



## **Interim Report 2-2010 of Praktiker Bau- und Heimwerkermärkte Holding AG Telephone Press Conference, Thursday, 22 July 2010, 9:00 a.m.**

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### **Statement Wolfgang Werner, Chief Executive Officer**

Ladies and Gentlemen,

I cordially welcome you to our telephone conference on the occasion of our report on the course of business of Praktiker Group in the second quarter 2010.

The report, which also gives an account of the complete first half of the year, has been distributed to you. I assume that, despite the early beginning of this conference, you already had the opportunity to take a look at the financials. From this report you can see that sales and earnings lagged behind our expectations. At the international level, however, you can see a clear improvement in the second quarter over the year earlier figures which I will explain to you in the following. And in Germany it showed that we are on the right track with the realignment of our marketing strategy initiated in the first half of the year with a consistent focus on cost control and efficiency enhancement. Even though sales in Germany declined once again on account of the poor weather conditions which lasted into the early summer it was possible to stabilise the development of operating earnings in Germany thanks to the improvement of the gross margin, which was our top priority for 2010. And since the summer finally arrived in June, also our sales have again moved into positive territory in Germany and abroad.

This notwithstanding, we cannot be satisfied with the course of business which we have seen so far this year. It is therefore all the more necessary that we consistently drive the transformation of our Group under the programme entitled "Praktiker 2013". This will also gradually bring us back on the road to success. In the second part of my speech I will explain to you in more detail where we are standing today.

But, first, let us look at the figures which we report today. At 1.039 billion euro, Group sales in the second quarter fell short of the year-earlier value by 5.6 percent. Here, in particular the months of April and May when the garden business is usually booming did not go well. The weather was poor and so was the spending mood of German consumers. This did not only apply to us but, according to all accounts, to the entire industry sector.

In Germany, sales declined by 7.2 percent. Max Bahr generated 4.2 percent lower sales than one year earlier, Praktiker 8.4 percent. In this context, in addition to the turbulent weather conditions also the fact that the number of 20-percent discount campaigns was cut by half,

showed its effects. This measure forms part of a comprehensive realignment of our marketing strategy that knowingly accepts a temporary decline in sales in order to improve gross margins. We successfully achieved this goal in the second quarter. The drop in sales was compensated to such an extent that Praktiker Germany was able to contribute 32.2 million euro to earnings. This result is only one million euro – or 2.9 percent – short of the figure for the second quarter 2009. With 19 million euro, Max Bahr contributed the same amount to operating earnings as last year. In total, we thus generated EBITA in the amount of 52.3 million euro in Germany during the period under review.

This amount almost exactly corresponds to the EBITA of the overall Group. This means that, in the second quarter, our German operations were the sole units to contribute to Group earnings. The international operations – following strong losses in the first quarter – only managed to achieve a “red zero”. On the one hand, this is attributable to the fact that the mentioned improvement of our international market environment is only progressing slowly. Although Q2 sales came in at the prior-year level with 282.5 million euro, like-for-like this corresponds to a minus of 5.8 percent. On the other hand, this had to do with anti-trust risks in Poland. They made it necessary to set up a provision in the amount of 9.5 million euro. The objection that we lodged against the fine notice about which we had informed you in an ad-hoc notification in May, is still pending. This notwithstanding we had to set up a provision. Net of this provision we would have been able to report EBITA from our international operations in the amount of 9.4 million euro.

All the same, we are looking forward to the second half of the year with some optimism. This is because, despite a few remaining risks, the economic situation in our international markets is on the road to recovery. In this context, I would especially like to mention the Ukraine where business in the second quarter picked up very strongly and like-for-like sales increased by around 23 percent. Also Bulgaria and Romania reported a distinctly better development of sales in the second quarter as compared to the first. In Poland and Turkey the positive trend of the previous months continued unabated. Only Greece is ailing under the pressure of the rigorous austerity policy adopted by the government. Whether the slight improvement in sales that could be felt in this important foreign market in June is sufficient to start a sustainable turnaround still remains to be seen. One thing is for sure, however: the horror scenarios that were predicted by some have failed to materialise in Greece. And my guess is that we will not see them in the future either.

