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CORPORATE PARTICIPANTS

Daniel Bernard *Kingfisher Plc - Chairman*

Veronique Laury *Kingfisher Plc - CEO, Castorama*

Ian Cheshire *Kingfisher Plc - Group Chief Executive*

Karen Witts *Kingfisher Plc - Group Finance Director*

Kevin O'Byrne *Kingfisher Plc - CEO, B&Q & Koctas Brands*

CONFERENCE CALL PARTICIPANTS

Warwick Okines *Deutsche Bank Research - Analyst*

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

Tushar Jain *BofA Merrill Lynch - Analyst*

James Grzinic *Jefferies & Co. - Analyst*

Chris Chaviaras *Barclays - Analyst*

Tony Shiret *Espirito Santo Investment Bank - Analyst*

Paul Steegers *BofA Merrill Lynch - Analyst*

PRESENTATION

Unidentified Speaker

Good morning, everybody. Welcome to the interim results, and we're going to start proceedings with some words from our Chairman, Daniel Bernard. Daniel?

Daniel Bernard - *Kingfisher Plc - Chairman*

Good morning, ladies and gentlemen. My name is Daniel Bernard. I am the Chairman of the Kingfisher Group, and I'm delighted to welcome you today for our interim presentation.

Before I give back the mic to the executive team for their usual review of the interim results, I would like to tell you about the decision we have announced today regarding Group Chief Executive succession.

As I am sure you would expect, the Board and Sir Ian Cheshire discuss succession as part of our regular planning meetings. After a busy and successful seven years as Group Chief Executive, and with a significant phase of development in front of us, we have agreed the need to clarify future succession.

The next five years will be particularly busy as we deliver Group best in class IT customer data and omnichannel capabilities, as we expand Screwfix and Brico Depot in new markets, as we complete our common brands and common assortment program and subject to completion, integrate Mr. Bricolage with Kingfisher business in France.

This will be a huge commitment for the Group Chief Executive and we have all agreed that now is the best time for transition to the next generation. Accordingly, as you have seen from our announcement this morning, Ian will be passing the baton. Perhaps it's too military but it's better to say that than hand over, for French hand over is too difficult, so passing the baton is better, to Mrs. Veronique Laury by the end of the current financial year.

There will be, of course, a full transition process over the coming months before Veronique takes over. Ian will remain on the Board until the end of our financial year, leaving on January 31, 2015.

In his time as Group CEO, Ian has transformed Kingfisher into a strong business with a bright future during and despite a very difficult economic time. During his tenure, reported sales grew 23%, adjusted profit before tax doubled and Kingfisher market cap increased by GBP3.8 billion, an increase of 112%.

And, GBP1.6 billion of financial debt was eliminated, leaving the business financially strong and strong enough to commence a capital return program to our shareholders in 2014, the first in Kingfisher's history.

He also leaves a strong sustainability legacy in net positive and an impressive management team throughout the businesses. Moreover, I would like to say that it has been a great pleasure for me to work with Ian and on behalf of the Board of my colleagues, and all the colleagues of the Group, I want to thank him for his successful leadership. It has been a great phase in the life of Kingfisher. Bravo, Ian.

Following a rigorous review of candidates, internal and external, I am delighted that Veronique Laury emerged as the clear favorite for Group Chief Executive. I know many of you know her already and you will have contact with her.

As you know, she's currently Chief Executive of our big and successful business in France, Castorama. Please, Veronique, could you stand up and say some words to introduce yourself?

Veronique Laury - *Kingfisher Plc - CEO, Castorama*

Thank you, Daniel, and the whole Board, for its trust and for giving me this great opportunity to build on Ian's legacy and, as well, to lead Kingfisher into a new phase of its journey.

I would like really to say a specific thank you to Ian for his mentoring all along my 11 years at Kingfisher. I would never be there without him and I really would like to thank him.

I would like this morning, as a start, to share three things with you. The first one is about my career; as I'm used to describe my career, I say always, I've dedicated my whole professional life to home improvement. You will join me to say that for, as a woman, it's not very sexy. I know that already I have a new name, which is Madam Bricolage, and I promise you that in French it's not sexy at all. But anyway, I will have to cope with it.

More seriously, having thought about what was my purpose, I think my purpose is really to help people to improve their lives by improving their homes. And when I'm saying it, I'm meaning it, so that's the first thing.

The second thing I would like to share with you about me is, as you can see on this CV, I'm a long-lasting person. I'm really long-term and future-focused. I'm anchored in the reality; the reality of people's lives; the reality of our employees; the reality of our businesses. And the last thing, I will try to always focus on the task, what needs to be done.

The last, but not least, thing I would like to share this morning is about the potential of home improvement. Having traveled in a lot of different countries, and especially the countries where Kingfisher is, I firmly believe in the potential of our home improvement industry. You just need to look at the home of people from outside and from inside to see it. We need to work hard to realize it and to answer people's needs.

As a conclusion, I would say that I promise you that I will put all my energy and my enthusiasm in leading Kingfisher into its next phase. I will put, as well, my competence and my knowledge and I will build on it and will continue to grow it.

My ambition for Kingfisher as an organization, and with all the teams of Kingfisher that Ian has been building, is really to make Kingfisher the leading home improvement Group in the east part of the world. When I say leading, I mean the Group which change people's lives. That's my definition of a leading company.

Thank you very much, and I now hand over to [Ian].

Daniel Bernard - *Kingfisher Plc - Chairman*

Thank you, Veronique. Not much to add to what you say. I believe she is an outstanding retailer, best qualified to lead us through the next stage, which is a completely new cycle. She knows our industry, as she told already, very well, and she's a strong retailer, passionate about customers, passionate about people, passionate about products.

And she was too modest to tell you herself that, last year, she was voted personality of the year in France by LSA Magazine, which is an equivalent of Retail Week, or which is also Retailer of the Year for the National Federation in the US.

To conclude, we are in good shape after a successful seven years under Ian and the time is now right for succession. We have an excellent new Group CEO in Veronique to lead us through our next exciting phase and she will be supported by a strong team in the operating companies.

Our strategies of making home improvement easier for our customers, while creating competitive advantage from our international scale and our portfolio of [knowhows], is the right one. Fresh enthusiasm, energy and pace in our leadership will ensure we successfully execute this strategy rapidly and deliver profitable growth for our shareholders. Thank you very much.

Ian Cheshire - *Kingfisher Plc - Group Chief Executive*

Thank you very much, and particularly to Daniel and Veronique for those kind words. We're going to run through the agenda today, a quick summary, a slide of introduction from me, but I'm really pleased to say that I've finally managed to get other people to do most of the work, which I've not managed to do in the last seven years. So finally going out with the right story.

Financial review from Karen and then an important intervention from Kevin in terms of a progress report on B&Q in the UK and Ireland. I will then come back and cover the rest of the Group and we'll deal with questions at the end, obviously, on any of these topics.

So in terms of the summary, the results we've published today I think are evidence of a solid business performance in markets that haven't been particularly easy, particularly in France. In terms of retail profit, pre the FX impact, 3.3% growth. Actually, I think the underlying growth is more like the 6% based on excluding the new countries we've developed in Romania, and Screwfix in Germany.

