Kingfisher

BETTER HOMES, BETTER LIVES

Kingfisher PLC Interim Results Conference Call

Results for 26 weeks ended 3 August 2013
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Corporate Participants

Ian Cheshire Group Chief Executive
Karen Witts Group Finance Director
Steve Willett CEO Group Productivity & Development
Guy Colleau CEO Group Sourcing & Offer
Kevin O'Byrne CEO B&Q and Koçtaş brands
Philippe Tible Divisional CEO, Castorama & Brico Dépôt

Conference Call Participants

Fraser Ramzan Nomura Securities - Analyst
Jamie Merriman Sanford C. Bernstein & Co. LLC - Analyst
Simon Irwin Credit Suisse - Analyst
Geoff Lowery Redburn Partners - Analyst
Andy Hughes UBS – Analyst
Christodoulos Chaviaras Barclays - Analyst

Transcript

Ian Cheshire - Kingfisher Plc - Group Chief Executive
Good morning, everybody. Welcome to the Kingfisher interim results. Thank you for coming along. We're going to start with a quick agenda for the day.

I'm going to do just a quick slide or two of set up. Karen is then going to walk us through the detail of the financial results for the half year.

We're then going to go through the Creating the Leader update and a bit of a vision about what's coming next. I'll cover the first elements of that. But I'm very pleased to welcome Steve Willett, initially to say he's the CEO, Group Productivity & Development, particularly with a view to talking about Omnichannel and some of our opportunities as a Group going forward, and Guy Colleau from -- who's now CEO, Group Sourcing & Offer, to talk about our sourcing opportunities, some of our product development coming forward.

Steve was formerly CEO of Screwfix; retains a chairmanship role there but has now stepped up as a member of the Group Exec with responsibilities for development, and particularly on the systems and IT front.

Guy was formerly CEO of Casto, France, and is now taking on board the poacher turned gamekeeper role on sourcing, and it's great to have two operators join us around the Group Exec Board. I think the team now is very well established and getting down to some serious work.

So for the first piece, we'd like to start with the first half. I think we would basically say that if you looked just at the first half, you could argue that, actually, it was almost a rather dull quarter; sales flat, profit slightly down. But really, there was a game of two halves, technically a game of two quarters; and I promise to stop the footballing analogy there. But what was quite remarkable is the degree of difference between H1 and H2, Q1 and Q2.

The Q1 impact was really in March, and March dealt us a very big blow, not least because it was the coldest March for 50 years, but it came up against year on year one of the better Marches in the last five to 10 years. So we saw an extremely abrupt volume hit which with a fixed cost business fed through. So we saw Q1 outdoor products down 10% and then up again in Q2 by 9%.

Profit, as a result of the fixed costs, down heavily in what is a small quarter and then bouncing back up. And it was good to see the recovery in Q2 as we did finally get a heat wave in July. And I think, certainly in Europe, we had the first proper summer I'd say for three years, and certainly, July was the best since 2006. So it is important to underscore the weather can be good news, and it was good news in Q2, but it really effectively offset the impact in Q1.

Apart from the game of two halves analogy for the way the trading went, the other big event was that we finally got a settlement of our nine-year running French demerger tax case, which allows us release GBP145 million exceptional credit. And it's very pleasing to actually see that settled and done and dusted, and allows us to then think forward about our balance sheet, which Karen will cover later.

The final point to underline is that we continue to make progress on self-help agenda. Creating the Leader is on track. We believe that the self-help measures, particularly around margin costs, but also on self-help on top line, are continuing to help us move ahead.

In terms of the two highlights to pick out, we have said for some time we are looking at Screwfix and Brico Dépôt, the opportunity to take expansion internationally. Very pleased to include a deal in Romania, the 15 stores currently trading under the Bricostore format, which will be converted to Brico Dépôt. We've had the first few weeks of trading there and I think we are encouraged by what we've seen.

That will take some time, but it's potentially a 50-store market, which also can serve as a regional base for further expansion of Brico Dépôt, which as a low cost discount focus operator I think is well suited to that central East European market.

The other news is about Screwfix expansion. We're accelerating again on Screwfix as we found both a smaller market, smaller footprint stores and some of the performance of the existing stores have gone somewhat better than we thought. And that allows us to talk about opening 60 stores instead of 50, and we remain -- we will go through the 300-store marker with Screwfix shortly. We think there's more to come.

On much, much smaller scale, but possibly more significant for the future, having opened earlier on our website for Screwfix to international orders, which mostly seems to have been picked up by very bored expatriates in France and Spain playing with power tools, but it's a good start, we are now going to a more serious endeavour which is going for a four-store trial in Germany, which will be next summer.

The importance of that is really that we were going to bring a full Omnichannel offer clearly on a test platform to Germany, but as Europe's biggest DIY market and a very significant trade market, we think it's an interesting opportunity to bring into a market which is beginning to see Internet penetration; probably about 1.5% of sales as opposed to 5.5% in the UK.

So those are two I think steps going forward. And really, the one macro point I'd like to make before we get to the detail is about the UK and French markets. There's been an enormous amount of press recently about the strength of consumer sentiment, imminent recovery in the UK, housing market off to the races, resulting in general happiness. I think it is fair to say we are now beginning to see some signs of life most recently in housing transactions. And in consumer confidence in the UK on the left, you'll see quite a sharp spike.

And I think pretty well all the surveys we've seen and comparing notes with other retailers, there is a sense now of the world has changed, I think largely off the back of Funding for Lending, which is creating a sense that things will move forward and that particularly transactions and house prices will move forward. And consumers are more confident. White van man in our Trade Pulse survey is more confident. What I would say is that in the first six months of this year, I'm not sure we can say that showed up.

So we saw a UK market which was probably around plus [2%], which is better than we have seen historically. There are probably signs of life on the closer you get to the front end of the new house construction boom. We're probably still waiting for a bit of time lag to see that feed through into the more DIY market, and for us, again, particularly focused on first-time buyers, second-time buyers, rather than the buy to let.

So encouraged by some of the data out this morning from the Bank of England and looking at it. But probably not yet seeing the metric which matters most, which is the tills really moving significantly, and we would be trying not to call the recovery too early. I think if I was a UK-only retailer, I would be probably tracking the left-hand side and feeling a bit more positive.

As Kingfisher was the biggest line for profits in France, we have to look at the right-hand side of that picture and say, firstly, the housing markets behaved rather differently in France. We had quite strong housing market supported by some government measures; and the new government measures intended to do that don't seem to have had the same effect, so we've seen a downtick in the French housing market.

And then, the glorious French tradition of morosite continues in the French consumer industries. There is a genuine degree of uncertainty, and we saw just yesterday for the first half in France one of the small competitor, Monsieur Bricolage, posting an over-40% profit decline in the French market.

