- The spoken word takes precedence -

2007 Shareholders' Meeting

Address by Dr. Henning Kreke,
President and CEO, DOUGLAS HOLDING AG

Ladies and Gentlemen,
Shareholders,
Friends of the DOUGLAS Group,

On behalf of the DOUGLAS HOLDING AG Executive Board, I'd like to extend a very warm welcome to this year's Shareholders' Meeting. We want to thank you all for the trust you place in us, and are delighted that you have once again taken the time here in Hagen today to learn about the performance of your company.

In the next half-hour I'd like to give you an overview of the main results from the past financial year and the major challenges facing us in the future.

As the Chairman of the Supervisory Board has just mentioned, there have been several changes to the Executive Board.

After 36 years of service for our Douglas perfumeries, Claus Mingers will be leaving the Board on March 31.

Mr. Mingers, I too – on behalf of the entire Executive Board – would like to express my most sincere thanks for all your good work in the past, and for the open-minded and invariably fair way you have always conducted yourself. I have always thoroughly enjoyed debating the best way forward for our Perfumeries division with you. Mr. Mingers: the successes posted by our Douglas perfumeries will always be associated with your name.

Mr. Mingers will be succeeded by Mr. Reiner Unkel. I am delighted that, in Mr. Unkel, we have a new team member who – in the year's first few months – has already demonstrated that he doesn't only understand our business of lifestyle in retailing extremely well, but is also highly attuned to the people he works with, whether they be colleagues or customers.

Since October of last year we have also had a new Chief Financial Officer. Using all his outstanding business acumen, Dr. Burkhard Bamberger will be entrusted with the company's purse strings. That, however, is not to suggest that he doesn't support the dividend being proposed here today.

I have great confidence that the Executive Board – even in this new constellation – will succeed in adhering to the earnings-oriented course pursued by all of our divisions, and wish Mr. Unkel and Mr. Bamberger every success in the arena of "retailing with heart and mind."

Let me turn now to the past fiscal year, which saw us presenting our consolidated financial statements in accordance with IFRS for the first time, as prescribed by international accounting regulations. With a few exceptions, which are fully detailed in the Annual Report provided, the transition to the International Financial Reporting Standards has had little impact on our results and ratios.

All in all, the **2005/2006 financial year** proved a successful year for DOUGLAS HOLDING. We maintained our earnings-oriented growth and – based on DVA, DOUGLAS Value Added – further increased the value of our company. **Consolidated sales** were up 10.9 percent to approximately 2.7 billion EUR during the year. **Pre-tax earnings** were 8.3 percent higher at some 129 million EUR.

For the past financial year, we had originally targeted a sales increase of 8 to 10 percent and a result from ordinary business activities of between 125 and 127 million EUR. As these figures show, we actually once again slightly surpassed our own targets. With an EBT margin – or return on sales – of 4.8 percent, we still rank among the best performers in the German retail segment.

Before I move on to the other results and ratios, I want to raise an issue that caught the German retail industry completely unawares in 2006. I am referring to the dramatic case of embezzlement at the money-transport firm Heros. In total, some 550 to 600 million EUR of customers' money were misappropriated by the company. Unfortunately we too have lost just under 10 million EUR at Heros – an amount that almost defies belief.

The DOUGLAS Group may not have been as badly affected as some retail organizations, but that doesn't change the fact that the cash is gone.
And although we took out two insurance policies with Mannheimer Versicherung which specifically included the risk of embezzlement at Heros, Mannheimer is still refusing to cover the loss.

Whereas, at our last Shareholders' Meeting, I believed that the Heros scandal would only have a limited impact on the DOUGLAS Group, I have to inform you today that we have now instituted legal proceedings to force Mannheimer Versicherung to pay out the missing amount. At the present time, we have no idea when or if the loss will be covered, and have therefore made a full allowance for this situation during our 2005/2006 financial year. Fortunately – if it is possible to refer to fortune of any kind in this context – we succeeded in completely compensating the Heros loss by selling our Appelrath-Cüpper building in Dortmund. As a result, our earnings before taxes (EBT) were the same as they would have been, had the embezzlement at Heros never occurred.

