**Wednesday 11 September 2013**

**Kingfisher reports half year sales up 4.3%, up 1.5% (-0.8% LFL) in constant currencies, adjusted pre-tax profits down 1.6% to £365 million. Statutory post-tax profit up 69.9% including the £145 million exceptional credit from resolution of French tax case**

**Group Financial Summary**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **26 weeks ended 3 August 2013** |  |  | **% Total**  **Change** | **% Total Change** | **% LFL Change** |
|  | **2013/14** | **2012/13** | **Reported** | **Constant currency** | **Constant currency** |
| Sales *(1)* | £5,716m | £5,478m | +4.3% | +1.5% | (0.8)% |
| Retail profit*(2) (3)* | £394m | £401m | (1.8)% | (4.8)% |  |
| Adjusted pre-tax profit*(4)* | £365m | £371m | (1.6)% |  |  |
| Adjusted basic EPS*(4)* | 11.3p | 11.5p | (1.7)% |  |  |
|  |  |  |  |  |  |
| Statutory pre-tax profit | £401m | £364m | +10.2% |  |  |
| Statutory post-tax profit | £440m | £259m | +69.9% |  |  |
| Basic EPS | 18.7p | 11.1p | +68.5% |  |  |
|  |  |  |  |  |  |
| Interim dividend | 3.12p | 3.09p | +1.0% |  |  |
| Net cash | £259m | £29m | n/a |  |  |

*(1) Joint Venture (Koçtaş) and Associate (Hornbach) sales are not consolidated.*

*(2) 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.*

*(3)* *2012/13 comparatives restated by £2m to reflect reclassification of pension administrative expenses from finance costs to retail profit, as per the amended IAS 19.*

*(4) 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 (Section 4).*

**Highlights (in constant currencies):**

* Sales and profit impacted by:
  + On-going weak consumer confidence in our three major markets
  + Volatility a key feature across H1
    - Record cold weather in Q1 followed by better weather in Q2 (outdoor products down 10% in Q1, up 9% in Q2)
    - Retail profit down 29.2% in Q1 and up 10.8% in Q2
* ‘Creating the Leader’ programme progressing well
  + 2013/14 milestone delivery on track
  + On-going self-help initiatives supporting short term performance in challenging markets
  + Completed the acquisition of 15 stores in Romania
  + Accelerating the UK expansion of Screwfix, announcing 2014 Germany trials
* Balance sheet
  + £145 million exceptional provision release relating to the successful resolution of the Kesa demerger French tax case
  + Moving annual lease adjusted net debt/EBITDAR at 2.3 times, broadly in line with year end

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

“After a difficult first quarter, in which sales and profits were affected by record bad weather, we were able to capitalise on the better weather in the second quarter particularly in the UK, to grow quarterly profits and so deliver a broadly flat result across the half. However, underlying consumer confidence remains weak in our major markets, so we continue to focus hard on our self-help initiatives to drive growth, margin and cost efficiencies.

“Looking ahead, we remain ready to capitalise on any improvement in conditions or opportunities as they arise, including the potential pick up in the UK housing market. In the meantime, our self-help plan, ‘Creating the Leader’, continues to progress well, including the acquisition of 15 stores in Romania, our first new country entry in seven years. I am also delighted to have received final resolution of the Kesa demerger French tax case, after nine years. Overall, we remain confident in our future prospects.”

**ENQUIRIES**

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Further copies of this announcement can be downloaded from [www.kingfisher.com](http://www.kingfisher.com) or viewed on the Kingfisher IR iPad App available for free at the Apple App store. Video interviews with Ian Cheshire (Group Chief Executive) and Karen Witts (Group Finance Director) are also available on the website and we can be followed on twitter @kingfisherplc.

Kingfisher American Depository Receipts are traded in the US on the OTCQX platform:

(OTCQX: KGFHY)

<http://www.otcmarkets.com/stock/KGFHY/quote>

**COMPANY PROFILE**

**Kingfisher** **plc** is Europe’s leading home improvement retail group and the third largest in the world, with 1,069 stores in nine countries in Europe and Asia. Its main retail brands are B&Q, Castorama, Brico Dépôt and Screwfix. Kingfisher also operates the Koçtaş brand, a 50% joint venture in Turkey with the Koç Group, and has a 21% interest in Hornbach, Germany’s leading large format DIY retailer.

The remainder of this release is broken down into four main sections:

1. ‘Creating the Leader’ update
2. Trading review by major geography
3. Summary data by geography
4. Financial review and, in part 2 of the announcement, the interim condensed financial statements

**Section 1**

**‘CREATING THE LEADER’ UPDATE**

Our unique contribution as a business to our customers is that we can harness our home improvement experience, our heritage as a leader in sustainability and our international scale to bring new, more sustainable and more affordable products to market. By also providing our customers with project advice and new shopping channels to complement our stores we will make it easier for them to adapt their homes to their evolving lifestyles. Our shorthand for describing this purpose is *‘Better Homes, Better Lives’* and the programme of self-help initiatives to achieve this purpose is called ‘Creating the Leader’.

