

b) Other income and expense realisation

Operating expenses are recognised in income at the time of availment or causation.

Interest income and interest expenses are recognised pro rata.

Lease income and rental expenses are marked down in line with the economic substance of the relevant agreements and recognised pro rata.



Management of financial risks

a) Financial risk factors

Through its business activities, the group is exposed to various financial risks: market risk (including currency risk, fair value interest risk and market price risk), credit risk, liquidity risk and cash flow risk. The group's overarching risk management focuses on the unpredictable nature of financial market developments and aims to minimise the potentially negative effects on the group's financial situation. The group uses financial derivatives to hedge against certain risks.

During the reporting year, risk management was handled by the central finance department of the Praktiker Group, which identifies, assesses and hedges financial risks in accordance with intra-group guidelines.

The central finance department identifies, assesses and hedges financial risks in close cooperation with the operative units of the group. It is based on principles for cross-divisional risk management provided in written form by the Management Board as well as on guidelines for certain divisions.

a1) Currency risk

As an internationally active group, Praktiker Holding AG is exposed to currency risks deriving from fluctuations in various foreign currencies. Currency risk results from anticipated future transactions, assets and liabilities carried in the balance sheet as well as net investments in foreign operations.

A currency risk arises when future business transactions and assets and liabilities carried in the balance sheet are denominated in a currency other than the company's functional currency. However, the group procures the majority of its products that are sold in foreign branches in the same country, which creates "natural hedging." Future financial transactions in foreign currencies are hedged via derivative instruments. The items involved are basically rental obligations and imported goods.

a2) Credit risk

No significant concentrations with respect to possible creditworthiness risks exist within the group. Sales to customers are settled in cash or via commonly used credit cards. In individual cases, target credit sales are made for major customers, although only following a credit worthiness test. Risks arising from the full or partial default of counterparties in connection with money investments or derivative financial instruments with positive market values are minimised via the stipulation and monitoring of individual maximum limits. The maximum limits concerned are based essentially on the ratings set by international agencies.

a3) Liquidity risk

After its departure from the METRO AG Group, Praktiker AG acted as a liquidity collection point within the group. The multi-faceted planning process ranges from a rolling 3-year plan through to a short-term, day-specific planning. Any liquidity surpluses available are invested in short-term money market transactions with German banks. Moreover, Praktiker Holding AG Group has access to a credit facility in the form of a syndicated loan of € 165 m. For the partial funding of the Max Bahr acquisition, a convertible bond worth € 150 m was placed in the capital market in September 2006 with a maturity of 5 years.

a4) Cash flow and fair value interest risk

With the exception of lease finance liabilities, the group only has non-current liabilities from the issuance of a convertible bond with a maturity of 5 years. No cash flow or fair value interest risks of any significance exist.

b) Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method for the recognition of gains and losses depends on whether the derivative was qualified as a hedging instrument and, if this is the case, on the hedged item. The group designates certain derivatives either as fair value hedges of the carried asset, a liability or a fixed corporate obligation or a cash flow hedge regarding a transaction that is more than likely.



When concluding transactions, the group documents the nature of the hedge relationship between the hedge instrument and the underlying transaction, as well as when concluding hedge transactions, the objective of the risk management and the underlying strategy. Moreover, at the start of the hedge relationship and, thereafter, on an ongoing basis, the group documents its estimate as to whether the derivatives used in the given hedge relationship are highly effective in compensating for the changes in the fair value or cash flows of the underlying transaction. The fair values of various derivative instruments used for hedging purposes are disclosed in Note 31. Movements on the hedging reserve in shareholders' equity are shown in "Changes in Equity". The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Changes in the fair value of derivatives qualified as a fair value hedge are recognised in profit or loss together with the changes in the fair value of the hedged asset or liability that are allocable to the hedged risk.

b1) Fair value hedge

The effective portion of changes in the fair value of derivatives designated as cash flow hedges is recognised in equity. The ineffective share of value changes, in turn, is directly recognised in the income statement.

b2) Cash flow hedge

Amounts recognised in equity are transferred to the income statement and recognised as income or expenses during the period in which the hedged underlying transaction has an effect on income (e.g. at the time that the future, hedged sale takes place). If, however, a hedged future transaction results in the recognition of a non-financial asset (e.g. inventories) or a liability, the gains and losses that were previously recognised in equity are included in the initial measurement of the cost of the asset or the liability.

When a hedging instrument expires, is sold or the hedging transaction no longer fulfills the criteria for hedge accounting, the cumulative gain or loss remains in equity, and is only recognised in profit or loss when the underlying transaction takes effect. When future transactions are no longer expected to occur, the cumulative gains or losses that were recognised at equity must be transferred immediately to the income statement.

The fair value of derivatives traded in an active market (e.g. publicly traded derivatives and available-for-sale securities) is based on the market value at the balance sheet date. The relevant market price of financial assets is the bank buying rate. The appropriate market price for financial liabilities is the bank selling rate.

c) Fair value determination

The fair value of foreign currency forward contracts is determined based on forward exchange rates at the balance sheet date.

In the case of trade receivables and liabilities, it is assumed that the nominal value less impairment corresponds to the fair value. The fair value of financial liabilities stated in the notes is determined by discounting future contractually agreed cash flows at the current market interest rate that the company would receive for similar financial instruments.

The consolidated financial statements are prepared partly on the basis of assumptions and estimates that affect the level and disclosure of balance sheet assets and liabilities, income and expenses as well as contingent liabilities during the relevant reporting periods.

Usage of management assumptions and estimates

The assumptions and estimates refer largely to the assessment of recoverability of asset values, the determination of economic useful lives, the collectability of receivables and the accounting treatment of provisions.



The assumptions and estimates are based on premises resting on the current state of knowledge at the time. In particular, expectations of future business developments were based on the circumstances at the respective balance sheet date as well as expectations of future global and sector developments that were considered to be realistic.

Changes in these parameters that deviate from these assumptions and over which the management has no influence may cause actual amounts to deviate from the original estimates. If actual developments deviate from expected developments, the premises and, if necessary, the carrying amounts of the affected assets and liabilities will be adjusted accordingly.

It is the view of management that the underlying assumptions and estimates were not subject to material risks, which means that a substantial adjustment of the carrying amounts of assets and liabilities in the balance sheet during the following year is unlikely from the current perspective. Nonetheless, it cannot be precluded that actual amounts will differ from assumed amounts in individual cases during the next fiscal year, which may require a substantial adjustment of the carrying amount of the respective assets or liabilities. This could affect, in particular, the following types of assets and liabilities (carrying amounts listed as of December 31, 2006): goodwill (€ 116.590 m), tangible assets (€ 273.792 m), deferred tax receivables (€ 198.831 m), other long-term provisions (€ 52.715 m) and other short-term provisions (€ 27.266 m).

In Germany, a reform of the corporate tax system is currently under discussion. It is considered, that the total income tax burden should fall to below 30 percent. This could already have effects in 2007 to the balance sheet items "Deferred income tax assets" (carrying amount as at December 31, 2006: € 198.831 m) and "Deferred income tax liabilities" (carrying amount as at December 31, 2006: € 50.212 m).

The estimates and assumptions that entail a significant risk in the shape of a substantial adjustment of the carrying amounts of assets and liabilities during the next fiscal year are explained in the following:

a) Goodwill impairment

The group conducts annual goodwill impairment tests. The recoverable amount of cash generating units (CGUs) is determined on the basis of value in use calculations. These calculations are necessarily based on assumptions (see No. 14).

Even if the cash flows of the coming three years were 10 percent lower than management estimated in its three-year plan (at otherwise unchanged planning premises), the carrying amount of the goodwill would not have to be revised downward.

The same would apply if the expected discount rate applied in the calculation of the values in use were 10 percent higher than management's estimate.

b) Deferred tax income assets

Deferred tax assets are recognised only if they can be utilised in the future. The realisation depends, in particular, on the future development of earnings and the realisation of additional tax saving potential. Current planning indicates a realisation period of nine years (see No. 18).

If the operating income for the three-year mid-term plan and the following periods were 10 percent lower than the amounts in management's current estimate, the realisation period (at otherwise unchanged planning premises) would be 11 years.

All estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Notes to the consolidated income statement

Net sales result exclusively from supplies and show the following geographic breakdown:

1. Net sales

in € thousands	2006	2005
Germany	2,281,860	2,264,481
International	880,230	769,457
Greece	259,296	238,999
Poland	154,496	140,272
Romania	153,649	98,227
Hungary	146,130	141,231
Turkey	86,167	90,324
Bulgaria	40,934	21,403
Luxembourg	39,558	39,001
	3,162,090	3,033,938

in € thousands	2006	2005
Central A/P clearing for sales divisions	20,275	12,040
Lease/rental income	9,597	9,376
Income from advertising services	5,507	3,669
Reversal of impairment losses	1,550	3,211
Income from indemnities	684	791
Other income	14,520	18,235
	52,133	47,322

2. Other operating income

Other income includes for the most part commercial earnings.

Other operating expenses for the most part include additions to valuation allowances of € 1.626 m (€ 2.887 m in the previous year) as well as losses from the disposal of assets of € 172,000 (€ 606,000 in the previous year).

3. Other operating expenses

Additions to valuation allowances included € 904,000 (€ 2.590 m in the previous year) for trade receivables, € 722,000 (€ 297,000 in the previous year) for other assets.

4. Net financial result

in € thousands	2006	2005
Investment income	34	223
Other interest and similar income	12,564	4,795
Interest and similar expenses	-17,220	-14,940
Interest income	-4,656	-10,145
Result from indexation	0	-609
Foreign exchange price gains and losses	7,621	2,974
Income from valuation results of currency forward contracts	127	1,072
Other financial income	-1,822	-193
Other financial expenses	67	96
Other financial result	5,993	3,340
Net financial income	1,371	-6,582

Net investment income includes earnings from dividend payments from foreign METRO service companies.

In accordance with IAS 17, leased assets are recognised as tangible assets where the underlying rental or lease contracts are finance leases. The interest portion of the leasing rates from finance leases included in interest and similar expenses amounts to € 13.627 m (€ 11.326 m in the previous year).

The borrowing rates ranged between 0.13 percent and 2.84 percent, the creditor interest rates between 0.1 percent and 17.86 percent.

The measured foreign currency forward contracts have a maturity of up to one year.

The earnings valued from forward currency transactions resulted completely from fair value hedges (€ -15,000 in the previous year). Moreover, the previous year's amount included earnings from cash flow hedges totalling € 1.087 m. No reallocations from equity with an impact on income were made.