So this is not an easy market in France, and so when we make our comments about fragility, consumer confidence, we're doing it as an Anglo-French company rather than specifically addressing the UK macro. And I remain encouraged by the early signs in the UK, but not yet through to our market.

So to talk about the detail of our numbers, I'll hand over to Karen.

Karen Witts - Kingfisher Plc - Group Finance Director

Well, thanks, Ian. I'll talk about the detail of the numbers, and I definitely won't be using any footballing analogies.

Good morning, everyone, and thanks very much for coming here this morning. As Ian described, we're still operating in pretty volatile times, and our half-year results reflected this with, as Ian said, quarter 2 recovering significantly from a fairly horrible first quarter.

So just in terms of the financial results, Group sales of GBP5.7 billion for the half year grew by 1.5% versus the same period last year on a constant currency basis, with like-for-like sales down 0.8% year on year.

Adjusted profit before tax of GBP365 million was down 1.6% year on year. This includes the GBP13 million favourable variance from foreign exchange with the relative stabilization of the euro and the zloty. Adjusted earnings per share of 11.3p were down 0.2p versus last year.

Our statutory profits benefited significantly from exceptional items. Primarily that was related to the French tax case, with exceptionals adding GBP35 million to profit before tax, GBP153 million to profit after tax, and 6.5p to basic earnings per share.

Statutory profit for the half year of GBP440 million was up from GBP259 million a year ago.

Free cash flow of GBP435 million was generated in the half year, and that was after including capital expenditure in the period, but before the cost of acquiring our new business in Romania.

Closing net cash on the balance sheet was GBP259 million, but remembering that our cash flow profile does tend to be very lumpy over the year depending on the timing of payments like VAT, payroll, and rent and VAT.

Our effective tax rate of 27% is before exceptional items and prior-year tax adjustments. It reflects both the mix of profits from different countries and also the range of tax rates in the various jurisdictions in which we operate; for example, from 19% in Poland to 36% in France.

And as I've said, we've reported GBP153 million of exceptional items in the half year. The majority of this comes from the credits relating to the final settlement in our favour of our French tax case in July 2013. And of this, GBP118 million related to the release of a tax provision, and GBP27 million related to the release of a provision for an associated repayment supplement. But just to note that there was no cash inflow in the period from the resolution of the case, as the cash was received much earlier in the hearings process; in fact, in 2009.

We've also reported an exceptional credit of GBP7 million relating to the release of provisions recorded in January 2013 when we entered B&Q Ireland into a process of examiner-ship. The process was successfully concluded in May. Significant rent reductions were achieved and only one store was closed when five had been under threat, saving 600 jobs.

We've increased our interim dividend by 1% to 3.12p. As I described in March, we've refined our dividend policy and we've moved away from an interim calculation of 35% of the previous year's full-year dividend. Our medium-term earnings cover target is 2.5 times.

Now let me take you through our divisional results. In fact, in France, the story remains very much as we saw it last year. Across the business, we added four net new stores and two were revamped. Total sales fell by 0.4%, down 2.4% on a like-for-like basis.

Given the tough trading conditions, we continued with self-help measures to offset promotional activity that was used to stimulate sales, and so margins held flat.

There was on-going focus on cost reduction initiatives, whilst store development activity continued in the areas where we get good returns, with the focus on updating stores to reflect our Do-it-Smart approach, and also some extension of the Brico format.

Retail profits of GBP191 million were flat on a reported basis, but down 4.9% in constant currency.

Castorama France total sales grew to just under 1% to GBP1.3 billion, whilst like-for-like sales were down 1.1%. That was against a market decline of around 3%.

The trade market in France continued to be heavily impacted by a slow house-building market, and Brico Dépôt sales declined by 1.9%, or 3.8% on a like-for-like basis. Brico focused on its value and affordability credentials, with more one-off special buys of arrivages and back to basics campaign to support this.

Now over to the UK and Ireland. Total Kingfisher sales in the UK and Ireland were GBP2.3 billion. That was broadly flat year on year in constant currency, whilst like-for-like sales were down 1%.

Sales patterns were volatile as better weather in quarter 2 helped offset the impact of the record cold weather in quarter 1. Seasonal sales picked up across the half year, but underlying consumer confidence remains weak.

Gross margins were up 30 basis points as targeted price investment was offset by self-help initiatives. Retail profit for the half year at GBP141 million was broadly flat year on year.

B&Q like-for-like sales were down 1.7%. The sales results reflected the generally weak consumer backdrop and the impact of that extremely bad weather in quarter 1. Sales of outdoor products fluctuated with the weather across the period, but indoor products were still down 3% right across the half year.

Screwfix continued its strong performance and grew sales by nearly 15% to GBP313 million, benefiting from the opening of 19 outlets in the half year, taking the total to 294, and also benefiting from extended opening hours. And in particular, we've had really positive feedback from the earlier opening. Also benefiting from new ranges of paint and work wear, and from the continued success of click, pay and collect.

Like-for-like sales in our other international operations grew by 2.9%. Total sales increased by 8.3% reflecting the growth of space and operations in Poland, Russia, Spain and Turkey.

We added 15% new space, including 15 stores in Romania. However, economic uncertainty and that record bad weather which also hit Poland and Germany, impacted results for the half year, and profit was down around 11% in constant currency.

In Poland, sales grew by 3.1% and were down slightly on a like-for-like basis. Performance swung markedly between quarter 1, which was down 4.2% like for like, and quarter 2, which is up 3% on that basis.

Margins were down 60 basis points versus last year, but there was some margin stabilization in quarter 2 when the price investment activity, which is supporting top line recovery, annualised.

Retail profit was GBP54 million, down 4.3% versus last year at constant rates.

In Russia, sales grew 10.5% on a like-for-like basis to GBP225 million, with 13% like-for-like growth in quarter 1, and quarter 2 like-for-like growth a bit slower at 9%. Retail profits in Russia grew by nearly 50% to GBP3 million.

We're making good progress in the underlying business in China, and the GBP7 million loss in the period includes GBP3 million of costs relating to the new format store, and GBP1 million lower sub-let rental income.

Now let's look at the overall drivers of performance and the quarter-to-quarter swings that I spoke about. This is a little bit experimental, so I hope my slide build works.

Reported retail profit of GBP394 million was GBP7 million lower than last year, but the drivers of profit look somewhat and this is what I wanted to demonstrate. So the waterfall chart tries to illustrate just how those drivers worked.

Weather and foreign exchange were the key swing factors. Year-on-year foreign exchange gains came largely in quarter 2, and much better weather in quarter 2 drove up the seasonal categories, although as you can see, other categories were still actually down year on year, reflecting continued weak market conditions.