But let me now return to the other figures and ratios for the past financial year:

The DOUGLAS Group's **EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization** – rose during the financial year to 243 million EUR following some 229 million EUR twelve months earlier. The EBITDA margin – the ratio between EBITDA and total revenue – was 9.1 percent following 9.5 percent the previous year. This minor decline is primarily due to the dynamic growth of our Books division which, owing to the conditions prevailing in the German book retailing industry, recorded an EBITDA margin below the Group average.

Happily, we also registered growth in another important area: our **DVA or DOUGLAS Value Added** – which measures the increase in value of the DOUGLAS Group – improved from approximately 26 million EUR to 31 million EUR last year. Once again, our Douglas perfumeries generated the highest rise in DVA. But our Thalia retail bookstores and Hussel confectionery shops also covered their cost of capital. While our Jewelry division only just fell short of its previous year's total, the DVA performance of our Fashion division proved the only real disappointment. Nevertheless, the DOUGLAS Group as a whole posted its highest

DVA score since the Douglas Value Added model was introduced in 2001. As a result, the Group's value rose still further.

Yet again, our good sales, earnings and DVA performances were due first and foremost to our **employees**. On behalf of everyone on the Executive Board, I would like to express my profound thanks to them for their commitment, enthusiasm and dedication to serving our customers. It is a source of pride to us that we have succeeded in increasing the size of our workforce to almost 22,400 at the present time. We are also pleased that the number of staff we employ in Germany has grown significantly as well. During the same period, the number of apprentices and trainees on our books also rose. Today almost 13 percent of our personnel in Germany are **apprentices**; an above-par proportion for our segment. As such, we believe that the DOUGLAS Group is also making an important contribution in the area of corporate social responsibility. For many years we have been offering above-average numbers of young people the chance to launch stimulating and interesting careers. And that's mutually beneficial, because many of these former trainees now occupy management positions within our Group.

The **Innovation Competition** we launched as part of our Year of Innovation in 2006 demonstrated just how dedicated and creative our people are. We asked the employees at our stores and service centers in Germany and beyond to send us their innovative ideas and suggestions for improvements.

When we first planned this competition, we had expected a few hundred submissions at best. What actually happened was simply sensational. As it transpired, we received over 3,000 suggestions. We have already adopted many of these and want to institute many more as soon as humanly possible. Employees have already been awarded attractive prizes for the best ideas: Like the suggestion for a group-wide exchange of knowledge, crystallized in the phrase "If DOUGLAS knew what DOUGLAS knows." Or the idea of establishing a prize for exceptionally efficient and successful suppliers. The proposal to offer children a *Thalia Readers' Pass* – with the aim of nurturing an interest in books and stories – also captured our imaginations.

As you can see, the ideas were as diverse as they were innovative and creative. I'd like to take this opportunity today to say a big thank-you to all those who took part in this competition and made such valuable contributions to the future of the DOUGLAS Group!

But let's turn our attention back to the past financial year. Needless to say, we want you – our shareholders – to benefit from our Group's satisfying performance as well. For this reason, the Supervisory and Executive Boards are proposing today that an increased dividend of 1.10 EUR per no-par value share be distributed for the 2005/2006 fiscal year. Given the dividend of 1 EUR in the previous year, this represents a rise of exactly ten percent. All in all, we plan to distribute some 43 million EUR on capital of around 118 million EUR.

With this recommendation, we are maintaining our consistent and simultaneously attractive policy towards dividends. We traditionally aim for a disbursement ratio of some 50 percent of our net income. During the past financial year, the rate was approximately 57 percent, and therefore slightly above our target. Based on the current price of our shares – about 44 EUR – the projected dividend represents a dividend yield of about 2.5 percent, in our view a more than respectable figure as well.

