



**Interim Report 2-2010 of Praktiker Bau- und Heimwerkermärkte Holding AG
Telephone Analyst Conference, Thursday, 22 July 2010, 10:00 a.m.**

Statement Thomas Gabel, Chief Financial Officer

Good morning ladies and gentlemen,

Welcome to the telephone conference on the results of the first half of 2010.

Today we have a slight change in agenda as compared to the way we conducted our telephone conferences in the past. We welcome our CEO, Mister Wolfgang Werner to today's conference. He will brief you on the actual state of our transformation programme Praktiker 2013 after I have taken you through the results. As usual, we will conduct the conference in English, but Mr. Werner has asked to speak in German. Therefore we have provided translation services for his address and later for the Q&A session. Nevertheless, I would like to ask you to pose your questions in English only, as the call will be cast live on our website as usual.

After this preliminary remark, let me dive straight into the numbers.

The Praktiker Group posted net sales of close to 1.8 billion euros in the first six months of 2010. That corresponds to a decline of 5.8 percent in absolute terms and 7.6 percent in like-for-like terms.

Like-for-like the decline was more or less the same in both our German and International activities. In absolute terms the sales development was much more positive in the International segment, as the number of stores outside Germany has increased

by six when comparing the numbers at the mid year reporting date.

The sales development did not live up to our expectations. We do have to accept though that the weather was not supportive to our business – neither in the first nor in the second quarter.

We also have to accept that the Eastern European economies are recovering at a slow pace and at the same time sales in Greece are affected by the strict fiscal measures in that country.

These are factors that we can hardly influence.

Other factors we can and do influence. As we had discussed many times, Praktiker has started to reduce the number of 20 percent off promotion days. 2009, we had 43 days in the first half year, this year that number is down to 25. The decline is even more drastic in the second quarter, from 21 days to 10 days.

As such it does not come as a surprise that sales of the Praktiker brand in Germany declined more strongly than the sales of Max Bahr or in the International business.

For the Group as a whole the sales performance in like-for-like terms in Q2 was identical to the performance in Q1. German sales decline was a trifle stronger in Q2 which gives you an indication on the weather impact particularly in April and May. In our International business though the second quarter saw a much better performance in terms that the decline had become much less pronounced. So we are seeing the first signs of improvement here.

Those signs have become much stronger in the month of June, as sales were up in the last month of the quarter in the International

business also in local currencies for the first time this year. Similarly in Germany: while April and May had shown strong declines - sales in June were up on last year.

So, after all, there are also some encouraging aspects embedded in the overall unsatisfying sales picture.

And there is another piece of good news: Although sales declined, the earnings quality of the sales improved. The gross profit margin increased by 1.6 percentage points to 32.6 percent in the first half year. What is even more interesting: In the second quarter the increase at 2 percentage points was markedly higher than in the first when the gross profit margin increased by 1 percentage point only.

As a result, gross profit declined by 1.1 percent only. Relating this change to the decline in sales, I believe it is justified to say that we are moving in the right and intended direction here.

Gross profit margin improvement and further cost control in itself was not fully sufficient to compensate the negative sales impact on earnings. EBITA before extraordinary effects in the first half stood at 14.4 million euros. So, a sales decline of 110 million euros turned into a decline of earnings of 4.5 million euros only. I don't think that this is such a bad performance at all. Particularly when you take into account that earnings declined in the International business only, while the strategic repositioning of the Praktiker brand led to an increase in its operating earnings of 3.7 million euros.

Two more remarks on the International business. First: International earnings profited to an amount of 1.7 million euros from the revaluation of Eastern European currencies.

Second: Profits in Greece were maintained at a level that I would call satisfying, at least in the light of the very demanding circumstances.

On the other hand, we have to account for certain extraordinary effects.

As reported in an ad hoc announcement on 25 May 2010, Praktiker in Poland was served with a fine notice in the second quarter. The Polish anti-trust authority accuses Praktiker Poland of illegal price fixing from 2000 to 2006. A fine notice was received as a result of other similar proceedings in 2006 for which relevant provisions had already been created. The anti-trust authority is also carrying out an investigation in a third – and according to Praktiker’s state of knowledge last – set of proceedings.

Praktiker has taken legal action against the two existing fine notices. There has not yet been a final decision in either case. According to all information currently known including the evaluations of the Polish law firms hired by Praktiker, the provisions created as at 30 June 2010 of a total of 14.2 million euro (converted) will cover the expected procedural costs and fines for all three cases. Of this amount, 9.5 million euro (converted) was added to the provisions in the second quarter of 2010.

Moreover, expenses in the framework of our programme “Praktiker 2013”, which cover the actual programme work, the consultancy fees, redundancy payments and some miscellaneous items, have come to 4.8 million euros in the first half year. We also consider these to have a one-off character and as such adjust earnings accordingly.

After these extraordinary effects, stated results show an EBITA of 0.1 million euros for the first six months.

