Praktiker Group
Annual Report 2011

KEY DATA

	2007	2008	2009	2010	2011	Change %
Profit & loss data						
Net sales in € m	**3,945.0**	**3,906.8**	**3,663.4**	**3,448.3**	**3,183.0**	**–7.7**
Germany	2,862.1	2,665.6	2,617.1	2,452.2	2,288.8	–6.7
thereof Praktiker Germany	2,070.3	1,868.8	1,835.2	1,680.1	1,506.9	–10.3
thereof Max Bahr	688.2[1]	702.4	690.6	685.5	694.8	1.4
thereof Miscellaneous	103.6	94.5	91.4	86.6	87.1	0.6
International	1,082.9	1,241.2	1,046.3	996.1	894.2	–10.2
Like-for-like sales growth in %	**0.6**	**–6.0**	**–7.2**	**–7.3**	**–8.4**	–
Germany	–3.6	–8.0	–2.2	–7.0	–6.8	–
thereof Praktiker Germany	–3.6	–8.8	–2.2	–8.7	–10.2	–
thereof Max Bahr	–	–5.4	–2.1	–2.7	1.3	–
International	11.4	–0.5	–19.0	–8.2	–12.4	–
Gross profit on sales in € m	**1,263.5**	**1,314.1**	**1,192.0**	**1,164.6**	**976.6**	**–16.1**
Gross profit margin on sales in %	32.0	33.6	32.5	33.8	30.7	–3.1 PP
EBITA in € m	**104.9**	**128.8**	**62.8**	**35.3**	**–375.1**	–
Germany	30.0	44.9	30.2	24.2	–291.0	–
thereof Praktiker Germany	12.6	20.9	0.2	–1.2	–262.5	–
thereof Max Bahr	17.3[1]	25.5	31.4	29.2	–20.9	–
thereof Miscellaneous	0.1	–1.6	–1.5	–3.8	–7.6	–
International	74.9	83.9	32.6	11.1	–84.1	–
Net financial result in € m	**–22.5**	**–49.3**	**–44.3**	**–41.0**	**–59.8**	**–45.8**
Earnings before taxes in € m	**82.4**	**79.5**	**18.5**	**–5.7**	**–594.3**	–
Net income/loss in € m	**7.2**	**4.4**	**–9.3**	**–33.6**	**–554.7**	–
Earnings per share in €	0.11	0.06	–0.18	–0.60	–9.58	–
Dividend per share in €	0.45	0.10	0.10	0.10	0.00	–100.0
Balance sheet data						
Total assets in € m	2,149.4	2,146.3	2,082.6	2,031.0	1,514.0	–25.5
Equity in € m	935.3	899.1	878.6	839.9	278.6	–66.8
Equity ratio in % of total assets	43.5	41.9	42.2	41.4	18.4	–23.0 PP
Cash and cash equivalents in € m	270.8	233.3	263.0	266.3	148.0	–44.4
Net financial position in € m	–147.1	–189.3	–196.7	–184.7	–351.1	–90.1
Net working capital in € m	403.0	411.6	393.9	383.3	347.2	–9.4
Further financial data						
Capital expenditure in € m	167.9	117.6	73.3	62.1	70.6	13.7
Cash flow from operating activities in € m	198.8	112.0	83.3	90.6	–79.2	–
Return on capital employed (ROCE) in %	5.0	5.4	4.6	4.6	1.0	–3.6 PP
Operative data						
Number of stores	**425**	**436**	**439**	**438**	**439**	**0.2**
Germany	337	336	335	331	330	–0.3
thereof Praktiker Germany	242	241	239	236	235	–0.4
thereof Max Bahr	76	76	77	78	78	0.0
thereof Miscellaneous	19	19	19	17	17	0.0
International	88	100	104	107	109	1.9
Number of employees, yearly average on a full-time basis	**22,448**	**23,632**	**22,490**	**21,463**	**20,000**	**–6.8**
Germany	13,585	13,189	12,291	11,811	11,239	–4.8
thereof Praktiker Germany	9,931	9,640	8,877	8,426	8,008	–5.0
thereof Max Bahr	3,239	3,134	3,009	3,014	2,874	–4.6
thereof Miscellaneous	415	415	405	371	357	–3.8
International	8,863	10,443	10,199	9,652	8,761	–9.2

[1] February to December

Due to rounding, slight discrepancies in totals and percentage figures may occur.

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Ladies and Gentlemen,

2011 was a year of dramatic changes for Praktiker AG in every respect. All in all it became apparent that the measures previously adopted to improve the economic situation were not sufficient. Sales and earnings fell significantly even if net earnings were substantially affected by impairments on assets and extensive provisions. A large part of these expenses is therefore attributable to a modification of corporate planning and did not impact on cash flow in 2011.

Nevertheless, viewed also from a purely operational perspective, Praktiker experienced its worst year since going public. The move away from the 20 percent campaigns has clearly left its mark. Unluckily, contrary to our original expectations, international business continued to lose ground at the same time. Private consumption fell in countries which are key for Praktiker, while falling exchange rates also reduced earnings.

In this environment, more radical restructuring measures were required to secure the future of the Praktiker Group. This is why the supervisory board entrusted me, as the new Chairman of the management board, with the task of drafting a programme to restructure and revitalise the Praktiker Group and, having approved the draft at the end of November 2011, of implementing it resolutely.

Prior to this endorsement, the management board underwent a reshuffle and was reduced in size. Today, the Praktiker Group is run by a management board consisting of three members. Those management board members that were responsible for overall management and operational business in the past have resigned.

The personnel changes have opened the door to a reorientation of the Praktiker Group. One consequence, for instance, is the decision to combine the head offices, which were previously responsible for separate brand management, in a Group head office in Hamburg, with the aim of exploiting potential synergies more effectively than previously.

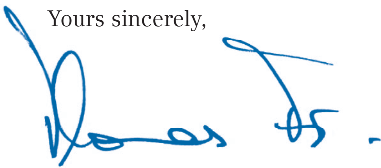
Another consequence is the merger of Category Management and Procurement, the divisions responsible for developing our selection, product range and pricing. As a result, responsibility for earnings and inventories is concentrated in one hand across the German sales lines. This accelerates decision-making processes, assortments are renewed more rapidly and remain up-to-date. This in turn opens up crucial earnings potential.

Combining headoffices and divisions necessarily sets free personnel and Praktiker AG is no exception here. Numerous jobs will likely be lost as a result of the shakeout in the store portfolio and additional personnel measures on the shop floor. We shall close those stores which are currently making losses and which we will not be able to operate profitably in the future either. However, we shall speak with lessors before the closures. Closures therefore depend on whether we can reduce the rental charges for the stores in question by so much that they can be run profitably again. These negotiations have started and are ongoing.

Of course, we are also providing for further reductions in our costs by adopting a large number of other measures. Nevertheless, no company can restore profitability on a long-term basis through savings alone. Economic success needs growth and returns. This is why, in addition to structural measures, cost-cutting and improvements in efficiency, we have also attached importance to developing the business model of Praktiker Germany. This is where we are faced with the most serious problems and consequently also have the greatest opportunities. We must and shall exploit these opportunities. And, above all, this entails investments in our assortments, in the brand, quality and price hierarchy, in the stores and in the communication with customers.

At some locations we have good examples of how Praktiker stores will look in the future. We have, therefore, already taken the first steps towards the future. Partly these steps are still subject to securing the necessary financing and we are currently working on this. The overall volume has been estimated to be a low three-million euro amount. Should it not be possible to make such a volume available, we would reduce the scope of the programme and stretch it over time. As far as the financing is concerned we expect a certain willingness on the side of the current shareholders to support the process in order to safeguard a successful future for the Praktiker Group.

Yours sincerely,



Thomas Fox
Chairman of the management board
Kirkel, Germany, March 2012

MEMBERS OF THE MANAGEMENT BOARD

THOMAS FOX
Chief Executive Officer
(since 1 October 2011)

Divisions
Praktiker Germany
Max Bahr
extra BAU+HOBBY
Praktiker Online Shop
Praktiker International
Internal Audit
Business Development
Corporate Communications

MARKUS SCHÜRHOLZ

Divisions
Controlling
Accounting
Finance
Mergers & Acquisitions
Investor Relations
Logistics/IT

JOSEF SCHULTHEIS
Labour Director
(since 16 August 2011)

Divisions
Restructuring
Human Resources
Legal Affairs
Compliance
Real Estate Management

Management board reorganised, responsibilities reassigned

Fundamental changes to the positions of the management board were made in two stages in 2011. After the former CEO Wolfgang Werner vacated office in July, the supervisory board of Praktiker AG appointed two experienced corporate restructurers as members of the management board in mid-August. Thomas Fox took office as the new CEO at the beginning of October. Josef Schultheis began in his new function as Chief Restructuring Officer from the middle of August and also temporarily held the position of CEO. The two members of the management board responsible for operating activities, Michael Arnold (International) and Pascal Warnking (Germany) then left the management board at the end of November.

The schedule of responsibilities was revised in line with these changes. From the end of the year, Thomas Fox has been in charge of all operating activities, Internal Audit, Strategy and Corporate Communications; Josef Schultheis has been responsible for all restructuring issues, cross-departmental functions and for Human Resources. As CFO, Markus Schürholz is still responsible for all commercial areas, Mergers & Acquisitions and Investor Relations. In addition he took on Logistics/IT.

GROUP MANAGEMENT REPORT

BUSINESS-SPECIFIC AND GENERAL ECONOMIC SETTINGS

EXTRAORDINARY EFFECTS 2011

INCOME, FINANCIAL AND ASSET POSITION

SEGMENT REPORTING

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PERSONNEL REPORT

ENVIRONMENTAL REPORT

REMUNERATION REPORT

RISK REPORT

OUTLOOK

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BUSINESS-SPECIFIC AND GENERAL ECONOMIC SETTINGS

General economic settings

In 2011 economic output proved stable in most of the countries in which the Praktiker Group operates. However, this was not true in all cases for private consumer spending, especially in countries in which measures to reduce public debt diminished the disposable income of private households. In sum, international business was also negatively affected by a significant depreciation of the exchange rates relevant to Praktiker.

Growth in German DIY market

In Germany, the rise in gross domestic product and private consumption also led to a revival of sales in the DIY sector. The industry association BHB is forecasting expansion of one percent for the year as a whole. While the Max Bahr brand maintained a stable market share in this environment, the Praktiker brand succeeded in stabilising its market share again only in the fourth quarter.

The number of DIY stores in Germany has been declining steadily for a number of years now. At the same time, however, there has been moderate growth in total selling space.

The latest survey of the DIY sector by "Gesellschaft für Markt- und Betriebsanalyse (gemaba)" showed a virtually unchanged situation in 2011. Growth in selling space was only minimally positive at 0.5 percent. Meanwhile, the number of DIY stores in Germany declined by 0.4 percent to 2,381. The number of DIY stores in the federal states of former East Germany (not including Berlin) fell by 0.9 percent over the year, whereas the figure for the former West Germany (including Berlin) dropped by 0.3 percent.

Change in German competitive environment

At the end of November 2011, BayWa AG announced its decision to spin off its DIY and garden division as a new company. Semer Beteiligungsgesellschaft mbH will hold 50 percent in the newly formed BayWa Bau- & Gartenmärkte GmbH & Co. KG, gradually increasing this stake to 100 percent. The Semer family also owns the DIY store operator Hellweg, with which the new company will enter into a strategic partnership. 56 BayWa stores, which will retain the BayWa brand, will be transferred to the new company. The transaction is subject to the approval of the Federal Cartel Office.

Decline in most international markets

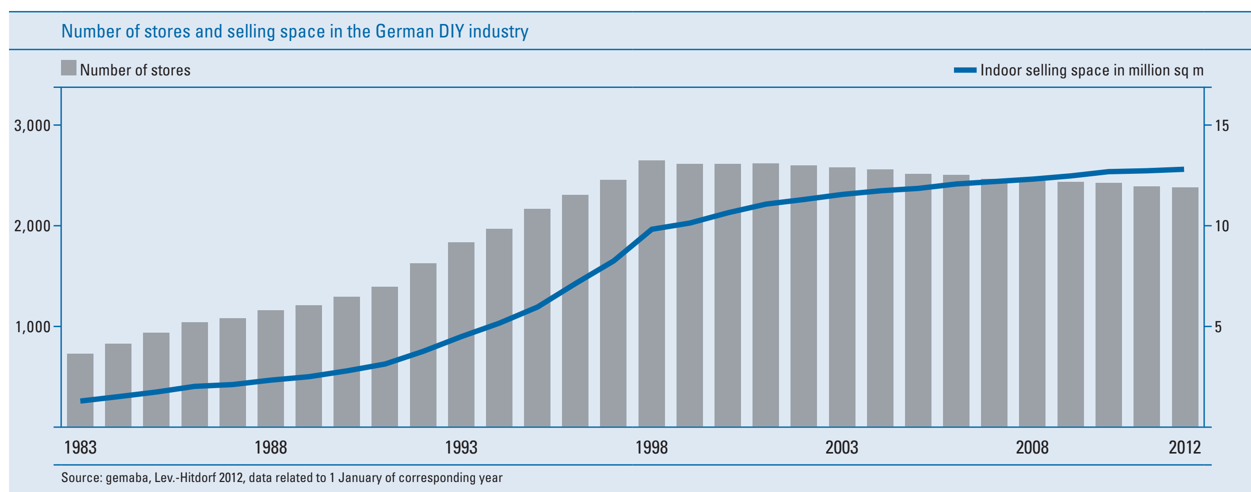
With just a few exceptions, demand for home improvement products is expected to have fallen on the international markets in which Praktiker operates. Specific figures for 2011 are not yet available for any country. Praktiker is anticipating losses of market share in markets such as Romania and Ukraine as its competitors – unlike Praktiker – have continued to expand here. However, Praktiker expects to have gained market share in Greece as the economic crisis has forced the closure of many small retail operators.

Changes to tax law

The tax conditions in 2011 remained unchanged in terms of consumer taxation. In a departure from the past two years, Greece did not impose a special tax on prior-year income.

Changes to product law

The third phase of a regulation by the EU Commission entered into effect on 1 September 2011. Since then, light bulbs of 60 Watt or more may no longer be sold. All providers had to adjust their product ranges accordingly.



SUBSTANTIAL EXTRAORDINARY EXPENSES 2011

Following the changes to the management board, the earlier programme "Praktiker 2013" was transferred into a restructuring programme towards the end of the year. In total, the decisions taken in 2011 have triggered extensive extraordinary expenses, which have been reflected in various places in the financial statements.

Repositioning of Praktiker Germany progressed

In 2011, measures to strengthen earnings power in the medium-term were concentrated on the repositioning of Praktiker in Germany. Key elements such as customer greeters, a new navigation system in-store and better communication of the services available were launched at the start of the second quarter. This also applies to the "Praktiker" private label, which was initially developed as a key component of the product hierarchy in four well-selling assortments and positioned as the "smart choice". Over the rest of the year, work focused on the revision of further assortments, expanding the "triples" concept – a particularly effective form of in-store product presentation – and a fundamental modification of the pricing strategy with the aim of offering more attractive on-the-shelf prices and fewer discounts. Work was so far advanced towards the end of the year that the first two stores had reached the final stage of the concept at the beginning of 2012 – far sooner than originally planned. The work relating to the repositioning triggered ongoing expenses of 34.9 million euro, particularly for the TV advertising campaign with Boris Becker, but also for general work on the programme and the conversion of the logistics chain.

Conversion of the logistics chain

The decision to improve logistics processes at Praktiker Germany was taken as early as 2010. All the measures planned have now been implemented or are being implemented. The separation of store personnel into "Sales" and "In-house Logistics" is already complete. It allows a more effective deployment of store employees while conveying to customers a more dependable service offer. The second component of the planned changes, the "Automatic Re-ordering Project", was also completed as a concept in 2011. This system, known as DIOS, which has been used at Max Bahr for years, will gradually be introduced in Praktiker stores too in 2012.

Moreover, an initially Germany-based, multi-sales line, centrally managed logistics network is also being created in the process of supply chain optimisation. All preparatory work and planning including the agreements with logistics service providers and IT partners needed for implementation were completed in 2011. Following technical testing at the start of 2012, the project will be implemented swiftly in a multi-stage plan.

In order to facilitate data exchange with suppliers, the new Praktiker master data management system in Germany went online at the end of 2011. Thus, it will be possible for master data on products to be taken from third-party data pools or transferred directly from suppliers to be used in Praktiker systems technology.

Store closures planned

The restructuring measures included the plan to close unprofitable German Praktiker stores. However, no final decisions were taken in 2011 because negotiations with landlords concerning possible reductions in rents are to be held first. This is why no provisions had to be created either. It will only be clear by how many stores the portfolio will be reduced and which stores will be involved once these negotiations are completed. Depending on the number of store closures, closing expenses have to be expected in 2012 which may reach a triple digit million euro amount. At the beginning of 2012 the first four stores destined for closure in the course of the year were earmarked.

Additional personnel measures in stores

To reduce personnel expenses in stores further, personnel adjustments, measures to regroup employees covered by collective pay agreements and further expansion of part time employment are planned. The expenses resulting from these measures came to 33.1 million euro.

Merging head offices

Provisions totalling 17.1 million euro cover the anticipated expenses for the planned merger of the head offices to form a Group head office in Hamburg. Some 200 jobs will be lost as result of the merger. Decisions to this effect were taken in 2011 and the relevant co-determination bodies were informed. In February 2012, the details of a reconciliation of interests were then stipulated and agreed between management and the co-determination bodies. A compensation scheme (Sozialplan) has also been agreed that regulates the material compensation for all employees who move or leave the company in this connection or as a consequence of other restructuring measures.

Changes to the procurement organisation

From the middle of the year, the newly formed procurement company "Praktiker Group Buying" in Hong Kong started operations. It has since assumed all services in support of procurement from the previous third-party service partner in Asia too, such as invoicing, payments and currency hedging. The company is also handling supplier certification, quality control and merchandise logistics.

The integration of procurement within the organisation has changed considerably as part of the restructuring programme adopted towards the end of the year. The former "Central Procurement" division was closed and merged with Category Management. Both divisions were also combined in an independent company at the beginning of 2012. This decision will simplify the organisational structure, improve the basis for calculations, clearly assign responsibility for gross earnings and inventories to Category Management and in this way accelerate the implementation processes considerably. It will consequently open up considerable earnings potential because the assortments can be more rapidly adapted to changing customer demand and will therefore always remain up-to-date.

Standardising and reviewing the international portfolio

The programme's work in international business focused on the harmonisation, standardisation and synchronisation of a wide range of activities. For example, the number of purely local or country-specific suppliers is being gradually reduced. The long-term goal is to work predominantly with such suppliers that can deliver to the majority of the countries. This reduces complexity and allows a greater degree of complement in the goods offered. The decisions to simplify and standardise logistic structures, to introduce internal standards internationally and to transfer marketing concepts that have proved their worth in one country to other countries are following the same idea.

Moreover, the decision to give up the presence in Albania was taken in the fourth quarter. Operation of the store in Tirana was discontinued at the end of the year. The decision has impacted earnings by 14.2 million euro. We shall also reassess again whether Praktiker is correctly positioned in all countries with its business model and how the Group's portfolio can be developed.

Modification of corporate planning

It had become clear half way through the year that expectations of all segments, in particular the repositioning of Praktiker Germany, had been set too high. Accordingly, the corporate planning for individual stores and the sales lines had to be adjusted overall and all fixed assets had also to be tested for impairment. These tests led to impairments and allocations to provisions for onerous contracts. At the end of the year, these expenses, which only reflect the impact of the modification of corporate planning on balance sheet items and therefore had no impact on cash flow in 2011, came to 147.9 million euro in total for the Group.

Goodwill impaired

Goodwill has also been adjusted in connection with the modification of corporate planning. The impairment of 159.5 million euro related solely to Praktiker Germany.

Inventories remeasured

In 2011 inventories were revalued in considerable scope. One reason for the revaluation was the fact that the product ranges have been revised in the wake of the restructuring programme. The anticipated sales prices had to be reduced, most notably for articles that are to be replaced by new products.

Moreover, a new system for inventory record keeping that is accurate on the level of articles was implemented throughout the Group in 2010. As a consequence, a more detailed analysis of the age and turnover rate of individual articles was feasible for the first time in the business year under review. The individual articles in stock can now be analysed more accurately than previously according to criteria reflecting their respective life cycle. These include fashionable components, the embedded state of technology, seasonality, minimum durability etc.

The changes will serve primarily to accelerate sales and, as a result, to prevent stocks of merchandise being built up that can either no longer be sold or only sold at high discounts.

Overall, this conversion to a new valuation method led to impairments on inventories of 69.8 million euro in 2011, which reduced gross earnings and the gross earnings margin by the full amount.

Vast majority of extraordinary effects non-cash

In total, extraordinary expenses of 473.0 million euro were incurred in the Praktiker Group in 2011. They are attributable to the different causes mentioned: the introduction of a new valuation method (inventories), the modification of corporate planning (impairment of non-current assets, provisions for onerous contracts, impairment of goodwill), the ongoing work on repositioning (advertising and programme work) and restructuring measures (end of the commitment in Albania, headcount

reduction, merger of the existing head offices to form a Group head office in Hamburg). The vast majority of the extraordinary expenses in 2011 were non-cash.

Comparatively low extraordinary expenses in the previous year

In the previous year, 32.4 million euro were incurred for comparable extraordinary expenses. They resulted exclusively from the "Praktiker 2013" programme and were reflected solely in the selling and administrative expenses.

Reconciliation of consolidated income statement

	reported			included extraordinary effects		adjusted		
in € m	2011	2010	Change in %	2011	2010	2011	2010	Change in %
Net sales	**3,183.0**	**3,448.3**	**–7.7**	–	–	**3,183.0**	**3,448.3**	**–7.7**
Costs of goods sold	2,206.3	2,283.7	–3.4	69.8	–	2,136.5	2,283.7	–6.4
Gross profit on sales	**976.6**	**1,164.6**	**–16.1**	**–69.8**	**–**	**1,046.5**	**1,164.6**	**–10.1**
Gross operating margin in %	30.7	33.8	–3.1 PP	–	–	32.9	33.8	–0.9 PP
Other operating income	68.1	73.9	–7.9	–	–	68.1	73.9	–7.9
Selling expenses	1,329.5	1,119.8	18.7	224.5	17.6	1,104.9	1,102.2	0.2
Administrative expenses	89.3	81.9	8.9	19.1	14.8	70.1	67.2	4.4
Other operating expenses	1.1	1.4	–21.1	–	–	1.1	1.4	–7.9
Operating earnings (EBITA)	**–375.1**	**35.3**	**–**	**–313.5**	**–32.4**	**–61.6**	**67.7**	**–**
EBITA margin on sales in %	–11.8	1.0	–12,8 PP	–	–	–1.9	2.0	–3.9 PP
Impairment on goodwill	159.5	–	–	159.5	–	0.0	–	–
EBIT	**–534.6**	**35.3**	**–**	**–473.0**	**–32.4**	**–61.6**	**67.7**	**–**

Extraordinary effects 2011

in € m	Group	Praktiker Germany	Max Bahr	Miscellaneous	International
EBITA (reported)	**–375.1**	**–262.5**	**–20.9**	**–7.6**	**–84.1**
Impairment on inventories	69.8	29.0	22.1	1.7	17.1
Extraordinary expenses "Praktiker 2013"	34.9	32.9	0.4	0.0	1.6
Extraordinary expenses restructuring programme	60.9	46.6	0.0	0.1	14.2
Impairment on property, plant and equipment and additions to provisions for onerous contracts	147.9	74.5	14.7	–0.1	58.8
EBITA before extraordinary effects	**–61.6**	**–79.6**	**16.3**	**–6.1**	**7.7**
Impairment on goodwill	159.5	159.5	0.0	0.0	0.0
Extraordinary effects total	**–473.0**	**–342.4**	**–37.2**	**–1.6**	**–91.8**

INCOME, FINANCIAL AND ASSET POSITION

Income position

Slight decrease in number of stores

At the end of the 2011 financial year, the Praktiker Group operated a total of 439 stores, one more than at the end of the previous year. In Germany the number of Praktiker stores declined by one, abroad it increased by two. A store in Hungary and the only store to date in Albania were closed. Three new stores have been added to the portfolio in Poland and one in Greece. Selling space changed slightly in line with the number of stores.

Number of stores

by ownership structure	Property	Finance Lease	Operating Lease	Total
Praktiker Germany	3	15	217	235
Max Bahr	–	11	67	78
extra BAU+HOBBY (integrated stores)	–	–	17	17
Praktiker International	9	36	64	109
Praktiker Group	**12**	**62**	**365**	**439**
extra BAU+HOBBY franchise[1] (informational)	–	–	–	8

[1]Not included in operative statistics

Number of stores

by countries	2011	2010	Change in %
Praktiker Germany	235	236	–0.4
Max Bahr	78	78	0.0
extra BAU+HOBBY	17	17	0.0
Germany	**330**	**331**	**–0.3**
Albania	0	1	–100.0
Bulgaria	9	9	0.0
Greece	13	12	8.3
Luxembourg	3	3	0.0
Poland	24	21	14.3
Romania	27	27	0.0
Turkey	10	10	0.0
Ukraine	4	4	0.0
Hungary	19	20	–5.0
International	**109**	**107**	**1.9**
Praktiker Group	**439**	**438**	**0.2**

Weighted selling space

in 1,000 sq m	2011	2010	Change in %
Praktiker Germany	1,419.8	1,422.8	–0.2
Max Bahr	627.8	627.8	0.0
extra BAU+HOBBY	64.3	64.1	0.3
Germany	**2,112.0**	**2,114.8**	**–0.1**
Albania	0.0	7.0	–100.0
Bulgaria	52.8	52.8	0.0
Greece	81.4	78.8	3.2
Luxembourg	20.9	20.9	0.0
Poland	186.1	166.0	12.1
Romania	184.3	182.2	1.1
Turkey	79.6	79.6	0.0
Ukraine	31.6	31.6	0.0
Hungary	129.0	133.8	–3.6
International	**765.7**	**752.8**	**1.7**
Praktiker Group	**2,877.7**	**2,867.6**	**0.4**

Sales in decline

The Praktiker Group's 2011 sales fell short of the figure for the previous year. In international business the decline in private consumption had an impact in many countries. Changes in exchange rates had an additional negative effect on the sales performance in the International segment and came to a good 26 million euro or 2.6 percent. In Germany, Praktiker's sales fell heavily in the first nine months as a result of the brand repositioning. They returned to the prior-year level for the first time in the fourth quarter. The Max Bahr brand saw a moderate increase in sales and maintained its share of the German DIY market.

Net sales

in € m	2011	2010	Change in %
Praktiker Germany	1,506.9	1,680.1	–10.3
Max Bahr	694.8	685.5	1.4
Miscellaneous	87.1	86.6	0.6
Germany	**2,288.8**	**2,452.2**	**–6.7**
International	**894.2**	**996.1**	**–10.2**
Praktiker Group	**3,183.0**	**3,448.3**	**–7.7**

Net sales

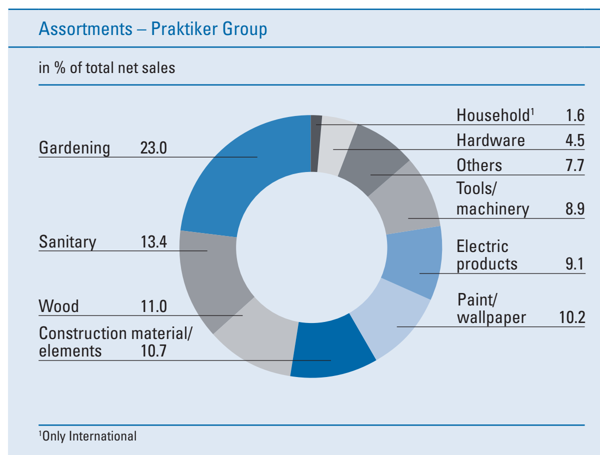
change against previous year in %		2011	2010
Praktiker Group	absolute (in €)	–7.7	–5.9
	like-for-like (in €)	–8.4	–7.3
	absolute (in local currency)	–7.0	–6.6
	like-for-like (in local currency)	–7.7	–8.0
Germany	absolute	–6.7	–6.3
	Praktiker	–10.3	–8.4
	Max Bahr	1.4	–0.7
	like-for-like	–6.8	–7.0
	Praktiker	–10.2	–8.7
	Max Bahr	1.3	–2.7
International	absolute (in €)	–10.2	–4.8
	like-for-like (in €)	–12.4	–8.2
	absolute (in local currency)	–7.8	–7.2
	like-for-like (in local currency)	–10.1	–10.6

Sales declined across the board

Sales trends for the individual assortments varied greatly from country to country and brand to brand. Overall, none of the Group's assortments generated an increase in sales. The smallest percentage decreases were recorded in gardening and construction materials/elements, the highest for electric products, sanitary goods and wood.

Assortments – Praktiker Group

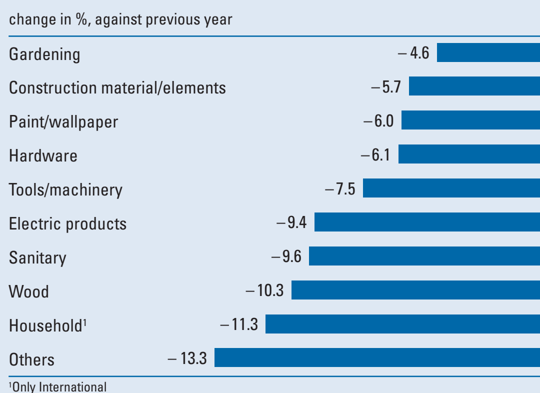
in % of total net sales



¹Only International

Net sales per assortment – Praktiker Group

change in %, against previous year



¹Only International

Fewer customers, stable average purchase

The Praktiker Group had fewer customer contacts in 2011 than in the previous year. In the German Praktiker stores, there were fewer price-sensitive customers in particular as open and general discount campaigns had been discontinued from the start of the year. Internationally, the number of customers declined especially in countries in which households had less disposable income. Average purchases declined most in international business, due in part to the influence of exchange rates. Average purchases at Praktiker Germany were only slightly lower than in the previous year while Max Bahr posted a strong increase.

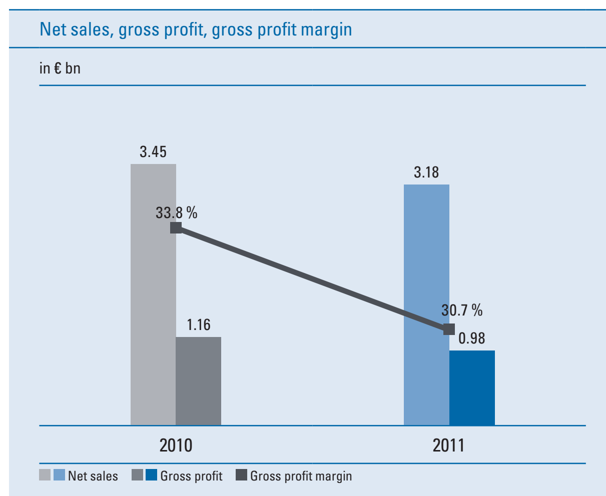
Customer contacts and average purchase 2011

	Customer contacts		Average purchase	
	in million	Change in % to 2010	in €	Change in % to 2010
Praktiker Germany	58.8	–9.1	25.64	–1.2
Max Bahr	25.3	–2.3	27.78	3.6
Miscellaneous	2.7	–6.2	23.71	9.4
Germany	**86.8**	**–7.1**	**26.20**	**0.5**
International	**34.9**	**–5.9**	**25.63**	**–4.4**
Praktiker Group	**121.7**	**–6.8**	**26.04**	**–0.9**

Gross profit margin down

The Praktiker Group's gross profit margin declined by 3.1 percentage points year-on-year to 30.7 percent. The majority of this decrease (2.2 percentage points) was due to a revaluation of inventories at the end of the year (see page 11).

The gross profit margin had risen significantly at Praktiker Germany in the first half of the year as only a relatively limited number of discounts had been offered. However, sales had not developed as expected in the second quarter after the start of the repositioning. As a consequence inventories had reached high levels by midyear. It was therefore not possible to maintain this price policy in the second half of the year. The gross profit margin at Max Bahr declined as the brand had taken on a more aggressive price position than in previous years. The international gross profit margin remained virtually unchanged. VAT rates that had been increased in Romania and Greece in the middle of 2010 were passed on to customers.



Other operating income, selling and administrative expenses, EBITA

in € m	2011	2010	Change
Gross profit on sales	**976.6**	**1,164.6**	**–187.9**
herein included extraordinary effects	–69.8	–	–
Other operating income	68.1	73.9	–5.8
Selling expenses	1,329.5	1,119.8	209.6
herein included extraordinary effects	–224.5	–17.6	–206.9
Administrative expenses	89.3	81.9	7.3
herein included extraordinary effects	–19.1	–14.8	–4.4
EBITA	**–375.1**	**35.3**	**–410.4**
herein included extraordinary effects	–313.5	–32.4	–281.2
EBITA before extraordinary effects	**–61.6**	**67.7**	**–129.2**

Other operating income dips slightly on previous year

Other operating income relates mainly to retail business items: advertising expense allowances, supplier payments and rental income. Other operating income reached 68.1 million euro which was 7.9 percent less than in the previous year.

Extensive extraordinary effects impact results

The 2011 financial year was dominated by extensive extraordinary effects (see page 12). These amounted to 473.0 million euro in total of which 69.8 million euro reduced gross profit, while 243.7 million euro is contained in different items of selling and administrative expenses and therefore affected reported EBITA. EBIT was also influenced by goodwill impairment of 159.5 million euro.

Selling and administrative expenses risen

Selling and administrative expenses rose sharply, mainly as a result of the extraordinary effects described above. After adjustment for the non-recurring expenses incurred in both 2011 and the previous year, selling costs reached 1,105.0 million euro and thus were 0.2 percent or 2.7 million euro up on the previous year (1,102.2 million euro). Assuming the same calculation, administrative expenses rose by 4.3 percent to 70.1 million euro (previous year 67.2 million euro).

Above all, savings resulted from the considerable headcount reduction, which shrank the cost base internationally in particular.

Main cost blocks

in € m	2011	2010	Change
Net sales	3,183.0	3,448.3	–265.3
Personnel expenses	**559.3**	**547.2**	**12.2**
in % of total net sales	17.6	15.9	1.7 PP
Rents and other expenses for running the stores	**655.6**	**474.3**	**181.2**
in % of total net sales	20.6	13.8	6.8 PP
Marketing expenses	**108.6**	**93.9**	**14.8**
in % of total net sales	3.4	2.7	0.7 PP

Operating earnings declined

At minus 375.1 million euro, EBITA was down significantly year-on-year (35.3 million euro). This is due in particular to the previously mentioned extraordinary effects. But even taking into account all extraordinary effects, a deterioration in earnings from 67.7 million euro in the previous year to minus 61.6 million euro was unavoidable. The decline in sales and gross profit could not be compensated for on the cost side. Moreover, changing exchange rates exacerbated earnings deterioration by 2.1 million euro.

Goodwill impairment

Impairments of 159.5 million euro had already been recognised on goodwill at Praktiker Germany by the middle of the year as a result of the modification of corporate planning. This impairment reduced EBIT by a corresponding amount.

Net financial result reflects change in debt financing

Praktiker had issued a corporate bond of 250.0 million euro in February 2011. Thus, promissory notes amounting to 50.0 million euro were replaced in the same month and convertible bonds of 147.1 million euro were repaid in September. Accordingly, at the end of the year, financial debt was a good 50.0 million euro higher than at the same time one year earlier. At the same time, higher interest had to be absorbed for a good portion of the year as there was a discrepancy of more than seven months between the launch of the corporate bond and the repayment of the convertible bond. Both effects resulted in higher interest expenses.

Net financial result was reduced further by exchange rate fluctuations. The negative net balance of exchange rate gains and losses was 10.5 million euro higher in 2011 than in the previous year as most Eastern European currencies were down year-on-year in 2011.

Net financial result

in € m	2011	2010	Change
Financial income	**27.8**	**15.0**	**12.7**
thereof interest income	3.0	1.9	1.1
thereof exchange gains and valuation gains from derivatives	24.6	12.4	12.1
Financial expenses	**87.5**	**56.0**	**31.5**
thereof interest expenses from finance leases	23.1	24.1	–1.0
thereof accumulation of liabilities from convertible bonds	3.3	4.3	–1.0
thereof accumulation of liabilities from corporate bonds	0.5	0.0	0.5
thereof interest expenses from corporate bonds	13.1	0.0	13.1
thereof other interest and similar expenses	6.6	8.5	–1.9
thereof exchange losses and valuation losses from derivatives	37.2	14.6	22.6
Net financial result	**–59.8**	**–41.0**	**–18.8**

Taking the net financial result into account, EBT amounted to minus 594.3 million euro (previous year 5.7 million euro).

Earnings

in € m	2011	2010	Change
EBITA	–375.1	35.3	–410.4
Net financial result	–59.8	–41.0	–18.8
EBT	–594.3	–5.7	–588.6
Income taxes	39,6	–27.9	67.5
Net loss	–554.7	–33.6	–521.2
EPS in €	–9.58	–0.60	–8.98
EVA	–308.6	–214.1	–94.5
ROCE in %	1.0	4.6	–3,6 PP

Substantial pre-tax loss leads to tax income

Tax income of 39.6 million euro is reported, which equates to a tax rate of 6.7 percent. By contrast, the anticipated income tax rate in the Praktiker Group stands at 30.5 percent, this would theoretically result in tax income of 181.4 million euro.

The actual tax income is far lower because, due to lack of intrinsic value, the creation of deferred tax assets was waived and at the same time deferred tax assets created in the past were impaired. This was necessary because it cannot be assumed with confidence that in the future, sufficient positive earnings will be achieved in all the countries in which Praktiker operates to be offset against these tax assets. In total, this effect led to a reduction in tax income of 113.9 million euro.

As in the previous year, trade tax additions in Germany were incurred independently of earnings, and there were some expense items in the IFRS financial statements which reduce earnings before taxes but are not considered expenses in the country-specific tax accounts. This resulted in a further reduction in tax income of 10.5 million euro.

Since tax losses usually subject to a lower tax rate were, to a larger part, incurred in Pratiker's international portfolio in 2011, the tax income resulting from the International segment is also lower than the Group tax rate would suggest. The effect based on these circumstances comes to 17.6 million euro.

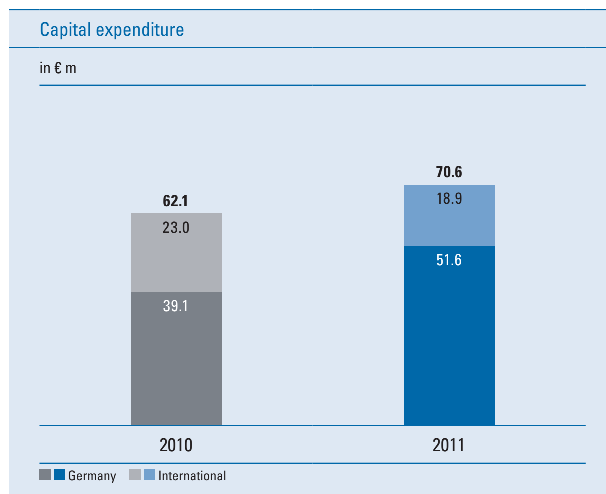
After taking income taxes into account, the net loss for the year amounted to 554.7 million euro. The basic loss per share for 2011 was 9.58 euro (previous year minus 0.60 euro).

Financial position

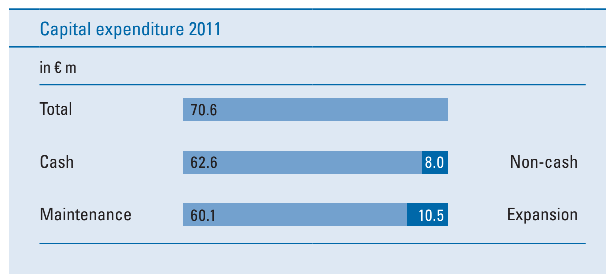
Capital expenditure up on previous year

At 70.6 million euro, capital expenditure increased by 8.5 million euro as against the previous year's figure in 2011, serving mainly purposes of modernisation, concept changes and assortment revision, which had been initiated by both Praktiker Germany and Max Bahr. Outside Germany, the Group invested in four new locations. Of this total, 62.6 million euro became cash effective. The non cash effective part is related to a new finance lease store in Poland and to prolongation/expansion of other existing finance lease stores.

Capital expenditure



Capital expenditure 2011



Liquidity significantly below previous year´s level

At 148.0 million euro, cash and cash equivalents at the end of 2011 were significantly below the figure for the previous year (266.3 million euro). The cash outflow in operating business amounted to 79.2 million euro mainly because of the negative overall business development. The impairments on non-current assets, the additions to provisions and goodwill impairment did not entail cash outflows. At the same time, working capital improved significantly as inventories, as described above, were adjusted to the sales development and subjected to a new valuation method as described. A strong reduction in trade payables was offset by an even higher decline in inventories.

At 61.7 million euro, the liquid funds used in investing activities (capital expenditure minus sale of assets) was slightly higher than in the previous year.

The positive external financing contribution resulting from the corporate bond could not offset the cash utilisation resulting from operating and investing activities.

By the end of the year, cash and cash equivalents were lower than Praktiker originally had predicted. In January 2012, liquidity again corresponded to plan. The discrepancy at the due date had arisen because several payment procedures had been changed at the end of the year; this had also been done to demonstrate adherence to payment schedules in the face of a difficult economy to all external business partners.

Cash flow

in € m	2011	2010	Change
Earnings before taxes	–594.3	–5.7	–588.6
Cash flow from operating activities	–79.2	90.6	–169.8
Cash flow from investing activities	–61.7	–56.4	–5.3
Cash flow from financing activities	23.2	–31.4	54.6
Cash and cash equivalents as at 31/12	148.0	266.3	–118.3

As for the question whether the Praktiker Group will be able to fulfill its payment obligations in the future as well, reference may be made to the risk report, chapter "Risks to the Group as a going concern" (page 35).

Asset position

Total assets down significantly

Total assets declined tangibly in 2011, essentially as a result of the impairments on various items described above. At the same time, there were also substantial changes in the structure of the statement of financial position.

