Annual Press Conference 2011
Wednesday, March 30, 2011

Speech by Wolfgang Werner,
Chairman of the Management Board

The spoken word is valid

Ladies and Gentleman,

I cordially welcome you to our Annual Press Conference 2011, the sixth such conference since the going public of Praktiker Bau- und Heimwerkermärkte Holding AG and at the same time also the first one which we organised as a conference call.

Let me tell you right away: we do not plan to make this the rule. There is one simple reason why we are not meeting in Frankfurt as usual. It is because, on the occasion of a conference held in Saarbrucken on 16th of February, we had already informed you in detail about the main decisions and measures taken in the framework of our value enhancement programme "Praktiker 2013". At this event, most of what would have constituted the contents of the strategic part of our annual press conference had already been said. But we did not want to wait any longer because, at that time, we had just implemented the repositioning of Praktiker Germany and our online shop – two cornerstones for the restructuring of our Group.

So, today, we will mainly talk about the full year results 2010 which my colleague Markus Schürholz will present in detail in a short while. I will restrict myself to a summary report and to the outlook. Let me start with what, from my point of view, was essential in the year 2010:

The Praktiker Group generated sales of close to 3.5 billion euro in 2010, 5.9 percent less than in the previous year. We had already published these figures at the beginning of the year.

EBITA was reported at 35.3 million euro. After deduction of the financial result and taxes a net loss for the year was posted leading to negative earnings per share of 60 cent.

However, earnings look much more positive when considering the extraordinary effects incurred in 2010. Before these effects, Group EBITA stood at 67.7 million euro. This corresponds to a year-on-year increase of 4.2 million euro or 6.6 percent. And it falls in line with our forecast for the year 2010.

In 2010, we also massively invested into the future. And here I am not only referring to the capital expenditure in the amount of 62.1 million euro which we used for store maintenance, assortment changes and also for new locations. In particular, I am referring to the 24.3 million euro which we reported as extraordinary expenses in the context of the programme "Praktiker 2013". With this money, we changed our organisational structure, streamlined our hierarchies, prepared the repositioning of Praktiker Germany and developed a wealth of other ideas that will help us to further strengthen our Group's earnings performance in future. We already presented a detailed report about this to you in mid-February so I think I don't have to repeat myself on this occasion. But we also succeeded with something else in 2010, namely the phasing out of our open discount campaigns. "20 percent off everything" has thus reached the end of its lifecycle.

But it was not possible for us to come off this drug from one day to the next. This is why we reduced the dose gradually from 107 days in the year 2007 to just over 60 days in the years 2008 and 2009. In 2010, we only granted 20 percent off everything to everybody on 49 days. In the current financial year, this will not happen on any single day. And the same also applies for all other forms of general discounts granted – be it discounts on product categories or "25 percent off everything with or without a plug".

What we are focusing on now we had also explained to you in mid-February already: attractive shelf prices, further simplified assortments, immaculate product quality, Praktiker as a strongly performing private label in the medium price segment, higher employee availability on the sales floor as well as added service and guarantees - and on a marketing campaign with Boris Becker as our new testimonial. By the way: this campaign will be launched this evening. So switch on your TV tonight.

I would like to use this occasion also to say a word about our activities in the growth area of eCommerce. As you know, the Praktiker Online Shop was launched on the 17th of February as scheduled. Operations started smoothly – something that is not always the case with this kind of distribution channel. The click rates are good, but sales are not sufficiently stable yet to derive an extrapolation for the whole year. However, we are confident that, as planned, we will gradually address a new group of customers with a high internet affinity – a group which we had not been able to serve so far and which also has not found a permanent home with our competitors as yet.

This is because we positively differentiate ourselves from the competition. Those who enjoy smart shopping on the Internet are most likely to enjoy this on our site. And those who - for a major project - wish to order not only the materials but also the mounting and installation, can only do this with us – thanks to our partnership with the MyHammer workman service. It is not just by coincidence that our Online Shop was immediately rated as "very good" – with five out of five hammer symbols – in a practical test conducted by the leading German DIY magazine "Selbst ist der Mann".

