**Thursday 15 September 2011**

**Kingfisher half year sales up 3.8%, adjusted pre-tax profits up 24% to £439 million**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Group Financial Summary****26 weeks ended 30 July 2011** | **2011/12** | **2010/11** | **% Total** **Reported****change**  | **% Total Constant currency****change**  | **% Like-for-like (LFL) change** |
| Sales | £5,662m | £5,454m | +3.8% | +3.0% | +1.6% |
| Retail profit | £473m | £402m | +17.6% | +16.5% |  |
| Adjusted pre-tax profit  | £439m | £354m | +24.0% |  |  |
| Adjusted basic EPS  | 13.5p | 10.6p | +27.4% |  |  |
| Interim dividend | 2.47p | 1.925p | +28.3% |  |  |
| (Financial net debt) / net cash | £(186)m | £19m | n/a |  |  |

*Note: Joint Venture (Koçtaş JV) and Associate (Hornbach) sales are not consolidated. Retail profit is operating profit stated before central costs, exceptional items, amortisation of acquisition intangibles and the Group’s share of interest and tax of JVs and associates. Adjusted measures are before exceptional items, financing fair value remeasurements, amortisation of acquisition intangibles, related tax items and tax on prior year items. A reconciliation to statutory amounts is set out in the Financial Review.*

**Highlights (in constant currencies):**

* Self-help initiatives drove strong growth in each of the three main operating divisions in challenging consumer markets:
	+ French retail profits up 23.9% to £201 million driven by excellent sales growth (+4.5% LFL) and continuing margin initiatives
	+ UK & Ireland retail profits up 6.1% to £182 million benefiting from ongoing sourcing and cost initiatives. B&Q profit grew 4.5% despite the one off adverse impact of the Focus DIY stock clearance activity ahead of its closure. Screwfix profits up 25.3%, expansion to be accelerated in H2
	+ Other International retail profits up 24.7% to £90 million driven by good profit growth in Poland, Spain, Turkey and Germany and lower losses in Russia and China
* Proactive use of balance sheet strength and flexibility:
	+ Invested £175 million developing our capabilities and growing our footprint
	+ Acquired 29 ex-Focus DIY stores for conversion to the B&Q format (£24 million)
	+ Bought the freehold in two existing leased B&Q stores and a new distribution centre (£64 million, saving £5 million of annual rent)
	+ 42 million Kingfisher shares purchased by employee share trust to match existing share incentive schemes, avoiding dilution of shareholder interests when the schemes mature (£117 million)
* Interim dividend up 28.3%, automatically calculated as a fixed percentage of the prior year’s total dividend in line with stated policy

|  |  |  |  |
| --- | --- | --- | --- |
| **Statutory reporting** | **2011/12** | **2010/11** | **Reported Change** |
| Profit before taxation  | £438m | £351m | +24.8% |
| Profit for the period | £320m | £248m | +29.0% |
| Basic EPS  | 13.7p | 10.6p | +29.2% |

*Note: A reconciliation to adjusted measures above is set out in the Financial Review.*

**Ian Cheshire, Group Chief Executive, said:**

“We have delivered very strong profit growth in what are difficult times for all retailers. With around two thirds of our profit coming from outside the UK, these results clearly show the value of geographic spread and the benefits of operating our market leading international businesses in a more unified way. We delivered improvements right across the group including excellent sales and profit growth in France. Our concerted efforts over the last few years to strengthen our balance sheet are paying off dividends, reducing our financing costs and creating the flexibility to take opportunities as they arise, such as our purchase of 29 great new sites for B&Q from the administrators of Focus DIY. We continued to progress with our successful ‘Delivering Value’ programme and work is well under way as we continue our transition to the next phase of our self-help growth plan, called ‘Creating the Leader’.

“Looking ahead, economic uncertainty throughout Europe is likely to impact consumer confidence, meaning conditions will remain challenging for retailers. However, our plans already assumed little help from our markets and I am confident we will continue to outperform, benefiting from our well-established programme of self-help initiatives, international scale and breadth, and robust balance sheet.”

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Further copies of this announcement can be downloaded from [www.kingfisher.com](http://www.kingfisher.com). A video interview with Ian Cheshire and Kevin O’Byrne is available on the website.

We can also be followed on the day on twitter @kingfisherplc and a new Kingfisher iPad App for Investor Relations is now available at the Apple App store.

**Company Profile:**

**Kingfisher** **plc** is Europe’s leading home improvement retail group and the third largest in the world, with 875 stores in eight countries in Europe and Asia. Its main retail brands are B&Q, Castorama, Brico Dépôt and Screwfix. Kingfisher also has a 50% joint venture business in Turkey with Koç Group, and a 21% interest in, and strategic alliance with Hornbach, Germany’s leading large format DIY retailer.