On the assets side, property, plant and equipment decreased considerably. This was due to the impairments incurred in connection with the modification of corporate planning.

While inventories were down in part as a result of the efforts to improve working capital, the predominant factor causing this effect was the change in the valuation method as described above.

Impairments were also recognised on goodwill at Praktiker Germany as part of the modification of corporate planning.

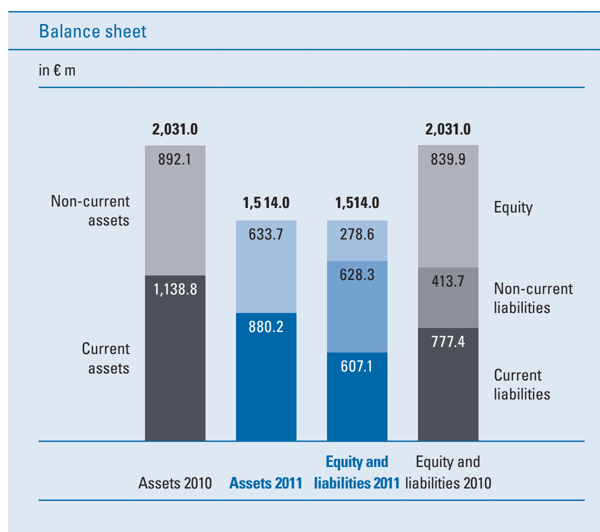
Under equity and liabilities, provisions increased on account of the various reasons also already described above: the modification of corporate planning necessitated extensive additions to provisions for onerous contracts. Further provisions were recognised as Praktiker intends to reduce personnel in stores and head offices in addition to relocating its Group headquarters to Hamburg.

The total figure for current and non-current financial liabilities also rose. Liabilities to banks increased by over 50 million euro in connection with the issue of the corporate bond in February which was used for replacement of earlier financing instruments as well as for general financing purposes. Finance lease liabilities declined slightly as a result of the natural change in the age structure of locations classified as finance leases.

Deferred tax liabilities decreased mainly as a consequence of the goodwill impairment while the sharp decline in trade payables was primarily in line with the falling sales trend.

Owing to the severe losses, equity shrank significantly. Equity amounted to 278.6 million euro at the end of 2011, corresponding to an equity ratio of 18.4 percent. The decline as against the comparable figure for the previous year was 561.3 million euro.

Balance sheet



Net debt increased

Net debt amounted to 351.1 million euro as at the end of 2011 and exceeded the comparable previous year´s figure (184.7 million euro) as cash and cash equivalents declined while financial liabilities increased.

Finance lease liabilities declined slightly as the pro rata temporis redemption of existing liabilities was higher than the increase in liabilities for new locations. The financial liabilities resulting from finance leases accounted for more than half of all financial liabilities. They result from accounting for rental agreements classified as finance leases. They are accounted for as liabilities under IFRS, but the underlying contracts are rental agreements with current monthly rental payments. There are options to prolong rental agreements when they expire but no options or obligations to acquire the stores concerned.

Non-current and current liabilities

in € m	31/12/2011	31/12/2010	Change
Non-current liabilities	**628.3**	**413.7**	**214.6**
thereof financial liabilities	474.2	238.7	235.5
including financial liabilities from finance leases	227.0	238.7	– 11.7
Current liabilities	**607.1**	**777.4**	**– 170.3**
thereof financial liabilities	24.9	212.3	– 187.3
including financial liabilities from finance leases	20.1	18.5	1.6

Net working capital down

Net working capital amounted to 347.2 million euro in the financial year, a significant slide as against the previous year (383.3 million euro). Inventories were adjusted to the declining sales trend. Moreover a new valuation method was introduced. As a consequence, they decreased more than trade payables.

Financial position significantly below previous year

The Praktiker Group reported cash and cash equivalents of 148.0 million euro as at the end of the financial year which was significantly less than one year ago (266.3 million euro). The Group also still has credit lines of a mid-range double digit million euro amount at its disposal. Corresponding bilateral agreements were transferred to a syndicated loan agreement with three banks in February 2012.

Beyond current cash and cash equivalents and the lines of credit available, additional financial means can potentially be generated by authorised capital as resolved by the 2010 annual general meeting. In addition, there is the option to issue further convertible and warrant-linked bonds on the basis of the authorisation of the 2010 annual general meeting resolution, which would be covered by the contingent capital approved by the 2010 annual general meeting resolution.

Moreover, Praktiker has been working since the end of the past financial year to finance its advised restructuring measures (see also paragraph “Risk to the Group as a Going Concern” on page 35 and “Material Agreements Subject to a Change of Control” on page 27).

EVA in decline

After adjustment for extraordinary effects, economic value added (EVA®) for the 2011 financial year amounted to minus 308.6 million euro (previous year minus 214.1 million euro). EVA was therefore below the previous year’s level, resulting in a negative EVA delta for the Group. Accordingly, executives whose variable remuneration is based on this EVA delta will not receive bonuses. The return on capital employed (ROCE) was 1.0 percent (previous year 4.6 percent).

Overall performance not in line with expectations

The performance in the 2011 financial year was disappointing on the whole. The expectations that the management had held for the repositioning of the Praktiker brand in Germany materialised only partially and significantly later than anticipated. International business performance was also unsatisfactory. With the exception of the Ukraine, sales declines were incurred in all countries. Max Bahr alone lived up to the company’s sales forecasts, but was also well short of earnings projections by the end of the year.

In terms of results, the operating performance and the extraordinary effects described together made 2011 the weakest year since the company’s IPO (initial public offering). Nonetheless, the measures taken in the framework of the restructuring programme have laid the groundwork for the expectation of a successive economic improvement.

SEGMENT REPORTING

Germany

The German DIY market grew slightly in 2011 with the industry association BHB forecasting growth of 1.5 percent. The first half of the year was better than the second: business performance was excellent in the spring thanks to the mild weather, whereas in summer it fell well short of the previous year due to unfavourable climatic conditions. The industry then posted moderate increases again in autumn and winter.

In this environment, the Max Bahr brand stabilised its share in the German market. Praktiker lost market share.

Segment report Praktiker Germany

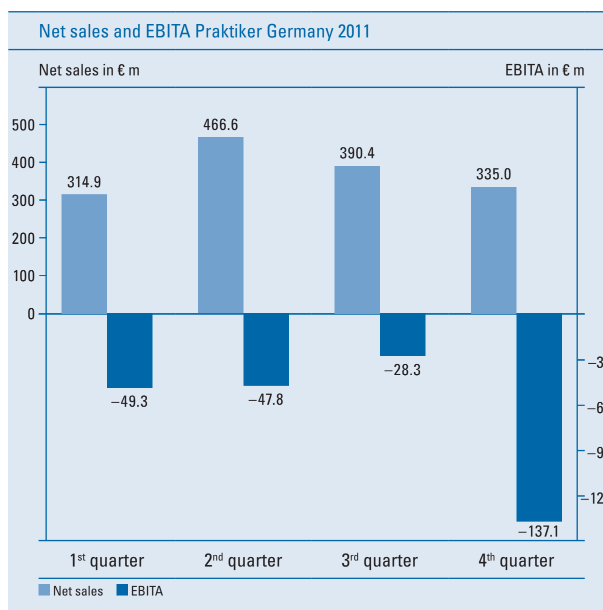
Repositioning shows effect towards end of year

Praktiker suffered a significant sales decline in Germany in 2011. However, this was limited to the first three quarters of the year. In the fourth quarter, the third since the start of the repositioning, sales again matched prior-year levels for the first time. As part of its repositioning, Praktiker discontinued general, open advertising campaigns with its former slogan "20 percent off everything – except pet food". This initially caused a massive drop in sales which was much more severe than originally anticipated. As a result, excess inventories built up by the middle of the year, which were then sold in the third quarter with heavy advertising and aggressive pricing at the expense of earnings.

Key data Praktiker Germany

Net sales, EBITA and capital expenditure in € m	2011	2010	Change in %
Net sales	1,506.9	1,680.1	– 10.3
Like-for-like sales growth in %	– 10.2	– 8.7	– 1.5 PP
Gross profit on sales	448.3	554.4	– 19.8
Gross profit on sales in %	29.7	33.0	– 3.5 PP
EBITA	– 262.5	– 1.2	–
in % of total net sales	– 17.4	– 0.1	– 17.3 PP
EBITA before extraordinary effects	– 79.6	18.5	–
in % of total net sales	– 5.3	1.1	– 6.4 PP
Capital expenditure	45.7	23.0	98.9
Number of stores (31/12)	235	236	– 0.4
Selling space in 1,000 sq m (31/12)	1,420	1,423	– 0.2
Employees, yearly average on a full-time basis	8,008	8,426	– 5.0

Net sales and EBITA Praktiker Germany 2011



Gross profit declined

The aim of Praktiker's new marketing strategy is to replace the former general discounts with selective individual campaigns in order to reduce the price concessions overall and thereby raise the gross margin. This worked in the first half of the year. However, there were blows to the gross profit margin in the second half of the year as price concessions were needed to sell the excess inventory; furthermore inventories were subjected to the amended valuation method as at the end of the year. This valuation effect alone accounted for 29.0 million euro.

High extraordinary effects triggered by modification of corporate planning

As the sales performance in 2011 did not live up to expectations, the company's plans for the future had to be modified. This resulted in impairments on non-current assets and additions to provisions for onerous contracts. In total, this non-recurring effect was quantified at 74.5 million euro at Praktiker Germany. There were also expenses of 79.5 million euro in connection with restructuring and repositioning the brand. In particular, these were incurred for planned HR activities, programme work and third-party consulting. However, such expenses also include the costs of an additional TV advertising campaign and the implementation of the new marketing strategy.

Operating earnings negative

The extraordinary effects drove operating earnings into negative territory. Praktiker Germany, however, also failed to generate positive earnings even before extraordinary effects (minus 79.6 million euro). The weak earnings and the fact that the set targets were missed led to further restructuring measures by the end of the year, which included an exten-

sive headcount reduction, the closure of the former Group headquarters in Kirkel/Saarland and the closure of unprofitable Praktiker stores in Germany in 2012.

EBIT was also influenced by goodwill impairment of 159.5 million euro.

Accelerating the repositioning

The repositioning began at the start of the first quarter of 2011. A simplified navigation system inside the store, new work clothes, a greeter in the entrance area, “Praktiker” as a private label in four product lines, first steps towards a clear product, quality and price hierarchy – all this was implemented. However, the process began to falter in the third quarter. As sales performance had fallen short of expectations, inventories had reached excessive levels and had to be reduced as quickly as possible. In the fourth quarter, sales came in at the level of the previous year – a possible first sign that Praktiker's new approach in Germany has been accepted by customers albeit with a certain delay.

This is why the management is confident that the chosen path is still the right one. The strength of the Praktiker brand lies in its priceworthiness, i.e. the fact that customers associate it with good value for money. The brand will build on this in future as well. In order to achieve this as quickly as possible, the pace of implementing the repositioning has already been stepped up. The first two stores fully representing the new concept are already complete; up to 60 more stores will follow by mid-2013. Assortment revisions will be accelerated, long overdue capital expenditure in part of the store portfolio will be implemented in 2012, the share of private labels will be extended further, the “triples” concept will be refined.

Customer loyalty rising further

The fact that Praktiker's concept is right has also been confirmed by the rising number of loyalty card holders in 2011. Customers who recognise the benefits of shopping at Praktiker are also happy to take advantage of its customer loyalty programme. Almost 350,000 new loyalty cards were issued in the reporting period. In total, more than 2.5 million customers actively use their cards. This figure had been 2.3 million in the previous year. These loyal customers accounted for a little more than 40 percent of sales at Praktiker in Germany.

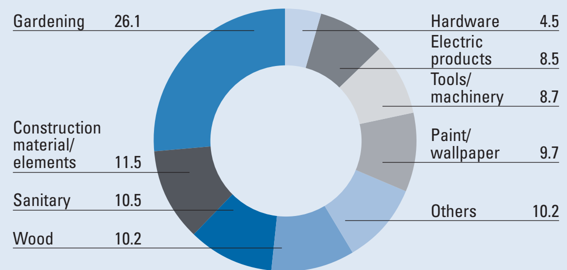
Investing in concept change

Praktiker invested a total of 45.7 million euro in Germany in 2011 (previous year 23.0 million euro), predominantly in the marketing concept. Concept change was our second priorety and is most visible in the full facelift of seven selected stores.

Praktiker closed one store in Germany in 2011.

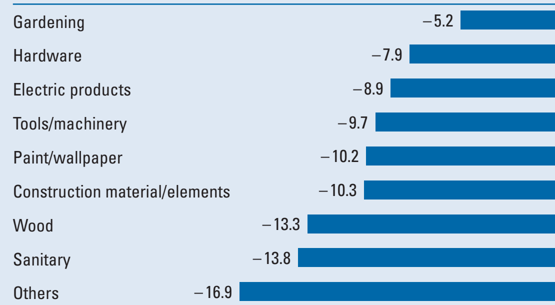
Assortment – Praktiker Germany

in % of total net sales



Net sales per assortment – Praktiker Germany

change against previous year in %



Segment report Max Bahr

Sales increased slightly

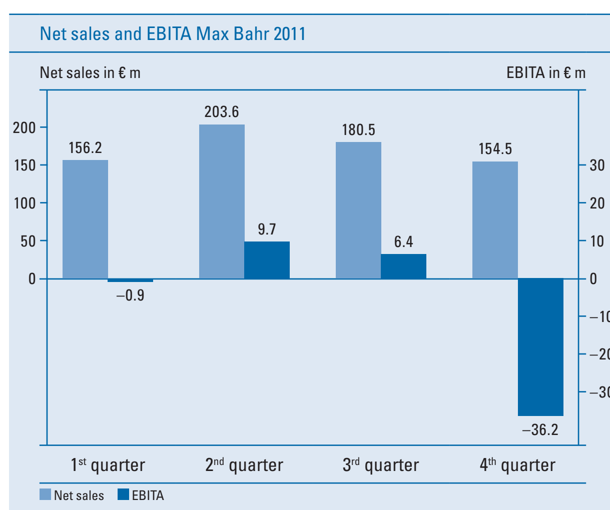
Max Bahr increased its sales slightly in 2011. Thus, the brand has stabilised its market share in Germany. Business fluctuated over the course of the year – in line with the weather and the changing focus of marketing measures. Two quarters with sales increases were balanced by two quarters with declining sales.

In 2011, Max Bahr focused its marketing efforts on customers with loyalty cards in particular. Their share of total sales increased by 3 percentage points to a good 37 percent. Towards the end of the year, Max Bahr reached out with its marketing to potential customers online as well for the first time. This way it hopes to attract additional, web-savvy people as a new customer group.

Key data Max Bahr

Net sales, EBITA and capital expenditure in € m	2011	2010	Change in %
Net sales	694.8	685.5	1.4
Like-for-like sales growth in %	1.3	–2.7	4.0 PP
Gross profit on sales	226.9	260.6	–12.9
Gross profit on sales in %	32.7	38.0	–5.3 PP
EBITA	–20.9	29.2	–
in % of total net sales	–3.0	4.3	–7.3 PP
EBITA before extraordinary effects	16.3	31.4	–48.1
in % of total net sales	2.3	4.6	–2.2 PP
Capital expenditure	5.4	14.7	–63.2
Number of stores (31/12)	78	78	0.0
Selling space in 1,000 sq m (31/12)	628	628	0.0
Employees, yearly average on a full-time basis	2,874	3,014	–4.6

Net sales and EBITA Max Bahr 2011



Gross profit margin declined

Max Bahr's gross profit margin declined in 2011. This was due in part to more intensive advertising, but also to the fact that impairments on plants in the summer half of the year were higher than one year ago. In addition, Max Bahr's inventories were also subjected to the amended valuation method as at the end of the year, resulting in impairments of 22.1 million euro.

Extraordinary effects impact earnings

Max Bahr was again not the focus of the restructuring in 2011. Accordingly, the extraordinary expenses this entailed remained minor. However, higher extraordinary effects were incurred by the modification of corporate planning of individual stores. These amounted to 14.7 million euro.

In total, extraordinary expenses pushed Max Bahr's operating earnings into negative territory. Earnings before extraordinary effects had been positive at 16.3 million euro. This was lower than in the previous year, essentially because the gross profit margin did not reach the previous year's level.

Work on assortments continued

Max Bahr's image is that of a DIY store with a sophisticated, high-end range of goods and services. All changes are geared towards further strengthening and honing this positioning. Max Bahr continued to work on this in 2011 as well. For example, the new "Garden Oasis" has meanwhile been introduced in two stores. The core elements of this concept are clear presentation, an atmospheric garden ambience and a highly varied product range. The idea is that customers feel both relaxed and inspired by this redesigned sales area. A separate goods collection area helps to make shopping even more convenient as well.

Through its partnership with the home accessories chain "Depot", Max Bahr is further highlighting its strategic objective of offering specialty concepts all under one roof. "Depot" offers a high-quality range of accessories in the areas of home decor and textiles.

The assortments of building materials, ceramics and fittings were also revised, updated and revamped. In other areas, the focus was on extending assortments to include a premium range, as in the garden department, for example, which now exclusively offers turf as well.

The service range was also expanded. Since September 2011, Max Bahr has offered its customers a service package for thermal building insulation: energy saving experts analyse the individual situation, inform customers about subsidies, suggest suitable construction work and assist in its subsequent implementation.

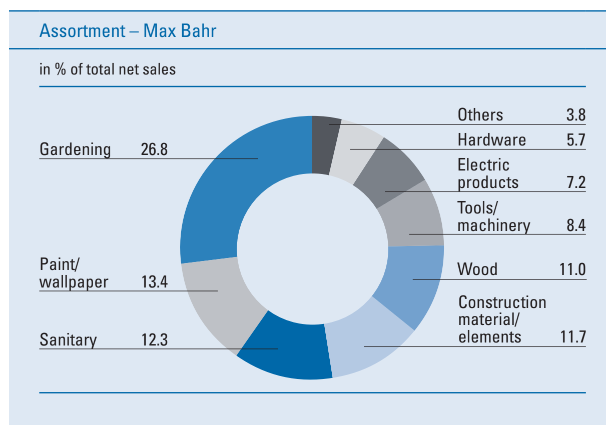
Certified quality available

The high level of service and attention to the environment is reflected not just in the high level of customer satisfaction but also in the seals of approval from authorised institutions. In 2011, Max Bahr successfully passed the TÜV test for service quality and customer satisfaction for the third time. Since 2000, Max Bahr has also been certified under international environmental standards for its environmental management. The TÜV confirmed this certificate again in 2011.

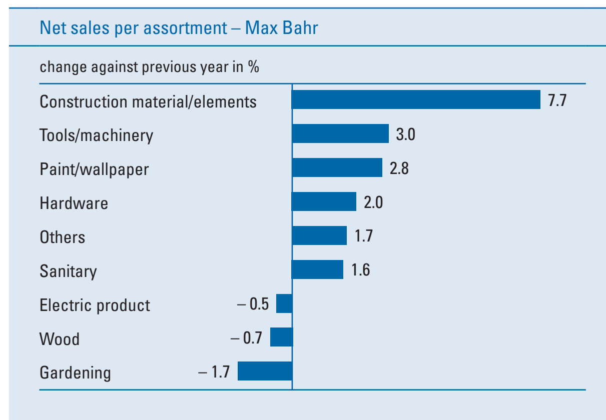
Investing in assortment revision

As in the last two years, Max Bahr invested heavily in the revision of its assortments in 2011. In total, its capital expenditure amounted to 5.4 million euro (previous year 14.7 million euro). The portfolio of stores was unchanged.

Assortment – Max Bahr



Net sales per assortment – Max Bahr



Segment report Miscellaneous

The segment Miscellaneous includes the German brand extra BAU+HOBBY, a cross-divisional service company of the Praktiker Group and, since the end of 2010, the Praktiker Germany online shop as well.

Owing to the relative immateriality of the sales, earnings and assets of this segment, no detailed comments on the segment are provided. The corresponding data on the segment can be found in the notes on pages 93 to 95.

Segment report International

Sales declined

Sales fell significantly in the International segment in 2011. One quarter of the decline of 10.2 percent as against the previous year was due to changes in exchange rates, while three quarters were due to weak local demand. Calculated in euro, Praktiker's sales performance was positive only in the Ukraine.

Key data International

Net sales, EBITA and capital expenditure in € m	2011	2010	Change in %
Net sales	894.2	996.1	– 10.2
Like-for-like sales growth in %	– 12.4	– 8.2	– 4.2 PP
Gross profit on sales	275.9	323.9	– 14.5
Gross profit on sales in %	30.9	32.5	– 1.5 PP
EBITA	– 84.1	11.1	–
in % of total net sales	– 9.4	1.1	–10.5 PP
EBITA before extraordinary effects	7.7	20.3	– 61.9
in % of total net sales	0.9	2.0	– 1.2 PP
Capital expenditure	19.0	23.0	– 17.6
Number of stores (31/12)	109	107	1.9
Selling space in 1,000 sq m (31/12)	766	753	1.7
Employees, yearly average on a full-time basis	8,761	9,652	–9.2

A consistently negative trend was observed from quarter to quarter over the year, at least when looking at the international portfolio's sales as a whole calculated in euro. In the opinion of the management, this reflects the persistently difficult overall economic situation in many countries in the Praktiker portfolio, above all in two countries that contribute large shares to sales, Greece and Romania.

Although the corresponding figures are not yet available, the market share in countries such as the Ukraine and Romania was presumably in decline as the competition has continued to expand. Market share is believed to have remained largely stable in Poland, Hungary and Bulgaria. Market share in Greece may even have grown as a number of smaller competitors have bowed out in light of the adverse market environment without new ones coming in to replace them.

International – the countries

		Change in %, in €		Change in %, in local currency		
	Net sales in € m	absolute	like-for-like	absolute	like-for-like	Number of stores
Albania	4.7	–1.0	–1.0	0.9	0.9	0
Bulgaria	48.3	–12.0	–12.0	–12.0	–12.0	9
Greece	231.6	–9.9	–14.3	–9.9	–14.3	13
Luxembourg	36.2	–1.9	–1.9	–1.9	–1.9	3
Poland	196.7	–4.0	–10.8	–1.0	–8.3	24
Romania	152.3	–21.3	–22.9	–20.8	–22.5	27
Turkey	94.7	–11.9	–9.7	3.2	5.9	10
Ukraine	27.1	5.1	7.2	10.5	14.2	4
Hungary	103.1	–7.2	–4.2	–5.8	–3.4	19
International[1]	**894.2**	**–10.2**	**–12.4**	**–7.8**	**–10.1**	**109**

[1]Consolidated

Gross profit margin down on previous year

In the International segment inventories were subjected to the new valuation method too. This led to additional impairments amounting to 17.1 million euro, and the gross profit margin thus fell below the previous year´s level. Adjusted for this effect, Praktiker maintained its gross profit margin from operating activities at the previous year's level despite the difficult market environment. The higher VAT in Romania and Greece in effect from mid-2010 was passed on to customers. Changes in assortments and advantageous price agreements with suppliers helped to stabilise the gross profit margin.

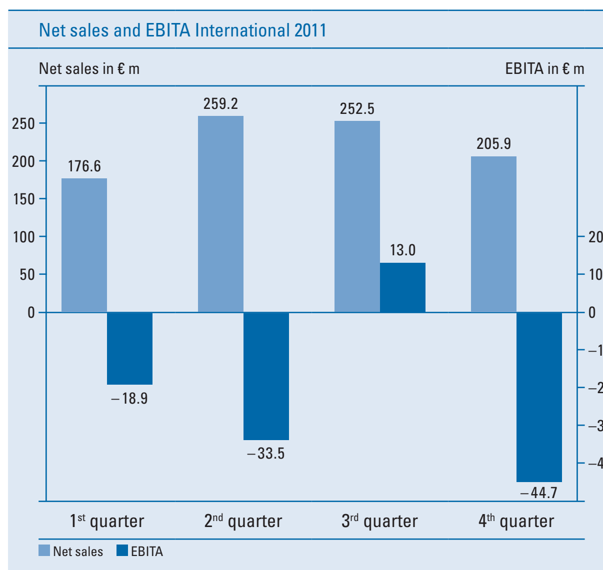
Extraordinary effects lead to negative result

International business in 2011 was also hampered by high extraordinary effects resulting from the modification of corporate planning (58.8 million euro), "Praktiker 2013" activities (1.6 million euro) and restructuring measures (14.2 million euro).

The extraordinary effects meant that operating earnings for 2011 slipped well into the red. Before extraordinary effects, operating profit stood at 7.7 million euro. This was lower than in the previous year as it was not possible to offset the negative volume effect with cost-cutting measures alone. Praktiker generated positive earnings before extraordinary effects in Greece, Poland and Luxembourg. EBITA was at breakeven level in Bulgaria. By contrast, Romania and Hungary slid into negative territory in 2011. Turkey and the Ukraine also posted no profits in 2011.

Better earnings were prevented by exchange rates. Had they remained unchanged, EBITA would have been 2.1 million euro higher.

Net sales and EBITA International 2011



Adjustments to the product offer

In the countries of Eastern Europe, Praktiker faced a market environment that, barring a few exceptions, was characterised by stagnant or shrinking demand. When customers only buy what they urgently need, when the property market is in decline and the construction industry is faltering, when private disposable income is curtailed by fiscal measures or rising unemployment, the general conditions for retailers leave much to be desired.

The answers Praktiker found to the challenges that differed from country to country were naturally also varied. Praktiker Hellas, for example, implemented facelifts at several stores, shifted the focus of its advertising to price and reached out to individual customer groups, such as students, with a full range offer of a "sample apartment" on a student budget. In Poland, Praktiker added a new sales channel by opening its online shop in order to target web-savvy customers for the first time. Poland is thus following Hungary's example, where Praktiker has been operating this sales channel successfully for years. Hungary therefore specifically intensified its online marketing in 2011. In Bulgaria, Praktiker offered comprehensive service options for the first time in 2011 – such as laying floorboards or building doors – thereby acquiring a unique selling proposition to help it stand out. In the Ukraine a project was launched that is also unique – helping customers to build a complete house, largely with materials and fittings from Praktiker's product lines.

Market position International 2010

	Albania	Bulgaria	Greece	Luxem-bourg	Poland	Romania	Turkey	Ukraine	Hungary
Market volume[1] in € bn	0.2	1.1	5.2	0.4	14.0	3.8	17.8	4.2	2.3
Net sales Praktiker in € m	4.8	54.9	257.2	36.9	205.0	193.6	107.5	25.8	110.0
Market share in %	2.4	5.1	5.0	10.4	1.5	5.1	0.6	0.6	4.8
Market position	2	1	1	2	4	2	2	3	2
Main competitors (Market share[1] in %)	Megatek (2.8)	Mr. Bricolage (4.8)	Leroy Merlin (1.5)	Hela (11.7)	Castorama (8.8)	Dedeman (9.5)	Koctas (2.1)	Epicentre (19.9)	Obi (6.1)
		Baumax (3.6)		Cactus (9.8)	Leroy Merlin (4.5)	Baumax (3.9)	Bauhaus (0.6)	Nova Liniya (5.0)	Baumax (3.7)
				Hornbach (8.3)	Obi (2.9)	Bricostore (3.9)	Tekzen (0.5)	Obi (0.6)	Bricostore (2.2)

[1]Praktiker estimate

Focus on expenses

In an environment of stagnant or contracting demand, management continued to focus predominantly on reducing expenses. Cutting back on advertising as well as downsizing and renegotiating agreements with service providers and suppliers again tapped further cost-cutting potential. Applying best practices, advancing standardisation and the harmonisation of activities have changed structures and processes. All in all, however, expenses before extraordinary effects were reduced. However, this was not sufficient to fully compensate the effect on earnings which resulted from the decline in sales.

Moderate expansion continued

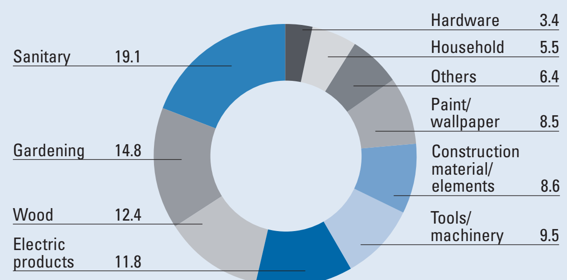
The international store portfolio grew by a total of two locations in 2011. There were four new stores, one in Greece and three in Poland, on the one hand and one closure in Hungary and the discontinuation of activities in Albania as at the end of the year on the other. All new locations are leased. Three stores were classified as operating leases under IFRS regulations, one was classified as finance lease.

Capital expenditure reduced

Total capital expenditure of 19.0 million euro was incurred outside Germany for new stores, renovation and modernisation work and replacement investments. This was slightly lower than in the previous year (23.0 million euro).

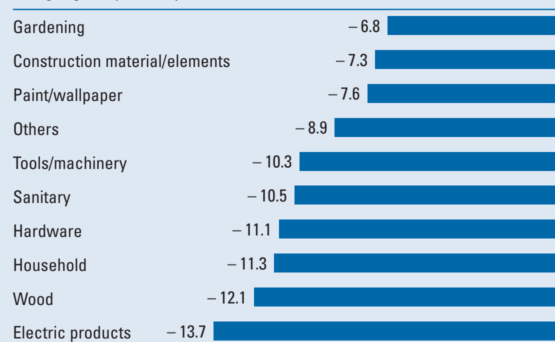
Assortment – International

in % of total net sales



Net sales per assortment – International

change against previous year in %



DATA AND REPORT ACCORDING TO SEC. 315 PARA. 4 HGB (GERMAN COMMERCIAL CODE)

Composition of subscribed capital

The share capital amounts to 58 million euro and is divided into 58 million no-par-value bearer shares. All shares carry the same rights and obligations. Each share grants one vote.

Statutory provisions and provisions of the Articles of Association on the nomination and dismissal of members of the management board and the amendment of the Articles of Association

In accordance with Article 5 of the company's Articles of Association, the management board must consist of at least two persons. The supervisory board appoints the members of the management board and specifies the number of management board members and any deputy management board members. It can nominate a Chairman and a Deputy Chairman of the management board. The company is legally represented by two members of the management board or by one member of the management board together with an authorised signatory. The provisions of the German Stock Corporation Act (AktG), in particular Section 84 et seq. AktG, and the provisions of the German Co-Determination Act (MitbestG), in particular Section 30 et seq. MitbestG, apply otherwise.

In accordance with Article 10.2 of the Articles of Association, the supervisory board is entitled to make amendments to the Articles of Association which relate solely to their wording. In addition, Articles 4.3 and 4.4 of the Articles of Association authorise the supervisory board to adjust the wording of the Articles of Association to reflect the utilisation of authorised capital and the issue of shares from contingent capital. Sections 119(1) no. 5, 133, 179(1) and (2) AktG, according to which the annual general meeting is responsible for amendments to the Articles of Association, apply otherwise. In accordance with Article 18.1 of the Articles of Association, resolutions by the annual general meeting amending the Articles of Association require a simple majority of the votes cast and a simple majority of the share capital represented unless mandatory statutory provisions or the Articles of Association require a greater majority.

Management board authorisations to issue or buy back shares

Authorised capital

By way of resolution of the annual general meeting on 21 May 2010, the management board is authorised, with the approval of the supervisory board, to increase the share capital of the company by a total of up to 25 million euro, either in part or in full, until 20 May 2015 by issuing up to 25 million new no-par-value bearer shares of the company on one or more occasions against cash or non-cash contributions (Authorised Capital 2010/I).

Shareholders have pre-emption rights. The management board is authorised, with the approval of the supervisory board, to disapply shareholders' pre-emption rights in accordance with the provisions of Article 4.3 of the Articles of Association and, with the approval of the supervisory board, to determine the further details of the capital increase and the conditions of the issue of shares. To ensure that shareholders are protected against dilution, the management board of the company has undertaken, in accordance with the terms of a statement published on the company's website on 29 April 2010, to exercise its authorisation to disapply shareholders' pre-emption rights only up to a total of 20 percent of the share capital.

Praktiker AG has not utilised the authorised capital in 2011.

Contingent capital

The annual general meeting on 21 May 2010 authorised the management board, with the approval of the supervisory board, to issue warrant-linked and/or convertible bonds, profit participation rights and/or profit participation bonds (or combinations of these instruments) (referred to collectively as "bonds") with a total nominal amount of up to 500 million euro, dated or undated, on one or more occasions until 20 May 2015 and to grant the bondholders warrant or conversion rights to no-par-value bearer shares of the company in accordance with the terms of the bonds and to create the corresponding warrant or conversation obligations. The details of this authorisation can be found in agenda item 10 of the proposed resolution published in the Electronic Federal Gazette on 1 April 2010.

Shareholders have pre-emption rights to the bonds. However, the management board is authorised, with the approval of the supervisory board, to disapply shareholders' pre-emption rights and to determine the further details of the issue and the terms of the bonds with the approval of the supervisory board or in consultation with the executive bodies of the companies issuing the bonds in which the company holds a majority interest, either directly or indirectly. To ensure that shareholders are protected against dilution, the management board of the company has undertaken, in accordance with the terms of a statement published on the company's website on 29 April 2010, to exercise its authorisation to disapply shareholders' pre-emption rights only up to a total of 20 percent of the share capital.

In this context, the share capital of the company has been contingently increased by up to 29 million euro by the issue of up to 29 million new no-par-value bearer shares with dividend rights from the start of the financial year in which they are issued (Contingent Capital). The purpose of the

contingent capital increase is to issue shares to the holders or creditors of warrant-linked and/or convertible bonds, profit participation rights and/or profit participation bonds (or combinations of these instruments) issued under the terms of the authorisation by the annual general meeting on 21 May 2010 until 20 May 2015 under the terms of the authorisation by the annual general meeting on 21 May 2010 by the company or by companies in which the company holds a majority interest, either directly or indirectly, providing that the bonds are issued against cash. The contingent capital increase will only be implemented to the extent that warrant or conversion rights under the terms of the above bonds are exercised, or warrant or conversion obligations under the terms of such bonds are fulfilled and no other forms of settlement are used to service these obligations.

Praktiker AG has not utilised the contingent capital in 2011.

Authorisation to buy back treasury shares

The management board is authorised to buy back shares of the company with a pro rata amount of the share capital totalling up to 5.8 million euro until 20 May 2015. To the extent that treasury shares are purchased using equity derivatives, the authorisation is limited to a pro rata amount of share capital of 2.9 million euro. The details of the authorisation can be found in agenda items 7 and 8 of the proposed resolutions published in the Electronic Federal Gazette on 1 April 2010.

Praktiker AG has not bought back shares in 2011.

Material agreements subject to a change of control

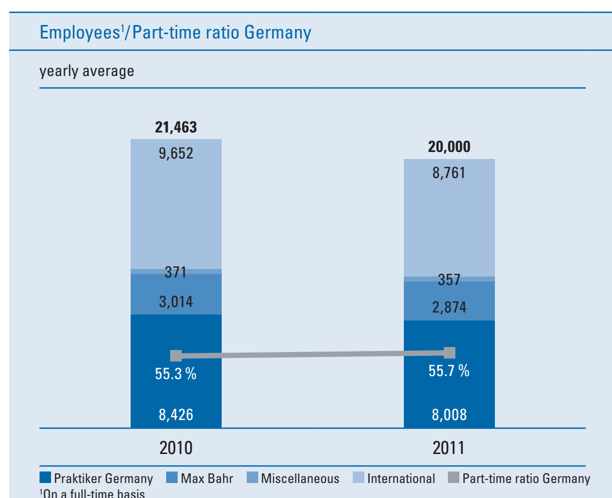
The bond issued by the company on 10 February 2011 with a volume of 250.0 million euro contains a provision for the event of a change of control. In accordance with the terms of the bond, a change of control event arises if there is a change of control and the company's rating is downgraded within 90 days of the publication of a potential change of control or the occurrence of a change of control. A change of control occurs if one or more persons acting in concert within the meaning of Section 22(2) WpHG (German Securities Trading Act) or one or more third parties acting on behalf of the above persons acquire shares accounting for 50 percent or more of the voting rights, either directly or indirectly and irrespective of the approval of the management board or supervisory board. The rating is deemed to have been downgraded if one of the rating agencies defined in the terms of the bond downgrades the rating for long-term liabilities of the issuer from an investment grade rating, if such a rating exists, to a non-investment grade rating or withdraws this rating from the issuer, or the issuer or the bond has not been granted an investment grade rating and none of the above rating agencies grants the bond an investment grade rating following the change of control, unless the issuer is unable to obtain an investment grade rating during the period of the change of control despite reasonable efforts and without this being due to the change of control or the credit rating of the issuer. If such a change of control event occurs, each creditor shall be entitled to recall all or some of their bonds, giving at least ten days' notice effective from the chosen repayment date, this being a business day determined by the issuer that is no less than 60 and no more than 90 days after the announcement of the change of control event, on the chosen repayment date at their nominal amount plus any interest accrued up until the chosen repayment date. In this case, the issuer must repay the relevant bonds at their nominal amount plus any interest accrued up until the chosen repayment date.

On 28 February 2012, Praktiker AG and certain of its subsidiaries (borrowers) concluded a loan agreement for a revolving credit facility of 55.0 million euro with Commerzbank AG, Deutsche Postbank AG and Raiffeisen Bank International AG (lenders). The agreement initially runs until 30 September 2012. Terms for a prolongation of the amount of the loan granted have not been stipulated in advance. The credit facility can be terminated by the banks upon certain events. These include digression from the planned progress of the restructuring concept and the associated financing, the deviation from forecast liquidity development within the Group or a change of control. The latter occurs (i) in the event of the disposal of all or significant amounts of assets of Praktiker AG and its subsidiaries as a whole to one or several parties acting in concert (ii) in the event of a transaction (including under transformation law), as a result of which one or several parties acting in concert become the bearers of more than 30 percent of shares in Praktiker AG or achieve control over such an amount (within the meaning of section 17 AktG). Persons acting in concert are defined as per section 2(5) of the German Securities Takeover Act.

PERSONNEL REPORT

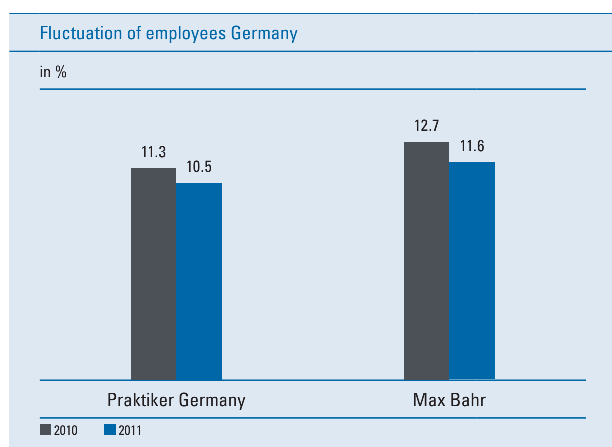
Number of employees down

At the end of 2011, the Praktiker Group employed a total of 24,382 people, 4.5 percent fewer than at the same date of the previous year (25,539). The headcount reduction was closely related to the restructuring of the Group and measures to reduce expenses.



The headcount reduction was significantly more pronounced in the International segment than in Germany and affected positions in stores and at head offices alike. At Praktiker Germany, store personnel were divided into the functions of sales and in-house logistics. This and other personnel activities resulted in extraordinary expenses of 33.1 million euro.

The ratio of part-time staff in the Praktiker Group changed only insignificantly. In Germany, it increased slightly to 55.7 percent (previous year 55.3 percent), while outside Germany, where the ratio has traditionally been significantly lower than in Germany, it was up year-on-year to 5.7 percent (previous year 5.0 percent).



The fluctuation rate 2011 was at virtually the same level as in the previous year. The Group's employees were 39.0 years old on average and the Group employs roughly the same number of men and women. Slightly more than half of the employees in Germany are female (52.3 percent), while male employees constitute a slight majority outside Germany (52.9 percent). These proportions did not change significantly as against the previous year.

Moderate wage increases

Wages and salaries again increased only moderately in almost all of the countries in which the Praktiker Group operates.

In Germany, employees covered by the regional collective agreement received a pay rise of 3.0 percent as of June 2011, employees covered by the corporate agreement received a pay rise of 1.6 percent as of May 2011. Employees not covered by collective agreements waived similar, general salary increases on account of the tense economic situation of the company in 2011.

Wage pressure was again relatively low in most countries of Eastern and South-eastern Europe in 2011. This was still essentially due to rising unemployment. On average, wages and salaries outside Germany are likely to have risen by 2 to 3 percent in 2011.

Employee development and promotion of young talent still a high priority

The intensive promotion of young talent, targeted personnel development activities and corresponding seminars aid Praktiker employees and open up potential for the future. The direct newcomer and employee development programmes are still being developed on an ongoing basis to advance talented people in the Praktiker Group – from trainees to executives. Selective development measures – sprint programmes – were initiated in 2011 for the advancement of sales employees as operating managers. The Junior Management Program (JuMP) is a requirement for all young employees in Germany and abroad to qualify for a higher position. The aim of these programmes is to identify prospects within the Group for talented employees early on, thereby ensuring their long-term commitment to the company. The International Trainee Program also continued in 2011.

The Group prepared around 400 trainees in Germany for their vocational future in 2011.

Fulfilling social responsibilities

The Praktiker Group fulfils its social responsibilities in a variety of ways. The different national companies each set their own priorities. Praktiker is involved in sports, education, environmental protection and various social causes. In all these activities, Praktiker is motivated by the desire to be a good corporate citizen. However, its commitments have been reduced significantly as against the previous year on account of economic difficulties.

ENVIRONMENTAL REPORT

Environmental protection activities in 2011 again focused on advising store employees on all matters relevant to the environment.

Further cuts in electricity and heating consumption

Work in Germany to sustainably reduce energy consumption and costs in stores continued in 2011. As against the previous year, electricity consumption was reduced by 3.3 percent corresponding to a reduction of 5.2 gigawatt-hours or the annual electricity requirements of over 1,300 homes. The savings were largely achieved by continuing optimisation measures in lighting and installing building management systems in existing stores. Since being launched in 2008, this technology has helped to save a total of 14.2 gigawatt-hours. Nevertheless, as electricity prices have risen strongly again, particularly as a result of the German Electricity Feed Act, expenses for electricity consumption climbed by over 7 percent in 2011.