**‘Creating the Leader’ H1 progress and milestones for H2**

In March 2012, we set out four areas (Easier, Common, Expand and One Team) with eight specific steps that make up ‘Creating the Leader’ along with their associated key success measures and short term annual milestones. Today we update on the progress we have made towards each of the 2013/14 milestones:

**EASIER**

2013/14 first half progress

*Emphasise our affordability credentials*

* Launched ‘handy prices’ marketing campaign in B&Q UK & Ireland
* Rolled out Brico Dépôt ‘back to basics’ marketing campaign
* Extended Brico Dépôt France & Spain programme of ‘arrivages’ (one off special buys) to Turkey & Poland
* Launched UK Enterprise Finance Guarantee scheme for tradesmen

*Extend our omnichannel offer*

* B&Q UK on-line offer
  + 20,000 extra products now available for home delivery (using Screwfix omnichannel infrastructure)
  + Navigation and search functionality of [www.diy.com](http://www.diy.com) improved
* Launched upgraded websites in Turkey and Brico Dépôt France
* Launched pilot of ‘click & collect’ in Castorama France

2013/14 second half milestones

*Extend our omnichannel offer*

* B&Q UK on-line offer
  + Launch of click, pay & collect on-line
  + Extend TradePoint website to main shop floor categories e.g. kitchens
* Launch upgraded websites in Poland, Spain and China
* Launch pilot of ‘click & collect’ in Turkey

**COMMON**

**Group sourcing organisation update**

We have already made a lot of progress with Group sourcing and since 2008 have achieved the following:

* more than doubled direct sourcing to c.20% of Group sales
* established Group-wide common own brands, with ‘common’\* products already at 8% of Group sales as at January 2012/13 year end, up from less than 1% previously
* invested in and expanded our global sourcing capability and brand management

We are now building on this first phase by bringing our sourcing operations closer to our operating businesses as we increasingly share our best ranges. We will drive further sourcing benefits by creating a more flexible, agile approach, with greater focus on ‘near sourcing’ and shorter lead-times. This plan is being led by Guy Colleau, CEO Group Sourcing & Offer, who brings a wealth of operational experience to his new role from his former position as CEO Castorama France.

The key features of the Group sourcing approach will be:

* cash margin-based KPIs replacing previous % KPI targets
* sourcing offices that focus more on negotiating deals with suppliers, leaving product range decisions with local commercial management teams
* more low-cost, ‘pop up’ sourcing branches and near sourcing operations

2013/14 first half progress

*Product:*

* Launched new energy-efficiency ‘iQE’ Group brand
* Paint
  + Rolled out ‘Colours’ Group own-brand paint into Spain
  + Rolled out new coloured emulsion paint range to Castorama France which will be 2/3 common\* between B&Q UK & Ireland and Castorama France
  + Commenced roll out of exclusive Valspar paint mixing desk into B&Q UK and China

*Efficiency:*

* SG&A (selling, general & administrative expenses) optimisation from media buying programmes across the UK & France
* Introduction for the first time of an all staff bonus programme in Poland (linked to individual store sales & profit growth)

2013/14 second half milestones

*Product:*

* Paint
  + Complete roll out of new coloured emulsion paint range to B&Q UK & Ireland which will be 2/3 common\* B&Q UK & Ireland and Castorama France
  + Continue roll out of exclusive Valspar paint mixing desk into B&Q UK
  + Roll out ‘Colours’ Group own-brand paint into Russia
* Full launch of Screwfix’s ‘Site’ work wear products into Brico Dépôt France
* Launch inaugural European product show, to be attended by 6,000 store & buying colleagues teams from the UK & France, featuring new extended Group ranges

*Efficiency:*

* Upweighted distribution and logistics capability in Poland, Spain & Turkey
* Extend Brico Dépôt France shelf-ready packaging from 20% to 30%
* Mobilise web-enabled Group IT platform including IT process mapping analysis at Castorama France

*\*Common means two or more operating companies selling the same product or a similar product but from the same supplier where the same product is not possible due to market / legal reasons (e.g. electrical extension cable which is the same supplier but with different electrical sockets)*

**EXPAND**

2013/14 half year progress

* Opened 29 net new stores (France 4, UK 18\*, Poland 2, Spain 3 & Turkey 2), representing 1.4% space growth
* Capitalising on consolidation opportunities
  + Acquired 15 ‘Bricostore’ stores in Romania, adding 3% space to the Group
  + Koçtaş JV in Turkey in negotiations over 2 ex-Praktiker large stores
* Revamped and extended two Castorama stores
* B&Q UK store rightsizing update
  + One freehold store completed
  + 17 further agreements now in place subject to planning permission (c.6-18 months) of which 2 consents are in place
  + 18 store package would represent
    - 5% less space (116,000 square metres), potential c.£130m reduction to lease adjusted debt
    - Annual rental and rates savings of £16m and £7m respectively
* Evaluating Screwfix international opportunities
  + UK website now extended to over 20 European countries, deliveries fulfilled from the UK
  + Screwfix Germany trial announced, four outlets due to open Summer 2014

