



**Speech by Markus Schürholz,
CFO of Praktiker Bau- und Heimwerkmärkte Holding AG**

**on the occasion of the presentation of the financial
results of the first nine months 2010**

27 October 2010

The spoken word is valid.

Good morning ladies and gentlemen,

Welcome to our telephone conference on the results of the first nine months of 2010.

As I have started working for the Praktiker Group only about six weeks ago, I would like to shortly introduce myself before I lead you through the results of the first nine months.

My name is Markus Schürholz, I have now joined the management board of Praktiker. There are challenges ahead. But the company has already started a fundamental transformation process. I am sure to be able to contribute to it substantially and thus, together with my colleagues in the management board, get the company back into shape for a successful future.

After the presentation I will be happy to take your questions. As such, the speaker has changed, but not the format of our presentation.

The Praktiker Group posted net sales of 2.7 billion euro in the first nine months of 2010 - a decline of 5.8 percent in absolute terms and 7.4 percent in like-for-like terms.

In Germany, Praktiker sales declined by 7.5 percent in the first nine months, Max Bahr sales by 3.3 percent.

Although these are not positive figures, they are more or less in line with expectations.

It is rather the international sales development that was reason for disappointment. Hopes that business in Eastern Europe might pick up in the third quarter or at least decline at a much lower rate than in the first half of the year materialized in a few countries only, like in Hungary or the Ukraine. In most other countries they did not. Sales for the first nine months were down by 4.5 percent in absolute and 8.3 percent in like-for-like terms.

Greece and Romania in particular still suffer from the fiscal measures that the governments have taken to reduce the state deficits. To give you only two examples: In Romania, VAT was increased by 5 percentage points to 24 percent in the middle of the year. In Greece, VAT was increased in two steps by 4 percentage points to 23 percent, the second becoming effective in the middle of the year too.

As a result of these measures, aggregates like available income, private consumption, and demand for DIY were all still trending down. Praktiker's international sales thus felt the impact too.

Although sales declined by 5.8 percent, gross profit was only down by 1.0 percent to 898 million euro. Gross profit margin thus increased by 1.7 percentage points to 33.3 percent in the first nine months.

The main reason for this improvement came from the reduction of discounts at Praktiker Germany. As an indication, the number of 20 percent off days in the first nine months was reduced from 51 in 2009 to 39 in 2010. We lost sales, but we lost low margin sales.

The gross profit margin in our international portfolio as a whole was kept stable. A substantial part, but not all of those VAT increases I have just mentioned, were passed on to the customers. In 2010, we had less promotional campaigns than in 2009. This also helped to maintain gross profit margin at the previous year's level.

Gross profit margin improvement and further cost control were sufficient to compensate the negative volume effects on earnings in the third quarter and to bring EBITA before extraordinary effects to 40.0 million euro, a plus of 16.6 percent over the previous year

The swing to the positive in the third quarter came mainly from the Praktiker brand in Germany. EBITA before extraordinary effects of our main brand in Germany increased by 28.6 percent to 17.3 million euro.

Max Bahr also contributed to the increase in operating profits. It's EBITA was up by 6.9 percent to 5.4 million euro in Q3.

And even in our international activities we were able to show improvement – despite the substantial decline in sales. EBITA before extraordinary effects increased by 4.8 percent to 16.9 million euro. 0.6 million euro of that improvement were linked to favourable exchange rates.

The increase in earnings in the third quarter also brought nine months EBITA before extraordinary effects up on last year. It was

posted at 54.4 million euro, 1.2 million euro or 2.1 percent more than last year.

The positive exchange rate effects added up to 2.3 million euro in the first three quarters.

There is one element in our current activities, however, that has a major impact on stated operating results – the extraordinary effects resulting from “Praktiker 2013”, the transformation programme we had started in the beginning of the year. In total, 12.8 million euro have so far been spent on the programme, 8.0 million euro of which in the third quarter.

Roughly one third of that amount was spent on the programme office work plus external consulting. The rest was spent predominantly on redundancy payments and miscellaneous other activities. From the changes in the management board alone expenses of 2.4 million euro arose.