The trend in the consumption of heating energy was positively influenced by the installation of building management systems. In particular, consumption was reduced by regulating heating and ventilation systems in line with outside temperatures. A sophisticated reporting system ensures that deviations from normal consumption are recognised very early on and can therefore also be corrected without delay. However, heating energy consumption was also aided by the mild weather in the second heating period as at the end of the year. Consumption and costs were therefore down around 15 percent as against the previous year.

CO_2 emissions continue to decline

As energy consumption decreased, so did the trend in CO_2 emissions. They fell by around 15,000 tonnes or over 17 percent in 2011. The decline had been even higher in the previous year as Praktiker had switched to an electricity provider with a lower CO_2 emission factor (“green electricity”).

Collection boxes for used low-energy bulbs set up

Since the end of 2010, all of the stores in Germany have been provided with collection boxes for used low-energy light bulbs. This makes Praktiker one of the first DIY retailers to facilitate and support the recycling of low-energy bulbs in this way. Low-energy bulbs are accounting for an increasingly large share of the light bulb sales market following the third phase of a regulation by the EU Commission which came into force on 1 September 2011.

REMUNERATION REPORT

In the remuneration report we provide a summary of the key principles applied in determining the remuneration of the management board and the supervisory board and also explain the structure and amount of the remuneration concerned.

The report contains information required in the notes to the consolidated financial statements in accordance with Sec. 314 para. 1 no. 6 HGB and the Group management report in accordance with Sec. 315 para. 2 no. 4 HGB including the information for listed corporations in accordance with Sec. 314 para. 1 no. 6 sent. 5 to 8 HGB. The company has therefore decided to dispense with an additional presentation of the information explained in this remuneration report in the notes to the consolidated financial statements and the Group management report.

Remuneration of the management board

The composition and remuneration of the management board underwent a fundamental change in the 2011 financial year. Of the six members of the management board active in 2011, four performed their activities in the context of an employment contract. Three of these management board members left in 2011. Two newly appointed members of the management board perform their activities on the basis of a consultancy agreement in connection with the repositioning and restructuring of the Praktiker Group.

Of the active members of the management board, only Mr. Schürholz is remunerated in line with the management board remuneration described here under an employment agreement. The supervisory board intends to prepare new regulations overall for the remuneration of members of the management board under an employment agreement for both Mr. Schürholz and any other new members of the management board. These new regulations will be submitted to the 2013 annual general meeting for a non-binding vote.

The remuneration of the management board under an employment agreement is a component of a comprehensive remuneration system for executives at the Praktiker Group. It sets performance incentives for the long-term enhancement of enterprise value and consists of both fixed and variable components.

The overall structure and amount of management board remuneration is stipulated by the full supervisory board at the proposal of its personnel committee. Remuneration is based on the size and international outlook of the Group as well as its economic effectiveness. Total remuneration and the individual remuneration components are appropriately proportionate to the duties and responsibilities of the given management board member, his personal performance, the performance of the management board as a whole and the economic situation within the Group. Remuneration is designed to be competitive and to offer a clear incentive for management board members to work in a committed, successful manner and to meet their targets.

The overall remuneration of the management board is performance-based. It consists of fixed components (salary, pension, benefits), performance-based components (earnings and value-based bonus, performance-based bonus) and a long-term incentive component (share value bonus).

The variable remuneration components of the members of the management board are geared towards sustainable corporate development and have a multi-year basis of assessment. They include a cap for extraordinary developments and a reduction in the variable remuneration components in the event of an unfavourable development by the Group.

The following criteria apply to the individual components of management board remuneration under an employment agreement:

- The fixed remuneration component is paid as a monthly salary taking into account non-cash remuneration. This remuneration is the same for all management board members, only the Chairman of the management board receives higher fixed remuneration. Fringe benefits include the use of company cars and Group accident insurance premiums.
- Management board members receive pension benefits. An amount equal to that paid by management board members is paid to their pension provider. The company's annual contribution is limited to € 75 thousand per management board member and € 100 thousand for the Chairman.
  The pension provider is an external pension fund. The pension plan is operated on a defined contribution basis. The pension provider concludes an insurance agreement in line with contractual conditions to achieve consistent financing for the agreed benefits and to fully finance the pension payments. Thus, the pension benefits of management board members affect the company's business and accounting only in the amount of the annual contributions paid.
- The performance-based remuneration consists of the following independent components:
  - Firstly, there is a variable cash payment based on the company's earnings and enterprise value, the amount of which is determined by EVA-based (economic value added) remuneration entitlements taking into account earnings and the cost of capital employed. The annual bonus calculated thus cannot exceed a specified amount, even if the company exceeds its own targets. A remuneration component paid to management board members annually in addition to their target bonus is calculated as follows: the share of the total bonus that exceeds the EVA bonus is credited to a bonus bank; these amounts are paid out in subsequent years depending on the amount of EVA factors by recalculating the amount of bonus bank credit. One third of the

bonus bank credit, consisting of the previous year's amount and the addition for the current year, is paid out; the remainder is carried forward.

In the event of negative EVA factors, the negative amount reduces the bonus bank credit. Any negative bonus bank balance is limited to the amount of the negative target bonus (single bonus). A cap of three times the target bonus prevents an excessive bonus claim from arising in the event of unexpectedly positive developments.

The bonus bank serves the purpose of spreading the bonuses evenly and aims to foster value-enhancing decision-making behaviour in the long term. As such, this remuneration system takes account of the development in the company's enterprise value not only in the short term but in the medium and long term too.

- Furthermore, the supervisory board has the opportunity to grant an additional payment to the individual board members for exceptional performance that the supervisory board feels is not directly reflected in the EVA remuneration system.

• The long-term incentive component is a bonus based on share price performance. Five-year share bonus schemes were introduced in the 2006 and 2011 financial years. This scheme provides for cash bonuses based on the performance of Praktiker shares as against their respective indices. The overall share bonus scheme is divided into tranches granted annually, the target parameters are calculated separately for each tranche. The term of each tranche is three years. The tranches granted from 2010 onwards have a term of four years.

The individual annual share bonuses are paid automatically in cash in the month following the expiry of the respective tranche of three years (four years for the 2010 tranche) provided that the relevant conditions have been met. The amount of the share bonus is initially determined on the ratio of the initial price to the target price of the shares. The initial price for each tranche is the arithmetic average of the closing price of Praktiker shares on the last 20 consecutive trading days prior to the cut-off date (four weeks after the respective annual general meeting). The target share price for each tranche – that needed for payment of the full amount of the bonus – is calculated on the basis of the initial price assuming a price rise of 15 percent over a period of three years. The bonus is increased or reduced pro rata if the change in the share price is greater or less than 15 percent. A price increase of 20 percent was assumed for the four-year tranche.

The amount of the respective bonus also depends on the performance of Praktiker shares as against that of other listed retail companies. The German stock index in which Praktiker is listed and the Dow Jones Euro Stoxx "General Retailers" are used as the comparative indices. These allow the measurement of the price performance of Praktiker shares at a national and European level. If Praktiker shares outperform these indices, the share bonus is increased to 120 percent, if they underperform, the bonus is cut to 80 percent. Outperformance/underperformance is considered to be the case when the price of Praktiker shares exceeds or falls short of the above average value by more than 10 percent.

Payment of the share bonus is limited to the current, individually agreed basic annual salary (gross). If the share price has fallen below the initial price at the end of the tranche a bonus multiplier of zero applies. In this case no bonus will be paid.

In the 2011 financial year, management board remuneration on the basis of a consultancy agreement was paid in line with time worked only. With the exception of flights, incidental and travel costs are included in the fee. In addition to payment in line with time worked, variable, performance-based remuneration is also to be agreed for the members of the management board working under consultancy contracts; an agreement to this effect has not yet been concluded.

No loans have been granted to management board members nor have any contingent liabilities been entered into on their behalf. Two members of the management board received advances in total of € 100 thousand on their consultancy fee in 2012, which are free of interest.

No compensation regulations have been agreed with the members of the management board for the event of their leaving the company or of a change in control. In the event of the mutual early termination of the employment contract of the management board members, their compensation is limited to two annual salaries regardless of the remaining period of their contracts, or not more than the remuneration for a shorter remaining term of the employment contract.

The following remuneration was paid or promised to individual management board members for their work in the 2011 financial year:

Remuneration of active members of the management board

	2011								2010
	Success-independent components				Success-dependent components		Components with long-term incentive impact		
in € k	Salary	Consultancy remuneration	Pension benefits	Miscellaneous	Qualitative target-oriented bonus	performance-based bonus	Impact on result from stock options programme	Total	Total
Thomas Fox (since 01/10/2011) (Chief Executive Officer)	0	380	0	0	0	0	0	380	0
Josef Schultheis (since 16/08/2011, Chief Executive Officer from 16/08 until 30/09/2011)	0	475	0	0	0	0	0	475	0
Wolfgang Werner (until 15/08/2011) (Chief Executive Officer)	400	0	100	18	0	0	0	518	906
Michael Arnold (until 24/11/2011)	413	0	75	17	0	0	0	505	669
Markus Schürholz	450	0	75	19	0	350	–3	891	235
Pascal Warnking (until 24/11/2011)	413	0	75	17	0	0	0	505	669
Total	**1,676**	**855**	**325**	**71**	**0**	**350**	**–3**	**3,274**	**2,479**

The shown data mark the beginning and ending of the active work on the management board.

The former members of the management board Mr. Karl-Heinz Stroh and Mr. Thomas Ghabel received total remuneration of € 466 thousand (Mr. Stroh) and € 467 thousand (Mr. Ghabel) in the previous year 2010 for their active work on the management board.

Remuneration of retired members of the management board

	2011				2010
in € k	Remuneration based on employment	Severance	Impact on result from stock options programme	Total	Total
Wolfgang Werner (Chief Executive Officer)	0	2,400	–111	2,289	0
Michael Arnold	39	894	–73	860	0
Thomas Ghabel	191	0	–74	117	1,152
Karl-Heinz Stroh	75	0	–74	1	1,077
Pascal Warnking	0	262	–74	188	0
Total	**305**	**3,556**	**–406**	**3,455**	**2,229**

The negative earnings effect of the share bonus programme result from the departure of management board members and the performance of the company's shares.

The employment of former management board member Karl-Heinz Stroh ended on 31 December 2010; that of former management board member Thomas Ghabel ended on 31 March 2011. Both gentlemen received the settlement payments agreed in the previous year of € 950 thousand (Mr. Ghabel) and € 875 thousand (Mr. Stroh) in 2011. The company contributed its share to the pensions of Mr. Stroh and Mr. Ghabel's pension by paying the pension provider € 75 thousand for each in 2011. Further payments will be made to the pension provider for Mr. Ghabel of € 75 thousand in both 2012 and 2013. Both Mr. Stroh and Mr. Ghabel will retain their entitlements from the current tranches of the share bonus programme that were granted during their time as members of the management board.

The employment arrangement with the former Chairman of the management board Wolfgang Werner ended on 31 August 2011. He received severance of € 2,400 thousand.

The employment arrangement with the former member of the management board Pascal Warnking ended on 30 November 2011. His severance consists of the ongoing

payment of his past remuneration until March 2012 and an additional payment of € 113 thousand in April 2012, totalling € 262 thousand. The company will contribute its share to Mr. Warnking's pension by paying the pension provider € 75 thousand in 2012.

The employment agreement with the former management board member Michael Arnold was revoked effective 29 February 2012; in addition to the ongoing payment of his past remuneration until February 2012, Mr. Arnold received a one-time severance payment of € 894 thousand.

The members of the management board were not granted any share price-based remuneration under the share bonus scheme described above in 2011. The fair value of the obligation under the share bonus programme as at the end of the reporting period was calculated by a third-party expert using the Monte Carlo method and relates to the commitments from 2009 and 2010. Distributed across their total terms, the fair value of the individual tranches is deferred in income on a pro rata basis. Payment of the bonuses depends on the conditions of the share bonus scheme described. The share price performance bonus does not consist of a number of call premiums but instead is paid in cash when it becomes due.

Remuneration of the supervisory board

The features of the remuneration system for the supervisory board are determined by the annual general meeting at the proposal of the management board and the supervisory board and are a component of the articles of association. Supervisory board remuneration is based on the size and international outlook of the Group, the duties and responsibilities of the members of the supervisory board and the economic situation of the Group. It comprises a fixed remuneration component and a performance-based component based on consolidated earnings.

As part of the remuneration scheme of Praktiker AG, the positions of Chairman, Deputy Chairman together with Chairman and members of committees are awarded additional compensation. The Chairman of the supervisory board receives three times, the Deputy Chairman and the chairmen of the various committees receive two times, and the other committee members one and a half times the fixed and performance-based remuneration received by a member of the supervisory board without these special duties. If a member of the supervisory board holds a number of positions simultaneously, he or she receives the remuneration for only one position. If these positions receive varying amounts of remuneration, the highest amount is paid. All members are reimbursed for expenses.

The performance-based remuneration component is based on the amount by which average consolidated earnings before taxes, minority interests and goodwill amortisation for the past financial year and the two preceding financial years exceed 25 million euro.

In addition, the company reimburses any value-added tax imposed on the supervisory board remuneration components.

The employee representatives on the supervisory board receive the same remuneration as similar employees for their work as employees.

No loans have been granted to supervisory board members nor have any contingent liabilities been entered into on their behalf.

There are no pension commitments for supervisory board members. Members of the supervisory board are not paid severance when they leave their positions.

The remuneration of the supervisory board members of the Praktiker Group for the 2010 financial year, including provisions set aside for this purpose, is as follows:

Remuneration members of the supervisory board

	Praktiker Group				Praktiker AG (included in Group total remuneration)			
	2011			2010	2011			2010
in € k	Fix	Variable	Total	Total	Fix	Variable	Total	Total
Dr. Kersten v. Schenck (Chairman)	65	0	65	71	54	0	54	60
Marliese Grewenig (Vice Chairwoman)	45	0	45	49	36	0	36	40
Dr. Norbert Bensel	23	0	23	25	18	0	18	20
Ulrich Grillo	32	0	32	35	27	0	27	30
Dr. Kay Hafner	23	0	23	25	18	0	18	20
Ebbe Pelle Jacobsen	23	0	23	25	18	0	18	20
Gabriele Kanter (since 21/06/2011)	11	0	11	0	9	0	9	0
Ulrich Kruse	32	0	32	31	27	0	27	26
Johann C. Lindenberg	32	0	32	35	27	0	27	30
Alexander Michel	32	0	32	35	27	0	27	30
Zygmunt Mierdorf	32	0	32	35	27	0	27	30
Cora Peters	23	0	23	15	18	0	18	12
Rigobert Rumpf	32	0	32	31	27	0	27	26
Ernst Schauff (unitl 31/05/2010)	0	0	0	14	0	0	0	12
Hans-Josef Schmitz (until 31/03/2011)	8	0	8	35	7	0	7	30
Jörg Wiedemuth	23	0	23	25	18	0	18	20
Prof. Dr. Harald Wiedmann	41	0	41	45	36	0	36	40
Rüdiger Wolff	30	0	30	29	25	0	25	24
Total	**507**	**0**	**507**	**560**	**419**	**0**	**419**	**470**

RISK REPORT

Praktiker AG has a Group-wide risk management system that covers all corporate divisions including the Group companies. All discernible risks are regularly and systematically recorded, and measures are defined to reduce or eliminate risk as far as this is possible at an economically justifiable expense. Responsibility for the risk management system lies with the Controlling division.

Risk management is characterised by a small number of clearly formulated guidelines. No action or decision may result in a situation that could jeopardise the continued existence of the Group. If risks are considered inevitable, they must be insured to the extent which is both possible and economically viable. Residual risks must be monitored and controlled using risk management tools.

The principles underpinning this risk management system are documented in a manual which contains the basic organisational and procedural principles applying both to the Group's German operations and its international subsidiaries. As such, the management board complies with its responsibility to determine the risk management principles and to design the organisation of the risk management system.

In this context, the management board also assumes the duty of providing the supervisory board and the shareholders with the necessary information. Below board level, a risk management officer coordinates all risk reporting activities throughout the Group. Above all, the risk management officer is responsible for the further development of the risk management system, for coordinating risk reporting and for preparing the monthly risk reports for the management board. These reports keep the management board informed of any key changes in the risk landscape, developments in risk management and the measures taken in terms of risk mitigation or prevention.

The respective heads of the divisions are responsible for identifying, tracking and measuring the risks to which their division is exposed. It is their duty to monitor the risks in their area and to manage the measures initiated to reduce these risks. A standardised risk matrix is used throughout the whole Group and updated on an ongoing basis to track the various measures systematically. All key risks and their probability and potential financial impact are recorded and uniformly presented in this matrix. Countermeasures are designed for all risks in accordance with the guidelines described above. The development of individual risks and the countermeasures taken are also documented.

The risk management officer carries out a risk inventory every six months, taking into account all risk reports and changes in the respective risk assessment. The management board is informed of the key risks in the form of an extract from the risk inventory. The decision as to the extent to which risks are to be entered into to exploit the opportunities usually associated therewith is also a fundamental entrepreneurial management task.

As the risk management system is of central importance to all decisions within the company, its functional capability is reviewed once a year by way of an internal audit.

The risk management system is firmly established in all parts of the company and has become part of routine corporate activity. The risks are subdivided into the categories presented below.

Risks to the Group as a going concern

Towards the end of the year, the management set up a restructuring programme aimed at gradually improving earnings and achieving a positive EBT margin of between one and two percent in 2014. The programme envisages combining the German head offices of Praktiker and Max Bahr to form a Group head office in Hamburg, closing unprofitable Praktiker stores in Germany, restructuring the international portfolio and investing in a targeted and comprehensive manner in repositioning the Praktiker brand in Germany. To implement these measures, a cash inflow to the Group is required, which has been estimated to be a low three-digit million euro amount.

Praktiker is in negotiations with a number of different investors to raise these funds. It is possible that several providers of capital will be utilised to obtain the requisite funds. In addition to traditional debt and equity investors, these may also include alternative forms such as mezzanine capital. It must be assumed that the new financing requires extensive securitisation.

The management expects – and this view is also based on the assessment of external experts supporting the company in this financing process – that financial resources can be obtained this way. In particular, as at the time of closing the accounts, concrete talks with investors are already undertaken. Should this be insufficient to generate the required financial means, the management is prepared to take additional measures to secure liquidity. Among other things, these would also include the sale of assets or the optimisation of working capital. Preparations to this aim have already been made as a precaution. The Group also has available authorised and contingent capital as a possible source of financing (see page 26).

Should it, however, turn out to be impossible to generate the funds to the required extent by summer, the restructuring would be delayed in a best-case scenario. In a worst-case scenario, restructuring might not even be conceivable. In this case, the cash flows and earnings expected in the case of restructuring could no longer be anticipated. Under these circumstances it is even possible that the management board could no longer maintain a positive forecast for the company as a going concern.

The existing financing instruments – the corporate bond and the revolving credit facility, which serves to secure typical seasonal financing requirements in the first quarter –

are subject to various special termination rights (see page 27). Should these be exercised, the financing resources specified would no longer be available to Praktiker. In this case, too, it is possible that the management board could no longer maintain a positive forecast for the company as a going concern.

In payment transactions between Praktiker and its suppliers, in most cases trade indemnity insurance providers ensure that the supplier is insured against a possible payment default. The credit rating of the Praktiker Group is therefore assessed by trade indemnity insurance providers. On the basis of this assessment, insurance companies determine the extent to which they insure suppliers' receivables from Praktiker and the terms on which they will do so. In order to limit the risk of default or curtailment of such insurance while at the same time maintaining its own payment conditions, Praktiker regularly discusses its own economic situation with trade indemnity insurance providers, thereby establishing the necessary confidence-building transparency.

Since the economic situation was tense in 2011, Praktiker has granted security rights to various assets, most notably, existing inventories to both banks providing lines of credit and to trade indemnity insurance providers in order to boost confidence. Praktiker has thus ensured that it can utilise the agreed lines of credit and that suppliers can also continue to rely on their trade receivables owed by Praktiker being covered by an insurance policy.

Political and economic risks

The Praktiker Group primarily counteracts political and economic risks by conducting business in a diversified portfolio of countries. However, recent years have showed that the commitment in Eastern Europe is subject to a cluster risk because many countries are suffering similar macroeconomic problems at the same time. Triggered or exacerbated by corresponding fiscal measures, they have led to considerable consumer restraint and consequently also to falling demand for DIY products. It is essentially impossible to take preventive measures for such political and economic risks, in particular as Praktiker typically establishes its presence in a country for the long term, and fluctuations in sales and earnings therefore are recognised in the country-specific investment calculation.

If the general economic or political conditions offer little prospect of being able to make the business profitable, the option remains of withdrawing from regions or countries. Praktiker reached a decision of this kind regarding its presence in Albania at the end of the year. Other countries in the portfolio are still being reviewed.

Praktiker does not seek actively to influence political decisions but has become a member of the industry association in Germany once more. The objective of this is to be heard at least as part of the industry in the political process and to influence the regulatory environment of the DIY industry in as advantageous a way as possible through the association's work.

The stock market value of the Praktiker Group remains at a comparably low level. At the same time, the financing structure of Praktiker AG is changing as part of financing the restructuring programme adopted at the end of the year. In this connection, it is possible that the company's shareholder structure will change decisively and that – as was previously not the case – individual shareholders or groups of shareholders will wish to influence the company's business policy.

Industry and market risks

The Praktiker Group primarily counteracts industry and market risks by ensuring that operating management constantly monitors the market, taking the planning and decisions of the competition into consideration in its own business policies and meeting changing conditions with a high degree of flexibility and adaptability. This applies in particular to tailoring our offer, the ranges, the product, quality and price hierarchy, the design of our stores and the level of service offered.

The repositioning of Praktiker in Germany focused on these aspects in particular. However, corresponding adjustments have also been made abroad to satisfy the change in demand trends, most notably, the increase in price sensitivity among customers.

Here, the risk of having articles in the assortment that can no longer be sold due to changes in demand trends is countered by a corresponding allowance on such inventories. It is true for all inventories that the risk of not being able to sell them at their carrying amount also depends on just this carrying amount. Praktiker has reduced this risk through a new valuation method which takes greater account of fashion and trends than was previously the case. However, this resulted in impairment charges of 69.8 million euro at the end of the year.

The risk of rising procurement prices can only be partly limited using risk management tools. It consists of changes in commodity prices, wage inflation in supplier countries and the exchange rate between the euro and the US dollar, since invoices are typically written in US dollars in procurement markets. However, because this risk affects all competitors to a similar degree, there is a comparatively high chance of passing on price increases on the procurement side to customers.

General business risks

The principle applying to general business risks is the same which applies to market and industry risks: they are best countered by utilising the routines and experience of operational management. However, to exploit future oppor-

tunities, any company must also enter into risks - as Praktiker has done with the repositioning of the brand in Germany. In the process, the previous advertising slogan “20 percent off everything – except pet food”, which was firmly rooted in customers’ memory, was abandoned because it had become perceptibly less effective over the course of recent years.

However, what reduced the risk of a permanent fall in sales from the perspective of the brand’s strategic development led to a tangible decline in sales in the short term. Since sales remained well down on expectations in the second quarter, the planning had to be adjusted beyond 2011 as well. This in turn meant that goodwill that had accrued through takeovers in the past had to be tested for impairment. This resulted in goodwill impairment of 159.5 million euro.

In the event of modifications to corporate planning, comparable tests for impairment are also carried out at individual store level. They are carried out on the basis of whether expected cash inflows from future sales can cover the contractually agreed rental payments or not. If the expectation is that these will only be partly covered, the carrying amounts of these stores’ fixed assets must be reduced and, if necessary, provisions must be set up for onerous contracts. The modification of corporate planning in 2011 thus depressed operating earnings (EBITA) by 147.9 million euro in total.

As a retail company, Praktiker aims to have a wide range of products available to its customers. This explains why its procurement strategy includes working solely with suppliers that promise a high degree of reliability in supply. To ensure that losses from potential default risks are limited to the greatest possible extent, Praktiker takes care that no individual supplier accounts for more than 5 percent of the total procurement volume.

The fact that all stores are insured against disruption of business operations is a matter of course when operating DIY stores, as is adhering to the local building regulations and all other municipal regulations, such as on environmental protection or proper waste disposal. Comprehensive measures to protect against theft are also standard policy.

The operation of DIY stores requires complex relations with suppliers, customers and a wide range of public institutions. In this varied network of relationships, legal disputes cannot always be avoided. Provisions for legal disputes are recognised in order to be sufficiently prepared for possible payments that may result. These totalled 13.5 million euro at the end of the 2011 financial year.

The “Compliance” department conducts regular training sessions in order to help employees to behave in a way that complies with all legal and regulatory provisions just as much as with all internal codes of conduct. By this means, the Praktiker Group counteracts the risk of employees breaching existing legal provisions or internal rules.

IT risks

The economic success of the Praktiker Group depends on a smoothly functioning IT infrastructure. The precautionary measures aimed at crisis prevention that were established in 2007 are regularly reviewed. As an independent Group company, Baumarkt Praktiker Services GmbH also fulfils its role of maintaining, harmonising and standardising IT within the Praktiker Group in accordance with the state of the art. Baumarkt Praktiker Services GmbH ensures that the operating tasks can be dealt with smoothly, data are adequately backed up and the possibility of abuse can be ruled out.

Financial and currency risks

There are no significant credit risks within the Group. Sales to customers are transacted in cash or using standard payment and credit cards. Surplus liquidity typically occurs over the course of the year. It is invested in the short-term money market with reputable European banks according to clear internal regulations. Cash deposits or derivative financial instruments with positive market values at banks are subject to maximum limits based on the ratings published by international agencies.

At the end of the past financial year, the Praktiker Group reported cash and cash equivalents of 148.0 million euro. It also has credit lines in the mid double-digit millions at its disposal. This ensures that the period of low liquidity, which usually occurs in January/February when sales volumes are seasonally low but at the same time the volume of incoming goods reaches its highest level in preparation for the gardening season starting in the second quarter, can be bridged.

The Praktiker Group hedges all currency risks associated with payments. This applies in particular to procurement from the US-dollar region. Imports from the US-dollar region are hedged against the euro at the time the respective order is placed. Since 2010, currency risks arising from rental obligations have been managed in accordance with a uniform guideline. Currency risks largely arising from euro-denominated rental payments in countries whose national currency is not the euro are hedged proportionately and on a rolling basis in accordance with a predefined maturity structure.

In the notes under a3.2) currency risks on page 64/65, a sensitivity analysis shows how earnings before taxes react to changes in the respective exchange rates.

Currency risks arising from the measurement of balance sheet items, particularly in connection with finance leases, cannot be hedged at an economically justifiable expense and must therefore be accepted. In 2011, this risk was reflected in the item currency gains and losses in the net financial result with non-cash expense in the amount of 9.9 million euro.

In political circles, the question is being discussed in connection with Greece’s fiscal problems as to whether Greece will remain in the euro zone or whether it will return to its

own currency. Should the latter be the case one day, similar currency risks would arise in Greece as in other countries in which Praktiker operates and which use a currency other than the euro.

The realisation of the planned restructuring programme depends on the question as to whether the necessary financing can be assured, the total volume of which has been estimated to be a low three-digit million euro amount. Should it be impossible to generate the necessary funds in full, the programme will be reduced and stretched over time. In that case, the expected impact on sales and earnings would turn out to be smaller or occur later than currently planned.

Reference may be made here to chapter “Risks to the Group as a going concern” on page 35.

Organisational risks

The company’s success is critically dependent on the quality of its employees, on their technical expertise and their commitment to standing up for the company’s interests. This applies to all levels, from the management board to the customer advisor. Praktiker has worked on its image as an attractive employer since its IPO in 2005 – for example by offering extensive promotion and training programmes and by increasing its contact with schools and universities. An international graduate trainee programme launched three years ago safeguards the recruitment of future generations of managers. In a year in which the focus was concentrated more on cutting costs and reducing headcount, the recruitment of new staff was less of a priority than the efforts to retain talented staff within the company. The decision to move the Group headquarters to Hamburg in future must also be seen in this context. It contributes to making the company more attractive. Praktiker therefore expects that vacancies, which may result as a consequence of the move, will quickly be filled with suitable personnel, both in management and among employees covered by collective pay agreements.

Organisational risks may also arise from errors and defects that can occur in any organisation in which people with a wide range of skills are employed in various functions. However, the number of mistakes can be limited if employees are regularly trained and qualified. Errors can also be avoided when procedures are standardised and set out in writing and when they include test loops or are subject to regular spot checks. These and other preventive organisational measures are applied as standard to the extent that they are reasonable within a complex overall organisation. They are the responsibility of the respective management teams and are regularly adjusted to reflect changing requirements.

In 2008, a contingency plan was set up with the aim of enabling all key operational processes to be maintained even in the event that the head office in Kirkel cannot be used temporarily.

Description of the key features of the internal control and risk management system with regard to the Group accounting process (Sec. 315 para. 2 no. 5 HGB)

Specific risks to Group accounting

The basic features of the general control and risk management system within the Praktiker Group have already been described. With regard to accounting there is the risk in particular that the consolidated financial statements published contain errors affecting the presentation of asset, financial and income position of the Group. Above all, this risk lies in the presentation of unusual or complex transactions or other transactions that are not routine and therefore have a relatively high inherent risk. The discretion granted to employees by necessity in the recognition and measurement of assets and liabilities can lead to other Group accounting risks.

Basic regulation and controlling activities for ensuring the accuracy and reliability of Group accounting

The measures within the internal control system of the Praktiker Group geared towards the accuracy and reliability of Group accounting ensure that transactions are recorded in full and without delay in line with legal provisions. They also guarantee that inventories are conducted properly and that assets and liabilities are recognised, measured and reported appropriately in the consolidated financial statements. The regulation activities also ensure that accounting documentation provides information that is both reliable and comprehensible.

Monitoring mechanisms integrated in processes and independent of processes form the key elements of the internal monitoring system in the Praktiker Group. In addition to process controls performed by people – such as the dual control principle – control mechanisms embedded in the IT systems also form a key part of integrated measures. For example, there is a Group-wide, computer-aided workflow system for organising the flow of documents into which the Group’s standardised guidelines for procurement and restriction of liability have been integrated. This ensures that central financial accounting is informed of the status of all documents without delay. At the same time this substantially reduces the risk that transactions are not fully recognised in accounting. Furthermore, integrated and independent monitoring is ensured by specific Group functions – such as the central legal and treasury departments. The separation of functions and the dual control principle are compulsory and laid out officially in work instructions and manuals, reducing the opportunity for malicious activity. Internal auditing conducts regular audits at all subsidiaries in Germany and abroad. The internal control system also guarantees that changes in the business or legal environment of the Praktiker Group are detected and that new or

amended legal provisions on Group accounting are applied and complied with.

Employees in accounting are regularly informed of such legal changes that could affect the preparation of the consolidated financial statements. In addition, sufficient copies of legal texts and related commentary are provided.

Other auditing bodies, such as the supervisory board of Praktiker AG (referring here in particular to the audit committee), the internal audit department and the auditor of the consolidated financial statements and other auditing bodies, such as the tax auditor, are incorporated into the independent audit activities of the Praktiker Group's controlling environment. Accounting is monitored independently by having the consolidated financial statements and the form financial statements of the Group companies audited by the auditor. The separate and consolidated financial statements of the reporting company prepared as of year-end and the associated management reports are discussed and examined in depth in a meeting of the supervisory board and before this in a meeting of the audit committee in the presence of the said auditor.

The audit committee held a total of five meetings in 2011 which focused, among other things, on the discussion of the interim report for the half year 2011 and the quarterly reports for 2011 with the management board and the auditors.

Key structures, processes and controls in Group accounting and consolidation

The accounting division is responsible for preparing the consolidated financial statements. All the subsidiaries receive a shared and binding controlling and accounting calendar at the start of the financial year. Prior to the preparation of the (consolidated) quarterly and annual financial statements, the administrative and accounting managers of all the companies included in the consolidated financial statements are again informed in writing of the financial statement schedule and advised of all key matters relating to the preparation process.

Furthermore, the heads of the central international controlling, finance and Group accounting and reporting divisions and the administrative heads of all foreign companies discuss these and similar issues before all annual financial statements and before most quarterly financial statements. In a first step the subsidiaries prepare their separate financial statements in line with the provisions of local commercial law. These are then adjusted to International Financial Reporting Standards (IFRS) on the basis of the Group's standardised chart of accounts and its accounting manual, which is prepared centrally, updated regularly and applies throughout the Group. This guarantees the application of uniform accounting policies among the German and international companies included in the consolidated financial statements of Praktiker AG. The use of a standardised set of forms is also required to ensure that the information required to prepare the notes to the consolidated financial statements is complete.

After being adapted in line with the accounting policies of the parent company, the companies enter their financial statement data in a Group-wide IT system forming the basis for the preparation of the consolidated financial statements. Prior to consolidation, all intra-group balances are centrally checked and coordinated using SAP software and on the basis of computer-aided, automatic processes. Deviations must be clarified and corrected before consolidation can begin. The consolidated financial statements and all the associated accounting entries for consolidation are prepared by the Group accounting and reporting department which belongs to the central accounting division. No sub-group financial statements are prepared. Consolidation is carried out in a single process. The software used performs and simultaneously fully documents all consolidation processes to prepare the consolidated financial statements of Praktiker AG, such as the consolidation of equity, liabilities, expenses and earnings. Consolidation activities are subject to a number of validation rules that prevent errors. In preparing the financial statements, central accounting is largely dependent on the data and information provided by other divisions. For example, the legal department provides information that forms the basis for the measurement of provisions for litigation risks. The planning figures prepared by the controlling division are also important for impairment analyses and reviewing the value of deferred tax assets.

At Group level, the control activities to ensure the accuracy and reliability of Group accounting include analysing and possibly correcting the separate financial statements submitted by the Group companies.

This takes into account the assessments by the respective auditors. There are various control mechanisms in the electronic consolidation system and technical plausibility checking which help to keep the error rate at a low level, select separate financial statements that contain errors and, if necessary, correct them at Group level. For example, the system implements validation rules which ensure that, if certain errors are detected, figures cannot be processed any further until these are remedied.

The data entered in the electronic consolidation system also serve as the basis for internal reporting to the management board of Praktiker AG and thereby for segment reporting – which is a component of the Group's annual and quarterly financial statements – as well. The financial statement data entered by the individual companies are aggregated and consolidated at segment level to achieve this.

Impairment testing for parts of the Group deemed cash-generating units is conducted in line with uniform and standardised measurement criteria. In order to better control the risks this entails, decisions on valuation are not down to one

person. Rather, they can only be made by arrangement between the heads of the central Group accounting and reporting division and of central accounting. Data for the preparation of information for external reporting in the notes and management report including significant events after the balance sheet date is also prepared and aggregated at Group level.

Future dependent on success of measures

The Praktiker Group has a well-developed risk management system that is firmly anchored in its daily operations. It contributed to the fact that the risks of 2011 were recognised and that appropriate action was also taken in most cases. However, entrepreneurial action necessitates the acceptance of risk so that opportunities can be exploited. This calculation did not come off in 2011. In particular, the – unavoidable – adjustments to the business model of Praktiker Germany led to the largest loss since the IPO. The fact that a large part of this loss is attributable to a revaluation of balance sheet items bears little significance. The newly formed management team drew up a restructuring programme towards the end of the year which should stabilise sales in 2012, maintain the gross profit margin at the level that has been achieved, reduce the cost base on a permanent basis and consequently improve earnings. As a result, 2012 should see the first step towards achieving the target set for 2014 of making a positive EBT margin of one to two percent a realistic proposition.

OUTLOOK

Scarcely any prospect of economic growth

The prospects for growth in the countries in which Praktiker operates differ considerably for 2012 and 2013. An anticipated recession in Greece is offset by the prospects of good growth in Turkey, for instance, and more moderate growth in the countries of Eastern Europe. Following years of good growth, the economy in Germany is expected to stagnate. In a macroeconomic environment of this kind, there can be no expectation that propensity to consume will increase and demand for DIY products will rise. While the trend in demand will vary from country to country, on average the realistic assumption is that the markets of relevance to the Praktiker portfolio will stagnate or grow slightly, at best, in the next couple of years. In any case, budgeting for 2012 and 2013 is based on this assumption.

Moderate increase in Group sales expected

In this environment, Praktiker expects slight growth in sales of one to two percent within the Group in 2012. It is likely to be driven mainly by the German market. The honing of the brand images of Praktiker – price-focused – and Max Bahr – service-focused – should contribute to making both brands more visible and more attractive on the German market and to addressing new customer groups. Praktiker, in particular, is likely to benefit from the fact that the repositioning will be more effective, the more frequently customers enjoy shopping there. However, the trend in sales is also dependent on the extent to which investments can be made in the stores, merchandise presentation and the assortments and consequently on the extent to which the financial resources are available for these investments. In its international business, Praktiker considers sales at the level of the previous year to be realistic for 2012 by and large. However, this presupposes that macroeconomic developments are in line with expectations and also that exchange rates do not weaken further. Praktiker expects this trend to continue in 2013. Should structural changes to the effect that Praktiker has withdrawn from part of its existing portfolio of countries have occurred by then, the associated fall in sales would have to be taken into account accordingly.

Expected changes in gross domestic product (GDP) and private consumption

in %

	2012		2013	
	GDP	Private consumption	GDP	Private consumption
Bulgaria	0.4	0.3	2.9	1.6
Germany	–0.6	0.7	0.7	0.6
Greece	–7.4	–10.5	–1.0	–3.0
Luxembourg	–0.6	0.6	0.9	1.1
Poland	1.5	1.9	3.1	2.2
Romania	0.5	0.5	3.0	2.0
Turkey	2.5	1.0	4.0	2.5
Ukraine	2.5	3.1	3.8	5.0
Hungary	–1.0	–4.4	0.8	–1.1

Source: Economist Intelligence Unit, forecast 2012 and 2013 (as of February 2012)

A return to positive results

The restructuring measures are aimed at reviving sales, reducing expenses on a broad base, closing loss-making stores and, overall, at creating a good basis for future success. In total, these measures should significantly improve the Praktiker Group's operating earnings in 2012 and put them back in positive territory by 2013 at the latest. In the process, Praktiker Germany is expected to make the greatest contribution to increasing earnings. According to budgeting figures, Max Bahr should make a stable contribution to earnings, while slightly higher earnings are expected at best in international business over the next two years given the lack of momentum in sales. Operating profit will rise more rapidly, the swifter Praktiker can divest itself of the loss-making parts of its store portfolio in Germany and abroad. On the other hand, the extraordinary effects of the restructuring measures, such as expenses for closing stores, will continue to be felt in 2012. They may even reach a three-digit million figure. However, a large part of the anticipated improvement in earnings is dependent on the ability to obtain the financing resources needed to implement the measures. Should this not be possible, only a minor improvement can be expected in a best-case scenario. In a worst case scenario, the management board might not even be able to make a positive forecast of the Group's remaining a going concern.

Higher levels of capital expenditure

To accelerate the repositioning of Praktiker Germany and to complete the concept in the interests of an attractive market presence, additional capital expenditure is planned in the wake of the restructuring concept in 2012 and 2013. As a result, investment should reach a figure in the high double-digit million euro amount and it is possible that it could even stand at three-digit figures in 2012. As a result of reviewing the international portfolio, there may also be divestments, the extent of which will depend on the respective decisions reached on a case-by-case basis.

In 2012, the larger part of capex will require external finance, while the majority will be financed from cash flow in 2013.

Net financial result overshadowed by restructuring

The net financial result will probably be dominated by higher interest expenses in the next two years, since the restructuring programme will require external finance. The extent of these expenses will depend on the structure of the finance and also on the interest payable thereon. Because of

the comparatively large proportion of finance leases in the Praktiker Group's store portfolio, changes in exchange rates have a tangible impact on the net financial result. However, it is impossible to forecast either the amount or the direction of the impact.

Difficulties in forecasting the tax rate

The tax rate is very closely linked to the amount of pre-tax earnings. The lower the earnings before taxes in absolute terms, the greater will be the effects of the components within tax expenses that are not directly dependent on the generated earnings before taxes. As experience in recent years has shown, a reliable forecast of the tax rate is not possible.

Dividend policy to be redefined following restructuring

Since the next two years will be dominated by restructuring measures, the policy of the shareholders' participation in the company's performance also has to be redefined. This has not yet been done.

Germany: Achieving turnaround at Praktiker Germany

The repositioning of the Praktiker brand, which had already dominated 2011, was accelerated and intensified towards the end of the year. In the next two years, loss-making stores are to be closed. This alone may improve operating earnings by a figure in the low double-digit millions. At the same time, a good 30 stores will be fundamentally redeveloped, while a further 30 will be partially renovated – the majority of this work taking place in 2012. The stores will also be made more attractive for customers and the investment backlog of recent years will be reversed. However, this capital expenditure requires external financing, which had not yet been secured at the time the accounts were prepared.

The first two completely refurbished stores are ready and will be followed by more from 2012 onwards. The new market presence with revised product ranges, an increased share of private labels, an amended price policy and new focal areas in marketing is ideal for combining the aspiration of price leadership with the aim of offering high quality. Praktiker expects to be able to increase productivity per store and earnings power once again with this new approach. Praktiker also expects that this growth will be sufficient to overcompensate for the fall in sales inevitably associated with the closure of stores.

Germany: Distinguishing Max Bahr more from its competitors

Max Bahr sees considerable earnings potential over the next few years from differentiating itself more from competitors. In the process, Max Bahr is focusing more on the human factor, on expanding its service and advisory capacity and consequently on a strength, which is already established in the market. Staff numbers in the stores are to be increased to provide customers with convincing evidence of the focus on service. At the same time, Max Bahr is adhering to the existing principle of supplementing its product offer with those services that allow customers to have products delivered and installed from a single source. Thus, it will continue to focus on a growing group of customers with sufficiently high income who tend to prefer end-to-end service over DIY.

International: Changing the portfolio and lowering the cost level

In international markets, Praktiker expects changes to its portfolio of countries over the next two years. It has already completed its withdrawal from Albania and more countries are currently being reviewed. Each change in the portfolio will affect expectations of sales and earnings over the next two years. The aim is to give up its involvement in countries in which Praktiker has little chance of occupying a leading market position. This will reduce the segment's sales but increase its contribution to earnings. How much impact these factors will have in 2012 and 2013 will depend on the changes in the portfolio of countries.

Notwithstanding changes in the portfolio, Praktiker aims to raise productivity per store and increase earnings in every country. This should be possible in precisely those countries that have seen a sharp drop in sales in recent years because of the adverse macroeconomic environment.