2013/14 second half milestones

* Open 47 net new stores (France 1, UK 42\*, Russia 1, Spain 1 & Turkey 2)
* Revamp and extend a further two Castorama stores
* Review potential for further B&Q UK rightsizing opportunities

*\*Principally Screwfix outlets*

**ONE TEAM**

2013/14 half year progress

* Recently appointed Richard Gillies from M&S as Group Sustainability Director, to lead ‘Net Positive’ agenda
* Increase in cross-Group people moves
* Continued to develop ‘Kingfisher One Academy’ - 26% of top 250 employees having attended module based training
* Launched B&Q UK & Ireland’s ‘Good Woods’ woodland stewardship initiative with around 3,000 hectares of forest already committed

**Section 2**

**TRADING REVIEW BY MAJOR GEOGRAPHY**

**FRANCE**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Sales £m** | **2013/14** | **2012/13** | **% Reported Change** | **% Constant**  **Currency**  **Change** | **% LFL**  **Change** |
| France | 2,306 | 2,206 | +4.5% | (0.4)% | (2.4)% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Retail profit £m** | **2013/14** | **2012/13** | **% Reported Change** | **% Constant**  **Currency**  **Change** |
| France | 191 | 191 | (0.3)% | (4.9)% |

*France includes Castorama and Brico Dépôt*

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

**Kingfisher France**

Kingfisher France sales declined by 0.4% (-2.4% LFL) to £2,306 million in slower markets impacted by weak consumer confidence. Across the two businesses, four net new stores were opened and two were revamped, adding around 3% new space.

Gross margins were flat across H1, with on-going self-help initiatives offset by more promotional activity. Continued tight cost control, including lower levels of variable pay, resulted in retail profit of £191 million, down 4.9% compared to last year.

**Castorama** total sales grew by 0.9% (-1.1% LFL) to £1,294 million. According to Banque de France data, sales for the home improvement market *(1)* were down around 3%. Castorama benefited from its innovative ‘Do-it-Smart’ approach aimed at making home improvement projects easier for customers. LFL sales of outdoor seasonal products were down around 3% reflecting adverse weather, particularly in Q1. Sales of indoor products were down around 1%.

**Brico Dépôt** total sales declined by 1.9% (-3.8% LFL) to £1,012 million. According to Kingfisher estimates, sales for the comparable market *(2)*, which more specificallytargets trade professionals and heavy DIYers, was down around 4%. Brico Dépôt benefited from self-help initiatives which continued to progress well. These included new ranges introduced last year (e.g. kitchen and lighting ranges) and more ‘arrivages’ (rolling programme of one-off special buys), reinforcing Brico Dépôt’s value credentials.

*(1)Banque de France data includes relocated and extended stores*

*(2)Rolling 12 month average of Banque de France (60%) and I+C (www.iplusc.com) trade data (40%) July 2012 - June 2013. For the same period, Brico Dépôt LFLs were down 4.7%.*

**UK & IRELAND**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Sales £m** | **2013/14** | **2012/13** | **% Reported**  **Change** | **% Constant**  **Currency Change** | **% LFL**  **Change** |
| UK & Ireland | 2,270 | 2,264 | +0.3% | +0.2% | (1.0)% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Retail profit £m** | **2013/14** | **2012/13** | **% Reported**  **Change** | **% Constant**  **Currency Change** |
| UK & Ireland | 141 | 143*(1)* | (1.4)% | (1.3)% |

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

*(1)2012/13 comparatives restated by £2m to reflect reclassification of pension administrative expenses from finance costs to retail profit, as per the amended IAS 19.*

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

**Kingfisher UK & Ireland**

Kingfisher UK & Ireland total sales were up 0.2% (-1.0% LFL) to £2,270 million. Across H1, sales benefited from higher sales of outdoor seasonal products (+6%), offset by a slower underlying market impacted by weak consumer confidence. Sales patterns were unusually volatile across H1 driven by record cold weather in Q1 followed by better weather in Q2.

Kingfisher UK & Ireland reported broadly flat retail profit of £141 million (2012/13: reported £143 million including the benefit of a one-off construction related claim for around £5 million). Gross margins were up 30 basis points, benefiting from on-going self-help initiatives offset by investment in pricing. A strong focus on operating cost efficiencies continued across both businesses. Retail operating margins across H1 (Q1: 4.7%; Q2: 7.6%) were driven by the weather affected sales patterns and operational leverage.

**B&Q UK & Ireland’s** total sales were down 1.8% (-1.7% LFL) to £1,957 million. Sales of outdoor seasonal products were up around 6%, after a difficult H1 last year, impacted by record adverse weather. In line with weather patterns across H1 this year, sales of outdoor seasonal products were down 11% in Q1 and up 17% in Q2. Sales of indoor product were down around 3% across H1.

