Speech by Thomas Ghabel,
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on the occasion of the presentation of the financial results of the first half of the 2009 business year

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The spoken word is valid.

Good morning ladies and gentlemen,

Welcome to the telephone conference on the first half 2009 results.

Before I go into the numbers in detail, let me just briefly comment on the current situation.

We are still experiencing a recessionary environment in all countries in which we operate. Generally, in the first six months of the year, DIY markets have been declining in all countries in which we operate.

As such we have kept our top priorities unchanged. We still are committed to securing earnings and liquidity. The results of the first six months show that we have made progress in both respects.

Considering the adverse environment we believe we have reasons to be satisfied with what we have achieved in the second quarter.

Group sales in the second quarter were down by 2.8 percent only, but currency adjusted they were even up by 0.5 percent.

In particular, business in Germany was good. And with a sales growth of 2.9 percent we have certainly gained market share again in the second quarter.

Operating earnings were down in Q2, but only moderately, with the largest part of the decline coming from our international activities which were still suffering from a strong negative currency impact. Operating profits in Germany declined only marginally, mainly because we have been able to increase earnings at the Max Bahr brand.

In the international business, sales and earnings have continued to trend southwards in the second quarter, as all countries are in recession still. But there have been some improvements in some countries, which I will come back to in my presentation. Most notably, the improvement in the rate of sales decline in Greece.

The good news in the international business is that – after their strong devaluation in Q4 2008 and Q1 2009 – all currencies have meanwhile stabilised and partly revaluated again. Despite the fact that in comparison to last year all currencies trade at a low rate still, the currency situation is not getting worse any more.

In order to keep a strong financial position, we were able to improve our working capital by a double digit million euros amount. Moreover, in the second quarter we issued a promissory note increasing cash and cash equivalents by 50 million euros. Net debt has been kept stable. As there are still no refinancing requirements until September 2011, we do believe that we are thus well equipped to weather the current recession without any financial problems.

Let us now look at the P&L of the first half year, starting, as always with sales.

Net sales in the Group declined by 5.1 percent in the first half of 2009 to reach 1.9 billion euros.

Like-for-like, the decrease was slightly higher at 6.0 percent

How much the depreciating currencies of Eastern Europe played a part here, becomes apparent in the currency adjusted figures. Had currencies stayed unchanged, Group sales would have been down by 2.0 percent in absolute terms and 3.2 percent like-for-like.

In Germany, sales of the Praktiker brand were up by 0.1 percent in the first half, while sales of the Max Bahr brand declined by 3.3 percent. In the second quarter, sales of the Praktiker brand were up by 4.6 percent, thus more than compensating the decline of the first quarter. Max Bahr sales in Q2 were down by 0.5 percent.

International sales declined by 15.0 percent in Euro terms, in local currency terms sales declined by 4.9 percent only. Roughly two thirds of the sales decline in the first six months were thus related to the depreciation of currencies. In the second quarter, sales declined by 16.0 percent in Euro terms. So, regrettably, we have not seen any recuperation of our international business in the second quarter.

The gross margin declined by 2.3 percentage points to 31.0 percent in the first half.

Gross margin was strongly affected by extended marketing activities of the Praktiker brand in Germany. In order to reduce inventories we had to invest into prices rather heavily – at the same time weighing the advantages of improving working capital against maximising earnings.

The same considerations did not apply for the Max Bahr brand on account of its positioning as a quality premium brand.

In the international business, gross margin was slightly down. In the recessionary environment, Praktiker tried on several occasions to stimulate sales through special offers. Also, the room for marking prices up became more and more limited.

The decline in sales and in gross margin had a negative impact on the operating result. EBITA in the first half year declined to 18.9 million euros from 59.2 million euros last year. Currency adjusted EBITA came to 24.8 million euros, meaning that exchange rate changes have cost us 5.9 million euros in profits.

Most of the decline had happened already in the first quarter. In Q2 2009 EBITA stood at 68.1 million euros, only 11.9 million euros less than in the comparable period of 2008. Had currencies stayed unchanged, EBITA would have reached 72.6 million euros. This means that currency changes cost us 4.5 million euros in operating profits in the second quarter.

We had repeatedly mentioned our program to reduce costs. In my view we handled it well as selling expenses decreased in the first six months by 6.4 percent, the second quarter showed an even higher rate of decline. Major savings occurred in personnel expenses and in advertising. We were also able to keep rental expenses at last year´s level despite the fact that we operate 8 more stores today than one year ago.

Likewise, administrative expenses in the first six months fell by 5.6 percent reflecting efforts to reduce headquarter costs.

Net result for the first half is reported at minus 2.2 million euros. In the previous year it had been at plus 32.2 million euros.

In the second quarter, net result reached 34.6 million euros against 55.7 million euros one year earlier. Again the second quarter showed a much better performance than the first.

One important reason for the decline lies in the financial result. In the first half, it was down to minus 24.5 million euros – from minus 14.4 million euros last year.