I think that has been most credit to the teams in terms of the work that has been done, particularly around costs and margin, and I'm pleased to see that the results look like they're slightly ahead of the consensus for the half-year. Obviously, we then had GBP12 million of FX impact, mostly from the euro and also from Poland, the zloty.

I think the key thing which we'll come back to you on the detail is that the French market, which we updated on the data in June and July, we wouldn't normally update on August, but this time we have, just to provide some reassurance that actually, the market seems a bit more stable in August. And although that's one month, and I obviously caution too much trend setting on that, it is our biggest month, so it is an important factor for us.

The priorities are still on track; the strategy in terms of creating a leader we'll update on some of the detail there. But I think there are two things I want to just highlight before I hand over to Karen.

One is that there is real energy back in B&Q; there is momentum; it's had its best first half sales growth in nearly a decade and double-digit profit growth. There is some sort of noise around B&Q, as if it's not got its share of the upturn. I believe that's absolutely not the case and we will talk about that today. And I think the team have really started to bring some momentum to the business. I'm really pleased and impressed by the way Kevin and the guys have got into their task.

Secondly, and finally before Karen, we are announcing today the restart, if you like, of our share buyback and there was some puzzled people saying why weren't we buying back. I hope you can understand that, if you're in the middle of a succession process, you can't actually go out and buy shares in the market, so it wasn't a lack of faith or belief in our business. We will be doing the remaining GBP65 million, and then next year, the Board will consider again the shape of the balance sheet and the opportunity, because we do see this as a multiyear return process.

So those are the highlights. We'll go straight into the financials now and I'll ask Karen to come up.

Karen Witts - *Kingfisher Plc - Group Finance Director*

Thanks, Ian, and good morning, everyone. I think we've got a lot to cover today, so I'd better just plunge straight into the numbers.

Group sales of GBP5.8 billion for the half-year grew by 4.6% versus the same period last year on a constant currency basis, with Group-wide like-for-like sales up 1.8% year on year.

Adjusted profit before tax of GBP364 million was flat year on year but, as Ian said, this was after the impact of a GBP12 million negative variance from foreign exchange on retail profit. Retail profit was up 3.3% on a constant currency basis, and then if we exclude the cost of entering into new markets, it was up 6%.

Underlying net interest cost of GBP4 million was slightly higher than last year, due principally to a non-cash net interest return on our defined benefit pension last year becoming a non-cash net interest charge this year. And this was driven by the accounting treatment of the pension deficit.

Our effective tax rate was 27%, consistent with the rate at the same period last year. Adjusted earnings per share of 11.3p was also the same as last year. A year ago, we announced the successful resolution of the Kesa demerger French tax case and recognized GBP145 million exceptional credit to the P&L, and this was a large once-off.

Exceptional items for this half-year are a much smaller GBP11 million credit. This movement, and the release of prior year tax provisions, explains why statutory post-tax profit has declined to GBP277 million this year. And to help understand the underlying results, as in previous announcements, I'll focus my commentary on an adjusted basis, but firstly, I'll take you through the items treated as exceptional this year.

The GBP11 million exceptional credit at this half-year includes the first tranche of B&Q transformation. Kevin will explain the detail in the B&Q business update, but briefly, as B&Q evolved from old retail to new retail, one of its areas of focus will be on increasing productivity through process simplification.

The GBP11 million credit at the end of the first half includes a charge of GBP6 million for the B&Q program, a cost of GBP5 million relating primarily to acquisition costs of Mr. Bricolage, offset by GBP21 million profit on the sale of properties. And I've split that between the Belvedere partial sales in the UK and the sale of a French property.

For the full year in 2014/2015, the net exceptional charge for B&Q is expected to be around GBP17 million, excluding the Belvedere proceeds and a GBP1 million charge on a net basis.

Free cash flow for the half-year was GBP383 million, down 12% versus the prior period. I've got a slide which gives more detail on this. Our reported net cash position is strong. We have just under GBP500 million of net cash on our balance sheet, compared with GBP259 million at the same time last year.

It is worth noting that this figure includes nearly GBP200 million that we received on disposal of our Hornbach holding, and that this balance is also before we make any payment in respect of the proposed Mr. Bricolage acquisition. As previously announced, the overall enterprise value of Mr. Bricolage is around EUR275 million.

Although earnings per share were flat, we're announcing a 1% increase in our interim dividend to 3.15p per share. The shareholders have also received an additional 4.2p per share in the form of a special dividend, which was paid on July 25. This special dividend forms part of our 2014/2015 GBP200 million capital return.

Now let me take you through the results by geography, and let's start with France. The trading in France remains challenging and has been a bit unpredictable. In February to May, we saw the market rise a little, helped by favorable weather conditions, and then we faced a sharp downturn in June and July. We explained this in our end of July sales release, waiting to assess the trading in August, which is a big month for us, before we commented further on the situation.

I can say that August trading improved slightly, as you can see from this slide, with like-for-like sales down 0.6% at Castorama and down 4.3% at Brico Depot.

Development activity was a bit lower than last year, but we still added 2% more new space from one net new store and two store revamps, and we also converted two Castorama stores into Brico Depots.

Despite the external environment, total sales in France grew by 0.4%, down slightly, 0.8%, on a like-for-like basis. We used the benefits from self-help measures to offset promotional activity to stimulate sales and margins increased by 30 basis points.

There was continued focus on cost reduction initiatives. Retail profit of GBP182 million was flat on a constant currency basis, but down 4.8% at reported rate, reflecting the weakness of the euro. Castorama France total sales grew by 0.1% to GBP1.2 billion. Like-for-like sales grew by the same amount, benefiting from growth in seasonal sales, particularly in the first quarter.

The trade market in France continued to be heavily impacted by a slow house building market, and in Brico Depot, which is highly correlated to this market, like-for-like sales declined by 1.9%, although total sales were up 0.8% reflecting some increased space.

Now let's move to the UK and Ireland where, in contrast to France, we are experiencing better trading conditions, particularly in the smaller tradesmen market as housing activity, housing construction and related activity improved.

Profits in the UK and Ireland were up nearly 18% year on year to GBP166 million [as] total Kingfisher sales in the UK and Ireland of GBP2.4 billion were up 6.6%, and like-for-like sales were up 4.4%. On a value basis, the comparable UK market improved 5.5% versus Kingfisher UK Sales which were up by 5%.

UK and Ireland gross margins were down 80 basis points in the first half, reflecting the recognition in the first quarter of this year of B&Q's promotionally-led showroom sales and strong seasonal sales. Quarter 2 margins were up 40 basis points.

B&Q total sales grew by 4% to more than GBP2 billion, and like-for-like sales were up 3.2%. Sales results reflected the generally better weather and trading conditions. Sales of outdoor seasonal and building products were up around 6%, driven by the strong first quarter.

Sales of indoor products, excluding showroom, were up around 3%. And after the heavy promotion of showroom category in quarter 4 last year, the sales of showroom products were down 1.5%, reflecting lower levels of promotional activity in the second quarter, and Kevin will talk about the showroom category later.