Ladies and Gentlemen,

The gradual pullout from the discount trap has of course left its traces in the sales volume of Praktiker Germany, and thus also in Group sales. We consciously accepted this. Instead, we concentrated on increasing our gross profit margin and preparing our repositioning in 2011. With this decision, we clearly gave preference to leveraging mid-term earnings potential over maximising short-term sales.

Hence, 2010 was a decisive year for setting the course, a year of structural renewal. And it was a year for securing the future of our company because the decisions that we took in 2010 can, and will, bring us back to our former strength in the coming years. When looking at the development of the Praktiker share price before the disaster in Japan shook the stock exchanges worldwide, it seems that the capital markets had given us a certain advancement. But, like with any leap of faith, you have to work to get it – and then you have to work to justify it. We are well aware of this.

This leap of faith might also be owed to the fact that the planned increase in earnings of Praktiker Germany already started to show in 2010 – although it is still masked by the afore-mentioned extraordinary effects. At the level of the Group, which I just mentioned, we improved our EBITA before extraordinary effects by 4.2 million euro as compared to the year earlier. At Praktiker Germany, we even reported an improvement of the EBITA before extraordinary effects from almost zero to 18.5 million euro. This demonstrates that the measures which we initiated in the framework of the repositioning of Praktiker Germany are starting to take effect.

This was, by the way, also an important aspect when we had to decide about our dividend proposal. However, the dividend distribution is not based on the Group's IFRS financial statements but on the individual financial statements of the Praktiker Holding prepared according to the German accounting standard HGB. And this statement again reported a net profit for the year also in 2010. We therefore opted for dividend continuity. The Management Board and Supervisory Board will propose to the Annual General Meeting a dividend that is unchanged from the previous year of 0.10 Euro per share.

So much for my summary remarks regarding financial year 2010. My colleague Markus Schürholz will now explain the figures in detail to you.

Speech by Markus Schürholz, Chief Financial Officer

Thank you, Mr. Werner, Ladies and Gentlemen,

I would like to present to you now the Annual Financial Statements 2010. I will focus on the key financials covering the Income Statement, the Balance Sheet and the Cash Flow Statement.

Let me start with sales. Mr. Werner already laid out the Group figures. Let us take a look at the individual segments.

Praktiker Germany reported a decline in sales of 8.4 percent in absolute and 8.7 percent in like-for-like terms in 2010. Praktiker clearly lost market share in a market that has seen slight growth. However, as Mr. Werner just explained, this decline is primarily attributable to the reduction in promotional activities.

Max Bahr, too, fell short of the prior-year sales figure in 2010, but it was only a near miss of 0.7 percent in absolute and 2.7 percent in like-for-like comparison. Max Bahr struggled especially in the first half of the year due to poor weather conditions during the 2010 garden season which is a key strength to the brand. However, Max Bahr was able to catch up on this backlog in the second half – partly by means of an advertising campaign that specifically addressed loyalty card holders.

In the International segment, sales missed the prior year level by 4.8 percent in absolute and 8.2 percent in like-for-like numbers. This did not meet our expectations set out at the beginning of the year, mainly because we had to digest material sales declines in Greece and Romania on account of the general economic trends, the restrictive fiscal policies and the increases in value added tax which occurred basically at the same time in both countries. To be exact: sales declined by 6.1 percent in Greece and by 21.8 percent in Romania. At the same time, we managed to increase sales by 9.0 percent in Poland, by 21.7 percent in Turkey and by as much as 63.1 percent in the Ukraine.

Exchange rates developed in our favour in 2010. After in 2009 exchange rate fluctuations affected Group sales negatively by a good 10 percentage points, they contributed slightly over 2 percentage points on the positive side in 2010.

We had always stressed that we were reducing the number of discount campaigns with the aim of increasing the gross profit margin. In 2010, we succeeded in this endeavour with a group-wide plus of 1.3 percentage points. Here, the improvement primarily originates from Praktiker in Germany. At Max Bahr and in the International segment the gross profit margin remained almost unchanged.