In the fiscal year reported, losses from financial instruments used to hedge cash flows (cash flow hedges) were recognised directly in equity as reserves.

5. Income taxes

in € thousands	2006	2005
Income tax		
Germany	-3,268	-1,645
International	-16,528	-13,574
Deferred taxes	-8,534	-5,685
	-28,330	-20,904

Income taxes fell due both in Germany and abroad (Luxembourg, Greece, Hungary, Netherlands, Switzerland, Romania and Hong Kong)

Income taxes include taxes paid or due in the individual countries as well as deferred taxes. The German companies of the Praktiker Holding AG group are subject to an average trade tax of 17 percent of trade income. This amount can be deducted when calculating corporate income tax. In 2006, corporate income tax amounts to 25 percent for retained and disbursed earnings, plus a 5.5 percent solidarity surcharge on statutory corporate income tax. The applicable income tax rate is 39.15 percent.

Deferred taxes are determined on the basis of the tax rates expected to apply in each country upon realisation. In principle, the rates applied are those contained in currently valid laws or legislation that has been substantially enacted at the time of the balance sheet date. As in the previous year, the deferred taxes of German group companies are calculated at a rate of 39.15 percent.

Non-German income tax is calculated on the basis of the respective laws and regulations applying in the individual countries. The income tax rates applied to foreign companies vary in a range from 10 percent to 39.15 percent. The actual tax expenses of € 28.330 m are € 15.695 m lower than the estimated income tax expenses of € 44.025 m, which would have resulted if the German income tax rate had been applied to the group's taxable income for the year.

Please refer to Nos. 18 and 28 for details regarding the development of deferred tax assets and liabilities.

Reconciliation of estimated to actual income tax expense:

in € thousands	2006	2005
Group earnings before taxes	112,454	88,952
Applicable income tax rate	39.15 %	39.15 %
Expected income tax expense	-44,025	-34,824
Effects of differing national tax rates	8,698	3,974
Tax effect of		
Tax-free income	1,612	547
Trade tax additions and deductions	-1,068	-1
Non-deductible business expenses	-2,932	-1,997
Valuation allowance		
– deferred tax credits on loss carry-forwards	377	-3,798
– other deferred taxes	-1,924	-3,180
Adjustments recognised in the period for current tax of prior periods	-6,301	617
Deferred tax relating to the origination and reversal of temporary differences	8,231	109
Tax effects of capital consolidation	9,872	13,028
Other deviations	-870	4,621
Total tax effects	6,997	9,946
Actual tax expenses	-28,330	-20,904



As in the previous year, the amortisation of goodwill that is exclusively tax-related (€ 9.872 m) resulted from the fact that the regular, straight-line amortisation of goodwill was discontinued with effect of January 1, 2004 under the first time application of IFRS 3 in fiscal year 2004, but continued to be applied in the tax statement.

6. Income from discontinued operations

The profit of € 17.062 m in the previous year results from the divestment of Praktiker Bau- und Heimwerkermärkte GmbH, Vienna, Austria, as of September 30, 2005. It can be broken down as follows:

in € thousands	Jan. 1. – Dec. 31, 2005
Net sales	13,764
Cost of sales	-9,443
Gross profit on sales	4,321
Other operating income	423
Selling expenses	-10,709
General administrative expenses	-544
Other operating expenses	-18
Operating income	-6,527
Interest income	-649
Other financial result	-2
Net financial income	-651
Earnings before taxes	-7,178
Income taxes	-2
Earnings from discontinued operations	-7,180
Result from initial consolidation	24,242
Total income Austria	17,062

The adjustments due to the changed method of accounting for location risks concern:

in € thousands	2005	2004
Equity	-21,571	-18,918
Other provisions	21,571	18,918
Selling expenses	2,653	4,084

The share of minority interests of € 973,000 (€ 990,000 in the previous year) group net income attributable to relates almost exclusively to minority shareholders of Batiself S.A. This will be distributed to the minority shareholders in the following year.

7. Minority interests

Depreciation on tangible assets amounts to € 35.873 m (€ 36.360 m in the previous year), amortisation on intangible assets amounts to € 2.715 m (€ 2.942 m in the previous year).

8. Depreciation/amortisation

Additional amortisation of fixed assets amounting to € 154,000 (€ 787,000 in the previous year) accrued.

The cost of sales corresponds fully to the position cost of goods purchased.

9. Cost of materials

Personnel expenses can be broken down as follows::

10. Personnel expense

in € thousands	2006	2005
Wages and salaries	358,571	351,185
Social security payments, expenses for pensions and related employee benefits	76,233	74,301
(thereof pension expenses)	(91)	(89)
	434,804	425,486

Personnel expenses include employer contributions to state pension insurance of € 33.464 m (€ 32.343 m in the previous year).

The amount of € 5.472 m shown in the previous year contained only the foreign part.

Please refer to No. 24 for details on expenses related to provisions for pensions.

Annual average number of group employees:

Number of employees	2006	2005
White collar	21,119	20,258
Blue collar	933	503
Apprentices / trainees	550	509
	22,602	21,270

The above figure includes an absolute number of 9,749 (9,097 in the previous year) part-time employees. On the basis of full-time equivalents, the percentage of employees working outside Germany rose to 40 percent from 37 percent the year before..

Other taxes of € 1.901 m (€ 2.740 m in the previous year) are included in selling expenses and administrative expenses.

11. Other taxes

12. Earnings per share

a) Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue.

Earnings per share from continuing operations	2006	2005
Earnings allocable to equity holders (in € thousands)	83,151	67,058
Average number of shares issued (in € thousands)	58,000	62,844
Basic earnings per share (€ per share)	1,43	1,07

Earnings per share from discontinued operations	2006	2005
Earnings allocable to equity holders (in € thousands)	0	17,062
Average number of shares issued (in € thousands)	58,000	62,844
Basic earnings per share (€ per share)	0,00	0,27

b) Diluted

When determining the diluted earnings per share, the profit attributable to equity holders is adjusted to take account of changes in expenses and income, which would arise from the conversion of those potential ordinary shares with a diluting impact. The average number of shares issued during the reporting period is supplemented by the number of such additional ordinary shares that would have been in circulation if all those potential ordinary shares with a diluting impact would have been issued.

Earnings per share from continuing operations	2006	2005
Earnings allocable to equity holders (in € thousands)	83,111	67,058
Average number of shares issued (in € thousands)	59,150	62,844
Diluted earnings per share (€ per share)	1,41	1,07

Earnings per share from discontinued operations	2006	2005
Earnings allocable to equity holders (in € thousands)	0	17,062
Average number of shares issued (in € thousands)	59,150	62,844
Diluted earnings per share (€ per share)	0,00	0,27

Notes to the consolidated balance sheet

The assets included in non-current assets developed as follows during the fiscal year:

13. Non-current assets

in € thousands	Intangible assets	Property, plant and equipment	Financial assets	Total
Cost of acquisition				
As at January 1, 2006	141,898	486,286	1,204	629,388
Currency translation	-74	4,417	0	4,343
Additions	3,480	64,494	0	67,974
Disposals	75	9,386	848	10,309
Transfers	-21	-2	0	-23
As at December 31, 2006	145,208	545,809	356	691,373
Depreciation				
As at January 1, 2006	15,198	245,863	815	261,876
Currency translation	-50	-407	0	-457
Additions, scheduled	2,715	35,873	0	38,588
Additions, non-scheduled	0	154	0	154
Disposals	40	7,916	766	8,722
Reversal of impairment losses	0	1,550	15	1,565
As at December 31, 2006	17,823	272,017	34	289,874
Book value at December 31, 2006	127,385	273,792	322	401,499
Book value at December 31, 2005	126,700	240,423	389	367,512

Depreciation is stated in the income statement under selling expenses (€ 35.897 m) and administrative expenses (€ 2.845 m). No hypothecation or collateralisation exists.

The reversal of impairment losses on tangible assets results from the consideration of location risks.

The intangible assets item no longer included any internally generated assets as per December 31, 2006.

The development in fiscal year 2005 of non-current assets can be broken down as follows:

in € thousands	Intangible assets	Property, plant and equipment	Financial assets	Total
Cost of acquisition				
As at January 1, 2005	153,726	408,639	1,247	563,612
Currency translation	148	7,122	0	7,270
Additions	5,213	81,045	0	86,258
Disposals	17,189	10,520	43	27,752
As at December 31, 2005	141,898	486,286	1,204	629,388
Depreciation				
As at January 1, 2005	22,603	216,145	831	239,579
Currency translation	84	2,602	0	2,686
Additions, scheduled	2,942	36,360	0	39,302
Additions, non-scheduled	0	787	0	787
Disposals	8,750	8,501	0	17,251
Reversal of impairment losses	1,681	1,530	16	3,227
As at December 31, 2005	15,198	245,863	815	261,876
Book value at December 31, 2005	126,700	240,423	389	367,512
Book value at December 31, 2004	131,123	192,494	416	324,033

14. Goodwill and other intangible assets

The other intangible assets include brand names, concessions, industrial property rights and similar rights as well as licenses for such rights and values. Additions to other intangible assets concern exclusively purchased software. Internally generated intangible assets do not exist.

in € thousands	Goodwill	Other intangible assets	Total
Cost of acquisition			
As at January 1, 2006	116,590	25,308	141,898
Currency translation	0	-74	-74
Additions	0	3,480	3,480
Disposals	0	75	75
Transfers	0	-21	-21
As at December 31, 2006	116,590	28,618	145,208
Depreciation			
As at January 1, 2006	0	15,198	15,198
Currency translation	0	-50	-50
Additions	0	2,715	2,715
Disposals	0	40	40
As at December 31, 2006	0	17,823	17,823
Book value at December 31, 2006	116,590	10,795	127,385
Book value at December 31, 2005	116,590	10,110	126,700

In fiscal year 2005, the intangible assets included in non-current assets developed as follows:

in € thousands	Goodwill	Other intangible assets	Total
Cost of acquisition			
As at January 1, 2005	116,590	37,136	153,726
Currency translation	0	148	148
Additions	0	5,213	5,213
Disposals	0	17,189	17,189
As at December 31, 2005	116,590	25,308	141,898
Depreciation			
As at January 1, 2005	0	22,603	22,603
Currency translation	0	84	84
Additions	0	2,942	2,942
Disposals	0	8,750	8,750
Reversal of impairment losses	0	1,681	1,681
As at December 31, 2005	0	15,198	15,198
Book value at December 31, 2005	116,590	10,110	126,700
Book value at December 31, 2004	116,590	14,533	131,123