Screwfix is doing very well and continued its very strong performance in the market and grew sales by more than 23% to GBP386 million, benefiting from an improved environment for smaller tradesmen, and from the opening of 24 outlets in the first half of the year, taking the total to 359. Like-for-like sales in Screwfix were up nearly 12%.

Now let's look at the performance in our other international geographies. We currently consider three of our countries as being in early development. These are Romania, Portugal and Germany, and I'll cover these later.

Total sales for other international operations increased by 8.8%, reflecting the growth of space. Like-for-like sales grew by 1.6%.

In Poland, total sales grew by 3.6% and like-for-like sales grew by just over 3%. Performance varied between an encouraging quarter 1 and a softer quarter 2. In the second quarter, we saw a similar sharp downturn in June and July to that which we'd seen in France, and then, like in France, we saw better trading in August with like-for-like sales up 3.3%.

Margins in the first half of the year were up 60 basis points versus last year, benefiting from a softer first half last year plus self-help measures. Retail profits in Poland was GBP54 million, up more than 5% as sales and margin growth more than offset increased variable pay and higher range review costs.

In Russia, sales grew 11.6%, on a like-for-like basis, to GBP212 million. Retail profit was GBP3 million, slightly down compared with last year, with higher advertising costs and foreign exchange impacting the cost base.

Trading continues to be tough in Spain with like-for-like sales down 6%, but four new store openings have lifted year-on-year sales by nearly 17% to GBP170 million, and profits of GBP3 million were slightly up on last year.

In Turkey, the early part of the year was impacted by political unrest in the country, but post election results the situation now seems more stable. Our sales in Koctas grew by nearly 11% as we added three new stores, and like-for-like stores were up almost 2%. Our share of retail profit for the period was GBP4 million, slightly up year on year.

The GBP11 million loss in China was disappointing and was significantly higher than last year, but it reflects a slowing property market which was down nearly 18% year on year, and impacted sales in our design center. We continue to look for a strategic partner in China.

Now for a quick update on our new country development. We acquired the 15-store Bricostore business in Romania in May last year. In May this year, we opened our first store in Portugal, and today, we're announcing the opening of our first four Screwfix outlets in Germany.

In Romania, we've converted the first two Bricostores to the Brico Depot format. These stores are outperforming the previous format, so we've taken the decision to accelerate the transformation of the others by converting a further six this year, and Ian will talk about this.

Sales in Romania for the first half of 2014/2015 were GBP42 million with a retail loss of GBP6 million which includes conversion and brand development costs.

The cost of entry into Germany and Portugal amounted to GBP5 million in the first half of the year, and we expect the full-year costs be around GBP10 million, as we've previously announced.

Now let's take a view of the drivers of year-on-year profitability. There was quite a lot of activity within a flat year-on-year profit position.

In this slide I've pulled out, those red blocks, the GBP12 million negative foreign exchange movement, and the blue highlighted number, which separately identifies the cost of GBP11 million in relation to new countries, as I've just described.

In order to focus on the underlying trading and operating dynamics, I've specifically highlighted the GBP18 million favorable variance in the UK. As I've previously said, the UK operated in a more favorable trading environment in the period, and recorded 6.6% increase in sales and an increase in profit of nearly 18%.

Whilst we've taken advantage of the positive market, we have lost a little bit of market share in the UK. Margin was adversely impacted by the heavy investment in showrooms, as well as the slight change in sales mix.

The shape the UK reverses in our other operating companies with difficult markets being the drag factor, particularly in France, Spain and China, and this is largely offset by positive margin drivers including better buying.

Finally, we've continued our cost management initiatives which focus on store and staff efficiency, reductions in goods not for resale, and optimizing advertising spend and distribution costs. Cost reduction initiatives have covered the impact of inflation and also the upward cost pressure from additional store maintenance and bonus rebuild.

As you may expect, although bonus rebuild is a feature of the first half of the year, the rebuild in B&Q will be weighted to the second half of the year.

Kingfisher Group generated GBP383 million of free cash flow in the period. Operating cash flow was GBP93 million lower than last year, driven by adverse movements in working capital.

Because of the sharp sales downturn in the second quarter, stock levels at the end of the first half were relatively high, but this stock relates to current ranges and we expect it to sell through by the yearend.

Tax paid was GBP26 million higher than last year, reflecting the cash impact of the use of European tax losses last year, and the way that payment on accounts works in different countries.

Gross capital expenditure was slightly lower than last year, reflecting changes in the timing of store investment. Our investments are weighted to the second half of the year, but this year we expect full-year growth CapEx to be up to GBP350 million, although the medium-term guidance remains at GBP350 million to GBP400 million.

Proceeds from asset disposals this half-year was GBP47 million, reflecting the part disposal of B&Q UK Belvedere store and a property in France.

Net cash at the end of the period of GBP496 million, up from GBP259 million a year ago. The GBP383 million of free cash flow generated was primarily used to return capital to shareholders in the form of last year's final annual dividend, a GBP100 million special dividend, and a GBP35 million buyback of our shares. This has almost doubled the return to shareholders.

The proceeds from the disposal of the Group's shareholdings in Hornbach partially offset these outflows, and we're committed to returning GBP200 million to shareholders this year in addition to the annual dividend. And, as Ian said, the remaining GBP65 million of the capital returns program will resume as a share buyback.

Our capital expenditure profile remains constant with the picture I've described previously. This still reflects our plans to develop stores in growing markets and, particularly, using the Brico Depot format, as in Romania, and further Screwfix rollout. We're on track to open around 75 new stores this year, of which 59 are Screwfix in the UK and Germany.

Our IT modernization program remains on track and updates on which will be covered by Ian later on in the presentation.

Our balance sheet position remains very strong. Our net debt to EBITDAR ratio is lower than at the yearend, driven by more cash on the balance sheet. We expect to complete the Mr. Bricolage acquisition around the end of 2014/2015.

If we were to include the Mr. Bricolage in our net debt to EBITDAR metric today, it would end up close to the 2.3 times that we had at the end of the year.

Our credit rating remains the same. Moody's and Fitch rate us at BBB flat equivalent, and S&P at BBB minus, on a positive outlook.

As you've seen, we're investing in our business where returns are attractive. Our dividend is growing, and our capital return of GBP200 million in this year is on track. Our next significant debt maturity is in December 2014, when the Group is required to repay medium-term notes with a notional value of GBP73 million. The next update on our capital returns program will be in March 2015.

Now let me hand you over to Kevin for an update on B&Q in the UK and Ireland.

Kevin O'Byrne - *Kingfisher Plc - CEO, B&Q & Koctas Brands*

Thank you, Karen. Good morning. I'd like to cover two topics with you this morning. I'd like to spend some time talking about what we've been focusing on and what we've delivered in B&Q in the first half. And then I'd like to cover a second topic, just spend a little bit of time on the plans we've been working on to simplify and grow B&Q over the medium term.

Before I get into that, I want to spend a few minutes and just reflect on some of the things we talked about when I saw you at the full-year results in March. I talked about the fact that the UK market was under pressure and it had declined over a number of years, but that Kingfisher, in that time, had been very resilient.

