



## **Semi-annual Financial Report and Quarterly Report 2 / 2009 Telephone Press Conference, Wednesday, 22 July 2009, 10:00 a.m.**

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### **Statement Wolfgang Werner, CEO**

Ladies and Gentlemen,

Welcome to our telephone press conference on the occasion of the presentation of our report on the course of business of Praktiker Group in the second quarter and hence in the first half of 2009. You already had the opportunity to take a look at the report itself earlier this morning. Let me now briefly explain the most important key financials presented in this report. After that, Mr. Gabel and I will be pleased to answer your questions.

Let me start my half-year report of the crisis year 2009 with some statements that I believe are particularly important in view of the surprises which the first quarter had in store for us:

1. Although the Praktiker Group closely missed the prior-year sales and earnings figures in the second quarter it nevertheless showed a sound economic development – especially when considering that the world is experiencing the worst recession in 80 years. Following a weak first quarter, we are thus back on a reasonable track.
2. In Germany, we even succeeded in raising sales by nearly three percent during the second quarter. If the currencies in Eastern Europe had not devalued so drastically, consolidated group sales would even have increased by 0.5 percent.
3. In Germany, we have this year so far outperformed the industry which, according to estimates by the industry association BHB, reported a drop in sales in the range of 1.5 to 2 percent. I am particularly pleased about the fact that specifically the Praktiker brand succeeded in distinctly gaining ground since April.
4. At the same time we have taken adequate steps to ensure that our financial position is further strengthened. You will certainly recall: Securing earnings and liquidity featured at the top of our list of priorities for financial year 2009. Also in this respect we have made good progress in the second quarter.

Overall, we are thus very satisfied with the development of business in the second quarter against the backdrop of the general economic situation.

In this context it must be borne in mind that the two targets mentioned above are sometimes contradictory. In case of doubt and with a view to the present economic environment we placed a stronger focus on balance sheet items, i.e. on liquidity, than on optimizing our earnings position. One example is the placement of a 50 million euro promissory note in the second quarter. This strengthened our cash position. But the interest that we will have to pay for this will inevitably weigh on our financial result, even though only to a small extent. Another example: Our inventories at the end of the first quarter were too high in view of the general economic downturn that we are experiencing. We consequently started the marketing engine of Praktiker in Germany, pulled up our sleeves – in line with our slogan –

and distinctly reduced our inventory levels while making significant price concessions. This affected gross margins but also appreciably improved our working capital and increased liquidity. Here, too, we had to carefully decide between securing our cash position and optimizing our earnings position. But I think we succeeded fairly well.

Let us now have a closer look at the financial report. In this context, please allow me to focus on what we consider to be the key financials of the second quarter.

## **Sales**

Let us start with sales. Group sales in the second quarter 2009 came in at around 1.1 billion euro. This is 2.8 percent less than one year earlier when sales still profited from an unabated growth of our international business. Today, the situation is different: Sales in the segment International dropped 16 percent – like-for-like even 19,5 percent – to around 285 million euro. Here, it is important to highlight that two thirds of this decline are attributable to the strong devaluation of the eastern and southeast European currencies that are relevant for us. Net of currency fluctuations, i.e. calculated in local currency, the decline of our international sales would stand at just under five percent, with group sales even seeing a slight gain of 0.5 percent. But since we draw our balance sheet in euro, this is only cold comfort. It shows, however, that demand in the Eastern European countries has by far not dropped as much as the figures might suggest at first. So the main reason why the economic crisis thwarted the plans for our international operations was that the foreign currencies had lost so much of their value. This was the case in the first quarter and continued also in the second.

However, we can state that the exchange rates have stabilized in the meantime and that some currencies even appreciated slightly again. If the trend should persist this would already help a great deal.

Another light at the end of the tunnel is the development in at least two of our oldest international markets: In both, Greece - the most important country in terms of sales and earnings - and also Turkey, the drop in sales eased appreciably in the second quarter. Greece was even the only international subsidiary to move into the positive territory in June and only narrowly missed the prior-year sales figure for the full half year. This should be seen as a sign of hope. Nothing more but also nothing less. And it shows that, in times of crisis, Praktiker is able to stand its ground also in those countries where it has established itself as the leading DIY store operator with a recognized brand and a nation-wide store network.

Basically, this also applies for Germany. The Praktiker Group, but more so the Praktiker brand, quickly regained its footing on the domestic market after a difficult start into the financial year and was able to largely compensate its first quarter sales drop by mid-year. To be more specific: During the months from April through June 2009 sales on the German market rose by 2.9 percent year-on-year to around 815 million euro. Seasonal business proved to be a particular success in the Praktiker stores which sold 4.6 percent more than during the second quarter 2008. Here, a plant and gardening assortment that had been distinctly extended in terms of quality and choice was bearing fruit. But the main driver of this boost in sales was our increased marketing under the slogan "Sleeves up". This did not only improve the perception of Praktiker as a price-aggressive and discount-oriented brand, it also attested to the fact that, although customers become increasingly sensitive to price in economically difficult times, the corresponding price incentives will still encourage them to buy.