The market *(1)* for the UK’s leading home improvement retailers was up around 2% with seasonal ranges up 9%. On a comparable basis, B&Q UK & Ireland’s sales were down around 1%.

TradePoint continues to progress well with sales to TradePoint customers up around 7% compared to H1 last year. Over 1.3 million have now registered as TradePoint customers.

In Ireland, following the conclusion of the Examinership process in May 2013, one store has now closed and significant rent reductions have been achieved across the remaining stores. The stores are showing signs of improved trading.

**Screwfix** grew total sales by 14.6% (+3.6% LFL) to £313 million, in a challenging smaller tradesman market *(2)*, estimated to be down around 1%. Screwfix benefited from extended opening hours, new ranges (e.g. paint and work wear), the continued roll out of new outlets and the successful introduction of a mobile ‘click, pay & collect’ offer last year. Nineteen outlets were opened during H1, taking the total to 294.

*(1)Kingfisher estimate for the UK RMI (Repairs, Maintenance & Improvement) market – incorporates GfK data, which includes new space but which excludes B&Q Ireland and private retailers e.g. IKEA, Topps Tiles and other smaller independents. It is on a cash sales basis and is adjusted for discounts*

*(2)Kingfisher estimates - based on Builders’ Merchants Federation lightside data April-June 2013*

**OTHER INTERNATIONAL**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Sales £m** | **2013/14** | **2012/13** | **% Reported**  **Change** | **% Currency**  **Constant**  **Change** | **% LFL**  **Change** |
| Other International | 1,140 | 1,008 | +13.1% | +8.3% | +2.9% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Retail profit £m** | **2013/14** | **2012/13** | **% Reported Change** | **% Constant**  **Currency Change** |
| Other International | 62 | 67 | (7.3)% | (11.4)% |

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

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

**Other International** total sales increased by 8.3% (+2.9% LFL) to £1,140 million driven by LFL growth in Russia and China and new store openings. Seven net new stores opened during H1, three in Spain, two in Poland, and two in Turkey, adding around 3% new space. Including the acquisition of stores in Romania, around 15% new space was added in H1.

However, economic uncertainty in Europe and record adverse weather in Germany impacted performance. Retail profits were down 11.4% to £62 million, with much of the decline due to a lower contribution from Hornbach.

Sales in **Poland** were up 3.1% (-0.2% LFL) to £557 million reflecting new store openings. Sales patterns were unusually volatile across H1 driven by record cold weather in Q1 followed by better weather in Q2 (Q1: -4.2% LFL; Q2 +3.0% LFL). Gross margins were down 60 basis points, with self-help initiatives more than offset by an on-going investment in pricing which annualised during Q2. Good cost control largely offset cost inflation. Retail profit declined 4.3% to £54 million.

In **Russia,** sales were up 12.4% to £225 million (+10.5% LFL). LFL sales were up 13.0% in Q1 though slower in Q2 (+9.0% LFL). Retail profit grew by nearly 50% to £3 million. In **Turkey,** Kingfisher’s 50% JV, Koçtaş, grew sales by 5.1% (+3.5% LFL) to £172 million benefiting from new store openings, better weather and new ranges (e.g. bathrooms and lighting). Retail profit contribution was £5 million, up 17.2% year on year.

Brico Dépôt **Spain** grew sales by 13.5% (-6.0% LFL) to £153 million reflecting new store openings. Retail profit was £3 million, down 17.0% on last year, in a difficult market. **Hornbach**, in which Kingfisher has a 21% economic interest, contributed £4 million to retail profit (2012/13: £9 million reported retail profit contribution) with sales in Germany impacted by record adverse weather in March and early April *(1).* H1 also included one month’s trading of Bricostore **Romania**, contributing sales of £11 million and retail profit of £nil.

B&Q **China** sales grew by 9.5% (+10.2% LFL) to £194 million benefiting from additional promotional activity and an improving domestic property market *(2).* Retail loss was £7 million (2012/13: £6 million reported retail loss) including £3 million of costs relating to work on the new format store trial which opened in March this year and £1 million lower sublet rental income on vacant store space.

*(1) Due to non-coterminous year ends, Hornbach’s weather impacted Q1 (Mar-May 2013) is accounted for in Kingfisher’s Q2*

*(2) New property transaction sales +25% for 17 cities in which B&Q China operates Jul 2012 –June 2013 according to the China Real Estate Exchange Centre*