To reduce the cost base, structural adjustments are now being pushed to the fore, driven by the idea of integrating international operations more closely into the Group's processes, consolidating organisational structures and, wherever possible, managing the business in accordance with the same principles internationally.

In some countries, Praktiker sees the potential for further growth even in the current environment, which is to be developed with a sense of proportion and the requisite degree of caution. This is why new stores are only to be opened in places where a leading market position can be consolidated or expanded. At present Praktiker is not budgeting for more than five new stores per year.

Flexibility pervades all planning

It is a clearly expressed feature of the Praktiker Group's strategy to react flexibly to changes in market conditions. As a result, planning is adjusted when the need to do so arises. This flexibility comes from entrepreneurial responsibility in an industry where short-term changes are the rule. The retail sector does not have a reliable indicator for future development in sales and earnings as there is no lead-time before customer orders, no extended production times and no continuous income stream from ongoing service agreements.

Summary

The Praktiker Group is facing substantial changes in its store and country portfolio. Store closures and the withdrawal from countries covered by the international portfolio will have a negative effect on sales and a positive effect on earnings. In the remaining store portfolio, Praktiker will focus on increasing productivity per store. As a result of the restructuring programme, jobs will be reduced and expenses cut in a variety of places. Praktiker expects a gradual strengthening of its earnings power combined with slightly rising sales, which will lead to positive pre-tax earnings by 2013 at the latest.

REPORT ON SUBSEQUENT EVENTS

Category Management and Procurement combined in a new company

The newly established Baumarkt Praktiker Warenhandelsgesellschaft mbH started operating at the beginning of the year 2012. All category management and procurement activities across the Praktiker and Max Bahr sales lines were combined in this company. It consequently represents the new heart of retail business in Germany.

Real collateral granted

To safeguard possible financing peaks when building up stock for seasonal business in spring, Praktiker maintains lines of credit with various banks. These have been combined in a syndicated line under the management of Commerzbank AG in 2012. To maintain the line at the full amount, Praktiker expressed its willingness to provide real collateral. This also applies to the preservation of and adjustment according to the company's needs of lines provided by trade indemnity insurance providers vis-à-vis suppliers. Overall, Praktiker has granted retentions of title to inventories and other assets to the partners providing credit. Bank credit lines provide short-term bridging finance for liquidity shortages, which may occur in the course of the first quarter because of the seasonal nature of the business. Trade indemnity insurance providers guarantee suppliers will be paid their trade receivables, should Praktiker not be in a position to do so itself.

Reconciliation of interests/compensation scheme (Sozialplan) negotiated

At the beginning of February 2012, Praktiker agreed a reconciliation of interests with the respective co-determination bodies. It documents the personnel changes resulting from the merger of the two previous head offices to form the Group head office in Hamburg. The compensation scheme (Sozialplan) that was also agreed regulates the compensation to be paid to all employees who relocate or leave the company.

First store closures decided

The restructuring programme included the decision to close unprofitable German Praktiker stores. The first four stores that are to close in the course of the year were announced at the beginning of 2012.

Bondholders asked for a reduction of the interest rate

To support the company's ongoing restructuring process Praktiker AG has asked the holders of the corporate bond issued in February 2011 for a contribution to the restructuring process by way of an extensive reduction of the interest rate. To this effect, the management board publicly invited all holders of the partial bonds to participate in a so-called "vote without meeting" that was held under the direction of a notary public during the period from 22 to 25 March 2012. Subject of the proposed resolution was the reduction of the fixed interest rate of the bond to 1.0 percent per annum with effect from 10 February 2012 to maturity in 2016. Currently, the agreed interest rate amounts to 5.875 percent per annum. However, the required participation to have a quorum was not reached.

There were no further material events that could have a significant impact on the income, asset and financial position of the Praktiker Group after the end of the financial year under review.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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ASSURANCE OF LEGAL REPRESENTATIVES

AUDITOR'S REPORT

CONSOLIDATED INCOME STATEMENT FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2011

Consolidated income statement

in € k	Note/page	2011	2010
Net sales	1/69	**3,182,962**	**3,448,297**
Cost of goods sold	2/69	–2,206,321	–2,283,727
Gross profit on sales		**976,641**	**1,164,570**
Other operating income	3/69	68,060	73,863
Selling expenses	4/69	–1,329,485	–1,119,840
Administrative expenses	5/69	–89,251	–81,934
Other operating expenses	6/70	–1,075	–1,363
Earnings before interest, taxes and amortisation (EBITA)		**–375,110**	**35,296**
Goodwill impairment	17a/76	–159,454	0
Earnings before interest and taxes (EBIT)		**–534,564**	**35,296**
Financial income		27,769	15,048
Financial expenses		–87,526	–56,032
Net financial result	7/70	**–59,757**	**–40,984**
Earnings before taxes		**–594,321**	**–5,688**
Income taxes	8/71	39,611	–27,870
Group net loss for period		**–554,710**	**–33,558**
thereof allocable to minority interests	9/72	923	1,249
thereof allocable to owners of the company		–555,633	–34,807

Earnings per share

in €	Note/page	2011	2010
Basic earnings per share	10a/72	**–9.58**	**–0.60**
Dilutive effect		–	–
Diluted earnings per share	10b/72	**–9.58**	**–0.60**

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2011

Statement of comprehensive income

in € k	2011	2010
Group net loss for period	**–554,710**	**–33,558**
Loss (previous year gain) from currency translation recognised directly in equity	–939	2,104
Gain (previous year loss) from cash flow hedges recognised directly in equity (after taxes)	1,342	–234
Other comprehensive income	**403**	**1,870**
Comprehensive income	**–554,307**	**–31,688**
thereof allocable to minority interests	923	1,249
thereof allocable to owners of the company	–555,230	–32,937

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – ASSETS AS AT 31 DECEMBER 2011

Consolidated statement of financial position – assets

in € k	Note/page	31/12/2011	31/12/2010
Goodwill	15/74	33,228	192,682
Other intangible assets	15/74	73,459	72,809
Property, plant and equipment	16/75	388,849	482,107
Other financial assets	19/81	11	13
Other receivables and other assets	20/81	8,844	11,813
Deferred tax assets	21/82	129,331	132,711
Non-current assets		**633,722**	**892,135**
Inventories	22/83	654,246	789,340
Trade receivables	23/84	12,262	12,462
Other receivables and other assets	20/81	64,261	68,502
Income tax receivables	24/84	1,432	2,224
Cash and cash equivalents	25/84	148,042	266,292
Current assets		**880,243**	**1,138,820**
Total assets		**1,513,965**	**2,030,955**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES AS AT 31 DECEMBER 2011

Consolidated statement of financial position – equity and liabilities

in € k	Note/page	31/12/2011	31/12/2010
Share capital	26a/84	58,000	58,000
Reserves	26f/87	713,621	713,218
Balance sheet loss (previous year balance sheet profit)	26g/87	–494,406	67,027
Equity allocable to owners of the company		**277,215**	**838,245**
Minority interests	26h/87	1,339	1,642
Equity		**278,554**	**839,887**
Provisions for pensions	27/87	521	531
Other provisions	28/89	85,205	59,394
Financial commitments	29/90	474,187	238,728
Other liabilities	30/91	5,368	3,817
Deferred tax liabilities	21/82	63,023	111,211
Non-current liabilities		**628,304**	**413,681**
Other provisions	28/89	132,004	31,709
Financial commitments	29/90	24,949	212,269
Trade payables	31/91	353,700	450,827
Other liabilities	30/91	94,897	76,565
Current income tax liabilities	24/84	1,557	6,017
Current liabilities		**607,107**	**777,387**
Total equity and liabilities		**1,513,965**	**2,030,955**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated statement of changes in equity

in € k	Share capital	Capital reserves	Other reserves				Balance sheet profit/ loss	Owners of the company	Minority interests	Total equity
			Other comprehensive income							
			Currency translation	Cash flow hedges (after taxes)	Sundry other reserves	Total				
31/12/2009	**58,000**	**822,685**	**–18,084**	**–277**	**–92,976**	**–111,337**	**107,634**	**876,982**	**1,621**	**878,603**
Transactions directly recognised in equity	–	–	2,104	–234	–	1,870	–	1,870	0	1,870
Payments to owners of the company	–	–	–	–	–	–	–5,800	–5,800	–	–5,800
Payments to minority interests	–	–	–	–	–	–	–	–	–1,242	–1,242
Group net loss	–	–	–	–	–	–	–34,807	–34,807	1,249	–33,558
Other changes in minority interests	–	–	–	–	–	–	–	–	14	14
31/12/2010	**58,000**	**822,685**	**–15,980**	**–511**	**–92,976**	**–109,467**	**67,027**	**838,245**	**1,642**	**839,887**
Transactions directly recognised in equity	–	–	–939	1,342	–	403	–	– 403	0	403
Payments to owners of the company	–	–	–	–	–	–	–5,800	–5,800	–	–5,800
Payments to minority interests	–	–	–	–	–	–	–	–	–1,243	–1,243
Group net loss	–	–	–	–	–	–	–555,633	–555,633	923	–554,710
Other changes in minority interests	–	–	–	–	–	–	–	–	17	17
31/12/2011	**58,000**	**822,685**	**–16,919**	**831**	**–92,976**	**–109,064**	**–494,406**	**277,215**	**1,339**	**278,554**

CONSOLIDATED CASH FLOW STATEMENT FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2011

Consolidated cash flow statement

in € k	Note/page	2011	2010
Earnings before taxes		–594,321	–5,688
Depreciation, amortisation and reversal of impairment losses		75,751	70,044
Impairment on tangible assets and other intangible assets		80,058	636
Goodwill impairment		159,454	0
Increase in provisions		126,096	6,334
Loss (previous year gain) from the disposal of fixed assets		32	–195
Exchange-rate-related effects		5,561	1,198
Decrease in inventories		135,094	17,444
Decrease in trade payables		–97,127	–6,783
Other non-cash transactions		–10,915	–3,730
Changes in current other assets and liabilities		22,774	11,202
Changes in non-current other assets and liabilities		4,218	–1,300
Income taxes paid		–9,272	–11,431
Interest expenses from finance leases		–23,052	–24,095
Interest result		43,481	35,009
Interest received		2,972	1,918
Cash flow from operating activities	32a/92	**–79,196**	**90,563**
Proceeds from disposal of fixed assets		907	1,544
Cash outflow for investing activities		–62,608	–57,931
Cash flow from investing activities	32b/92	**–61,701**	**–56,387**
Interest paid		–6,112	–7,217
Payments to minority interests		–1,243	–1,242
Payments to owners of the company		–5,800	–5,800
Principal of liabilities from finance leases		–18,075	–17,165
Received payments from borrowings		4,865	0
Repayment of promissory note loans		–50,000	0
Repayment of convertible bonds		–147,100	0
Received payments from corporate bonds		246,677	0
Cash flow from financing activities	32c/92	**23,212**	**–31,424**
Change in cash and cash equivalents (aggregated)		**–117,685**	**2,752**
Effect of foreign exchange rate changes		–565	563
Cash and cash equivalents at beginning of period (aggregated)		266,292	262,977
Cash and cash equivalents at end of period (aggregated)	32d/92	**148,042**	**266,292**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Introductory remarks

Praktiker AG is a stock corporation under German law and is based in Kirkel, Saarland, Federal Republic of Germany. The responsible central register court is located in Saarbrücken. Praktiker AG and its subsidiaries (together the "Praktiker Group") operate DIY stores with a full assortment in the do-it-yourself market, offering goods for the areas of construction, renovation, home repairs, home improvement, gardening and leisure. Currently the Praktiker Group operates in Germany and eight other countries, primarily in Eastern and Southeastern Europe.

The shares of Praktiker AG have been traded publicly since November 2005, entering into the MDAX in March 2006. Praktiker AG has been listed on the SDAX since September 2011.

The financial year corresponds to the calendar year. The consolidated financial statements have been drawn up in € thousand.

The items shown in the statement of financial position differentiate between non-current and current assets and liabilities, which are set out partly in detail in the notes to the financial statements. The income statement was prepared using the cost of sales format.

Due to rounding, there may be slight variations in the current report in totals and in calculating percentage figures.

On 27 March 2011, these consolidated financial statements for the financial year from 1 January to 31 December 2011 were submitted – after their preparation by the management board – to the supervisory board of Praktiker AG for acceptance and publication.

Accounting principles

Basic comments

The consolidated financial statements of Praktiker AG were prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, which have been adopted under Articles 2, 3 and 6 of the Regulation (EC) No. 1606/2002 of the European Parliament and the European Council of 19 July 2002 and the complementary commercial regulations according to Sec. 315a para. 1 HGB (German Commercial Code).

The regulations of the International Financial Reporting Standards (IFRS) that were applied – under consideration of the aforementioned regulation (EC) – were those that were obligatory as per the closing date of 31 December 2011.

The consolidated financial statements were drawn up on the basis of historical costs, supplemented via the market valuation of financial assets available for sale as well as via the valuation at fair value through profit or loss of financial assets and financial liabilities (including derivative financial instruments).

The management applied the going concern principle in the preparation of the financial statements. This assumption is based on all the information available about the future.

Towards the end of the 2011 financial year, the management resolved a restructuring programme with the aim of gradually improving profitability and of generating a positive consolidated EBT margin of between one and two percent by 2014.

The implementation of the measures intended in the restructuring programme will require cash inflows of a low three-digit million euro amount. The management is currently assuming that these funds can be procured by summer 2012. If this is not achieved by the intended time or in the planned amount, the restructuring would be delayed.

In a worst case scenario, it may not be possible to implement the restructuring programme at all due to a lack of finance, which could also render it impossible to maintain a positive forecast as to the future of the enterprise as a going concern. However, the management is not assuming this at this time.

Standards, interpretations and amendments issued requiring mandatory application in 2011

The following standards, interpretations and amendments to existing standards require mandatory application for the first time for reporting periods which begin on 1 January 2011:

IFRS 1 (amendment), "First-time Adoption of IFRS" and IFRS 7 (amendment), "Financial Instruments: Disclosures": The changes made by IFRS 1 and IFRS 7 now allow companies applying IFRS for the first time to make use of an exemption for disclosures for fair value measurements and liquidity risk.

IAS 24 (revised), "Related Party Disclosures": In particular, the amendment of the standard revised the definition of related parties and also adjusted the definition of reportable transactions. The amendment to IAS 24 has led to amendments in IFRS 8 "Operating Segments" regarding disclosure requirements for significant public-sector clients.

IAS 32 (amendment), "Financial Instruments: Presentation": If a company grants subscription rights, options or warrants for a fixed number of its own shares in a currency other than its functional currency, these rights were previously to be recognised as financial liabilities. The IASB has supplemented IAS 32 to the effect that subscription rights, options and warrants for a fixed number of own shares against a fixed amount in any currency must be reported as equity instruments, provided these are granted proportionately to all existing shareholders of the same class.

IFRIC 14 (amendment), "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction": The changes are of relevance when a pension plan specifies a minimum funding requirement and the com-

pany makes advance contributions to this. In comparison to existing regulations, the economic benefit from advance contributions by the company which reduce future contributions on the basis of the minimum funding requirement is capitalised as an asset.

IFRIC 19 (new), “Extinguishing Financial Liabilities with Equity Instruments”: The interpretation applies if the newly negotiated contract terms of a financial liability allow the debtor to extinguish the financial liability in full or in part by issuing equity instruments. The endorsement of IFRIC 19 caused amendments in IFRS 1 “First-time adoption of IFRS”, which are also effective for reporting periods from 1 July 2010.

In May 2010, the IASB also published a collective standard to change various standards with the main aim of eliminating inconsistencies and clarifying formulations. This improvement process gave rise to changes to the following standards:

Amendments improvement process 2010

Standard/Interpretation	Title
IFRS 1	First-time Adoption of IFRS
IFRS 3	Business Combinations
IFRS 7	Financial Instruments: Disclosures
IAS 1	Presentation of Financial Statements
IAS 27	Consolidated and separate Financial Statements
IAS 34	Interim Financial Reporting
IFRIC 13	Customer Loyalty Programmes

Unless otherwise indicated for the individual changes, the application of the new and amended standards and interpretations has no significant effect on the net assets, financial position and results of operations or the cash flow of the Praktiker Group.

Standards, interpretations and amendments issued which do not yet require mandatory application and which have already been adopted by the EU

The following standards, interpretations and amendments to existing standards were published by the IASB and have already been adopted by the EU (as at 31 December 2011). However, they only require mandatory application for later reporting periods. The date indicated in brackets refers to the beginning of the relevant financial year. The company decided to refrain from exercising its right of choice in respect of the premature application of the above for the current consolidated financial statements.

IFRS 7 (amendment, effective from 1 July 2011), “Financial Instruments: Disclosures”: The amendments to IFRS 7 relate to more extensive disclosure requirements for transfers of financial assets and should allow users of the financial statements a better understanding of the effects of the risks remaining with the company.

The application of the amended standard which have not yet been adopted by the EU is not expected to cause significant changes in the net assets, financial position and results of operations or the cash flow of the Praktiker Group in the future.

Standards, interpretations and amendments issued which do not yet require mandatory application and which have not yet been adopted by the EU

The following standards, interpretations and amendments of existing standards have already been published by the IASB, but have not yet been adopted by the EU and only require mandatory application for later reporting periods (as at 31 December 2011).

IFRS 1 (amendment, effective from 1 July 2011): “First-time Adoption of IFRS”: The amendment firstly replaces the reference to the fixed transition date “1 January 2004” with the phrase “date of transition to IFRS”. Secondly, it amends the application guidance for the presentation of financial statements compliant with IFRS when a company was unable to apply IFRS regulations for a period because its functional currency was subject to hyperinflation.

IFRS 9 (new, effective from 1 January 2015), “Financial Instruments”: The new standard fundamentally amends the current provisions on the categorisation and measurement of financial instruments and will replace IAS 39. The IASB has divided this project into three phases. The first phase in November 2009 provided new accounting regulations for financial assets. In December 2011, the IASB resolved to postpone the effective date for first-time adoption from 1 January 2013 to 1 January 2015. This is due to the fact that the second and third phases of the project are still being discussed. Phase 2 concerns accounting for financial liabilities and the derecognition of financial assets, while phase 3 is intended to cover hedge accounting.

IFRS 10 (new, effective from 1 January 2013), “Consolidated Financial Statements”: The standard contains principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It defines the principle of control, and establishes control as the basis for consolidation. The standard sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements.

IFRS 11 (new, effective from 1 January 2013), “Joint Arrangements”: The core principle of IFRS 11 is that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and ob-

ligations and accounts for those rights and obligations in accordance with that type of joint arrangement.

IFRS 12 (new, effective from 1 January 2013), "Disclosure of Interests in Other Entities": The standard is intended to enable users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13 (new, effective from 1 January 2013), "Fair Value Measurement": IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements.

IAS 1 (amendment, effective from 1 July 2012), "Presentation of Financial Statements": The amendments introduce new provisions for the presentation of other comprehensive income.

IAS 12 (amendment, effective from 1 January 2012), "Income Taxes": The amendment offers a solution for the problem of whether the carrying amount of an asset will be recovered through use or sale.

IAS 19 (amendment, effective from 1 January 2013), "Employee Benefits": The amendments introduce new provisions for accounting employee benefits.

IAS 27 (revised, effective from 1 January 2013), "Consolidated and Separate Financial Statements": The revised IAS 27 has the objective of setting standards to be applied in accounting for investments in subsidiaries, jointly controlled entities, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.

IAS 28 (revised, effective from 1 January 2013), "Investments in Associates": The objective of the revision of this standard is to define accounting for investments in associates and to stipulate regulations for the application of the equity method to account for investments in associates and joint ventures.

IAS 32 (amendment, effective from 1 January 2014), "Financial Instruments: Presentation" and IFRS 7 (amendment, effective from 1 January 2013), "Financial Instruments: Disclosures": These amendments clarify details for the offsetting of financial assets and liabilities and require additional supplementary disclosures. However, the current prohibition on offsetting will not be amended fundamentally. In future, IFRS 7 will require supplementary disclosures on the gross and net amounts involved in offsetting and the amounts for offsetting rights that do not satisfy accounting offsetting criteria.

IFRIC 20 (new, effective from 1 January 2013), "Stripping Costs in the Production Phase of a Surface Mine": The interpretation clarifies the conditions under which stripping costs can be recognised as an asset and how to measure these both initially and subsequently.

The application of the new and amended standards and interpretations which have not yet been adopted by the EU is not expected to cause significant changes in the net assets, financial position and results of operations or the cash flow of the Praktiker Group in the future.

Scope of consolidated companies

a) General remarks

Besides Praktiker AG, the consolidated financial statements comprise 14 domestic subsidiaries (previous year 14) and 20 foreign subsidiaries (previous year 20) in which Praktiker AG directly or indirectly holds the majority of voting rights.

Subsidiaries are all companies controlled by the Group. Control is achieved where the Group has the power to govern the financial and operating policies of a company while regularly holding a share of more than 50 percent of the voting rights. The assessment of whether a controlling position exists takes account of the existence and impact of such potential voting rights as are currently exercisable or convertible.

The results of subsidiaries are included in the consolidated financial statements (full consolidation) from the date on which control is transferred to the Group. They are deconsolidated as of the date on which control ceases.

b) Changes to the scope of consolidated companies

There were no changes in the composition of the scope of consolidated companies of the Praktiker Group in the reporting year.

However, several Group companies changed their names. Furthermore, the head offices of the following Group companies were relocated from Kirkel to Hamburg by way of company resolutions in November 2011:

- Baumarkt Praktiker GmbH
- Baumarkt Praktiker Deutschland GmbH
- Baumarkt Praktiker DIY GmbH
- Baumarkt Praktiker Grundstücksbeteiligungsgesellschaft mbH
- Baumarkt Praktiker International GmbH
- Baumarkt KIG GmbH
- Baumarkt Praktiker Objektgesellschaft mbH
- Baumarkt Praktiker Online GmbH
- Baumarkt Praktiker Services GmbH
- Baumarkt Praktiker Vierte GmbH
- Baumarkt Praktiker Warenhandelsgesellschaft mbH

The following companies based in Germany were included in the consolidated financial statements as at 31 December 2011 in addition to Praktiker AG:

Group companies located in Germany

Share of equity (in %)	31/12/2011
Baumarkt Max Bahr GmbH & Co. KG, Hamburg	100.00
Baumarkt Praktiker GmbH, Hamburg	100.00
Baumarkt Praktiker Deutschland GmbH, Hamburg	100.00
Baumarkt Praktiker DIY GmbH, Hamburg	100.00
Baumarkt Praktiker Grundstücksbeteiligungsgesellschaft mbH, Hamburg	100.00
Baumarkt Praktiker International GmbH, Hamburg	100.00
Baumarkt KIG GmbH, Hamburg	100.00
Baumarkt Praktiker Objektgesellschaft mbH, Hamburg	100.00
Baumarkt Praktiker Online GmbH, Hamburg	100.00
Baumarkt Praktiker Services GmbH, Hamburg	100.00
Baumarkt Praktiker Vierte GmbH, Hamburg	100.00
Baumarkt Praktiker Warenhandelsgesellschaft mbH, Hamburg	100.00
Calixtus Grundstücksverwaltungsgesellschaft mbH, Kirkel	100.00
MAX der kleine Baumarkt GmbH, Hamburg	100.00

As at the end of the reporting period on 31 December 2011, the following companies headquartered abroad were included in the consolidated financial statements of Praktiker AG:

Group companies located abroad

Share of equity (in %)	31/12/2011
Bâtiself S.A., Foetz-Mondercange (Luxembourg)	62.00
Praktiker Albanien Sh.p.k., Tirana (Albania)	100.00
Praktiker EOOD, Sofia (Bulgaria)	100.00
Praktiker HELLAS A.E., Tavros (Greece)	100.00
Praktiker DIJ DOOEL, Skopje (Macedonia)	100.00
Praktiker Moldova SRL, Chisinau (Moldova)	100.00
Praktiker Polska Sp. z o.o., Warsaw (Poland)	100.00
Praktiker Romania S.R.L., Voluntari (Romania)	100.00
Praktiker Yapi Marketleri A.S., Istanbul (Turkey)	100.00
Praktiker Ukraine TOV, Kiev (Ukraine)	100.00
Praktiker Ungarn Kft., Budapest (Hungary)	100.00
Praktiker Real Estate EOOD, Sofia (Bulgaria)	100.00
Praktiker RES DOOEL, Skopje (Macedonia)	100.00
Praktiker Real Estate Moldova SRL, Chisinau (Moldova)	100.00
Praktiker Real Estate Polska Sp. z o.o., Warsaw (Poland)	100.00
Praktiker Real Estate Romania S.R.L., Voluntari (Romania)	100.00
Praktiker Real Estate Kft., Budapest (Hungary)	100.00
Praktiker Finance B.V., Amsterdam (Netherlands)	100.00
Praktiker Group Buying HK Ltd., Hong Kong (China)	100.00
Praktiker International AG, Chur (Switzerland)	99.99

No stakes in associated companies were held during the reporting period.

Consolidation principles

The financial statements of German and foreign Group companies included in the consolidated financial statements are prepared according to uniform accounting methods pursuant to IAS 27.

The acquisition of subsidiaries is accounted for using the purchase method. The cost of acquisition equates to the fair value of assets provided, equity instruments issued and liabilities incurred or assumed on the date of exchange plus any costs directly attributable to the acquisition. The costs associated with acquisition are expensed in the period in which they are incurred. In the context of a corporate merger, identifiable assets, liabilities and contingent liabilities are recognised at their fair values on the acquisition date, irrespective of the size of the minority interests. The surplus of the purchase cost of the acquisition over the Group's interest in the net assets recognised at fair value is reported as goodwill. If the purchase costs are less than the net assets of the subsidiary acquired rec-

ognised at fair value, the difference impacts directly on the income statement.

Goodwill must be tested for impairment regularly once a year – or more frequently if changes in circumstances indicate a possible impairment – and, if applicable, written down to the lower recoverable amount.

Intra-group profits and losses, sales revenues, expenses and income as well as receivables and payables or liabilities among consolidated subsidiaries are eliminated. Third-party liabilities are consolidated to the extent that the prerequisites for such consolidations are met. The accounting and valuation methods applied by subsidiaries were amended, where necessary, in order to guarantee standard accounting practices.

Currency translation

a) Functional currency and reporting currency

The consolidated financial statements are compiled in euro, the company's functional and reporting currency.

b) Transactions and balances

In the consolidated companies' separate financial statements, foreign currency transactions are translated at the rates of exchange prevailing on the dates of the transactions. Exchange differences incurred on the translation of receivables and liabilities up to the balance sheet date are recognised in equity. Gains and losses from exchange rate changes are recognised in profit or loss, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

c) Group companies

The year-end financial statements of such foreign subsidiaries that have a functional currency deviating from the (Group) reporting currency are converted into euro as per the concept of functional currency in accordance with the provisions set out under IAS 21. As all consolidated companies run their businesses autonomously in financial, economic and organisational terms, the given national currency is the functional currency. The results and balance sheet items of all Group companies with a functional currency differing from the euro are converted into euro as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate as of the date of the statement of financial position concerned;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case, income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised as separate items in equity under other reserves.

Goodwill and adjustments of the fair value arising from the acquisition of a foreign company are treated as assets and liabilities of the foreign company and translated at the exchange rate prevailing on the balance sheet date.

The average exchange rates for currency translation of operating companies of the Praktiker Group with a functional currency other than the euro are shown in the following table:

Average exchange rates

1 € =		2011	2010
Albania	ALL	140.38519	137.78942
Bulgaria	BGN	1.95583	1.95583
Poland	PLN	4.12150	3.99348
Romania	RON	4.23786	4.21114
Turkey	TRY	2.33911	1.99811
Ukraine	UAH	11.11917	10.57527
Hungary	HUF	279.34850	275.35441

The reference date rates for currency translation as at the end of the respective reporting periods were as follows:

Year-end exchange rates

1 € =		31/12/2011	31/12/2010
Albania	ALL	138.64000	138.40000
Bulgaria	BGN	1.95583	1.95583
Poland	PLN	4.47560	3.97260
Romania	RON	4.30033	4.28692
Turkey	TRY	2.44810	2.06150
Ukraine	UAH	10.38890	10.55275
Hungary	HUF	315.15000	278.25050

Accounting and valuation methods

The key accounting and valuation methods that were applied in the preparation of these consolidated financial statements are set out in the following. The described methods were applied consistently for the given reporting periods in the absence of any indications to the contrary.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of the acquisition.

After initial recognition, the goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. If the costs of the business combination are lower than the net fair value of the identifiable assets, liabilities and contingent liabilities, the remaining amount is recognised on the income statement.

Goodwill is tested for impairment once a year – or more frequently if changes in circumstances indicate a possible impairment – and, if applicable, written down to the recoverable amount. Impairment losses on goodwill may not be reversed.

To this end, the carrying amount is compared with the recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and its value in use. The determination of the value in use is calculated as the cash value of expected future cash flows. If the recoverable amount is lower than the carrying amount, the difference is written down.

The underlying planning period comprises three years. A perpetuity is detemined on basis of the last planning year. For goodwill accounting, the individual operating segments under IFRS 8 are treated as a cash-generating unit (CGU).

On disposal of a company, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Other intangible assets

a) Software

Acquired software licences are capitalised at the cost incurred in their acquisition plus the cost of implementation. These costs are amortised over their estimated useful lives (three to five years).

Costs relating to the maintenance of software are recognised as expenses at the time they arise. Development costs which are directly attributable to the development and review of identifiable, individual software products controlled by the Group are recognised as intangible assets if they meet the following criteria:

- The completion of the software products is technically feasible.
- The management intends to complete the software product and to use or sell it.
- There is an ability to use or sell the software product.
- It can be proven that the software product is likely to generate future economic benefits.
- Adequate technical, financial and other resources are available to complete the development and to use or sell the software product.
- The expenditure attributable to the software product during its development can be measured reliably.

The directly attributable costs chiefly include personnel costs.

Capitalised development costs for software are amortised over their estimated useful lives (max. five years).

b) Concessions, rights, licences, brand names

Concessions, rights, licences and brand names are recognised at cost plus the cost of implementation. They are measured at cost less cumulative amortisation. Depreciation is written off on a straight-line basis over the probable useful economic life of the item concerned, which lies between three and fifteen years. The acquired brand Max Bahr has an unlimited useful life and is tested for impairment every year.

In the reporting year, no costs for research and development were recognised as expense.

Property, plant and equipment

Tangible assets used in business operations for a period of more than one year are recognised at cost less scheduled, usage-based depreciation. The acquisition or production costs include direct costs. However, financing costs are not capitalised as part of acquisition or production costs.

Subsequent costs are recognised only as a portion of the acquisition or production costs of the asset or, where relevant, as a separate asset, if and when it is likely that the Group will draw future economic benefits from this and that the cost of the asset can be reliably determined. All other repair and maintenance costs are reported as expense during the fiscal year in which they arise.

The residual carrying amount and useful economic lives are examined at each financial year-end and adjusted if required. If there are any indications of impairment and if the recoverable amount is lower than the carrying amount, the assets are subjected to impairment charges. Impairment losses are reversed when indications for impairment no longer exist.

There is no scheduled depreciation on land. All other assets are depreciated regularly on a straight-line basis, whereby the acquisition and production costs are written down to the residual carrying amount over the expected useful life of the given asset as follows:

Useful life of property, plant and equipment

in years	
Buildings	20 to 50
Plant, machinery and equipment	3 to 15
Fixtures, furniture and office equipment	3 to 15
Shop fittings	3 to 15
Vehicles	3 to 5

Leasehold improvements are written down over the respective rental contract duration.

Property, plant and equipment will be derecognised either when disposed of or when no more economic use is expected from further use or sale of the asset. Gains and losses from asset disposals are determined as the differential value between the sale proceeds and the carrying amount and recognised in income in the period in which the asset is derecognised.

Impairment of non-financial assets

Intangible assets with an indefinite useful life, such as goodwill for example, are not amortised, but tested for impairment regularly at least once a year. Assets subject to scheduled depreciation are tested for impairment if the applicable events or changes in circumstances indicate that the carrying amount may no longer be recoverable. An impairment loss is recognised to the extent by which the carrying amount exceeds the recoverable amount.

Leasing relationships

The Group leases certain fixed asset items (leasing objects). Leases for property, plant and equipment for which the Group bears the risks and rewards of ownership of the leased asset are classified as finance leases.

Finance lease assets are capitalised at the time of the lease's commencement at the lower of the fair value of the leased property and the cash value of the minimum lease payments. A leasing liability is then recorded as a deferred item for the same amount under financial liabilities. Each lease instalment is split into an interest component and a repayment component in order to keep the interest charged on the leasing liability at a constant level. The interest component of the leasing instalment is recorded in the income statement as expenditure.

The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Financial assets

Financial assets are subdivided into the categories "financial assets at fair value through profit and loss", "loans and receivables" and "financial assets available for sale". The categorisation depends on the respective purpose for which the financial assets were acquired. The management determines the categorisation of financial assets upon first-time recognition and reviews the categorisation at each balance sheet date. As in the previous year, the Group categorised no financial assets as "financial investments held to maturity" during the period under review.

a) Financial assets at fair value through profit and loss

Financial assets are recognised at fair value with a corresponding impact on income if the financial asset concerned is either held for trading purposes or designed to be recognised at fair value with the corresponding impact on income. A financial asset is classed as being held for trading purposes if it:

- was primarily acquired with the intention of selling it in the future on a short-term basis to realise a profit, or
- is a derivative that was not designed to be a hedge instrument and is not in use as hedge accounting

Financial assets recognised at fair value with the corresponding impact on income are carried at fair value. All gains and losses resulting from the valuation are reported with the corresponding impact on income. The net gain or loss includes any dividends and interest relevant to the financial asset concerned.

Fair value disclosures for financial assets and liabilities are categorised based on a three-level hierarchy. This hierarchy reflects the market proximity of the data used in the calculation:

- Level 1:
  Stock exchange price or market price on an active market (without adjustments or changed composition)
- Level 2:
  Stock exchange price or market price on a fictitious market for similar assets or liabilities or other valuation methods for which the significant input parameters are based on observable market data
- Level 3:
  Valuation methods for which the significant input parameters are not based on observable market data

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or definable payments that are not listed on an active market. They are classified as current assets insofar as their term to maturity does not exceed 12 months after the balance sheet date. Those that exceed a term of maturity of 12 months are recognised as non-current assets. Loans and receivables are included under financial loans, trade receivables and other receivables in the statement of financial position. Loans and receivables are recognised at the amortised cost of purchase using the effective interest method minus any impairment costs.

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that were either designated as such or not designated to any of the aforementioned categories. They are recognised as non-current assets if and when the management group does not intend selling them within 12 months after the balance sheet date.

Available-for-sale financial assets are included under the item financial investments (stakeholdings) in the statement of financial position.

d) Valuation of financial assets

Regular purchases or sales of financial assets are recognised with respective value on the day of trading, the day on which the company commits to the purchase or sale of the asset. All financial assets – except for derivatives – are initially measured at fair value plus directly attributable transaction costs. They are derecognised when the rights to payments from the investment have expired or have been transferred and the Group has substantially transferred all risks and opportunities of ownership.

The fair value of listed shares is based on the current stock exchange price. If an active market does not exist for financial assets or if the assets in question are unlisted assets, the fair values are determined based on suitable valuation methods. These comprise references to recent transactions between independent business partners, the use of the current market prices of other assets that bear a large similarity to the asset in question, discounted cash flow methods and option pricing models that give due consideration to the specific circumstances of the issuer. The above mentioned models are based on current market parameters.

Changes in the fair value of securities classified as financial assets available for sale are recognised in equity. If such securities classified as financial assets available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains or losses from investment assets. If such securities as are classified as financial assets available for sale are sold or impaired, the accumulated fair value changes previously recognised in equity are to be included in the income statement under other income as gains/losses from securities. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group’s right to receive payments is established.

Loans and receivables and financial investments held to maturity are recognised at amortised cost using the effective interest method.

As described above, no financial assets were categorised as held to maturity in the period under review.

Financial assets and financial liabilities are only offset if there is a currently enforceable legal right to offset the recognised amounts and it is intended either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

e) Impairment of financial assets

Tests are carried out as of each balance sheet date to ascertain whether there are any objective indications of an impairment of a financial asset or group of financial assets. Objective indications of an impairment can take the following form:

- significant financial difficulties of the counterparty
- failure to make or delay in making interest payments or loan repayments or
- enhanced probability that insolvency proceedings or other restructuring proceedings will be initiated vis-à-vis the debtor

Financial assets in the loans and receivables category, such as trade receivables, for which impairment is not identified individually are tested for impairment on a portfolio basis. An objective indication of an impairment of a portfolio of receivables could take the form of experience gathered by the Group in terms of payments received in the past, a rise in the frequency of payment defaults and observable changes in the national or local economic environment to which nonpayment of receivables could be made attributable.

In the case of financial assets valued at amortised purchase cost, the impairment expense equates to the difference between the carrying amount of the given asset and the cash value of the anticipated future cash flow determined via the original effective interest rate of the financial asset concerned.

Impairment leads to the direct reduction in the carrying amount of all the financial assets affected with the exception of those trade receivables whose carrying amount is reduced via an impairment account. In the event that a trade receivable is classed as being irrecoverable, its use is recognised via the impairment account. The subsequent receipt of payments of amounts that have already been written off are also set off against the impairment account. Changes in the carrying amount of the impairment account are recognised in the income statement with the corresponding impact on income.

In the case of equity instruments, which are categorised as available-for-sale financial assets, a substantial or sustained decline in the fair value below the acquisition cost of these equity instruments is taken into consideration in impairment terms. If there is an indication of such an impairment of available-for-sale financial assets, the cumulative loss is booked out of equity and charged to the income statement. This loss is measured as the difference between the acquisition costs and the current fair value less impairment losses previously recognised in respect of the financial asset concerned. Impairment losses once recognised in profit or loss for equity instruments are not subsequently reversed through profit or loss.

f) Derecognition of financial assets

The Group abandons a financial asset only if the contractual rights to cash flows from a financial asset expire or the financial asset and all major risks and opportunities connected with the ownership of the given asset are transferred to a third party. If the Group does not transfer all the major risks and opportunities connected with the ownership and continues to retain the authority to dispose of the transferred asset, the Group recognises its remaining share in the asset and a corresponding liability equating to the amounts possibly requiring payment. In the event that the Group retains all the major risks and opportunities of a transferred asset connected with its ownership, the Group must continue to recognise the asset and a collateralised loan for the consideration received.

Deferred taxes

Deferred taxes are determined through the liabilities method, according to which tax assets and liabilities are recognised for temporary differences between the carrying amounts of assets or liabilities in the IFRS consolidated financial statements and their tax base. However, the deferred income tax is not accounted for at the time of initial recognition or thereafter if it arises from the initial recognition of an asset or liability in a transaction other than a corporate merger that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets from deductible temporary differences and tax loss carry-forwards exceeding the deferred tax liabilities from temporary differences are recognised only to the extent that it is likely that the respective company will generate sufficient taxable income to use them.

The carrying amount of the deferred tax assets is tested on every balance sheet date and reduced to the extent that it is no longer probable that a sufficient taxable result will be available against which the deferred tax asset can at least be partly applied. By contrast, non-recognised deferred tax assets are tested on every balance sheet date and recognised to the extent that it has become probable that a taxable result in the future allows the realisation of deferred tax assets.

Deferred taxes are measured in accordance with the tax rates (and tax regulations) that apply on the balance sheet date or have been legislated to a substantial measure and are anticipated to be applicable at the time of the realisation of the deferred tax assets or the redemption of the deferred tax liabilities.

While domestic loss carry-forwards may be exercised without restrictions, the frequent country-specific limitations of loss carry-forwards have been appropriately considered in the measurement.

Deferred tax liabilities arising from temporary differences in connection with investments in subsidiaries and associated companies are recognised except in cases where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not be reversed in the foreseeable future for the same reason.

Deferred tax assets and deferred tax liabilities are offset against each other if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and if they relate to taxes on the same tax object levied by the same tax authorities.

Value-added tax

Sales revenues, expenses and assets are recognised after deduction of the value-added tax, unless value-added tax incurred on the sale of assets or services cannot be collected by the tax authorities. It is then recognised as part of the asset's acquisition or production costs or as part of the expenses. The value-added tax amount refunded by or transferred to the tax authorities is recognised in the consolidated financial statements as a receivable or a liability.

Inventories

Merchandise carried as inventories is stated at the lower of purchase cost and net realisable value. Purchase cost is determined by using the average cost method and includes directly attributable personnel costs as well as other costs directly attributable to the acquisition. The acquisition costs do not include borrowing costs. Net realisable value represents the estimated selling price achievable by way of normal business development less all such variable sales costs as are necessary.

When merchandise has been sold, the carrying amount of this merchandise is recognised as costs of goods sold during the reporting period in which the related revenues have been realised. Any impairment of inventories to the net realisable value and all losses on inventories are recorded as expenses during the period in which the impairment or the losses occurred. All reversals of inventory write-downs resulting from an increase in the net realisable value are recognised as reductions of material costs during the period in which the write-down reversal occurs.

When the reasons for a write-down of the merchandise have ceased to exist, the write-down is appropriately reversed, but maximal to the amount of the initial acquisition costs. This reversal of write-downs is recognised as a reduction in the cost of goods sold in the period in which the reversal occurs.

Trade receivables

Trade receivables are initially recognised at their fair values and subsequently at amortised purchase cost using the effective interest method and by deduction of impairment. An impairment of trade receivables is recognised if objective indications show that the receivables cannot be fully recovered. Significant financial difficulties of the debtor, the enhanced probability that the debtor will enter bankruptcy or be subjected to other restructuring proceedings, and a failure to make or delay in making payments are considered indicators that the trade receivable is impaired. The amount of the impairment is recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, sight deposits, other current, highly liquid financial assets with an original term to maturity of no more than three months and open credits. Bank overdrafts are shown as liabilities vis-à-vis banks under current financial liabilities on the statement of financial position.

Equity

Common shares are classed as equity.

Costs that are directly allocable to the issuance of new shares or options are recognised in equity as a deduction, net of tax, from the issue proceeds.