In fiscal year 2006, tangible assets developed as follows:

15. Fixed assets

in € thousands	Buildings, fixtures, land	Other plant, business and office equipment	Assets under construction	Total
Cost of acquisition				
As at January 1, 2006	302,514	180,013	3,759	486,286
Currency translation	4,994	-600	23	4,417
Additions	35,218	24,638	4,638	64,494
Disposals	2,843	6,420	123	9,386
Transfers	348	537	-887	-2
As at December 31, 2006	340,231	198,168	7,410	545,809
Depreciation				
As at January 1, 2006	126,873	118,990	0	245,863
Currency translation	508	-915	0	-407
Additions, scheduled	15,630	20,243	0	35,873
Additions, non-scheduled	0	154	0	154
Disposals	2,281	5,635	0	7,916
Reversal of impairment losses	690	860	0	1,550
As at December 31, 2006	140,040	131,977	0	272,017
Book value at December 31, 2006	200,191	66,191	7,410	273,792
Book value at December 31, 2005	175,641	61,023	3,759	240,423



In fiscal year 2005, tangible assets included in non-current assets developed as follows:

in € thousands	Buildings, fixtures, land	Other plant, business and office equipment	Assets under construction	Total
Cost of acquisition				
As at January 1, 2005	247,278	156,352	5,009	408,639
Currency translation	3,233	3,878	11	7,122
Additions	52,028	25,741	3,276	81,045
Disposals	3,816	6,546	158	10,520
Transfers	3,791	588	-4,379	0
As at December 31, 2005	302,514	180,013	3,759	486,286
Depreciation				
As at January 1, 2005	115,226	100,919	0	216,145
Currency translation	389	2,214	0	2,603
Additions, scheduled	14,762	21,597	0	36,359
Additions, non-scheduled	655	132	0	787
Disposals	2,865	5,636	0	8,501
Reversal of impairment losses	1,294	236	0	1,530
As at December 31, 2005	126,873	118,990	0	245,863
Book value at December 31, 2005	175,641	61,023	3,759	240,423
Book value at December 31, 2004	132,052	55,433	5,009	192,494

Land and buildings are recognised exclusively at amortised cost.

Assets that are available to the Praktiker Holding AG Group under a finance lease are included in the tangible assets item under buildings and fixtures with carrying amounts of € 151.898 m (€ 130.129 m in the previous year) and concern leased buildings.

Finance leases generally have initial terms of between 10 and 33 years with options upon expiration to extend them at least once for five years. The interest rates in the leases vary by market and date of signing between 5.0 percent and 16.0 percent.

In addition to finance leases, the Praktiker Group has also signed other types of leases classified as operating leases based on their economic value. The initial term ranges between one year and 15 years. Some operating leases include contract extension options of between three years and 20 years as well as price adjustment clauses.

Payments due under finance and operating leases in the indicated periods are shown below:

in € thousands	1 year	1 to 5 years	over 5 years	Total
Finance leases				
Future lease payments due	23,818	94,896	163,580	282,294
Discounts	15,383	53,240	50,405	119,028
Present value	8,435	41,656	113,175	163,266
Operating leases				
Future lease payments due	218,415	793,502	899,597	1,911,514
Future lease payments anticipated from subleasing	5,062	12,588	3,300	20,950

The above figures concern above all rental contracts for rented buildings.

The purchase obligations entered for tangible assets are listed under No. 34.

The expenses shown in the income statement include € 241.167 m from operating leases (€ 242.239 m in the previous year) and € 4.910 m from finance leases (€ 3.201 m in the previous year). This figure also includes conditional lease payments which, however, only account for a small portion total lease payments.

Income from the subleasing of assets shown in the income statement amounted to € 8.515 m (€ 8.005 m in the previous year).

In the goodwill item, the amounts allocable to Praktiker Baumärkte GmbH, with a carrying amount of € 60.153 m, and Praktiker GmbH, with a carrying amount of € 54.736 m, are of material importance to the Praktiker Holding AG Group.

With respect to goodwill, the locations of one legal entity are considered as a cash generating unit (CGU). In this case, the impairment test was therefore conducted for the two CGUs "Praktiker Baumärkte GmbH" and "Praktiker GmbH."

The recoverable amounts of the CGUs are based on a calculation of their value in use. These calculations are based on projected cash flows derived from management's three-year operating plan.

Cash flows after this three-year period are extrapolated on the basis of the following data:

16 Impairment tests

a) on goodwill



Both in the case of the CGU "Praktiker Baumärkte GmbH" and the CGU "Praktiker GmbH," constant operative earnings after taxes were assumed for periods beyond the three-year planning horizon.

For the individual markets an annual increase in sales revenue and in direct personnel costs of 1.5 percent was assumed, and a rise per annum in material costs of 1 percent. The discounting of future cash flows occurred at the risk-free market interest rate of 4.5 percent.

Management's assessment is based on past developments and anticipated future market developments.

The calculation of values in use for both CGUs was based on a discount rate of 7.6 percent (8.8 percent in the previous year), which reflects the specific risks of the cash generating units.

Based on the impairment tests, no impairment occurred.

The other intangible assets have a limited useful life.

b) on a cash-generating-unit level

Impairment test on fixed asset items occurs on a market level, whereby the individual market is considered to be a CGU. On a per-location basis, the planned sales revenues over the basic rental term are compared with the planned costs, whereby the latter include appropriate central cost components, which are necessary for the operation of the individual markets. Should the planned costs exceed the planned sales revenues, corresponding depreciation on the given fixed asset items is undertaken.

Management's assessment is based on past developments and anticipated future market developments.

Based on the impairment tests carried out, depreciation on fixed assets occurred amounting to € 1.651 m.

17. Financial assets

Financial assets include available-for-sale assets of € 17,000 (€ 16,000 in the previous year) as well as other loans of € 305,000 (€ 373,000 in the previous year).

The fair values correspond to the carrying amounts and are based on cash flows discounted at a rate of 4.5 percent (4.5 percent in the previous year).

As per December 31, 2005, other loans have a residual term of between one and five years.

Potential tax benefits totaling € 14.024 m (€ 18.127 m in the previous year) were not capitalised as the underlying loss carry-forwards are unlikely to be utilised. This corresponds to € 66.048 m (€ 69.708 m in the previous year) in unutilisable loss carry-forwards. In addition, deferred tax assets € 13.056 m (€ 24.147 m in the previous year) were not capitalised because it is unlikely that a taxable income will be available to offset the deductible temporary difference.

Based on existing planning figures for the coming years, management assumes that the recognised deferred tax assets can be realised in the future. These planning figures take account of the fact that past tax losses are partly based on non-recurring negative income effects. In addition, there are planning opportunities not reflected in the existing planning figures through which loss carry-forwards could be made utilisable during the realisation period.

The recoverability of deferred tax receivables is checked regularly on the basis of planning figures. Continued target performance comparisons to ensure planning quality are carried out, and planning premises are adjusted regularly. These calculations are based on a three-year medium-term plan. A constant operative result was assumed for the time beyond the periods for which concrete plans are available. These management assessments are based on past developments and anticipated future market developments.

The respective valid plan and the consideration of additional tax savings potential yielded a realisation period of nine years.

The deferred tax assets apply to the following items:

in € thousands	Dec. 31, 2006	Dec. 31, 2005
Other fixed assets	799	555
Inventories	1,836	1,705
Other receivables and assets	7,782	115
Loss carry-forwards	114,971	122,000
Provisions for pensions and similar commitments	1,481	1,395
Other provisions	5,535	7,018
Liabilities from finance leases	39,040	38,270
Other liabilities	1,105	445
Tax statement items not included in the IFRS statement	26,282	27,334
	198,831	198,837

The "tax statement items not included in the IFRS statement" concern primarily tax goodwill from the intra-group sale of 14 stores in 2003

18. Deferred income tax assets



Deferred tax assets from deductible temporary differences and tax loss carryforwards that exceed deferred tax liabilities from taxable temporary differences are recognised only if and when it is more than likely that the company will generate sufficient taxable income to realise the respective benefit.

Deferred tax receivables developed as follows:

in € thousands	2006	2005
As at January 1	198,837	200,362
Currency translation	318	940
Expenses/income in income statement	-324	-2,465
As at December 31	198,831	198,837

Of the total amount of deferred tax assets, an amount of € 20.286 m (€ 17.111 m in the previous year) will be realised within 12 months and an amount of € 178.545 m (€ 181.726 m in the previous year) after more than 12 months.

Current assets

19. Inventories

Inventories comprise exclusively merchandise.

Breakdown of inventories by country:

in € thousands	Dec. 31, 2006	Dec. 31, 2005
Germany	459,837	491,254
International	166,146	144,624
Poland	48,759	41,695
Romania	28,512	19,571
Hungary	26,875	26,318
Greece	26,490	25,243
Turkey	15,309	15,763
Bulgaria	13,371	9,079
Luxembourg	6,830	6,955
	625,983	635,878

The cost of inventories was recognised as expense and is included in costs of sales at a value of € 2,162.097 m (2005: € 2,059.699 m).

During the reporting year, reversals of valuation allowances on inventories of € 2.840 m (€ 3.684 m in the previous year) and impairment of losses € 1.400 m (€ 1.452 m in the previous year) were included in the cost of materials item.

All trade receivables have a remaining term of up to one year. No trade receivables from associated companies existed. The fair values of the trade receivables correspond to their carrying amounts.

20. Trade receivables

There is no concentration of creditworthiness risks with respect to trade receivables as the group has a large number of customers at different international locations.

in € thousands	Dec. 31, 2006	Dec. 31, 2005
Trade receivables (gross)	20,182	26,010
Allowance	-3,810	-5,568
Trade receivables (net)	16,372	20,442

Of the value adjustments undertaken in the previous year, € 2.183 m were used, € 515,000 were released and € 904,000 reallocated in the reporting period.

in € thousands	Dec. 31, 2006	Dec. 31, 2005
Other assets (gross)	181,202	152,767
Allowance	-1,535	-1,130
Other assets (net)	179,667	151,637

21. Other receivables and assets

Of the value adjustments undertaken in the year under review, € 296,000 were used, € 51,000 were released and € 722,000 reallocated in the reporting period.

All material other receivables and other assets have a remaining term of up to one year.

The other assets include merchandise commission claims toward suppliers € 122.174 m (€ 117.099 m in the previous year), other tax refund claims of € 5.906 m (€ 5.985 m in the previous year) as well as derivative financial instruments of € 1.138 m (€ 38,000 in the previous year).