**Section 3**

**SUMMARY DATA BY GEOGRAPHY**

|  |  |  |  |
| --- | --- | --- | --- |
| As at 3 August 2013 | **Store**  **numbers** | **Selling space**  **(000s m2)** | **Employees**  **(FTE)** |
| Castorama | 105 | 1,113 | 12,416 |
| Brico Dépôt | 106 | 589 | 6,987 |
| **France** | **211** | **1,702** | **19,403** |
| B&Q UK & Ireland | 357 | 2,558 | 21,650 |
| Screwfix | 294 | 21 | 4,028 |
| **UK & Ireland** | **651** | **2,579** | **25,678** |
| Poland | 72 | 529 | 10,588 |
| China | 39 | 322 | 4,156 |
| Romania | 15 | 152 | 1,422 |
| Russia | 19 | 170 | 2,590 |
| Spain | 23 | 134 | 1,227 |
| Turkey JV | 39 | 205 | 3,352 |
| **Other International** | **207** | **1,512** | **23,335** |
| **Total Group** | **1,069** | **5,793** | **68,416** |
|  |  |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Sales** | **% Total**  **Change** | **% Total Change** | **% LFL**  **Change** |
|  | **£m**  **2013/14*(1)*** | **Reported** | **Constant currency** | **Constant currency** |
| Castorama | 1,294 | +5.8% | +0.9% | (1.1)% |
| Brico Dépôt | 1,012 | +2.9% | (1.9)% | (3.8)% |
| **France** | **2,306** | **4.5%** | **(0.4)%** | **(2.4)%** |
| B&Q UK & Ireland | 1,957 | (1.7)% | (1.8)% | (1.7)% |
| Screwfix | 313 | +14.6% | +14.6% | +3.6% |
| **UK & Ireland** | **2,270** | **+0.3%** | **+0.2%** | **(1.0)%** |
| Poland | 557 | +8.6% | +3.1% | (0.2)% |
| China | 194 | +15.8% | +9.5% | +10.2% |
| Romania | 11 | n/a | n/a | n/a |
| Russia | 225 | +13.2% | +12.4% | +10.5% |
| Spain | 153 | +19.1% | +13.5% | (6.0)% |
| **Other International** | **1,140** | **+13.1%** | **+8.3%** | **+2.9%** |
| **Total Group** | **5,716** | **+4.3%** | **+1.5%** | **(0.8)%** |

*(1)Joint Venture (Koçtaş) and Associate (Hornbach) sales are not consolidated.*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Retail Profit** | **% Total**  **Change** | **% Total Change** | **Operating Margin**  **% 2013/14** | **Operating Margin**  **% 2012/13** |
|  | **£m**  **2013/14** | **Reported** | **Constant currency** |  |  |
| **France** | **191** | **(0.3)%** | **(4.9)%** | **+8.3%** | **+8.7%** |
| **UK & Ireland*(1)*** | **141** | **(1.4)%** | **(1.3)%** | **+6.2%** | **+6.3%** |
| Poland | 54 | +0.8% | (4.3)% | +9.7% | +10.5% |
| China | (7) | (25.0)% | (18.2)% | (3.6)% | (3.6)% |
| Hornbach | 4 | (52.9)% | (55.1)% | n/a*(2)* | n/a*(2)* |
| Romania | - | n/a | n/a | n/a | n/a |
| Russia | 3 | +50.8% | +49.8% | +1.3% | +1.0% |
| Spain | 3 | (12.9)% | (17.0)% | +2.0% | +2.3% |
| Turkey JV | 5 | +17.9% | +17.2% | n/a*(2)* | n/a*(2)* |
| **Other International** | **62** | **(7.3)%** | **(11.4)%** | **+5.4%** | **+6.6%** |
| **Total Group*(1)*** | **394** | **(1.8)%** | **(4.8)%** | **+6.9%** | **+7.3%** |

*(1)2012/13 comparatives restated by £2m to reflect reclassification of pension administrative expenses from finance costs to retail profit, as per the amended IAS 19.*

*(2)Joint Venture (Koçtaş) and Associate (Hornbach) sales are not consolidated therefore not applicable.*

|  |  |  |
| --- | --- | --- |
| **Year to date average FX rates vs £ Sterling** | | |
|  | **2013/14** | **2012/13** |
| Euro | 1.17 | 1.23 |
| Polish Zloty | 4.91 | 5.16 |
| Chinese Renminbi | 9.44 | 9.99 |
| Romanian Leu | 5.18 | n/a |
| Russian Rouble | 48.22 | 48.54 |
| Turkish Lira | 2.82 | 2.83 |

**SECOND QUARTER BY MAJOR GEOGRAPHY** – 13 weeks ended 3 August 2013

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Sales *(1)*** | **% Total** | **% Total** | **% LFL** | **Retail Profit** | **% Total** | **% Total** |
|  | **2013/14**  **£m** | **Change**  **(Reported)** | **Change**  **(Constant currency)** | **Change**  **(Constant currency)** | **2013/14**  **£m** | **Change (Reported)** | **Change**  **(Constant currency)** |
|  |  |  |  |  |  |  |  |
| France | 1,227 | +9.8% | +2.9% | +0.7% | 125 | +9.4% | +3.0% |
| UK & Ireland | 1,202 | +3.8% | +3.6% | +2.5% | 91 | +30.9%*(2)* | +31.1%*(2)* |
| Other International | 664 | +16.5% | +10.4% | +4.5% | 64 | +8.1% | +3.1% |
| **Total Group** | **3,093** | **+8.7%** | **+4.7%** | **+2.2%** | **280** | **+15.3%***(2)* | **+10.8%***(2)* |

*(1)Joint Venture (Koçtaş) and Associate (Hornbach) sales are not consolidated.*

*(2)2012/13 comparatives restated by £1m to reflect reclassification of pension administrative expenses from finance costs to retail profit, as per the amended IAS 19.*

Data tables for Q1, Q2 and half year are available for download in excel format at http://www.kingfisher.com/index.asp?pageid=59.