Combined financial instruments

The components of a combined instrument issued by the Group are stated separately in accordance with the economic content of the agreement as a financial liability and equity. At the time of issuance, the fair value of the liability component is determined on the basis of the market interest rate applicable to a comparable non-convertible instrument. This amount is carried as a financial liability on the basis of the amortised cost of purchase using the effective interest method up until the time of fulfilment i.e. when the instrument is converted or becomes due. The determination of the equity component occurs via the subtraction of the value of the liability component from the fair value of the instrument as a whole. The resultant value minus the impact on income tax is recognised as part of equity and is thereafter not subject to valuation.

Financial liabilities

Original financial liabilities are recognised initially at fair value, net of the transaction costs incurred. The recognition of derivatives is carried out without transaction costs. They are subsequently stated at amortised purchase cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. By contrast, transaction costs are not deducted when recognising derivative financial liabilities. They are also measured at fair value in subsequent periods.

The largest financial liability items of Praktiker AG are described below:

The fair value of the external capital component of convertible bonds is determined using a market interest rate for equivalent non-convertible bonds. This amount is recorded as a liability upon an amortised purchase cost basis until extinguished on conversion or maturity of the bonds. The difference between the market interest rate and the contractually agreed interest rate embodies the value of the conversion right. This is recognised in equity after deduction of income tax. The convertible bonds issued by the Group on 28 September 2006 were repaid in September 2011 without the bearers having exercised their conversion rights.

Loan liabilities are classified as current liabilities insofar as the Group does not have the unconditional right to delay the settlement of the liability until at least 12 months after the balance sheet date.

Financial liabilities from leases are carried as liabilities insofar as the economic ownership of the leased objects is allocable to the companies of Praktiker Group and capitalised under tangible investments (finance leases). The leasing liabilities are initially recognised at fair value or at the lower cash value of the lease payments to ensure that the financing costs are spread across the term of the lease and produce a constant rate of interest on the residual lease finance liability (annuity character of the liability).

Financial liabilities are derecognized when the Group's liability has been settled, cancelled or has expired.

Financial assets and liabilities are set off only if there is a right at the present time to offset the reported amounts against each other and the intention is to settle on a net basis or to settle the associated liability simultaneously with the realisation of the asset.

Benefits to employees

a) Pensions and similar commitments

The Group carries commitments from regulations regarding company pensions, salary waivers, early retirement and part-time work for older workers, severance pay, death and anniversary benefits.

The valuation of pension provisions and similar commitments is effected in accordance with the projected unit credit method for defined old age pension plans stipulated by IAS 19, taking account of future pay and pension increases.

These measurements are based on the legal, economic and tax parameters in the respective country. The commitments exclusively affect the European economic region and are measured with the following parameters:

Parameter pension commitments

in %	2011	2010
Actuarial interest rate	4.90 / 5.90	4.65
Wage and salary trend	2.00 / 3.16	2.00
Pension trend	2.00	2.00
Expected income from plan assets	4.00	4.20 / 4.30

Employee fluctuation is determined at the individual plant level in consideration of age and length of service. The actuarial measurements are based largely on country-specific mortality tables.

A defined benefit plan is a pension plan that prescribes a pension benefit volume that an employee will receive upon retirement, the size of which typically depends on one or several factors such as age, length of service and salary.

The provisions for defined benefit plans in the statement of financial position correspond to the cash value of the defined benefit obligation (DBO) less existing plan assets on the balance sheet date, adjusted for cumulative, non-recorded actuarial gains and losses and non-recorded past service cost that must be accounted for. The DBO is calculated annually in an independent actuarial evaluation by applying the projected unit credit method. The cash value of the DBO is calculated by discounting projected future benefits using rates based on high-quality corporate bonds denominated in the currency in which the benefits are paid and whose maturities correspond to the term of the pension commitments.

Actuarial gains and losses arising from experience-based adjustments and changes in actuarial assumptions in excess of the greater of 10 percent of the fair value of plan assets or 10 percent of the cash value of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives (corridor ruling). The commitments concerned are valued annually by independent, qualified actuarial experts.

Past service costs are recognised immediately in income unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

b) Termination benefits

Termination benefits are made when an employee voluntarily ends an employment contract in return for a severance payment. The Group recognises severance payments if it is demonstrably committed either to terminating the employment of an employee in accordance with an irreversible, detailed formal plan or to providing termination benefits as a result of an offer made in order to encourage voluntary redundancy. Where termination benefits fall due more than 12 months after the balance sheet date, they are discounted to their cash value.

c) Profit sharing and bonus schemes

A commitment and expense determined in consideration of the profit due to Group shareholders after certain adjustments is carried as a liability for bonus payments and profit sharing. The company recognises a provision under liabilities only if it has a contractual obligation or a de facto obligation based on past business practice.

d) Share-linked remuneration

A first, five-year share bonus programme was introduced in 2006, starting in August 2006 ("SBP I"). Members of the management board and the second management level were entitled to participate. The programme comprises five tranches granted each year with the target parameters for each tranche calculated separately. The last tranche of this first programme was granted in 2010. The target parameters are determined four weeks after the annual general meeting of Praktiker AG (cut-off date for the approval of the share bonus).

In 2011, a second, five-year share bonus programme ("SBP II") was launched, in which members of the management board and the second management level were entitled to participate. The members of the management board did not participate in this programme for 2011. The term of each individual tranche is four years. The target parameters are determined using the same methods as the first programme.

The individual annual share bonuses are paid automatically in cash in the month after the end of the term of the respective tranche if the payment conditions have been met.

The term of the 2009 tranche is three years; the term of the 2010 tranche is three years for participants in the second management level and four years for members of the management board. The term for the 2011 tranche and for all other tranches of SBP II is four years for all participants. For example, the 2009 tranche will be paid out in 2012 if the payment conditions are met and the last 2015 tranche under SBP II will be paid out in 2019. Derivative financial instruments were concluded in 2008 and 2010 to secure the tranches. Further information on this can be found in note 29.

The level of the given bonus is initially determined via the ratio of the base price against the target price of the shares. The starting price per tranche equates to the arithmetical average of the final prices of Praktiker shares in the 20 last consecutive stock market trading days prior to the cut-off date (four weeks after the given annual general meeting). The target share price per tranche, in the case of the attainment of which the full bonus is awarded, is calculated on the basis of the starting price, whereby a price rise of 15 percent is set over a period of three years or 20 percent over a period of four years.

The level of the bonus concerned also depends on the performance of Praktiker shares as compared with that of the shares of other relevant trading companies listed on the stock exchange. For comparison purposes two indices are used, the German stock index in which Praktiker AG is listed and the Dow Jones Euro Stoxx "General Retailers". They permit the valuation of the price development in Praktiker shares on a national or Europe-wide basis. Should the development in Praktiker shares with effect of the cut-off date not deviate by more than 10 percent from the average value of

both indices, the share bonus is paid out in full. In the event that the price development in Praktiker shares exceeds the average value by more than 10 percent (outperformance), the amount paid out as a share bonus is increased to a total of 120 percent. However, should it fall short of the average value of the indices mentioned by more than 10 percent (underperformance), the level of the share bonus is reduced to 80 percent.

Payment of the share bonus is limited to the current, individually agreed basic annual salary (gross).

Obligations arising from the share bonus programme are measured at fair value at financial year-end. This amount is deferred on a prorata basis over the period up until payment of the given tranche is made. This resulted in personnel expenses amounting to € 7 thousand in the year under review (previous year € 482 thousand). The reversal of provisions from the share bonus scheme resulted in income of € 676 thousand in the year under review (previous year € 204 thousand). The provisions set aside amounted to € 12 thousand as of 31 December 2011 (previous year € 681 thousand).

For each tranche, the number of options and the fair value is determined using a valuation model based on the Monte Carlo simulation method. This results in the following values:

Valuation model according to Monte Carlo simulation

	SBP I 4th tranche	SBP I 5th tranche	SBP I 5th tranche	SBP II 1st tranche
Term (in years)	3	3	4	4
Number of options	694,444	476,190	102,513	570,720
Fair value (in € k)	1	5	3	60

The following parameters are also included in the calculation:

- Risk-free interest rate: the zero rates based on the swap curve were used for the purpose of risk-free interest rates.
- Volatility: the volatilities were calculated on the basis of the daily constant returns on the prices, whereby the records go back in accordance with the residual term. The daily volatilities are scaled up to annual volatilities via multiplication to the root of 250, whereby 250 stands for the number of trading days per year.
- Residual term: the residual term to maturity equates to the difference between the valuation cut-off date and the expiry date of the tranche.
- Dividend yield: the future dividend yield is calculated on the basis of the current market expectation and the Group's assessment for the respective tranche.
- Share price: this is based on the target share prices, the starting prices and the spot price at 31 December 2011.

The following parameters provide the basis for calculation of the individual tranches:

Parameter for calculation of share-linked remuneration

	SBP I 4th tranche	SBP I 5th tranche	SBP I 5th tranche	SBP II 1st tranche
Term (in years)	3	3	4	4
Risk-free interest rate (in %)	1.68	1.34	1.35	1.43
Volatility (in %)	89.85	65.00	57.37	70.14
Residual term (in years)	0.48	1.39	2.39	3.41
Dividend yield (in %)	0.00	0.00	0.00	0.00
Target share price (in €)	8.00	7.25	7.56	7.25
Starting price (in €)	6.96	6.30	6.30	6.05
Spot price 31/12/2011 (in €)	1.28	1.28	1.28	1.28

Provisions

Provisions are recognised if and when legal or de facto obligations to third parties that are based on past business transactions or events will more likely than not result in a cash outflow and can be reliably determined. They are stated at the anticipated settlement amount with due regard to all identifiable risks attached and are not offset against any claims to recourse.

Where several of the same obligations exist, the likelihood of an outflow of funds based on this group of obligations is determined. In this case a provision is also carried as a liability when the likelihood of an outflow of funds with respect to individual obligations included in this group is low.

Provisions are valued at the cash value of the anticipated costs, whereby an interest rate before taxes is raised taking account of current market expectations in respect of the impact of interest and of risks specific to the obligation concerned. Any increases in provisions resulting exclusively from the compounding of interest are recorded in the income statement as interest expenses with the corresponding impact on income.

Location risks can arise for leased properties. Provisions for insufficient rental cover are calculated by analysing the individual locations. This also applies to locations where operations are ongoing if a comparison of the unavoidable costs and planned sales in current company planning shows a deficit in cover over the basic term of the lease. The provision is in the amount of the maximum deficit in cover from possible subletting. For the German locations in 2011, a growth rate of 1.5 percent has been applied to sales after the three-year planning horizon. Cost increases of 2.0 percent and 1.0 percent were assumed for the direct staff costs and costs of materials respectively at German locations.

The growth rates after the planning period for locations in other countries vary between 1.0 percent in Greece and 7.5 percent in Turkey. The assumed increases for direct staff costs outside Germany ranged between 1.8 percent in Greece and 5.5 percent in Turkey. Rises of between 1.0 percent in Greece and 5.0 percent in Turkey were assumed respectively in costs of materials. The discount rate depends on the country, varying between 3.25 percent in Germany and Luxembourg and 17.95 percent in Greece in the year under review. Provisions are reversed against the corresponding expense item.

Trade payables

Trade payables are payment obligations for goods and services acquired in the ordinary course of business.

They are recognised at amortised purchase cost. Their carrying amounts correspond largely to their fair values. They are due within one year.

Contingent liabilities

Contingent liabilities are possible or existing obligations that arise from past events for which an outflow of resources is not considered probable or for which the amount of the obligation cannot be estimated with sufficient reliability. According to IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), such liabilities should not be recognised in the balance sheet but disclosed in the notes.

Income and expense realisation

a) Net sales

Sales revenues comprise the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group’s activities. Sales revenues are shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

Income is realised as follows:

a1) Sale of goods – wholesale

Revenues from the sale of merchandise as wholesalers are recognised when a Group company has supplied products to a customer, the customer has accepted the products and the recoverability of the respective liability can be considered reasonably certain.

a2) Sale of merchandise – retailing

Revenues from the sale of merchandise are recognised when a Group company sells products to a customer. Retail sales are generally settled in cash or by using standard payment and credit cards. The recorded sales correspond to the gross revenues from the sale including any transaction-related credit card fees. These fees are recognised under sales costs.

Expenses for the formation of provisions for discounts are considered during the period in which the sales are realised in line with statutory provisions. Sales revenues are reduced by the amounts concerned while revenues from vouchers are realised at the time of their redemption. Merchandise remuneration claims are recognised as income or expense after the relevant invoices have been checked.

There are several customer loyalty programmes in the Group under which customers can “acquire” price reductions for later purchases depending on the level of sales they effect. The portion of the consideration attributed to these award credits is recognised in sales revenues only when the credits are redeemed and the company has fulfilled its obligations to grant the loyalty awards.

b) Other income and expense realisation

Other operating income is realised at the time of the provision of the given service or the transfer of risk to the customer.

Operating expenses affect the income at the time the given service is made use of or caused.

Lease income and rental expenses are adjusted in line with the economic substance of the relevant agreements and recognised on a pro rata basis.

Income from dividends is recognised once the legal claim to payment has arisen.

Both interest income and interest expenses are recognised in line with the effective interest method.

Management of financial risks

a) Financial risk factors

The Group is exposed to various financial risks as a result of its business activities: market risk (including interest, currency and other market price risks), credit risk and liquidity risk. The Group's overarching risk management system focuses on the unpredictable nature of financial market developments and aims to minimise the potentially negative effect on the Group's financial situation. The Group uses financial derivatives to hedge against certain risks.

In the year under review, risk management was performed by the central finance department of the Praktiker Group, which identifies, measures and hedges financial risks in close cooperation with the operating units of the Group.

This is based on the principles laid down in writing by the management board for cross-divisional risk management purposes as well as on guidelines existing for specific divisions. In line with these guidelines, there is no speculative trade in derivatives. Financial instruments, particularly derivatives, were concluded exclusively to reduce the basic risk.

a1) Credit risk

No significant concentrations with respect to possible creditworthiness and default risks exist within the Group. Sales to customers are settled in cash or via commonly used payment and credit cards. In individual cases, target credit sales are made for major customers, although only following a creditworthiness check. The maximum counterparty default risk is limited to the carrying amounts reported under item no. 18 and item no. 29 in the notes. Risks arising from the full or partial default of counterparties in connection with money investments or derivative financial instruments with positive market values are minimised via the stipulation and monitoring of individual maximum limits. The maximum limits concerned are based essentially on the ratings set by international agencies, whereby the maximum credit risk equates to the carrying amount of the items concerned. The reduction of the upper limits – i.e. the distribution of short-term investments in smaller amounts across a larger number of banks with the highest credit ratings – began at the start of the second half of 2008 and was also maintained in 2011.

a2) Liquidity risk

Baumarkt Praktiker Deutschland GmbH acts as a liquidity depot within the Group. The multi-stage planning process ranges from a rolling three-year plan through to short-term planning specific to a given day. Any available liquidity surpluses are invested in short-term money market transactions with European banks.

On 10 February 2011, the Praktiker Group successfully placed a corporate bond with a volume of € 250,000 thousand. The bond has a term of five years and an interest coupon of 5.875 percent. In accordance with IAS 39.43, the corporate bond is carried at fair value in the amount of the payment amount less transaction costs.

By issuing the corporate bond, the Group had obtained the funds to refinance the convertible bonds early on. The convertible bonds matured in September 2011 resulting in a cash outflow of € 147,100 thousand. Praktiker had also cancelled and repaid its existing promissory note loans of € 50,000 thousand early in February 2011. The amount raised in excess of the refinancing volume of around € 50,000 thousand was used as a general flexibility reserve. Also in February 2011, the syndicated credit facility of € 200,000 thousand that had been in place since May 2007 was cancelled as well. The cash and cash equivalents available and the prolonged, unutilised bilateral credit facilities serve to secure the liquidity requirements within the Group arising from typical seasonal sales developments in the first quarter in particular. In February 2012, these credit facilities were transferred to a joint loan agreement with a syndicate of banks headed by Commerzbank AG. This agreement is subject to special rights of termination, particularly in the event of a change of control. If the syndicate exercises these termination rights and Praktiker is therefore unable to procure the cash needed to meet its contractual obligations on time, in a worst case scenario it may no longer be possible to maintain a positive forecast as to the future of the enterprise as a going concern. The same also applies for the event that the external cash inflows described in the risk report, estimated with a low three-digit million amount, cannot be procured to the necessary extent.

The goal of capital management is to ensure business operations and to maintain comfortable financial scope. To monitor compliance with certain minimum capital requirements, the management board receives a weekly report based on rolling 26-week liquidity planning. The management board manages cash flows within the Group on the basis of this information and gears its financing accordingly.

a3) Market risk

a3.1) Interest risk

The Praktiker Group is subject to interest risk primarily in relation to financial assets and liabilities with terms of more than one year. In the case of fixed-income financial instruments, the risk of changes in market interest rates results in a fair value risk, as fair values fluctuate depending on interest rates. In the case of floating-rate financial instruments, there is a cash flow risk, since the interest payments could increase in the future.

The Praktiker Group's interest risk is analysed centrally and managed by the Group's finance department.

In addition to finance lease liabilities, the Group essentially reports liabilities from the corporate bond issued in February 2011 maturing in 2016 with a fixed interest rate of 5.875 percent for this period.

In order to reduce the risk of changing interest rates arising from the six-month interest rate adjustment periods for the promissory note loans, corresponding interest rate swaps were concluded as hedging instruments and designated as cash flow hedges. A hedge on the interest rate risk also lapsed when the promissory note loans were cancelled, with the result that the interest rate swaps were cancelled as at 18 February 2011 as well.

As in the previous year, there were no further significant cash flow interest rate risks or fair value interest rate risks other than these in the year under review.

a3.2) Currency risk

As an internationally active group, Praktiker AG is exposed to currency risks deriving from fluctuations in the exchange rates of various foreign currencies. Currency risk results from anticipated future transactions, assets and liabilities carried in the statement of financial position as well as net investments in foreign operations.

A currency risk arises when future business transactions as well as assets and liabilities carried in the statement of financial position are denominated in a currency other than the company's functional currency. However, the Group sources the majority of its products that are sold in foreign-based outlets in the same country, which in most cases creates a form of "natural hedging".

Praktiker also hedges some of its payments under rental obligations for international locations in Poland, Romania, Turkey and Hungary against currency risks. The currency risk arises from the fact that the respective rent payments are made in national currency, albeit pegged to the applicable euro exchange rate published by the national banks of the respective countries. In order to minimise the currency risk resulting from this, Praktiker concludes currency forwards for the rent payment dates set in advance at rolling intervals of six and nine months.

The Praktiker procurement organisation commenced operations in Hong Kong as at the end of the second quarter. In the second half of the year, the company gradually assumed the handling of procurement work in Asia from the current third-party service provider. There is a corresponding exchange rate risk in this regard as purchases are predominantly settled in US dollars although the Group does not generate any sales in US dollars. 80 percent of this risk is eliminated with currency forwards. This is done by buying US dollars for 20 percent of the planned volumes according to applicable procurement planning on a rolling basis of three, six, nine and twelve months before the time of payment. The unhedged portion of the invoice is obtained by way of spot transactions two days before the payment date.

A hypothetical change in the respective exchange rates of these countries as at the balance sheet date would have resulted in a reduction of equity of € 2,619 thousand (previous year € 1,021 thousand) for a 10 percent rise in the exchange rate. A 10 percent drop in the respective exchange rate would have increased equity by € 3,201 thousand (previous year € 1,248 thousand).

Finance lease obligations amounted to € 109,091 thousand as at 31 December 2011 (previous year € 110,172 thousand). The translation of this amount into the functional currency of the respective country in the local financial statements can result in high exchange rate gains or losses. This mainly relates to the countries of Romania, the Ukraine, Poland and Hungary.

The following table shows the sensitivity of consolidated earnings before taxes seen against the background of a reasonably expectable and fundamentally possible change in the currency conversion rate of the respective country:

Exchange rate influence on earnings before taxes

in € k		2011	2010
Exchange rate change Romania (EUR/RON)	+10 %	−8,292	−8,743
	−10 %	8,292	8,743
Exchange rate change Poland (EUR/PLN)	+10 %	−1,436	−990
	−10 %	1,436	990
Exchange rate change Hungary (EUR/HUF)	+10 %	−680	−714
	−10 %	680	714
Exchange rate change Ukraine (EUR/UAH)	+10 %	−501	−570
	−10 %	501	570
Total	**+10 %**	**−10,909**	**−11,017**
	−10 %	**10,909**	**11,017**

As described above, currency risk mostly relates to the translation of finance lease liabilities and is not hedged. The risks relating to the translation of the assets and liabilities of foreign company units into the Group's reporting currency are also not hedged as they do not affect the Group's cash flows.

b) Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value applying on the given cut-off date. The method for the recognition of gains and losses depends on whether the derivative was qualified as a hedging instrument and, if this is the case, on the hedged item. The Group designates certain derivatives either as fair value hedges of the carried asset, of a liability or of a fixed corporate obligation or as cash flow hedges relating to transactions that are considered highly probable. A distinction must be made between whether certain derivatives are designated to hedge the fair value of a recognised asset, liability or fixed corporate obligation (fair value hedge) or a transaction considered highly probable (cash flow hedge).

When concluding transactions, the Group documents the nature of the hedge relationship between the hedge instrument and the underlying transaction, as well as the objective of the risk management and the underlying strategy. Moreover, at the start of the hedge relationship and, thereafter, on an ongoing basis, the Group documents its estimate as to whether the derivatives used in the given hedge relationship are highly effective in compensating for the changes in the cash flows of the underlying transaction.

The fair values of the various derivative instruments used for hedging purposes are disclosed in Note 29. Movements on the cash flow hedge reserve are shown under "Changes in Equity". The full fair value of the derivative financial instrument designated as a hedge derivative is recognised as a non-current asset or liability insofar as the residual term to maturity of the hedged underlying transaction is more than twelve months after the balance sheet date, and as a current asset or liability insofar as the residual term to maturity is less than twelve months.

Hedges which are designated as hedge accounting are carried as follows:

b1) Fair value hedge

Changes in the fair value of derivatives designated and qualified as fair value hedges are recognised in the profit and loss statement together with the changes in the fair value of the hedged asset or liability that are allocable to the hedged risk. There were no fair value hedges in the reporting period.

b2) Cash flow hedge

The effective portion of changes in the fair value of derivatives designated and qualified as cash flow hedges is recognised in equity. The ineffective share of value changes, in turn, is directly recognised in the income statement.

Amounts recognised in equity are transferred to the income statement and recognised as income or expenses during the period in which the hedged underlying transaction will have an effect on income. If a hedged future transaction results in the recognition of a non-financial asset (for example inventory assets) or a liability, the gains and losses that were previously recognised in equity are included in the initial valuation of the purchase cost of the asset or liability concerned.

Amounts recognised in equity are transferred to the income statement and recognised as income or expenses during the period in which the hedged underlying transaction has an effect on income (e.g. at the time that the future, hedged sale takes place). If, however, a hedged future transaction results in the recognition of a non-financial asset (for example inventory assets) or a liability, the gains and losses that were previously recognised in equity are included in the initial valuation of the purchase cost of the asset or liability concerned.

c) Fair value determination

The fair value of derivatives is determined using measurement models (discounted cash flow method) and current market parameters. The fair value of derivatives traded in an active market (e.g. publicly traded derivatives and available-for-sale securities) is based on the stock market price as of the balance sheet date. The relevant stock market price of financial assets is the bank buying rate. The appropriate stock market price for financial liabilities is the bank selling rate.

In the case of trade receivables and liabilities, it is assumed that the nominal value less impairment corresponds to the fair value. The fair value of financial liabilities stated in the notes is determined by discounting future contractually agreed cash flows at the current market interest rate that the company would receive for comparable financial instruments.

Usage of management assumptions and estimates

The consolidated financial statements are prepared partly on the basis of assumptions and estimates that affect the level and disclosure of assets and liabilities, income and expenses and contingent liabilities carried during the relevant reporting periods.

The assumptions and estimates refer largely to the assessment of the recoverability of asset values, the determination of economic useful life-periods and the collectability of receivables as well as the recognition and valuation of provisions.

The assumptions and estimates are based on premises resting on the current state of knowledge at the time. In particular, expectations of future business developments were based on the circumstances prevailing as of the respective balance sheet date as well as on expectations of future global and sector developments considered to be realistic. A positive forecast as to the future of the enterprise as a going concern is assumed.

Changes in the above parameters deviating from these assumptions and over which the management has no influence may cause actual amounts to differ from the original estimates. If actual developments deviate from expected developments, the premises and, if necessary, the carrying amounts of the affected assets and liabilities will be adjusted accordingly.

A significant adjustment of the carrying amounts of assets and liabilities recognised in the statement of financial position is not currently assumed. However, it was assumed when preparing current medium-term planning, which is the basis for accounting as at 31 December 2011, that the funding necessary to finance the restructuring programme resolved at the end of 2011 can be obtained in full. If the funding necessary for the restructuring cannot be obtained to the required extent the restructuring would be delayed or, in a worst case scenario, would not be possible at all. This would mean that the income development as shown in the current medium-term planning can no longer be expected, which in turn would affect the amounts of the assets and liabilities reported in the consolidated statement of financial position.

The uncertainty over whether the global downturn caused by the financial crisis is actually permanently over at present, and what individual growth rates a recovery of the global economy will lead to, has also made it more difficult to determine assumptions and estimates in preparing the current consolidated financial statements. This applies above all to the planning figures. However, in this connection, the management assumes that the forecasted results can also be generated. On the one hand, this estimation is based on the fact that the planning was made on very conservative premises, but also on the knowledge shared by all the management that appropriate countermeasures would be necessary in the event of a negative development in sales. Nonetheless, due to the economic uncertainties, it cannot be precluded that actual amounts will differ from the original assumptions and estimates in individual cases during the 2011 fiscal year, which may require a substantial adjustment of the carrying amount of the respective assets or liabilities.

This could affect, in particular, the following types of assets and liabilities (carrying amounts listed as of 31 December 2011) – goodwill (€ 33,228 thousand), tangible assets (€ 388,849 thousand), deferred tax assets (€ 129,331 thousand), other long-term provisions (€ 85,205 thousand) and other short-term provisions (€ 132,004 thousand).

2011 was a special year in terms of the effect of management assumptions and estimates on accounting.

The fact that sales and earnings fell short of expectations in both the second quarter and the first half of 2011 prompted the management to perform an impairment test as at 30 June 2011. Pivotal in this regard was the second quarter's extremely disappointing performance given the fact that the stores of the Praktiker Germany segment had switched to the new concept. This meant that the results forecast in the planning – then current from 15 November 2010 – could no longer be achieved.

The management therefore decided to adjust this planning on the basis of the best possible estimate as at the time of the 2011 half-year financial statements being prepared. The basis for calculating the future cash flows was a reassessment of the business performance for the 2011 financial year. The results for the planning period up to 2014 were adjusted on this basis.

The accounting in these consolidated financial statements as at 31 December 2011 are now based on the current planning adopted by the supervisory board on 21 December 2011.

Assumptions and estimates were also taken into account in the valuation of the inventories item of the statement of financial position (carrying amount at 31 December 2011 € 654,246 thousand). Above all, this affects the determination of the net realisable value, for which future changes in costs and prices must be estimated, for example.

The estimations and assumptions, which are associated with a significant risk in the form of a material adjustment of the carrying amount of the assets and liabilities within the next fiscal year, are explained in the following:

a) Goodwill impairment

The Group examines annually whether there is an impairment of goodwill. The recoverable amount of cash generating units (CGUs) is determined on the basis of value in use calculations. These calculations are necessarily based on assumptions (see item no. 17).

On the basis of these assumptions, goodwill impairment amounted to € 159,454 thousand for the period under review. The residual goodwill, most of which relates to the Max Bahr segment, amounted to € 33,228 thousand as at the end of the reporting period.

However, if the cash flows in the planning period of three years had been 10 percent less than the management estimate in its three-year plan (with all other planning premises unchanged), the carrying amount of goodwill would not have had to be adjusted further downwards.

The same would apply if the forecast discount rate applied in the calculation of value in use had been 0.5 percentage points higher than the management estimate. Based on our experience to date, we consider fluctuations in cash flows and discount rates in excess of this to be unlikely.

b) Impairment of other intangible assets and property, plant and equipment

The Praktiker Group tested property, plant and equipment and other intangible assets for impairment as at 31 December 2011 based on current planning. This required a number of assumptions (see note 17).

Based on these assumptions, impairment of € 80,058 thousand was recognised for other intangible assets and property, plant and equipment in the 2011 financial year.

If the growth rates assumed in the impairment test for the period after 2014 had been 10 percent higher (lower) than the actual values applied, impairment would have been € 574 thousand lower (€ 704 thousand higher).

If the forecast discount rate applied in the calculation of value in use had been 0.5 percentage points higher (lower) than the management estimate, impairment would have been € 243 thousand higher (€ 350 thousand lower).

c) Provisions for onerous contracts

The fact that the high expectations that shaped planning at the end of 2010 did not prove correct also had a significant impact on the amount of provisions for onerous contracts. As at 31 December 2011, a total of € 68,292 thousand was recognised as an expense on account of additions to provisions for onerous contracts (netted against income from reversal of € 117 thousand).

If the growth rates assumed for the period after 2014 had been 10 percent higher (lower) than the actual values applied, the expenses from additions to provisions would have been € 2,213 thousand lower (€ 1,988 thousand higher).

Had the forecast discount rate applied in the calculation been 0.5 percentage points higher (lower) than the management estimate, the expenses from additions to provisions would have been € 1,407 thousand lower (€ 1,508 thousand higher).

d) Inventories

The accounting method for the measurement of inventories was amended in the year under review:

A system of inventory records accurate to individual items was implemented in the 2010 financial year. As a result, in 2011 significantly more detailed analyses of inventories were possible on a broad basis than in the past, particularly in terms of the age and stock turn rate of individual items. Based on this, new and uniform regulations were introduced throughout the Group for the method of determining net realisable value:

Individual items were assigned to different depreciation grades depending on their sensitivity to technological progress or fashion and any best before dates. Based on these depreciation grades, the sale price of each item was assigned a discount depending on its age and stock turn rate for the purpose of determining its net realisable value. This discount is significantly affected by management assumptions and estimates.

In the past, this discount was calculated using general assumptions as the corresponding information was not available to the degree of detail that has gradually been possible since introducing inventory records accurate to item level.

One aspect that also had a significant effect on the amount of inventory write-downs was the repositioning of the Praktiker brand as part of the restructuring programme and the associated product line revision. This resulted in considerable sale price reductions on some items which greatly increased the write-down requirements.

The write-down requirements for the Group's inventories amounted to € 93,728 thousand as at 31 December 2011. Without the change in accounting policy, the write-down would have amounted to € 23,881 thousand.

e) Deferred tax assets

Deferred tax assets are recognised only if it is probable that they can be utilised in the future. The realisation depends, in particular, on the future development of earnings and the realisation of additional tax saving potential. Based on current planning, deferred tax assets on loss carryforwards were increased by € 10,815 thousand on the one hand, while € 39,447 thousand on deferred taxes for temporary differences were recognised on the other (see note 21). In addition, it was decided not to capitalise deferred tax assets from tax losses incurred in the 2011 financial year in the amount of € 63,683 thousand.

All estimates and assessments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the given circumstances. A positive forecast as to the future of the enterprise as a going concern is assumed.

Notes to the consolidated income statement

1. Net sales

Net sales result exclusively from supplies and break down as follows:

Breakdown net sales

in € k	2011	2010
Praktiker Germany	1,506,894	1,680,133
Max Bahr	694,784	685,455
Miscellaneous	87,132	86,586
Germany	**2,288,810**	**2,452,174**
Albania	4,195	4,612
Bulgaria	48,255	54,859
Greece	231,489	257,021
Luxembourg	36,228	36,919
Poland	196,700	204,966
Romania	152,339	193,406
Turkey	94,749	107,497
Ukraine	27,123	25,819
Hungary	103,074	111,024
International	**894,152**	**996,123**
Net sales	**3,182,962**	**3,448,297**

2. Cost of goods sold

The cost of goods sold includes expenses for purchasing merchandise with which net sales are generated.

The costs of goods sold declined less than sales as against the previous year. This reflects the high write-downs on inventories as at 31 December 2011 on the one hand and the fact that the Max Bahr segment in particular operated with a more aggressive price policy than in previous years on the other.

3. Other operating income

Breakdown other operating income

in € k	2011	2010
Income from supplier fees	20,554	24,478
Central A/P clearing for sales division	19,962	20,227
Lease/rental income	11,715	12,660
Income from indemnities	495	2,388
Income from reversal of impairment losses	40	630
Other income	15,294	13,480
Other operating income	**68,060**	**73,863**

The decline in other operating income was caused in particular by a drop in income from supplier fees.

Income from indemnities was down by € 1,893 thousand year-on-year in the reporting period. In 2010, this income position was still influenced by compensation payments for fire damage in the Zabrze store (Poland). No further compensation arose from this matter in the reporting year.

Other income includes for the most part commercial earnings.

4. Selling expenses

The selling expenses comprise all expenses directly related to the sale of merchandise. The key components of selling expenses are shown in the table below:

Breakdown selling expenses

in € k	2011	2010
Personnel expenses	472,971	454,385
Expenses for store operations	638,384	465,378
Advertising expenses	108,618	93,851
Other selling expenses	109,512	106,226
Selling expenses	**1,329,485**	**1,119,840**

All cost categories contributed to the rise in selling expenses, of which the rise in the costs for store operations was the most significant at € 173,006 thousand.

This increase is quite predominantly due to the impairment losses on non-current assets and additions to provisions for onerous contracts. In the period under review, impairment on non-current assets resulted in expenses of € 80,018 thousand (previous year € 636 thousand), while additions to provisions for onerous contracts led to expenses of € 68,292 thousand (previous year € 362 thousand).

The recognition of provisions for settlement payments in connection with restructuring measures meant that staff costs were up on the previous year's level. The rise in advertising costs was caused by the intensification of advertising activities to inform customers of Praktiker's repositioning in Germany.

The expenses included in selling expenses in connection with measures for the restructuring programme amounted to € 76,667 thousand in the reporting period (previous year € 9,538 thousand).

5. Administrative expenses

Administrative expenses include all expenses that do not relate directly to the sale of merchandise or the running of stores. Administrative expenses break down into the following components:

Breakdown administrative expenses		
in € k	2011	2010
Personnel expenses	38,120	41,164
Lease/rental expenses	14,855	6,760
Depreciation	4,176	4,465
Other administrative expenses	32,100	29,545
Administrative expenses	**89,251**	**81,934**

In the year under review, administrative expenses were € 7,317 thousand higher than in the previous year. The increase is almost exclusively due to the expenses in connection with the restructuring programme. € 19,142 thousand (previous year € 14,758 thousand) of the total costs for the restructuring were incurred in administrative expenses.

6. Other operating expenses

Other operating expenses include items that cannot be directly assigned to selling or administrative expenses. They break down as follows:

Breakdown other operating expenses		
in € k	2011	2010
Loss from disposal of non-current assets	527	574
Miscellaneous other operating expenses	548	789
Other operating expenses	**1,075**	**1,363**

7. Net financial result

Net financial income breaks down as follows:

Breakdown net financial income		
in € k	2011	2010
Investment income	**7**	**16**
Interest income	**3,049**	**1,918**
Exchange gains	20,526	12,346
Valuation gains from derivatives	4,059	102
Miscellaneous financial income	128	666
Other financial income	**24,713**	**13,114**
Financial income	**27,769**	**15,048**

The individual components of financing costs are shown in the table below:

Breakdown financial expenses		
in € k	2011	2010
Investment expenses	**0**	**149**
Interest expenses from finance leases	23,052	24,095
Accumulation of liabilities from convertible bonds	3,302	4,314
Accumulation of liabilities from corporate bond	523	0
Interest expenses corporate bond	13,078	0
Other interest and similar expenses	6,575	8,518
Interest expenses	**46,530**	**36,927**
Exchange losses	30,447	13,652
Valuation losses from derivatives	6,802	956
Miscellaneous financial expenses	3,747	4,348
Other financial expenses	**40,996**	**18,956**
Financial expenses	**87,526**	**56,032**

The netting of financial income and financial expenses lead to the following net financial results:

Breakdown net financial result		
in € k	2011	2010
Net investment result	7	–133
Net interest result	–43,481	–35,009
Net other financial result	–16,283	–5,842
Net financial result	**–59,757**	**–40,984**

In accordance with IAS 17, leased assets are recognised as tangible assets where the underlying rental or lease contracts are finance leases. In the reporting year, the translation of liabilities from finance leases of international subsidiaries resulted in non-cash exchange gains of € 11,238 thousand (previous year € 5,925 thousand) and non-cash exchange losses of € 14,175 thousand (previous year € 6,056 thousand).

In the period under review, the borrowing rates on the basis of local currencies ranged between 1.84 percent and 17.00 percent, and the creditor interest rates on the basis of local currencies ranged between 0.02 percent and 20.00 percent.

8. Income taxes

Income taxes include current income taxes paid or owed in the individual countries and deferred taxes. They break down for Germany and abroad as follows:

Breakdown income taxes

in € k	2011	2010
Germany	–490	–312
International	–5,795	–10,616
Current taxes	**–6,285**	**–10,928**
Germany	49,823	–17,802
International	–3,927	860
Deferred taxes	**45,896**	**–16,942**
Income taxes	**39,611**	**–27,870**

Income taxes accrued in Germany as well as in Greece, Luxembourg, Hungary, Poland, Bulgaria, Switzerland, Albania and the Netherlands.

The German companies of the Praktiker Group are subject to an average trade tax of approximately 14.70 percent of trade income. The corporate income tax amounts to a standard rate of 15.00 percent, plus 5.50 percent solidarity surcharge on statutory corporate income tax. The applicable income tax rate for the period under review is 30.53 percent (previous year 30.53 percent).

Current income taxes of the foreign Group companies are calculated on the basis of the respective laws and regulations applying in the individual countries. The income tax rates applied to foreign companies vary in a range from 0.00 percent in Moldova to 30.55 percent in Luxembourg.

Deferred taxes are determined on the basis of the tax rates expected to apply in each country upon realisation. In principle, the rates applied are those contained in currently valid laws or in legislation that has been substantially enacted at the time of the balance sheet date.

The following table shows a breakdown of current income taxes according to the year in which they arose:

Breakdown current taxes according to year of causation

in € k	2011	2010
Current taxes from the current fiscal year	–6,489	–8,687
Current taxes from previous years	204	–2,241
Current taxes	**–6,285**	**–10,928**

Income taxes from previous years essentially result from a retrospective extraordinary tax in Greece levied on prior year profits in 2009 and 2010. No such tax was levied in 2011.

Deferred taxes break down into the following components:

Breakdown deferred taxes

in € k	2011	2010
Deferred taxes from temporary differences	57,143	–12,109
Deferred taxes from loss carry-forwards	–11,200	–4,767
Deferred taxes from interest stripping rule	–47	–66
Deferred taxes	**45,896**	**–16,942**

Please refer to item no. 21 for details regarding the development of deferred taxes.

The actual tax income of € 39,611 thousand is € 141,835 thousand lower than the expected income tax income of € 181,446 thousand that would have resulted if the applicable income tax rate had been applied to earnings before taxes.

The following table shows the reconciliation of expected to actual income taxes as per the income statement:

Reconciliation from expected to actual income taxes

in € k	2011	2010
Group earnings before taxes	**–594,321**	**–5,688**
Applicable income tax rate	30.53 %	30.53 %
Expected income tax income	**181,446**	**1,737**
Tax effects of		
Differing tax rates of foreign companies	–17,620	–3,851
Tax-free income	302	1,278
Trade tax additions and deductions	–6,301	–5,595
Non-deductible business expenses	–4,182	–3,178
Valuation allowance of deferred tax assets on		
loss carry-forwards corporate tax	–10,618	–5,934
loss carry-forwards trade tax	–150	0
interest carry-forwards interest stripping rule	–47	0
temporary differences	–39,447	–849
Unrecognised deferred tax assets on loss carry-forwards corporate tax	–36,784	–7,415
Unrecognised deferred tax assets on loss carry-forwards trade tax	–23,443	–9
Unrecognised deferred tax assets on interest carry-forwards interest stripping rule	–3,456	0
Adjustments to tax expenses of prior periods	228	–3,157
Adjustments by reason of tax rate changes	–290	44
Other deviations	–27	–941
Total tax effects	**–141,835**	**–29,607**
Actual tax income (previous year tax expenses)	**39,611**	**–27,870**
Effective tax rate (in %)	6.66	–489.98

Income and expenses recognised directly in equity resulted in deferred tax income of € 364 thousand in the period under review (previous year € 99 thousand).

9. Minority interests

The Group net income allocable to minority interests of € 923 thousand (previous year € 1,249 thousand) relates almost exclusively to minority shareholders of Bâtiself S.A.

10. Earnings per share

a) Basic

Basic earnings per share are calculated by dividing the earnings attributable to the shareholders of the Praktiker Group by the average number of shares issued during the financial year.

Basic earnings per share

	2011	2010
Earnings allocable to shareholders (in € thousands)	–555,633	–34,807
Average number of shares issued (in thousands)	58,000	58,000
Basic earnings per share (in €)	**–9.58**	**–0.60**

b) Diluted

When determining the diluted earnings per share, the profit attributable to shareholders is adjusted to take account of changes in expenses and income which would arise from the conversion of those potential ordinary shares with a diluting impact.

The only potentially diluting effects concern the convertible bonds issued by the Praktiker Group in September 2006. The average number of shares issued during the reporting period is supplemented by the number of such additional ordinary shares that would have been in circulation if all those potential ordinary shares with a diluting impact had been converted.

The only potentially dilutive effects would have arisen from the convertible bonds issued by the Praktiker Group in September 2006. These were repaid in September 2011 without the bearers having exercised their conversion rights. Thus, there are currently no potentially dilutive effects at Praktiker.

In the reporting period, as in the same period of the previous year, there would have been better earnings per share taking into account the potential ordinary shares in connection with the convertible bonds than without them. The convertible bonds thus offer protection against dilution and have therefore not to be included in the determination of the diluted earnings per share in line with IAS 33.41.

The diluted earnings per share are therefore equal to the basic earnings per share as shown in the tables above.

Additional information to the consolidated income statement

11. Dividend, appropriation of net result and balance sheet loss

The basis for the distribution of a dividend is the balance sheet profit of Praktiker AG (in its separate financial statements), which is calculated in accordance with the accounting principles of German Commercial Code.