Margins across the Group were slightly down 0.2 percentage points in the first half of the year, with relatively more net price investments in quarter 1 than in quarter 2.

As weather drove footfall and sales in quarter 2, the margins improved; and in both periods, costs control, including staff and store productivity and savings in areas such as media buying, offset inflationary pressures.

It was previously commented on the high operational gearing in our business model, and this half-year, you can see the extent of that gearing as we traded in very different conditions in quarter 1 and quarter 2.

Quarter 1 was badly hit by that extremely cold weather, particularly in March, when it disrupted one of our peak trading times over Easter. And then when the weather improved, sales rebounded, and the impact dropped to the bottom line; and, therefore, the retail margins recovered significantly.

Now let's move on to the balance sheet and cash flow.

Kingfisher Group generated GBP435 million of free cash flow in the period. Operating cash flow pre-CapEx was GBP70 million higher than last year. This was largely driven by movements in working capital, and that was driven by the timing of purchases and payments, but also the annualisation effect of European legislation around supplier payments. We continue our focus on working capital, in particular on the quality of stocks that we're holding.

Tax paid was GBP35 million lower than last year, reflecting the cash impact of the use of European tax losses, and also the way that payments on account work in different countries.

Net capital expenditure, excluding the Romanian acquisition, was slightly lower than last year. However, as you know, the timing of CapEx varies year on year, and we remain on track to spend around GBP400 million in the full year, including the acquisition of the Romanian business.

In March, I described a new framework for the uses of cash. This focused on three things; maintaining a healthy balance sheet, investment to grow the business, and shareholder returns. I just wanted to highlight a couple of points on this slide to show what we've done so far.

In May, we bought a business in Romania to expand our Brico format internationally, and we financed this from cash. Dividends were paid, comfortably covered by cash generated, and we closed the half year with GBP259 million of net cash.

Our capital expenditure profile is similar to the profile I described at the full year, except that the proportion relating to new stores has increased a bit, if you include Romania. It still reflects our plans to develop stores in growing markets, and particularly using the Brico format, as in Romania and Screwfix. And while we intend to roll out the Screwfix network in the UK at a faster rate than previously envisaged, we're slightly slowing down our rollout in Spain to reflect conditions there.

So taking all of this into consideration, our balance sheet position remains in a similar place to the year end. Our net debt to EBITDAR ratio is very slightly lower than at the year end, and our credit rating remains the same, with Moody's and Fitch rating us at BBB flat equivalent, and S&P at BBB minus stable outlook.

As you've seen, we're investing in our business where returns are attractive, and our dividend is growing.

I said I would review our cash and balance sheet position against our capital structure framework on a twice-yearly basis, and I've done that at the end of half 1. I believe that we're continuing to strengthen our position, but our capital structure is not in surplus.

Quarter 2 trading was much better than quarter 1, as we recaptured some of the seasonal sales that we'd lost from the early part of the year. It may be that we're seeing some positive signs in the UK economy, but consumer confidence in the UK isn't high, and the much-needed property stimulus measures for the UK will take a bit of time to feed into our business. Europe remains a challenge, with France being our major uncertainty.

The balance sheet is healthy, but our metrics are not yet better than BBB flat, and we've yet to see more tangible evidence of sustainable economic growth in our major markets.

We were, however, very pleased that the French tax case was resolved in our favour after nine years. There was no cash inflow in the period associated with the resolution, but it really does help to give us better clarity about our cash requirements going forward.

So in summary, trading conditions remain quite challenging. Whilst the weather-driven upturn in quarter 2 was very welcome, the overall position is still subject to volatility. So we'll continue with the self-help measures that we're confident of delivering, and which will help to offset headwinds. This will allow us to take advantage of our operational gearing when the markets improve. And in the meantime, we continue to invest for growth, while focusing on cash management.

Thank you.

Ian Cheshire - Kingfisher Plc - Group Chief Executive

Thanks, Karen. And if we switch to the strategic review, the mission remains the same. The purpose of the Group remains helping customers create better homes and having better lives as a result. And we are continuing to drive the eight points on Creating the Leader, and we're going to use that just again as the cycle to quickly update you on some of those, and starting with the work done on Easier on basically affordability and on the channel in the last six months.

And just to pick up the To Do List, we've set out handy prices in B&Q. 450 daily essential items have been reduced in price in the first half, and I think we've seen a better than expected tracking in terms of those price -- the volume/price elasticities.

Brico Dépôt, renewed focus on back to basics. 13,000 billboards across France, very strongly featuring a value for money message, reinforcing particularly to our heavy DIY-ers/small tradesman. And that again seems to have been worked.

We've rolled out our arrivages, and that is a program that will continue to go. But in both Turkey and Poland, using the Brico Dépôt arrivages; so when it's gone, it's gone; bulk purchase; blow it through' traffic build. And that's producing some interesting results, particularly for us in Poland.

And then the Enterprise Finance Guarantee. We've put about GBP12 million of credit on government guarantees into the small white van market in the last three months, and we've seen a good uptake. And we're pushing along with BIS for that to be rolled out. And I think, again, it's one of the ways of getting credit to the sharp end of the economy, and definitely seems to be having a helpful effect in terms of supporting our sales. So I think we're making good progress on that.

And Omnichannel we are working through. Steve will give you an update on the Darwin project in terms of where we've got to in upgrading. But as we go to what will essentially be a major overhaul, we are still upgrading as we go and a series of initiatives in terms of pushing the development of the online offer which I'll leave him to cover.

In Poland, Turkey and China, we're still upgrading websites as we go. Even Brico Dépôt featured, there is not a, if you like, a natural web platform in some senses from where it's come from. But even just improving the website, we've seen a growth in traffic of 24% there, and I think we will see the French market follow a lot of the trends in the UK when the tradesmen who traditionally were not Internet enabled will become more Internet enabled, and consumers are definitely looking to check stock and we think do more of their research.

Finally, the famous click & collect in Casto, France, we are live with that in Dardilly; encouraging signs in terms of average basket versus the standard average basket. And I think it's important to stress click & collect, very well known in the UK, is not as well-known elsewhere. In France, Le Drive with the hypermarkets is probably more well known. But I think what we're seeing is that people see it as a convenience opportunity.

And for us, as retailers, the important thing is not to see it as another bit of labour, another bit of store that I have to dedicate to this. It's the fact that our best customers are multichannel. So the fact that our best customer is coming in to click & collect and we can sell up to them and work with them I think is a great opportunity. So we're seeing that there.

And in Turkey as well, we're also going further with things like mobile apps and trying to jump a generation, benefiting from some of the work that Screwfix has done.

