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# KINGFISHER

Interim results 2005/06

Slides will be available at  
[www.kingfisher.com](http://www.kingfisher.com)



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**Sir Francis Mackay**

Chairman



# H1- UK particularly tough, solid progress internationally

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- UK
  - Weak market, rising costs
  - New B&Q management team
  - Actions to improve trading and reposition the business
  - One-off costs in the second half
- France
  - Softer market
  - Twin-track development of Castorama and Brico Dépôt
  - Market share growth continues
- Rest of Europe and Asia
  - Continued store expansion
  - OBI acquisition in China
  - Entered South Korea, Russia due 2006



# Kingfisher – a strong international position with room for growth

	Market Size	Market Share
UK	£28bn	16%
France	£32bn	8%
ROE	£28bn	2%
Asia	£28bn	<1%
<b>Total</b>	<b>£116bn</b>	<b>7%</b>

628 stores in 10 countries across Europe and Asia



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**Duncan Tatton-Brown**

Group Finance Director



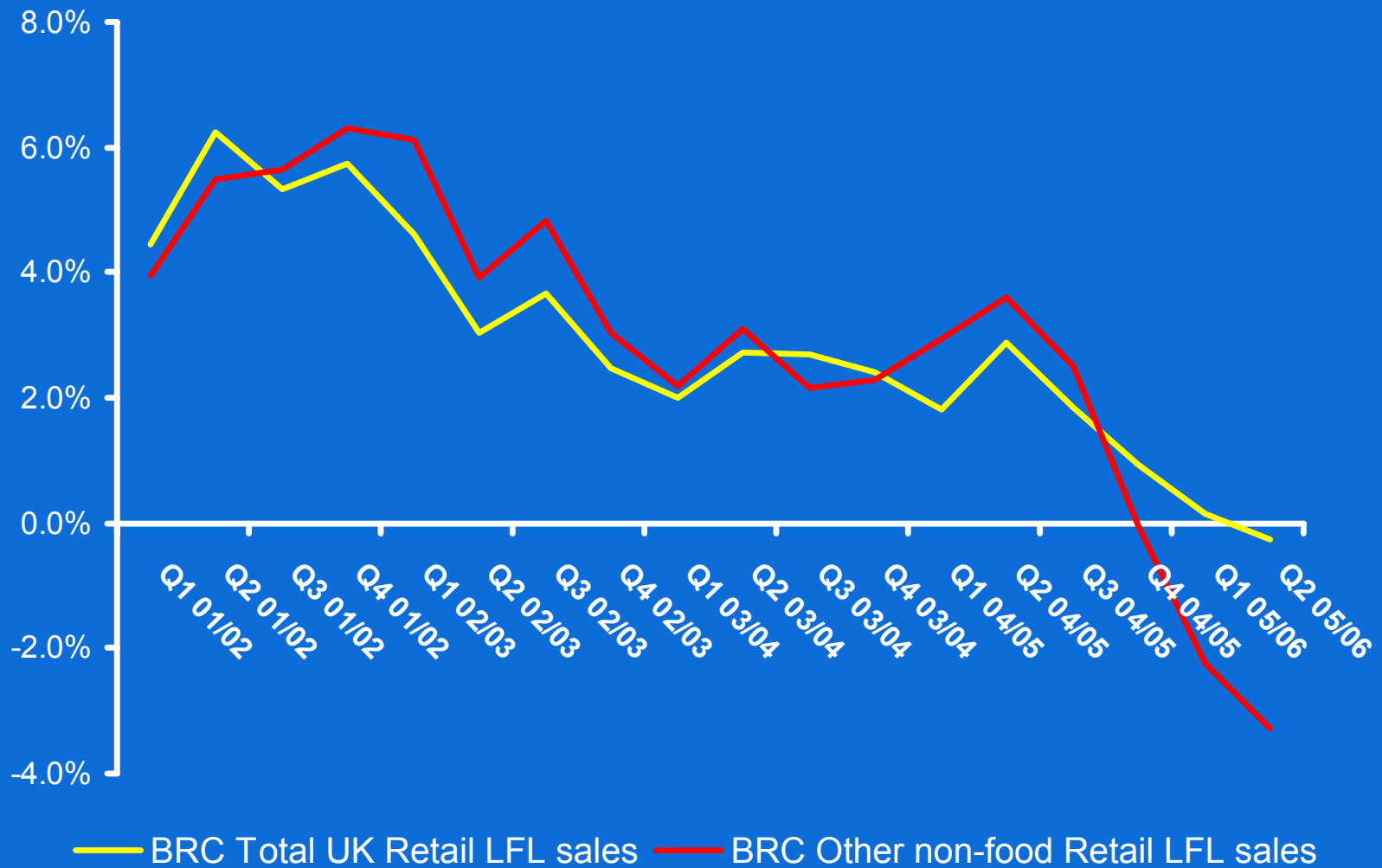
# 2005/06 – a challenging first half

	Continuing Operations	Change (Reported)	Change (Constant)	LFL
Retail Sales	£4,079.4m	3.3%	1.8%	-3.4%
Retail profit	£289.1m	-21.3%	-22.8%	
Adjusted PBT*	£254.3m	-22.8%		
Adjusted EPS*	7.2p	-25.8%		
Dividends per share	3.85p	-		

*\*Before exceptionals and gains and losses on retranslation of intercompany loan balances included within financing*



# UK – challenging markets



# UK – continued cost inflation

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- Full year LFL cost inflation of 4%
  - 7% increase in lease costs
  - 14% increase in rates
  - 25% inflation in fuel and utility related costs
- Impact of new space 4%





# UK - One-off costs of around £200m

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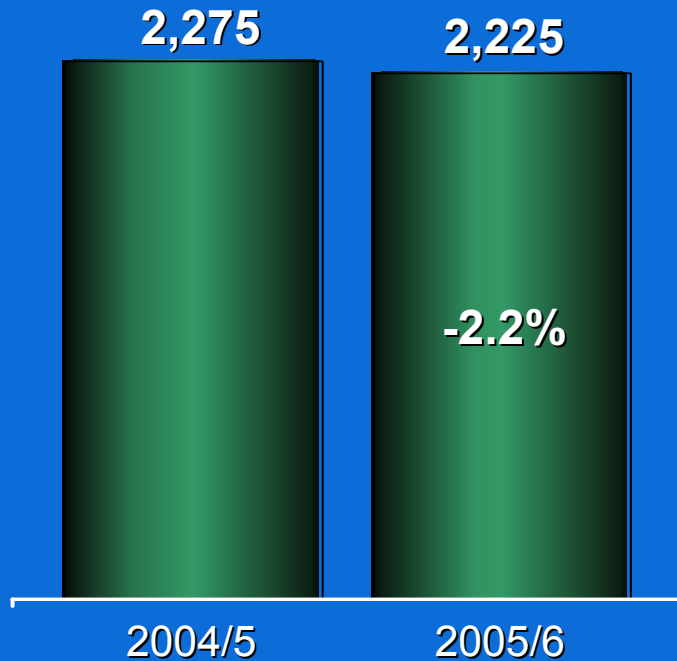
- Store closures and downsizes
  - Redundancies
  - Idle costs and lease incentives
  - Asset write-offs
- Restructuring in Store Support Office
- Mitigates underlying cost inflation in 2006/7