**Section 4**

**FINANCIAL REVIEW**

A summary of the reported financial results for the six months ended 3 August 2013 is set out below:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2013/14**  **£m** | 2012/13  £m | Increase/  (decrease) |
|  |  |  |  |
| Sales | **5,716** | 5,478 | +4.3% |
|  |  |  |  |
| Adjusted pre-tax profit | **365** | 371 | (1.6)% |
|  |  |  |  |
| Profit before taxation after exceptional items | **401** | 364 | +10.2% |
|  |  |  |  |
| Adjusted basic earnings per share | **11.3p** | 11.5p | (1.7)% |
|  |  |  |  |
| Dividends | **3.12p** | 3.09p | +1.0% |

A reconciliation of statutory profit before tax to adjusted pre-tax profit is set out below:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2013/14**  **£m** | 2012/13  £m | Increase/  (decrease) |
|  |  |  |  |
| Profit before taxation | **401** | 364 | +10.2% |
| Exceptional items | **(35)** | 6 |  |
| Profit before exceptional items and taxation | **366** | 370 | (1.1)% |
| Financing fair value remeasurements | **(1)** | 1 |  |
| Adjusted pre-tax profit | **365** | 371 | (1.6)% |

Profit after tax and Basic EPS including all exceptional items for the six months ended 3 August 2013 are set out below:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2013/14** | 2012/13 | Increase |
|  |  |  |  |
| Profit after tax | **£440m** | £259m | +69.9% |
|  |  |  |  |
| Basic EPS | **18.7p** | 11.1p | +68.5% |

**Overview**

The statutory financial results for the half year have benefitted significantly from exceptional items which add £35 million to profit before tax, £153 million to profit after tax and 6.5p to basic earnings per share. The exceptional items are detailed further below. For comparative purposes we have presented adjusted measures.

Total **sales** grew by 1.5% on a constant currency basis and grew by 4.3% to £5.7 billion (2012/13: £5.5 billion) on a reported rate basis. On a like-for-like basis, Group sales were down 0.8% (2012/13: down 2.8%). During the period, a net additional 42 new stores were opened, including 19 Screwfix outlets and 15 stores acquired with Bricostore Romania, taking the store network to 1,030 stores (excluding 39 Turkey JV stores).

**Retail profit** before exceptional items declined by 4.8% on a constant currency basis and by 1.8% to £394 million (2012/13: £401 million restated) on a reported rate basis. Including exceptional items, reported retail profit increased by 1.8% to £402 million (2012/13: £395 million restated).

**Net interest** has moved from a £2 million net expense (restated) in the prior half year to a £25 million net income in the current period. The breakdown is as follows:

|  |  |  |
| --- | --- | --- |
|  | **2013/14**  **£m** | 2012/13 (restated)  £m |
| **Underlying net interest** | **(3)** | (1) |
| Financing fair value remeasurements | **1** | (1) |
| Exceptional items | **27** | - |
| **Net interest** | **25** | (2) |

The principal movement in net interest is driven by the release of a £27 million exceptional repayment supplement provision on the Kesa demerger French tax case – see exceptional items section below.

**Taxation**

The effective rate of tax, calculated on profit before exceptional items and prior year tax adjustments is 27% (2012/13: 28%), in line with the full year rate for 2012/13.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Effective tax rate calculation** | **Profit**  **£m** | **Tax**  **£m** | **2013/14 %** | 2012/13 % |
| Profit before tax and tax thereon | **401** | **(39)** | **(10)%** | 29% |
| Exceptional items | **(35)** | **118** |  |  |
| Prior year items and rate changes |  | **20** |  |  |
| **Total** | **366** | **99** | **27%** | 28% |

The overall rate of tax includes the impact of exceptional items and prior year tax adjustments. The impact of such items in the period was to reduce the overall tax rate from 29% to -10%. This reflects the release of a £118 million exceptional tax provision following the successful resolution of the Kesa demerger French tax case – see exceptional items section below.

The Group’s effective tax rate reflects the rates of tax and the proportion of profits generated in the various jurisdictions in which the Group operates. The statutory rates for the Group’s main operating companies during 2013/14 are:

* UK 23%
* France 36.1%
* Poland 19%

Because of the large differences between these rates some fluctuation in the Group’s effective tax rate is possible in the future. 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 multi-nationals may increase over time.