Most of the deterioration – again – had occurred in the first quarter already. In Q2, there was only a minor change.

The reasons for the decline are thus more or less the same that I outlined to you at the presentation of the Q1 results:

- Interest income was down on last year as the average volume of interest bearing cash and cash equivalents fell short of last year and at the same time, interest rates were lower.
- On the interest expense side, a slightly higher charge coming from of finance leases had to be considered. Plus, in the second quarter, we issued an interest bearing promissory note.
- The financial result was strongly impacted by currency losses, but in the first quarter only. There was no further negative impact from currencies in Q2.

As usual, some of the expenses in the financial result are non-cash. In the first half year this was the case for a total of 6.8 million euros.

Another reason for the decline lies in the tax rate, which constitutes a rather complex topic. We have applied a 60 percent tax rate for the first half results. This is a reflex of changed expectations for the full year.

There are three major reasons for the strong and unexpected increase against last year:

First, some expenses like, for example, currency losses in the financial result as stated in the group accounts following IFRS standards are not in all cases deductable in the local accounts of the different countries which, of course, are the basis for the calculation and payment of taxes there.

Second, with expected lower pre-tax profits the relative weight of deferred taxes increases, and

Third, the share of profits in countries, in which profits are not protected by loss carry forwards, will most likely increase.

Cash taxes – that much is clear already – will be much lower than stated taxes. The cash tax rate is expected to be around 40 percent.

Coming now to the balance sheet and capital expenditure.

The balance sheet total increased by 4.6 percent to 2.25 billion euros. The reason for the increase lies in the seasonal build-up of inventories, the related increase in trade payables and the issue of the promissory note.

Cash and cash equivalents were up to a total of 271.5 million euros, compared to 233.3 million euros at the end of last year and 142.2 million euros at the end of the first quarter.

The equity ratio was at 39.7 percent.

Net debt amounted to 194.8 million euros, only marginally higher than at the end of last year, but much lower than at the end of the first quarter, when it was 281.6 million euros.

Net working capital stood at minus 382.2 million euros at midyear. This corresponds to an improvement by nearly 30 million euros against the end of last year, when net working capital was at minus 411.6 million euros. Here you find a reflection of our various measures to optimise working capital.

Capex was down to 29.5 million euros. In the first half of the previous year 57.6 million euros – or nearly twice the amount - were spent on capex.

As far as our financial position is concerned, we can certainly claim to have met all our targets in the first six months: We have maintained a strong liquidity position, kept net debt stable, supported our cash flow through improving the working capital needs and a strong reduction of capital expenditure.

This also becomes clear when you look at our financial headroom which we calculate at roughly 500 million euros – practically unchanged since the beginning of the year.

On top of our strong cash position of 272 million euros we still have access to a syndicated credit line of 200 million euros and additional bilateral lines.

Let me now turn to the different segments starting with Praktiker Germany.

Sales of the Praktiker brand in Germany were up in the first half year by 0.1 percent in absolute terms and down by 0.2 percent like-for-like.

This was only possible because sales in the second quarter were up by 4.6 percent to 573.5 million euros thus fully compensating the decline in the first quarter.

The industry association expects the DIY-market to be down by 1.5 to 2 percent in the first half. If that proves to be right, Praktiker has gained market share again in the first six months of the current business year.

Part of the explanation for the outstanding sales performance lies in the extended marketing activities, which we have bundled under the headline of “Sleeves up!” since March. An indication of how much more we have done can be derived from the fact that we had 21 days of 20-percent-off-promotions in Q2 compared to 18 in Q2 of the previous year. In the first half the total number was 43 days in 2009 against 30 days in the same period one year ago.

I want to emphasize that, for the full year, we still plan for around 60 days, more or less the same number as last year. This means we will reduce the number of 20-percent-off-promotion days in the second half noticeably.

The campaigns have certainly hurt the gross margin of the Praktiker brand in Germany. But this way we have been able to reduce inventories considerably from the high point at the end of Q1 - considerably in this case meaning a good double digit million euros amount.

With the Praktiker brand we had to balance improving profitability against improving working capital. We opted to lean more to the working capital side this time.

This becomes apparent in the EBITA for the Praktiker brand in Germany. In the second quarter it reached 32.7 million euros and thus fell somewhat short of the previous year´s profit which stood at 40.1 million euros.

Due to the loss the Praktiker brand had generated in the first quarter, an EBITA of minus 3.2 million euros is reported for the first half year, against a profit of 20.9 million euros in the first half 2008.

For the full year we still expect to generate a positive operating result with the Praktiker brand in Germany as the marketing activities will cool down, the gross margin will do better in the second half than in the first and also because we expect some relief on the side of procurement prices.

Due to the positive business trends in the second quarter we abandoned short-time work already in June.

11 stores have been converted to Easy-to-Shop in the first three months, no more in the second quarter. The two new stores in Marl and Münster, opened in Q1 to replace older stores in the same region, also follow the Easy-to-Shop concept of course.