So a lot of work on that, and I'd like to hand over to Steve Willett to talk about, if you like, the future of Omnichannel, and particularly Darwin.

Steve Willett - Kingfisher Plc - CEO Group Productivity & Development

Thanks, Ian. I think, as Ian said, as a Group, we're continuing to actually develop and strengthen our Omnichannel offer. To do this, we've got two streams. The first one is we're running lots of trials that I think Ian said across the Group, such as the click & collect trial in Castorama, but our primary development stream has actually been in the UK. We've been building off the skills and experience of Screwfix and developing the Group Omnichannel platform, particularly initially in B&Q. And I'll talk a bit more about that in a minute.

In terms of Screwfix's Omnichannel proposition, that's been going from strength to strength, and I think we've said click & collect now is 7% of total sales; and mobile sales have doubled, and they're now getting significant.

In the first half, we probably had a major milestone because we had the first implementation of the Group Omnichannel platform. And we put that in to support the TradePoint proposition, and we now have over 8,000 SKUs transactionally live for TradePoint.

We're very pleased with the platform. It's working fine. And in fact, last weekend, we actually upgraded the platform to put in the functional enhancements we need to actually launch the new diy.com in first quarter next year. So that's going pretty well.

In terms of that platform, we're not just focusing on that. So as well as working on the strategic, we're also focusing on the basics of our current day-to-day online offer. And as an example of that, in diy.com, we've now added over 20,000 SKUs, new SKUs, available for online sales. We've improved the content. We've improved the navigation, and in doing that, we're trialling some of the techniques that we're going to be using in the new diy.com, which I'll show you in a bit.

I'm pleased to say in terms of focusing on the basics, it's working. If we use doors as an example, then what's happened is using the new navigation, we've reduced the number of clicks that you can take to find a product to three from six. We now have a full online offer of doors, and it's on 24-hour delivery. Not surprising, online sales has jumped from roughly circa GBP20,000 per week to about GBP100,000 per week.

The next major milestone that's come in on the Group Omnichannel platform basically is the new diy.com site, so I just want to show you a rough demo.

So the site's been organized to let our customers shop in multiple ways; inspiration, projects, and transactional shop. It's organised around rooms, which is the way the customers shop. We've upgraded help and advice with extensive how-tos and videos.

Inspiration's key to some projects, so we've significantly upgraded that with lots of lifestyle photography. We've also included some helpful editorials and video content to help you with planning a room. And we've organized it so you can also shop directly from the pictures, clicking the links.

The content page has extensive content, and the tabs have additional product content, help and advice and some reviews. And we've also added lots of new options around fulfilment, such as click & collect, which will be released into B&Q.

The other thing about the site is it's been designed to basically detect the devices that are accessing it, and the reason that's key is because the world's going mobile and tablet. And once it's decided what the device is, it automatically adjusts the user experience to the correct size and screen resolution.

What this actually means for us is it's automatic, so the web page only has to be set up by the web merchandisers once, and then it automatically adjusts.

We've also designed it to be mobile and tablet friendly, so it's been designed for touch. So we've taken out things like pop-up menus, which are a pain to use on things like tablets and mobile phones.

So I'd just like to show you another small demo, which is basically showing how the adaptive screen works.

So this is the screen and we're shrinking it. You'll notice it moves from four columns to three. You'll see the headers shrinking. You see the headers still shrinking. The headers have now moved to a mobile format. The columns have now moved to two.

So we're now in a mobile phone format and we're now going back. So adaptive design is quite key to keeping our web content fresh.

Thank you.

Ian Cheshire - Kingfisher Plc - Group Chief Executive

Thanks very much, Steve. And it's always a huge relief when the technology demonstration actually works (laughter). Didn't go for the live shot.

What I would say is that the -- particularly the multiple device and the mobile Internet is such a big trend for retail, getting that right. And I think we're actually in some ways lucky that we're coming in at this point when it's clear we've got a multi device future, we can plan for it.

We can carry on investing in the top layer of our systems, which is the customer-facing app layer; reinvent that every six months but with an architecture that doesn't change the lower level base operating system. So I think we've got some really interesting things coming down the line, which we'll launch.

And the point to stress also with this is that Darwin isn't just a front end. It also changes the way we run the stores, the way we order products. So it's a very major rollout that we're going to be encountering and I think a major re-platforming of B&Q.

So if I can switch then to the product on common and just talk about a couple of the milestones in the first half that we've passed. And if we can click the technology add-on, there's a set of milestones we set out at the beginning of the year, and I think we would say we are mostly on the way.

The two things I'd like to pull out here, one is on IQE, we've developed a whole range of energy efficiency products based around a new boiler range, which has traditionally not been an area B&Q has been that effective in. And some might say that it has something to do with the cartel in the boiler market. I couldn't possibly comment, but it's very nice to have affordable warmth as a scheme that we can use to develop sales of the boiler market in the UK.

And we've been working with a series of manufacturers and Loughborough University to develop a whole brand of integrated energy efficiency which will feed into the eco-refurb initiatives such as Green Deal, FiT, RHI and others. And we are very -- see this as a major opportunity in the UK, and longer term, an opportunity around Europe as governments try and encourage the refurbishment of existing housing stocks. So we think that's got off to a good start and we'll be rolling out across B&Q and Screwfix.

Paint is work in progress; I think some very encouraging signs. And the new own label paint tender is well underway.

SITE, the work wear brand, I'll leave to Guy to talk about some of the work that's going on there.

And then the other thing to talk about is quite a significant milestone internally, but to share, we've had traditionally product shows in each country. Casto has always showcased its next year's ranges to its store managers and its teams. B&Q has had a similar thing for seasonal, and some of its other ranges are showcased.

What we've now brought together is a European -- in October, we'll have a one-team product show where 6,000 people from the UK and France, so store managers, store teams as well as the head office teams, seeing the Group brands, all the suppliers, all the own label, where the future is, and really coming together to try and talk about the power of the Group brands and where we can drive them. And I think that's a very important milestone in the further integration of Kingfisher and the first time, if you like, the physical reality is catching up.

Now I'm going to let the rest of this -- turn over to Guy Colleau who's going to talk a bit about the sourcing operation and the opportunities for us as we go forward.

Just before I do, this is the reminder. We are starting from a long way back in terms of a decentralized organization. We're going through federation. Our next future is really about how do we develop real integration, real capabilities, particularly around brand. And Guy has now taken over responsibility for this area and will talk a bit about his plans on sourcing and product.

Guy Colleau - Kingfisher Plc - CEO Group Sourcing & Offer

It's a quick development (laughter). Good morning. In line with our Creating the Leader strategy, we are developing our direct sourcing share of sales which is now around 20%.