A dividend of € 0.10 per share, equivalent to a total amount of € 5,800 thousand, was distributed for 2010 by resolution of the 2011 annual general meeting.

The balance sheet loss as at 31 December 2011 amounted to minus € 763,240 thousand. The management board of Praktiker AG proposes to carry the balance sheet loss forward in full to new account.

12. Depreciation, amortisation and impairment

Depreciation on tangible assets amounts to € 70,570 thousand (previous year € 65,455 thousand), depreciation on intangible assets amounts to € 5,220 thousand (previous year € 5,218 thousand). In addition, impairment losses of € 78,971 thousand (previous year € 636 thousand) were recognised on tangible assets and of € 1,087 thousand (previous year € 0 thousand) on other intangible assets. Furthermore, goodwill impairment of € 159,454 thousand was recognised in the period under review.

Depreciation relates to the following items in the income statement:

Breakdown depreciation to P&L positions

in € k	2011	2010
Selling expenses	71,577	66,109
Administrative expenses	4,136	4,465
Cost of goods sold	77	99
Depreciation	**75,790**	**70,673**

The sharp rise in impairment losses is essentially due to the impairment test on other intangible assets and tangible assets as well as goodwill performed in the period under review. Further information on the methods applied in impairment testing can be found in note 17a and 17b.

13. Personnel expenses

Personnel expenses can be broken down as follows:

Breakdown personnel expenses

in € k	2011	2010
Wages and salaries	468,017	453,885
Social security payments, expenses for pensions and related employee benefits	91,317	93,290
thereof pension expenses	335	238
Personnel expenses	**559,334**	**547,175**

Personnel expenses include employer contributions to state pension insurance of € 44,604 thousand (previous year € 47,186 thousand).

Severance pay as part of termination benefits amounted to € 14,453 thousand in the reporting period (previous year € 11,755 thousand).

As at 31 December 2011, the restructuring programme approved by the supervisory board at the end of November 2011 resulted in additions to staff provisions of € 39,240 thousand. € 36,047 thousand of the corresponding expense was recognised in selling expenses and € 3,193 thousand in administrative expenses.

Please refer to item no. 27 for details on expenses related to provisions for pensions.

Annual average number of Group employees:

Number of employees

	2011	2010
White collar	21,879	23,524
Blue collar	2,197	1,996
Apprentices/trainees	439	588
Number of employees	**24,515**	**26,108**

The above figure includes an absolute number of 8,927 (previous year 9,177) part-time employees. On the basis of full-time equivalents, the average percentage of employees working outside Germany for the year was 43.8 percent (previous year 45.0 percent)

14. Other taxes

Other taxes of € 2,873 thousand (previous year € 2,004 thousand) are shown under selling expenses and administrative expenses. They include real property tax, motor vehicle tax and excise and transaction taxes.

Notes to the consolidated statement of financial position

15. Goodwill and other intangible assets

The main items within intangible assets are goodwill and the Max Bahr brand (see note 17a). Other intangible assets also include concessions, industrial and similar rights and licenses in such rights and assets.

The other intangible assets include internally generated assets of € 233 thousand in the year under review (previous year € 310 thousand). These relate to development costs for the implementation of a system for automated supplier regulation. Depreciation on internally generated assets amounted to € 77 thousand in 2011 (previous year € 85 thousand).

As at 31 December 2011 as well as in the previous year, other intangible assets do not include any internally generated assets under development.

Additions to other intangible assets relate exclusively to purchased software.

The brand Max Bahr has an unlimited useful life while the other intangible assets have a limited useful life. The estimation of an unlimited useful life regarding Max Bahr is based primarily on the fact that this is a company brand which is thus associated with the company rather than with a product. As such, it is not subject to any product lifecycle with a time limit, or to any type of obsolescence.

No hypothecation or collateralisation exists on intangible assets.

The intangible assets included in non-current assets developed as follows:

Development of goodwill and other intangible assets

in € k	Goodwill	Brand Max Bahr	Other intangible assets	Total
Cost of acquisition 31/12/2009	**192,682**	**56,766**	**48,822**	**298,270**
Currency translation	0	0	123	123
Additions	0	0	7,311	7,311
Disposals	0	0	–1,535	–1,535
Transfers	0	0	105	105
Cost of acquisition 31/12/2010	**192,682**	**56,766**	**54,826**	**304,274**
Currency translation	0	0	–557	–557
Additions	0	0	7,185	7,185
Disposals	0	0	–2,191	–2,191
Transfers	0	0	–51	–51
Cost of acquisition 31/12/2011	**192,682**	**56,766**	**59,212**	**308,660**
Depreciation 31/12/2009	**0**	**0**	**34,942**	**34,942**
Currency translation	0	0	62	62
Additions, scheduled	0	0	5,218	5,218
Disposals, scheduled	0	0	–1,439	–1,439
Depreciation 31/12/2010	**0**	**0**	**38,783**	**38,783**
Currency translation	0	0	–383	–383
Additions, impairment loss	159,454	0	1,087	160,541
Additions, scheduled	0	0	5,220	5,220
Disposals, scheduled	0	0	–2,188	–2,188
Depreciation 31/12/2011	**159,454**	**0**	**42,519**	**201,973**
Book value 31/12/2009	**192,682**	**56,766**	**13,880**	**263,328**
Book value 31/12/2010	**192,682**	**56,766**	**16,043**	**265,491**
Book value 31/12/2011	**33,228**	**56,766**	**16,693**	**106,687**

16. Property, plant and equipment

Property, plant and equipment developed as follows:

Development of property, plant and equipment

in € k	Buildings, fixtures, land	Other plant, business and office equipment	Assets under construction	Total
Cost of acquisition 31/12/2009	**558,030**	**360,527**	**13,904**	**932,461**
Currency translation	–413	1,608	–19	1,176
Additions	9,799	32,395	12,560	54,754
Disposals	–1,840	–7,236	–123	–9,199
Transfers	15,543	6,667	–22,315	–105
Cost of acquisition 31/12/2010	**581,119**	**393,961**	**4,007**	**979,087**
Currency translation	–6,620	–9,080	–70	–15,770
Additions	11,252	47,754	4,363	63,369
Disposals	–414	–10,725	–560	–11,699
Transfers	1,556	4,060	–5,565	51
Cost of acquisition 31/12/2011	**586,893**	**425,970**	**2,175**	**1,015,038**
Depreciation 31/12/2009	**214,902**	**223,667**	**0**	**438,569**
Currency translation	–174	1,069	0	895
Additions, scheduled	27,365	38,090	0	65,455
Additions, impairment loss	0	636	0	636
Disposals, scheduled	–1,320	–6,599	0	–7,919
Disposals, impairment loss	0	–26	0	–26
Transfers	0	0	0	0
Reversal of impairment loss	0	–630	0	–630
Depreciation 31/12/2010	**240,773**	**256,207**	**0**	**496,980**
Currency translation	–2,014	–7,988	0	–10,002
Additions, scheduled	28,469	42,101	0	70,570
Additions, impairment loss	34,679	44,292	0	78,971
Disposals, scheduled	–306	–9,939	0	–10,245
Disposals, impairment loss	0	–36	0	–36
Transfers	–50	41	0	–9
Reversal of impairment loss	0	–40	0	–40
Depreciation 31/12/2011	**301,551**	**324,638**	**0**	**626,189**
Book value 31/12/2009	**343,128**	**136,860**	**13,904**	**493,892**
Book value 31/12/2010	**340,346**	**137,754**	**4,007**	**482,107**
Book value 31/12/2011	**285,342**	**101,332**	**2,175**	**388,849**

Land and buildings are recognised exclusively at their amortised cost of purchase/construction.

The reversal of impairment losses to property, plant and equipment of € 40 thousand (previous year € 630 thousand) and the impairment losses of € 78,971 thousand (previous year € 636 thousand) resulted from the impairment tests of property, plant and equipment. The impairment losses were recognised almost exclusively in selling expenses and to a very minor degree in administrative expenses; reversals of impairment losses were recognised in other operating income. Further information on the methods applied in the impairment testing of property, plant and equipment can be found in note 17b.

The purchase obligations entered for tangible assets are listed under item no. 34.

There were no pledges or collateral on property, plant and equipment as at the end of the reporting period.

Assets that are available to Praktiker Group under a finance lease are included in tangible assets under buildings and fixtures with carrying amounts of € 177,055 thousand (previous year € 195,070 thousand) and relate to leased buildings.

Finance leases generally have initial terms of between 10 and 33 years with options upon expiry to extend them at least once for five years. The interest rates in the leases vary by market and date of signing between 4.10 percent and 20.45 percent.

In addition to finance leases, Praktiker Group has also signed other types of leases classified as operating leases based on their economic value. The initial term ranges between one year and 20 years. Some operating leases include contract extension options of between one year and 20 years as well as price adjustment clauses.

Payments under finance leases for rented stores become due in the following periods as set out below:

Maturity of payments from finance leases

in € k	up to 1 year	1 to 5 years	over 5 years	Total
Future lease payments due	41,906	157,688	180,515	**380,109**
Financing expenses	21,821	68,146	43,070	**133,037**
Present value	20,085	89,542	137,445	**247,072**

Payments under operating leases for rented stores become due in the following periods as set out below:

Maturity of payments from operating leases

in € k	up to 1 year	1 to 5 years	over 5 years	Total
Future lease payments due	288,278	905,513	887,739	**2,081,530**
Future lease payments anticipated from subleases	5,563	8,649	1,480	**15,692**

From new or extensions of existing lease contracts which were already agreed on 31 December 2011 but whose terms will begin in the subsequent years, the following additional payments will mature as follows: € 1,152 thousand in 2012, € 12,712 thousand between the begin of 2013 and the end of 2016 and € 17,507 thousand after 2016.

The rental expenses shown in the income statement include € 344,930 thousand from operating leases (previous year € 321,834 thousand) and € 6,365 thousand from finance leases (previous year € 6,474 thousand). The last mentioned figure also includes contingent lease payments which account for a small portion of total lease payments. The rental expenses of € 351,295 thousand contain not only expenses for rented stores but also among others expenses for rented vehicles and IT-equipment.

Capitalised assets from finance leases do not include any assets from sale-and-lease-back transactions (previous year € 0 thousand). Accordingly, there were no future obligations from sale-and-lease-back transactions as at the end of the reporting period.

Income from the subleases of assets shown in the income statement amounted to € 9,213 thousand (previous year € 9,454 thousand).

17. Impairment tests

a) concerning goodwill

The goodwills allocable to Baumarkt Max Bahr Holzhandlung GmbH & Co. KG with a carrying amount of € 76,092 thousand, Baumarkt Praktiker GmbH with a carrying amount of € 60,154 thousand, and Baumarkt Praktiker DIY GmbH with a carrying amount of € 54,736 thousand are of material importance to the Praktiker Group.

The determination of cash generating units (CGUs) for the impairment tests of goodwill follows the reporting to the full management board of Praktiker AG as the chief operating decision maker, which is basis for its strategic decisions. In the Praktiker Group impairment tests are therefore performed for the CGUs Praktiker Germany and Max Bahr.

For the purpose of impairment testing, a part of the goodwill of Baumarkt Max Bahr Holzhandlung GmbH & Co. KG was – according to IAS 36.80 – also assigned to the segment,

which also benefits from the synergies of the merger. Accordingly, an amount of € 44,565 thousand was assigned to the Praktiker Germany segment. The basis for this allocation was the CGUs' proportion of net sales.

The Max Bahr brand, with a carrying amount of € 56,766 thousand, was assigned in full to the Max Bahr CGU.

The goodwill of Baumarkt Praktiker GmbH and of Baumarkt Praktiker DIY GmbH is allocated in full to the Praktiker Germany segment in the context of the impairment test.

Accordingly, the Praktiker Germany CGU has total goodwill of € 159,454 thousand and the Max Bahr CGU of € 31,528 thousand; each of these amounts is subject to impairment testing.

Goodwill is normally tested for impairment once per year as at the end of the reporting period. Testing also takes place when circumstances suggest that assets may have been impaired.

As sales and earnings fell short of expectations in the first half of 2011, the management was forced to perform an additional impairment test as at 30 June 2011. It was particularly significant that the second quarter of 2011 – when the stores in the Praktiker Germany segment had already been converted to the new marketing concept – was highly disappointing.

The Group's impairment testing of goodwill and the Max Bahr brand as a further intangible asset with an indefinite useful life is based on the calculations of value in use applying the discounted cash flow method.

The recoverable amounts of the CGUs are based on a calculation of their value in use. These calculations are based on projected cash flows derived from the management's three-year plan for operating earnings. As at the time of the test, 30 June 2011, there was three-year planning that had been approved in November 2010. However, the highly disappointing business performance in the first half of 2011 had made it clear that the earnings forecast in last year's planning would not be achieved. The management therefore decided to adjust its planning on the basis of the best possible estimate at the current time:

The basis for calculating the future cash flows was a reassessment of earnings for the 2011 financial year. The results for the planning period up to 2014 were adjusted on this basis.

Growth of 1.5 percent was assumed for both CGUs for the period after 2014.

The calculation of the value in use of the two CGUs was based on a discount rate updated as at 30 June 2011 of 8.83 percent, which reflected the specific risks of the two cash generating units. A discount rate of 8.60 percent had been applied as at 31 December 2010.

The impairment tests resulted in impairment losses for the Praktiker Germany CGU of € 159,454 thousand. This is equal to the full value of the goodwill previously assigned to this segment. However, no impairment requirements were identified for the goodwill of the Max Bahr CGU as at 30 June 2011.

As the goodwill of the Praktiker Germany CGU was already fully written down as at 30 June 2011 and the reversal of goodwill impairment is not permitted under IFRS, even if the impairment is identified by an intra-year test (clarified by IFRIC Interpretation 10), the Praktiker Germany CGU was not tested for impairment as at 31 December 2011.

The recoverable amount of the Max Bahr CGU was also determined by a calculation of its value in use as at the end of the reporting period. This calculation was based on the forecast cash flows for operating earnings derived from the medium-term planning for the years 2012 to 2014 adopted by the management in December 2011. A growth rate of 1.5 percent was assumed for cash flows beyond this three-year period. This management assessment is based on past developments and anticipated future market developments.

A discount rate of 9.00 percent, which reflects the specific risks of the cash generating unit, was applied in the calculation of the value in use.

The impairment test performed as at the end of the reporting period for the goodwill of the Max Bahr CGU and the Max Bahr brand did not result in any impairment requirements as at 31 December 2011.

b) concerning other intangible assets as well as property, plant and equipment

Impairment tests on fixed asset items occur on a store level, whereby the individual store is considered to be a CGU. On a per-location basis, the planned sales revenues over the basic rental term are compared with the planned costs, whereby the latter include appropriate central cost components, which are necessary for the operation of the individual stores. Should the planned costs exceed the planned sales revenues, corresponding impairment on the given fixed asset items is undertaken.

As with goodwill, other intangible assets and property, plant and equipment were also tested for impairment as at 30 June 2011 as the expectations for all segments, and particularly for the repositioning of Praktiker Germany, had been too high. Therefore planning for the German locations was adjusted. Growth of 1.5 percent was assumed for all CGUs for the period after 2014.

The planning for the international locations also underwent adjustment. Growth rates of between 1.5 percent and 5.0 percent were applied for the period after 2014 depending on the country. Future cash flows were discounted at risk-free, matched-term market interest rates. Over an horizon of ten years, for example, these were between 2.5 percent for locations in Germany and Luxembourg and 19.3 percent for locations in the Ukraine.

Resulting from these impairment tests, total impairment losses of € 43,695 thousand were recognised in the half-year financial report on property, plant and equipment and intangible assets with a limited useful life as at 30 June 2011.

Other intangible assets and property, plant and equipment were tested for impairment again as at 31 December 2011. This was based on the medium-term planning for the years 2012 to 2014 adopted by the supervisory board on 21 December 2011.

For the German locations, a growth rate of 1.5 percent has been applied to sales after the three-year planning horizon. A growth rate of 2.0 percent was assumed for the direct staff costs and 1.0 percent costs of materials of the German locations after the planning horizon of three years. The growth rates for other countries vary between 1.0 percent in Greece up to 7.5 percent in Turkey. Future cash flows were discounted at risk-free market interest rates of between 9.0 percent for locations of the Max Bahr segment and 20.5 percent for locations in the Ukraine.

The management's assessment is based on past developments and anticipated future market developments.

The impairment tests performed as at 31 December 2011 resulted in total impairment losses of € 79,662 thousand, € 27,079 thousand of which related to the Praktiker Germany segment, € 9,200 thousand to the Max Bahr segment and € 43,371 thousand to the International segment. The remaining amount of € 12 thousand was accounted for by the extra BAU+HOBBY sales line, which is assigned to the omnibus "Miscellaneous" item.

Related to the exit from Albania there was a further impairment requirement of € 396 thousand.

€ 34,679 thousand of this impairment related to buildings, fixtures and land (€ 4,062 thousand of which under finance leases), € 44,292 thousand to other equipment, operating and office equipment and € 1,087 thousand to other intangible assets (leasehold interests and rights of use).

18. Financial instruments

The Group categorises its financial instruments into different classes based on their characteristics. The following classes of financial assets and liabilities were recognised as at the end of the reporting period:

- other financial assets
- cash and cash equivalents
- trade receivables
- other receivables and other assets
- derivative financial assets
- derivative financial assets designated for hedge accounting
- financial liabilities from finance leases
- financial liabilities from bonds
- trade payables
- other financial liabilities
- other liabilities
- derivative financial liabilities
- derivative financial liabilities designated for hedge accounting

The classes of financial instruments allocated to the categories of financial instruments as at 31 December 2011 can be seen in the following table:

Categorisation and classification of financial instruments as at 31/12/2011

	Allocation category					
in € k	Loans and receivables (LaR)	Financial assets held for trading (FAHfT)	Derivatives designated for hedge accounting (n/a)	Available-for-sale financial assets (AfS)	Book value total	Fair value total
Other financial assets	–	–	–	11	11	11
Cash and cash equivalents	148,042	–	–	–	148,042	148,042
Receivables	64,416	–	–	–	64,416	–
thereof trade receivables	12,262	–	–	–	–	12,262
thereof other receivables and other assets	52,154	–	–	–	–	52,040
Derivative financial assets	–	0	–	–	0	0
Derivative financial assets designated for hedge accounting	–	–	987	–	987	987
Assets 31/12/2011	**212,458**	**0**	**987**	**11**	**213,456**	**213,342**
	Allocation category					
	Financial liabilities measured at amortised cost (FLAC)	Financial liabilities held for trading (FLHfT)	Derivatives designated for hedge accounting (n/a)	Finance lease (n/a)	Book value total	Fair value total
Financial liabilities from finance leases	–	–	–	247,072	247,072	319,456
Financial liabilities from bonds	247,200	–	–	–	247,200	112,500
Trade payables	353,700	–	–	–	353,700	353,700
Other financial liabilities	4,865	–	–	–	4,865	4,865
Other liabilities	25,962	–	–	–	25,962	25,962
Derivative financial liabilities	–	0	–	–	0	0
Derivative financial liabilities designated for hedge accounting	–	–	5	–	5	5
Equity and liabilities 31/12/2011	**631,727**	**0**	**5**	**247,072**	**878,804**	**816,488**

The held-to-maturity measurement category is not currently used in the Praktiker Group.

In the case of trade receivables, other receivables and other assets, cash and cash equivalents, as well as trade payables and other liabilities, the book values approximately equate to the fair values.

Other financial assets include an investment which is not listed on an active market and whose fair value cannot be determined because there are no assignable cash flows. Therefore it is recognised at amortised cost.

The categorisation and classification of financial instruments as at 31 December 2010 can be seen in the following table:

Categorisation and classification of financial instruments as at 31/12/2010

in € k	Allocation category: Loans and receivables (LaR)	Financial assets held for trading (FAHfT)	Derivatives designated for hedge accounting (n/a)	Available-for-sale financial assets (AfS)	Book value total	Fair value total
Other financial assets	–	–	–	13	13	13
Cash and cash equivalents	266,292	–	–	–	266,292	266,292
Receivables	64,943	–	–	–	64,943	–
thereof trade receivables	12,462	–	–	–	–	12,462
thereof other receivables and other assets	52,481	–	–	–	–	52,481
Derivative financial assets	–	2,543	–	–	2,543	2,543
Derivatives financial assets designated for hedge accounting	–	–	67	–	67	67
Assets 31/12/2010	**331,235**	**2,543**	**67**	**13**	**333,858**	**333,858**
	Allocation category: Financial liabilities measured at amortised cost (FIAC)	Financial liabilities held for trading (FLHfT)	Derivatives designated for hedge accounting (n/a)	Finance lease (n/a)	Book value total	Fair value total
Financial liabilities from finance leases	–	–	–	257,200	257,200	336,647
Financial liabilities from bonds	143,797	–	–	–	143,797	144,158
Trade payables	450,827	–	–	–	450,827	450,827
Other financial liabilities	50,000	–	–	–	50,000	50,000
Other liabilities	17,290	–	–	–	17,290	17,290
Derivative financial liabilities	–	0	–	–	0	0
Derivatives financial liabilities designated for hedge accounting	–	–	781	–	781	781
Equity and liabilities 31/12/2010	**661,914**	0	**781**	**257,200**	**919,895**	**999,703**

The following table shows an analysis of the receivables as at the reporting date of the year under review and of the previous year:

Maturity analysis receivables

in € k	Book value	thereof neither impaired nor past due	thereof not impaired but past due: ≤ 90 days	> 90 ≤ 180 days	> 180 ≤ 270 days	> 270 ≤ 360 days	> 360 days	thereof impaired
Receivables 31/12/2011	**64,416**	39,963	10,621	658	635	1,738	6,522	4,279
Receivables 31/12/2010	**64,943**	46,140	6,104	1,988	990	1,902	2,801	5,018

With regard to those receivables which are neither impaired nor past due, there are no indications as at the balance sheet date that the debtors will fail to meet their payment obligations.

The value adjustments of the "Receivables" class logged on a dedicated value adjustment account developed as follows:

Development allowances of the class "Receivables"

in € k	2011	2010
Allowances of the class "Receivables" 01/01	**6,200**	**6,980**
Currency translation adjustments	–81	21
Additions	1,577	1,686
Utilisation	–703	–1,902
Reversal	–722	–585
Reclassification	–183	0
Allowances of the class "Receivables" 31/12	**6,088**	**6,200**

Net gain or loss (–) from financial instruments, subdivided according to the individual valuation categories of IFRS 7, is as follows:

Breakdown net result from financial instruments by valuation categories

in € k	2011	2010
Loans and receivables (LaR)	–594	981
Available-for-sale financial assets (AfS)	7	16
Financial assets/liabilities held for trading (FAHfT/FLHfT)	–2,742	–854
Financial liabilities measured at amortised cost (FLAC)	–31,116	–15,972

Net results from financial instruments include valuation results, amortisation and reversals, results from currency translation and interest, dividends and all other effects on income from financial instruments. The financial instruments "at fair value through profit and loss" item include only results from those instruments which are not designated as hedging instruments as part of a hedging relationship in line with IAS 39.

Total interest income in the amount of € 3,029 thousand (previous year € 1,838 thousand) and total interest expense in the amount of € 20,754 thousand (previous year € 11,007 thousand) related to financial instruments which are not measured at fair value through profit and loss.

Please refer to item no. 29 for further details concerning derivative financial instruments.

19. Other financial assets

The other financial assets include a non-listed holding of Praktiker Polska Sp. z o.o. in MGL METRO Group Logistics Polska Sp. z o.o.i. Spólka Sp.K amounting to PLN 50,000 (3.7 percent), which is recognised as an available-for-sale financial asset. Converted into euro, there is a share value of € 11 thousand as at the balance sheet date (previous year € 13 thousand).

20. Other receivables and other assets

Other assets

in € k	31/12/2011	31/12/2010
Other assets (gross)	97,336	84,814
Allowance	–4,559	–4,499
Other assets (net)	**92,777**	**80,315**

From the allowance of the previous year, € 317 thousand (previous year € 813 thousand) were used, € 319 thousand (previous year € 307 thousand) were released and € 722 thousand (previous year € 733 thousand) reallocated in the reporting period.

Of the total amount of the other receivables and other assets, € 3,222 thousand (previous year € 3,863 thousand) has a residual term of more than 5 years.

The other receivables and other assets comprise financial assets in the amount of € 53,141 thousand (previous year € 55,091 thousand) and non-financial assets of € 19,964 thousand (previous year € 25,225 thousand).

Other financial assets comprise merchandise commission claims vis-à-vis suppliers of € 39,033 thousand (previous year € 36,806 thousand) and derivative financial instruments of € 987 thousand (previous year € 2,610 thousand). Please refer to item no. 29 for further details concerning derivative financial instruments.

The other non-financial assets include prepaid expenses of € 9,725 thousand (previous year € 11,995 thousand) and other tax refund claims of € 7,293 thousand (previous year € 9,536 thousand).

The carrying amounts of the monetary assets included in these items correspond to their market values. As in the previous years, there are no limitations to the title or right to dispose of the other receivables or other assets reported.

21. Deferred taxes

Deferred tax assets from deductible temporary differences and tax loss carry-forwards exceeding the deferred tax liabilities from taxable temporary differences are recognised only to the extent that it is likely that sufficient taxable income will be generated to use them.

Deferred tax assets are regularly tested for impairment using budget and planning figures. Ongoing variance analysis is used to ensure planning quality and planning premises are adjusted regularly. These calculations are based on three-year medium-term planning.

Based on these planning figures, the management is assuming that it will be possible to utilise the deferred tax assets recognised as at 31 December 2011 in future. The planning figures also do not include tax optimisation options that would result in a shorter utilisation period for loss carry-forwards.

Under IAS 12.34, a deferred tax asset for as yet unused tax losses must be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. Forecasting accuracy decreases, the further the utilisation period lies in the future. Therefore, in line with the procedure used in previous years, probability deductions that increase over time were charged to taxable earnings for the period beyond the three subsequent years for which there is detailed planning. It was also taken into account that the measures of the restructuring programme had a strong influence on current planning. Although the management is confident that these measures will result in the planned effects, this cannot be guaranteed. The 2011 financial year had a utilisation period of five years and impairment requirements of € 10,815 thousand. Impairment requirements in the previous year amounted to € 9,515 thousand.

In addition, deferred tax assets from tax losses of € 63,683 thousand incurred in the 2011 financial year (previous year € 7,424 thousand) were not capitalised owing to a lack of feasibility.

There were no reversals of write-downs previously recognised on deferred tax assets in the reporting period. In 2010, however, such reversals in the amount of € 3,581 thousand were recognised within the Praktiker AG tax group.

The majority of deferred tax assets on tax loss carry-forwards not capitalised or written down relates to Group companies based in Germany. There is currently no time limit for carrying forward tax losses in Germany. Furthermore, taxable earnings in Germany will be negatively impacted until 2022 by write-downs of goodwill, which will no longer be incurred from 2023 onwards. These factors can result in additions to deferred tax assets in future.

As at the end of the reporting period, the tax loss carryforwards in the Group not yet utilised amounted to € 1,088,356 thousand (previous year € 704,789 thousand). € 818,007 thousand (previous year € 587,475 thousand) of this relates to corporation tax loss carry-forwards and € 270,349 thousand (previous year € 117,314 thousand) to trade tax loss carry-forwards. This results in potential deferred tax assets of € 169,323 thousand (previous year € 111,717 thousand), € 129,568 thousand of which (previous year € 94,467 thousand) relates to corporation tax and € 39,755 thousand (previous year € 17,250 thousand) to trade tax. Furthermore, unutilised interest expenses owing to the interest expenses disallowance rule of € 13,045 thousand resulted in a potential deferred tax asset of € 3,503 thousand.

On account of the write-downs recognised to date, deferred tax assets on loss carry-forwards amount to a total of € 25,579 thousand as at 31 December 2011 (previous year € 36,811 thousand). € 10,525 thousand (previous year € 20,812 thousand) of this relates to corporation tax loss carry-forwards and € 15,054 thousand (previous year € 15,999 thousand) to trade tax loss carry-forwards.

Deferred tax assets on temporary differences were written down by € 39,447 thousand in the reporting year (previous year € 849 thousand) as it cannot be assumed that a positive tax result will be generated when the temporary differences are reversed.

The deferred tax assets relate to the following items of the statement of financial position:

Allocation deferred taxes to items of the statement of financial position

in € k	31/12/2011		31/12/2010	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Goodwill	32,097	0	19,117	28,096
Property, plant and equipment finance lease	1,124	39,046	740	41,173
Other fixed assets	15,850	18,701	2,147	24,119
Inventories	6,727	1,953	4,140	14,092
Receivables and other assets	927	153	1,208	640
Provisions for pensions	832	294	1,197	361
Other provisions	30,736	2,011	10,135	1,702
Liabilities from finance leases	53,760	11	54,176	0
Other financial liabilities	0	854	0	1,028
Other liabilities	2,199	0	4,245	0
Allowance/not capitalisation deferred taxes from temporary differences	–40,500	0	–1,252	0
Deferred taxes from temporary differences	**103,752**	**63,023**	**95,853**	**111,211**
Loss carry-forwards on corporate taxes	10,525	–	20,812	–
Loss carry-forwards on trade taxes	15,054	–	15,999	–
Interest carry-forwards on interest stripping rule	0	–	47	–
Deferred taxes	**129,331**	**63,023**	**132,711**	**111,211**

Deferred taxes developed as follows:

Development deferred taxes

in € k	Deferred tax assets 2011	Deferred tax assets 2010	Deferred tax liabilities 2011	Deferred tax liabilities 2010
Deferred taxes 01/01	**132,711**	**149,014**	**111,211**	**110,929**
Currency translation	–1,050	309	–326	51
Recognised directly in equity	–216	214	148	115
Result on income statement	–2,114	–16,826	–48,010	116
Deferred taxes 31/12	**129,331**	**132,711**	**63,023**	**111,211**

The maturities of deferred taxes were as follows as at the end of the reporting period:

Maturity structure deferred taxes

in € k		31/12/2011	31/12/2010
Deferred tax assets	≤ 1 year	10,226	14,959
	> 1 year	119,105	117,752
Deferred tax liabilities	≤ 1 year	6,628	14,890
	> 1 year	56,395	96,321

22. Inventories

Inventories include merchandise only and break down as follows:

Breakdown inventories

in € k	31/12/2011	31/12/2010
Praktiker Germany	316,742	371,808
Max Bahr	148,462	178,820
Miscellaneous	14,631	16,402
Germany	**479,835**	**567,030**
Albania	0	2,344
Bulgaria	13,240	17,376
Greece	28,387	34,773
Luxembourg	5,457	6,734
Poland	46,467	51,130
Romania	35,232	51,399
Turkey	18,656	21,960
Ukraine	8,332	9,576
Hungary	18,640	27,018
International	**174,411**	**222,310**
Inventories	**654,246**	**789,340**

The purchase cost of inventories is recognised as expense at the time of revenue recognition and is included in the cost of goods sold at a value of € 2,158,525 thousand (previous year € 2,238,433 thousand).

In the reporting year, reversals of impairment losses on inventories of € 162 thousand (previous year € 6,013 thousand) and impairment of € 93,890 thousand (previous year € 307 thousand) were recognised in the cost of goods sold.

As the actual net realisable value was in some cases higher than the net realisable value as estimated at the previous measurement date, income of € 162 thousand was generated (previous year € 6,013 thousand).

Retention of title was granted to various credit insurers on the assets assigned to the German companies totalling € 479,835 thousand.

23. Trade receivables

All trade receivables have a remaining term of up to one year. The fair values of the trade receivables correspond to their carrying amounts.

There are no concentrations of credit risks within trade receivables as the Group has a large number of customers at different international locations who, if they do not pay in cash, pay using standard payment and credit cards.

Trade receivables

in € k	31/12/2011	31/12/2010
Trade receivables (gross)	13,823	14,163
Allowance	–1,561	–1,701
Trade receivables (net)	**12,262**	**12,462**

From the value allowance of the previous year, € 387 thousand (previous year € 1,089 thousand) were utilised, in the reporting period € 404 thousand (previous year € 278 thousand) were released and € 855 thousand (previous year € 953 thousand) reallocated.

24. Current income taxes

Current income tax assets and liabilities break down by type of tax as follows:

Development current income taxes

	Current income tax assets		Current income tax liabilities	
in € k	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Corporate taxes	1,170	1,310	154	4,124
Trade taxes	262	914	1,403	1,893
Current income taxes	**1,432**	**2,224**	**1,557**	**6,017**

25. Cash and cash equivalents

Breakdown cash and cash equivalents

in € k	31/12/2011	31/12/2010
Bank/cash on hand	57,146	58,234
Cash on deposit	90,896	208,058
Cash and cash equivalents	**148,042**	**266,292**

The effective interest rates for bank deposits vary between 0.00 percent and 1.65 percent, the terms range from 0 to 214 days.

As in the previous year, no pledges exist in respect of the credit balances held by banks.

26. Equity

a) Share capital

As in the previous year, the issued capital amounts to € 58,000,000 and is still divided into 58,000,000 bearer shares with a notional share of capital of € 1.00 per share.

As at the end of the reporting period, six institutions held a reportable share of voting rights of more than three or five percent:

On 26 January 2009, Eric M. Mindich (US), Eton Park Capital Management L.L.C., New York (US), Eton Park Capital Management L.P., New York (US), Eton Park Capital Limited, London (UK) and Eton Park International LLP, London (UK), notified the company that their share of voting exceeded the thresholds of three and five percent on 21 January 2009, and amounted to 8.39 percent (4,863,330 voting rights) on this date.

MASELTOV LTD, Limassol (Cyprus), notified the company on 5 October 2011 that its share of voting rights exceeded the thresholds of three percent and five percent on 28 September 2011 and amounted to 7.99 percent (4,638,000 voting rights) on this date.

LAZARD FRERES GESTION S.A.S., Paris (France), notified the company on 1 August 2011 that its share of voting rights exceeded the threshold of three percent on 19 July 2011 and amounted to 3.49 percent (2,025,000 voting rights) on this date.

Den Professionelle Forening Danske Invest Institutional, Kgs. Lynby (Denmark), notified the company on 12 December 2011 that its share of voting rights exceeded the threshold of three percent on 16 November 2011 and amounted to 3.17 percent (1,837,912 voting rights) on this date.

Semper Constantia Invest GmbH, Vienna (Austria), notified the company on 2 January 2012 that its share of voting rights exceeded the threshold of three percent on 20 December 2011 and amounted to 3.10 percent (1,800,511 voting rights) on this date.

The Royal Ministry of Finance, Oslo (Norway) notified the company on 2 December 2011 for and on behalf of the State of Norway that the share of voting rights in our company held by the State of Norway exceeded the threshold of three percent on 30 November 2011 and amounted to 3.06 percent (1,773,442 voting rights) on this date.

Apart from the shares held by Maseltov Ltd., the shares are not considered to be in fixed ownership in accordance with the definition of Deutsche Börse AG. As such, 92.01 percent of the shares of the company were in free float as at 31 December 2011.

b) Authorised capital

At the same time as revoking the existing authorised capital in the same amount and unutilised as at that date (Authorised Capital 2005/1), the annual general meeting of the company on 21 May 2010 authorised the management board, with the approval of the supervisory board, to increase the share capital of the company on one or several occasions by up to a total amount of € 25,000,000 by issuing up to 25,000,000 new bearer shares in the company against cash and non-cash contributions until 20 May 2015 (Authorised Capital 2010/I).

The shareholders have a subscription right as a matter of principle. The management board is authorised, with the approval of the supervisory board, to disapply shareholders' subscription rights in accordance with the provisions of Article 4.3 of the Articles of Association and, with the approval of the supervisory board, to determine the further details of the capital increase and the conditions of share issuance. The management board of the company is also required, in accordance with the details of a statement published on the company's website on 29 April 2010, to only exercise its authorisation to disapply shareholders' subscription rights only up to a total of 20 percent of the share capital.

The resolution of the annual general meeting of 21 May 2010 on the creation of authorised capital was entered in the commercial register on 10 June 2010.

c) Contingent capital

The annual general meeting of the company on 21 May 2010 resolved to partially revise the resolution of the annual general meeting of the company on 27 June 2006 on the creation of Contingent Capital 2006/I in order to clarify the authorised amount. Thus, the share capital of the company is contingently increased by up to € 29,000,000 by the issue of up to 29,000,000 new bearer shares with dividend rights from the start of the financial year in which they are issued (Contingent Capital). The purpose of the contingent capital increase is to issue shares to the bearers or creditors of warrant-linked and/or convertible bonds, profit participation rights and/or profit participation bonds (or combinations of these instruments) issued in September 2006 under the terms of the authorisation by the annual general meeting on 27 June 2006 or until 20 May 2015 under the terms of the authorisation by the annual general meeting on 21 May 2010 by the company or by companies in which the company holds a majority interest, either directly or indirectly, providing that the bonds are issued in exchange for cash. The contingent capital increase will only be implemented to the extent that warrant or conversion rights under the terms of the aforementioned bonds are exercised, or warrant or conversion obligations under the terms of such bonds are fulfilled and no other forms of settlement are used to service these obligations.

The annual general meeting of the company on 21 May 2010 authorised the management board, with the approval of the supervisory board, to issue warrant-linked and/or convertible bonds, participation capital and/or profit participation bonds (or a combination of these instruments) with a total nominal amount of up to € 500,000,000 and with or without maturity limits on one or more occasions until 20 May 2015 and to grant the bondholders warrant or conversion rights to bearer shares of the company with a pro rata share of capital of € 24,000,000 in accordance with the terms of the bonds and to create the corresponding warrant or conversion obligations. Shareholders have a subscription right to the bonds as a matter of principle. However, the management board is authorised, with the approval of the supervisory board, to disapply shareholders' pre-emption rights and to determine the further details of the issue and the terms of the bonds with the approval of the supervisory board or in consultation with the executive bodies of the companies issuing the bonds in which the company holds a majority interest, either dire ctly or indirectly. The management board of the company is also required, in accordance with the details of a statement published on the company's website on 29 April 2010, to exercise its authorisation to disapply shareholders' pre-emptive subscription rights only up to a total of 20 percent of the share capital.

The authorisation of the management board to issue warrant-linked and convertible bonds on 27 June 2006 was revoked by way of resolution of the annual general meeting of 21 May 2010 to the extent that it was not utilised to issue convertible bonds on 28 September 2006.

d) Authorisation to acquire treasury shares

The company was authorised by way of resolution of the annual general meeting of 21 May 2010 to acquire shares in the company until 20 May 2015. The authorisation is limited to the acquisition of the company's treasury shares with a pro rata share of capital of up to € 5,800,000. The authorisation cannot be used by the company for the purpose of trading in its own shares.

The authorisation can be exercised fully or in partial amounts on one or more occasions. The shares acquired together with other treasury shares held by the company or attributable to it in accordance with Sec. 71a ff. AktG (German Stock Corporation Act) cannot account for more than 10 percent of the share capital at any time.

At the discretion of the management board, the shares are to be acquired on the stock market or by way of a public purchase offer to all shareholders.

If acquired on the stock market, the price paid by the company per treasury share (not including incidental costs of acquisition) must be within 10 percent in either direction of the opening price in Xetra trading (or a functionally similar successor system that has replaced the Xetra system) on the Frankfurt stock exchange on the given trading day.

If acquired by way of a public offer to all shareholders, the purchase price offered per treasury share (not including incidental costs of acquisition) must not exceed the final auction price in Xetra trading (or a functionally similar successor system that has replaced the Xetra system) by more than 10 percent or be more than 20 percent lower than this same price on the Frankfurt stock exchange on the 4th to 10th trading days prior to the date of the publication of the offer. The volume of the offer can be limited. If total subscriptions exceed this volume, the declarations of acceptance are to be considered in proportion to the number of shares offered. Preferential acceptance of smaller units of up to 100 shares per shareholder can be permitted.

Furthermore, the management board was authorised by the annual general meeting on 21 May 2010 to acquire treasury shares using call or put options. The management board was authorised to sell put options, buy call options and buy treasury shares using a combination of put and call options. All acquisitions of shares using put options, call options or a combination of put and call options are limited to treasury shares accounting for a proportionate amount of share capital of up to € 2,900,000. The term of the options must be chosen so that the acquisition of treasury shares resulting from the exercise of options takes place before the end of 20 May 2015. The acquisition of treasury shares by way of exercising the options can only take place if the option terms ensure that the options can only be satisfied with shares acquired in compliance with the principle of equal treatment. Option transactions must be concluded with a bank or company operating in line with Sec. 53 para. 1 sent. 1 or Sec. 53b para. 1 sent. 1 or para. 7 KWG (German Banking Act). A right of shareholders to conclude such option transactions with the company is excluded.

The unutilised authorisations of 27 May 2009 to acquire treasury shares in the same amount were revoked by the annual general meeting of 21 May 2010.

e) Convertible bonds

As per 28 September 2006, Praktiker Finance B.V. issued convertible bonds totalling a nominal amount of € 150,000 thousand that was subject to a warrant by Praktiker AG. The bonds were denominated in units of € 100,000 and a term to maturity until 28 September 2011 (due date). The bonds were accompanied by an option for conversion into no-par shares bearing the name of the stockholder Praktiker AG, with a notional value in the company's share capital of € 1.00 each, which, according to the discretionary power of the respective stakeholder, could be exercised from 8 November 2006 until 19 September 2011, in accordance with the loan terms at a conversion price set at issuance of € 33.77 (subject to possible adjustments for dividend payouts and capital changes). The convertible bonds carried a 2.25 percent annual interest on their nominal value. These interest payments were to be made retrospectively every year on the interest payment date. The first interest payment was due on 28 September 2007.

The convertible bonds were repaid at nominal amount plus interest incurred on maturity as no conversion had taken place. The issuer would have been entitled to cancel the bonds in full or in part, provided a notice of cancellation of no less than 15 days and no more than 30 days had been given. A precondition for cancellation was that the share price had exceeded 130 percent of the conversion price, applicable on the respective trading day, for a minimum of 20 trading days within a period of 40 consecutive trading days, starting on or after 28 September 2009. In this case, the issuer would have had to pay back the cancelled bonds on the chosen payback date at their nominal amount, along with the interest accrued by the end of the day immediately preceding the chosen repayment date.