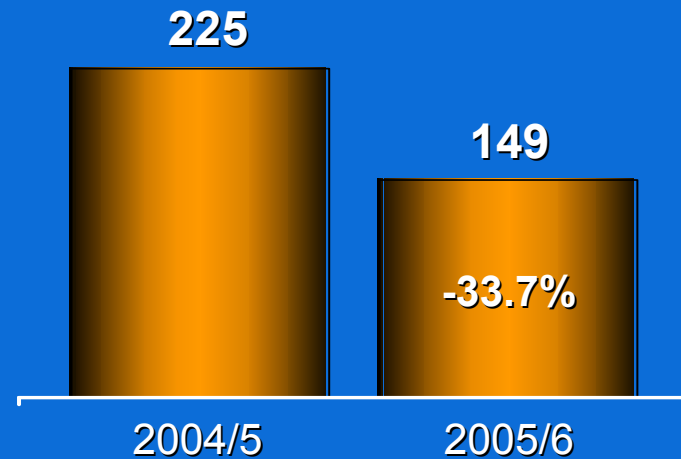
# UK – profit decline at B&Q; return to growth at Screwfix

UK

Sales, £m



Retail Profit, £m



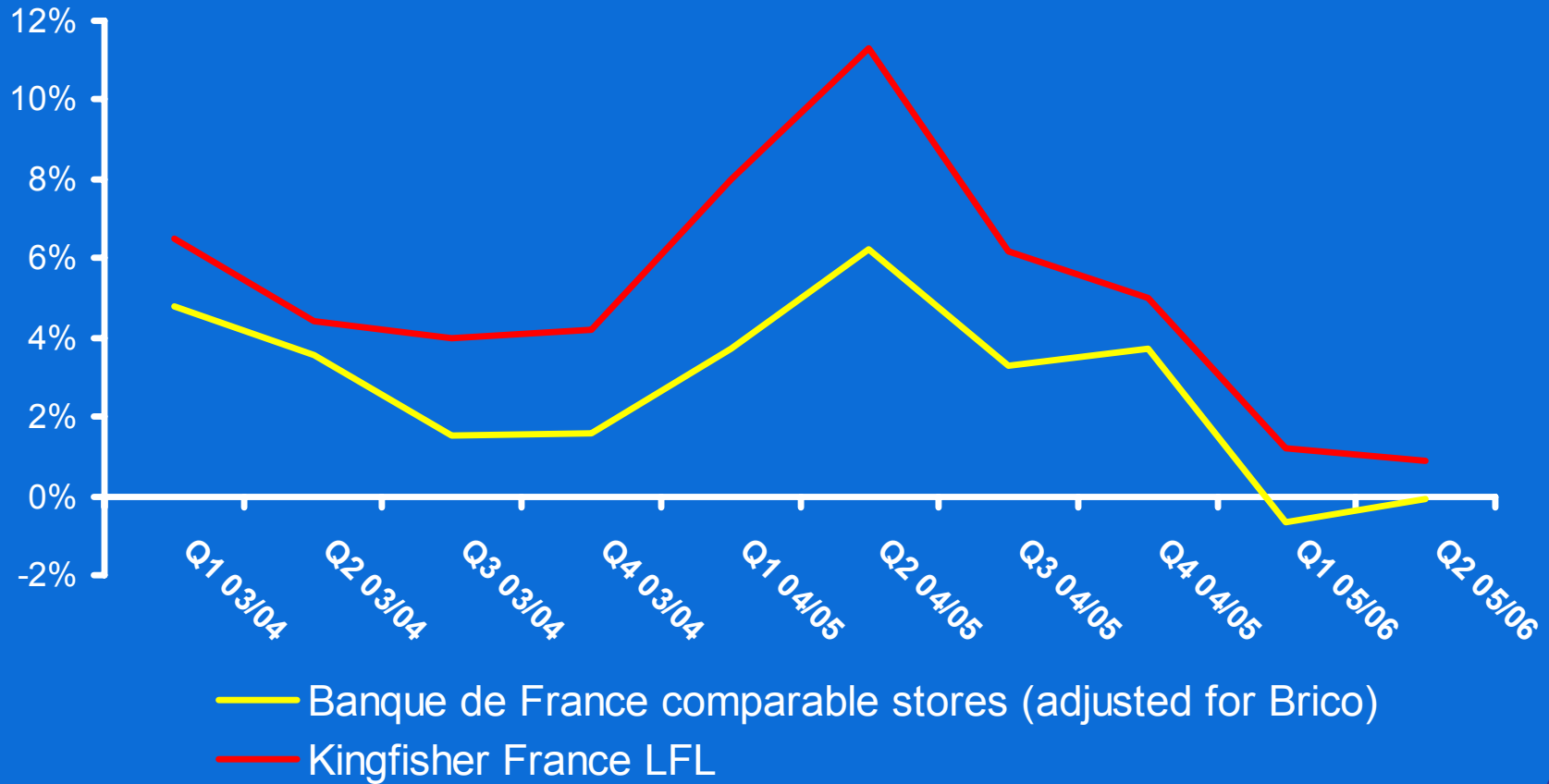
Retail profit margin

9.9%

6.7%

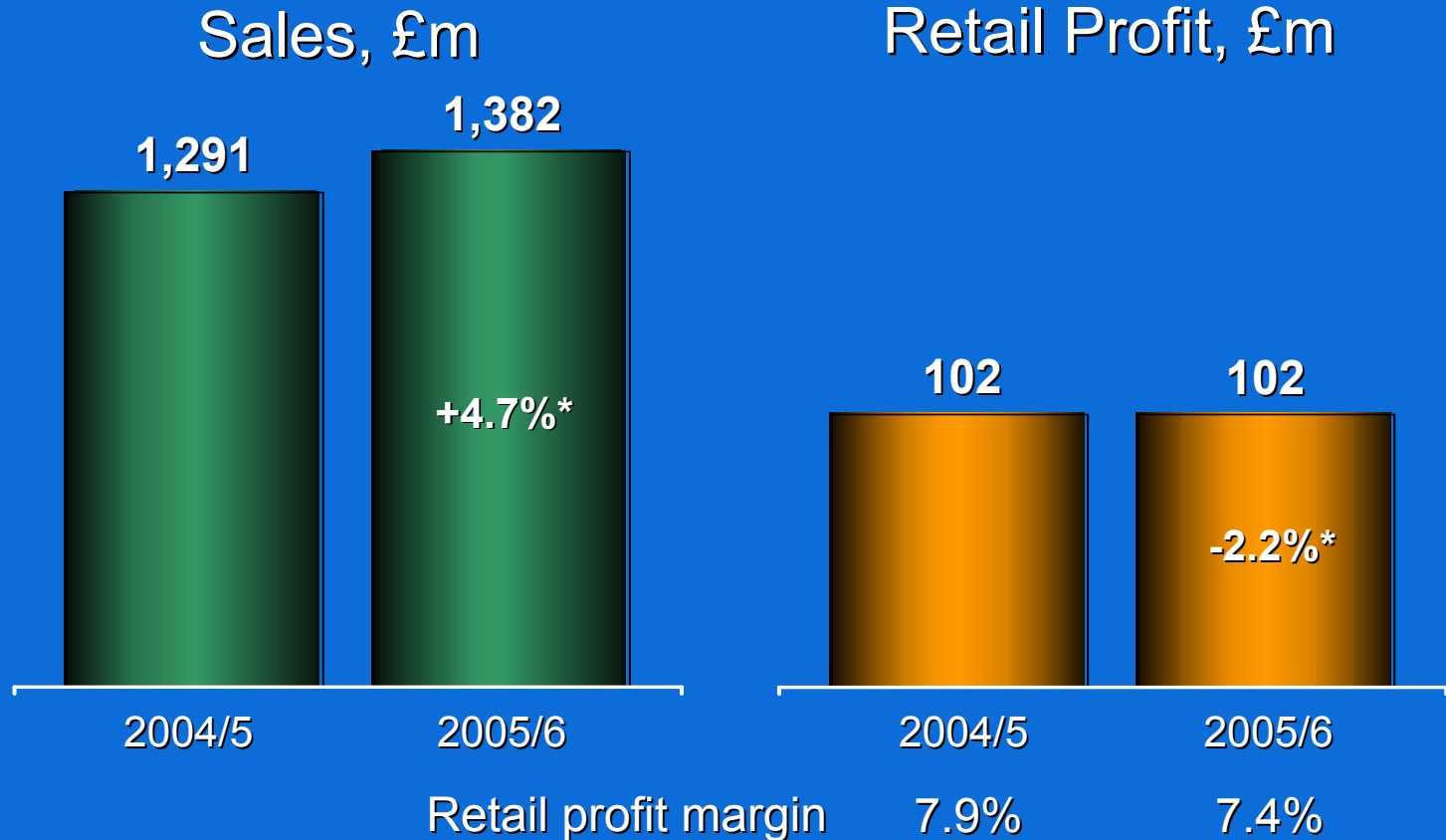


# France – market share gains in a slower market



# France – investment in revitalisation and growth at Brico Dépôt

## Total France



\*Constant currency



# Rest of Europe – growth from Italy offset by lower profits from Poland and Hornbach

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- Sales up 10%, profits down 17%
- 5.6% LFL growth in Italy in weak retail market
- Poland recovers to flat Q2 profits
- Hornbach hit by weak German market and adverse weather



# Asia – development costs more than funded by improvement in China profits

- Sales up 36%, China profitable in H1
- Continued progress in China
- Completed purchase of OBI China
  - Second half impact of around £10m
- First store opening in South Korea