I also reflected on the performance of B&Q and the fact that we'd lost sales since 2008 and the business was under some pressure, despite being the market leader and having a very strong brand in the sector. And reflecting on those lost sales, we knew that we had to act decisively to reverse that trend.

I talked about having three priorities at that stage. The first one being to strengthen the team; the second one being to reenergize the business, get momentum and belief back into the business; and the third one being to have credible plans to simplify the business and grow the business over the medium term.

On the first priority, about the team, I'm not going to talk a lot about that today. I covered it the last time. We've made material change on the Board and the teams [below]; 80% of the Board are different. And I'm really pleased that in our Capital Day in October, that I know some of you are coming to, you'll get a chance to meet a number of the Board team who've been working very hard since they joined the B&Q Board. Harder than they expected, I think.

But today, I'm going to talk about the other two priorities. The reenergizing, getting belief back in the business, and the plans.

So just on the first topic, what have we been doing in the first half? We've spent a lot of time and then took material actions to strengthen our price position, making our pricing clearer, making it simpler, more confidence in front of our customers. We've lowered 3,500 prices in the half. We've changed all the point of sale in all 360 stores, and we went to round prices on the ends to really communicate the value we're giving customers.

We removed all claims in the stores, as you may have noticed, and, at the end of the day, claims are what high price retailers hide behind. So we've been very clear what our prices are, and in some categories, where it's been helpful, we've simplified the number of prices in a category. And one of the things you'll see, it's on the slide but also in the flyer that's on your seat, a recent promotion in laminate flooring where we've gone from 21 prices down to three prices to make it really clear for customers; easier for them to shop.

Now the great thing about the change in the pricing work that we've done is it is better for customers. They understand it better. It is easier for our stores because of the changes, we're having fewer changes in the stores and it's cheaper for B&Q to implement. So positive on all fronts.

We also took a number of actions to highlight the great value that we have in the store. We introduced what we call doorbusters. And again, you can see some in the Karcher washer or the storage units on the back of the recent flyer. These are very big weekend deals, at great prices, to drive footfall into the stores. And again, some of the examples are on the slide there.

We sold 12,000 Flymos in two days, and over 50,000 orchids in a weekend. So these promotions are working and they're very similar to what you see in Brico Depot; what they call arrivages in Brico Depot. And as we go forward, we can buy these promotions together as a Group and offer even greater value to our UK customers.

We've focused a lot of effort on selling more of what we call core DIY products. These are products that should be in every house in the UK. Gloves, buckets, sealants, Polyfilla, masking tape. We increased the number of displays of these stocks in-store; we increased the stocks of these stocks in-store. We reduced the prices, where necessary, on these products, and we've had an incredible reaction.

We've increased the volumes of these products by 30% in the first half, and one in every 10 customers in the store has one of these products in their basket now. So we're very pleased with that; it's got real momentum into it.

Also since we spoke last, we've reenergized the marketing in the business. We relaunched the brand marketing, and, hopefully, some of you have seen that, with the unleashed campaign where we've highlighted the famous bib and the bucket. It's brought a real momentum into the business, and a pride back into the stores, and it's been very well received by customers.

At the same time, we've launched the flyer, and that's gone from strength to strength. We've issued 48 million of these, these are delivered to homes or put in newspapers to homes, so 48 million were delivered to customers over the half-year. And the flyers do three things for us.

They tell customers about the great value of B&Q; they tell customers about micro seasons; and they tell customers about our range authority. They're working very well, driving footfall, and also helping us to get a trading rhythm and momentum into the stores.

We reduced our spend on national press. We cancelled all our sponsorship and we increased our spend on digital marketing. And the good news is that we've had a much bigger impact in the half, and we've spent less on marketing than last year.

Just looking a bit more broadly across the market. What we saw, as we anticipated, and as I think we've discussed with you before, a stronger year-on-year growth in the harder type categories, and more modest growth in the more softer DIY type categories. You'll see from the slide that retail sales were impacted negatively by the fact we didn't push hard on kitchens in the second half, or the second half of the half, and I'll talk more about that in a few minutes.

I also wanted to spend a few minutes on just looking at the comparatives in the market. It is very difficult, as we know, and it's easy to get confused when you look at the comparatives between different retailers, because sometimes there's a slightly different definition of like-for-like, and rarely is the reporting period the same.

So this chart just lays out our sales against the same reporting period, and we've compared B&Q to Homebase, and we've compared our similar brands to the Travis consumer brands, which include Toolstation, so we've included Screwfix.

And what you can see is that B&Q, in that period, grew faster than Homebase. The like-for-likes in Homebase, of course, are impacted positively by the fact they've been closing weaker stores and, of course, in those weaker stores there'll also be some sales transfer to the stronger stores that are left.

If you look at the Travis numbers and compare the Screwfix and B&Q numbers, the like-for-like in total sales are stronger.

Just wrapping up on the first half; in the first half at B&Q, we focused on a number of things. Getting back to great retail basics; getting back to better execution; and putting the customer at the center of what we do. The net result of this activity is that, for the first time in five years, we've more customers in the shops buying more products, and we've seen real momentum back in the business with like-for-like sales positive on a one-year and on a two-year basis.

We've lowered prices; that's improved our value perception. And we're delighted that volumes are growing almost 5% like-for-like, because we know that volume growth is essential to a retailer.

While our volume share grew in this half, our value share didn't, almost entirely because we stopped pushing on kitchens, and I'll talk more about that in a minute. And I'm very encouraged that a number of lead indicators, like the price perception, like the volume share, like the staff engagement, have improved in the half, and these are very important.

There's a price perception chart there that you can see. This is numbers from an independent YouGov survey. And what we've seen in this period is that we've reduced the gap against the discounters and we've increased our price perception even further against traditional home improvement retailers.

At the same time, profit is up double digits in the half, contributing to the 18% growth that Karen talked about in the UK. And the growth in profit in B&Q is after investing in more bonuses, more essential maintenance in stores and more IT replacement, which I said I would do when I spoke to you in March.

And I'd really just like to take a minute just to congratulate the team in B&Q for these results and also Andrew and the team in Screwfix for a very incredible -- credible profit contribution to the Group in the first half.

So that's all I wanted to cover on the first half and I'd now like to just spend a few minutes and talk about what we've been doing to work on the plans to simplify the business and grow the business over the medium term.

Our ambition, as a team, is to rejuvenate the business model so that it is very relevant for customers in the digital age. And the great thing is that many of the strengths of the DIY model are very relevant today and still resonate with customers. Great value in the store; great volumes, stock available to take away today; all your project needs under one roof; and, of course, helpful knowledgeable staff.

We do know that customers now have more choice than they had before, so we've got to raise our game on all of those elements as things have changed. That's what we've been working on, and I'll talk a little bit more about the work on offer in a minute.

We need to, of course, combine these great strengths, these roots, these principles of home improvement retailing with the new digital area. We need to have really good click and collect, drive customers to our stores. We need to have extended ranges online that absolutely complement the ranges in the stores, and we need to have better content online to help people shop, plan and do their projects. And they may do that online, they may come into store and do that, but the content's critical.

I believe the combination of the roots of our business with these new digital skills and assets will be greater than the sum of the parts. It really will be a case of two plus two equals five.