Net result for the first half year is reported at minus 11.8 million euros, in 2009 it had been reported at minus 2.2 million euros. What were the major influencing factors here?

The financial result was 1.3 million euros lower than last year and stood at minus 25.8 million euros.

After it had shown a strong improvement in the first quarter, the financial result for the first half was more or less at par with last year. The reason is that a substantial part of the financial result consists of the liabilities arising from our finance leases. To the extent that they arise in non-euro countries, they are valued anew every quarter at the exchange rates of the reporting date. As practically all currencies with importance to us revalued in the first quarter, we had seen good currency gains at the end of March. As they devalued equally strongly in the second quarter, those gains dissolved again fully.

The mechanics of IFRS reporting standards have thus again led to huge swings in the financial result. But at least the 4.6 million euros in net currency losses are non-cash. The same is true by the way for 2.1 million euros in financial expenses which result from the increase in the fair value of the debt component of the convertible bond.

The further deterioration was triggered by the decline in the interest result which again was affected by the decline in interest rates for short term deposits.

The second issue I need to address in connection with the net result is the tax rate. When we reported on the first quarter, we

had applied a tax rate of 33 percent, because that was the rate we expected for the full year at the time. Now, after we had to provide for the cartel fine in Poland - which will not be considered in the tax accounts - and after we have been informed by the Greek government, that it will – again – enforce a special tax of 2.5 million euros on 2009 earnings, we had to reassess the expected tax rate for the year. The result is that we will now see most probably a tax rate of 54 percent, which we thus have applied to the half year results.

With the resulting net income of minus 11.8 million euros, earnings per share are calculated at minus 0.22 euros as against minus 0.05 euros for the first half year 2009.

While sales and earnings are down on last year, all indicators for the financial situation are up.

Inventories have been substantially reduced again. At mid-year, we carried 73 million euros less in inventories than 12 months ago, although we operate 3 more stores.

The reduction of inventories was the main trigger for the improvement in working capital which declined by 45 million euros to 337 million euros.

The improvement in working capital in turn set free additional cash. As of 30 June, cash and cash equivalents increased by 22 million euros to 293 million euros.

At the same time we had spent 31.4 million euros on capex and as such nearly two million euros more than the year before. So we managed both: Higher capex and higher cash.

The improvement of the cash position is reflected in the net debt position which improved from 195 million euros to 163 million euros.

All in all, we have kept our financial position solid and comfortable. For me as the CFO this is clearly a very positive development.

Let me wrap up what I have said so far:

Sales and earnings were not up to our expectations. But we were able to compensate most of the sales decline by improving the gross profit margin and keeping costs down. On the other hand, extraordinary effects had a major impact on results. Despite declines in sales and earnings the financial situation of the Praktiker Group has improved further.

In Germany, earnings remained stable even though sales came down considerably.

In the International business the provisions in Poland have wiped out all profits in the second quarter. But we have seen signs of recovery in many countries as the second quarter saw a better sales performance than the first. Moreover, June was the first month this year that ended with an increase in sales also in local currency terms. It is also worth noting that the situation in Greece is not getting out of hand. Sales suffered in Q2, but we are still able to keep profits at a reasonable level.

And last but not least, results from the operating business were supported by the revaluation of Eastern European currencies, if only moderately as most currencies have weakened again in the second quarter.

What does this all mean for the further development of sales and earnings in 2010?

Well, the weaker than expected sales performance led us to adjust the sales outlook for 2010. We still expect to see a much better sales development in the second half in the international business where we expect to get support both from the improving general economic development and from strengthening exchange rates. In Germany, however, we expect a decline in sales as we have adapted the marketing plan for Praktiker further and will thus reduce the number of promotion days even faster than originally planned. Therefore we now guide for a moderate, low single digit decline in group sales for the full year.

We maintain and reiterate our guidance of a considerable increase in operating earnings for the full year. In our communication with the capital markets, we have made it clear from the beginning that this statement refers to the EBITA before extraordinary effects, be it the unexpected provision in Poland, be it the expenses connected with the programme "Praktiker 2013".

Capex for the full year will be at the level of last year, meaning around 70 million euros and to be financed from the operating cash-flow, thus following the pattern of the first six months of the year.

We are confident that we can maintain the comfortable financial position that we achieved so far.

As far as the tax rate is concerned, it is well possible that it will deviate again from the rate that we now expect. A precise forecast is very difficult to make as there may still be additional extraordinary effects to be considered resulting from "Praktiker 2013". This would automatically give more weight to those taxes

that are not directly related to earnings like the addition to trade taxes in Germany. Nevertheless the underlying rate will still be around 34 percent.

Ladies and gentlemen, with these remarks I have come to the end of my presentation. Thank you for your attention. I will hand over to Mr. Werner now.



