Castorama Poland

Analyst Visit – 14 August 2007
Investor Visit – 31 October 2007

Introduction

- Market leader in Poland
- “Castorama” and “Brico Depot” brands
- 37 Casto and 2 Brico stores
- Over 8,000 employees
- Stable, winning strategy in a growing market
- Ambitious development plans in difficult legal environment

Agenda

- Poland – market outlook
- Polish home improvement market
- Castorama / Brico today and in the future
- Store visits

Poland - market outlook

Macroeconomics

- Investment potential
  - 5.8% GDP growth in 2006 compared to 1.5% EU average
  - Region’s leader in GDP per capita growth
  - Increasing wages, low interest rates driving investment and customer spend
- People
  - Market of 38m people
  - Youngest EU society with more than 50% people under 35 years
- Important consumer market
  - 10% retail sales growth p.a.
- Other
  - Good elasticity of labour regulations (judged 2nd in Europe after UK)*
  - Low CIT of 19% (judged 3rd)*

*) Source: EY European Attractiveness Survey 2007, Government statistics

Poland - market outlook

Macro assumptions

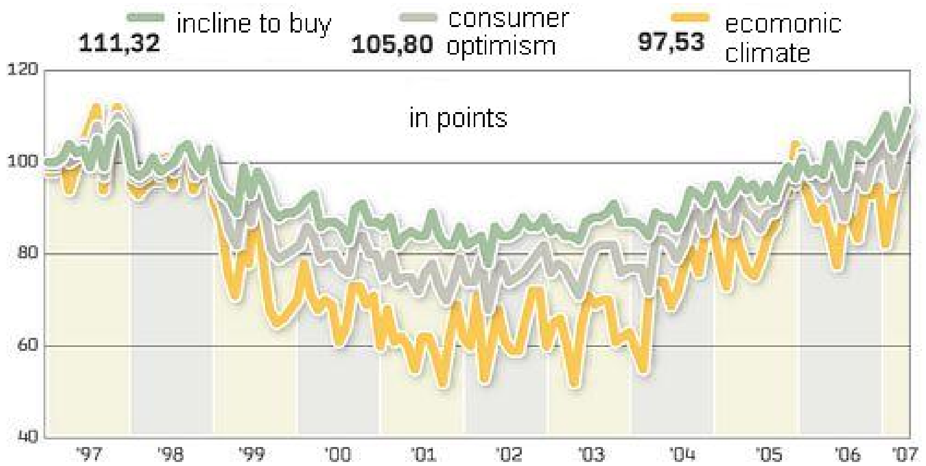
- GDP growth over 5% each year driven by investment (EU and Euro2012) and customer spend
- Unemployment – down to 9% by 2009 from current 12.4% (June 2007)
- Inflation growing from 2.5% to 3.7% due to increased consumer spend and price convergence effect after joining the Euro zone
- Wages – up 5% to 7% resulting from increased market demand balanced by social charges reductions