Although we succeeded in increasing the gross profit margin, gross profit on sales came in 27.4 million euro below the prior year value due to lower sales volumes. In contrast, the other operating income rose by 4.1 million euro – mainly because we were able to generate higher contributions to advertising expenses. Selling expenses came in 7.0 million euro below the previous year while administrative expenses were up 11.4 million euro year-on-year. This results in an EBITA of 35.3 million euro which is 27.5 million euro less than one year earlier.

However, both expense items include extraordinary effects that add up to a total of 32.4 million euro. Net of these effects, selling expenses declined by 2.1 percent and administrative expenses by 4.8 percent. Before extraordinary effects, EBITA came in at 67.7 million euro - that is 4.2 million euro up from the prior year value calculated on a comparable basis. Mr. Werner had already mentioned it: this is fully in line with our forecast.

Now for the composition of the extraordinary effects: 24.3 million euro are attributable to the programme "Praktiker 2013". We have already explained this when we presented the programme on 16th of February. In addition 8.1 million euro are linked to provisions for anti-trust risks in Poland. In our previous reports, these additions had been calculated at 9.5 million euro. In the fourth quarter, however, we released 1.4 million euro as actual payment is not expected for several years and therefore the additions to provisions had to be discounted accordingly.

The individual segments contributed different levels to Group EBITA. According to the figures reported, Praktiker Germany came in slightly below the previous year. Before extraordinary effects, however, a substantial improvement occurred from almost zero in 2009 to 18.5 million euro in 2010 – an increase that is attributable to the strengthening of the gross profit margin and to strict cost control. For Praktiker Germany, this would mean an EBITA margin of 1.1 percent – about one third of the margin targeted for 2013.

At Max Bahr there were only minor changes to operating earnings. Before extraordinary effects EBITA stood at 31.4 million euro which corresponds exactly to the prior-year level and would result in an EBITA margin of 4.6 percent. With this result, we already achieved in 2010 what we had also targeted for 2013.

Earnings of the International segment came in a good two thirds lower than one year earlier caused by a strong decline in sales and the provisions set up in Poland. Before extraordinary effects, which mainly result from the additions to provisions in Poland, EBITA in the International segment was reported at 20.3 million euro. This corresponds to an EBITA margin of 2.0 percent – which is also a good third of the margin targeted for 2013.

Compared to the previous year figure the financial result improved by 3.3 million euro to minus 41.0 million euro. This is completely attributable to the balance of currency gains and losses which improved by 3.5 million euro and which, as every year, depends exclusively on the closing rates at the end of the year.

The biggest individual item under Financial Expenses continue to be the interest liabilities relating to finance leases. They decrease automatically as the finance lease portfolio ages. After deducting the net financial result, earnings before taxes came to minus 5.7 million euro.

At 27.9 million euro, tax expenses remained almost unchanged in comparison to the previous year although the Praktiker Group reported positive earnings before taxes in 2009 compared to negative earnings before taxes in 2010.
This is explained by the fact that

- in Germany, additions to trade taxes are independent of the earnings situation,
- an extraordinary tax was raised again in Greece in 2010 amounting to 2.5 million euro,
- the additions to provisions in Poland were not tax-deductable,
- deferred taxes on unused tax loss carry-forwards were re-valued, and
- tax loss carry-forwards in 2010 have partly not been capitalised.

This leaves us with a group net loss of 33.6 million euro.

In this context I would like to remind you that the tax expenses are not fully cash-effective. In 2010 and based on the mentioned income tax expenses of 27.9 million euro, cash taxes were only 11.4 million euro in the Praktiker Group. In 2009, cash taxes had amounted to 19.4 million euro.

As we have done in previous years, we adjusted the net result for non-cash expenses included in the financial result and in the tax expenses to get a cash group net income of minus 10.9 million euro which is around one third of the amount reported. This figure must be compared against cash net profit for the Group of 8.7 million euro generated one year earlier.

In 2010, the Praktiker Group invested a total of 62.1 million euro. Mr. Werner already mentioned it: this is 11.2 million euro less than in the previous year – a decline that is attributable on equal terms to Germany and to the International segment and in general to the fact that the capital expenditure for new locations was much higher in 2009. While 29.5 million euro had been made available for expansion in 2009, only 16.3 million euro had been allocated to this purpose in 2010.