Please refer to No. 31 for details on derivative financial instruments.

The carrying amounts of the monetary assets included in this item correspond to their market value. As in the previous years, there are no material limitations to the title or right to dispose of the other receivables or other assets shown in this section.

The other assets include prepaid expenses and deferred expenses of € 7.409 m (€ 4.122 m in the previous year).



22. Cash and cash equivalents

in € thousands	Dec. 31, 2006	Dec. 31, 2005
Bank/Cash on hand	43,825	52,240
Cash on deposit	422,426	296,833
	466,251	349,073

The effective interest rates for bank deposits vary between 0.10 percent and 17.86 percent, the terms range from one 1 to 97 days.

No pledges exist in respect of the credit balances held by banks (€ 25.391 m in the previous year).

23. Equity

a) Share capital

The share capital is divided into 58,000,000 (58,000,000 in the previous year) bearer shares with a respective notional value in the share capital of € 1.00 (€ 1.00 in the previous year). Total share capital thus amounts to € 58,000,000.

Via its letter dated April 18, 2006, METRO AG announced that its participating interest in Praktiker Bau- und Heimwerkmärkte Holding AG had dropped below the 5 percent threshold.

Since May 5, 2006, Newton Investment Management Limited, London (UK) has been holding 5.07 percent of the voting right shares in Praktiker Bau- und Heimwerkmärkte Holding AG.

The remaining shares, namely 94.93 percent, were under miscellaneous ownership with effect of December 31, 2006.

Minority interests comprise third-party stakeholdings in the equity of consolidated subsidiaries. As per year's end, these amounted to € 1.417 m (€ 1.504 m in the previous year).

b) Authorised capital

The annual general meeting of Praktiker Holding AG of September 26, 2005, authorised the Management Board to increase the company's share capital, with the prior approval of the Supervisory Board, by issuing new shares in exchange for cash contributions or contributions in kind in one or several tranches for a total maximum of € 25 m by September 25, 2010 (authorised capital). By resolution of the annual general meeting, the authorised capital may be used through the issuance of new shares in exchange for cash contributions up to an amount of € 25 m A subscription right is to be granted to existing shareholders.

A portion of the authorised capital may be used up to an amount of € 5 m through the issuance of new shares in exchange for contributions in kind. A subscription right for shareholders is excluded here.

A portion of the authorised capital up to an amount of € 5 m may be used through the issuance of new shares in exchange for cash contributions for the purpose of issuing shares to employees of the company or of companies under its control. A subscription right for shareholders is precluded.

Within the framework of authorised capital, each of the above-mentioned capital increases may be used only up to the stated limit. The sum total of all capital increases may not exceed the total amount of authorised capital. The Management Board is authorised to determine all further details of capital increases with the prior approval of the Supervisory Board.

The resolution of the annual general meeting of September 26, 2005 to create authorised capital was entered into the commercial register on November 2, 2005.

On November 3, 2005, the Annual General Meeting authorised the company's Management Board to issue by November 2, 2010 and with the prior approval of the Supervisory Board, warrant-linked and/or convertible bonds for a total par value of up to € 400,000,000 and created contingent capital in the amount of € 5,000,000 to this effect. So far, the authorisation and the contingent capital have not been used.

c) Contingent capital for the issue of convertible bonds and warrant-linked bonds

To extend the company's options for creating an optimum financing structure, the annual general meeting of June 27, 2006 was asked to resolve on a new authorisation of the company's Management Board to issue warrant-linked and/or convertible bonds and create new contingent capital to this effect. The maximum admissible par value of the warrant-linked and/or convertible bonds was to amount to € 600,000,000 and the new contingent capital to € 29,000,000. Moreover the Board of Management was to be authorised to issue warrant-linked and/or convertible bonds until June 26, 2011 instead of until November 2, 2010 subject approval by the Supervisory Board. With the coming into effect of this resolution, the existing authorisation and the corresponding contingent capital were to be waived. The annual general meeting approved this motion.

In the event that the issue of option warrants and/or convertible bonds is made in return for contributions in kind, the Management Board undertakes to make use of its authorisation to exclude shareholder subscription rights to the given option warrants and/or convertible bonds only up to an amount equating to 20 percent of the share capital existing at the time of the authorisation coming into effect or at the time of the authorisation being exercised, should the value of the latter be less. As such, the increase in contingent capital for the purposes of servicing such option warrants and/or convertible bonds as are issued in return for contributions in kind is limited to an amount totalling max. € 11,600,000.00 or the equivalent of 11,600,000 no-par bearer shares.

The development of the capital reserves and the other reserves is outlined in the section "Changes in equity." We add the following supplementary information:

d) Reserves

The other allocations to the capital reserve amounting to a total of € 35.795 m were attributable mainly to a cash contribution to Praktiker Holding AG's equity by METRO AG amounting to € 26.200 m. In the case of the residual amount of € 9.595 m, this was attributable to payments made by member companies of METRO Group to Praktiker International AG, Chur (€ 5.590 m) and to Praktiker Group Buying HK Ltd. (€ 4.005 m), which were reported under the capital reserve without any impact on profit or loss.

The change in minority interests of € 87,000 results from the change of the equity capital of the Luxembourg subsidiary from € 3.958 m as per December 31, 2005 to € 3.727 m as per December 31, 2006. Other stakeholders hold a share of 38 percent of the equity capital of this subsidiary. Other shareholders also have a stake in Calixtus Grundstücksverwaltungsgesellschaft mbH amounting to 5.19 percent; equity increased by € 14,000 over that of the previous year (€ -2,000).

As per September 28, 2006, Praktiker Finance B.V. issued convertible bonds totalling a nominal of € 150,000,000 that are subject to a warrant by Praktiker Bau- und Heimwertermärkte Holding AG. The bonds were denominated in units of € 100,000 and issued until September 28, 2011 (due date). The bonds are accompanied by an option for conversion in no-par shares bearing the name of the stockholder Praktiker Bau- und Heimwertermärkte Holding AG, with a notional value in the company's share capital of € 1.00 each, which, according to the discretionary power of the respective stakeholder, may be issued from November 8, 2006 until September 19, 2011, in accordance with the loan terms on the issuance of a fixed conversion price of € 33.77 (subject to possible adjustments for dividend payouts and capital changes). The convertible bonds shall carry a 2.25 percent annual interest on their nominal value. These interests are to be subsequently paid every year on the interest payment date. The first interest payment is due on September 28, 2007.



The bonds are due to be paid on the due date, along with the accrued interest on their nominal value, provided that these have not already been paid back, converted or bought back and cancelled. The issuer is entitled to cancel all or part of the bonds, provided a notice of cancellation of no less than 15 days and no more than 30 days is given. A precondition for cancellation is that the share price has exceeded 130 percent of the conversion price, applicable on the respective trading day, for a minimum of 20 trading days within a period of 40 consecutive trading days, starting from September 28, 2009. In this case, the issuer shall pay back the cancelled bonds on the chosen payback date at their nominal amount, along with the interest accrued until that date.

Pursuant to IAS 32.29, the book value of the convertible bond at the time of issuance was divided into financial liability and equity components. The fair value of the liability component and that of the equity component were determined with effect of the issuing date of the convertible bond.

The fair value of the liability component recorded under non-current liabilities was calculated on basis of the market interest rates for a fixed interest loan under exclusion of the subscription right (5.45 percent) and amounted to € 129.475 m. The residual value (€ 20.525 m) representing the subscription right is reported under capital reserves in equity.

Financial liability increases over a period of time, with an effect on net income, to an amount equalling the difference between effective interest paid and the hypothetical market rate of interest. The increase concerned amounted to € 958,000 in the 2006 fiscal year with the result that the liability component of the convertible bond is accounted for at a value of € 130.433 m with effect of December 31, 2006, thus equating to its fair value determined via discounting cash flows at 5.45 percent.

Transaction costs associated with the issuance were classified as credit capital components or equity components of the convertible bond, proportional to the allocation of raised capital, in accordance with IAS 32.38. It is currently not possible to adjust this amount by including the associated effects of profits taxation, as the effects cannot be clearly estimated at this point in time due to the unresolved tax ruling agreement with the Dutch tax authorities.

At the time the convertible bonds were issued, the granted subscription rights corresponded to around 4.4 million non-par shares from the contingent capital.

24. Provisions for pensions

The amount set aside for provisions in the balance sheet is determined as follows:

in € thousands	2006	2005
Defined benefit obligation	628	656
Unrecognised actuarial gains / losses	-112	-182
Provision as at December 31	516	474

Pension expenses can be broken down as follows:

in € thousands	2006	2005
Interest expenses	26	25
Recognised actuarial losses	21	5
Service cost	6	5
Expenditure for pensions	53	35



Pension expenses from direct and indirect company pensions include the service cost and the actuarial losses, which is included in cost of sales, selling expenses and general administrative expenses, as well as the interest expense, which is shown in the financial result. The amounts shown in the balance sheet developed as follows:

in € thousands	2006	2005
Net present value		
As at 1 January	474	451
Interest expenses	26	25
Recognised actuarial losses	21	5
Service cost	6	5
Pension payments	-11	-11
Provision as at 31 December	516	474

The above figures include an amount of € 11,000 (€ 11,000 in the previous year) with a maturity of up to one year. Actuarial gains/losses were considered on the basis of the corridor approach.

The other provisions developed as follows during the reporting year:

25. Other provisions

in € thousands	Personnel related obligations	Real-estate related obligations	Obligations from merchandise trading	Other obligations	Total	Of which with a term of up to 1 year
As at Jan. 1, 2006	11,148	17,381	3,167	52,305	84,001	37,586
Addition	3,169	11,881	2,554	11,688	29,292	16,260
Release	1,343	1,331	1,366	8,229	12,269	11,687
Utilisation	1,488	8,641	1,610	10,531	22,270	15,691
Currency translation	-5	0	0	5	0	4
Transfers	0	27,282	-200	-26,522	560	794
Accrued interest	192	475	0	0	667	0
As at Dec. 31, 2006	11,673	47,047	2,545	18,716	79,981	27,266

Of the personnel related obligations, an amount totalling € 10.112 m was reported under provisions for pensions and similar commitments and € 1.036 m under other provisions.

Personnel-related obligations essentially encompass obligations arising from anniversaries, severance and pre-retirement part-time work. It is expected that the amount will be used not until 2008.

Obligations from merchandise trading result from guarantee obligations and provisions for discounts to major customers. It is expected that an amount totalling € 2.545 m will be used in 2007. Total expected costs to be incurred are € 2.545 m.