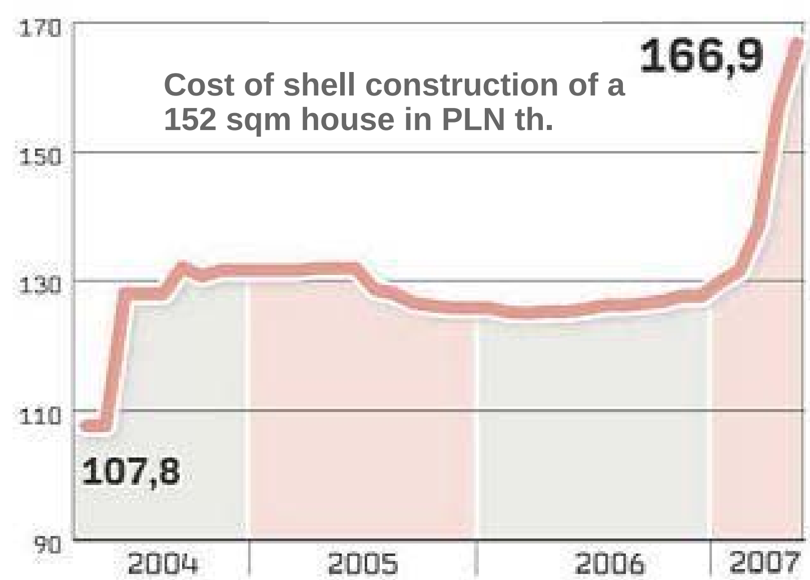
Poland - market outlook

Budujesz Remontujesz Urządzasz

DIY market implications

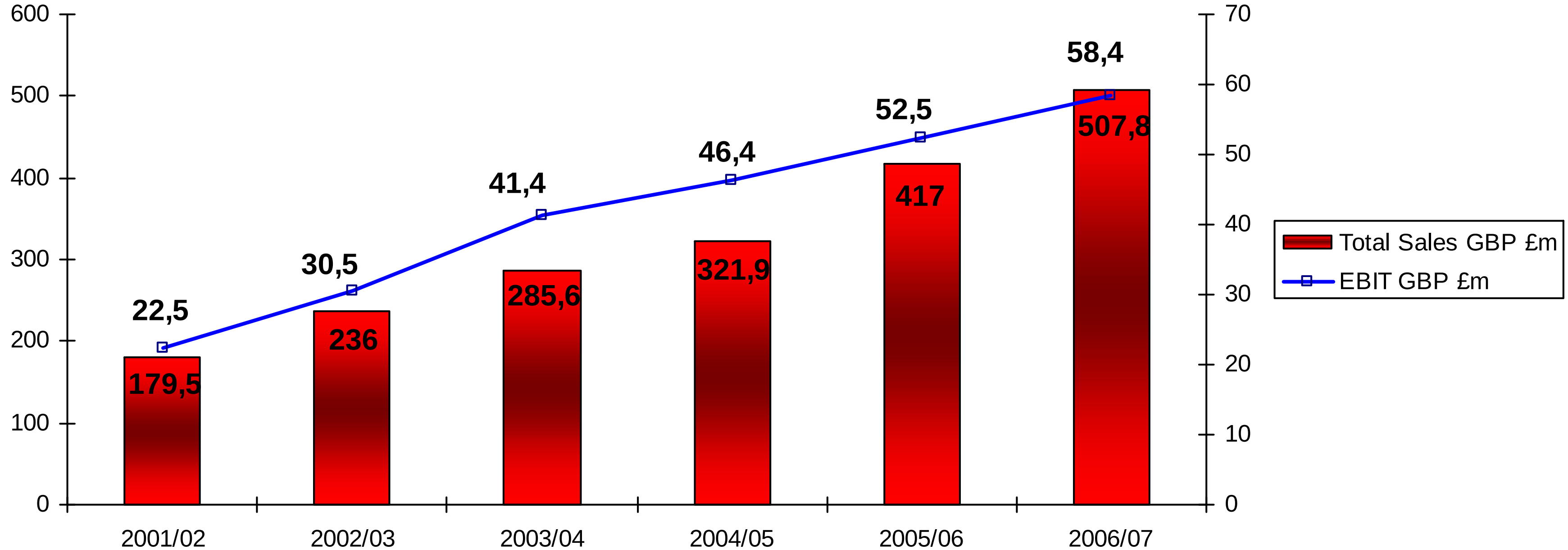
- Booming market due to increased wages and low interest rates
- Property prices - growth of 8 - 40% p.a. depending on location for apartments and 8-10% for land driven by increased wealth and EU convergence
- Home improvement products prices increase due to raw materials prices and demand off set by deflation of imports
- Overall growth of retail space with focus on cities of app. 100k inhabitants
- Lack of skilled workforce for home improvement projects and reduced availability of merchandise





Source: Gazeta Wyborcza, Rzeczpospolita

Poland – development of Castorama



£m	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Total Sales	179.5	236.0	285.6	321.9	417.0	507.8
EBIT	22.5	30.5	41.4	46.4	52.5	58.4
EBIT/Total Sales [%]	12.5%	12.9%	14.5%	14.4%	12.6%	11.5%
Store openings Castorama	4	4	3	6	5	4
Store openings Brico	-	-	-	-	-	1
Total number of stores	12	16	19	25	30	35

DYI market - competition

Castorama / Brico / Competitors

- Fierce competition
- Development programs – smaller formats
- Possible consolidations
- Alignment of strategies to follow the leader