And while DIY, as we know and I talked about in March, is a sector that has relatively fewer sales online as some other retail sectors, we know it's changing fast and I'm delighted with the new management that have come in from Screwfix. We've been spending more time and resource on this area in the last six months and trying to turn plans into actions.

We recently relaunched diy.com and a new click pay and collect service. And the way we relaunched that, we're using exactly the tried and tested process in Screwfix's we launched to elements of customers. I think, as at today, something between 15% and 20% of customers are on the new site and probably in about two weeks' time, 100% of customers will be on the new site.

Now to transform the business and achieve our objectives, as you can imagine, we've got a number of work streams behind the scenes and I'd like to just talk about three of them today; productivity, offer, and property.

The productivity is about having a simpler, more efficient business for our customers and, obviously, for our colleagues. The offer, we need to have a more customer-focused offer in a number of areas. And property, over time, we need to adjust the portfolio to reflect the changing environment.

I'll spend a little bit of time on each one, but first of all, I'll just talk about productivity. Improving our productivity is great for our customers and it's great for our store colleagues. We have become too complex. It makes it simpler and easier to shop in our stores and it simplifies the supply chain.

We currently have four productivity projects which we're trialing in six stores over the first half -- over the second half, I should say. These include store-friendly deliveries and better labor scheduling.

Now store-friendly deliveries, there's two elements to that. There's making sure that the volumes of stock arriving at a store every day are effective to allow the store to be efficient. At the moment, in some cases, the volumes can vary by 70% from one day to the next and the stock's arriving at the back door. And, of course, the labor doesn't vary by 70%, so we're fixing that in the trials.

The second area is working on as it arrives in the store, is it in a way that's easier for the store colleagues to distribute. And again, by working on how we segregate the stock in the distribution center, and as it arrives in stores, we've found that we can take 30% of the time out, 30% of the labor, to getting that stock on the shelf.

Of course, that's very good for our economics, but most importantly, it's very good for our customers, and particularly in a world of click and collect where you want to get a stock on file and on the shelf, not in the back of the store, quickly. So we're doing a lot of work on that.

The second area that we're working on, and where there'll be material benefits, is the labor scheduling. We have a complex business. We've got 19 different businesses, quite seasonal, and they operate in different ways depending on the time of year.

We've got a reasonably diverse store portfolio, so it's reasonably complex; different stores, different categories, different seasonal trends. So we're working on getting the scheduling to match better to those profiles. And the great thing is we save money and, of course, it's better for customers, so it's a win-win.

And while the productivity work is, of course, very, very important, we all know the future health of any retail business is dictated by the strength of the offer.

In March, I said that we would perform work on all 19, if you like, shops within a shop and just look at it from a customer point of view, look at it from a competitor point of view, and look at it from an economic point of view. That work is now well advanced and we've got five trials in six stores during the second half, just seeing how we implement that in the stores and what we learn.

The early results are encouraging. As we reduce the number of SKUs in the store, we give more space on shelf for the high-selling SKUs and will give us the opportunity to bring in new SKUs and, of course, we then have extended ranges online. But we'll talk more about that when we're all together in October.

This is the framework that we're using as we look at improving our offer, and I thought it'd be just worth explaining to you; it's a reasonably complicated charts, so apologies. But if we start and work across the slide, you can see we start by reducing unnecessary duplication in the stores. Now, there will be some costs to that as we take stock out of the stockpile, but, of course, it will be a working capital benefit.

This gives us more space for the high-selling SKUs, more shelf space. It also gives us the opportunity to introduce new products, easier because there's space available for them in the store, and that allows us to sell more to more customers.

We then grow the volumes of a smaller number of SKUs which give us efficiency in supply chain and efficiency in purchasing, so we can lower the costs with our suppliers. And then we can choose too, if we wish to, to lower the costs -- prices to our customers and grow volumes further.

In the first half, you will have seen some of this in action. We lowered prices; we grew volumes; and, at the same time, we increased profits. As we engage with our vendor base, they were clearly excited by the fact that their biggest customer is growing again.

And following this framework in the future, I think the shape of how B&Q's profit will grow. We'll see volume growth; we'll see margin cash growth; and we'll see productivity benefits rather than percentage margin growth.

There's an awful lot of work to do. 40,000 SKUs, 360 store combinations; we clearly need to balance speed with execution in this, so we're planning to do this over three years. It won't happen exactly like that; we all know that. We'll iterate; we'll learn. We need to leave enough time in the timetable to take the learnings from the trials, take the learnings from the pilots and implement them, but we've started that work and I'm very pleased with it.

One of the most challenging categories that we have as we do this work is kitchens, and one I know you spend a lot of time thinking about. We are the number one retailer for kitchens in the UK. We have strong brands, both in B&Q but also in Cooke & Lewis which customers recognize, and we have a very competitive position on price, on quality and on services like installation.

But we have underperformed in the first half, as we know. We over-promoted and then we had another hiccup where we had some issues with supply where a key supplier had some fires in their factory. That led to more volume than we anticipated and we let customers down with delivery times.

So with that, having looked at what happened in the quarter 4, quarter 1, we've changed a number of the kitchen team; we immediately took the foot off the pedal to say we don't want to be driving poor customer service and experience into the business; and we stood back and did a very detailed piece of work to really understand the root causes of the challenges and what we might do to improve that business. And there's a lot of work by a lot of people behind on the scenes on that.

So we're going to make a number of changes in the kitchen business, and it will take a little bit of time because of the size of the estate and the sheer cost and execution of the changes.

We will launch Every Day Great Value message, emphasizing simple, honest, clear pricing. And it's not all about price, of course; it's about value, so it's about quality and it's about the service.

We will launch a new web tool next year, which will make it easier and quicker for customers to get a high-quality design for their kitchen. And we'll introduce a more rationalized range which will remove duplication of slow-selling SKUs. It will also introduce some new choice, and that will allow us to buy better and offer good prices to customers. This will start next year, but the physical changes will take some time to implement.

And then, in time, we will move to a regional distribution model. This is better for customers because we give them better service and actually, it's more efficient for us as well. And again, that work will start, but because of the scale of the change, that will take a couple of years to implement.

I've talked about the productivity work and talked about the offer work. I just want to say a few words about property. Our store portfolio has been changing, but it's challenging to change our store portfolio as quickly as we'd like, because we've got 90% of our stores are leased, and there's long contracts, on average eight years left on the lease.

I want to accelerate that and, to do that, I'm delighted that we've got a new Property Director coming to join the B&Q Board in the next couple of weeks; Grahame will join us. He's currently Group Property Director of Carphone Warehouse, previously worked in Arcadia; very high reputation, strong reputation in the property industry.

And the property work that we're going to do, there's two phases to it. Phase 1 is what we've called Right Space (sic - see slide 38, "Right Size"), Right Place, which we've talked to you about before, and Phase 2 is working through catchment by catchment. So let me just touch on each of those for a minute.

Phase 1, Right Space, Right Place, this has been slower than we would have liked, but when we've been able to do it, as we did in Belvedere, it's working. Belvedere was more straightforward because it was a freehold property. We've had two planning consents agreed, and two planning consents have been declined. Moving to big-box food retailing has become a bit trickier from a planning point of view. Overall, we're now expecting eight of the 18 stores, about 2% of space, to be agreed, and that's just over 500,000 square feet of space.