Real-estate related obligations concern for the most part provisions for location risks. Long-term provisions were discounted at a rate of 4.5 percent. It is expected that an amount totalling € 6.604 m will be used in 2007.



On the balance sheet date, the other provisions include for the most part obligations from store closures of € 6.113 m (€ 8.315 m in the previous year) as well as process and supplier risks of € 4.888 m (€ 9.645 m in the previous year). It is expected that an amount totalling € 17.533 m will be used in 2007. Total expected costs to be incurred are € 18.716 m.

The addition of accrued interest on long-term rental provisions resulted in interest expenses of € 475,000 (€ 568,000 in the previous year).

Provisions with a term of more than five years totalling € 3.427 m (€ 4.299 m in the previous year) concern real-estate related liabilities.

26. Financial liabilities

in € thousands		Dec. 31, 2006	Dec. 31, 2005
Liabilities from bonds	1–5 years	130,433	0
		130,433	0
Due to banks	< 1 year	50	0
		50	0
Liabilities from finance lease	< 1 year	8,435	6,870
	1–5 year	41,656	34,417
	> 5 year	113,175	102,978
		163,266	144,265
		293,749	144,265

The carrying amounts of the financial debts equate approximately to their respective fair values.

27. Other liabilities

Miscellaneous liabilities are recognised at amounts payable. They can be broken down as follows:

in € thousands		Dec. 31, 2006	Dec. 31, 2005
Payroll liabilities		31,625	34,435
Tax liabilities		28,161	17,243
Liabilities related to social insurance		2,559	10,700
Prepayments received on orders		10,745	8,055
Deferred income		7,555	8,232
Miscellaneous other liabilities		10,106	8,522
		90,751	87,187

The item labeled “miscellaneous other liabilities” comprises a multitude of individual items.

The miscellaneous other liabilities item includes, among others, currency forward contracts of € 1.561 m (€ 5,000 in the previous year) with a remaining term of up to one year, which are recognised at their fair value in accordance with IAS 39 (Financial Instruments: Recognition and Measurement).

The balance sheet items listed under other liabilities reflect the fair values of these liabilities.

The deferred tax liabilities are allocated to the following balance sheet items:

28. Deferred tax liabilities

in € thousands	Dec. 31, 2006	Dec. 31, 2005
Goodwill	3,231	0
Building finance leases	34,103	32,790
Other fixed assets	1,183	1,293
Inventories	3,423	6,674
Other receivables and assets	331	51
Other provisions	221	299
Other liabilities	60	50
Financial liabilities	7,660	0
	50,212	41,157

Deferred tax liabilities developed as follows:

in € thousands	2006	2005
As at January 1	41,157	37,573
Currency translation	-845	-364
Expenses / income in income statement	-8,210	-3,220
As at December 31	50,212	41,157

Of the total deferred tax liabilities, an amount of € 17.744 m (€ 8.255 m in the previous year) will be realised within a period of 12 months and an amount of € 32.468 m (€ 32.902 m in the previous year) after more than 12 months.

All material trade liabilities have a remaining term of up to one year.

29. Trade payables

This item concerns corporate income tax liabilities of € 8.503 m (€ 5.753 m in the previous year) as well as trade tax liabilities of € 1.931 m (€ 864,000 in the previous year).

30. Current income tax liabilities

in € thousands	2006		2005	
	Assets	Liabilities	Assets	Liabilities
Currency forward contracts—cash flow hedges	0	0	38	4
Currency forward contracts—fair value hedges	1,138	679	0	1
	1,138	679	38	5

31. Derivative financial instruments

Losses from currency forward contracts recorded in equity as per December 31, 2006, have an effect on income at different points of time during a period of up to one year.

The Management and Supervisory Boards of Praktiker Holding AG propose paying a dividend of € 0.45 per share of the balance sheet profit of € 29.585 m to the company's shareholders and to carry forward the remaining amount of € 3.485 m to new account.

32. Dividend



Notes to the segment data

33. Segment report

in € thousands	Continuing operations			Total 2006
	Domestic operations 2006	Foreign operations 2006	Recon- ciliation 2006	
Net sales	2,283,715	880,229	-1,854	3,162,090
Other operating income	52,898	7,053	-7,818	52,133
Earnings before interest, taxes, depreciation and amortisation	79,057	70,768	0	149,825
Earnings before interest, taxes and amortisation	58,504	52,579	0	111,083
Earnings before interest and taxes	58,504	52,579	0	111,083
Amortisation	20,553	18,189	0	38,742
Investments	13,945	54,030	0	67,974
Segment assets	820,395	392,643	-4,309	1,208,729
Segment liabilities	371,957	188,535	-4,900	555,592
Operating location (number)	268	73	0	341
Selling space in 1,000 qm	1,515	512	0	2,026
Employees at December 31 (full time basis/excl. trainees)	9,803	7,792	0	17,595

Reconciliation of earnings before interest and taxes to net profit/loss

in € thousands	Continuing operations			Total 2006
	Domestic operations 2006	Foreign operations 2006	Recon- ciliation 2006	
Earnings before interest and taxes	58,504	52,579	0	111,083
Financial result	0	0	0	1,371
Earnings before taxes	0	0	0	112,454
Income taxes	0	0	0	-28,330
Net profit/loss	0	0	0	84,124



in € thousands	Continuing operations			Total 2005	Discontinued operations 2005
	Domestic operations 2005	Foreign operations 2005	Recon- ciliation 2005		
Net sales	2,266,449	769,457	-1,968	3,033,938	13,764
Other operating income	49,833	5,734	-8,245	47,322	423
Earnings before interest, taxes, depreciation and amortisation	77,247	58,376	0	135,623	-6,511
Earnings before interest, taxes and amortisation	54,283	41,251	0	95,534	-6,527
Earnings before interest and taxes	54,283	41,251	0	95,534	-6,527
Amortisation	22,964	17,125	0	40,089	16
Investments	25,137	61,122	0	86,258	0
Segment assets	851,526	324,392	-6,862	1,169,056	0
Segment liabilities	494,482	150,986	-5,733	639,735	0
Operating location (number)	275	65	0	340	0
Selling space in qm	1,549,259	462,564	0	2,011,823	0
Employees at December 31 (full time basis/excl. trainees)	9,696	6,572	0	16,268	0

Reconciliation of earnings before interest and taxes to net profit/loss

in € thousands	Continuing operations			Total 2005	Discontinued operations 2005
	Domestic operations 2005	Foreign operations 2005	Recon- ciliation 2005		
Earnings before interest and taxes	54,283	41,251	0	95,534	-6,527
Financial result	0	0	0	-6,582	-651
Earnings before taxes	0	0	0	88,952	-7,178
Income taxes	0	0	0	-20,904	-2
Net profit/loss	0	0	0	68,048	-7,180



The segment report was prepared in accordance with IAS 14.

The segment report has not been divided into a primary and a secondary reporting format. Since the Praktiker Holding AG Group operates almost exclusively in the home improvement and DIY business, a geographic division is based on the locations of the home improvement and DIY stores.

Discontinued operations belong exclusively to the foreign segment.

The earnings together with the assets and liabilities of the foreign based Praktiker Finance B. V. (Netherlands) were allocated to the domestic segment in 2006.

The earnings together with the assets and liabilities of the foreign based cross-divisional service companies of Praktiker Group Buying HK Ltd. (Hong Kong) and Praktiker International AG (Switzerland) were split into foreign and domestic components and allocated to the relevant source.

Transfers between the different regions are carried out at arm's length prices. The same applies to transfers between the segments.

Non-cash income and expenses consist for the most part of changes in deferred tax assets and liabilities, the non-cash financial result, currency translation and finance leases (Domestic segment: 2006 € –24.275 m, 2005 € –11.364 m; Foreign segment: 2006 € 21.197 m; 2005 € 7.012 m).

The investments concern tangible and intangible assets.

In fiscal year 2005 segment assets comprised current and non-current assets (without financial assets), adjusted for interest-bearing receivables and liquid funds as well as deferred income. The 2006 report was changed to the extent that segment assets additionally include other financial investments. The figure for the previous year was adjusted accordingly.

In the 2005 annual report, segment liabilities included among others the following items:

- (1) Tax liabilities
- (2) Provisions for tax risks and
- (3) Liabilities from other financial transactions.

The 2006 report was changed to the extent that these items were no longer shown under segment liabilities. The figure for the previous year was adjusted accordingly.

The effects of consolidation measures were stated separately in the column "reconciliation."

Of the goodwill stated as per December 31, 2006, (€ 116.590 m), € 114.890 m concerns the domestic segment and € 1.700 m the foreign segment.

Reconciliation of segment assets with the company assets reported in the balance sheet:

in € thousands	2006	2005
Segment assets	1,208,729	1,169,056
Financial assets	323	389
Tax receivables	6,251	6,188
Cash and cash equivalents	466,251	349,073
Financial receivables	8,564	39
Taxes	198,831	198,837
Assets according to the balance sheet	1,888,949	1,723,582

Reconciliation of segment liabilities with the company liabilities reported in the balance sheet:

in € thousands	2006	2005
Segment liabilities	555,592	639,735
Tax risk provisions	3,701	3,604
Liabilities from finance lease	163,266	144,265
Liabilities from bonds	130,433	0
Due to banks	50	0
Tax liabilities	38,595	23,860
Liabilities from financial transactions	1,561	5
Deferred tax liabilities	50,212	41,157
Liabilities according to the balance sheet	943,410	852,626



Other notes

34. Contingent liabilities

Purchasing obligations were made for tangible assets amounting to € 14.786 m (€ 5.742 m in the previous year).

The Praktiker Holding AG Group has made purchasing commitments for non-capitalisable consumer goods of € 371,000 (€ 127,000 in the previous year).

Please refer to the obligations from finance and operating leases listed under No. 15.

35. Related party transactions

METRO AG was considered a related party up until April 11, 2006. For reasons of deferral, the above data only include the period until March 31, 2006 because the figures can only be computed on a monthly basis.

In fiscal year 2006, the Praktiker Holding AG Group reported the following related party transactions:

in € thousands	Volume of goods/ services provided in € m		Volume of goods/ services received in € m	
	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005
Supplies and other services	1.9	19.6	41.8	369.3
Financial relations	0.0	3.3	0.0	1.0

Services received concern above all such services as cleaning, disposal and advertising handled by service companies of the METRO Group. Rental expenses are also included.

Services rendered mainly concern merchandise commissions from a service company of the METRO Group.

All business relations with related companies and parties are based on contractual agreements and rendered at arm's length prices.

