



**Speech by Markus Schürholz,  
CFO of Praktiker AG**

**on the occasion of the presentation of the financial  
results of the first half 2011**

**27 July 2011**

*The spoken word is valid.*

Good morning ladies and gentlemen,

Welcome to our telephone conference on the results of the first half of 2011.

After the last two announcements from Praktiker, a profit warning and the decision of Mr. Wolfgang Werner to resign from office as CEO of Praktiker AG, I believe you may have many questions which I will try to answer all in the Q&A session.

But first, let me take you through the figures of the second quarter and the first half of 2011.

In the second quarter of 2011, the Praktiker Group posted net sales of 956.6 million euro - a decline of 7.9 percent in absolute terms and 8.7 percent in like-for-like terms compared to the same quarter last year.

This brings group sales in the first half of 2011 to 1,623.0 million euros which corresponds to a decline of 9.2 percent in absolute and 9.9 percent in like-for-like terms.

At Praktiker Germany, we have stopped all open discounting in terms of 20 percent on everything for everybody from the beginning of the year on. In the second quarter of the previous year we still had 10 days on which we offered this particular promotion. Additionally we offered 25 percent on everything with or without a plug on 12 days. Although we have started the new marketing campaign with Boris Becker at the beginning of the second quarter, Praktiker Germany was not able to match the promotion driven sales level of the previous year.

Sales of Praktiker Germany declined by 11.2 percent in the second quarter. Although this was a marked improvement compared to the first quarter, when Praktiker Germany lost 18.9 percent in sales, it also failed to meet our original expectations.

Obviously, it will take longer than anticipated to convince the customer of the new Praktiker concept. We have therefore decided to speed up measures in order to strengthen the sales trend. I will come back to this later.

Max Bahr achieved flat sales in the second quarter, being down by 0.3 percent in absolute and up by 0.3 percent in like-for-like terms. Max Bahr was not able to capitalize on its traditional strength in the gardening segment this year.

In the international segment, sales declined by 8.3 percent in the second quarter in absolute terms and by 10.7 percent on a like-for-like basis. Sales decreased in all countries with the exception of Poland where a moderate increase was realised. In Greece, sales came down more moderately in the second quarter than in the first, partly due to the opening of one new store.

In Bulgaria and Romania major changes in the general economic settings were not visible.

Gross profit declined less prominently than sales at 4.5 percent in the second quarter reaching 341.1 million euros and resulting in an increase of the gross profit margin of 1.3 percentage points to 35.7 percent. This is, by the way, the

best gross margin the Praktiker group has achieved at the half year stage since it was taken public.

The major contribution to the improvement came from Praktiker Germany as promotional activities had been scaled back considerably.

Respectively, the gross margin increased in the first half year by 1.1 percentage points to 33.7 percent.

Work on "Praktiker 2013" continued in the second quarter 2011 as planned and led to a total of 22.6 million euro in extraordinary effects.

20.1 million euros were used at Praktiker Germany, mostly for the repositioning, the changes in the assortments and the accompanying marketing campaign. At Max Bahr, 0.2 million euros were spent whereas 0.6 million euros were incurred in the international segment. 1.7 million euros were accounted for in the Miscellaneous segment, most notably on the Online Shop including start-up losses.

Of the total amount, 20.9 million euros were accounted for under selling expenses and 1.8 million euros under administrative expenses.

In the first six months of 2011 27.6 million euros were spent in the context of "Praktiker 2013" – in line with our original plans.

As sales and earnings had fallen behind plan in the second quarter, we had to reassess expectations of future cashflows of each individual store. As a result we had to impair fixed assets in a total of 43.7 million euros and add 47.3 million euros to provisions for onerous contracts. In total 91.0 million euros were charged. These expenses are related to a decline in earnings that stores are expected to generate in the course of their respective rental contracts. You find a comprehensive description of the reporting background in the half year report.

Impairments and additions to provisions for onerous contracts are nearly evenly split between the German and International activities.

These expenses are not cash effective.

Together with the extraordinary effects resulting from Praktiker 2013 these charges had a deep impact on EBITA.

EBITA for Q2 was stated at minus 72.0 million euros as against a positive 52.2 million euros in the previous year. Adjusted for all extraordinary effects, EBITA came to a positive 41.7 million euros against 65.1 million euros in the second quarter of the previous year.

This comparison shows that the earnings decline in the underlying business was much lower than indicated by the stated numbers.

For the first half of the year, stated EBITA was at minus 143.5 million euros against 0.1 million euros in the first six months of 2010.

As far as the segments are concerned: In terms of reported EBITA only Max Bahr showed a positive result in the second quarter. Before extraordinary effects all segments were positive, the international segment even at the same level as last year.

Page 8 of the half year report shows the mentioned figures in detail.

In addition to the aforesaid we had to test the existing goodwill as well.