Number of stores	2004	2005	2006	2007
castorama	25	29	33	39
BRICO DEPOT	-	-	1	2
LEROY MERLIN	14	16	21	24
OBI	23	25	28	30
Praktiker	16	17	17	20
NOMI	35	32	32	33
BRICOMAN	-	-	-	1

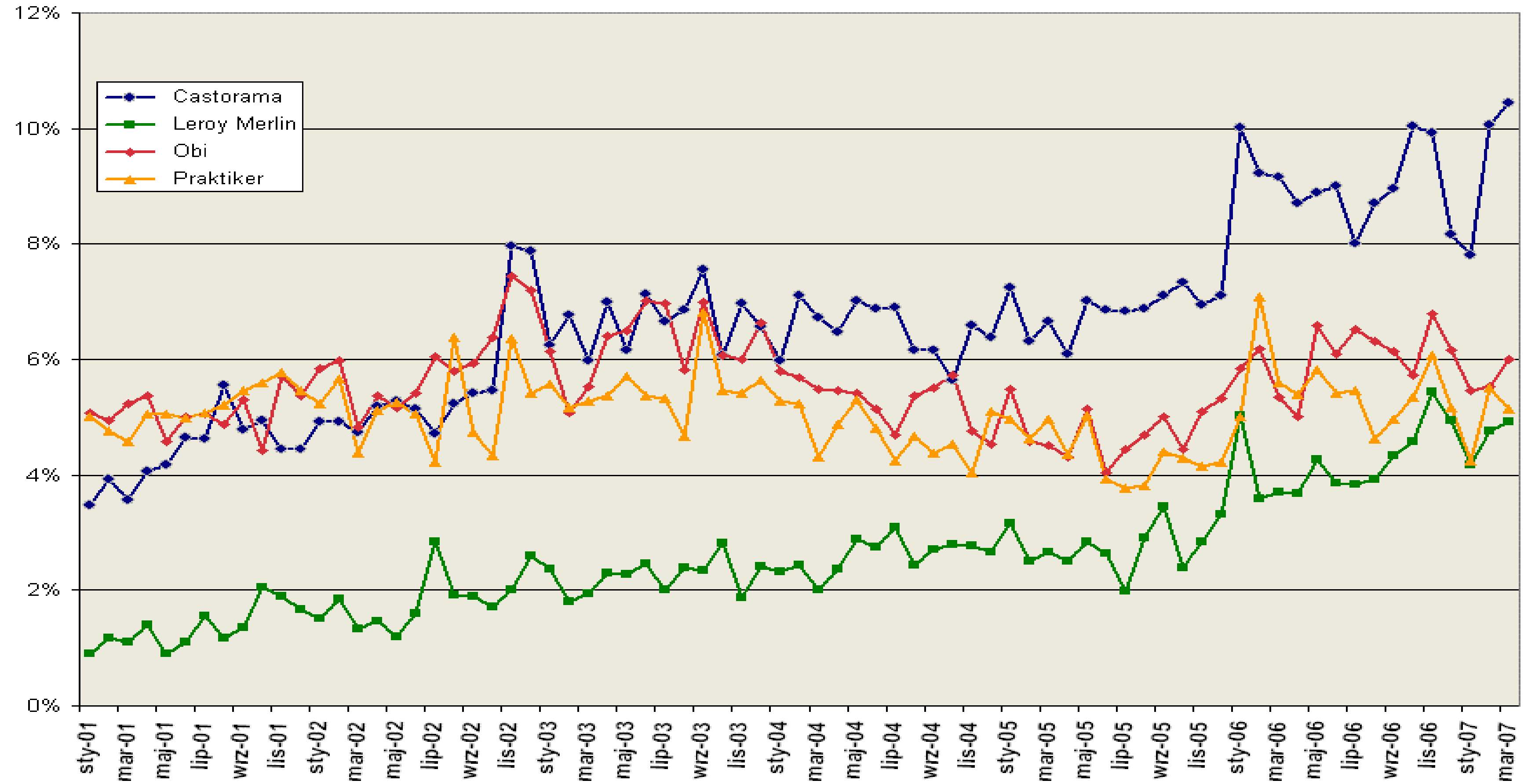
	Sales 2005 in PLN m*
Castorama Polska	2,447
Leroy Merlin	1,088
Praktiker	564

Financials

- Lack of reliable data on market size
- Praktiker – the only competitor revealing data on sales