The remainder of this release has five main sections:

* Trading review by division
* ‘Delivering Value’ progress
* Sustainability progress
* Country data
* Financial Review and, in part 2 of the announcement, the interim condensed Financial Statements

**Trading review by division**

**FRANCE**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Sales £m** | **2011/12** | **2010/11** | **% Reported Change** | **% Constant Change** | **% LFL****Change** |
| France | 2,341 | 2,185 | 7.1% | 5.5% | 4.5% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Retail profit £m** | **2011/12** | **2010/11** | **% Reported Change** | **% Constant Change** |
| France | 201 | 160 | 25.8% | 23.9% |

*France includes Castorama and Brico Dépôt*

*2011/12: £1 = 1.14 euro (2010/11: 1.16 euro)*

***All trading commentary below is in constant currencies***

**Kingfisher France**

Kingfisher France continued to outperform the market with self-help initiatives driving sales ahead 5.5% to £2.3 billion (+4.5% LFL). According to provisional Banque de France data, sales for the home improvement market (1) were up 2.8%. Across the two businesses, one new store was opened, two were relocated and one revamped, adding around 1% new space.

Retail profit grew 23.9% driven by the strong sales growth and higher gross margins (+130 basis points) from increased direct sourcing and continued buying optimisation benefits.

**Castorama** total sales grew by 4.2% to £1.3 billion (+4.0% LFL) supported by continued progress with the store modernisation programme (66% of total selling space now completed), new range introductions and the innovative ‘Do-it-Smart’ marketing campaign aimed at making home improvement projects easier for customers.

Seasonal sales were up around 2% boosted by new garden furniture, barbecue and outdoor lighting ranges. Non-seasonal sales were up over 4% with sales of new decorative, bathroom and flooring ranges, supported by new catalogues, performing particularly well.

**Brico Dépôt**, which more specificallytargets the trade professional, delivered total sales growth of 7.1% to £1.1 billion (+5.0% LFL). The trade market (2), which last year declined by 4%, appears to have improved following a pick-up in new housing starts and planning consents.

Self-help initiatives to drive sales and footfall continued to progress well in H1 including a continued extensive programme of range refreshment, more ‘arrivages’ promotions (rolling programme of one-off special buys) and the re-launch of the Brico Dépôt ‘Le Book’ pocket-sized catalogue to reinforce Brico Dépôt’s value credentials. New shower, indoor tiling and power tool ranges introduced last year performed particularly well (+15% LFL).

(1)*Banque de France data excludes the heavier trade market*

(2)*Private building market Jan-Dec 2010 according to UNIBAL*

**UK & IRELAND**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Sales £m** | **2011/12** | **2010/11** | **% Reported Change** | **% Constant Change** | **% LFL****Change** |
| UK & Ireland | 2,306 | 2,328 | (1.0)% | (1.0)% | (1.5)% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Retail profit £m** | **2011/12** | **2010/11** | **% Reported Change** | **% Constant Change** |
| UK & Ireland | 182 | 171 | 6.1% | 6.1% |

*UK & Ireland includes B&Q in the UK & Ireland and Screwfix*

*2011/12: £1 = 1.14 euro (2010/11: 1.16 euro)*

***All trading commentary below is in constant currencies***

**Kingfisher UK & Ireland**

Total sales were down 1.0% to £2.3 billion (-1.5% LFL) in a declining home improvement market *(1)* which was further impacted by stock clearance activity at Focus DIY (the UK’s fourth largest DIY operator with 177 stores) ahead of its closure. Retail profit grew by 6.1% benefiting from continued gross margin and cost initiatives.

**B&Q UK & Ireland’s** total sales were down 2.0% (-2.0% LFL) to £2.1 billion. Sales of outdoor seasonal products were down around 4% impacted by less favourable summer season weather and the Focus DIY stock clearance activity. Non-seasonal product sales were down around 1% reflecting the generally weak consumer backdrop.

The new in-store trade-only ‘TradePoint’ offer continues to grow and attract new customers. Around 650,000 professional tradesmen are now registered as ‘TradePoint’ customers, triple the number previously registered with the B&Q Trade Discount Card. This growing database enables B&Q to identify and directly market to this important customer segment for the first time.

Retail profit grew by 4.5% to £165 million. Gross margin was up 20 basis points against tough comparatives (2010/11: +140 basis points) driven by sales of higher margin products and more direct sourcing. A strong focus on operating cost efficiencies also continued with costs (SG&A*(2)*) percentage to sales held broadly flat across the first half.