All figures in constant currency



# Earnings impacted by increase in effective tax rate to 34.2%

	2005/06	2004/05	% Change
<b>Retail Profit</b>	£289.1m	£367.3m	-21.3%
<b>Adjusted PBT*</b>	£254.3m	£329.3m	-22.8%
<b>Profit before tax</b>	£250.8m	£287.6m	-12.8%
<b>Headline tax rate</b>	34.2%	32.7%	+1.5%pts
<b>Adjusted EPS*</b>	7.2p	9.7p	-25.8%
<b>Dividends</b>	3.85p	3.85p	-



# Cashflow

<b>£m, Continuing Group</b>	<b>2005/06</b>	<b>2004/05</b>
<b>Operating profit</b>	<b>270</b>	<b>342</b>
Depreciation/other	85	73
Change in working capital	86	128
Retail capex	(160)	(116)
<b>Underlying free cashflow</b>	<b>281</b>	<b>427</b>
Acquisitions/freehold purchases	(235)	(81)
<b>Free cashflow</b>	<b>46</b>	<b>346</b>





# Net debt

£m, Continuing Group	2005/06	2004/05
Free cashflow	46	346
Interest	2	25
Corporation Tax	(100)	(68)
Dividends	(158)	(136)
Other	7	29
<b>Movement in net debt</b>	<b>(203)</b>	<b>196</b>
Opening net debt	(841)	(891)
Translation on debt	(4)	25
<b>Closing net debt</b>	<b>(1,048)</b>	<b>(670)</b>



# Evolving Kingfisher reporting

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- Segments by region (UK, France, ROE, Asia)
- Broader segmental analysis
  - More balance and capex information by segment, in addition to sales and profits
- More frequent
  - H1 pre-close update end July
- Faster
  - Bringing Q1 and Q3 forward
- Planned transition



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# **Duncan Tatton-Brown**

## Group Finance Director



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# **Gerry Murphy**

## Chief Executive



# Balanced objectives – improve returns *and* long-term growth

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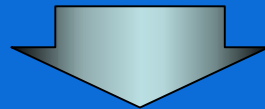
- Build on leading positions in the UK and France
- Expand developing businesses in Poland, Italy and China
- Enter new markets; UK Trade, Spain, Ireland, Russia and South Korea
- Leverage buying scale and international diversity