Capex was at the same level as last year and reached 13.0 million euros in the first half.

Now to the Max Bahr segment.

Like with the Praktiker brand, sales performance in the second quarter was much better than in the first. Sales reached 213.3 million euros and were down on last year by 1 million euros or 0.5 percent only.

For the first half year, sales of Max Bahr were down by 3.3 percent. Like-for-like this corresponds to minus 3.6 percent.

The Max Bahr focus is on margins. This is why marketing expenses stayed below the level of last year, despite the marketing activities celebrating the 130th birthday of Max Bahr.

Rather, Max Bahr concentrated on increasing the share of private labels and introducing worked over assortments in different categories including the "Dream Baths" concept, which is currently being rolled out to all stores in which the introduction makes sense.

Gardening sales did not increase against last year owing to the fact that last year had shown very good sales already.

Focussing on margins paid out in so far as EBITA for the Max Bahr brand increased by 3.1 million euros to 18.9 million euros in the second quarter and by 3.2 million euros to 17.3 million euros in the first half year compared to the same period last year.

Operating earnings also profited from the fact that Max Bahr, too, was successful in its efforts to reduce expenses. As far as inventories are concerned, Max Bahr contributed to reductions in line with its relative weight in sales.

For the full year, we expect the current trend to continue and thus an operating result at the level of last year.

Max Bahr spent 5.0 million euros on capex in the first half. Most of it was used for the introduction of the new, worked-over assortments.

Coming to our international activities.

Net sales generated via the international activities decreased by 15.0 percent to 491.6 million euros in the first half year. Like-for-like, sales declined by 19.0 percent.

In the second quarter, sales fell by 16.0 percent to reach 285.5 million euros.

Although most Eastern European currencies stabilised in the second quarter, the devaluations still had a strong impact on sales.
On a currency adjusted basis, sales decreased by only 4.9 percent in the first half, meaning that roughly two thirds of the sales decline were attributable to currency effects. In like-for-like comparison, currency adjusted sales declined by 9.5 percent, exactly half the rate of the like-for-like decrease in euro terms.

In absolute numbers the currency depreciations cost us a total of 61.4 million euros in sales in the first half year.

The share of international sales in total sales fell from 29.0 percent in the first half of the previous year to 25.9 percent in H1 2009.

Looking at the sales development in the different countries, the trend was predominantly negative in Eastern Europe, whereas countries in south-eastern Europe showed a more positive trend. As such, when comparing the development of Q2 sales to Q1 sales, the trend has deteriorated in Poland, the Ukraine and in Bulgaria. Hungary has stayed at the same depressed level. But in Greece, Turkey, Romania and Luxembourg sales declined at a lesser rate in the second quarter than in the first.

We read into this the first indication that we may see further improvements in the second half of the year. Although we must admit that the signals are still very weak.

In the second quarter, EBITA in the international segment reached 14.4 million euros, coming down from 23.0 million euros last year.

For the first half year, EBITA declined to 4.4 million euros, comparing to 24.3 million euros last year.

The negative currency impact on EBITA was 5.9 million euros in the first six months, of which 4.5 million euros fell into the second quarter.

When you look at the individual countries, EBITA was down in each and every one of them except Luxembourg – owing to the recessionary environment from which all countries suffer.

One new store was opened in Romania in the second quarter, one store was enlarged. Capex thus came down to 11.4 million euros as against 42.8 million euros in the first half of the previous year. This figure shows you more than any other how fast and by how much we have reduced our expansion speed in Eastern Europe.

After having explained all the numbers to you, the question automatically arises: What does it all mean for the full year?

In terms of sales, we expect the current trend to continue. In our international activities we may – hopefully – see minor improvements in those countries where the trend has already been improving. In others we would expect that - at least - the macroeconomic environment will not become any worse.

In Germany we expect a certain, albeit moderate decline in sales as we will reduce our marketing activities in the course of the year.

This is also the expectation for the Group: a moderate decline in sales.

As far as earnings are concerned, the Praktiker brand in Germany will certainly focus more on margins in the second half again, thus supporting earnings. We expect Max Bahr to deliver operating earnings on the level of last year as the brand has already proven its earnings capacity in the first half of the year. And earnings in the international business should be higher in the second half than in the first, following the typical pattern that we have observed in the past.

But the management of the Praktiker Group still is not in a position to give an EBITA-guidance for the full year. There are still too many unknowns like the effects of the different support programs for the different economies, the outcome of the federal elections in Germany, the question of where the different countries are in the economic cycle, the further development of exchange rates and so on.

As we have repeatedly said, securing earnings and liquidity are the top priorities in 2009. We are determined to meet both targets and expect that at the end of the year, cash and cash equivalents will amount to more than 200 million euros – the basis for a comfortable cash and financial position.

In order to secure liquidity, we will continue to strive to reduce inventories and will limit capex to 80 million euros.

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