During H1 Kingfisher paid £24 million to buy up to 31 leasehold properties from the administrator of Focus DIY and, following regulatory approval and discussions with landlords, 29 will reopen in the B&Q format, creating 230 extra jobs at these stores, in addition to the nearly 600 jobs saved in these communities. During H2, 28 of these stores will be converted into the B&Q format for a capital cost of around £20 million and an additional £11 million exceptional charge will be incurred integrating the stores before they open. The overall full year impact from the closure of Focus DIY is expected to be retail profit neutral before exceptional charges (H1 clearance disruption offset by H2 trading benefit).

*(Note: of the 177 Focus DIY stores trading before its administration, 29 were subsequently acquired by Kingfisher, 13 by other home improvement businesses, resulting in 135 having ceased trading).*

**Screwfix** grew total sales by 7.7% to £251 million in a challenging smaller tradesman market *(3)*. Initiatives that drove market share gains included new ranges (e.g. safety and work wear), the addition of specialist trade desks exclusive to plumbers and electricians within Screwfix outlets and the continued roll out of new outlets. Thirteen net new outlets were opened during H1, taking the total to 175, now accounting for around two thirds of total sales.

Retail profit was up 25.3% to £17 million, reflecting the strong sales growth, gross margins benefiting from more direct sourcing and distribution efficiencies and continued tight cost control.

During H1 Screwfix developed a smaller format outlet (400 sq m compared with the typical 700 sq m) in order to access smaller or more densely populated urban catchments. Having now successfully trialled several of these smaller outlets in H1 Screwfix will now accelerate its UK expansion plans. In H2, it is intended that up to a further 40 Screwfix outlets will now open, 30 in the newer, smaller format. This accelerated expansion will cost an additional £5 million capital and add £3 million of further pre-opening costs in H2. A total of 1,000 new jobs will be created in the UK for the full year.

*(1)This GfK data is only for five months to June and includes new space added but excludes private retailers e.g. IKEA and smaller independents*

*(2) Selling, General and Administrative Expenses*

*(3) Based on the Builders’ Merchants Federation data April-June 2011* **OTHER INTERNATIONAL**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Sales £m** | **2011/12** | **2010/11** | **% Reported Change** | **% Constant Change** | **% LFL****Change** |
| Other International | 1,015 | 941 | 7.9% | 6.9% | 2.5% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Retail profit £m** | **2011/12** | **2010/11** | **% Reported Change** | **% Constant Change** |
| Other International | 90 | 71 | 27.1% | 24.7% |

*Other International includes Poland, China, Spain, Russia, Turkey JV and Hornbach in Germany. Joint Venture (Koçtaş JV) and Associate (Hornbach) sales are not consolidated*

*2011/12: £1 = 1.14 euro (2010/11: 1.16 euro)*

*2011/12: £1 = 4.54 Polish zloty (2010/11: £1 = 4.64 Polish zloty)*

*2011/12: £1 = 10.56 Chinese renminbi (2010/11: £1 = 10.31 Chinese renminbi)*

***All trading commentary below is in constant currencies***

**Other International** total sales increased by 6.9% to £1.0 billion (+2.5% LFL). Retail profit was up 24.7% to £90 million driven by profit growth in Poland, Spain, Turkey and Germany and lower losses in Russia and China.

During H1, five net new stores opened, two in Poland, two in Russia, two in Turkey and one rationalisation in China, adding around 3% new space. A further 10 new stores are planned for H2, including four in Poland, two in Russia and four in Turkey, adding around 10% new space for the full year.

In **Eastern Europe** sales in **Poland** were up 6.3% (+2.4% LFL) to £570 million. New bathroom and garden catalogues and expanded decoration ranges all boosted sales and profits. Retail profit was up 5.6% to £70 million reflecting the solid sales growth with gross margins benefiting (+30 basis points) from more direct sourcing and continued tight cost control. In **Russia** sales grew 28.4% to £142 million reflecting new store openings. In **Turkey**, Kingfisher’s 50% JV, Koçtaş, retail profit grew strongly reflecting strong sales growth (+7.6% LFL), more direct sourcing benefiting gross margins and tight cost control.

Elsewhere,in **Spain** the Brico Dépôt business continued to grow sales and profits in a tough market with sales up 11.4% in H1. **Hornbach**, in which Kingfisher has a 21% economic interest, grew its retail profit contribution by 17.1% to £13 million (2010/11: £11 million).