# Tough UK retail environment...

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- Weakening consumer demand
- Sharpest fall in housing transactions since 1989
  - Affects 'big ticket' projects
- Competition intensifying
  - Retail space expansion continuing
  - Deep price promoting



LFL sales under pressure



# Tough UK retail market.....

## Kingfisher's response

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- New B&Q management focused on
  - stimulating sales
  - reducing controllable costs
  - evolving brand and customer proposition
  - improving ROIC
- New UK Trade division to extend reach
  - Screwfix Trade Counters
  - Trade Depot



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# Ian Cheshire

CEO – B&Q





# B&Q - clear market leader

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- For customers
  - best value for money
  - best choice of products
  - 1<sup>st</sup> choice store
- Ahead of competitors
  - double the size
  - only big box player



# B&Q - focus for action

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- Drive sales productivity
  - Short-term; sales stimulation
  - Mid-term; new proposition in store
- Adapt cost model
- Improve customer and market responsiveness



# B&Q - stimulating sales

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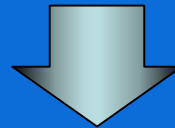
- Range editing
- Price investment
- More aggressive promotions
  - ‘10% off’ weekend
  - Over 60’s discount
- Marketing refocus
  - New campaigns: The Real Deal
  - Direct to Home flyers
- Better availability in store
- Better service



# B&Q - evolving proposition

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- Increase B&Q's 20% share of customers' project spend
- Reach beyond core DIY customer



- DIY warehouse to destination store for the whole home
- Increase sales density from current categories
- New products, categories and services

**Huge Growth Opportunity**



# B&Q - reducing costs, improving ROIC

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- Head/regional offices reshaped
  - 400 jobs affected
- Actions to
  - reduce store operating costs
  - optimise stock holding levels
  - improve delivery efficiencies
- Focus on ROIC
  - new investment in higher return mini-warehouses and revamping
  - rationalising existing stores



# B&Q – rationalising existing stores

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- Economic rationale for store review
  - Need to improve returns
  - UK rental inflation
  - Some towns over-spaced
  - Sales and margin transfer
- Expected closure of 22 stores, downsizing up to 16 stores
  - Around 7% reduction of space



# B&Q - summary

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- Strongest brand in UK Home Improvement
- Actions to turnaround current trading
- Clear plans to reposition business
- Strong long-term market fundamentals



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**Gerry Murphy**

Chief Executive





# UK - Trade growth opportunity

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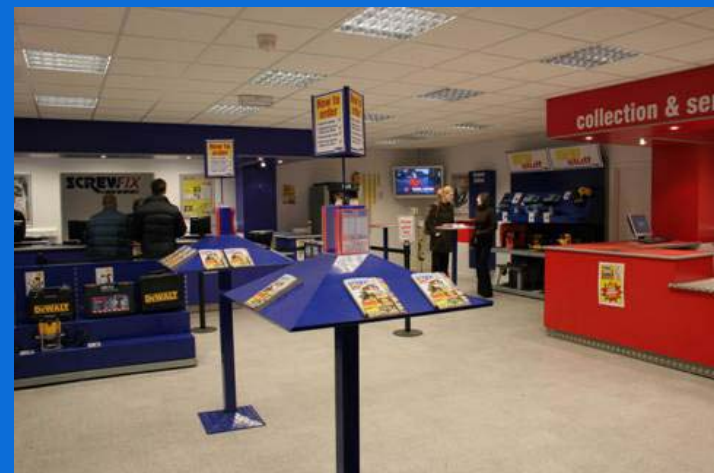
- A £50 billion market\*
- An attractive opportunity
  - Large and growing
  - Competition is highly fragmented
  - Low capital intensity compared to retail
- Kingfisher have c1% share
- Two growth vehicles
  - Screwfix Trade Counters
  - Trade Depot

\* AMA research and internal estimates



# UK - Screwfix Trade Counters

- 7 Trade Counters open
- Full Screwfix next-day range available OTC
- Encouraging sales performance
- Low set-up costs
- Low running costs
- Locations quick to find, secure and open
- More planned