*) Source: Office of Competition and Customer Protection

DYI market - client

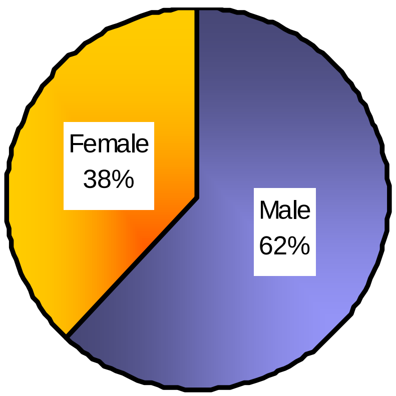


Following the survey as per the end of March 2007 declared Castorama clients represent 10.45 % of adult population of Poles over 15 years of age which is close to 3.2m people.

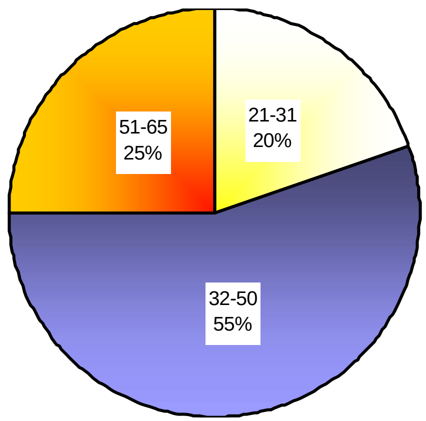
*) Source: SMG / KRC TGI survey

DYI market - client

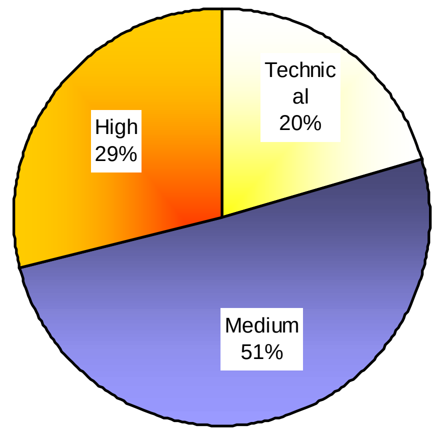
Sex



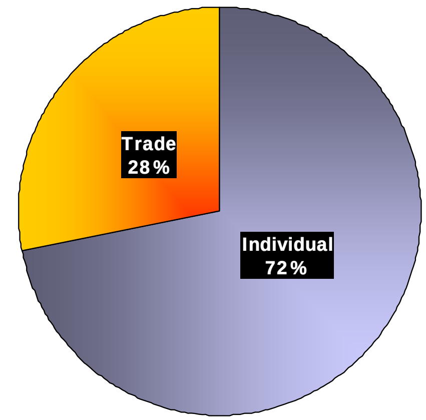
Age



Education



Type



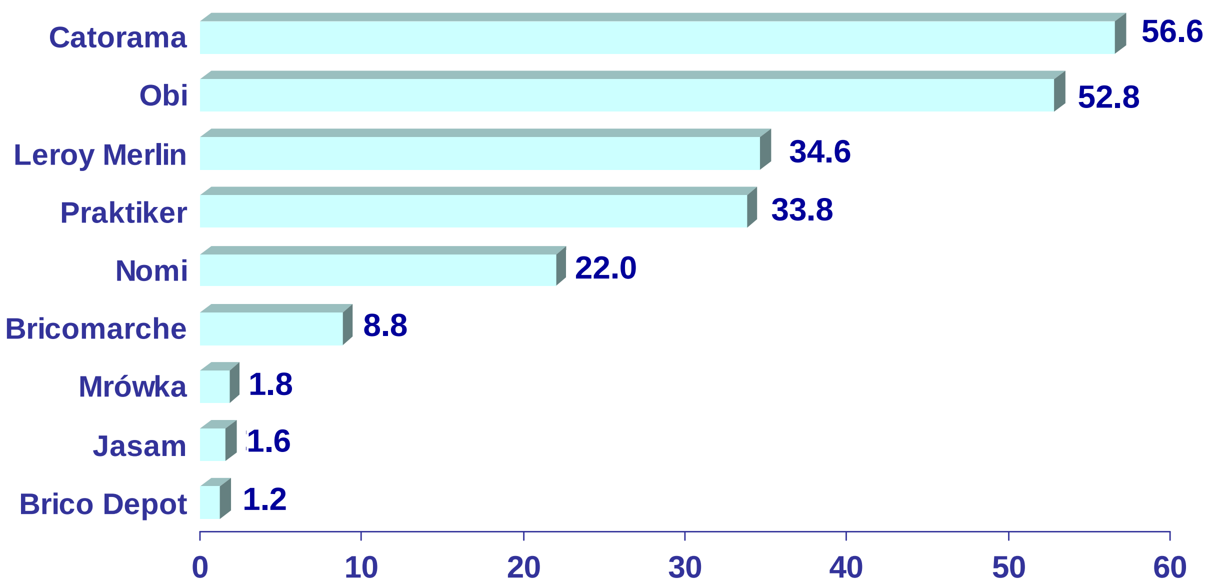
Customers expectations:

- Professional and competent service
- Quality reflected in product price
- Wide selection of products also for female customers
- Post-purchase assistance – service for customers
- Friendly atmosphere in the store

Source: internal survey trough > 5 500 customers in stores (November 2006)

DYI market - client

Stores visited the most frequently (%)



- Market leader followed closely by Obi
- Numerous smaller competitors – formats for locations of less then 100k inhabitants

Source: AMS survey

DYI market – legal environment

- Ongoing, unfavourable political context against retail chains (impediments to expand, numerous restrictions for retailers)
- Lack of city master plans defining the locations for big retailers
- New law on big retailers authorisations just introduced:
  - Applicable for stores over 400 sqm
  - Additional authorisations by local and regional authorities
  - Additional fees and temporary permits
- Comments:
  - Law not in line with other jurisdiction (property law, Polish constitution)
  - European context – restrictions must be justified by vital public interest or be annulled by 2009
- Possible change after last elections of 21 Oct.

STOŁECZNA
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7 maja 2007
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gazeta WYBORCZA

Już dziś Mariusz Benoit czyta ŚWIAT WEDŁUG GARPA

PiS przeciw hipermarketom wbrew UE

Piotr Miączyński
2007-05-08, ostatnia aktualizacja 2007-05-08 22:00

gazeta

Samoobrona i Prawica RP naciskają na PiS, by uchwalić ustawę ograniczająca budowę centrów handlowych i marketów. Według rządu przepisy będą sprzeczne z prawem UE. Mimo to PiS je poprze

Fot. Sławomir Kamiński / AG

Opozycji projekt ograniczeń nie podoba się m.in. ze względu na postać samego posła wnioskodawcy Waldemara Nowakowskiego. Jest on współtwórcą firmy Lewiatan, która zrzesza małe sklepy

Finalne głosowanie nad projektem może się odbyć jeszcze w tym tygodniu. Jest on na tzw. liście rezerwowej ustaw, którymi parlament ma się zajmować na najbliższym posiedzeniu. Posłowie z głosowaniem czekali na opinię rządowego UKIE, który już po raz drugi miał ocenić, czy proponowane zapisy są zgodne z prawem unijnym. Opinia trafiła do Sejmu wczoraj. Tak jak za pierwszym razem prawnicy stwierdzili, że projekt narusza prawo europejskie. Wcześniej podobne stanowisko zajęło Biuro Analiz Sejmowych.

Przepisy będą wprowadzały utrudnienia w otwieraniu sklepów spożywczych, ale również księgarni, aptek, salonów samochodowych czy meblowych. Ograniczenia według Samoobrony są wprowadzane w trosce o drobny polski handel.

Castorama - strategy

Simple, efficient, and friendly in warehouse format

Large range of products for construction, home improvement and garden for individual consumers and trade

Large quantities of stock available - high density of products

Clear and simple merchandising to make the customers experience easier

Pricing policy: ‘Every day low prices’ without false promises, promotions or rebates.

Professional, smiling and friendly advice from our people

Comfort shopping: returns and lowest price guarantee with no exceptions.

Nikomu nie pozwolimy pobić naszych cen !

We won’t let anybody beat our prices!

EDLP

Castorama – strategy, new trends

More feminisation

New, more decorative range

Better display of products: to inspire our customers.