**B&Q China** sales declined 7.7% to £168 million (-5.9% LFL) reflecting one less store compared with the same period last year and a challenging housing market (down 14%\*). The ‘fix-it’ phase of the turnaround plan remains on track with losses reducing as planned to £5 million, more than halved compared to the same period last year (2010/11: £11 million loss).

*\* New property transaction sales for China’s 13 largest cities August 2010-July 2011 according to the China Real Estate Exchange Center* **‘Delivering Value’ progress**

**Progress to date (Feb 2011 to July 2011) and milestones for the remainder of the year**

1. **Driving up B&Q UK & Ireland’s profit**

***Self-help measures to rebuild B&Q’s retail margin continued to deliver results. B&Q remains on track to achieve a sustainable 7% operating margin***.

**2011/12 first half progress**

* Stores
	+ Revamped 4 large stores
	+ 1 ‘showroom only’ revamp (kitchen, bathroom and bedroom areas)
	+ Acquired and processed regulatory approval on 29 leasehold stores from the administrator of Focus DIY
* Product and Service
	+ Rolled out a new storage range nationally
	+ Established ‘You can do it’ DIY centres in 15 large stores, delivering classes to 10,000 customers
	+ Created around 16 new ‘how to’ videos available in-store, on diy.com and Youtube.com, taking the total to 50
	+ Introduced a national van hire service (in partnership with Hertz) to make it easier for customers to take away large purchases themselves
* Margin and Costs
	+ Direct sourced shipments continued to provide gross margin benefit
	+ Costs as a percentage of sales held flat reflecting tight controls

**2011/12 second half milestones**

* Stores
	+ Revamp 2 large stores and relocate one medium store *(1)*
	+ 2 ‘showroom only’ revamps (kitchen, bathroom and bedroom areas) *(1)*
	+ Reopen 28 acquired ex-Focus DIY stores in the B&Q format
* Product and Service
	+ Open ‘You can do it’ DIY centres in a further 19 large stores
	+ Create a further 40 ‘how to’ videos available in-store and on diy.com and Youtube.com
* Margin and Costs
	+ Open new distribution centre in Swindon (as part of the supply chain efficiency project previously announced)

*(1) Store revamp milestones announced in March 2011 now adjusted as priority being given to the H2 revamp of ex-Focus DIY stores*

1. **Exploiting our UK Trade opportunity**

***On target to grow sales to the professional tradesman to £1 billion in 2011/12.***

**2011/12 first half progress**

* Added new services for trade professionals including:
	+ development of a ‘click, pay and collect in 15 minutes’ offer for all Screwfix trade counters, already taking over 10,000 orders a week
	+ bulky goods delivery to further extend the ‘TradePoint’ and Screwfix offer
	+ an improved third-party credit and insurance offer that can be used across all Kingfisher UK formats
* Opened 13 further Screwfix net new outlets
* Developed smaller version of Screwfix outlet, providing access to smaller or more densely populated urban catchments
* Over 650,000 ‘TradePoint’ customers now registered

**2011/12 second half milestones**

* Add new services for trade professionals including a ‘TradePoint’ call centre and a smart phone transactional application for Screwfix to allow easier online shopping
* Accelerate the opening of new Screwfix outlets adding up to a further 40 in H2, of which 30 will be the in new smaller format
* Launch specialist websites for both ‘Plumbfix’ and Electricfix’
1. **Expanding our total French business**

***Good sales growth, buying optimisation and increased direct sourcing delivering strong profit growth (up 24% in constant currencies).***

**2011/12 first half progress**

* Opened 1 new store, completed 2 relocations and 1 revamp
* Continued extensive programme of new product launches across both businesses
* Re-launched the Brico Dépôt ‘Le Book’ pocket-sized catalogue
* Extended buying optimisation programme, to include Brico Dépôt Spain
* Rolled out successful common incentive schemes to all store staff across both businesses incorporating new operational measures
* Direct sourced shipments continue to grow ahead of target

**2011/12 second half milestones**

* Open 1 new store, 2 relocations and 1 revamp, adding around 2% net new space for the full year
* Continue with up-weighted new product launches across both businesses
* Continue to extend buying optimisation programme
1. **Rolling out in Eastern Europe**

***6% space added since last year end. Double-digit profit and sales growth.***

 **2011/12 first half progress**

* Opened 6 new stores, 2 in Poland, 2 in Russia and 2 in Turkey
* Direct sourcing shipments in Poland and Turkey ahead of full year target (to increase by over 50%), benefiting gross margin
* Opened ‘city store’ format in Moscow (housing 90% of current product ranges in 65% of the space)