In order to structure this evolution, we have built a clearer, stronger portfolio of own brands for DIY and trade formats through that. We are -- we drive common products and suppliers already at nearly 10% of Group sales.

Our knowledge and product development, innovation and design, have now a starting impact on product differentiation. The launch of our new Blooma Charcoal barbecue range in Casto, France, and B&Q UK this spring, is a good example which will be followed up next year with a gas one, with very encouraging results.

We have continued to develop our capabilities in global sourcing, launching new offices in Vietnam and Israel, and develop our near sourcing capabilities, increasing our means in Istanbul and Warsaw.

Now we are starting the second phase of our journey, which are first continuing to explore direct sourcing opportunities, to increase direct sourcing share of sales; and secondly, start the renew of the first project to modernize the offer and increase the margin advantage.

To do that, we are splitting the sourcing organization, one part located in each OpCo, working closely to commercial team to increase direct sourcing products and sales; and the other part in sourcing offices close to factories and suppliers to negotiate better conditions and check quality level. In summary, we want to be able to focus at the same time on increasing volume and managing the margin advantage. So this is not a French Revolution but more an evolution of our organization.

Many of you will visit our inaugural European product show across UK and France next month in Lille. We'll showcase how much networks have change across the Group, and I think it's a key success point for our journey in direct sourcing activity.

To give you an example on how the three levels, home brand, direct sourcing and common are working together to create increase the value creation, I can tell about the new work wear, home brand SITE, coming from Screwfix commercial team, and initiative and customer knowledge built with our direct sourcing capabilities and now extending in Brico France, and coming soon in B&Q UK and Casto France and Poland.

Launched last year with only 11 SKUs, with a high level of customer value, SITE is now driving the work wear category. Sales up nearly 20%, and it's about 30% of margin in Screwfix H1.

Now it's about 200 SKUs. The full range will implemented in Brico in France this month, and the story will continue with an edited range for B&Q UK and Casto France and Poland.

I hope you will appreciate the total fashion look of these products. We are -- and tradesmen are very, very satisfied about; and the feedback from them is very, very positive and the figures are in line with that.

Thank you for your attention and now I pass back to Ian. Thank you.

Ian Cheshire - Kingfisher Plc - Group Chief Executive

The reversible high-vis jacket there and the SITE gear is -- slightly spooky sort of security guard looks over the side. But it's been an example, I think, of a product category developed in an OpCo network, and I think these comments are very much the way we want to drive this, which is let's not build big central structures; let's network operating companies around real product ranges. And then, let's work to drive margin out of our cost -- out of our sourcing operation, because I think it's very easy to get seduced into let's take a KPI and say how much is common, how much is direct.

The real value added is how much money we make out of it, and that will come through having common products, but that's because they'll be the best products that people want to sell. So a real focus on commerciality, a real focus on being close to OpCo.

So moving from common to efficiency, and just really a few words there. We're working quite hard in places like Poland, Spain and Turkey. Take something like cross-docking. We see a potential in Poland to get to 40% cross-docked. We're only at 1% now. We're already at 21% cross-docked in France. We think there's a big opportunity as these businesses can be consolidated to really look at the supply chain.

In terms of the UK and France, we've had some very good results, and media buying to come on to shelf-ready packaging, a big push, and particularly in Brico where you've got a low labour cost focus. Staff bonus I'm going to come back to in a second; and then IT is a big opportunity for us.

So just moving on to efficiency here. GBP5 million taken out of the media buying through, and we're now working with WPP media buying. That has been put straight back into our advertising to push the top line. So we're looking for sources of cost opportunity which we can reinvest to drive the top line.

In Poland, we've adopted sort of the progression. It's called 'Premia Turbo Progresja'. We've talked about this before. It started in Spain Brico where the level of store bonus is tied to a combination of store profitability and growth; slightly different; and it's a store-by-store basis. And we're definitely seeing that start to drive a market share gain in Poland as people understand that their store profit performance is what determines their bonus opportunity. And I'm glad to say we're paying out more in Q2.

We've definitely seen this across the Group that when we tie individual store performance not to a budget but to actual real growth in profits, and then the management interest in how do you improve that, it definitely helps.

The other item, little bullet point there which we probably will talk about more at the prelims, is that we've just agreed at last month's Board meeting, in fact, that we're developing a Group IT platform of which the Darwin model is one element. But we will be kicking off an investment program with a view to having next year running in production form in a real store where can see it, a central Group IT platform, and really trying to drive out, if you like, the theoretical benefits that have been talked a bit before but with a real, serious platform based around non-changing systems of record, integration layer, but then rapidly changing application layers so that we can keep the flexibility but get the scale advantage. And that will be the first time we've built a Kingfisher platform as opposed to try and take a bit of the OpCo platform and translate it.

So I'm looking forward to the techie demo next year from Steve showing all the wonderful things we can do. But I think it is a big cost-saving opportunity in the future if we can unlock productivity through a Group-wide IT platform. So that's an important decision point for us.

Moving to expand and the final element, final two elements here, I was just going to pick up some of the points we said we would talk about; space, growth.

The Brico Dépôt picture up there is now probably the most visited store in the Group because it happens to be in Palma de Mallorca, which suddenly becomes incredibly interesting to visit at certain times of year. But we carry on growing. We've also seen -- that's Oldham, I think, Screwfix; a great growth in Screwfix.

So the opening plan, I think, has carried on, and we've already talked about the opportunities for Screwfix in Germany which we look forward to.

Brico into Romania, a few points on that. 15 stores is 50% freehold, 50% leasehold. We think it represents very attractive value relative to the property and net asset position. We are also convinced that that, as opposed to a classic big box, is the better market for Romania, and that could be a 50-store opportunity. We are clearly interested in taking that further.

The other point again to mention is Koçtaş. We are in advanced negotiations to pick up two of the stores that are being abandoned by Praktiker as they exit. They've put their business into liquidation in Turkey.

It is worth saying -- we have various reports in the press saying we're about to buy Praktiker. I can categorically say we are not about to buy Praktiker, but we would love to pick up those stores in conjunction with the landlords. That's a very different conversation now.

Around the rest of Europe, we've said before there may be opportunities for bolt-ons, and we remain open for interesting opportunities, but we are not interested in buying any old rubbish. And that's not just an attempt to defer the 25 investment bankers coming with [an ex] book, but it is to stress that we have clear strategic opportunities which we will add to. But we're not interested in buying footage for the sake of footage.

Moving ahead on Screwfix. As I said, we've got 20 countries across Europe now, and that is actually proving a quite useful learning. I think increasingly, web platforms will deliver to multiple countries, and it's something we will develop further.