With effect of 31.12.2006, the balance sheet included no receivables or liabilities against related parties.

Please refer to No. 40 for details concerning relations with Management Board members.

Following auditor's fees were recognised as expenses in fiscal year 2006.

36. Auditor's fees

in € thousands	2006
Audit	692
Other services	531
	1,223

On February 24, 2006, the Management Board and the Supervisory Board of Praktiker Holding AG issued their statement of compliance with the recommendations of the government commission German Corporate Governance Code pursuant to Article 161 of the German Stock Corporation Law and published it on the Internet home page of Praktiker Holding AG.

37. Statement of compliance with the German Corporate Governance Code

The following domestic subsidiaries in the legal form of stock corporations or partnerships have elected to be exempt from disclosing their annual financial statements including the management report and the notes for the fiscal year January 1 to December 31, 2006, in accordance with Article 264 Section 3 of the German Commercial Code:

38. Election to be exempt from Article 264 Section 3 of the German Commercial Code

- Praktiker Bau- und Heimwerkermärkte AG, Kirkel, Germany
- Praktiker Baumärkte GmbH, Kirkel, Germany
- Praktiker GmbH, Kirkel, Germany
- Praktiker Vierte Baumärkte GmbH, Kirkel, Germany
- BMH Baumarkt Holding GmbH, Kirkel, Germany
- Calixtus Grundstücksverwaltungsgesellschaft mbH, Kirkel, Germany
- Praktiker Grundstücksbeteiligungsgesellschaft mbH, Kirkel, Germany
- Praktiker Services Holding GmbH, Kirkel, Germany
- KIG Import GmbH, Kirkel, Germany

39. The Management and Supervisory Boards of Praktiker Holding AG

Members of the Management Board are:

Name	Division
Michael Arnold, Kirkel	<ul style="list-style-type: none"> ■ International business and internationalisation ■ Personnel
Karlheinz Bernhard Kockmann, Kirkel (until 06/30/2006)	<ul style="list-style-type: none"> ■ Category Management ■ Marketing ■ Product Controlling/Logistics
Walter Weber, Kirkel	<ul style="list-style-type: none"> ■ Accounting/Taxes
Thomas Ghabel, Kirkel	<ul style="list-style-type: none"> ■ Controlling ■ Finance ■ Legal ■ Investor Relations/Public Relations ■ IT/Organisation
Pascal Warnking, Kirkel (from 07/01/2006)	<ul style="list-style-type: none"> ■ Category Management ■ Marketing ■ Product Controlling/Logistics ■ Max Bahr (after execution of the acquisition)
Wolfgang Werner, Kirkel	<ul style="list-style-type: none"> ■ Chairman ■ Distribution Germany ■ Location management Germany ■ extra Bau+ Hobby/Top Bau ■ Auditing

Supervisory Board

Members of the Supervisory Board are:

Name	Other mandates
Dr. Kersten v. Schenck (Chairman) Attorney at law and notary public	<ul style="list-style-type: none"> a) Member of the Supervisory Board of Praktiker Bau- und Heimwerkermärkte AG Member of the Supervisory Board of ThyssenKrupp AG
Marliese Grewenig* (Vice Chairwoman)	<ul style="list-style-type: none"> Chairwoman of the General Works Council and Group Works Council of Praktiker Bau- und Heimwerkermärkte AG a) Vice Chairwoman of the Supervisory Board of Praktiker Bau- und Heimwerkermärkte AG
Barbara-Viktoria Beckers*	<ul style="list-style-type: none"> Department Head of Praktiker Bau- und Heimwerkermärkte AG a) Member of the Supervisory Board of Praktiker Bau- und Heimwerkermärkte AG
Helmut Biegel*	<ul style="list-style-type: none"> Department Head at Praktiker Bau- und Heimwerkermärkte AG a) Member of the Supervisory Board of Praktiker Bau- und Heimwerkermärkte AG
Dr. Norbert Bensel	<ul style="list-style-type: none"> Board Member responsible for logistics at Deutsche Bahn AG a) Member of the Supervisory Board of DB Fernverkehr AG Member of the Supervisory Board of DB Regio AG Member of the Supervisory Board of DB Services Immobilien GmbH Member of the Supervisory Board of Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein Member of the Supervisory Board of DEVK Rückversicherungs- und Beteiligungs AG Member of the Supervisory Board of Partner für Berlin – Gesellschaft für Hauptstadtmarketing GmbH Member of the Supervisory Board of Praktiker Bau- und Heimwerkermärkte AG Member of the Supervisory Board of RAG Bahn und Hafen AG Chairman of the Supervisory Board of Railion Deutschland AG Chairman of the Supervisory Board of Schenker AG Member of the Supervisory Board of Sparda Bank Berlin eG Chairman of the Supervisory Board of Stinnes AG



Name	Other mandates
Hans-Dieter Clingen*	Chairman of the General Works Council of Praktiker GmbH a) Member of the Supervisory Board of Praktiker Bau- und Heimwerkermärkte AG
Dr. Rolf Giebeler until 06/27/2006	Head of the Legal Affairs & Projects Department at METRO AG a) Member of the Supervisory Board of Praktiker Bau- und Heimwerkermärkte AG (until 06/27/2006) Member of the Supervisory Board of Real Holding GmbH b) Member of the Advisory Board of Extra Verbrauchermärkte Management GmbH Member of the Raad van Commissarissen of METRO Capital B.V. Member of the Raad van Commissarissen of METRO Euro Finance B.V. Member of the Raad van Commissarissen of METRO Finance B.V. Member of the Raad van Commissarissen of METRO International Finance B.V.
Ulrich Grillo since 06/27/2006	Chairman of the Management Board of Grillo-Werke AG a) Member of the Supervisory Board of Praktiker Bau- und Heimwerkermärkte AG (since 06/27/2006)
Dr. Kay Hafner since 06/27/2006	Chairman of the Executive Board of Karstadt Kompakt GmbH & Co. KG a) Member of the Supervisory Board of Praktiker Bau- und Heimwerkermärkte AG (since 06/27/2006)
Johann C. Lindenberg Businessman	a) Member of the Supervisory Board of BDO Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft Member of the Supervisory Board of Esso Deutschland GmbH Member of the Supervisory Board of ExxonMobil Central Europe Holding GmbH Member of the Supervisory Board of Gruner & Jahr AG & Co. KG Chairman of the Supervisory Board of J.J. Darboven Holding Verwaltungs Aktiengesellschaft Chairman of the Supervisory Board of Hamburger Messe und Kongress GmbH Member of the Supervisory Board of Praktiker Bau- und Heimwerkermärkte AG
Dr. Wolf-Dietrich Loose Attorney at law	a) Chairman of the Supervisory Board of Babcock Borsig AG Chairman of the Supervisory Board of iVA Valuation & Advisory AG Wirtschaftsprüfungsgesellschaft Member of the Supervisory Board of caption AG Chairman of the Supervisory Board of Kaufhalle AG Member of the Supervisory Board of Praktiker Bau- und Heimwerkermärkte AG b) Chairman of the Supervisory Board of DEKRA Personaldienste GmbH Member of the Partners Committee of METRO Group Asset Management GmbH & Co. KG
Zygmunt Mierdorf	Member of the Management Board of METRO AG a) Chairman of the Supervisory Board of Adler Modemärkte GmbH Member of the Supervisory Board of Praktiker Bau- und Heimwerkermärkte AG Chairman of the Supervisory Board of Real Holding GmbH (since 08/15/2006) Member of the Supervisory Board of TÜV Süd AG b) President of the Administrative Council of METRO Group Account Processing International AG Chairman of the Partners Committee of METRO Group Asset Management GmbH & Co. KG Member of the Administrative Council of Wagner International AG Chairman of the Supervisory Board of TERTIA Handelsbeteiligungsgesellschaft mbH Chairman of the Advisory Board of Extra Verbrauchermärkte Management GmbH (Member of the Advisory Board since 08/01/2006, Chairman since 09/12/2006)
Rainer Reichenstetter*	Trade union secretary in the national administrative office of the ver.di union a) Member of the Supervisory Board of Möbel Walther AG (until 11/15/2006) Member of the Supervisory Board of Praktiker Bau- und Heimwerkermärkte AG
Frank Schuster*	Commercial employee of Praktiker Bau- und Heimwerkermärkte AG a) Member of the Supervisory Board of Praktiker Bau- und Heimwerkermärkte AG

Name	Other mandates
Thomas Unger until 06/27/2006	<ul style="list-style-type: none"> Member of the Management Board of METRO AG a) Member of the Supervisory Board of Praktiker Bau- und Heimwerkermärkte AG (until 06/27/2006) Member of the Supervisory Board of Real Holding GmbH b) President of the Administrative Council of Assevermag AG Member of the Raad van Commissarissen of METRO Capital B.V. Member of the Raad van Commissarissen of METRO Euro Finance B.V. Member of the Raad van Commissarissen of METRO Finance B.V. President of the Administrative Council of METRO International AG Member of the Raad van Commissarissen of METRO International Finance B.V. Member of the Raad van Commissarissen of METRO Reinsurance B.V.
Prof. Dr. Harald Wiedmann Auditor	<ul style="list-style-type: none"> a) Member of the Supervisory Board of Praktiker Bau- und Heimwerkermärkte AG Member of the Supervisory Board of Wincor Nixdorf AG Member of the Supervisory Board of Merz Pharma KGaA Member of the Supervisory Board of Senator KGaA b) Chairman of the Administrative Council of Berenberg Bank Member of the Supervisory Board of Converium AG
Axel Willrath*	<ul style="list-style-type: none"> Employee in the Praktiker store in Celle a) Member of the Supervisory Board of Praktiker Bau- und Heimwerkermärkte AG
Rüdiger Wolff*	<ul style="list-style-type: none"> Trade union secretary in the national administrative office of the ver.di union a) Member of the Supervisory Board of Kaufhof Warenhaus AG Member of the Supervisory Board of Praktiker Bau- und Heimwerkermärkte AG
* Employee representative	<ul style="list-style-type: none"> a) Member of other statutory supervisory boards of domestic companies b) Member of comparable German and foreign boards of business enterprises

40. Compensation of the Supervisory Board and the Management Board

Total compensation of the members of the Supervisory Board amounted to € 4.033 m for the 2006 fiscal year (€ 2.836 m for the 2005 fiscal year). The members of the Management Board received total compensation of € 1.193 m for the 2006 fiscal year (€ 133,000 for the 2005 fiscal year). The details in respect of the above required under sec. 285 sent. 1 No. 9a sent. 5 to 9 HGB (German Commercial Code) are included in the group management report in accordance with the provisions set out under sec. 289 para. 2 No. 5.