Pursuant to IAS 32.29, the carrying amount of the convertible bond at the time of issuance was divided into financial liability and equity components. The fair value of the liability component and that of the equity component were determined with effect of the issuing date of the convertible bond.

The fair value of the liability component recorded under non-current liabilities was calculated on the basis of the market interest rates for equivalent non-convertible bonds (5.45 percent) and amounted to € 129,475 thousand at the time of issuance. The residual value (€ 20,525 thousand) representing the conversion rights is reported under capital reserves in equity.

In April 2009 the Praktiker Group bought back a partial amount of the convertible bonds with a nominal value of € 2,900 thousand. Since there is a notional value of zero for the conversion privileges on the bought-back bonds, the buyback did not lead to any change in capital reserves.

Over time, the financial liability from the convertible bond grew in profit or loss in the amount of the difference between the effective interest expense and the hypothetical market rate of interest. This increase amounted to € 3,303 thousand in the 2011 financial year, which meant that the debt component of the convertible bonds amounted to € 147,100 thousand on maturity. This was equal to its fair value, calculated by discounting the cash flows at 5.45 percent.

Transaction costs associated with the issuance were classified as credit capital components or equity components of the convertible bond proportional to the allocation of raised capital in accordance with IAS 32.38. The portion of transaction costs relating to equity components amounts to € 256 thousand.

At the time the convertible bonds were issued, the granted conversion rights would have corresponded to around 4.4 million non-par shares from the contingent capital.

f) Reserves

The development of the reserves, which consist of capital reserves and other reserves, is outlined in the "Consolidated statement of changes in equity" section.

The equity components of the convertible bonds as described in item no. 26e) are also shown under the capital reserves.

Among other items, the other reserves include the changes recognised directly in equity from currency conversions and cash flow hedges.

The legal reserves amounted to € 6,617 thousand in the year under review (previous year € 6,528 thousand).

g) Balance sheet loss (previous year balance sheet profit)

The balance sheet loss (previous year balance sheet profit) comprises the cumulative earnings attributable to the shareholders of the Group, less the dividend payments and the appropriation to other retained earnings.

h) Minority interests

Minority interests comprise third-party stakeholdings in the equity of consolidated subsidiaries. An overview of minority interests and the changes in them is shown in the table below.

As at the end of the reporting period there were non-controlling interests in Bâtiself S.A. of 38.00 percent with an absolute value of € 1,339 thousand (previous year € 1,642 thousand).

27. Provisions for pensions

The amount set aside for provisions in the statement of financial position is determined as follows:

Determination provisions for pensions

in € k	31/12/2011	31/12/2010
Non-pledged defined benefit obligation (DBO)	366	420
Pledged defined benefit obligation (DBO)	462	441
Plan assets	– 462	– 441
Unrecognised actuarial gains	155	111
Provisions for pensions	**521**	**531**

The expenses and income of pension commitments break down as follows:

Expenditure and income from pensions

in € k	2011	2010
Interest expenses	38	41
Recognised actuarial gains	– 15	– 29
Expected return on plan assets	– 19	– 20
Service cost	3	2
Expenditure (+)/Income (–) from pensions	**7**	**– 6**

Pension expenses from direct and indirect company pensions include the service costs and the actuarial losses, which are included in the cost of sales, selling expenses and general administrative expenses, as well as in the interest expense, which is shown in the net financial result.

The provisions shown in the statement of financial position developed as follows:

Development provisions for pensions

in € k	2011	2010
Provisions for pensions 01/01	**531**	**721**
Balancing within the course of the year newly occured plan asset	0	– 169
Interest expenses	19	21
Recognised actuarial gains	– 15	– 29
Service cost	3	2
Pension payments	– 16	– 15
Provisions for pensions 31/12	**521**	**531**

Payments of € 21 thousand from the reported provisions are expected in 2012. Actuarial gains and losses were considered on the basis of the corridor approach.

The development of the defined benefit obligation is shown on the following chart:

Development present value of non-pledged defined benefit obligations

in € k	2011	2010
Present value non-pledged defined benefit obligation (DBO) 01/01	**420**	**521**
Disposal	0	– 169
Interest expenses	19	21
Actuarial gains (previous year losses)	– 60	60
Service cost	3	2
Pension payments	– 16	– 15
Present value non-pledged defined benefit obligation (DBO) 31/12	**366**	**420**

As there were only matching, pledged reinsurance policies for these pension commitments in the reporting period, the plan assets were recognised as a deduction on the corresponding obligation in line with IAS 19.102.

In 2009, there were matching, non-pledged insurance policies for pension commitments in the Max Bahr segment. The resulting reimbursement rights were recognised as a separate asset in line with IAS 19.104A and amounted to € 169 thousand as at 31 December 2009. As there were only matching, pledged insurance policies for these pension commitments from 2010, the plan assets were recognised as a deduction on the corresponding obligation in line with IAS 19.102. Thus, a corresponding disposal of the fair value of the reimbursement claim of € 169 thousand was recognised in 2010.

Moreover, there are further pension payments due to deferred compensation commitments in the Praktiker Group, which are secured with matching, pledged reinsurance policies.

The resulting DBO and the corresponding plan assets developed as follows:

Development fair value of pledged defined benefit obligations

in € k	2011	2010
Fair value pledged defined benefit obligations (DBO) 01/01	**441**	**255**
Addition actual year	0	169
Interest expenses	19	20
Service cost	0	3
Actuarial losses (previous year gains)	2	– 6
Fair value pledged defined benefit obligations (DBO) 31/12	**462**	**441**

The development of the corresponding plan assets is shown in the table below:

Development fair value plan assets

in € k	2011	2010
Fair value plan assets 01/01	**441**	**255**
Addition actual year	0	169
Expected return on plan assets	19	20
Gains (previous year losses) from plan assets	2	– 3
Fair value plan assets 31/12	**462**	**441**

The present values of the DBOs and the fair values of plan assets developed as follows as at the end of the reporting periods:

Present value DBO and fair value plan assets

in € k	31/12/2011	31/12/2010	31/12/2009	31/12/2008	31/12/2007
Present value funded defined benefit obligation (DBO)	462	441	255	247	253
Fair value plan assets	462	441	255	247	253
Deficit (+)/surplus (–)	**0**	**0**	**0**	**0**	**0**
Present value unfunded defined benefit obligation (DBO)	366	420	521	545	651

The following experience-based adjustments were made to the present values of the DBOs and their fair values in the years 2007 to 2011:

Experience-based adjustments DBO and plan assets

in € k	31/12/2011	31/12/2010	31/12/2009	31/12/2008	31/12/2007
Experience-based adjustment from defined benefit obligation (DBO)	57	–54	46	155	144
Experience-based adjustment of plan assets	2	–3	–2	–19	1

28. Other provisions

The other provisions developed as follows during the reporting year:

Development other provisions

in € k	Personnel related obligations	Real estate related obligations	Obligations from merchandise trading	Other provisions	Total	thereof with a term of up to 1 year
Other provisions 01/01/2011	**18,970**	**41,888**	**4,699**	**25,546**	**91,103**	**31,709**
Addition	42,448	88,615	5,193	18,075	166,540	120,841
Release	–3,321	–4,090	–515	–1,328	–9,254	–8,216
Utilisation	–2,509	–3,064	–2,982	–2,225	–24,989	–6,677
Currency translation	–148	–1,145	–1	–1,017	–2,311	–50
Transfer	–1,385	–25	–3,560	–630	–5,600	–5,610
Accrued interest	301	416	0	1,003	1,720	7
Other provisions 31/12/2011	**54,356**	**120,595**	**2,834**	**39,424**	**217,209**	**132,004**

Personnel-related obligations essentially encompass obligations arising from anniversaries, severance and part-time work. The high additions relate to the forthcoming restructuring measures in particular. Utilisation of € 35,246 thousand is anticipated for the 2012 financial year.

The real estate obligations are essentially provisions for location risks in connection with onerous contracts and planned store closures. An addition to the provision for onerous contracts of € 68,292 thousand (previous year € 362 thousand) was recognised in the reporting period as a result of the reassessment of future earnings prospects in medium-term planning. € 15,483 thousand of this related to the International segment (previous year € 214 thousand), € 47,426 thousand to the Praktiker Germany segment (previous year income from reversal of € 72 thousand) and € 5,500 thousand to the Max Bahr segment (previous year € 0 thousand). The Miscellaneous segment generated income from the reversal of the provision for onerous contracts of € 117 thousand in 2011 (previous year expense of € 220 thousand). The non-current provisions for real estate obligations were discounted with matching interest rates. Utilisation of € 68,478 thousand of these provisions is expected in the 2012 financial year.

Obligations from merchandise trading result from guarantee obligations and provisions for discounts to major customers. It is expected that an amount totalling € 2,168 thousand will be used in 2012.

On the balance sheet date, the other provisions include for the most part obligations from store closures of € 15,955 thousand (previous year € 1,167 thousand) as well as process and supplier risks and matters relating to fiscal law of € 19,637 thousand (previous year € 20,796 thousand). This item also includes an amount of € 11,728 thousand as a result of a fine for alleged price collusion levied by the Polish antitrust authorities against the Polish Group company Praktiker Polska Sp. z o.o., as is the case with almost all other large DIY retailers in Poland. These include a total of three notifications of fines, one of which was received in 2009 and two in 2010. Praktiker Polska Sp. z o.o. is currently contesting these fines in legal proceedings.

It is expected that an amount totalling € 19,927 thousand from other provisions will be used in the 2012 financial year.

The addition of accrued interest on long-term provisions resulted in interest expenses of € 1,720 thousand (previous year € 835 thousand).

Provisions with a term of more than five years totalling € 8,999 thousand (previous year € 4,184 thousand) are attributable to real estate-related liabilities.

29. Financial commitments and derivative financial instruments

As at 31 December 2011 and 31 December 2010, the following maturities existed in respect of the financial liabilities in line with IAS 39:

Breakdown financial liabilities following maturity

in € k		31/12/2011	31/12/2010
Liabilities from bonds	< 1 year	0	143,797
	1 – 5 years	247,200	0
	> 5 years	0	0
Liabilities from promissory note loans	< 1 year	0	50,000
	1 – 5 years	0	0
	> 5 years	0	0
Liabilities from finance leases	< 1 year	20,084	18,472
	1 – 5 years	89,542	83,950
	> 5 years	137,445	154,778
Trade payables	< 1 year	353,700	450,827
	1 – 5 years	0	0
	> 5 years	0	0
Other financial liabilities	< 1 year	30,778	17,369
	1 – 5 years	0	640
	> 5 years	53	62

The level of the expected cash flows from original financial liabilities under IAS 39 as at 31 December 2011 is shown in the table below:

Expected cash flows from original financial liabilities 31/12/2011

in € k	Cash flow 2012	Cash flow 2013–2016	Cash flow 2017 ff.
Liabilities from bonds	14,688	308,750	0
Liabilities from finance leases	41,906	157,688	180,515
Trade payables	353,700	0	0
Other financial liabilities (without derivatives)	30,774	0	53

Cash flows resulting from derivative financial liabilities as at 31 December 2011 are expected as follows:

Expected cash flows from derivative financial liabilities 31/12/2011

in € k	Cash flow 2012	Cash flow 2013–2016	Cash flow 2017 ff.
Forward exchange transactions designated as cash flow hedge	106	0	0
Interest swaps designated as cash flow hedge	0	0	0

As at 31 December 2010 the following cash flows from original financial liabilities under IAS 39 were expected:

Expected cash flows from original financial liabilities 31/12/2010

in € k	Cash flow 2011	Cash flow 2012–2015	Cash flow 2016 ff.
Liabilities from bonds	150,410	0	0
Liabilities from promissory note loans	51,086	0	0
Liabilities from finance leases	41,392	157,605	209,212
Trade payables	450,827	0	0
Other financial liabilities (without derivatives)	17,290	0	0

The expected cash flows in connection with derivative liabilities as at 31 December 2010 are shown in the table below:

Expected cash flows from derivative financial liabilities 31/12/2010

in € k	Cashflow 2011	Cashflow 2012–2015	Cashflow 2016 ff.
Forward exchange transactions designated as cash flow hedge	65	0	0
Interest swaps designated as cash flow hedge	619	0	0

Trade payables are, in principle, due without interest and within one year. The carrying amount of trade payables therefore corresponds to the total of future cash flows.

The same applies to the other liabilities item (without derivatives) reported in the above table, which contains exclusively financial liabilities within the meaning of IAS 39.

Derivatives are included with their net cash flows if they have negative market values and thus represent liabilities. Derivatives with positive market values are assets and are therefore not included.

The derivative financial instruments are recognised at their market values at level 2 of the fair value hierarchy.

Forward currency transactions were concluded to hedge Group-internal loans denominated in foreign currencies.

The forward currency transactions were not designated as hedge accounting. They generated income amounting to € 4,059 thousand (previous year € 102 thousand) in the period under review as well as expenses of € 4,087 thousand (previous year € 712 thousand).

Furthermore, derivative financial instruments were concluded in 2008 and 2010 to hedge the third and fifth payment tranches of the share bonus programme (maturing in 2011, 2013 and 2014 respectively). These were reported in the statement of financial position under other receivables and other assets. As at 31 December 2011, there was a notional amount of € 0 thousand (previous year € 2,479 thousand). Here, too, this was not designated as hedge accounting. The income from revaluation at the reporting date of € 128 thousand (previous year € 665 thousand) and the expense of € 2,715 thousand (previous year € 245 thousand) were therefore recognised in profit and loss.

To hedge the risk of increasing interest rates, in 2009, the Praktiker Group hedged the variable interest payments for the promissory note loans issued in the second quarter of 2009 in the amount of € 50,000 thousand with interest swaps, designated as cash flow hedges. The promissory note loans were paid off as at 18 February 2011 and therefore the corresponding interest rate swaps, which originally ran until April 2012 with a six-month interest adjustment, were also cancelled. As at 31 December 2010, this resulted in financial liabilities of € 640 thousand. An equal amount was recognised in the reserves, reducing equity, and reclassified to the income statement on termination in the interest swap.

An overview of the market and nominal values of the derivative financial instruments designated as cash flow hedge accounting is shown in the table below:

Nominal and market value of derivative financial instruments designated as cash flow hedge accounting

	Nominal value		Market value	
in € k	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Forward exchange transactions	28,624	–12,684	982	–74
Interest swaps	0	–50,000	0	–640

30. Other liabilities

Other liabilities are recognised at amortised cost. They can be broken down as follows:

Breakdown other liabilities

in € k	31/12/2011	31/12/2010
Payroll liabilities	28,206	33,063
Tax liabilities	26,661	17,110
Liabilities related to social insurance	2,357	2,291
Prepayments received on orders	4,644	4,470
Deferred income	12,430	5,377
Miscellaneous other liabilities	25,967	18,071
Other liabilities	**100,265**	**80,382**

The miscellaneous other liabilities comprise a multitude of individual items.

The balance sheet items listed under other liabilities reflect the fair values of these liabilities.

31. Trade payables

The € 97,127 thousand decline in trade payables is essentially due to the lower volume of incoming goods, which reflects the decline in business performance in 2011. The payment terms for suppliers have changed only insignificantly.

All key trade liabilities have a remaining term to maturity of up to one year.

Notes to the consolidated cash flow statement

32. Cash flow statement

The statement of cash flows was prepared in accordance with IAS 7 and is broken down into cash flows from operating activities (calculated indirectly), investing and financing activities (calculated directly).

No changes were made in the structure of the cash flow statement as against the previous year.

In the period under review, non-cash additions amounting to € 7,947 thousand (previous year € 4,134 thousand) were reported as fixed assets from finance leases. In the year under review, as in the previous year, there were no non-cash disposals from finance lease assets and also no non-cash disposals from finance lease liabilities.

a) Cash flow from operating activities

The basis for calculating the cash flow from operating activities is earnings before taxes. This is adjusted for non-cash expenses and income, and for net interest income; added to this are income taxes paid, the change in provisions and the change in net assets. Net assets comprise inventories, trade payables and other assets and liabilities. Interest expense from finance leases is also shown as a cash outflow from operating activities at this point, since this is a de facto part of the lease payments.

The cash used in operating activities in the reporting period amounted to € 79,196 thousand, a reduction of € 169,759 thousand as against the previous year (cash inflow of € 90,563 thousand).

After adjustment of earnings before taxes in 2011 of minus € 594,321 thousand for the largely non-cash and special effects influenced items of impairment losses and increase in provisions, modified earnings before taxes were still significantly below the previous year's figure of € 1,282 thousand at minus € 228,713 thousand.

This decline was only partially offset by the fact that the net total of the reduction in inventories and the reduction in trade payables of € 37,967 thousand was significantly higher than in the previous year (€ 10,661 thousand). The reduction in inventories was influenced by the write-down effects of the change in inventory valuation. If the valuation of inventories had been the same as in the previous year, the balance of reduction in inventories and the reduction in trade payables would have been minus € 31,880 thousand.

b) Cash flow from investing activities

The cash flow from investing activities is made up of the net proceeds from disposals of non-current assets and investments in non-current assets. The net cash outflow amounted to € 61,701 thousand in the period under review, € 5,314 thousand higher than the figure for the same period of the previous year (€ 56,387 thousand). The increase resulted from higher investments in non-current assets as part of the "Praktiker 2013" programme, which rose from € 57,931 thousand in 2010 to € 62,608 thousand in 2011. By contrast, proceeds from disposals of non-current assets decreased slightly to € 907 thousand in the reporting period (previous year € 1,544 thousand).

c) Cash flow from financing activities

The cash flow from financing activities shows a cash inflow of € 23,212 thousand. In the previous year there had been a total outflow of € 31,424 thousand.

The inflow resulted from the corporate bond issued in February 2011, which led to an inflow of € 246,677 thousand after deduction of transaction costs. The proceeds from this corporate bond were used firstly to repay the promissory note loans in February 2011 (outflow of € 50,000 thousand) and secondly to repay the convertible bonds in September 2011 (outflow of € 147,100 thousand). In net terms, the restructuring of financing instruments in 2011 resulted in a cash inflow of € 49,577 thousand.

Furthermore, non-central borrowing of smaller loans by individual companies of the Praktiker Group in different countries generated a cash inflow of € 4,865 thousand.

The outgoing payments relating to financing activities were slightly lower in the reporting year than in the previous year. The largest individual item in the cash outflows is the repayment of liabilities from finance leases, which increased slightly from € 17,165 thousand to € 18,075 thousand. At € 6,112 thousand, interest paid was slightly lower than in the previous year (€ 7,217 thousand) as the majority of the interest for 2011 relates to the corporate bond and will not be paid until the start of 2012. Further cash outflows arose from the virtually unchanged payments to non-controlling interests, which amounted to € 1,243 thousand (previous year € 1,242 thousand) and the unchanged distribution to shareholders of € 5,800 thousand.

d) Cash and cash equivalents

The level of cash and cash equivalents decreased by € 118,250 thousand year-on-year to € 148,042 thousand at the end of period under review. It includes bank balances of € 133,130 thousand (previous year € 255,467 thousand) and cash on hand of € 14,912 thousand (previous year € 10,825 thousand). It corresponds to the "Cash and cash equivalents" item shown on the consolidated statement of financial position.

The Group can access all cash and cash equivalents; these are thus not pledged.

Notes to the segment data

33. Segment information

a) Principles

In line with the requirements of IFRS 8, the operating segments were determined according to the reports which are regularly presented to the chief operating decision maker – the management board of Praktiker AG – and which the management board uses to make its strategic decisions. In this internal reporting there is no classification of various product groups and services, nor of customer groups. Reporting takes place exclusively in line with the different retail chains in Germany and international business.

The basis for the sales revenues generated by all reportable operating segments is primarily the sale of goods for the areas of construction, renovation, home repairs, home improvement, gardening and leisure.

The following reportable operating segments are reported separately:

- Praktiker Germany: this segment comprises the activities of the Praktiker outlets operating in Germany (including Praktiker AG and Baumarkt Praktiker Services GmbH). In addition, the results of Praktiker Finance B.V. (Netherlands) are also allocated to this segment in line with internal reporting.
- Max Bahr: this segment covers the activities of the stores operated in Germany under this sales line.
- International: the International segment comprises the operating activities in Luxembourg, Greece, Poland, Hungary, Turkey, Romania, Bulgaria, the Ukraine and Albania. Moldova und Macedonia, where there are currently no operating activities, are also allocated to this segment.

On account of the fact that they do not fulfil the relevant size criteria, the “Extra integrated stores”, “Extra wholesale”, “Praktiker Online” and the cross-divisional service company Praktiker Group Buying HK Ltd. (Hong Kong) units are combined into the omnibus “Miscellaneous” item. Here the “Extra integrated stores” unit comprises the operating business of the 17 stores of the extra BAU+HOBBY retail chain. “Extra wholesale” bundles the franchise business of the extra BAU+HOBBY brand, which covers 5 franchisees with 8 locations as well as the activities for cooperation partners in purchasing and marketing.

The German Internet trading activities of the Praktiker brand are reported under “Praktiker Online”, which is assigned to the omnibus “Miscellaneous” item.

The domestic part of the result generated by the cross-devisional Praktiker Group Buying HK Ltd. (Hong Kong) is also assigned to the omnibus “Miscellaneous” item. The part of the result, which falls upon the other countries is assigned to the International segment. This is in line with the internal reporting.

The results of Praktiker International AG, which regulates supplier invoices, are distributed among the individual segments in line with their share in the central A/P clearing for sales divisions, as in amended internal reporting.

Transfers between the different segments are carried out at arm’s length prices. Management services are generally calculated as cost allocations with a mark-up which is usual in the market.

The effects of consolidation measures between the segments are stated separately in the “Reconciliation” column.

The main income statement performance indicator by which the Praktiker Group measures the earnings strength of its segments is IFRS earnings before interest, taxes and amortisation (EBITA).

Net financial result and income taxes are reported to the chief operating decision maker only on a Group basis, meaning that there is no allocation to the individual operating segments.

Segment assets and segment liabilities are not reported internally and do not form the basis for strategic decisions concerning the segments by the chief operating decision maker. Thus, segment assets and segment liabilities are not reported here.

In the year under review and in the previous year, there were no customers accounting for more than 10 percent of the Praktiker Group’s total sales. Therefore, the Group is not dependent on any single customer.

The following tables show segment information for the years 2011 and 2010:

Segment data 2011

in € k	Praktiker Germany 2011	Max Bahr 2011	International 2011	Total of reportable segments 2011	Miscellaneous 2011	Reconciliation 2011	Praktiker Group 2011
Net sales from external customers	1,506,894	694,784	894,152	3,095,830	87,132	0	3,182,962
Net sales from other segments	3,254	0	0	3,254	7	–3,261	0
Net sales total	**1,510,148**	**694,784**	**894,152**	**3,099,084**	**87,139**	**–3,261**	**3,182,962**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	–203,928	1,950	–10,363	–212,341	–6,921	0	–219,262
Depreciation and impairment	–58,574	–22,847	–73,710	–155,131	–717	0	–155,848
thereof depreciation	–31,495	–13,647	–29,943	–75,085	–705	0	–75,790
thereof asset impairment	–27,079	–9,200	–43,767	–80,046	–12	0	–80,058
Earnings before interest, taxes and amortisation (EBITA)	**–262,502**	**–20,897**	**–84,073**	**–367,472**	**–7,638**	**0**	**–375,110**
Goodwill impairment	–159,454	0	0	–159,454	0		–159,454
Earnings before interest and taxes (EBIT)	**–421,956**	**–20,897**	**–84,073**	**–526,926**	**–7,638**	**0**	**–534,564**
Investments	45,713	5,410	18,936	70,059	496	0	70,555
Operating locations (number)	235	78	109	422	17	0	439
Selling space in 1,000 sq m	1,420	628	766	2,814	64	0	2,878

Segment data 2010

in € k	Praktiker Germany 2010	Max Bahr 2010	International 2010	Total of reportable segments 2010	Miscellaneous 2010	Reconciliation 2010	Praktiker Group 2010
Net sales from external customers	1,680,133	685,455	996,123	3,361,711	86,586	0	3,448,297
Net sales from other segments	3,117	0	58	3,175	0	–3,175	0
Net sales total	**1,683,250**	**685,455**	**996,181**	**3,364,886**	**86,586**	**–3,175**	**3,448,297**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	26,692	42,304	41,143	110,139	–3,534	0	106,605
Depreciation and impairment	–27,885	–13,093	–30,064	–71,042	–267	0	–71,309
thereof depreciation	–27,249	–13,093	–30,064	–70,406	–267	0	–70,673
thereof asset impairment	–636	0	0	–636	0	0	–636
Earnings before interest, taxes and amortisation (EBITA)	**–1,193**	**29,211**	**11,079**	**39,097**	**–3,801**	**0**	**35,296**
Investments	22,987	14,695	22,966	60,648	1,417	0	62,065
Operating locations (number)	236	78	107	421	17	0	438
Selling space in 1,000 sq m	1,423	628	753	2,804	64	0	2,868

The investments relate to tangible and intangible assets.

Of the goodwill stated as per 31 December 2011 (€ 33,228 thousand), € 31,528 thousand relates to the Max Bahr segment and € 1,700 thousand to the International segment.

In 2011, there were reversals of write-downs of € 40 thousand relating in full to the non-reportable omnibus "Miscellaneous" item. In the previous year, reversals of write-downs within the Group amounted to € 630 thousand, € 369 thousand of which related to the Praktiker Germany segment, € 113 thousand to the International segment and € 148 thousand to "Miscellaneous".

The following tables show the reconciliation from EBITA to EBT and to consolidated net result for the reporting year and the previous year:

Reconciliation from EBITA to EBT and Group net result 2011

in € k	Praktiker Germany 2011	Max Bahr 2011	International 2011	Total of reportable segments 2011	Miscellaneous 2011	Reconciliation 2011	Praktiker Group 2011
Earnings before interest, taxes and amortisation (EBITA)	**–262,502**	**–20,897**	**–84,073**	**–367,472**	**–7,638**	**0**	**–375,110**
Goodwill amortisation	–159,454	0	0	–159,454	0	0	–159,454
Earnings before interest and taxes (EBIT)	**–421,956**	**–20,897**	**–84,073**	**–526,926**	**–7,638**	**0**	**–534,564**
Net financial result	–	–	–	–	–	–	–59,757
Earnings before taxes (EBT)	**–**	**–**	**–**	**–**	**–**	**–**	**–594,321**
Income taxes	–	–	–	–	–	–	39,611
Group net loss	**–**	**–**	**–**	**–**	**–**	**–**	**–554,710**

Reconciliation from EBITA to EBT and Group net result 2010

in € k	Praktiker Germany 2010	Max Bahr 2010	International 2010	Total of reportable segments 2010	Miscellaneous 2010	Reconciliation 2010	Praktiker Group 2010
Earnings before interest, taxes and amortisation (EBITA)	**–1,193**	**29,211**	**11,079**	**39,097**	**–3,801**	**0**	**35,296**
Goodwill amortisation	0	0	0	0	0	0	0
Earnings before interest and taxes (EBIT)	**–1,193**	**29,211**	**11,079**	**39,097**	**–3,801**	**0**	**35,296**
Net financial result	–	–	–	–	–	–	–40,984
Earnings before taxes (EBT)	**–**	**–**	**–**	**–**	**–**	**–**	**–5,688**
Income taxes	–	–	–	–	–	–	–27,870
Group net loss	**–**	**–**	**–**	**–**	**–**	**–**	**–33,558**

b) Information on geographical areas

Of the sales revenues generated with external customers in the period under review, € 2,288,809 thousand (period of the previous year € 2,452,174 thousand) relate to Group companies based in Germany and € 894,152 thousand (period of the previous year € 996,123 thousand) relate to Group companies based in other countries.

Of the non-current assets, an amount of € 295,202 thousand (previous year € 485,487[1] thousand) is attributable to the Group companies based in Germany in the year under review. An amount of € 200,363 thousand (previous year € 262,112[1] thousand) relates to Group companies based in other countries in the year under review. The non-current assets are made up of goodwill, other intangible assets and property, plant and equipment.

[1]Previous year adjusted

OTHER NOTES

34. Contingent liabilities and other financial obligations

The purchase obligations entered into as at the end of the reporting period break down as follows:

Breakdown purchase obligations

in € k	31/12/2011	31/12/2010
Property, plant and equipment	1,170	5,206
Non-capitalisable consumer goods	147	2,216
Intangible assets	208	128
Purchase obligations	**1,525**	**7,550**

There were no contingent liabilities at the closing date.

Please also refer to the obligations from finance and operating leases listed under item no. 16.

35. Related party transactions

IAS 24 requires the presentation of the most important related party transactions. Related parties are considered to be companies or persons that can be influenced by the reporting Group or that can influence the Group.

The Praktiker Group did not enter into any transactions with related parties as defined by IAS 24 during the period under review and in this respect has no reporting obligations.

Related parties include members of management in key positions. With regard to the Praktiker Group, these are the members of the management board and the supervisory board.

The supervisory board appointed two new members of the management board of Praktiker AG in the period under review. Josef Schultheis was appointed effective 16 August 2011 and Thomas Fox effective 1 October 2011.

Wolfgang Werner resigned as CEO of Praktiker AG at the end of 15 August 2011. Michael Arnold and Pascal Warnking left the management board on 24 November 2011. Expenses of € 2,400 thousand arose in the period under review as a result of the termination of Wolfgang Werner's employment. Expenses of € 262 thousand were incurred in connection with the termination of Pascal Warnking's employment. The employment agreement of Michael Arnold was revoked effective 29 February 2012. In addition to the ongoing payment of his past remuneration until February 2012, he received a one-time settlement payment of € 894 thousand.

The composition of the supervisory board also changed in the reporting period. The employee representative Hans-Josef Schmitz left the supervisory board effective 31 March 2011. He was replaced on the supervisory board by Gabriele Kanter on 21 June 2011.

As in 2010, companies in the Praktiker Group did not enter into any transactions subject to mandatory reporting requirements with members of the management board or supervisory board or their relatives during the year under review.

The management board and the supervisory board members received the following remuneration:

Breakdown total compensation management and supervisory board members

in € k	2011	2010
Salaries and other payments due at short-term	3,781	3,826
Post-employment benefits	75	281
Termination benefits	3,673	2,283
Share-linked remuneration	–406	228
Total compensation	**7,123**	**6,618**

In addition to their executive remuneration, the employee representatives on the supervisory board received total remuneration of € 361 thousand in their function as employees of the Praktiker Group.

With regard to the remuneration of members of the management board and supervisory board, please refer to item no. 39 and the remuneration report within management reporting.

36. Auditor's fees

The following auditor's fees were recognised as expenses in fiscal year 2011:

Breakdown auditor's fees

in € k	2011	2010
Financial statement auditing	917	965
Audit related advisory	228	295
Other audit services	24	17
Tax advisory	60	85
Other services	513	570
Auditor's fees	**1,742**	**1,932**

This is a disclosure in accordance with Sec. 314 para. 1 no. 9 HGB.

37. Declaration of compliance with the German Corporate Governance Code

In the period under review on 26 January 2011, and subsequently on 25 January 2012, the management board and the supervisory board of Praktiker AG issued declarations of compliance with the recommendations of the "Government Commission on the German Corporate Governance Code" pursuant to Sec. 161 AktG which relate to the period under review, and published these on the Internet home page of Praktiker AG.

38. Election to be exempt from Sec. 264 para. 3 and Sec. 264b HGB

The following domestic subsidiaries in the legal form of stock corporations or partnerships as defined in Sec. 264a HGB have elected to be exempt from disclosing their annual financial statements as well as from preparation of the notes and/or the management report (according to HGB) for the fiscal year 1 January to 31 December 2011, in accordance with Sec. 264 para. 3 resp. Sec. 264b HGB:

- Baumarkt Max Bahr GmbH & Co. KG, Hamburg
- Baumarkt Praktiker GmbH, Hamburg
- Baumarkt Praktiker Deutschland GmbH, Hamburg
- Baumarkt Praktiker DIY GmbH, Hamburg
- Baumarkt Praktiker Grundstücksbeteiligungsgesellschaft mbH, Hamburg
- Baumarkt Praktiker International GmbH, Hamburg
- Baumarkt KIG GmbH, Hamburg
- Baumarkt Praktiker Objektgesellschaft mbH, Hamburg
- Baumarkt Praktiker Online GmbH, Hamburg
- Baumarkt Praktiker Services GmbH, Hamburg
- Baumarkt Praktiker Vierte GmbH, Hamburg
- Baumarkt Praktiker Warenhandelsgesellschaft mbH, Hamburg
- Calixtus Grundstücksverwaltungsgesellschaft mbH, Kirkel
- MAX der kleine Baumarkt GmbH, Hamburg

39. Total compensation of the supervisory board and the management board

Total compensation of the members of the management board amounted to € 3,274 thousand for the 2011 fiscal year (€ 3,412 thousand for the 2010 fiscal year). Remuneration for former members of the management board amounted to € 3,342 thousand (€ 2,646 thousand for the 2010 fiscal year). The members of the supervisory board received total compensation of € 507 thousand for the 2011 fiscal year (€ 560 thousand for the 2010 fiscal year). The details in respect of the above required under Sec. 314 para. 1 no. 6 let. a sent. 5 to 8 HGB are included in the Group management report in accordance with the provisions set out under Sec. 315 para. 2 no. 4 HGB.

Members of the management board and the supervisory board of Praktiker AG

40. Members and mandates of the management board

List of the management board members of Praktiker AG and their departments:

Thomas Fox (since 01/10/2011)

Chief Executive Officer

- Business Development (since 25/10/2011)
- Corporate Communication (since 25/10/2011)
- Praktiker Germany (since 24/11/2011)
- Praktiker International (since 24/11/2011)
- Max Bahr (since 24/11/2011)
- extra BAU+HOBBY (since 24/11/2011)
- Praktiker Online Shop (since 24/11/2011)
- Internal Auditing (25/10 until 24/11/2011 and since 13/02/2012)
- Compliance (25/10 until 24/11/2011)

Markus Schürholz

- Controlling
- Accounting
- Finance
- Mergers & Acquisitions
- Investor Relations
- Logistics/IT (since 25/10/2011)
- Internal Auditing (since 24/11/2011 until 13/02/2012)

Josef Schultheis (since 16/08/2011)

Chief Executive Officer (until 30/09/2011)
Labour director (since 24/11/2011)

- Restructuring
- Human Resources (since 24/11/2011)
- Legal Affairs
- Compliance (until 25/10/2011 and since 24/11/2011)
- Real Estate Management (since 24/11/2011)
- Business Development (until 25/10/2011)
- Corporate Communication (until 25/10/2011)
- “Praktiker 2013” (until 24/11/2011)
- Internal Auditing (until 25/10/2011)

Michael Arnold (until 24/11/2011)

Labour director

- Praktiker International
- Real Estate Management
- Human Resources

Pascal Warnking (until 24/11/2011)

- Praktiker Germany
- Max Bahr
- extra BAU+HOBBY
- Praktiker Online Shop
- Corporate Procurement

Wolfgang Werner (until 15/08/2011)

Chief Executive Officer

- Business Development
- "Praktiker 2013"
- Corporate Communication
- Internal Auditing
- Legal affairs
- Compliance
- Logistics/IT

Mr. Thomas Fox is a member of the administrative board of Internationale Möbel-Selection IMS Aktiengesellschaft, Liechtenstein. Other than this, the members of the management board had no mandates on supervisory boards or similar executive bodies in Germany or abroad in accordance with Sec. 285 no. 10 HGB in the reporting period.

41. Members and mandates of the supervisory board

List of members of the supervisory board of Praktiker AG and their mandates in statutory supervisory boards (shown under lit. a) and similar executives bodies in Germany and abroad (shown under lit. b) in accordance with Sec. 285 no. 10 HGB:

Dr. Kersten v. Schenck (Chairman)

Attorney at law and notary public

a) Baumarkt Praktiker Deutschland GmbH (Chairman)
ThyssenKrupp AG

Marliese Grewenig[1] (Vice Chairwoman)

Chairwoman of the General Workers' Council of Praktiker Baumarkt Deutschland GmbH and of the Group Workers' Council Praktiker AG

a) Baumarkt Praktiker Deutschland GmbH
(Vice Chairwoman)

Dr. Norbert Bensel

Managing partner of NB Consulting & Beteiligungs GmbH
President of the Hochschule für Internationale Wirtschaft und Logistik

a) Baumarkt Praktiker Deutschland GmbH
Compass Group Deutschland GmbH (since 30/01/2012)
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn
ecotel communications AG
TransCare AG (Vorsitzender)

b) BLG Logistics Group AG & Co. KG
BREUER Nachrichtentechnik GmbH
IQ Martrade Holding- und Managementgesellschaft GmbH
Qnamic AG, Switzerland

Ulrich Grillo

Chairman of the management board of Grillo-Werke AG

a) Baumarkt Praktiker Deutschland GmbH
IKB Deutsche Industriebank AG
mateco AG

Dr. Kay Hafner

Managing Partner of HAFNER & CIE. Corporate Advisory Services GmbH

a) Baumarkt Praktiker Deutschland GmbH

b) Dietz Aktiengesellschaft
L. Stroetmann GmbH & Co. KG
ProFagus GmbH

Ebbe Pelle Jacobsen

Chairman of the management board ("PDG") of Delsey SA, France (until 31/03/2011)
CEO Delsey Holding International, Frankreich (since 01/04/2011)

a) Baumarkt Praktiker Deutschland GmbH

b) BoConcept A/S, Denmark (Chairman)
KVD Kvarndammen AB, Sweden (Chairman, since 01/04/2011)
Morpol ASA, Poland (Chairman, from 13/10/2011 until 09/01/2012)
Scandinavian Business Seating AS (formerly: HAG/RH/RBM Group), Norway (Chairman)
Sportamore AB, Sweden

Gabriele Kanter[1] (since 21/06/2011)

Business employee and Workers' Council Chairwoman of the Max-Bahr Schwerin branch of Baumarkt Max Bahr GmbH & Co. KG

a) Baumarkt Praktiker Deutschland GmbH

Ulrich Kruse[1]

Chairman of the General Workers' Council of Baumarkt Max Bahr GmbH & Co. KG

a) Baumarkt Praktiker Deutschland GmbH

Johann C. Lindenberg

Businessman

a) Baumarkt Praktiker Deutschland GmbH
BDO Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft (Chairman, since 07/07/2011)
Esso Deutschland GmbH
ExxonMobil Central Europe Holding GmbH
Gruner & Jahr AG & Co KG
Hamburg Messe und Congress GmbH (Chairman)

b) Elbphilharmonie Hamburg Bau GmbH & Co. KG
(Chairman)

Alexander Michel[1]

Department head of Praktiker AG

a) Baumarkt Praktiker Deutschland GmbH

Zygmunt Mierdorf

Management Consultant

a) Baumarkt Praktiker Deutschland GmbH
TÜV Süd AG (until 13/05/2011)

b) Wagner International AG, Switzerland

Cora Peters[1]

Dispatcher and Chairwoman of the General Workers' Council in the outlet Braunschweig (Kurze Kampstraße) of Baumarkt Praktiker GmbH
Deputy Chairwoman of the General Workers' Council of Baumarkt Praktiker GmbH

a) Baumarkt Praktiker Deutschland GmbH

Rigobert Rumpf[1]

Employee in the outlet Kaiserslautern of Baumarkt Praktiker Deutschland GmbH

a) Baumarkt Praktiker Deutschland GmbH

Hans-Josef Schmitz[1] (until 31/03/2011)

Chairman of the General Workers' Council of the head office of Baumarkt Max Bahr GmbH & Co. KG

a) Baumarkt Praktiker Deutschland GmbH

Jörg Wiedemuth[1]

Trade union secretary in the national administrative office of the ver.di union

a) Baumarkt Praktiker Deutschland GmbH
Kaiser's Tengelmann GmbH

Prof. Dr. Harald Wiedmann

Attorney at law, tax advisor, auditor

a) Baumarkt Praktiker Deutschland GmbH
Merz GmbH & Co. KGaA
Prime Office AG
ProSiebenSat.1 Media AG
Senator GmbH & Co. KGaA
Wincor Nixdorf AG (until 24/01/2011)
Wincor Nixdorf International GmbH (until 24/01/2011)

b) Berenberg Bank Joh. Berenberg, Gossler & Co. KG (Chairman)
FMS Wertmanagement AöR (until 22/03/2011)

Rüdiger Wolff[1]

Trade union secretary in the national administrative office of the ver.di union

a) Baumarkt Praktiker Deutschland GmbH
Galeria Kaufhof GmbH

42. Committees of the supervisory board

List of the committees of the supervisory board of Praktiker AG and their members in the reporting period:

Executive Committee

- Dr. Kersten v. Schenck (Chairman)
- Marliese Grewenig[1]
- Alexander Michel[1]
- Zygmunt Mierdorf

Audit Committee

- Prof. Dr. Harald Wiedmann (Chairman)
- Ulrich Grillo
- Ulrich Kruse[1]
- Johann C. Lindenberg
- Rigobert Rumpf[1]
- Hans-Josef Schmitz[1] (until 31/03/2011)
- Rüdiger Wolff[1] (since 01/04/2011)

Personnel Committee

- Dr. Kersten v. Schenck (Chairman)
- Marliese Grewenig[1]
- Alexander Michel[1]
- Zygmunt Mierdorf

Committee under Sec. 27 para. 3 MitbestG

- Dr. Kersten v. Schenck (Chairman)
- Marliese Grewenig[1]
- Ulrich Kruse[1]
- Zygmunt Mierdorf

Nomination Committee

- Dr. Kersten v. Schenck (Chairman)
- Johann C. Lindenberg
- Zygmunt Mierdorf

Committee for project Turkey

- Zygmunt Mierdorf (Chairman)
- Johann C. Lindenberg
- Rüdiger Wolff[1]

Committee for project portfolio adjustment

- Dr. Kay Hafner (Chairman)
- Ebbe Pelle Jacobsen
- Alexander Michel[1]

[1]Employee representatives

ASSURANCE OF LEGAL REPRESENTATIVES

"To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report gives a true and fair view of the course of business, including the business result, and the situation of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group."