The Germany trial we've had a lot of work on and the team have put together I think a good program. Summer 2014, four stores in a major city in Germany we'll confirm shortly. In passing, I should say we will be reviewing our -- the relationship with Hornbach has not changed in terms of our shareholders' agreement remains in place. We will review with them the situation of the three directors we have on Hornbach Boards because it might be a slightly difficult position if they're in the possession of the Hornbach data and the Screwfix data.

We'll review that. If necessary, we would step down temporarily while we decide what to do. But I would stress again, Screwfix and B&Q co-exists. We think there's potentially room. So no change as a result of that trial as we speak right now.

Now the next thing is on expand. Sounds a bit contrary to talk about reduction because it's not expanding. The right size right place program has I think proved a very strong success so far.

We've only, however, got one store which is for real trading, which is Belvedere with Asda. It's already generating the footfall we hoped for. We're seeing an improvement of sales density of 75%. I think that needs to run for a little while. I think it will probably be more than that once we settle down.

We have, therefore, concluded 17 further deals with the variety of the grocers. They are in various stages of planning. It's worth pointing out that we have two consents in place, but by contrast, Belvedere took us a year to get planning.

So there will be a time lag on this, but those 18 stores represent 5% of the space of the UK, GBP16 million and GBP7 million of savings. And if you gross up the costs of the leases, it's roughly GBP130 million of net debt reduced.

So it is material. We however have started with the food players because the proposition is best there in terms of it wins for the landlord, it wins for us, and it's easier probably to get planning.

We're now looking at the second phase, where can we go; thinking very laterally. Kevin and the team are looking at a wide variety of options for what we can do with the space from a sub-let, to usage, to catchment area analysis. And I think while this is a multi-year program, and it's not easy because you can't just walk away from institutional leases, we think there's more to come, and we remain very focused on it.

So finally, talking to how we run the business, One Team. A couple of points to mention there in terms of people and Net Positive. We're extremely pleased to have recruited Richard Gillies, who's really probably the practical founder of plan A for M&S, who's going to join us as Group Sustainability Director, to really deliver Net Positive as opposed to the framework.

And the Good Woods piece, we are developing a working woodlands program for the UK which has already got 3,000 hectares of woodland management signed up to really allow us to take out the wood product from it, encourage jobs and local economy and bio diversity in those woods. And we think that will be a great showcase for how you can have a net positive impact.

We've also seen a major shift in the number of people we're moving around the Group, not just the ones you see here on the stage, but actually a significant push. And the Kingfisher One Academy, where we're increasingly developing a cadre of international leaders, is definitely making progress. So I think we are continuing to land things against the framework that we already announced.

So to sum, up we had, I think a very unusual H1; certainly, the most extremely Q1/Q2 I think I've personally ever seen. And I think over the first six months, we would say that the underlying markets were weak.

I think it is fair to say that the UK forward indicators have started to move ahead. What we are trying to position is that it won't immediately benefit us. It will benefit us if it continues and is broad based. But of running Kingfisher with an Anglo-French dimension, we have significant uncertainty in France which will persist and I think we have to navigate our way through that.

However, Creating the Leader is on track, I think the self-help initiatives are there, and we have the opportunity to I think continue to gain share and drive our own efficiencies.

So that, plus a very strong balance sheet, leaves us I think well placed for the next phase. We've demonstrated operational leverage when we get volume. We know we can get that. But we're not counting on the economy ticking up and we are very committed to carrying on with our own strategy, and we think that remains a very fruitful course for the next two years to three years.

So thank you for that, and we'll move back to questions. I've also got here the other members of the Group Exec, Kevin O'Byrne and Philippe Tible, who will also be, I'm sure, thrilled to answer questions as directed.

So if you could direct the question to me, identify the organization, because we've got some people online listening who won't know who you are, and we'll start with the host, Fraser.

QUESTION AND ANSWER

Fraser Ramzan – Nomura Securities - Analyst

In the light of the uncertainty in the French market, I just wondered if you could give us some indications as to the degree of cost flexibility you think you have, particularly now that peak trading is essentially out of the way in August in France for the remainder of the year. Thank you.

Ian Cheshire - Kingfisher Plc - Group Chief Executive

Excellent question for Philippe (laughter).

Philippe Tible - Kingfisher Plc - Divisional CEO, Castorama & Brico Dépôt

I'm not totally surprised by the first question. Thank you for that.

Just a first comment about France. I used to be very negative when talking about that. And there is a scoop this year; a fantastic, very positive scoop. Maybe you didn't notice exactly that. It's coming from a slide, current slide. The French tax can generate a big profit. It's probably the first time, but it's important to know that [laughter].

About the French market and the trade business, it's really complex now because they have a lot of index negative. The building market is down from the CAPEB, the union of small building companies. And the forecast is minus 2% for the full year, so it's not very exciting.

The housing market is down. The forecast is minus 10% for the full year. But the good news is for Q2, the footfall for Brico was plus 0.1%. It's not fantastic; I know that. But it's slightly -- big change; it's a change, in fact, in the trend for Brico.

So we don't have any information to be optimistic or pessimistic. We try to manage the business day to day, day after day. We are currently closely managing the cost every day, every day, every day. We just try not to be pulled out of our market share, so we keep real aggressiveness, commercial aggressiveness.

Finally, as usual, what is certain is uncertainty, and it's so French. Thank you.

Jamie Merriman - Sanford C. Bernstein & Co. LLC - Analyst

Jamie Merriman, Sanford Bernstein. My question is about the sourcing initiatives. And now that you've moved past or moved away from the percentage of sales targets into margin targets, I'm guessing it's too early to tell us what they are, but how are you thinking about that and how should we think about it going forward?

Ian Cheshire - Kingfisher Plc - Group Chief Executive

Maybe I could start with that, and then if Guy wants to add to that.

I think the reason for our focus on how much money we'd make out of it is that you can quite easily switch suppliers into sourcing offices, and you don't actually necessarily make a gain. And the other part was the degree to which the sourcing was really connected into the OpCo ranging.

And I think the two things that Guy has kicked off, one is the sourcing operation plugged in at country by country, OpCo by OpCo, allows the sourcing offices in places like Warsaw and Vietnam and Hong Kong to purely focus on price negotiation. And I think they were doing a lot of that before and I think that will produce some significant margin opportunities.

But the other part of it is that we are developing now a next wave of those -- frankly the three-year targets on precisely those margin opportunities, where they are, what do we need to do, where can we go. And we are trying to make sure we capture the totality.

So for me, while a lot of the sourcing narrative has been about put people on a plane to Hong Kong and go and buy stuff in Shenzhen; great. Actually, if I can get, for example, Turkey, Poland and Russia to do an OPP price product out of a Turkey -- Bulgarian tile factory, that's great, and that is common sourcing as far as I'm concerned.