New way of communication: books, internet

"How to" boards to make DIY easier

Improved service

Third party installation referrals

Interior designers available in every store on weekends

Brico Depot - strategy

For contractors and big DIY-ers

Close distance, competitive prices

Tighter range to suit their needs:
constructions, installations

Product availability, large quantities

Easy store access, opening hours

For individuals

Competitive prices

Product availability

Close distance, easy store access

Rules

EDLP

Lowest price guarantee

Brico – why second format for Poland?

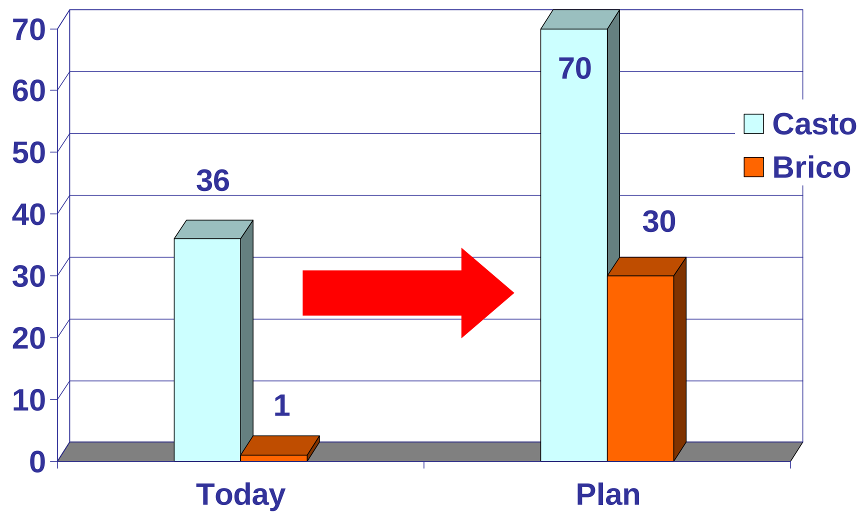
Reasons:

Faster and easier development in Poland

Avoid special planning consent for stores over 2,000 sqm

Gain market shares from competitors and make their development more difficult

Strengthen Kingfisher Group position on the Polish market



Number of stores planned for the medium term.

Castorama / Brico – changing customer

- Decorative categories: more design, frequent range changes, new ways of communication
- Direct sourcing where it's profitable and give us differentiation possibility
- Own brands: developed with the group and locally
- Well structured range very simple and clear: easy to understand for everybody!
- Keep leadership in building and technical range
- Be more innovative

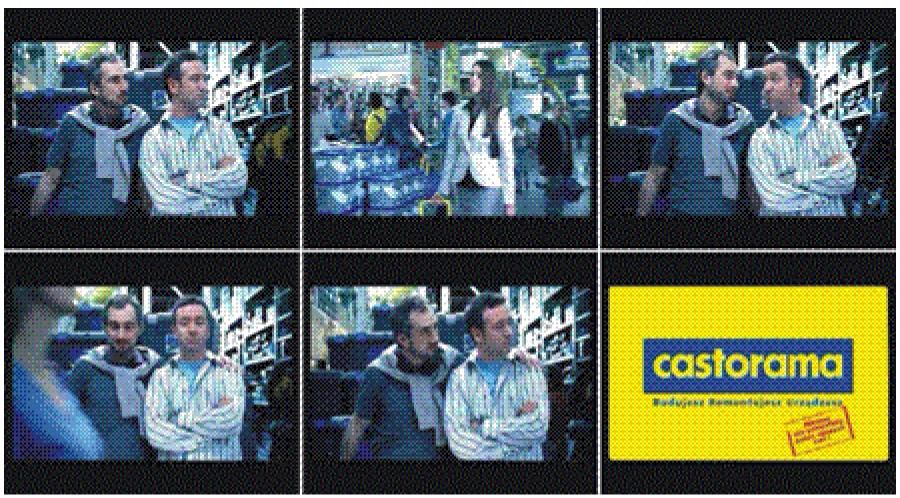
Castorama / Brico – own brands and sourcing

Strategic initiatives:

- Increasing own brands to differentiate from competitors
- More group sourcing, capitalising on group scale, innovation and design. Common ranges with B&Q and other Casto / Brico businesses

Castorama – communication with clients

Budujesz Remontujesz Urządzasz



- New ads played on major Polish TV Channels: TVP1, TVN, POLSAT
- Institutional and Product
- Successful products choice