**2011/12 second half milestones**

* Open a further 10 new stores, 4 in Poland, 2 in Russia and 4 in Turkey, adding around 17% new space for the full year
* Direct sourcing shipments in Poland and Turkey to continue to grow ahead of target
1. **Turning around B&Q China**

***Repositioning plan remains on track.***

**2011/12 first half progress**

* Prior year first half losses more than halved
* Continued the new format trial and introduction of new ranges
* Direct sourced group own brands up over 50% on last year, still at early stages

**2011/12 second half milestones**

* Continue the new format trial
* Continue the work on re-engineering ranges including more direct sourced group own brands
* Full year break-even target, subject to a stable Chinese home improvement market
1. **Growing Group sourcing**

***Direct sourcing shipments through the Kingfisher Sourcing Organisation (KSO) continued to grow.***

**2011/12 first half progress**

* Commenced roll-out of group-wide common ranges under the Blooma, Blyss and Verve ‘superbrands’
* Direct sourced shipments running in line with full year target

**2011/12 second half milestones**

* Finalise common range planning and range review alignment between B&Q UK and Castorama France
* Finalise three year direct sourcing and product innovation development plans
* Continue to roll-out group-wide common ranges
* Increase volume of direct sourced shipments for the full year by 15% to around US$1.5 billion
1. **Reducing working capital**

***Since 2007/08 net working capital reduced by over £400 million excluding around £260 million negative impact of French LME (2).***

**2011/12 first half progress**

* Working capital increased as planned in H1 reflecting new stores and on-going French LME *(2)* impacts. Stock level 3 days higher than anticipated primarily due to slow sales of seasonal product
* On track to further extend average payment terms on direct sourced product by another 5 days (to 90 days)

**2011/12 second half milestones**

* Eliminate the 3 days of additional stock
* Keep ‘Like-for-like’ working capital constant before the impacts of French LME *(2)* and investment required for new stores

*(2) Legislative changes shortening French payment terms, implemented over the 3 years to 2012*

**‘Creating the Leader’**

We also made progress mobilising the next stage of our development known as ‘Creating the Leader’. This phase will focus on a number of self-help initiatives to drive sales, margin and cost productivity across the Group under three general themes - making home improvement easier for customers (‘Easy’), developing a world class core commonrange (‘Common’) and accelerating our expansion (‘Expand’).

Examples of key progress made in the first half include the establishment of a new, 50 strong, Group innovation and design team in France and the creation of a new group commercial organisation (referred to internally as the ‘Kingfisher Brands Network’) which will lead the development of and implementation in store of a best in class group-wide common range.

**Sustainability**

Sustainability will be an essential part of our ‘Creating the Leader’ strategy. We are already helping customers make their homes more sustainable at lower cost, whilst also making our own business more sustainable by reducing our environmental and social impact. As well as being good for the environment, sustainable businesses have a long and successful future ahead of them, making them attractive places to work and more valuable investments for shareholders.

Building on our strong heritage in sustainability we have identified four key priorities where we believe we can make the most difference:

* Innovation: the place to shop for sustainable products
* Energy: the best at providing energy-saving solutions for our customers and ourselves
* Communities: to have a positive impact on all the communities we operate in
* Timber: to sell timber only from proven well-managed forests or recycled sources

Good progress was made against these priorities but of particular note was B&Q UK’s progress with its target to source all its timber from well-managed sources. B&Q UK recently achieved its 100% target ahead of plan and is now the first major retailer in the UK to have achieved this.

In recognition of Kingfisher’s progress with its sustainability agenda it was recently awarded Business in the Community’s (BITC) prestigious ‘Platinum Plus’ standard for leading on sustainability and was shortlisted as a finalist in the ‘Responsible Retailer of the Year’ category of the 2011 Oracle World Retail Awards.

**Country data**

As at 30 July 2011

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Store numbers** | **Selling space****(000s sq.m.)** | **Employees****(FTE)** |
| Castorama  | 102 | 1,042 | 12,287 |
| Brico Dépôt | 102 | 565 | 6,865 |
| **Total France** | **204** | **1,607** | **19,152** |
| B&Q UK & Ireland *(1)* | 330 | 2,480 | 23,503 |
| Screwfix  | 175 | 14 | 3,087 |
| **Total UK & Ireland** | **505** | **2,494** | **26,590** |
| Poland | 61 | 455 | 9,919 |
| China | 40 | 333 | 5,307 |
| SpainRussiaTurkey JV | 171632 | 100142169 | 9812,6353,250 |
| **Total Other International** | **166** | **1,199** | **22,092** |
| **Total** | **875** | **5,300** | **67,834** |