Kirkel, Germany, 27 March 2012

The management board

Thomas Fox Markus Schürholz Josef Schultheis

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the Praktiker Bau- und Heimwerkermärkte Holding AG, Kirkel, comprising the statement of financial position, income statement and statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2010. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Section) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company´s Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

We are duly required to advise readers that the future of the Group as a going concern is threatened by risks described in the risk report of the Group management report in the section "Risks to the Group as a going concern". Here it is explained that the future of the Group as a going concern is dependent on the successful implementation of restructuring measures. In addition to many other measures, the extensive restructuring programme devised by the management also provides for the closure of stores in Germany, a restructuring of the international portfolio and a repositioning of the Praktiker brand in Germany. If the substantial inflow of funds required for this is not generated to the full extent, the future of the Group as a going concern will depend on the willingness of its management – as described in the Group management report – to take further measures to ensure its liquidity that can be implemented to the necessary extent and have an effect within the required time.

Frankfurt am Main, Germany, 27 March 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Philip Marshall	Dr. Ulrich Störk
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

OTHER DATA

REPORT OF THE SUPERVISORY BOARD

REPORT AND DECLARATION ON CORPORATE GOVERNANCE

REPORT OF THE SUPERVISORY BOARD FOR THE 2011 FINANCIAL YEAR

DR. KERSTEN v. SCHENCK
Chairman of the supervisory board

The 2011 financial year was dominated by fundamental decisions regarding the restructuring of the Praktiker Group. The development in the Group's economic situation was clearly negative in 2011 and decisive measures were necessary to halt and counteract this development. In a situation such as this, it was and is the duty of the supervisory board to work even more intensively with the management board and to critically examine and supervise decision-making processes with regard to the restructuring measures. The supervisory board of Praktiker AG performed these duties within its function as the controlling body by making its decisions in a number of meetings, conferences calls and written procedures after having received extensive information and conducted highly detailed discussions.

Monitoring of management

In the period under review, the supervisory board regularly monitored and advised the management board in line with and beyond its duties under the law, the Articles of Association, Rules of Procedure and the German Corporate Governance Code. The supervisory board was directly involved in all significant decisions relevant to Praktiker AG (formerly: Praktiker Bau- und Heimwerkermärkte Holding AG) and the Group by way of personal presentations and oral and written reports by the management board. The reports of the management board were sent in a timely manner in line with its reporting regulations and complied with the requirements of section 90 AktG. The management board explained the positioning of the company and the Group, the planned corporate strategy, business prospects both in Germany and abroad and the negative deviations in business from the set plans and targets, together with the reasons for these, to the supervisory board and discussed these matters with it in detail. The body also intensively examined the composition of the management board and discussed the appointment of new members in several meetings.

The Chairman of the supervisory board was in constant contact with the management board. He was kept informed of the current development in the company's business situation, key transactions and management board decisions at all times not just by way of the submission of minutes of management board meetings but also by way of personal meetings and information provided by telephone. Moreover he was notified of developments in the sales and earnings situation in a timely manner.

Meetings of the supervisory board

The supervisory board held ordinary meetings on 16 March, 26 May, 11 October and 21 December 2011. Extraordinary meetings of the supervisory board were held as required on 2 July, 26 July, 15 August and 24 November 2011. No supervisory board member attended less than half of the meetings.

These meetings intensively discussed the Group's negative business performance, its risk situation and strategic outlook in addition to the reports and documents submitted to the supervisory board. Any investments or divestments that were forthcoming in the period under review were discussed with regard to their strategic aspects and their socio-political impact. The supervisory board also discussed the measures taken by the management board with regard to risk management and compliance.

The supervisory board also made decisions by way of written procedure in three cases.

Discussions and resolutions primarily focused on the following areas:

- business performance and the economic situation,
- the "Praktiker 2013" programme and the restructuring taking into account the following key areas:
  - regular status report on the situation of the company and the Group,
  - Praktiker Germany marketing campaign,
  - presentation of the new base lines as an established controlling method
  - allocation of the planned expense of the programme,
  - restructuring appraisal and measures and decisions in connection with the restructuring,
- the adoption of the annual financial statements and the consolidated financial statements and the review of the management report and the Group management report for 2010,
- the proposal of the management board on the unappropriated surplus for 2010,

- the submission of a proposal to the annual general meeting for the appointment of the auditor and the awarding of the audit mandate in accordance with the resolution of the annual general meeting,
- the preparation for the annual general meeting 2011,
- the amendment of the Rules of Procedure, the reporting regulations and the schedule of responsibilities for the management board
- the amendment of the Rules of Procedure for the supervisory board,
- the financing structure,
- the leasing of new locations,
- planned conversions and modernisation,
- compliance with the recommendations of the German Corporate Governance Code,
- the budget for 2012 and planning for 2013/2014,
- the members of the committees of the supervisory board and
- management board matters.

The Rules of Procedure of the management board and supervisory board are designed such that all decisions of particular significance, particularly to the net assets, income and risk situation of the company, or decisions that are beyond the scope of the company's normal operations, require the approval of the supervisory board. All matters that the management board submitted to the supervisory board for its approval were discussed and approved in the presence of the management board – unless they were dealt with outside meetings.

Matters requiring approval in the 2011 financial year included the adoption of the budget for the year, measures to expand the Praktiker Group, shake out its location portfolio and other investments, the provision of collateral in the form of merchandise inventories, the borrowing of bilateral credit facilities, the reorientation of the backup data centre, restructuring measures including the intended structure of central functions in particular and the further financing of the Praktiker Group.

Proposals for resolutions to be passed by written procedure were always provided with introductory explanations. The management board and employees of the Group were available to respond to any queries.

At supervisory board meetings, the exchange of opinions on business developments and the situation of the company position was supplemented by detailed discussion of financial, investment and personnel planning. Any conflicts of interest were also discussed; there were no such conflicts among the members of the supervisory board.

Meetings of the committees of the supervisory board

The supervisory board has four committees with equal representation of shareholders and employees. These are the Executive Committee (four members), the Audit Committee (six members), the Personnel Committee (four members) and the Committee in Accordance with Section 27(3) MitbestG (four members). There is also a Nomination Committee consisting of shareholder representatives (three members), which is intended to propose suitable supervisory board candidates to the supervisory board which it submits to the annual general meeting. A committee was also formed on 8 July 2011 for the Turkey project and there was a committee on the portfolio shakeout project (each with three members).

The Executive Committee met six times in the period under review, on 16 March, 27 May, 2 July, 15 August, 11 October and 21 December 2011, and held conference calls on 8 July, 15 July and 16 December 2011. The Executive Committee also made one decision by way of written procedure. The members of the Executive Committee are Dr. Kersten v. Schenck (Chairman), Ms. Marliese Grewenig, Mr. Alexander Michel and Mr. Zygmunt Mierdorf. The main subjects discussed included

- the creation of a supervisory board committee on the Turkey project and a supervisory board committee on the portfolio shakeout project to advise the management board in a supporting capacity and to monitor planning and
- mandating the law firm Clifford Chance, for which the Chairman of the supervisory board is of counsel. The Chairman of the supervisory board abstained in the resolutions on mandating Clifford Chance.

The Audit Committee held five meetings – in some cases in the form of conference calls – on 15 March, 28 April, 26 July, 25 October and 20 December 2011. The members of the Audit Committee are Prof. Dr. Harald Wiedmann (Chairman), Mr. Ulrich Grillo, Mr. Ulrich Kruse, Mr. Johann C. Lindenberg, Mr. Rigobert Rumpf, Mr. Hans-Josef Schmitz (until 31 March 2011) and Mr. Rüdiger Wolff (from 1 April 2011). The main subjects discussed included

- the annual financial statements and the consolidated financial statements following their audit, the six-month and quarterly financial reports, each after being audited, and the discussion of the documents submitted with the management board and the representatives of the auditor,
- the preparation for the supervisory board's decision on the adoption of the separate and consolidated financial statements for 2010, the review of the management report of the company and the Group management report and the proposal by the management board for the unappropriated surplus,

- the qualifications and independence of the auditor and the additional services rendered by the auditor,
- the preparation of a proposal to the supervisory board for a resolution on the appointment of the auditor for the annual financial statements and the consolidated financial statements for 2011 and the audit review of the 2011 half-year financial report,
- the preparation for the granting of the audit mandate and the fee agreement,
- the preparation of the main areas of the audit and the audit report of the supervisory board,
- the monitoring of the accounting system, the effectiveness of the internal controlling system, the risk management system and the internal audit system,
- the monitoring of the compliance system and the anti-trust prevention measures,
- the recommendations of the German Corporate Governance Code,
- the risk situation,
- the liquidity position,
- analyses of inventory levels and old inventories,
- the situation on the capital market,
- the evaluation of analyst reports,
- the transparency of the terms for suppliers,
- write-downs and provisions for onerous contracts,
- the reorganisation of stores into a different structure and the portfolio shakeout,
- emergency preparedness and response (IT disaster recovery audit),
- the budget for 2012 and planning for 2013/2014.

The Nomination Committee, which consists of Dr. Kersten v. Schenck (Chairman), Mr. Johann C. Lindenberg and Mr. Zygmunt Mierdorf, did not meet in the period under review.

The Personnel Committee met six times in the period under review, on 16 March, 27 May, 2 July, 15 August, 11 October and 21 December 2011. It held a conference call on 16 December 2011. The members of the Personnel Committee are Dr. Kersten v. Schenck (Chairman), Ms. Marliese Grewenig, Mr. Alexander Michel and Mr. Zygmunt Mierdorf. Its main points of discussion were the changes in the composition of the management board.

The committee in accordance with section 27(3) MitbestG, comprising Dr. Kersten v. Schenck (Chairman), Ms. Marliese Grewenig, Mr. Ulrich Kruse and Mr. Zygmunt Mierdorf, had no cause to convene in the 2011 financial year.

The members of the committee on the Turkey project are Mr. Zygmunt Mierdorf (Chairman), Mr. Johann C. Lindenberg and Mr. Rüdiger Wolff. The duty of this committee is to advise and support the management board in its deliberations on the future of business activities in Turkey. The committee did not meet in the period under review.

The members of the committee on the portfolio shakeout project are Dr. Kay Hafner (Chairman), Mr. Ebbe Pelle Jacobsen and Mr. Alexander Michel. This committee is intended to advise and support the management board in its deliberations on the shakeout of the location portfolio. This committee did not have need to meet in the 2011 financial year.

The supervisory board as a whole was reported to on the work of the committees by the respective committee Chairmen at the respective subsequent meeting.

Corporate Governance

The management board and the supervisory board of Praktiker AG issued a declaration of compliance in accordance with section 161 AktG on 26 January 2011 and on 25 January 2012 and made this accessible to the shareholders on the company's Internet site in the period under review.

The details of corporate governance at Praktiker AG can be found in the corporate governance report (see pages 106 to 113 of this annual report).

Personnel matters

The employee representative on the supervisory board of Praktiker AG, Mr. Hans-Josef Schmitz, left the supervisory board as at 31 March 2011. Mr. Schmitz was succeeded on the supervisory board by Ms. Gabriele Kanter, who was appointed as a further member of the supervisory board of the company by way of resolution of the Saarbrücken District Court on 21 June 2011.

On 15 August 2011, the incumbent CEO, Mr. Wolfgang Werner, left the management board of Praktiker AG following prolonged discussions about the strategic management of the company. Mr. Josef Schultheis was appointed as a member of the management board as at 16 August 2011 and took on responsibility for the forthcoming restructuring work in addition to temporarily holding the position of CEO until Mr. Thomas Fox assumed office. Mr. Thomas Fox was appointed as a new member of the management board and CEO as at 1 October 2011.

Mr. Michael Arnold and Pascal Warnking resigned their positions on the management board, as was acknowledged and approved by the supervisory board in its meeting on 24 November 2011. Responsibility for Human Resources was transferred to the management board Member Josef Schultheis, who was also appointed as the new Labour Director.

Annual and consolidated financial statements for 2011

The annual financial statements (separate financial statements) of Praktiker AG were prepared in accordance with the provisions of the German Commercial Code. The consolidated financial statements were prepared in accordance with section 315a HGB on the basis of the International Financial Reporting Standards (IFRS) as applicable in the European Union.

The auditor of the financial statements, Pricewaterhouse-Coopers AG Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, audited the consolidated financial statements and Group management report in addition to the annual financial statements and management report of Praktiker AG, and issued them with unqualified audit opinions.

The main audit areas in the year under review were:

- the measurement of inventories and
- customs processing at the international companies.

The financial statements, management reports and audit reports on these statements and reports were submitted to the members of the supervisory board in a timely manner before the accounts meeting of the supervisory board. The documents concerned were discussed and examined in detail at the accounts meeting of the supervisory board and prior to this at a meeting of the Audit Committee that was also attended by the auditor. The auditor's representatives reported on the main findings of the audit, stating that there were no significant weaknesses in the internal controlling and risk management systems. They were also available to the Audit Committee and supervisory board to answer any questions and provide additional information. The supervisory board agreed with the findings of the audit by the auditor, which contained no objections.

In accordance with section 171 AktG, the supervisory board audited the annual financial statements of the company and the consolidated financial statements prepared by the management board together with the management reports, including with respect to the appropriateness of the accounting policy measures applied. After a final review, the supervisory board raised no objections. In particular, the supervisory board shares the assessment of the management board contained in the management report and the Group management report. The supervisory board approved both the annual financial statements and the consolidated financial statements. The annual financial statements of Praktiker AG are thereby adopted.

The supervisory board thanks the management board, the Workers' Council and all the employees of Praktiker AG and its associates in Germany and abroad for their commitment and work.

Kirkel, Germany, 15 March 2012
The supervisory board
Dr. Kersten v. Schenck
Chairman

REPORT AND DECLARATION ON CORPORATE GOVERNANCE

The following pages contain the corporate governance declaration in accordance with Section 289a of the German Commercial Code (HGB), which is a part of the management report, and the corporate governance report in accordance with Item 3.10 of the German Corporate Governance Code as amended 26 May 2010.

Corporate governance declaration

Declaration of compliance with the German Corporate Governance Code in accordance with Section 161 AktG of 26 January 2011

The management board and the supervisory board of Praktiker Bau- und Heimwerkermärkte Holding AG have issued the following declaration in respect of the recommendations of the "Government Commission on the German Corporate Governance Code" in accordance with Section 161 AktG:

Since issuing the last declaration of compliance on 27 January 2010, all recommendations of the German Corporate Governance Code as amended on 18 June 2009 (published in the electronic Federal Gazette on 5 August 2009) have been complied with.

All recommendations of the German Corporate Governance Code as amended on 26 May 2010 (published in the Electronic Federal Gazette on 2 July 2010) will be complied with in future.

Declaration of compliance with the German Corporate Governance Code in accordance with Section 161 AktG of 25 January 2012

In accordance with Section 161 AktG, the management board and the supervisory board of Praktiker AG issue the following declaration on the recommendations of the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice in the official Section of the Electronic Federal Gazette:

Since issuing its declaration of compliance of 26 January 2011, all recommendations of the German Corporate Governance Code (GCGC) as amended on 26 May 2010 and published on 2 July 2010 have been and will be complied with barring the following deviation:

In deviation from Item 4.2.3 (4) sentence 2 GCGC, in the employment agreements with the members of the management board except Mr. Fox and Mr. Schultheis, the calculation of the severance cap for variable remuneration is based not on the past and current financial year but the nominal amount of the target bonus. This prevents the target bonus, which can amount to up to three times its nominal amount depending on the results for the year, resulting in excessive severance pay.

Corporate governance practices that exceed statutory requirements

German Corporate Governance Code

Praktiker AG is committed to the principles of good and responsible corporate governance. In particular, this includes a close, constructive and trusting cooperation between the supervisory board and the management board dedicated to creating sustainable value added plus a culture of open corporate communications and intensive customer care.

The management board and the supervisory board of Praktiker AG comply with the principles of good corporate governance as expressed in the recommendations of the German Corporate Governance Code voluntarily and through conviction.

In addition, the German Corporate Governance Code also contains suggestions, on the compliance with which no declaration needs to be issued. The suggestions are as non-binding as the recommendations. Nevertheless, the management board and the supervisory board of the company comply with the suggestions of the German Corporate Governance Code insofar as this appears appropriate in the interests of the company and its shareholders. The German Corporate Governance Code as amended on 26 May 2010 was published in the electronic Federal Gazette by the Federal Ministry of Justice on 2 July 2010 and is publicly accessible on the Internet at www.corporate-governance-code.de.

Compliance Office

The activities of the Praktiker Group are subject to a wide range of legal provisions that vary not only according to the different business areas but also according to the different national markets on which the Group operates. The Compliance Office set up in 2009 coordinates all the compliance activities in the company and reports regularly to the management board, the Chairman of the supervisory board and the Audit Committee of the supervisory board. This is intended to ensure that the Praktiker Group, its corporate bodies and its employees are in accordance with the applicable regulations – including both the statutory regulations and those to which the Praktiker Group voluntarily submits. The Chief Compliance Officer reports directly to and is subordinate to the Chairman of the management board.

Compliance activities are based on a Group-wide compliance strategy, which follows a preventive approach. Significant elements of the compliance management are a whistleblower system for compliance breaches and a code of conduct. The whistleblower system, which was introduced throughout the Group in 2009, provides employees, business partners, customers and other third parties with an opportunity to report any suspected compliance breaches. In addition to the Chief Compliance Officer, also third-party external lawyers acting as ombudsmen are available for whistleblowers – anonymously if so desired. In financial year 2010, work started on the introduction of a comprehensive code of conduct, which was adopted in 2011. It encourages employees to take responsibility for their own actions while at the same time defining the boundaries of what they can do. In particular, the code of conduct contains the objectives and principles for business activity that the Praktiker Group expects from all the members of its management bodies and from all its employees. It emphasises the observance of fair working conditions, non-discrimination, data protection, avoiding conflicts of interests, preventing corruption, complying with anti-trust provisions and the proper handling of company information. Since 2012, employee training has been offered to optimise the understanding of the code and compliance with it in practice.

The range of information, training and consulting services offered by the Compliance Office in the 2010 financial year, particularly on issues such as anti-trust law, anti-corruption and general compliance domestically and abroad, was taken up by executive bodies, managers and employees at all levels.

This range was expanded further in 2011 to effectively assist all employees in their day-to-day work.

Work also focused on developing a decentralised compliance organisation in the 2011 financial year. A Group-wide network of local Compliance Officers and Compliance Managers was gradually established to support foreign Group companies and stores in promoting and ensuring compliance.

The provision of information and staff training will also be a key component of preventive compliance measures at Praktiker in 2012.

Internal findings from reporting and comparison with other compliance management systems contribute to the continual development and improvement of our compliance management system.

Procedures of the management board and supervisory board and the composition and procedures of its committees

Praktiker AG is a company under German law. A fundamental principle of the German law on stock corporations is the dual management system with a management board and a supervisory board.

The management board and the supervisory board work together closely for the good of the enterprise. In particular, the management board consults with the supervisory board on business strategy and its implementation and discusses this with it at regular intervals. The management board informs the supervisory board comprehensively, regularly and in a timely manner on all matters of planning, the develop-

ment of the business, the risk situation, risk management and compliance relevant to the company and describes deviations in business developments from planning and targets, including the reasons for this, in its reports to the supervisory board. The Chairman of the supervisory board maintains regular contact with the management board, particularly the Chairman of the management board, and discusses the strategy, business development and risk management of the company with him. The Chairman of the supervisory board is informed by the management board or the Chairman of the management board of key events of significance for the assessment of the situation and development, and for the management of the company or one of its subsidiaries without delay. The Chairman of the supervisory board then immediately informs the supervisory board and calls an extraordinary meeting of the supervisory board if necessary. The management board and the supervisory board discuss matters openly. Full confidentiality is therefore of crucial importance.

The management board

The management board of Praktiker AG has three members, one of which is also the Chairman. Further details on the members of the management board can be found on pages 6, 7, 97 and 98 of the annual report.

The management board manages the company on its own responsibility and in the interests of the company, i.e. taking into account the interests of its shareholders, employees and other groups affiliated with the company, with the aim of creating sustainable value added. The management board is collectively responsible for the management of the company's business. It makes decisions on basic matters of business policy and corporate strategy, their implementation and annual and multi-year planning. It also ensures appropriate risk management and risk controlling within the company.

In exercising their management duties and even outside work, the members of the management board do not pursue any interests that conflict with those of the company. If a member of the management board is subject to a conflict of interests, he discloses this immediately to the supervisory board and informs the other management board members. Furthermore, he must abstain from the decision making of the management board where a decision is made on the matter that could relate to his personal interests. There were no conflicts of interest reportable to the supervisory board on the part of the members of the management board in the period under review.

Legal transactions between Praktiker AG or one of its subsidiaries on the one hand and members of the management board and related parties to the management board or the company on the other require the approval of the supervisory board. Management board members can only take on sideline work, in particular supervisory board positions outside the company, with the approval of the supervisory board.

The Chairman of the management board coordinates the activities of the management board within the framework of the strategy stipulated by the management board – in accordance with the resolutions of the supervisory board – and works to establish a consistent management approach among all management board members. The Chairman of the management board can assign special duties that fall outside the scope of the allocation of responsibilities or that are not regulated to individual members of the management board. The Chairman of the management board represents the body externally and in particular, exercises the reporting duty of the management board to the supervisory board.

The members of the management board work together collegially and inform each other mutually of important measures and events within their business areas. Each member is obliged to bring about a resolution of the management board in the event of serious reservations with regard to a matter from another business area if the reservations cannot be resolved through discussion with the relevant management board member. The Chairman of the management board can demand information from each management board member on individual matters within his business area and stipulate if he is to be informed in advance of certain types of transactions.

Each member of the management board manages the business area assigned to them by the supervisory board in coordination with the Chairman of the management board on their own responsibility. A management board member is only entitled to issue instructions within his own business area – except in exigent circumstances. Measures that affect the business area of another management board member can only be taken after the management board member responsible has been consulted with and a resolution has been passed. Instructions issued in exigent circumstances cannot go beyond what is considered essential under due discretion to prevent risks. The members of the management board must be informed immediately.

In addition to all matters in which the law, the Articles of Association or the Rules of Procedure require a decision by the management board or the approval of the supervisory board, the responsibility of the management board as a whole includes, in particular, compliance with statutory provisions and the internal guidelines that it recognises as binding and the compliance with which it also ensures in Group companies and all other matters of fundamental or general importance.

Management board meetings must be held at least twice per month and are convened by the Chairman. An agenda is announced in good time in advance. Each member of the management board is authorised to apply for items to be added to the agenda. The meetings of the management

board are prepared and chaired by the Chairman of the management board. The results of the meetings are recorded in the minutes. A copy of the minutes approved by the management board is forwarded to the Chairman of the supervisory board immediately.

The management board can only pass resolutions if the subject matter was made known in advance in the agenda, more than half of all management board members, including the member whose business area is affected, are present or no management board member objects to the vote. The decisions of the management board are made in management board meetings or – if no management board member objects to this procedure – in writing by way of circulation procedure or by other means of telecommunication. Resolutions of the management board, unless stated otherwise by the law or the Rules of Procedure, are passed with a simple majority of the votes cast. Abstentions do not count as a cast vote. Each member of the management board has one vote. In the event of a tie, the vote of the Chairman of the management board counts twice.

In particular, the management board requires the approval of the supervisory board to implement decisions of particular significance to the net assets, income and risk situation of the company, or decisions that are beyond the scope of the company's normal operations.

The management board has no committees.

The supervisory board

The supervisory board has sixteen members, eight of whom are elected by the shareholders and eight of whom by the employees. Their names, professions and memberships in other supervisory boards required by law in German companies or in similar German and foreign supervisory committees of business enterprises are listed on pages 98 and 99 of this annual report.

The main task of the supervisory board is to regularly advise and monitor the management board in its management of the company. The supervisory board is involved in decisions of fundamental significance. It is responsible for appointing members of the management board, determining their areas of responsibility and determining their remuneration. It discusses the quarterly and half-year financial reports and audits, and approves the annual financial statements of the company and the Group, taking into account the reports of the auditor and the results of the Audit Committee's audit. The supervisory board specifies the information and reporting requirements of the management board in detail. In regular exchanges of ideas with the management board, the supervisory board is always informed of business policy, corporate planning and strategy. The supervisory board also approves the annual planning and the financing framework. It determines the overall remuneration of individual management board members at the proposal of the Personnel Committee and resolves on the remuneration system of the management board, which is regularly reviewed. The remuneration structure is geared towards the sustainable development of the company.

The members of the supervisory board are required to observe secrecy regarding confidential data and company secrets, namely operating and business secrets that become known to them through their work on the supervisory board or its committees. In particular, they must observe secrecy regarding confidential reports received and confidential discussions, voting, the course of debate, opinions and other personal comments by the individual members of the supervisory board. The obligation continues to apply even after their term in office as supervisory board members.

Each member of the supervisory board has an obligation to the interests of the company. It must not take advantage of personal interests or business opportunities available to the company for its own behalf or on behalf of related parties or enterprises in its decisions. Each supervisory board member must also disclose conflicts of interest to the supervisory board. There were no conflicts of interest reportable to the supervisory board on the part of the members of the supervisory board in the period under review.

The Chairman of the supervisory board coordinates the work of the body, chairs its meetings and manages its concerns externally. He guides the supervisory board's interactions with the management board and its members and regulates the details of their cooperation.

The meetings of the supervisory board are convened by the Chairman in writing, giving notice of at least two weeks, stating the place and time of the meeting and the items of the agenda with proposed resolutions. In urgent cases, this period can be reduced to three days and the meeting can be convened verbally or by telephone. If an item on the agenda has not properly been announced, a resolution on it can only be passed if no supervisory board member objects.

The meetings of the supervisory board are prepared by the shareholder and employee representatives separately, possibly with members of the management board. If necessary, the supervisory board meets without the management board.

The Chairman of the supervisory board chairs the meetings of the supervisory board and determines the order in which the items on the agenda are dealt with plus the manner and sequence of votes. The supervisory board is quorate if its members were invited at the last known address and at least half of the members of which it must consist in total participate in the resolution. An absent member can have his/her written vote submitted by another supervisory board member.

In urgent cases, resolutions can be passed outside meetings in writing, by fax or by e-mail if no supervisory board member objects to this procedure within a reasonable voting period set by the Chairman of the supervisory board.

Unless stated otherwise, resolutions of the supervisory board are passed by a simple majority of the votes cast, whereby abstentions do not count as a cast vote. If a vote leads to a tie, the Chairman, but not the Deputy Chairman, has two votes in a further vote on the same matter if this vote also ends in a tie. If a member of the supervisory board is subject to a conflict of interests, he must abstain from voting.

Minutes must be taken of meetings and resolutions of the supervisory board, signed by the Chairman of the meeting, and a copy must be issued to all supervisory board members.

Committees of the supervisory board

The supervisory board has formed four committees from among its members with equal representation of shareholders and employees. These are the Executive Committee, the Audit Committee, the Personnel Committee and the Committee in Accordance with Section 27(3) MitbestG. Furthermore, the supervisory board has formed a Nomination Committee consisting of shareholder representatives. A committee was also formed on 8 July 2011 for the Turkey project and there was a committee on the portfolio shakeout project. Each of the committees also has a sufficient number of independent members who have no business or personal relationship to the company or its management board. The Chairman of the supervisory board is on all the committees (except the Audit Committee, the committee on the Turkey project and the committee on the portfolio shakeout project) and chairs them.

The members of the Executive Committee are Dr. Kersten v. Schenck, Ms. Marliese Grewenig, Mr. Alexander Michel and Mr. Zygmunt Mierdorf. The Executive Committee is convened to prepare the meetings of the supervisory board if the Chairman considers this necessary. It deals, in particular, with the assessment of the operative strength, efficiency and potential of Praktiker AG and the Group against the background of the strategy and planning presented by the management board. In compliance with Section 107(3) sentence 3 AktG, it also passes resolutions in cases in which, in order to prevent significant disadvantage to the company, it does not appear reasonable to wait until the next meeting of the supervisory board and a decision by the supervisory board cannot be brought about by voting in the circulation procedure within the time available. The decision must be reported to the supervisory board in the following meeting. The Executive Committee also deals with other matters transferred to it by way of resolution by the supervisory board.

The members of the Audit Committee are Prof. Dr. Harald Wiedmann (Chairman), Mr. Ulrich Grillo, Mr. Ulrich Kruse, Mr. Johann C. Lindenberg, Mr. Rigobert Rumpf, Mr. Rüdiger Wolff (from 1 April 2011) and Mr. Hans-Josef Schmitz (until 31 March 2011). The Chairman is independent, is not a former member of the management board of the company and, as an auditor, has special knowledge and experience in the application of accounting policies and internal controlling procedures. The Audit Committee deals with matters of monitoring the accounting process, the effectiveness of the internal control system, the risk management system, the internal audit system and the audit of the financial statements, including in particular the independence of the auditor and the additional services performed by the auditor. It discusses and reviews the annual and consolidated financial statements prepared by the management board, the combined management report and the quarterly and half-year financial reports. On the basis of the auditor's report, the Committee makes proposals for the approval of the annual financial statements and the consolidated financial statements by the supervisory board. The Committee also deals with compliance, the engagement of the auditor, the determination of the focus of the audit and the fee agreement. It prepares the proposal of the supervisory board to the annual general meeting on the election of the auditor. The management board or the Chief Compliance Officer regularly report to the Audit Committee on the compliance organisation and inform it of any compliance matters arising. Likewise, the head of Internal Audit regularly reports to the Audit Committee.

The members of the Personnel Committee are Dr. Kersten v. Schenck, Ms. Marliese Grewenig, Mr. Alexander Michel and Mr. Zygmunt Mierdorf. The Personnel Committee prepares proposals on the remuneration system of the management board including the key elements of their employment contracts and submits these to the supervisory board for final determination. It also consults with independent remuneration experts for this purpose where appropriate. The Chairman of the Personnel Committee informs the supervisory board annually of the structure of the remuneration system of the management board and gives it the opportunity to discuss this, review the structure of the remuneration system of the management board and to adjust it if appropriate. In addition, in lieu of the supervisory board if the supervisory board is not responsible, the Personnel Committee resolves personnel matters of the management board and other legal transactions of the company with the management board members described in more detail in the Rules of Procedure of the supervisory board.

The members of the Committee in Accordance with Section 27(3) MitbestG are Dr. Kersten v. Schenck, Ms. Marliese Grewenig, Mr. Ulrich Kruse and Mr. Zygmunt Mierdorf. In co-determined enterprises such as Praktiker AG, the members of the management board are appointed by the supervisory board with a majority of at least two thirds of the votes of its members in accordance with Section 31(2) MitbestG. If a majority of two thirds is not achieved, the committee in ac-

cordance with Section 27(3) MitbestG must, under Section 31(3) MitbestG, make a proposal for appointment within a month of the vote; this proposal does not preclude other proposals. In the subsequent second vote, a candidate is elected if he/she achieves the absolute majority of the votes. The actual number of members of the supervisory board is decisive in this matter. If the absolute majority is not achieved in the second vote, a third vote can be conducted in which the Chairman of the supervisory board has two votes and the supervisory board is not bound by the proposals of the previous votes.

The members of the Nomination Committee are Dr. Kersten v. Schenck, Mr. Johann C. Lindenberg and Mr. Zygmunt Mierdorf. The Nomination Committee is responsible for proposing suitable candidates to the supervisory board for the election of new supervisory board members at the annual general meeting.

The members of the committee on the Turkey project are Mr. Zygmunt Mierdorf (Chairman), Mr. Johann C. Lindenberg and Mr. Rüdiger Wolff. The duty of this committee is to advise and support the management board in its deliberations on the future of business activities in Turkey.

The members of the committee on the portfolio shakeout project are Dr. Kay Hafner (Chairman), Mr. Ebbe Pelle Jacobsen and Mr. Alexander Michel. This committee is intended to advise and the support the management board in its deliberations on the shakeout of the location portfolio.

The regulations that apply to the internal order of the supervisory board also apply accordingly to the internal order of the committees. This also includes the methods of the committees. In particular, the Chairman of each committee has two votes in the event of a tie if a second vote on the same matter also results in a tie. The does not include the Committee in Accordance with Section 27(3) MitbestG.

Further information on the work of the supervisory board and the cooperation between the management board and the supervisory board can be found in the report of the supervisory board on pages 103 to 106 of the annual report.

Further information on corporate governance

Avoiding conflicts of interest

The supervisory board has, in its own assessment, a sufficient number of independent members who have no business or personal relationship with the company or its management board. No former management board member sits on the supervisory board. No supervisory board member exercises an executive or consultative position at a significant competitor of Praktiker AG or the Group. Consultancy or other service and work agreements between members of the supervisory board and the company existed indirectly with regard to Dr. Kersten v. Schenck, who works of counsel for the international law firm Clifford Chance. To the extent that the law firm Clifford Chance advised the company, the Executive Committee, which is responsible for this in line with a resolution by the supervisory board, granted its approval prior to each instance with Dr. v. Schenck abstaining from voting. In the year under review, Clifford Chance received a total of 470,856.62 euro (net) for its advisory services to the Praktiker Group.

Deductible in D&O insurance

In accordance with legal provisions, Praktiker Holding AG has concluded liability insurance for financial losses ("D&O insurance") for the members of its management board, including a deductible as required by law. A D&O insurance policy with an appropriate deductible has also been concluded for the members of the supervisory board in accordance with the German Corporate Governance Code.

Appointment to and remuneration of management board positions

The supervisory board ensures long-term succession planning together with the management board. In the event of forthcoming changes in the management board, the supervisory board also strives for diversity and, in particular, the appropriate representation of women. The supervisory board is aware that there are extremely few women in executive positions in German retail to date. Hence it appears difficult to require the company to appoint a certain number or percentage of women to the management board by a set date. The supervisory board has set an age limit of 65 for management board members.

In designing the remuneration of the management board, which contains fixed and variable components, both positive and negative developments are taken into account. When concluding management board contracts it is also ensured that payments, including benefits, to a management board member in the event of early termination of a position on the management board without good cause do not exceed twice the annual remuneration and are not paid for more than the remaining term of the contract. For reasons described in the declaration of compliance, in the employment agreements with the members of the management board except Mr. Fox and Mr. Schultheis, the calculation of the severance cap for variable remuneration is based not on the past and current financial year but the nominal amount of the target bonus. The Chairman of the supervisory board informs the annual general meeting of the principles of the remuneration of the management board and changes to them. For more information on the remuneration of the management board and the supervisory board, please see the separate remuneration report in the management report (pages 30 to 34 of the annual report).

Election to the supervisory board and goals for its composition

Candidates are elected to the supervisory board individually. Shareholders are notified of proposals for candidates for Chairmanship of the supervisory board.

When proposing candidates for election to the supervisory board, care is taken with regard to the composition of the supervisory board to ensure that its members collectively have the knowledge, abilities and professional experience needed to perform its duties. The Nomination Committee should only nominate candidates for election to the supervisory board who are not 65 by the time of their election. The international activities of the company and potential conflicts of interest should be taken into account when selecting candidates.

In the last elections to the supervisory board in 2008, the supervisory board already gave consideration to the concept of diversity and deliberately searched for female and international candidates to propose to the annual general meeting for election. While it was successful in identifying an international candidate who was then also elected by the annual general meeting, it was unable to identify a suitable woman also interested in a candidacy. In the event of it unexpectedly becoming necessary to reassign a position on the supervisory board, or at least for the next elections to the supervisory board in 2013, the supervisory board will again take great efforts to propose one, if not two, women for election to the supervisory board while maintaining the current size of the supervisory board. This number, again assuming that the size of the supervisory board remains constant, is then to be increased further when reassigning seats or electing new members. However, the supervisory board is unable to issue statements on the supervisory board representatives to be elected by the employees as the supervisory board has no influence on the selection of candidates by employees. However, as there have almost always been at least two women on the supervisory board as employee representatives since November 2005, there is reason to expect that this number will at least be retained in future, if not increased further.

Annual general meeting

The shareholders exercise their rights within the framework provided for by the Articles of Association before or during the annual general meeting held annually, and can speak there on all items on the agenda, ask questions on the affairs of the company and file relevant motions. The annual general meeting passes resolutions on all matters specified by law in a manner binding for all shareholders and the company. The management board presents the annual financial statements and the consolidated financial statements to the annual general meeting. The annual general meeting decides on the use of the unappropriated surplus and the official approval of the actions of the management board and the supervisory board. It usually elects the shareholder representatives to the supervisory board and the auditor. In addition, the annual general meeting decides, in particular, on amendments to the Articles of Association and significant business measures such as company agreements and transformations, the issue of new shares and of convertible and warrant-linked bonds and on the authorisation to acquire treasury shares. When issuing new shares, shareholders have pre-emption rights proportionate to their share of capital.

Each share of the company grants one vote. Each shareholder who registers in time is entitled to participate in the annual general meeting. Shareholders who cannot participate personally can have their voting rights exercised by a bank, shareholder association, a proxy nominated by the company and bound by the voting instructions or another authorised agent of their choice.

The Chairman of the supervisory board chairs the annual general meeting. He ensures the expeditious conduct of the annual general meeting and is guided thereby by the suggestion in Section 2.2.4 of the GCGC that an ordinary annual general meeting should end after four to six hours at the latest.

The invitation to the annual general meeting and the reports and documents to be made accessible to the annual general meeting are published in accordance with the provisions of stock corporation law and, including the annual report, are made available on the Internet page of the company.

Risk management

Dealing responsibly with business risks is one of the principles of good corporate governance. The management board also ensures appropriate risk management and risk controlling within the company. There are comprehensive Group and company reports, and control systems at the disposal of the management board, and the management of the Praktiker Group facilitating the tracking, assessment and controlling of these risks. The systems are developed further on an ongoing basis, adjusted to changing general conditions and reviewed by auditors. The management board regularly informs the supervisory board of existing risks and their development.

Details of risk management can be found in the risk report on pages 35 to 40 of the annual report. This also includes the report on the accounting-related internal control and risk management system.

Transparency

Shareholders, analysts, investors and the public are informed regularly and promptly by Praktiker AG of the situation at the company and significant business changes. The annual report, the half-year financial report and the quar-

terly reports are published within the specified time. Press releases and any ad hoc disclosures provide information on all current events and new developments.

A central information platform is provided by the website www.Praktiker.com. In particular, in addition to the Articles of Association and information on the management board and the supervisory board, this website features documents on the annual general meeting, financial reports and details of business activities. The dates for regular financial reporting can be found in this annual report and are listed with adequate prior notice on our website (www.Praktiker.com – Investor Relations – Financial calendar) and have been transmitted to the Frankfurt stock exchange and a national and international media cluster.

Events not publicly known that could considerably influence the price of Praktiker shares are announced immediately in ad hoc disclosures unless the company is exempt from the duty to publish these in individual cases. All persons working for the company and who have authorised access to insider information are and will be informed of the duties arising from insider law. If the company becomes aware of purchases, sales or other transactions resulting in holdings reaching, exceeding or falling below 3, 5, 10, 15, 20, 25, 30, 50 or 75 percent of the voting rights in the company, the company will publish this immediately.

The statutory requirements for publications and announcements and the obligations to transmit information and documents to the BaFin (Federal Financial Supervisory Authority) and the public registers have been and will be observed.

Directors’ dealings

In accordance with Section 15a WpHG, members of the management board, the supervisory board and their closely related parties are required by law to disclose the acquisition and sale of shares of Praktiker AG or of financial instruments based on them if the value of the transactions reaches or exceeds 5,000 euro within a calendar year. If the company was notified of such transactions, this information was published in the corporate register.

The members of the management board and the supervisory board do not hold shares in the company or financial instruments based on them, either individually or collectively, that directly or indirectly account for more than 1 percent of the shares issued by the company.

Accounting and auditing

The accounting of the Praktiker Group is in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union. The annual financial statements (separate financial statements) of Praktiker AG are prepared in accordance with the provisions of the German Commercial Code. The separate financial statements and the consolidated financial statements are prepared by the management board and audited by the auditor and the supervisory board. The quarterly reports and the half-year financial reports are discussed by the Audit Committee with the management board prior to publication. The consolidated financial statements accounts are available within 90 days of the end of the financial year, the interim reports within 45 days of the ending of the period under review.

PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, audited the consolidated financial statements and the separate financial statements. It also conducted the audit review of the half-year financial report and the quarterly reports. The auditor is independent. The focus of the audit was determined together with the auditor and it was agreed that possible grounds for exclusion or prejudice arising during the audit would be resolved or reported immediately. The supervisory board also has arranged with the auditor for it to report immediately on all findings and events significant to the duties of the supervisory board that may arise during the performance of the audit, and that the auditor informs it or notes in its audit report if it identifies matters in the course of the audit which result in the declaration on the German Corporate Governance Code issued by the management board and the supervisory board being incorrect.

The company also publishes a list of third-party enterprises in which it holds an interest not insignificant to the company, stating the name and registered office of the company, the amount of its interest, the amount of the equity capital and the result of the last financial year.

The Praktiker Group operates DIY stores in nine European countries. Praktiker offers a full assortment of products and services for a wide range of applications including construction, renovation, home repairs, home improvement, gardening and leisure. In Germany, the Group provides its DIY expertise through two brands, Praktiker and Max Bahr. Praktiker offers all of its customers, from price-conscious occasional do-it-yourselfers to quality-focused professional craftsmen, a comprehensive range of products that is structured in line with demand. The product range includes both high quality items from well-known brand manufacturers and private labels, characterised by a particularly favourable cost/benefit ratio. The wide variety of products is complemented by a range of services, spanning from wood cutting to trailer rental. Praktiker looks back over a thirty-year history, while Max Bahr celebrated its 130th anniversary in 2009. With its competence and many years of experience in the DIY business, the Group has achieved a very high level of brand awareness in all countries in which it operates. Over 100 million customer contacts per year and an extensive market presence are evidence of the outstanding position occupied by the Praktiker Group in Germany and abroad.

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Disclaimer
This annual report contains forward-looking statements that are based on certain assumptions and expectations at the time of the publication of this annual report and therefore are subject to risks and uncertainties. Many of these risks and uncertainties relate to factors that are beyond Praktiker Group's ability to control or estimate precisely, such as future market conditions and economic developments, the behaviour of other market participants, the ability to achieve anticipated synergy effects as well as legislative and political actions. Therefore it cannot be ruled out that actual events may differ not just insignificantly from the forward-looking statements made in this annual report. If the statements made in this annual report therefore prove to be incorrect, the actual events or results could differ significantly from the results which are included directly or indirectly in the forward-looking statements made here. The Praktiker Group does not undertake any obligation to update any forward-looking statements to reflect events or circumstances that occur after the publication date of this annual report.

Only the German version of this annual report is legally binding. The company cannot be held responsible for any misunderstandings or misinterpretations arising from this translation.