Phase 2 is underway. In the half, we performed very detailed work with the team, some of who are here today, going through store by store, catchment by catchment, to decide what space we need as we transform the business for the digital age. As you'd expect from catchment, we have too many stores and in some catchment, outside the Greater London area, we've got too much space in those stores.

So we've developed a detailed plan for each store in each catchment. These plans cover a number of areas; some closures, some right sizes, some new format trials, and some targeted reinvestments in, what we're calling, unloved gems, which are good performing stores in good catchments, but need a little love and attention. I will share more detail about that plan in March. In the meantime, we'll do some further trial work, and we'll do catchment trials in detail next financial year.

I've talked about the work on productivity, on the offer and property; just touching on something that Karen covered briefly, the cost of this. This slide shows the exceptional P&L costs for the productivity work that I've talked about, and Phase 1, the Right Space, Right Place, of the property work for both years, this year and next financial year. The projects have strong paybacks, all less than 18 months, and the benefits will be reinvested in some of the work I've talked about, particularly the offer work stream.

The costs related to the offer work, and to Phase 2 of the property work, and the offer work, that's particularly removing some of the duplicated SKUs, or the unnecessary SKUs, and the property obviously relates to things like rightsizing, we don't have firm estimates of these yet. And that's why we're doing the catchment trials; that's why we're doing the offer work. So as and when we've completed that, we will be able to communicate that with you. But on the top-line estimates, I believe the cash investment is manageable for the Group.

I started by saying the last few years have been challenging, and I'm pleased that the team have reversed the momentum; in the first half focusing on, as I said, better retail basics, better execution, and putting the customer at the center of the business. The net result of this activity is, for the first time in five years, we've got more customers buying more products. We have momentum back in the business.

It is early days, but I'm encouraged by the number of important lead indicators, as I mentioned, and very pleased with the double-digit profit growth. We have a clear plan to rejuvenate the business, and we'll talk more about that when we see you in October at the Capital Day, and as we progress, and obviously at the full-year results in March. Thank you very much.

Ian Cheshire - *Kingfisher Plc - Group Chief Executive*

Thank you, Kevin. I just want to make two quick points on B&Q before we come on to the rest. Firstly, I think the scale of the profit improvements coming through in the first half, despite building back a bonus level and other costs, is really encouraging. And for the total UK business, which is increasingly the way we think about it, because Screwfix and B&Q working so closely to get an almost 18% profit increase, occasionally portrays the business has got issues, no complacency, but this is a strong business.

And it should be understood that we will be looking for opportunities to improve it. We've got a lot of work to do. It is a five-year program, because the property issue is a five-year challenge rather than a one-year challenge, but it's starting from a good place.

Secondly, on the property, again there's been the odd comment to the effect that B&Q haven't done enough on property. I would just remind people that when I took over B&Q in 2005, I did actually shut 18 stores, and we tried to rightsize a further 18 stores at the time. I wasn't exactly trampled in the rush of people picking up our property, and it's not been a state secret that we could be interested in taking these properties on.

So this is a multiple-year, structural challenge, which really centers round the fact that we've got institutional leases that we can't walk away from. I can't do a CVA and drop the leases, so we are going to work on this on a very structural basis But this is one of the five-year programs that we looked at when I talked about the succession earlier, and it is something I think the team have now got a really clear plan, which we will execute on. So I'd really congratulate the progress that Kevin and the team have made, and I think we're off to a good start.

But on the things we said we'd talk about; in terms of the three bullet points, we've talked about B&Q Ireland, and Karen's taken the point on capital returns. So I'm just going to quickly go through the things we said at the beginning of the year would be our priority; easier, in terms of omnichannel, common sourcing IT, and then our expansion plan.

So if I start with the omnichannel; as Kevin mentioned we're in the process of cutting over from the old diy.com to the new diy.com, which is the way that we've done website launches again with Screwfix and elsewhere. And that helps build up the traffic, test for any issues, and teach the search engine how to work, essentially.

What we're seeing so far, I think, is a much more capable and slicker site that can actually now, particularly the [in-trade] into the business in a much more direct way, and particularly driving click, pay and collect, which will go from next day ultimately to same day. And there's a series of design tools, particularly in terms of web-based design tools for visualizing your kitchens, will come through over this next few weeks.

What we are going to see this as is the base for the platform that we'll talk about in a minute, project easier, which is the new systems' platform for the whole Group. So we're effectively taking the learning originally from Screwfix, then into this Darwin project for B&Q, which will then be used for the application that we will then roll out round the Group, so that we don't have to reinvest five or six times.

The other news in the first half was that we continue to expand with click and collect trials in France. Multichannel has been slow to develop in France. The Internet there is 0.5%, 0.6% of sales in our category, as opposed to over 6% probably in the UK at the moment, so it's a very different picture. But the consumers are being trained by the grocers in a somewhat similar way, you could argue, to what grocers trained the home shopping and customers in the UK.

And particularly, the unique aspect in France is the drive format, which is essentially a drive through pick up, which has become very widespread in France now. And we're now seeing that in Brico Depot, with early good results in terms of average basket. And Castorama click and collect, which we're extending through, and again early trials are successful, we need to just see how fast we can then roll it out. I know it's a subject that Veronique is very focused on.

So I think we are going to see, based out of the UK, because the UK is the most advanced ecommerce market in the world, we are going to try and use that strength and scale to go further with this development as we go through the year.

In the terms of the sourcing program, the top-line numbers don't look like they've moved much in the first half, and they haven't. What I would say is that the numbers will probably never go in a perfect straight line. There's a lot more activity now in the second half, notably the launch of Mac Allister power tools, and the hand-tool range, which has just started in Screwfix. Screwfix was the very first person to have that, and that's gone off like a rocket. So we're going to see continued progress.

Particularly, we've put together a new online sourcing [Katalog], and we're working much more directly now on accelerating synergies into the start of next year. So a lot more to do, and Guy Colleau, the former CEO of Casto, France, has been working hard on that.

On the IT program, the IT is never seen as a very glamorous undertaking, and it's traditionally also seen as a graveyard for CapEx in a lot of retailers. So it is important to stress why this is different. What we are setting out to do, for the first time in Kingfisher's history, is create a single platform for the operating units across the Company, which should unlock significant common opportunities in terms of process and, therefore, cost opportunities as we go.

What we're trying to do, though, is build a real live working prototype. So there will be a store in the UK which will be fully functioning on the new platform next year that's been put together with a team of over 100 around the Group from all aspects of the Group, from operations to finance to HR, and put together in a way that allows us to demonstrate the reality of the system as opposed to a bunch of post-its on a concept wall.

What that will allow us to do is, once we've built the working prototype, that that will allow a much more rapid rollout. The first two businesses that will be prioritized will be B&Q UK and Castorama France, which is obviously the bulk of where we make our profit. The key for us is managing the risk by demonstrating a working pilot, rather than trying to do some big bang system which we then find cripples the whole operation.