*(1) Excluding 29 recently acquired ex-Focus DIY stores*

**Financial review**

A summary of the reported financial results for the six months ended 30 July 2011 is set out below:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2011/12****£m** | 2010/11£m | Increase |
|  |  |  |  |
| Sales | **5,662** | 5,454 | 3.8% |
|  |  |  |  |
| Adjusted pre-tax profit  | **439** | 354 | 24.0% |
|  |  |  |  |
| Profit before taxation after exceptional items | **438** | 351 | 24.8% |
|  |  |  |  |
| Adjusted basic earnings per share  | **13.5p** | 10.6p | 27.4% |
|  |  |  |  |
| Dividends | **2.47p** | 1.925p | 28.3% |

A reconciliation of statutory profit to adjusted profit is set out below:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2011/12****£m** | 2010/11£m | Increase  |
|  |  |  |  |
| Profit before taxation | **438** | 351 | 24.8% |
| Exceptional items (net) | **-** | 7 |  |
| Profit before exceptional items and taxation  | **438** | 358 | 22.3% |
| Financing fair value remeasurements | **1** | (4) |  |
| **Adjusted pre-tax profit** | **439** | 354 | 24.0% |
| Income tax expense on pre-exceptional profit | **(118)** | (107) |  |
| Impact of prior year items on income tax | **(6)** | (2) |  |
| Income tax on fair value remeasurements | **-** | 1 |  |
| Adjusted post-tax profit | **315** | 246 | 28.0% |
| Minority interests | **1** | 2 |  |
| **Adjusted post-tax profit attributable to equity shareholders** | **316** | 248 | 27.4% |

Profit after tax and EPS including all exceptional items for the six months ended 30 July 2011 is set out below:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2011/12** | 2010/11 | Increase  |
|  |  |  |  |
| Profit after tax | **£320m** | £248m | 29.0% |
|  |  |  |  |
| Basic EPS  | **13.7p** | 10.6p | 29.2% |

**Overview**

Total **sales** grew by 3.0% on a constant currency basis and 3.8% to £5.7 billion on a reported rate basis. On a like-for-like basis, Group sales were up 1.6% (2010/11: down 1.3%). During the period, a net additional 17 new stores were opened taking the store network to 843 stores (excluding 32 Turkey JV stores). During H1 we received clearance for B&Q UK to acquire 29 stores from Focus DIY, with 28 opening due to open in H2.

**Retail profit** before exceptional items grew by 17.6% to £473 million (2010/11: £402 million), and by 19.7% to £473 million (2010/11: £395 million) including exceptional items.

The net **interest** charge for the six months was £5 million, down £11 million on the prior period. A breakdown of this is shown below.

**Profit before tax** grew by 24.8% to £438 million as a result of improved trading in the period and a reduction of net finance costs. On a more comparable basis, which removes the impact of one-off items and fair value remeasurements, **adjusted pre-tax profit** grew by 24% to £439 million.

**Profit after tax** for the periodgrew by 29% to £320 million. This resulted in the Group recording a **basic EPS** of 13.7p which is up 3.1p (+29.2%) in the period.

**Interest**

Net interest has decreased by £11 million in the period. The breakdown is as follows:

|  |  |  |
| --- | --- | --- |
|  | **2011/12****£m** | 2010/11£m |
| **Cash** |  |  |
| Interest on net debt | **(6)** | (16) |
| **Non Cash** |  |  |
| Interest return/(charge) on defined benefit pension scheme | **1** | (4) |
| Other | **1** | - |
| **Underlying net interest** | **(4)** | (20) |
| Financing fair value remeasurements | **(1)** | 4 |
| **Statutory net interest**  | **(5)** | (16) |

Underlying net interest has fallen by £16 million driven by a fall in interest on net debt and the interest on our defined benefit pension scheme. Interest on net debt has fallen principally as a result of long-term debt bought back and redeemed in the past year. The debt buybacks were enabled by the Group’s focus on cash as part of the ‘Delivering Value’ programme. Pensions interest is calculated using the gross asset and liability positions and market return and discount rates at the start of the year. The year on year movement is mainly due to a higher asset position at the start of the current period.

**Taxation**

The effective rate of tax, calculated on profit before exceptional items, prior year tax adjustments and the impact of rate changes is 28% (2010/11: 30%).

|  |  |  |  |
| --- | --- | --- | --- |
| Effective tax rate calculation 2011/12 | **Profit****£m** | **Tax****£m** | **Effective****rate %** |
| Profit before tax and tax thereon | 438 | 118 | 27 |
| Adjusted for prior year tax and rate changes |  | 6 |  |
| **Total – adjusted** | 438 | 124 | 28 |

The Group’s effective tax rate is sensitive to the blend of tax rates and profits in the Group’s various jurisdictions. Whilst we will continue to plan our tax affairs efficiently and adopt a prudent approach towards providing for uncertain tax positions we are aware that with pressure on government finances the tax cost of multinationals may increase over time.