Three stores were opened in Germany and four in the international portfolio – plus a scheduled market closure in Istanbul. Capital expenditure for store maintenance, assortment changes and IT totalled 45.8 million which is 2.0 million euro up from the previous year.

Of the total capital expenditure 57.9 million euro were cash-effective which is 13.2 million euro less than one year earlier.

In the year under review, the Praktiker Group generated a cash flow from operating activities in the amount of 90.6 million euro. This is 7.3 million euro up from the year earlier although the reported operating earnings have declined significantly. The increase resulted from the fact that the working capital has improved, i.e. inventories declined stronger than trade payables.

I have just mentioned the cash-effective capital expenditures which dominate the cash flow from investing activities. The cash flow from financing activities was mainly governed by interest payments and the redemption of liabilities from finance leases. There was no external financing in 2010.

Overall, the operating cash flow was sufficient to compensate for the cash outflow from investing and financing activities. The level of cash and cash equivalents increased by 3.3 million euro to 266.3 million euro.

At the same time, net debt continued to decline in 2010. At the close of the year under review it amounted to 184.7 million euro which is 12.0 million euro less than previous year. This is driven in particular by the decline of liabilities from finance leases amounting to 13.0 million euro which, in turn, occurs automatically as long as the portfolio of finance leases ages and the pro rata redemptions exceed the additions from new finance lease locations. The liabilities from convertible bonds, however, continued to rise on account of the increase in the fair value of the debt component over time by 4.3 million euro to 143.8 million euro.

At the close of 2010, the financial liabilities of the Praktiker Group comprised convertible bonds with a repayment volume of 147 million euro due in September 2011 as well as promissory notes of 50 million euro due in April/May 2012. Moreover, a syndicated credit line in the amount of 200 million euro was available as a back-up facility which was not drawn.

In February 2011, we placed a corporate bond in the amount of 250 million euro which will be used to repay the convertible bond and in addition gave us the opportunity to cancel the promissory note ahead of time. With a view to further simplifying the volume and structure of our financing and better adjust them to our needs we also cancelled the syndicated loan. Starting from October, the financing of the Praktiker Group will exclusively rely on the corporate bond and on additional bilateral credit lines which will probably be slightly higher than the present ones.

With the corporate bond we took advantage of favourable market conditions, interest rates have risen by a good 10 basis points since the placement of the bond in mid-February. Moreover, from a financial point of view, we have gained flexibility to focus exclusively on our operating business.

A look at the balance sheet shows that there have been no major changes in 2010 – neither with regard to the volume of total assets nor with regard to its structure. The already mentioned improvement in working capital is visible in a reduction of inventories and trade payables. The equity ratio remains over 40 percent even though equity declined due to the net loss for the year and the dividend distribution for 2009.

For the reasons just mentioned, namely the pro-rata redemption of finance leases, financial liabilities have decreased slightly. In addition, there have been shifts between positions relating to the due dates of the financial liabilities because both, the convertible bonds and the promissory notes, which aggregate to a good 190 million euro, had to be regrouped from long-term to short-term financial liabilities.

Ladies and Gentlemen,

To conclude, please allow me to summarize the situation from the CFO's viewpoint:

- The changes in the marketing strategy of the Praktiker brand in Germany have led to a decline in sales, but improved the gross profit margin and increased operating earnings – before extraordinary effects – from practically zero to 18.5 million euro.

- Max Bahr lost sales volume during the garden season on the grounds of poor weather conditions, but was able to catch up on this decline in the second half and thus retained earnings at the excellent prior-year level.

- In the International segment, sales developed very well in countries like Poland, Turkey and the Ukraine. In the countries which so far had shown the highest sales volume, namely Greece and Romania, fiscal measures of all kinds adversely impacted business momentum. This is why sales and earnings of the international segment in total came in significantly below the prior year figure and also below the original expectations.