So you can see: there is growing evidence suggesting a turn for the better. We take notice of these signals, but we also do not overrate them. Still, they justify expectation that the sales trend in our international business will develop more positively in the second half of the year. In Germany, by contrast, sales are likely to decline also in the second half – mainly because we plan to further reduce the number of discount campaigns at Praktiker. Everything taken together, we will therefore probably have to shoulder a slight drop in Group sales in the low single-digit percentage range for the full year 2010.

But we remain confident with regard to our operating earnings: EBITA should show a significant year-on-year increase in 2010. However, I also have to add that this forecast, which we had presented in this form for the first time at our annual press conference on 26 March, does not include extraordinary effects as they are the provision set up for anti-trust risks in Poland or any effects on earnings resulting from the implementation of the programme "Praktiker 2013".

Ladies and Gentlemen,

This takes us directly to the topic "Praktiker 2013". As you know, we launched a comprehensive transformation programme in autumn 2009. The aim of this programme is clearly defined and timed - namely that we want to bring the Praktiker Group back to its former earnings strength by the year 2013. This means that the EBITA margin at Praktiker in Germany is to show a three before the decimal point, at Max Bahr at least a four and in our international operations a six again. What this means in absolute figures and how the expenses and earnings are distributed over time or how much may be realised already during the current year is something that can only be quantified to a certain degree in the second half of 2010, at the earliest. There are two reasons why this is not yet possible today:

First because, after the systematical implementation of the project landscape, the actual programme work at Praktiker Germany only started in spring and was later extended to Max Bahr and the international operations.

Second, the focus for this year is on collecting ideas which are generated in numerous project and sub-project groups and also developed in an intensive dialogue with the managers of all levels, with employees of all corporate functions and with the employee representatives of the Group and its subsidiaries. In the first half of 2010 alone, nearly 170 big and small ideas with an estimated EBITA potential totalling around 100 million euro have been collected and now need to be assessed, resolved and implemented. Please do not misunderstand me. This does not mean that all these ideas can be realised to their full extent. This is what now needs to be examined in more detail in many cases. On the other hand, it also does not mean that the potential for strategic, operative and structural improvements ends here.

Allow me to give you some examples from the list of activities which we have already initiated at Praktiker Germany.

Take the reform of the management structure in Sales and Category Management, for example. It resulted in leaner structures, shorter reporting lines and an overall more efficient organisation of the headquarters and the stores. And: we achieved permanent cost reductions in a substantial amount.

Take the private label strategy, which is for the first time focusing on the name Praktiker. We started to implement it in the gardening assortment at the beginning of the year and are now gradually and consistently taking this strategy to other assortments with the most discerning demands in terms of quality.

Take the implementation of the newly defined target positioning as the “leader in value-for-money”. This is currently realised in eleven select concept stores where the new Praktiker concept is presented to the employees and customers. Here, our tried and tested Easy-to-shop concept, which is synonym for fast and convenient shopping, is basically being developed further with an added focus on quality.

These stores offer a standardised, extended services portfolio, qualified customer advice, a customer information desk that deserves its name, an optimised store information system and a whole set of guarantees and warranties to regain lost customer trust and raise the overall satisfaction with the Praktiker brand. By offering a right to return purchases in their original packaging upon presentation of the cash receipt without any time limit, for example. By guaranteeing our customers that they can purchase or order any promotion article and that, if this article should already be out of stock, they can purchase a superior article for the same price. And by extending the manufacturer warranty on all appliances with a plug connection to five years. No compromises, no ifs and buts. If the innovations stand their ground in the concept stores, we will also roll them out nation-wide in the first half of 2011.

Ladies and Gentlemen,

With these few examples from the concrete programme work I wanted to show to you that we are putting everything to the test and leaving no stone unturned and that we are working many switches to achieve the defined earnings targets. This is why the programme “Praktiker 2013” also, but not only, aims at reducing costs. It is an efficiency and value enhancement programme with a long-term perspective that will result in a transformation of the whole company. Transformation, here, means: revitalisation, restructuring, complete overhaul. I would like to repeat here what I already said in this regard on another occasion: to achieve an optimisation of the costs, the programme mainly focuses on leaner processes and more efficient workflows. And to achieve an increase of sales and earnings, it aims at nothing less than the strategic repositioning of our company, especially with a view to the Praktiker brand in Germany.

I thank you for your attention. Our CFO Mr. Gabel and I will now gladly answer your questions.