So we're trying to enlarge the scope, make sure we capture all the synergy efforts, all the areas, and then make sure that they are being tracked. And this is where probably Karen and Guy are going to work a lot together on triple net, net-net-net, real profit achieved.

And I think it's the natural phase too that we build up the volumes; that's gone great. Now I want to squeeze the volumes to generate even more. So I'm probably chasing again a bottom line gain rather than absolute top line sourcing.

Guy Colleau - Kingfisher Plc - CEO Group Sourcing & Offer

(Inaudible) the new balance, we started the journey with many, many changes to reach the volumes, to increase the volumes, and now it's time to continue to improve them, but same time be more demanding on the -- increasing the margin advantage and checking all the quality processes in our factory. So it's very important to start this new phase for us.

Ian Cheshire - Kingfisher Plc - Group Chief Executive

We will talk about that a bit more at prelims to try and get some sense of what we think it's worth, but we are still at a very early stage of the whole sourcing opportunity, and I think there's a lot more to come yet.

Simon Irwin - Credit Suisse - Analyst

Simon Irwin, Credit Suisse. A couple of questions. Firstly, can you just talk a bit about TradePoint in the first half, and particularly how it's trading with the mobile application? Obviously, the online application now up and running.

Just in terms -- going back to what you were saying on sourcing, it does sound as though there's a slight change of emphasis in terms of having less product being pushed on OpCos and more pulled. Does that mean less top line and hopefully more margin? Does it change your thoughts as to the long-term potential of the whole initiative?

Ian Cheshire - Kingfisher Plc - Group Chief Executive

I'll go back on sourcing, and maybe some combination of Kevin and Steve, would like to talk about TradePoint, particularly online TradePoint, because that's still fairly early days.

On sourcing, there are actually, I think, two things. It isn't as simple as pushing on the OpCo. In fact, one of my observations of where we've developed is that almost the sourcing offices were having to say yes to all the Topco requests. So we have a huge number of SKUs, far more than we probably should that have been dealt with through the sourcing offices -- I think we're talking over 40,000 SKUs -- whereas really, we should have a more focused range. And that is something that Guy and the team will look to consolidate. So in fact, it's a balance between that and the -- if you like, the central range.

But the second part is we do believe that there are opportunities to look much harder at the margin. If you can consolidate the volume per SKU, you go harder into the negotiation, and you can paint a picture of how much more can come. I think there's more to come out of the sourcing pot. And it's the difference between saying I've got it sourced, and, I am getting maximum value out of it.

This is a bit like one of the early days when Kevin and I were in 2008/'09, talking to the businesses about cash, and we said words like can you reduce your stock, because with all this stock, liquidate the stock and then we can have CapEx.

And when people hear that too simplistically, they say, well, that's very easy; I'll just take out the best-seller stock. And we're saying, no. The point is to attack the tail, attack the cash.

So every now and then in organizations, I think you just have to really focus hard and say, look, what we're really interested in is making money out of sourcing. And I'm utterly convinced that there's a lot more money over the next five years to be made out of sourcing. We're still at relatively low penetration rates.

What I would really welcome though is particularly the ex-operators focusing on a real insistence on the margin being delivered. And I think that's where we're at. So a lot of opportunity.

Steve Willett - Kingfisher Plc - CEO Group Productivity & Development

On TradePoint as a website, the truth is we're not doing a lot of sales on it at the moment. And, sorry, there's two reasons for that. One is a conscious decision which is when we put TradePoint in, we initially enabled all the transactional SKUs for light side. So they were primarily using the Screwfix infrastructure for delivery, which is the SKUs that's transactional at the moment.

The bits that are missing are the heavy side pieces and the home delivery, which are -- at the moment we're doing two things. One is we're finishing the bulk delivery projects within B&Q for delivering bulk delivery. And actually, we need to enable some more of those fulfilment options into the TradePoint site which will go in at the same time as the diy.com site.

The positives are there's actually a lot of trades people signing up on their accounts on TradePoint. They're using it as a catalog, not just as a sales thing, so they're doing a lot of work on it looking at pricing, but also building basket. So it's actually getting a lot of traffic directly. As transactional sales at the moment, it's not moving the dial, but it will do.

Geoff Lowery - Redburn Partners - Analyst

Geoff Lowery, Redburn. Two questions, please. Coming back to the UK, I totally take the point about green shootery. But if I look at your relative performance, particularly when I trip out the trade formats in TradePoint and Screwfix, it does look like you're struggling very hard with the consumer against a period last year that wasn't particularly distinguished either. How should we think about your relative performance? What comfort can you give us about your relative competitiveness?

Second area of questioning just in terms of balance sheet and this idea of surplus or being over capitalised. Do you wait to get to being over capitalised and then correct it, or do you intend to self-regulate so you don't get there? I guess what I'm really asking is when (laughter)?

Ian Cheshire - Kingfisher Plc - Group Chief Executive

I might just say one word on that then let Karen comment.

We look at this as a forward three-year planning horizon. I think if you get into some form of capital return, you really have to have a multi-year view of this. You can't just show up and say here's GBP10 and thanks very much.

So we would be looking at it from a starting point with a three-year plan attached to it, which is why some of the uncertainties make that three-year planning difficult.

And do you want to add to the capital view?

Karen Witts - Kingfisher Plc - Group Finance Director

I would just be reiterating the point that it's not about waiting until you've got an over prudent balance sheet, but it's about making sure that the strength of your balance sheet is really sustainable.

And our balance sheet is strong, but it's not over strong at the moment. And that's why we set out the framework that we set out, because that gives us some fairly simplistic but useful metrics to measure ourselves against.

So really pleased that the French tax case is settled, because that was an uncertainty about cash outflows going forward, and quite significant outflows.

We've been talking about the economic situation. That's not something that we've got an awful lot more clarity on, and we've still got two out of our three ratings agencies have got us at our desired point of BBB flat, but there's one that hasn't yet.

Kevin O'Byrne - Kingfisher Plc - CEO B&Q and Koçtaş brands

Geoff, just a couple of points on your point on the UK competitiveness. In the period, as you can see from the sales figures, we've lost some share in the period through the first half.

About 60% of that, I would say, is conscious decisions where we've chosen to either not do blanket discounts, not do the whole weekend 15%/20% off. And some of that, that's clearly better for profit, and actually, I firmly believe it's better for the brand in the medium term as we build a stronger brand.

The other thing that we've done, as you know, is invest in pricing. In some categories, that's had a negative effect. So volume share is up but value share is down. But again, over a three-year period, we'd expect to see volume and value share up.