- Extraordinary effects materially affected earnings in 2010. They are primarily - but not solely - attributable to the programme "Praktiker 2013". With these expenses, Praktiker laid the foundation for a sustainable increase of sales and earnings in the years to come.

- The main indicators for a company's financial stability – cash and cash equivalents, net debt, working capital – improved in 2010.

- In addition, the placement of a corporate bond in February 2011 solved the re-financing issues for 2011 and ensured that the management can fully focus on its operational tasks.

With these measures we are well-positioned to address the challenges of the future. Mr. Werner will now explain to you the vision of our future. Thank you very much for your attention.

Speech by Wolfgang Werner, Chairman of the Management Board

Thank you, Mr. Schürholz.

After we have now dealt with financial year 2010 in all its financial facets, I would like to take a look at the course of the financial year 2011 to date and also briefly outline how we assess the trend for the full year 2011.

For all we know, the DIY sector in Germany reported a reasonable start into the New Year 2011. This also applies for the Max Bahr brand. At Praktiker Germany, however, the first quarter was characterised by the fact that we did little advertising this year while, last year, we ignited a real firework of category-related discount activities and "20 percent off everything" campaigns.

This is why sales in Germany will again come in below the previous year. A similar trend is showing in our International business, even if in Eastern and South Eastern Europe one country after the next is staging an economic recovery and thus returning to more stability. The Ukraine features among these countries in the same way as Turkey.

However, this is unfortunately not the case in those foreign markets that are most important for Praktiker. I am referring to Romania and Greece. Romania seems to be persistently escaping the economic recovery showing in this region. And also in Greece you cannot yet talk about a positive trend in sales. The general economic setting, characterised by wage freezes and tax increases, is simply still too weak.

So, in the first quarter, we will still be lagging behind the year-earlier quarter in terms of sales volume. This notwithstanding, we assume that, for the full financial year 2011, we can achieve a sales level matching more or less that of the previous year. In Germany, we created the respective preconditions with the repositioning of Praktiker. Now it all depends on how fast the new brand positioning will be accepted by the customers – and in a second step also rewarded. Also in our international business we worked on the organisational structures, on the product and services offer, and on the assortments. We thus did not remain idle here either. To achieve our goals, however, also the economic setting in the individual countries must be right. And this is something we cannot influence.

Such a forecast is of course not spectacular. But we believe that it is realistic. In the same way as we believe that we will be able to substantially improve our gross profit margin in 2011 and, based on that, also enhance our operating earnings before extraordinary effects. The gross profit margin will benefit from the fact that we will no longer grant across-the-board discounts at Praktiker in Germany. And it will also improve if the share of private label sales increases as planned. Since we put in place a series of measures in the field of downsizing and cost cutting last year, we should also see the first effects of these measures with regard to expenses in the current financial year.

We therefore anticipate that we will be able to increase our operating earnings before extraordinary effects in 2011 - by how much is something that I cannot honestly say as yet today. But I think that, with all due caution, this growth will be more pronounced than last year.

Ladies and Gentlemen,

This morning, our Annual Report was published on our Internet website at praktiker.com. On pages 41 to 43, it includes the Outlook where you can find further forward looking statements relating to financial year 2011 and, as required by the German Commercial Code, also to the year 2012. Schematically, they can be summarised with direction arrows as shown on this slide. There are two topics which I would like to address in particular.

First: In 2011, we again expect high extraordinary expenses under the programme “Praktiker 2013“. They relate primarily to the repositioning of the Praktiker brand in Germany. Starting from 2012, we want to reap the fruits of our efforts in the form of higher sales, an adequate gross profit margin and further improved earnings.

Second, this means that our capital expenditure in 2011 will probably grow to over 100 million euro and will in part need to be financed from the existing, sufficiently large liquidity. This is why our cash and cash equivalents will probably recede slightly and the net debt will not drop further in 2011. However, we expect that all indicators, which Mr. Schürholz as our CFO will be watching very closely – be it liquidity, net debt or working capital – will further improve in the course of the next two years. Or, to put it in other words: our financial position will then be even sounder than it is already today.

I thank you for your attention. Mr. Schürholz and I will now gladly answer your questions.