The price of DOUGLAS shares has also been a source of satisfaction, increasing from 31.60 EUR to about 36.90 EUR within the last financial year. The price has therefore risen by some 17 percent during this period. Taking into account the dividend paid last year, our shares have risen in value by some 20 percent.

The DOUGLAS Group's performance has also won over our analysts, with 16 of them continuing to recommend that investors purchase our shares (hold: 7; sell: 3). In our view, this testifies to the broad approval of the capital markets for our organization's strategy.

Before moving on, I would like to mention some of the major financial figures from our income statement in the past year. Group **capital expenditures** totaled some 141 million EUR following just under 122 million EUR the previous year. Once again, the majority of this sum went towards fueling the ongoing international growth of our Douglas perfumeries. But we also invested heavily in the expansion of our Books division. All in all, the DOUGLAS Group opened 106 new specialty stores during the year, including 54 perfumeries, 24 bookshops, nine Christ jewelry stores, two Appelrath-Cüpper fashion stores, and 17 Hussel confectioneries. Over and beyond this, we also made investments in modernizing existing branches, with the aim of being able to present an up-to-the-minute image at as many locations as possible. In total, the number of specialty stores we operate rose to 1,549.

These investments were balanced by depreciation of around 100 million EUR. Given the Group's growth, our balance sheet total was 1.6 billion EUR, up approximately 12 percent. Our equity ratio calculated in accordance with IFRS was approximately 37 percent at the end of the financial year, underlining the financial potential available to power further expansion activities both within Germany and beyond.

In the past year, the DOUGLAS Group has sold some 350,000 own shares at an average price of 39.41 EUR, thereby increasing its liquidity by some 14 million EUR.

Under agenda item 5 we are nonetheless asking you to once again authorize the purchase of treasury stock up to a value of 10 percent of our share capital. This authorization would give the Executive Board the freedom required to use treasury stock effectively on the capital markets.

Let me now turn to developments in our various divisions:

The **Douglas perfumeries** succeeded in further extending their leading position in the European market. Our 937 perfumeries posted revenues of some 1.6 billion EUR. That represents an increase of 13.9 percent.

EBITDA during the period under review rose to almost 177 million EUR, following 157 million EUR twelve months earlier.

Happily, the Douglas perfumeries also reported a 4.3 percent sales increase in Germany for a total of some 839 million EUR. That is important for us because – in respect to both our revenues and our earnings – Germany remains the Group's most important market.

Our Douglas perfumeries performed even better outside Germany, continuing their rapid expansion both by means of organic growth and through acquisitions in France, Spain and Portugal. Turnover outside Germany rose by 27.7 percent to some 720 million EUR. As a consequence, the foreign subsidiaries' share of total perfumery sales climbed to over 46 percent, after 41 percent the previous year. Following the May 2006 opening of its first store in Turkey (in Istanbul), the Perfumery division is now represented in 18 countries. Moreover, during the past year we also opened our five-hundredth perfumery outside Germany. As a result, the number of locations abroad is higher than in our domestic market, as was indeed already the case last year.

Now let’s take a look at our Books division: Both by opening its own new bookshops and securing acquisitions, the **Thalia Group** posted **powerful** growth and further cemented its good market position in German-speaking Europe. Sales at the 178 bookstores in Germany, Austria and Switzerland were 19.5 percent higher at 551 million EUR.

EBITDA in the Books division rose by 26.5 percent to almost 37 million EUR following just under 29 million EUR the previous year.

In Germany, sales at the 134 bookshops were 23 percent higher at nearly 409 million EUR, which means that Thalia once again outperformed the market as a whole. The 26 Gondrom locations and other smaller companies acquired at the start of 2006 also contributed towards the positive sales trend.

The subsidiaries in Austria and Switzerland registered a cumulative sales increase of 10.5 percent for total turnover of 142 million EUR. With 26 retail bookstores in Austria and 18 in Switzerland, the Thalia Group has secured a leading market position in both countries.