Another reason why we distinctly stepped up our marketing activities - and with this I come back to the remark made at the beginning - was because our inventory levels were too high. Excessive inventories tie up too much capital in the company. This is why we

invested into prices and accepted a temporary impact on gross margins to solve this problem.

Max Bahr took a different but equally successful road. To promote customer perception as a premium DIY brand, Max Bahr invested into assortment adjustments, extended the offer of private labels and contained itself in terms of marketing activities despite the 130<sup>th</sup> anniversary of the company. However, in view of the relatively high prior-year level, Max Bahr generated one million euro or 0.5 percent less in second quarter sales than during the same period one year earlier.

At the bottom line we get quite a respectable half-time picture for the current financial year. When considering the general economic conditions in which these sales were generated and the fact that Praktiker had to introduce short-time work in one third of its outlets still in March these figures cannot be appreciated highly enough.

## **Earnings**

So much about the sales trend of the group's domestic and international business activities.

But - as already mentioned repeatedly - our top priority was to secure our earnings position. A positive sales trend is a good prerequisite for this but certainly not the only one. This is why, in our program to secure earnings and liquidity, we placed so much emphasis on also getting a handle on costs. And I believe that we were successful in doing so.

A look at the second quarter income statement confirms this. We have been able to distinctly curb both, sales and administrative expenses. In this context, we saved especially on personnel expenses and advertising costs.

Overall, we generated operating earnings of just over 68 million euro during the second quarter. Although this is around 12 million euro less than one year ago when I had the pleasure of being able to report a jump in earnings, it is still about the same as in the second quarter 2007. And that was a good year, too.

At our Annual General Meeting two months ago I had already explained a phenomenon resulting from the different effects of the economic crisis in Germany and abroad, namely a tectonic movement in the business basis of the Praktiker Group according to which, following years of rapid international growth, our domestic business is again contributing a higher share to group sales and earnings. This shows how important it is that a company is firmly established in both, domestic and international markets.

In terms of sales, the domestic share in the second quarter rose from 70 percent last year to 74 percent this year. In terms of EBITA, our German operations with 53.7 million euro in the second quarter even contributed as much as 79 percent to operating earnings. International operations achieved 14.4 million euro or 21 percent. In relative terms, our German business has grown stronger with regard to earnings while our international business has grown weaker due to exchange rate fluctuations, among other factors.

Even if, in our view, these operating earnings are good we can by no means overlook the fact that they lag behind last year's results. The reasons for this vary depending on whether you look at domestic or international operations. In the International segment, the drop in sales resulted in a distinct decrease in sales productivity. Not to forget the already mentioned devaluation of the Eastern European currencies that had a negative impact in so far as the operating earnings generated in local currency had to be translated at less favorable exchange rates into euro, the currency used for drawing our consolidated financial statements. Overall, if exchange rates had remained unchanged, the EBITA generated abroad during the second quarter would have been 4.5 million euro higher.

In Germany, by contrast, the decline in earnings is mainly attributable to lower gross margins at the Praktiker brand which, I repeat, were intentionally accepted to reduce inventory levels. The resulting improvement of the working capital in our view justified the short-term losses in gross margin even if, as a consequence, the first quarter losses incurred by the Praktiker brand could not yet be fully compensated in the second quarter. However, we expect that, by the end of the year, Praktiker in Germany will also be able to report a positive contribution to consolidated earnings.

Max Bahr, which, as a premium brand typically generates higher margins, was able to raise its operating earnings during the first half year despite lower sales because of changes in the assortment including the extension of private label products. At the same time costs were reduced. We expect that Max Bahr will also be an important pillar of our business in Germany in the second half of the year.

### **Outlook and End**

With this we have now come to the outlook and the fundamental question: What will the second half bring in Germany and abroad? Uncertainty remains high. Our business sector – just like the rest of the retail industry – remains dependent on macroeconomic developments. This is why we have to be careful when wording our expectations for financial year 2009. We probably cannot expect our business to improve fundamentally in the remaining months but there are also no clear indications for a further deterioration either. This is why we anticipate a moderate decline in sales for the Praktiker Group also in the second half and thus for the whole year.

Since we have worked intensively on all expense items during the first six months and succeeded in distinctly curbing costs, since we also plan to bring the marketing activities of the Praktiker brand in Germany down to a normal level and since, in addition, we also expect the Eastern European currencies to stabilize further, we continue to expect to be able to generate reasonable, positive operating earnings.

We are also confident that we will be able to achieve the goal of securing liquidity too. Regarding liquidity, net debt and working capital, i.e. all items that inform about our financial position and which are at the particular focus of our CFO, Mr. Ghabel, everything is under control. Also in this field we have already worked the switches so that we will see no material changes until the end of the year: We have reduced our capital expenditure projects to the absolute minimum, inventory reduction is well on track and liquidity was also further strengthened with the promissory note.

Ladies and Gentlemen,

We will not deviate from this course as long as the overall economic situation remains difficult. All elements of the package of measures implemented to secure earnings and liquidity remain in effect. This notwithstanding we stay very alert to be able to shift into high gear quickly should the economic situation improve globally or at least in some of the countries where we are active.