We will also be doing this within the CapEx envelope that Karen had talked about before. This is not extra cost. We're essentially being able to afford this by doing a one-time solution, which we can then partially adapt when we do the rollout but, fundamentally, use the same platform going. That, again, is a big cultural shift from Kingfisher from the decentralized OpCo to the integrated retailer of the future.

In terms of organic growth, we're on track; clearly, Screwfix has been the main driver of that in terms of numbers. But it's also good to see further growth in Turkey and new openings in Spain and, obviously, the new markets we've just talked about. That remains [in terms of] opportunities.

In terms of portfolio, we announced earlier on that we'd disposed of our stake in Hornbach; again, a very amicable arrangement, but an investment in a business that, while we respect it and like it enormously, we had no operational control of. So I think tightening up the portfolio there has been very important.

In China, we announced earlier on at the March numbers, the March presentation, that we would be starting the process of looking for a partner. We're now into that process and underway. There's a series of conversations going on and preliminary exchange of information has happened.

The early update I would suggest is that we are looking to get to a decision, in terms of which way we go and which structure we do, before the end of the financial year. There are quite a few options as to which way we go on this, so there isn't a firm answer today that says it's going to be one or the other. But it's clearly going to attract some interest, not least because of the property value embedded in B&Q China.

In terms of Screwfix Germany, you have to look quite closely to realize this actually is in German not in English because it's Screwfix, you look at that and it looks like we've taken a picture of Tunbridge Wells or something and just airbrushed it in. I can assure you, I did visit it two weeks ago. We've got it up and running, and I think there's a few things to note. We're doing this in Frankfurt, four stores to test different locations, with hard marketing launch actually literally today.

It's a Screwfix offer and it's 9,000 SKUs, of which 80% have been locally sourced. It's very much built up locally. We will then, over time, look to integrate the Screwfix range because very basic things like minimum order quantities for some of the own label you can't really do it for four stores. But what we have is exactly the Screwfix model, 100% stock available; slightly different in that Germany doesn't allow Sunday opening, so we won't do that.

What I found quite extraordinary was that we will be the first national retailer to offer next day delivery in Germany, free as part of the offer. Amazon do a bit of it but they charge extra as a special service. This is, I think, an indication that even a big, mature, sophisticated market like Germany has room for an offer.

I particularly congratulate the team at Screwfix for actually getting this going in a relatively short order. And walking the stores and talking to the people, I'm convinced this is going to work and it's going to be a big success.

Speaking personally, as one of the team that originally bought the business back in 1999, when it was doing about GBP80 million, to see it today, GBP800 million of sales probably this year, record week last week of sales, opening internationally, it's just got a fabulous future in front of it.

Just say very well done, and Steve and the team, and Andrew and the team at Screwfix should be very proud of what they've done. We'll probably take some time to build up Screwfix Germany; trade has been pretty conservative. But it's a really well executed launch and I'm very excited about our opportunity there.

In terms of Brico Depot Romania, we touched on this briefly. This was the acquisition of Bricostore, which we effectively bought the business for its property value and then we viewed it as a transformation to go forward.

Those two first stores have performed probably slightly better than we thought, over 20% uplift. And what we've now concluded is the best way to go is faster and quicker on that transformation; hence, the one-year impact in terms of the transformation costs, which we will then do, basically, six in Q3 and a further seven next year.

What that will give us is a fully functioning Brico Depot operation in Romania. And as we said at the time of the acquisition, it gives us some interesting opportunities to grow further, both in Romania and in the related area. We think Brico are opening up a potentially interesting area of growth for us in the future.

Mr. Bricolage we've made progress on since we last announced. This is, obviously, a complex deal. We first of all had to get the agreement of the [adherence], the franchisees and the members of the Mr. Bricolage broader family. That was cleared; we voted on that in July.

We're now into an even more complex process, which is French antitrust, which Marc Tenart is nobly leading. There weren't many volunteers for that particular topic. We expect to get clearance indicative, probably about January, which would allow us then to complete the purchase of the majority of the shares. We would then have to launch a squeeze-out of the minority offer, standard piece. That will take us through probably to final completion some time about March.

Given that we're going through antitrust, there's a limit to what we can provide in terms of data on this. I would just say the key stories here are in a market, particularly a French market which is not growing that fast, if at all at this point, consolidation opportunities are rare and extremely valuable if you can execute them properly.

The key thing, for us, is it potentially gives us up to 50 sites for Brico Depot, which has only got just over 100 sites in France, a mixture of franchisees and direct-owned. It's a massive, massive acceleration of Brico's development opportunities. It also gives us a really interesting way into the convenience format, which we don't have in the Group.

And we will be looking as a team -- we've already set up a team with Alain Souillard, Veronique, with Guy Colleau, myself and Marc to look at the totality of Kingfisher's position in France and how do we map the brands onto the market. That gives us big opportunity in terms of synergies in own brand.

Particularly interesting, I think, in the longer term, it really increases the number of click and collect pickup points across the whole of France that we can reach, and gives us a much, much faster move into the multichannel world than we would get in our own.

As I said before, this, effectively, becomes a multiyear project, including the Brico franchise which we're developing, and is probably two to three years of conversion and integration, and subsequently a year or two development. Again, part of that five-year cycle we were discussing earlier on, but a really important step for Kingfisher and one that when Veronique stands up here in March next year, I'm sure she will be able to talk more specifically about some of the financial targets and the opportunity. But I see this as a very strongly value-creating deal for Kingfisher.

To sum up the first half, I think to see the underlying business up by 6% in terms of profit, and to see a strong cash performance despite some difficult markets, is really encouraging. I think the business is in fundamentally good shape.

We are still working, as we have been and will continue to work, on creating the leader. I think there is a lot more opportunity in all of the elements of easier, common, and expand; we have not finished that story by any means. I'm very pleased with the early signs of momentum back in B&Q, and I think there are opportunities there to go further and faster.

To emphasize the strength and the belief and the confidence in the Group, we are, as we said, restarting the multiyear program for the remaining GBP65 million this year. And I'm sure the Board would look positively to try and find ways of continuing that program.

I think, looking out, the outlook is always a harder one to read. I'm very pleased that we saw a better August, but it is one month and we have to be a bit careful about the projections beyond. I think, having seen a very soft June/July, to see reassurance coming back that's great.

I think the UK market is, clearly, on a more solid trend. We're always going to have a better month or a worse month or a good housing stat, or a bad housing stat. But fundamentally, it's pointing in a good direction, led by that small trade market, which obviously helps, particularly Screwfix.

I think, if we keep on sticking to the knitting, remembering what we can do to drive our own destiny, as opposed to hoping that the market will lift everyone up, we have a lot we can do in terms of value creation for our shareholders, and a tremendous potential cash generative capacity over the next few years, which means we should be able to fund both our investments for growth, and continue to offer a good return for shareholders.

I was going to finish up there, but I just want to say one or two last words before I open it to questions and basically say, obviously this is my last time standing up in front of you fine folk. And I'd like to say it's been a -- actually I'm amazed to find myself saying this, I will actually miss this experience.

I want to say thank you for the challenge and the thought-provoking questions that we've had over the years, and I'm sure Veronique will have fun dealing with this process, going forward.