Moreover, we have to consider the additions to provisions in Poland amounting to 9.5 million euro. These had already been accounted for in the second quarter. All in all, these extraordinary effects amounted to 22.3 million euro in the first nine months.

As a consequence, stated EBITA for the first nine months reached 32.1 million euro.

Net result for the first nine months came to minus 0.1 million euro, against a plus of 7.5 million euro in the same period one year earlier.

The financial result improved by 2.6 million euro against last year and stood at minus 31.8 million euro. Major influencing factors were the decline in the interest result by 1.3 million euro and

positive currency effects of 5.6 million euro resulting from the valuation of finance lease liabilities.

As far as the tax rate is concerned, IFRS accounting standards require us to mechanically apply the expected tax rate for the full year to interim results. As the tax rate for the full year is now expected to be at 147 percent, this rate had to be applied to the nine months earnings.

At the half year stage, a tax rate of 54 percent had been applied. The increase relates, among others

- to the expectation that overall earnings will not meet original expectations in the international business and
- to the extraordinary effects resulting from “Praktiker 2013”.

As far as the financial indicators of the Praktiker Group are concerned, they were all up at the end of the reporting period.

At the end of September, we carried 50 million euro less in inventories than 12 months ago.

The reduction of inventories was the main trigger for the improvement in net working capital which declined by 32 million euro to 352 million euro in the last 12 months. Trade payables were down by 18 million euro in the same period.

The improvement in net working capital in turn set free additional cash. As of 30 September, cash and cash equivalents stood at 301 million euro, up 7 million euro against September last year.

Net debt declined by 17 million euro to 152 million euro, reflecting the increase in cash and cash equivalents as well as the decline in liabilities arising from finance leases.

In the first nine months Praktiker has spent 44.3 million euro on capex and as such 2.2 million euro more than in the same period the year before.

At the beginning of my presentation I had mentioned that the impact of “Praktiker 2013” on the P&L was the result of many individual decisions. Allow me to elaborate on this point further.

In the third quarter, a total of 8.0 million euro in extraordinary effects arose from many different decisions, bringing the total of all one-offs in the first nine months to 12.8 million euro.

3.9 million euro of that total were spent on the work of the programme office and external consulting.

2.4 million euro resulted from the changes in the management board.

The greater part of the rest was due to changes in the management structures in different parts of our company as the second layer of management in central functions has meanwhile been thinned out by about one third.

As far as the measures taken so far are concerned: We expect them to reduce expenses by a mid single-digit million euro amount starting already in 2011, the pay back period for these investments should therefore not be much longer than two years.

And I would like to make one thing clear: The “Praktiker 2013” programme is in progress, all major decisions will be made until the end of the year. We will then implement all measures step by step and we expect them to yield results both short-term and mid-term.

Until the end of the year, we will have evaluated

- The new sales and marketing strategy of Praktiker in Germany
- Measures to increase efficiency in the stores
- Logistics
- Automated re-ordering
- Further cost savings in central functions
- Corporate procurement - and
- The merchandise management system.

As far as I can see today, some of these topics will also entail more extraordinary effects to come in the fourth quarter, but the magnitude will depend on the decision in detail and is currently still being evaluated.

Let me sum up:

Group sales did not live up to our expectations, but gross profit margin increased considerably.

Group EBITA was up on last year after nine months, but major extraordinary effects had to be accounted for.

All financial indicators have improved.

“Praktiker 2013” is in full swing and will be conceptually finalized until the end of the year.

In Germany, sales were down due to fewer discounts of the Praktiker brand. But earnings were up.

Max Bahr continued to deliver solid returns.

In the International business, the sales development did not meet expectations. But EBITA was still positive.

That brings me to the last topic of my presentation, the outlook for 2010.

The weaker than expected international sales performance in the third quarter led us to adjust the sales outlook for 2010. We now guide for a mid single-digit decline in group sales for the full year – much in line with what we have seen in the first nine months.

EBITA before extraordinary effects is still expected to increase. For our German activities we maintain our guidance of a considerable increase in operating earnings for the full year. In the international segment, earnings before one-offs will not reach last year's level as the business development so far has fallen short of our expectations.

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

Ladies and gentlemen, with these remarks I am at the end of my presentation. Thank you for your attention. I am happy to answer your questions now.