**Exceptional items**

Exceptional items are a net £nil post tax charge in the first half (2010/11: charge of £3 million). This comprises a £2 million exceptional credit for the release of the UK restructuring provision following the exit of an idle store offset by a £2 million exceptional cost incurred starting the integration of ex-Focus DIYstores into the B&Q UK store network. We anticipate the full exceptional integration cost will be £13 million, all of which will be charged in this financial year (H1 £2 million, H2 £11 million).

**Earnings per share**

Basic earnings per share have increased by 29.2% to 13.7p (2010/11: 10.6p). On a more comparable basis, removing the impact of exceptional items, prior year tax items and financing fair value remeasurements, adjusted basic earnings per share have increased by 27.4% to 13.5p (2010/11: 10.6p).

|  |  |  |
| --- | --- | --- |
|  | **2011/12** | 2010/11 |
| Basic earnings per share | **13.7p** | 10.6p |
| Exceptional items | **-** | 0.3p |
| Tax on exceptional and prior year items | **(0.3)p** | (0.2)p |
| Financing fair value remeasurements (net of tax) | **0.1p** | (0.1)p |
| **Adjusted earnings per share** | **13.5p** | 10.6p |

**Dividends**

The **interim dividend** has been calculated, as in the prior year, automatically as 35% of the prior year’s total dividend. Any increase in the full year dividend is considered annually in March. As announced at the year end, the interim dividend is proposed at 2.47p per share (2010/11: 1.925p per share). The ex-dividend date will be 5 October 2011 and the dividend will be paid on 11 November 2011, to those shareholders who are on the Register of Members at the close of business on 7 October 2011. Shareholders are able to take this dividend as cash or in shares, through the Dividend Reinvestment Plan (DRIP). Shareholders who wish to elect for the DRIP for the forthcoming interim dividend but have not already done so must notify the Registrars, Computershare Investor Services plc, by 21 October 2011.

**Free cash flow**

A reconciliation of free cash flow and cash flow movement in financial net debt/cash is set out below:

|  |  |  |
| --- | --- | --- |
|  | **2011/12****£m** | 2010/11£m |
| **Operating profit (before exceptional items)** | **443** | 374 |
| Other non-cash items1 | **134** | 135 |
| Change in working capital pre-exceptionals | **(170)** | 25 |
| Pensions and provisions pre-exceptionals | **(26)** | (30) |
| Operating cash flow | **381** | 504 |
| Net interest paid | **(5)** | (12) |
| Tax paid | **(68)** | (51) |
| Gross capital expenditure | **(175)** | (127) |
| Disposal of assets | **-** | 73 |
| **Free cash flow** | **133** | 387 |
| Dividends paid | **(121)** | (84) |
| Share purchase for employee incentive schemes | **(117)** | - |
| Strategic capex investments 2 |  |  |
|  - Focus | **(24)** | - |
|  - UK | **(64)** | - |
| Other 3 | **(4)** | (5) |
| **Cash flow movement in net (debt)/cash** | **(197)** | 298 |
| Opening net (debt)/cash | **14** | (250) |
| FX impacts | **(3)** | (29) |
| **Closing net (debt)/cash** | **(186)** | 19 |

*1 Includes depreciation and amortisation, share-based compensation charge, pre-exceptional non cash movement in pensions and provisions, share of post-tax results of JVs and associates and profit/loss on retail disposals.*

*2 Investments of a one-off nature, such as bolt-on acquisitions and buy outs of freehold in existing leased stores*

*3 Includes dividends received from JVs and associates, issue of share capital to equity shareholders, disposal of own shares, business acquisitions and cash utilisation of exceptional items.*

**Free cash flow** of £133 million was generated in the period, a decrease of £254 million year on year due to increases in working capital and net capex which were partially offset by the increase in operating profit.

As anticipated working capital has increased during the period driven by new stores, higher import stock holdings and LME 1 (impact £80 million in the period). The opportunity exists to reduce stock in certain territories and categories and we will continue to focus on this area.

Gross capex has increased by £48 million year on year as a result of investment in our store networks in Poland and Russia, and in our group IT systems. During the prior year we received £73 million net proceeds principally on property sales.