Kirkel, Germany, March 14, 2007

Praktiker Bau- und Heimwerkermärkte Holding AG

The Management Board

Werner Arnold Ghabel Warnking Weber

Auditor's opinion

We have audited the consolidated financial statements of Praktiker Bau- und Heimwerkermärkte Holding AG, Kirkel, consisting of the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the notes for the fiscal year from January 1 to December 31, 2006. The preparation of the consolidated financial statements and group management report in accordance to the IFRS applicable within the EU, and the additional commercial law stipulations set forth in Article 315a Section 1 of the German Commercial Code (HGB) is the responsibility of the company's Management Board. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We have conducted our audit of the consolidated financial statements in accordance with Article 317 HGB and with due regard to the generally accepted standards on the auditing of financial statements as established by the IDW, the institute of auditors and certified public accountants in Germany. These standards required the audit to be planned and executed in such a way that reasonable assurance is obtained on whether the consolidated financial statements are free of any misstatements with a material effect on the presentation of the asset, financial and earnings position as described by the consolidated financial statements in consideration of the applicable accounting standards and by the group management report. Knowledge of the business activities and the economic and legal environment of the company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal accounting control system and evidence supporting the amounts and disclosures in the consolidated financial statements and the group management report are examined on a test basis within the framework of the audit. The audit includes an assessment of the annual accounts of companies included in the consolidated financial statements, the delineation of group consolidation, the accounting and consolidation principles used and significant estimates made by the company's Management Board as well as an evaluation of the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonably reliable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the consolidated financial statements are in accordance with the IFRS applicable within the EU and the additional commercial law stipulations laid down in Article 315a Section 1 HGB and in consideration of these regulations suitably represent the group's asset, financial and earnings position. The group management report is in line with the consolidated financial statements, provides a suitable understanding of the company's position and suitably represents the opportunities and risks of future performance.

Frankfurt am Main, Germany, March 21, 2007

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Marshall) (Dr. Knoop)
Auditor Auditor



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Combined financials

As Praktiker was part of METRO AG up until November 2005 and only received an autonomous structure of its own in connection with its stock market flotation, so-called “combined financials” were reported in the 2005 annual report in addition to the official financial statements. Accounting via combined financials is based on the concept of showing results as they would have been had Praktiker had the structure the company was given for flotation purposes for the entire financial year. Communication with the financial markets occurred on the basis of the combined financials at all times. In the quarterly report, they served as the basis for all comparisons with the previous year. For reasons of consistency in reporting, the results of the financial year under review shall also be shown in relation to the combined financials of the 2005 financial year. The following deviations to the development presented in the management report arose:

Sales and gross profit

Gross profit amounted to 985.5 million euros in the financial year under review and, as such, was 20.9 million euros up on the previous year (964.6 million euros), equating to an increase of 2.2 percent. The gross profit margin came to 31.2 percent in 2006 as compared with a level of 31.8 percent in the previous year.

Other operating income

Other operating income generated in the 2006 financial year amounted to a total of 52.1 million euros and, as such, was 2.7 million euros or 4.5 percent lower than in the previous year

(54.8 million euros). The difference to the figures reported in the management report for 2005 is attributable to the contribution made by MIAG, the company which handles payment transactions vis-à-vis the suppliers on Praktiker’s behalf and assumes so-called ‘delcredere’ risks.

Expenses

Selling expenses increased by 1.3 percent from 853.9 million euros to 864.7 million euros and general administrative expenses rose by 6.4 percent to 59.8 million euros (56.2 million euros in the previous year).

Earnings

Operating earnings (EBITA = earnings before interest, taxes and amortisation of goodwill) amounted to 111.1 million euros and, as such, were 5.3 million euros or 5.0 percent up on those of the previous year (105.8 million euros). Net financial income improved by 6.9 million euros to 1.4 million euros (–5.5 million euros in the previous year). Earnings before taxes (EBT) amounted to 112.5 million euros, 12.2 million euros or 12.2 percent above the level of the previous year (100.3 million euros). After deducting taxes, net income from continuing operations totalled 84.1 million euros. In the previous year, a net profit of 77.6 million euros was reported. This equates to an increase of 8.4 percent.

Earnings per share (EPS) came to 1.43 euros, an increase of 0.11 euros over the previous year (1.32 euros).

Key data according to Combined Financials

in € m

	2004*	2005*	2006
Sales	2,934.0	3,033.9	3,162.1
Gross profit	973.5	964.6	985.5
EBITA	80.4	105.8	111.1
Net financial income	–8.6	–5.5	1.4
EBT	71.9	100.3	112.5
Taxes	–8.2	–22.7	–28.3
Net profit	63.7	77.6	84.1
EPS in euro	1.08	1.32	1.43

*Combined Financials

Dr. Kersten v. Schenck
Chairman of the Supervisory Board



Report of the Supervisory Board for the 2006 financial year

2006 was the first full financial year following the flotation of Praktiker Bau- und Heimwerkmärkte Holding AG, and this year too saw a continuation of the positive business development of the previous years.

In contrast to the persistent negative development of like-for-like sales in the DIY sector in Germany, Praktiker was again able to increase like-for-like sales generated in the domestic market by 2.5 percent in the year under review.

A key factor underpinning the profitability of the Praktiker Group was once again its expansion abroad which, as in the previous year, was driven forward dynamically with eight new markets being opened in 2006.

The acquisition of the operative business of Max Bahr has, in addition, opened up the promising potential of implementing a two-brand strategy in the German market and being present in two different segments in the DIY sector. Moreover, the acquisition was a clear signal to the DIY industry and can be interpreted as a first step in the direction of the necessary consolidation.

Supervision of Executive Management

During the period under review, the Supervisory Board regularly monitored and advised the Management Board in the execution of its duties in accordance with relevant statutory requirements and company statutes. The Supervisory Board was involved in all decisions of significant relevance for Praktiker Bau- und Heimwerkmärkte Holding AG and the Group.

The positioning of the company and Group, the planned corporate strategy and company prospects both at home and abroad were explained to the Supervisory Board by the Management Board. Reports were made on a regular basis and taking consideration of the provisions specified in § 90, Sect. 2 AktG (Companies Act). Deviations of business from plans and targets were duly explained and substantiated by the Management Board.

The chairman of the Supervisory Board was in constant contact with the Management Board. He was informed regularly and promptly about all important events, decisions and the current development of sales and earnings.

All investments and desinvestments of the financial year under review were duly discussed with regard to their strategic and financial aspects as well as in relation to any socio-political repercussions.

The exchange of thoughts on the current state of affairs of the company was supplemented by extensive discussions about financial, capital expenditure and personnel planning.

The Supervisory Board has duly discussed and examined all submitted reports and documents. Details are described in the following below. There were no complaints about the activities of the Management Board.

Supervisory Board meetings

Six Supervisory Board meetings took place in the 2006 financial year. In addition to the ordinary meetings held on March 7, June 27 (2 meetings), September 7 and November 28, 2006, the Supervisory Board also convened an extraordinary session and, otherwise, passed the necessary resolutions by way of written distribution procedures and/or telephone conferences. All members of the Supervisory Board participated in at least half of the meetings.

All matters requiring the approval of the Supervisory Board as well as the company's economic position received in-depth attention. Discussions focused primarily on the following areas:

- commitments of the Praktiker Group abroad
- acquisition of Max Bahr DIY business
- acquisition of a direct minority stake in Max Bahr-Immobilien-gesellschaft (real estate)
- realisation of Easy-to-Shop concept
- issue of convertible bonds worth 150 million Euros
- appointment of Mr. Pascal Warnking as member of the Management Board



- adjustment in the assignment of tasks of the Management Board due to Mr. Kockmann's departure, Mr. Warnking's appointment and the pending departure of Mr Weber
- 2007 budget
- economic situation of both the company and the Group.

Moreover, the Supervisory Board concerned itself with examining the efficiency of the Supervisory Board which was implemented on the basis of a questionnaire for the purpose of self-evaluation. The results formed the basis for further improvement of the work performed by the Supervisory Board.

Supervisory Board committee meetings

The Supervisory Board has formed four committees with equal representation of shareholders and employees, namely the Executive Committee, the Balance Sheet Committee, the Personnel and Nominations Committee and the § 27, Sect. 3 MitbestG (Co-determination Act) Committee.

The Executive Committee met three times during the period under review and also held telephone conferences. The main items under discussion included the acquisition of Max Bahr and its financing, the planned Group restructuring measures and compliance with Corporate Governance Code requirements.

The Balance Sheet Committee held three sessions with the focal issues here including the preparation of the main audit areas, preparation of the Supervisory Board decision concerning the approval of the individual and consolidated financial statements, internal audit reporting and financial planning. Furthermore, the interim reports to be published quarterly following audits carried out by PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, were discussed together with the Management Board and the appointed auditors.

The Personnel and Nominations Committee met once and, otherwise, held telephone conferences. The main items of discussion here included the remuneration of Management Board members as well as questions connected with the appointment and retirement of Management Board members.

The § 27, Sect. 3 MitbestG (Co-determination Act) Committee had no cause to convene in the 2006 financial year.

The Supervisory Board plenary sessions were promptly informed about the items and issues discussed in the various committees by the respective chairmen.

Corporate governance

Corporate governance at Praktiker Bau- und Heimwerkermärkte Holding AG is discussed in a section of this annual report dedicated solely to it. Both the Management Board and the Supervisory Board issued an updated declaration of conformance in accordance with § 161 AktG (Companies Act) on November 28, 2006 and posted it together with any exceptions on the company's Web site, thus allowing shareholders to access it any time.

Personnel issues

During the period under review, Mr. Thomas Unger and Dr. Rolf Giebeler stepped down from their positions on the Supervisory Board. Mr. Ulrich Grillo and Dr. Kay Hafner were elected as their immediate successors on the Supervisory Board at the annual general meeting held on June 27, 2006.

Annual and consolidated financial statements 2006

The consolidated financial statements were drawn up in accordance with the International Financial Reporting Standards (IFRS).

The auditors of the year-end financial statements, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, audited the consolidated financial statements and Group management report as well as the year-end financial statements and management report of Praktiker Bau- und Heimwerkermärkte Holding AG, all of which received unqualified certification.