There's the balance of it; about 40% is areas where the market is getting more competitive and we're losing out, and that's in some areas where we've actually got a strong offer at the moment but we need to improve it like gardening and paint where we've seen increased competition in the half;

and then in other areas that we don't have all the answers right now, in kitchens and bathrooms. So we're doing some detailed work on understanding more about that.

The data on share and the data on the market is not great. A number of our key competitors are not in the market data but we have to look at their published information in other ways, and then just working on what the solutions are for that. So there's work to do on that.

Ian Cheshire - Kingfisher Plc - Group Chief Executive

And just one point. We have consistently tried to focus really more on bottom-line results. So the last Homebase numbers were LFL up, margin down, and I'd rather have a focus on our returns profile.

Yes, we want to drive volume in areas where we think we can drive it with pricing and product investment. And I think there's a lot more to come from B&Q so we're challenging the business quite hard to do more.

I think it's in comparatively pretty good shape. The one big challenge in the UK has been the arrival of the discounters which I think has changed the world; and some categories, possibly like bathrooms, shifting online a bit faster, and that's where we have to respond. But I think we can do that and it's just more work to do.

Andy Hughes - UBS - Analyst

Andy Hughes, UBS. Just a follow-on from the last one, just in terms of the mix of products. Do you think that your market share performance should improve when core DIY recovers on the basis that you've got a better competitive position in core DIY?

And just as a follow-up on France, the promotional activity there. Is that all arrivages, or is there an element of it in Casto? And just to give us a bit of a helping hand, where is arrivages now as a percentage of sales compared with last year?

Ian Cheshire - Kingfisher Plc - Group Chief Executive

So the exact percentage of arrivages, it's come and gone a bit. And depending on which quarter you looked at, it's -- last time it was slightly up.

If I take the core DIY, I think there is generally reasons to believe that a rebound in core DIY would be more helpful for us than some of the other players, but I think it will be a question of generally consumer spend has to go up. And we're in so many different categories, we need the whole lot to go up.

So I'm relatively encouraged that we will do well in an upturn, but I think, going back to the previous comments Kevin made, we definitely need to do more work in some of the other areas as well and I don't think we can wait for the upturn. I think that's my -- the message to the business.

But if I switch to France for a second, there was some greater -- as the market suffered a bit of a shock in Q1, there was definitely greater price and promotional intensity. We saw across the market more advertising; you tend to see more press promotion. There has been a bit of a response to that. And we've I think done the right thing. Particularly in Casto we've made sure the top lines kept moving; probably focused a bit more on the bottom line in Brico because we felt the market was a bit softer. So that promotionally, trading-wise, that was the stance. But I don't think any major shifts at the moment that are structural.

Andy Hughes - UBS - Analyst

On showroom, saying you don't have all the answers, do you think that your pricing strategy might change again on kitchens? I know you mentioned bathrooms particularly as an area where there is more competition. Was your kitchen market share under pressure as well?

Ian Cheshire - Kingfisher Plc - Group Chief Executive

I think we -- first we saw some opportunities in --. Step one; we wouldn't change away from the EDLP plus type approach. I think that is really critical. And frankly, with the most recent OFT investigation into furniture retailers, I think that is going to be a message which might leak into some of the other markets. So I think the days of 80% off plus free dogs are limited. So I think you have to be very transparent and I'm very happy with the way we've been trading the prices.

I think there are issues with bursts of competitiveness in that market where you get greater waves of promotional intensity and you get more capacity coming on. People like B&M have opened a lot more. You've seen Howdens continue to come back. So I think it probably has become more competitive rather than us necessarily having turned left when we should have turned right.

But we have to respond to that market and I think bathrooms is more on line than really the kitchen market. Kitchens are still very difficult to do online.

Christodoulos Chaviaras - Barclays - Analyst

Christodoulos Chaviaras, Barclays. Two questions from me as well; one on your longer-term strategy in terms of price investment and gross margin gains. You've said in the past that you plan to have half of the gross margin gains invested back into price. We have seen this year though that this has actually become something like 100%. How do you see that evolving, at least over the rest of the year, and if the long-term strategy remains there?

And then the second question on Screwfix and what do you think you bring in a well-penetrated DIY space in Germany? What does Screwfix bring there and if it will have a similar cost profile as in the UK.

Ian Cheshire - Kingfisher Plc - Group Chief Executive

Okay. I might leave Screwfix to Steve, so give you two minutes to compose an answer to this.

And I think on the price investment, we've said we expected over the course of the strategy that we invest roughly half. There will be periods when that goes up or down depending slightly on the market.

In this particular period, we-- over the last 12 months, we've seen much greater price investment in Poland and Russia in particular than we would have seen, and we will start annualising our way out of that in Poland shortly. So I think the pattern will change.

And in the UK we are very much focused on the principle where price elasticity is the guide to how much to invest and where you invest. So the third phase of that has been relatively encouraging. We would then switch on the next phase once we've got a revised set of the economics.

But it will be a case-by-case, category-by-category approach rather than a blanket approach to how do we price investment on 45,000 products. And to some extent, trying to create a sourcing pot over here which is actually separate from the pricing decisions that you have to make.

Screwfix, Germany?

Steve Willett - Kingfisher Plc - CEO Group Productivity & Development

I think primarily, you need to look at the market in Germany. If you take the total market of DIY and trade, it depends how you add it up, but it's definitely North of GBP100 billion.

And what we've found in looking at that is, actually, the DIY shed segment is saturated, but that's only a sub-set of the total market. And the market is very similar in structure. It's slightly more traditional than the UK.

And what we've found in the fairly detailed studies we've done in the general market is the segment where Screwfix operates, which is almost at the top end of DIY pro-summer-type segment and the bottom end of the trade-type segment in terms of particularly probably black economy type things, that segment exists in Germany and is growing. So we actually see it as quite an opportunity because nobody effectively is serving that segment very well at this time.

Ian Cheshire - Kingfisher Plc - Group Chief Executive

Just to add two points. The UK market was traditionally well served and I think the Screwfix model, particularly with the Omnichannel model, has emerged, and I think demonstrates that, particularly with the right systems platform, you've got a different offer. And I think that's going to be critical.

And secondly, the initial view on the economics is that some of them are a bit different; the property costs versus labour costs, higher labour costs lower property costs, but actually, the total economic model on first blush looks okay. But that's very much what we want to test.

And the great advantage of Screwfix is that unlike having to put down very big boxes at huge real estate investment, this is pretty low capital risk and we can roll it out pretty low capital intensity.

Got any others coming through?

Well, I think we're going to call that over. Thank you very much for coming. Look forward to seeing you at prelims, and thank for your attention.