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Statement Wolfgang Werner, Chief Executive Officer

Ladies and Gentlemen,

It is a pleasure for me to inform you personally today about the current status of our programme "Praktiker 2013" for the first time. In our financial report, the corresponding chapter was presented under the title:

"Praktiker 2013" – THE FIRST STEPS HAVE BEEN TAKEN

Nothing more, but also nothing less. The title already suggests that we are still at the beginning of our efforts but that further steps will follow soon. This is owed to the fact that some issues can be decided quickly while others require careful consideration. I would rather prefer to take a good decision tomorrow than a bad one today. So, if you expect me to already give you an answer for all questions which we are addressing in the context of the overhaul of our Group today, then I have to disappoint you. But if you expect to hear about the progress of the programme, then I have a whole raft of interesting news for you already today.

I will not present the structure, set-up and targets of the programme again. We already explained at the Annual Press Conference that this transformation programme aims at aligning the company with the goals of raising its value and efficiency to make it fit for the future. On the same occasion we also pointed out that the first measures under the transformation programme had already been implemented in the first quarter.

As one of these measures, "Praktiker" had introduced as private label in the garden segment in Germany at the beginning of the year. Today we know: it is well received by our customers even if the garden season as a whole left a lot to be desired. During the first half of 2010, the share of private labels in total sales increased by 5 percentage points to 32 percent compared to the year before. We are thus on the right track. Presently, we are preparing the introduction of the "Praktiker" private label in Germany for laminate flooring, paints and hardware items. Also at the international level preparations are under way to roll out the "Praktiker" private label in different assortments.

At the beginning of the second quarter we implemented structural and personnel changes relating to the management of Praktiker Germany. In the Sales function, we closed our regional offices and replaced the three heads of regional sales by one managing director. At the same time, we also reduced the number of district managers from 15 to 11. In our Category Management, we equally replaced the three division managers by one Managing Director and reduced the number of category managers from 9 to 6. This will result in annual savings of more than one million euro in future. These changes do not only contribute to sustainably reducing costs, but also resulted in a leaner organisation that already now benefits from shorter decision-making and reporting lines. The new management structures also form the basis for the realignment of the marketing concept of Praktiker Germany. In a next step, we are now reviewing the workflows, processes and thus also the structures and responsibilities at the stores.

Besides the structural changes in Germany, also a vast number of individual measures for the personnel and structural changes at the headquarters and central functions have been initiated meanwhile. They aim at improving and standardising workflows, at avoiding double work or renouncing to cherished but not essential benefits. With these measures, Praktiker made good progress towards the target of reducing the overhead expenses by a double-digit million euro amount.

The actual focus of the programme work also lies on the further development of the strategical positioning of Praktiker Germany. I will only outline the main measures here. An important aspect for us is the establishment of 11 concept stores of the Praktiker brand in Germany – the most visible change for our customers. A further simplified navigation facilitates orientation inside the store and the range of services and guarantees was substantially extended. Inter alia, the staff working at the stores will be relieved of some administration duties so that they can concentrate more on customer contacts. This way, Praktiker wants to convey to the customers that they can expect not only attractive prices but also services “on par with the competition”. The changes therefore follow the new orientation of the Praktiker brand with the objective of developing from ‘price leader’ to ‘leader in value-for-money’ in the perception of the customers.

The programme focus at Max Bahr is on the further development of the assortments to meet the customers’ needs. In this context, the “dream baths” concept under which customers are offered products plus installation services from a single source will be transferred to building elements such as doors and windows.

In our effort to develop efficient structures, considerations for developing optimised supply chains are a top priority. This covers the transport of the goods from the suppliers to the stores in the same way as the stocking of the shelves within the stores and re-ordering. The general decision was taken to automate re-ordering at Praktiker Germany.

In our international business, one focus of the programme work is on reviewing and assessing the set-up, structure and integration of the respective country organisations into

the overall organisation of the company. These tasks were pushed ahead in the second quarter after the programme was extended to the international segment.

In the meantime, ideas have been generated in the framework of the programme which, if they were all realised, would result in an earnings potential of around 100 million euros. I cannot yet tell you at this point whether all of them can be put to practice. But this is by no means the end of the road as in the framework of the individual projects ideas continue to be developed.

What we can tell you precisely are the costs of the programme that occurred up to now. In total, 4.8 million euro have been spent during the first half of the year on work in the Programme Office, on external consultancy services, on severance payments in the framework of the restructuring and first costs related to the changes at the concept stores. Of this total amount, 2.8 million euro were spent on the programme work and 2.0 million euro on the measures already implemented. The decisions from the programme work have so far not led to any expenses of an investive nature. Since important actions are still in the decision-making phase, it is not yet possible at this point in time to quantify the expected effects on sales, earnings and capex during the current and the next financial years, neither for individual measures nor for the programme work as a whole.

Ladies and Gentlemen,

From my point of view the entire programme represents an investment – an investment that will bring us back to our former strength and profitability. With the examples from the concrete programme work, I wanted to show to you that we are putting everything to the test, leaving no stone unturned and working on 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 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 a rise in sales and earnings, we aim at nothing less than the strategic repositioning of our company, especially with a view to the Praktiker brand in Germany.