As a result, the full existing goodwill relating to Praktiker Germany had to be impaired. This means an additional charge of 159.5 million euros to earnings before interest and taxes. EBIT therefore came to minus 231.4 million euros in the second quarter and to minus 303.0 million euros for the first half of 2011.

In the segment report this charge is exclusively allocated to Praktiker Germany. The goodwill of Max Bahr stayed unchanged. In the international business no noteworthy goodwill exists.

Also these charges are not cash effective.

The net financial result for the second quarter 2011 came to minus 18.2 million euros against a minus of 21.8 million euros in the same period one year earlier.

The interest result came to minus 22.3 million euros which was 2.8 million euros more than last year due to the fact that the outstanding debt is currently 200 million euros higher than last year. We had issued a corporate bond in the beginning of the year which will partly be used to pay back the convertible bonds in September.

The other financial result improved by 6.5 million euros, mainly due to positive currency effects.

We had to recalculate the expected tax rate for the year. Applying this rate, we arrive at a tax benefit for the first half of the year of 4.6 million euros. For the first quarter we had originally calculated a tax benefit of 62.1 million euros, the difference had to be charged to the second quarter.

Therefore the net result for the second quarter is stated at minus 307.1 million euros and at minus 322.6 million euros for the first half of the year.

Coming now to financial indicators.

Inventories came in at 924.2 million euro which is a considerable increase against last year.

Some inventories were absorbed by the fact that we operate three more stores than one year ago, some by the introduction of product triples at Praktiker

Germany. But most of the increase is related to the weaker than expected sales trend in the second quarter.

In order to get inventories back in line with the sales development we have now set up a respective action plan. We expect to reduce inventories now step by step in the course of the year.

As inventories increased and trade liabilities decreased at the same time, working capital went up considerably to 454.9 million euros.

It is expected to decrease again with the efforts to reduce inventories.

Cash and cash equivalents were at 301.1 million euros and thus at the same level as one year earlier.

Net debt increased to 350.4 million euros.

Capex in the first half of the year reached 38.2 million euros. One third of that total was related to Praktiker 2013.

At the end of the first quarter most of the financial indicators moved into the wrong direction. This is why we focus now our attention on adapting our capex plans and on reducing inventories in order to get cash and cash equivalents back up to an even more comfortable level.

Ladies and gentlemen, let me sum up.

In the second quarter, group sales were down.

The repositioning of Praktiker Germany, which was started at the beginning of the quarter, did not yield the expected results yet.

Max Bahr sales were flat, in the international business the negative sales trend of the first quarter continued.

Gross profit margin was up considerably, particularly as Praktiker Germany has become less promotional.

Extraordinary expenses in relation to Praktiker 2013 were in line with plans.

The weaker than expected sales trend triggered a reassessment of future expectations and caused sizeable impairments on fixed assets and additions to provisions for onerous contracts.

Also, impairments of goodwill had to be made.

Because sales did not develop as planned, inventories, working capital and net debt increased. This increase will be corrected in the second half of the year.

In regard to the outlook for 2011, we expect a continuing negative sales trend in the second half of the year.

EBITA in the second half of the year will likewise be down in comparison to the corresponding period of last year.

As we are trailing behind our expectations we will review our plans and decisions. We will not become nervous, but we will further intensify the work on Praktiker 2013 and develop measures to foster the future success of the Praktiker Group. Without any taboos we will put the most difficult topics on the table. We have to cut deeper, to act faster and monitor the progress more thoroughly.

In the weeks to come, you can expect us to analyse the group structure in detail again, check the cost position with a particular focus on the potential coming from further standardisation and synergies in Germany and in our international business, amongst others reconsider our international portfolio.

In the light of the adjusted outlook we have already reduced our capex plans. We made sure that the reduction will not jeopardise any strategic measures.

The revision of the 2011 sales and earnings outlook had repercussions on the expectations for 2012 and beyond. We cannot maintain them any more. On the basis of the revised figures for 2011 we expect to stabilise sales and earnings in the Group in 2012 and increase them again in 2013.

We have not given up our margin targets. We are still sure that they will be achievable in the long term, but not in 2013 any more.

Despite the disappointing sales development and notwithstanding any potential necessity for restructuring measures, we are convinced that the repositioning of Praktiker Germany is heading in the right direction.

But we have to and will recalibrate the marketing approach. Obviously we have not gotten the message across to our customers yet well enough that Praktiker has changed.

On top, we will make the offer more attractive. We will speed up the changes in the assortments and the introduction of Praktiker as a private label in further categories, we will optimise the triple concept by making it even clearer to the customer what quality differences lie behind the brand and price differentiation.

The repositioning of Praktiker Germany is still in its early stages. Repositioning a brand always takes time, but it will improve and become more successful as time passes.

Thank you very much for your attention. I would like to answer your questions now.