The year-end financial statement audits for the year under review included

- modifications to service contracts with METRO AG
- impairment of value of tangible assets
- evaluation of inventory
- provisions for onerous contracts
- effects of acquisition of Max Bahr on preparing and publishing annual financial statements for the Group

The year-end financial statements for Praktiker Bau- und Heimwerkermärkte Holding AG are drawn up in accordance with German commercial law (HGB – Commercial Code). This audit focused, among others, on the early risk detection system and the management report.

Drafts of the financial statements and management reports as well as drafts of the audits concerning these statements were distributed to the Supervisory Board members in good time prior to the Supervisory Board's balance sheet meeting. The financial statements and management reports as well as the respective audits presented at the Supervisory Board's balance sheet meeting on March 21, 2007 complied with the drafts distributed beforehand.

The drafts had been discussed in depth at the Supervisory Board's balance sheet meeting and, previously, at a meeting of the Balance Sheet Committee that was also attended by the auditors of the financial statements. The auditors reported on the essential results of their audit and were available to the Balance Sheet Committee to answer questions and provide supplementary information. The Supervisory Board declared itself to be in agreement with the results of the audit, which in no case raised any objections.

Correction to page 102 of the Annual Report

The presentation of the balance sheet profit and the proposal for its appropriation in the Report of the Supervisory Board under the headline of "Annual and consolidated financial statements 2006" - printed on page 102 in the annual report 2006 of Praktiker Bau- und Heimwerkermärkte Holding AG - have been reworded pursuant to a decision of the Supervisory Board dating from April 30, 2007 as follows:

"In its individual financial statements for the 2006 financial year, Praktiker Bau- und Heimwerkermärkte Holding AG reports a balance sheet profit of 29,585,023.12 Euros. The Supervisory Board has discussed and examined in detail the recommendation of the Management Board to the 2007 annual general meeting as regards appropriation of the balance sheet profit, and approves it as follows:

- Payout of 26,100,000.00 Euros in the form of a dividend of 0.45 Euros per non-par share to the shareholders

- 3,485,023.12 Euros of profit carried forward"

In accordance with § 171 AktG (Companies Act), the Supervisory Board checked the year-end financial statements of the parent company and the Group prepared by the Management Board together with the management reports, both generally and in terms of the appropriateness of the balance sheet policy measures applied. In line with the final results of its audit, the Supervisory Board raised no objections and shared in particular the evaluations contained in the management reports on Praktiker Bau- und Heimwerkermärkte Holding AG and the Group. The Supervisory Board approved both the parent company's year-end financial statements and the consolidated financial statements. The financial statements of Praktiker Bau- und Heimwerkermärkte Holding AG are thus deemed to be effective.

In its individual financial statements for the 2006 financial year, Praktiker Bau- und Heimwerkermärkte Holding AG reports net annual profits of 29,322,396.20 Euros. The Supervisory Board has discussed and examined in detail the recommendation of the Management Board to the 2007 general meeting of shareholders as regards appropriation of the net annual profits, and approved it as follows:

- Payout of 26,100,000.00 Euros in the form of a dividend of 0.45 Euros per ordinary share to the shareholders
- 3,222,396.20 Euros brought forward to new account

Explanations on the obligatory information provided in accordance with the Takeover Directive Implementation Act of July 8, 2006 (details as per §§ 289, Sect. 4, 315, Sect. 4 HGB (Commercial Code))

The management reports on Praktiker Bau- und Heimwerkermärkte Holding AG and the Group for the 2006 financial year include information in accordance with § 289, Sect. 4 and/or 315, Sect. 4 HGB (Commercial Code). The Supervisory Board deems this information complete and applicable. The management reports outline the composition of equity capital. Furthermore, legislative and statutory specifications are also indicated concerning the appointment and withdrawal of members of the Management Board and modifications of the statutes. Moreover, the authorities of the Management Board as regards the possibility of issuing or buying back shares are also described. This includes the authorisation by the annual general meeting on September 26, 2005, subject to approval by the Supervisory Board, to raise the company's equity capital in the period to September 25, 2010 in one go or gradually by a total of up to 25 million Euros by issuing new shares for cash or non-cash contributions (authorised capital).

The authorities arising from the decisions reached at the annual general meeting of November 3, 2005 and June 27, 2006 on issuing warrant and convertible bonds and the requisite creation of contingent capital are also outlined.

Authorisation to buy back company shares up to March 25, 2007 is also described following the decision reached by the annual general meeting of September 26, 2005.

As far as all other details are concerned, please refer to the information and report as per §§ 289, Sect. 4 and 315, Sect. 4 HGB (Commercial Code) in the management reports (page 20).

The Supervisory Board would herewith like to thank the Management Board, the works councils and all employees at Praktiker Bau- und Heimwerkermärkte Holding AG and companies associated to and affiliated with it for their commitment and hard work.

Frankfurt am Main, Germany, March 2007

The Supervisory Board



Dr. Kersten von Schenck
Chairman



Corporate Governance

Praktiker Bau- und Heimwerkermärkte Holding AG undertakes to abide by the principles of good and responsible corporate governance.

We earn the trust of our shareholders, customers and employees above all via close and constructive cooperation between the Supervisory Board and the Management Board, which is guided by the principle of sustainable value generation. We subscribe to a culture of open corporate communication and intensive customer care as well as accounting and auditing practices that closely follow established rules.

Management Board

The Management Board at Praktiker Bau- und Heimwerkermärkte Holding AG which currently consists of five persons is jointly responsible for the management of the company and its business. The members of the Management Board inform the Supervisory Board regularly, promptly and comprehensively about all matters relevant to the company in respect of planning, business development, its financial, income and risk position as well as risk management. As far as events are of key significance to the development of the company, the Supervisory Board is informed without delay. With regard to certain business activities of the company, which are set out in the statutes of Praktiker Bau- und Heimwerkermärkte Holding AG and in the code of business practice governing the actions of the Management Board and Supervisory Board, the Management Board obtains the approval of the Supervisory Board prior to finalising the resolution concerned.

Supervisory Board

The Supervisory Board comprises 16 members, of whom eight representatives are elected by the shareholders and the other eight by the employees. The duties undertaken by the Supervisory Board include above all the monitoring of the Management Board and the advising of the Management Board in its management of the company and its business. Furthermore, it is also responsible for appointing the members of the Management Board, setting their remuneration levels and approving the annual financial statements drawn up by the company. In order to carry out its duties, the Supervisory Board has formed an executive committee, a mediation committee, a personnel and nominations committee as well as a balance sheet committee.

Remuneration of the Management Board and the Supervisory Board

The topic of the remuneration of the Management Board and the Supervisory Board is dealt with in the remuneration report which is part of the group management report. (see pages 28 to 30)

Annual shareholders' meeting

The shareholders exercise their rights at the annual general meeting. There they have the opportunity to discuss all the items on the agenda and ask questions on company matters. Each Praktiker share qualifies for one vote.

Accounting and audit of financial statements

Accounting procedures at Praktiker Group are carried out in accordance with the International Accounting Standards (IFRS). The year-end financial statements of Praktiker Bau- und Heimwerkermärkte Holding AG are drawn up in accordance with German commercial law (HGB). PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft has audited both the consolidated and individual financial statements.

Transparency

Shareholders, analysts, investors and the general public are informed by Praktiker Bau- und Heimwerkermärkte Holding AG about any significant changes in business on the basis of regular reports and ad hoc releases. The company's website at www.praktiker.com is a central information platform. In addition to the company statutes and information on the Management Board and Supervisory Board, the website includes documents concerning the annual general meeting, financial reports and details of business activities. Events that have the potential to influence the price of Praktiker shares substantially, are announced via ad-hoc statements. The publication dates of the regular financial reports are listed in this annual report and on our website.

Efficiency audit

For the first time ever, the year under review saw the Supervisory Board audit its efficiency by way of a self-assessment exercise. It was based on the evaluation of a questionnaire. The results confirmed a high degree of efficiency. The individual suggestions in respect to optimisation have already been or will soon be implemented, if at all possible.

A case in point here concerns the reporting of the various committees to the Supervisory Board plenary sessions, which has been further intensified and now is an agenda item in its own right at plenary sessions. A further suggestion was to have third parties such as individual members of the lower management echelons present at meetings of the Supervisory Board. This suggestion will be heeded in due time.

Directors' dealings

The following directors' dealings were notified to the company during the period under review:

Walter Weber

Mr Walter Weber, member of the Management Board at Praktiker Bau- und Heimwerkermärkte Holding AG, sold 10,578 shares at a price of 24.50 € per share and a total volume of 259,161.00 € on December 8, 2006.

Wolfgang Werner

Mr Wolfgang Werner, member of the Management Board at Praktiker Bau- und Heimwerkermärkte Holding AG,

- sold 8,264 shares at a price of 25.50 € per share and a total volume of 210,732.00 € on December 12, 2006.
- sold 27,943 shares at a price of 25.50 € per share and a total volume of 712,546.50 € on December 12, 2006.

Declaration of conformance with the German Corporate Governance Code

Praktiker Bau- und Heimwerkermärkte Holding AG herewith declares its compliance with the recommendations set out in the German Corporate Governance Code in its version dated June 12, 2006 with the following exceptions:

- With regard to the variable EVA remuneration system for Management Board members, retrospective adjustment of the success figures is possible in the case of extraordinary events (Item 4.2.3 Section 2, Clause 3 GCGC).
- With regard to the variable EVA remuneration system for Management Board members, no direct caps have been agreed (Item 4.2.3 Section 2, Clause 4 GCGC).
- No general age limit for Management Board members is currently in force (Item 5.1.2 Section 2, Clause 3 GCGC).
- As far as proposals for the election of Supervisory Board member are concerned, no general age limit is currently in force (Item 5.4.1 Clause 2 GCGC).
- In accordance with a motion to this effect, the legal appointment of employee representatives occurred up until the end of the annual general meeting which will decide on the approval of the 2007 financial year in order to bring their period of office into line with that of shareholder representatives. (Item 5.4.3 Clause 2 GCGC).
- The final candidate proposals for Supervisory Board chairman were not notified to the shareholders (Item 5.4.3 Clause 3 GCGC). In future, candidate proposals for Supervisory Board chairman will be notified to the shareholders.
- The consolidated financial statements for the 2006 financial year will not be available for public access within 90 days of the end of the 2006 financial year (December 31, 2006), but instead as from April 3, 2007 (Item 7.1.2 Clause 2 GCGC).

Kirkel, Germany, November 28, 2006

Praktiker Bau- und Heimwerkermärkte Holding AG

The Management Board The Supervisory Board

Imprint

Publisher

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Only the German version of this annual report is legally binding.



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