**Exceptional items**

|  |  |  |
| --- | --- | --- |
|  | **2013/14**  **£m** | 2012/13 £m |
| Kesa demerger French tax case – repayment supplement income | **27** | - |
| Ireland restructuring | **7** | - |
| UK restructuring | **-** | (18) |
| Net pension gain | **-** | 11 |
| Other | **1** | 1 |
|  | **35** | (6) |
| Tax on exceptional items | - | 1 |
| Kesa demerger French tax case | **118** | - |
| **Net exceptional items** | **153** | (5) |

Kingfisher paid €138 million tax to the French tax authorities in the year ended 31 January 2004 as a consequence of the Kesa Electricals demerger and recorded this as an exceptional tax charge. Kingfisher appealed successfully against this tax liability and as a result received €169 million from the French tax authorities in September 2009, representing a refund of the €138 million and €31 million of repayment supplement. The French tax authorities appealed this decision and the hearing took place in May 2011 with the Court of Appeal finding in Kingfisher’s favour. The French tax authorities appealed this decision to the final level of court and in July 2013 the case was found in Kingfisher’s favour. The decision removed any uncertainty over the position and resulted in an exceptional credit of £145 million (€169 million), of which £27 million has been recognised in interest and £118 million in taxation.

The current period also includes an exceptional credit of £7 million for Ireland restructuring, reflecting the release of provisions recorded in January 2013 when B&Q Ireland entered into an Examinership process. This process was successfully exited in May 2013 with the closure of only one store, rather than five potentially under threat, and with over 600 jobs saved.

**Earnings per share**

Basic earnings per share have increased by 68.5% to 18.7p (2012/13: 11.1p). On a more comparable basis, removing the impact of exceptional items, prior year tax adjustments and financing fair value remeasurements, adjusted basic earnings per share have decreased by 1.7% to 11.3p (2012/13: 11.5p).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Earnings**  **£m** | **2013/14**  **EPS**  **pence** | Earnings  £m | 2012/13  EPS  pence |
| Basic earnings per share | **440** | **18.7** | 259 | 11.1 |
| Net exceptional items | **(153)** | **(6.5)** | 5 | 0.3 |
| Prior year tax items and rate changes | **(20)** | **(0.9)** | 2 | 0.1 |
| Financing fair value remeasurements | **(1)** | **-** | 1 | - |
| Adjusted basic earnings per share | **266** | **11.3** | 267 | 11.5 |

The average number of shares in issue during the period is 2,358 million (2012/13: 2,332 million).

**Free cash flow**

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

|  |  |  |
| --- | --- | --- |
|  | **2013/14**  **£m** | 2012/13  (restated)  £m |
| **Operating profit (before exceptional items)** | **368** | 372 |
| Other non-cash items *(1)* | **141** | 143 |
| Change in working capital | **125** | 55 |
| Pensions and provisions (before exceptional items) | **(18)** | (24) |
| Operating cash flow | **616** | 546 |
| Net interest paid | **(5)** | (4) |
| Tax paid | **(39)** | (74) |
| Gross capital expenditure | **(147)** | (172) |
| Disposal of assets | **10** | 6 |
| **Free cash flow** | **435** | 302 |
| Dividends paid | **(150)** | (148) |
| Acquisition of Bricostore Romania | **(28)** | - |
| Other *(2)* | **2** | 4 |
| **Cash flow movement in net cash/(debt)** | **259** | 158 |
| Opening net cash/(debt) | **38** | (88) |
| Debt acquired with Bricostore Romania | **(35)** | - |
| Other movement including foreign exchange | **(3)** | (41) |
| **Closing net cash** | **259** | 29 |

*(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)Includes dividends received from JVs and associates, issue of shares and exceptional items (excluding property disposals).*

**Free cash flow** of £435 million was generated in the period (2012/13: £302 million) benefitting from a larger reduction in working capital, along with lower tax payments and lower capital expenditure. This was partially offset by the cost of the Romania acquisition (see below).

**Financial net cash** at the end of the period was £259 million (2 February 2013: £38 million; 28 July 2012: £29 million). The Group maintains a strong investment grade credit rating with two of the three rating agencies of BBB. The third agency remains at BBB- stable outlook. The Group has a £200 million committed facility that expires in 2016 and was undrawn at 3 August 2013. Having repaid £33 million of the USPPs in May 2013, the next significant debt maturity is in December 2014 when the Group is required to repay MTNs with a notional value of £73 million.

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

The Group’s overall leverage is more significant when including capitalised lease debt that in accordance with accounting regulations does not appear on the balance sheet. The ratio of the Group’s lease adjusted net debt (capitalising leases at 8 times annual rent) to adjusted EBITDAR on a moving annual total basis is 2.3 times as at 3 August 2013. This level is broadly consistent with a BBB flat credit rating. At this level the Group has financial flexibility whilst retaining an efficient cost of capital.