During the period we have invested additional funds outside of our normal ‘free cash flow’ with £88 million allocated to strategic capex investments and £117 million on the employee share trust acquiring 42 million Kingfisher shares to match existing share incentive schemes, avoiding dilution of shareholder interests when the schemes mature. The strategic capex spend includes £64 million in the UK where we have actively decided to purchase freeholds already occupied and £24 million on the acquisition of 29 Focus stores.

Further capex of £20 million is anticipated on the Focus stores during the year and £13 million of exceptional costs will be incurred whilst we integrate the stores before they open.

 *1**Legislative changes shortening French payment terms, implemented over the 3 years to 2012*

**Financial net debt** at the end of the period was £186 million (29 January 2011: £14 million net cash; 31 July 2010: £19 million net cash). The Group maintains a stable investment grade credit rating of BBB -. The Group refinanced its £500 million 2012 facility with a £200 million 2016 committed facility in the period with no changes to the covenant terms. This facility was undrawn at 30 July 2011. The next significant debt maturity arises in November 2012. During the period, the Group has bought back December 2014 bonds with a nominal value of £9.4 million.

The maturity profile of Kingfisher’s debt is illustrated at: www.kingfisher.com/index.asp?pageid=76

**Pensions**

The IAS 19 **net pension position** at 30 July 2011 was a deficit of £68 million, compared with £58 million at 29 January 2011. The decline in the position since 29 January 2011 is due principally to updating the financial assumptions based on market conditions at 30 July 2011. This has led to the discount rate assumption being reduced from 5.6% to 5.3%.

In the previous financial year the Group established a partnership, giving the UK defined benefit pension scheme recourse to property assets in the event of Kingfisher’s insolvency and a regular income stream forming part of the Group’s annual cash contributions. In the period a further two UK properties with a combined market value of £119 million were transferred into the partnership and leased back to B&Q plc bringing the total contribution to £184 million to date.

**Risks**

The Board considers risk assessment, identification of mitigating actions and internal control to be fundamental to achieving Kingfisher’s strategic objectives. The Board considers that the principal risks to achieving its objectives, which remain principally unchanged from those set in the 2010/11 Annual Report and Accounts, are set out below:

* Sustainable model for emerging markets
* Fragility of economic recovery continuing to undermine consumer confidence and restricting opportunities for growth
* Failure to take advantage of the Group’s combined buying power, synergies and economies of scale
* Systems and supply chain infrastructure lacking the flexibility and capability to support the delivery of the Group’s strategic plans
* Failure to adapt the Group’s formats and models to meet ongoing changes in consumer trends, particularly given the impact of developments in the multi-channel sphere
* Impact of a major health and safety failure on the Group’s reputation, resulting in harm to employees, penalties or prosecution
* Not making the necessary investment in people to ensure the Group has the appropriate calibre of staff, skills and experience
* Risk of penalties or punitive damages arising from failure to comply with new legislative or regulatory requirements
* Impact on Group’s reputation from a major ethical or environmental failure
* Not implementing the measures and disciplines to effectively assess the shareholder value delivered through the Delivering Value programme

Further details of the Group risks and risk management process can be found on pages 26 to 28 of the 2010/11 Annual Report and Accounts.

**Forward-looking statements**

This press release contains certain statements that are forward-looking and are therefore subject to risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed or implied because they relate to future events. These forward-looking statements include, but are not limited to, statements relating to the Company’s expectations around its three key priorities of Management, Capital and Returns and the associated seven steps to ‘Delivering Value’ objectives and the next phase of the Company’s development known as ‘Creating the Leader’.

Forward-looking statements can be identified by the use of relevant terminology including the words: “believes”, “estimates”, “anticipates”, “expects”, “intends”, “plans”, “goal”, “target”, “aim”, “may”, “will”, “would”, “could” or “should” or, in each case, their negative or other variations or comparable terminology and include all matters that are not historical facts. They appear in a number of places throughout this press release and include statements regarding our intentions, beliefs or current expectations and those of our officers, directors and employees concerning, amongst other things, our results of operations, financial condition, changes in tax rates, liquidity, prospects, growth, strategies and the businesses we operate.

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements include, but are not limited to, global economic business conditions, monetary and interest rate policies, foreign currency exchange rates, equity and property prices, the impact of competition, inflation and deflation, changes to regulations, taxes and legislation, changes to consumer saving and spending habits; and our success in managing these factors.

Consequently, our actual future financial condition, performance and results could differ materially from the plans, goals and expectations set out in our forward-looking statements. The Company undertakes no obligation to publicly update any forward- looking statement, whether as a result of new information, future events or otherwise.