Beyond this, Thalia has further extended its multi-channel strategy through its partnership with the Internet bookstore buch.de. No other market player can claim such a high-quality combination of fixed-location and online bookselling services.

In the **Jewelry division**, Christ and René Kern saw their sales increase by 2.9 percent to 297 million EUR.

EBITDA in the Jewelry division totaled 19 million EUR after slightly less than 22 million EUR the previous year.

The approximately 200 jewelry stores operated by Christ posted a 1.1 percent gain for total sales of 248 million EUR. Nine new locations were opened and numerous branches modernized. As a result, Christ again succeeded in further extending its leadership of Germany's jewelry and watch retailing segment.

Developments at René Kern proved extremely encouraging. The seven luxury jewelry stores increased their sales by 13.4 percent for a total of 49 million EUR.

By contrast, we could not be happy about developments in our **Fashion division**.

Overall, the consolidated sales of Appelrath-Cüpper and Pohland were in fact 7.4 percent up at almost 191 million EUR. However, that was mainly because 12 months of Pohland sales during fiscal 2005/2006 were compared to nine months in the previous financial year – due to the fact that Pohland was not fully consolidated until January 2005. In like-for-like sales, we saw declines of 5.9 percent at our Fashion division.

Looking at the big picture, we should bear in mind that the year proved difficult for the entire fashion industry. During both the Spring/Summer and Fall/Winter seasons, the less than favorable weather quashed any hopes of higher sales. Nevertheless, we have no option but to concede that our Fashion division performed below its segment average.

EBITDA in the Fashion division was just under 12 million EUR following some 21 million EUR twelve months earlier. However, the figure for 2004/2005 also contained approximately 6 million EUR from the divestment of our minority interest in the BiBA fashion company.

In contrast to the generally disappointing developments in our Fashion division, our **Confectionery division** increased its sales by a gratifying 5.1 percent to 80 million EUR during the year. This enabled Hussel to further cement its market-leading position in the German confectionery market. In Austria too, Hussel once again expanded its presence.

The Confectionery division improved its EBITDA from about 4 million to approximately 5 million EUR.

Let us now move on to the Group's outlook and challenges awaiting it in the future:

The DOUGLAS Group has made a **good start to the new financial year**. We were completely satisfied with our holiday season activities. With an increase in like-for-like sales of over 4 percent, we performed significantly better than during the **Christmas seasons** of previous years. A slight improvement in consumer sentiment and – in some cases – marginally higher spending levels before the rise in sales tax played a role in this development.

In contrast, revenues in January fell slightly below expectations. This too was partly due to the higher sales tax rate, although this time the increase had the opposite effect. In February, however, the overall trend improved again slightly. As a result, **sales after five months** of our new financial year were 12.1 percent higher than in the previous year's period at 1.4 billion EUR.

During the October to February period, revenues were up 9.0 percent at our Douglas perfumeries, 24.1 percent – mainly as a result of acquisitions – at our Thalia bookstores, 4.6 percent in our Jewelry division (Christ, René Kern), 11.8 percent in our Fashion division (Appelrath-Cüpper, Pohland), and 23.1 percent – also following a major acquisition – at our Hussel confectionery stores.

In like-for-like terms as well, the DOUGLAS Group exceeded its previous year's turnover by a very presentable 3.6 percent.

In light of this trend, we are confident of achieving **our targets** once again in this financial year. All in all, we are anticipating sales to rise between 8 and 10 percent and our pre-tax earnings to range between 139 and 142 million EUR.

With an equity ratio of some 37 percent and healthy earnings, we will be powerfully positioned to post further value-oriented growth both in Germany and beyond. To this end, the Group will be leveraging an investment budget of some 160 million EUR. In addition to generating organic growth by opening its own new stores, the DOUGLAS Group will also grow by means of joint ventures and acquisitions – whenever profitable opportunities arise. Our Douglas perfumeries and Thalia bookstores will remain the main focuses of capital expenditure.