# UK - Trade Depot

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- Brico Dépôt adaptation
- Multi-category trade outlet
- Targeting general builder and specialist trades
- 2,000 - 3,500 sq metres plus drive-through
- 8,000 products in stock
- Two trial stores by year end



# UK - Trade Depot

## Products

- tiling and flooring
- doors and windows
- kitchens and bathrooms
- timber, brick and block
- plumbing
- electrical

## Promises

- low prices
- always in stock
- convenient location
- quick turnaround



# France – addressing the full market opportunity with two strong brands

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- **Castorama (102 stores)**
  - Targets mainstream consumer
  - Broad choice, low price and “ideas and inspiration”
  - Big stores, prime retail locations
- **Brico Dépôt (67 stores)**
  - Targets the light trade and heavy DIY
  - Very low price, limited range, stocked project quantities
  - Mid-size stores, secondary locations



# Castorama – repositioning range and price

- Product ranges
  - Entry price products now introduced
  - Own brand participation at 15%
  - Major new Showroom and Decorative ranges rolled out through H1
- Price
  - from 9<sup>th</sup> to 3<sup>rd</sup> lowest price perception in 2 years
- Marketing
  - Stronger marketing plan for H2
    - Catalogues
    - Billboard campaign



# Castorama – modernising stores and infrastructure

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- **Stores**

- 25% of space in new format
- Revamps and relocations performing strongly
- 2 new stores in 2005, first for 3 years
- Another store transferred to Brico Dépôt (26 since 1996)

- **Supply Chain**

- Central Distribution rising, on track for 80% by 2009
- Improved delivery enabling store productivity gains
- Supplier delivery in full improved....better availability



# Brico Dépôt – accelerating growth across Europe

- **France**
  - Highest ROIC in the Group
  - 67 stores now, 3 more in H2
- **Spain**
  - <1% market share
  - 6 stores now, 2 more in H2
- **Poland**
  - First opening planned for 2006





# Rest of Europe and Asia

	Stores at July 05	H2 openings	Planned stores Jan 06
Poland	28	1	29
Italy	23	3	26
Spain	6	2	8
Ireland	4	3	7
Turkey	5	1	6
Russia	-	-	-
<b>Total ROE</b>	<b>66</b>	<b>10</b>	<b>76</b>
China	38	12	50
Taiwan	19	1	20
Korea	1	-	1
<b>Total Asia</b>	<b>58</b>	<b>13</b>	<b>71</b>
<b>Total ROE and Asia</b>	<b>124</b>	<b>23</b>	<b>147</b>



# China – less than 1% market share after OBI acquisition

## Number of stores

	End 2005 (estimate)	Coverage
 百安居	50	National
 ORIENT HOME 东方家园	25	North & West
 HOMEMART 装潢建材超级购物市场	24	National (mainly East)
 家·居 THE HOME WAY	11	North
 No.9	5	Shanghai



# Acquisition of OBI in China accelerates store roll-out

- Consolidates strong positions in core cities:
  - Beijing, Shanghai, Shenzhen, Guangzhou
- New city entry opportunities
  - Chengdu
  - Shenyang
  - Tianjin



# OBI - Integration programme on track

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- **2005/6**
  - Rebrand OBI stores to B&Q
  - Start aligning ranges and suppliers
  - Start integrating systems and people
- **2006/7**
  - Reformat stores
  - Complete range and service alignment
  - Full integration



# Summary

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- Leading positions in fundamentally attractive home improvement markets in Europe and Asia
- Difficult UK market which has continued to soften
- Resolute action to stimulate B&Q sales, reduce costs, evolve proposition and improve ROIC
- Expansion into the UK Trade market underway
- Solid progress in France with two-brand strategy
- Expansion in Rest of Europe and Asia proceeding well
- Committed to improving returns and long-term growth



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