A reconciliation of lease adjusted net debt to adjusted EBITDAR on a moving annual total basis is set out below:

|  |  |  |
| --- | --- | --- |
|  | **2013/14**  **£m** | |
| EBITDA*(1)* | 987 |  |
| Property operating lease rentals | 442 |  |
| **Adjusted EBITDAR (moving annual total)** |  | **1,429** |
| Net cash | (259) |  |
| Pension position | 6 |  |
| Property operating lease rentals (8x)*(2)* | 3,536 |  |
| **Lease adjusted net debt** |  | **3,283** |
| **Lease adjusted net debt to adjusted EBITDAR** |  | **2.3x** |

(*1)Calculated as retail profit less central costs and before depreciation and amortisation.*

*(2)Kingfisher believes 8x is a reasonable industry standard for estimating the economic value of its leased assets.*

As highlighted at the year end, the Group aims to maintain its solid investment grade credit rating whilst investing in the business where economic returns are attractive and paying a healthy annual dividend to shareholders. After satisfying these key aims and taking into account the economic and trading outlook any surplus capital would be returned to shareholders. Following a review at the half year the Group does not believe it has surplus capital.

**Dividends**

The interim dividend is proposed at 3.12p per share (2012/13: 3.09p per share). The ex-dividend date will be 9 October 2013 and the dividend will be paid on 15 November 2013 to those shareholders who are on the Register of Members at the close of business on 11 October 2013. 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 25 October 2013.

In the Group's 2012/13 full year results it was stated that the Group would move away from the mechanistic calculation of the interim dividend as 35 per cent of the previous year's total dividends and instead set both the interim and final dividend by reference to the current year's earnings. Going forward the Group will aim to move towards a medium term annual dividend cover of around 2.5 times.

**Acquisitions**

On 31 May 2013, the Group acquired 100% of Bricostore Romania, a home improvement business operating 15 stores including 8 freeholds. Kingfisher paid £35 million of cash consideration and acquired £7 million of cash with Bricostore Romania. In addition, debt of £35 million was acquired with the business, which was immediately settled. Provisional goodwill of £13 million has been recognised on acquisition.

**Pensions**

At the half year, the Group had a net deficit of £6 million in relation to defined benefit pension arrangements, compared with a net position of £nil at 2 February 2013. An analysis of the movement in the pension deficit is set out in note 11 to the interim condensed financial statements. This accounting valuation is very sensitive to a number of assumptions and market rates which are likely to fluctuate in the future.

The Group has adopted a revised pensions accounting standard (IAS19 Employee Benefits) in the period. This has resulted in a reclassification of £2 million of administrative costs of running the UK scheme from interest to retail profit in both the current and prior half year periods.

Auto-enrolment of eligible employees into the UK defined contribution pension scheme commenced in the period, with around two-thirds of all UK employees now participating in this scheme.

**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 2012/13 Annual Report and Accounts, are summarised below:

* Failure to deliver demand and value through the easier initiatives
* Failure to invest in the systems and supply chain platforms necessary to maintain either competitive parity or advantage, amongst online or omnichannel competitors
* Failure to unlock the potential to generate further shareholder value through the optimisation of combined purchasing and commercial synergies, while retaining accountability at our Operating Companies
* Failure to stimulate increased consumer spend through investments in new store formats and customer proposition strategies
* Uncertainty surrounding the resilience of the global economy and the future of the Eurozone continues to impact both consumer confidence and the long-term sustainability and capabilities of the Group’s supplier base
* Failure to identify, assess and take advantage of potential opportunities for overseas expansion and market penetration strategies for existing markets
* Not making the necessary investment in people to ensure that the Group has the appropriate calibre of staff, skills and experience
* Lack of perceived price competitiveness, particularly when compared to more discount based or online competitors
* Key product suppliers lacking the necessary resilience or disaster recovery capabilities to manage the impact of on-going global economic volatility or the increasing impacts of extreme weather cycles and patterns on their operations and extended supply chains
* Failure to maintain a safe environment for our customers and store colleagues which results in a major incident or fatality that is directly attributable to a failure in our Health & Safety management systems
* The impact on Kingfisher’s reputation and brand arising from a major environmental or ethical failure, a significant corporate fraud or material non-compliance with legislative or regulatory requirements resulting in punitive or custodial procedures

Further details of the Group risks and risk management process can be found on pages 25 to 27 of the 2012/13 Annual Report and Accounts.

**Forward-looking statements**

This press release contains certain statements that are forward-looking and which should be considered, amongst other statutory provisions, in light of the safe harbour provisions of the United States Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts may be forward-looking statements. Such statements 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 the Company’s programme known as ‘Creating the Leader’ and its associated eight steps.

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. We urge you to read our annual report and other company reports, including the risk factors contained therein, for a more detailed discussion of the factors that could affect our future performance and the industry in which we operate. Reliance should not be placed on any forward-looking statement. Our forward looking statements speak only as of the date of this press release and the Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise. Nothing in this press release should be construed as a profit forecast.