Of the investment budget of 160 million EUR I mentioned before, about 90 million EUR will be dedicated to powering the value-oriented growth of our **Douglas perfumeries** alone. Some 50 to 60 new venues are due to open their doors. Additionally, we will be modernizing numerous existing perfumeries and investing them with an updated and attractive new ambiance.

At the same time, we are reviewing the possibility of establishing our Douglas perfumeries in new markets such as Greece or the Baltic States. Our goal is to transform the good German brand Douglas into a pan-European brand. Over 6 million satisfied Douglas card holders across Europe prove that we are already well on our way to achieving this goal in the near future.

Given our **rapid international expansion**, another major event is just around the corner – the opening of our **one-thousandth Douglas perfumery**. We may even pass this milestone during the current calendar year.

As a part of its international expansion strategy, Douglas is also considering if and when entering the fast-growing markets of China, India and the UAE might be worthwhile. It remains to be seen whether we will actually take that step; moves like these require a through strategic review and very careful analysis in advance of any action.

But notwithstanding the dynamic international growth, we would like to continue expanding in Germany, too. In our view, our domestic market holds the potential for some 500 Douglas perfumeries.

In the Books division we will continue to generate value-oriented growth. By concluding acquisitions and opening numerous new stores, the Thalia Group has already **paved the way for further expansion**: in Austria it acquired the traditional Wagner'sche bookstore in Innsbruck, and in Germany a 50.1 percent stake in the 22 bookshops operated by Grüttefien GmbH – both during October 2006.

Since January 2007, the 44 locations operated by the Buch & Kunst Group have also been part of the Thalia family. We are delighted that this organization too has decided to partner with Thalia. Together, we can view the future with confidence.

In addition to acquiring interests in leading local and regional booksellers, Thalia remains committed to generating organic growth by opening its own new locations. Some 20 new venues are due to open this financial year in Germany, Austria and Switzerland, with numerous others being upgraded and modernized.

Ladies and Gentlemen, many of you probably followed the news last year about the merger of **Hugendubel and Weltbild plus** and the launch of the new company DBH. In this context, there has been plenty of comment and speculation about a "realigned" German book market. The truth is, however, that – calculated by sales area – **Thalia is still Germany's largest bookselling group**. Furthermore, following our acquisition of Buch & Kunst, we have probably regained a slight lead in terms of revenues as well. I am confident that our proposed expansion program will enable us to consolidate and extend this lead in the future.

In the **Jewelry division**, our focus this fiscal year is firmly on expanding Christ. The goal is to systematically extend the Christ brand's market-leading position in Germany and to clearly establish it as the most popular source of attractive jewelry and fine watches in the mid- to upper price ranges. To this end, we are planning to open at least five new Christ jewelry stores and to modernize numerous others. All in all, Christ is making good headway and should benefit more than most if and when the economy picks up.

Our René Kern stores, which are positioned in the jewelry market's luxury segment, operate from first-class locations in the major cities of Hamburg, Berlin, Düsseldorf and Frankfurt. René Kern will be further extending its brand competence with high-quality jewelry and luxury watch brands such as Rolex, Patek Philippe and Cartier. We aim to establish René Kern as the top jewelry store wherever it is found.

In the **Fashion division**, following a phase of expansion, Appelrath-Cüpper will be focusing strongly on modernizing existing venues. In addition to the stores in Cologne and Dortmund, which were fully renovated and upgraded in January and February, the locations in Essen and at the Main-Taunus Center outside Frankfurt will be outfitted in a brand new, updated look.

In terms of service, ambiance and merchandise, we have posted good progress at numerous **Pohland** stores. Unfortunately, however, this has not had the desired effect on sales and earnings at the majority of locations. As a consequence, we have initiated a comprehensive restructuring program at Pohland. In a nutshell: **we are monitoring developments at Pohland very closely**. The aim of this program is to identify ways in which Pohland can both meet the Group's lifestyle criteria – by providing top service, top quality and a top shopping ambiance – and cover its cost of capital on a sustained basis.

In contrast, our **Confectionery division** is still on track for renewed growth. The store network is being progressively updated and numerous new locations added with a view to boosting earnings. Ten new venues are planned for the current financial year, divided equally between Germany and Austria. With the takeover of the 86 Susi candy stores in November last year, Hussel recorded a major surge in growth, enabling it to further cement its leading position in the German confectionery segment.

The gratifying evolution of Hussel in Germany and the potential available in Austria make us confident that our confectionery specialist will maintain its earnings-oriented growth in the future.

Ladies and Gentlemen,

But what challenges lie ahead for the DOUGLAS Group?

As is the case with other retail organizations, the key success factors for the DOUGLAS Group have been clearly identified. In my view we need to focus on three main areas:

First and foremost, success in specialty retailing is all about having really good personnel. Only those providers with the best and most highly motivated teams will ultimately succeed in building a loyal customer base. Or, in other words: There are no enthusiastic customers without enthusiastic employees! For this reason, the most important challenge facing us is to sustain and even improve motivation levels within our Group.

But even the best and most dedicated employee can only create enthusiastic customers if he or she is deployed in the right place. That's why, in our eyes, selecting the best stores in the best locations – at an affordable price AND with lots of potential for growth – is our second key to success in the future.

But sustained success in retailing is only possible if – in addition to having enthusiastic staff at prime locations – we stock merchandise tailored precisely to the needs of the customers. We must therefore make it our goal to invariably offer our customers the most popular products at fair prices.

Customers will only view us as a partner offering the good things in life if this trinity of key factors – enthusiastic personnel, first-class locations and genuinely appealing product ranges – exist in perfect harmony. Only then will customers return to our stores time and time again.

But we remain committed – and this is an article of faith for us – to the principle of decentralized management. We want to be close to our customers! And to achieve this, we need helpful and capable employees operating locally in our stores who make decisions in the interests of their customers. That entails the delegation of decisions, and it's crucial that we give our teams this power. Our objective must therefore be to instill an entrepreneurial spirit in as many of our employees as possible.

Having looked into the future and seen the challenges ahead, let us now return to the present. We have chosen the theme "Keep it simple!" for the year 2007. We want to review all of our processes and organizations with the aim of increasing their efficiency, enhancing their impact, and eliminating any unnecessary complexity. Because we need to devote our capacities to what really counts: finding more time for our customers, more time for discussions between managers and their teams, and more time for new projects. Complicated processes, superfluous operations and too much coordination and administration can stop us from achieving this objective. And for this reason, we have resolved to "keep it simple" whenever possible in the future.

The ability to change is crucial here, because organizations are only as good as their ability to adapt to constantly evolving needs. For this reason, it is necessary for us to bolster our decentralized management structure still further, without losing sight of the potential for synergies. Ultimately we adhere to the credo: "As much decentralization as possible, as much centralization as necessary."

Before closing, allow me to add a few words on the liberalization of store opening hours here in Germany. We explicitly welcomed this move in the DOUGLAS Group. Now retailers can decide for themselves when and how long they want to open their stores. Unfortunately, however, our initial experiences with the new opening hours have proved somewhat disappointing. With few exceptions, the trade's hopes for opening hours beyond 8 p.m. were dashed, even in the traditionally high-selling month of December. As might be expected, the late-evening sales on Fridays and Saturdays were higher than during the rest of the week.

It remains to be seen which opening hours make sense on which days during the rest of the current year. Ideally, however, consistent opening hours should apply on the various days of the week in individual cities, so that customers know exactly where they stand. For instance, we can well imagine stores staying open until 9 p.m. on Fridays and Saturdays in the key shopping areas of major German cities. But ultimately the customers themselves will let us know when and where they want to shop – with their wallets. Needless to say, we are hoping that shoppers keep flocking into our stores during the upcoming Easter sales period.

On behalf of everyone on the Executive Board, I'd now like to wish you all a successful, happy and healthy 2007.