Certainly internally, the worst part about stepping down is that this is a great business, it's one I've really enjoyed working. I think the people have been absolutely fantastic. I know there are some watching here through the web and I just want to say it's been a huge honor.

So with that, I think we will cut over to questions. Thanks very much.

QUESTIONS AND ANSWERS

Warwick Okines - *Deutsche Bank Research - Analyst*

Warwick Okines, Deutsche Bank. Two topics please; firstly, just on current trading. Having traded through June, July and August, have you got any clear idea as to why trading turned down so sharply in June/July? Perhaps you could just talk about how you think your Polish market share has trended through that period, and then also comment whether you could give us the B&Q like-for-like in August, please?

And secondly, a question for Kevin, I think, on the value perception chart that you showed. It's quite interesting how the value perception has actually widened between Homebase and B&Q in recent periods. I'm just wondering what your thoughts on why that's been and exactly how you're focused on, or which categories you're focused on to close that gap.

Ian Cheshire - *Kingfisher Plc - Group Chief Executive*

We wouldn't normally disclose August trading and we'll get drawn into how was last week at this rate. So if I could just say the two things we saw in June/July was the French market, which looked like a bit of an air pocket, and a slight slowdown in Poland, but that then reversed quite sharply in August. So I think that there's always going to be a degree of volatility, and we've seen patterns of that.

I think the surprise was that we'd had a pretty solid start to the year. We then hit June/July, the market minus [4%] then minus [6%] in July. It did look like literally just a bit of consumer caution, a bit of a timing difference in some areas.

And I think August was an excellent performance by [Vero] and the team in particular to come in with a number that was up against a pretty strong comparative from last year, and has given us some encouragement that the market's not easy, but it's not as soft as it [termed]. But I think we say look, we know the market in France is soft, it's probably a little bit more volatile than we'd originally thought, but I don't think it's fundamentally trending one way or the other. And the reassurance of August is there.

And in Poland, I think there are just good month/bad month, I don't think it's any more than that. The only issue on market share for us in Poland is that we haven't been opening as many stores as some of our competition, so the like-for-like I'm pretty happy with. It's slightly behind on the opening program, but we're also about to kick off a whole range of revamps. So there's work to do, but I'm pretty happy with where we are in Poland at the moment.

And I think it's the crystal ball on France, I'll get maybe Veronique as the owner of that particular said crystal ball might want to talk about France briefly, but it is not an easy market at the moment, but it's not as bad as I think the [back-to-front state] of certainly July might have indicated. (inaudible)

Kevin O'Byrne - *Kingfisher Plc - CEO, B&Q & Koctas Brands*

It's a number of factors. It's taking down the prices, 3,500 price reductions. The top 50 will definitely have impacted it. And actually an interesting fact on the top 50, we compare with a number of retailers every week, that's perception we're talking about.

The reality, when we started the half we were about 30% lower on like-for-like products than Amazon, and finishing the half we're on parity with Amazon. So that's affecting, obviously, perception out there. The doorbusters [proactively] have helped, removing all claims will have helped, and the clearer POS in the stores. So it's going to be a combination of all those things.

Ian Cheshire - *Kingfisher Plc - Group Chief Executive*

Perception has improved and there's grasp of how we portray that. And I think it is important to say that we've had areas where we've had occasionally good prices but it hasn't been perceived. We've had areas where there were issues on the pricing and I think we've acted on a number of those. And I think the perception is clearly tracking the right way.

Unidentified Audience Member

Just really a quick one on the French housing market. Could you talk about whatever forthcoming government initiatives there may be and how they may help stimulate permits and construction in the market, particularly into next year, please?

Ian Cheshire - *Kingfisher Plc - Group Chief Executive*

(inaudible) I'd make two points; firstly, the French housing market was originally much more resilient between 2008 and 2011 and some of the old schemes helped support it. And then for the last two years the schemes were changed and have not worked. And we've seen the housing market going backwards; permis de construire back by 20%. New houses are down significantly; total housing market down a bit, but transactions going nowhere. So it is clearly a big issue in France.

The second point is that, in the last month, I've started to finally hear the French Government talking about doing something about it. And we've been writing lots of helpful notes to them suggesting a whole pile of things they can do about it. But the new Valls government is a very different animal from what we've seen before.

The problem is, we don't know how much they can actually get to happen, but the words at least have changed quite a lot. At the moment, I would not assume a great housing market, but I think the government are focusing on it as something to do. But it's going to probably remain tough for the next six to 12 months.

Veronique Laury - *Kingfisher Plc - CEO, Castorama*

(inaudible) anything. I think the second hand market is not that bad as it was. The problem that we have is in new homes market. As Ian said, it's very new, the fact that they want to change things, and they've announced some changes, but we haven't seen anything concrete for the time being, so [I think we] should be waiting.

Unidentified Audience Member

What's the most significant potential boost, in your view, to the market?

Ian Cheshire - *Kingfisher Plc - Group Chief Executive*

There's not a single blockbuster measure. There's about seven measures we've seen and, to be honest, one of the challenges of trying to assess it, it's a bit like the [SISA] and the [PAC] deal that was on social contributions, what was announced, and then what actually happened, was quite a long way apart in terms of when you got to the details.

So we're in the, let's look at the detail. I just, at the moment, take encouragement that the new government has understood it needs to do something. The query will be, what's the most productive of the planning arrangements, the financing, the tax measures? And I think we do need to see a concerted effort on that. So I think it'll be clearer over the next two or three months; I don't think we have to wait forever, but right now there's no one single answer on that one, [Frazer].

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

Jamie Merriman, Sanford Bernstein. My question is about the UK. When we look at the housing data for the UK, while I wouldn't necessarily say all of the momentum was isolated in London and the Southeast, clearly that's where housing has been strongest. And I was just wondering if you could comment about B&Q and whether you're seeing the same things play out in the B&Q business, or whether you're starting to see some pickup from the non-London based regions.

Kevin O'Byrne - *Kingfisher Plc - CEO, B&Q & Koctas Brands*

The slide I showed there just looking at where the sales are coming from, where the growth is coming from, I guess points to, we're seeing it's at the heart of smaller tradesmen side initially from the DIY.

So it's a general point across the UK, which is what we said we thought we would see, that we'd see that starting first. And then as people start to transact, six, seven, eight months later we'll see more of the softer retail DIY coming through. And we do, clearly, have a greater spread across the country.

In fact, compared with some of our competitors, got a smaller concentration in and around London. So for example, Homebase's like-for-likes will absolutely benefit from the fact they've got more stores inside the M25. So yes, we're seeing those trends. It's interesting [I actually saw the staff] at the weekend, the change in house movement since 2007, quite clearly London's a completely separate world.

Tushar Jain - *BofA Merrill Lynch - Analyst*

Tushar Jain, Bank of America Merrill Lynch. Just wanted to understand on direct and common sort of thing, I do understand you're going to have a little bit of [exploration] in the second half, how can we see that moving in next two years? I know you're target is roughly 50% over the long term, but how do we see that happening over the next two years?

And the second question is, it seems there's too much happening with the Germany launch, Romania IT systems being rolled out, what kind of -- do you think there is too much happening in the Group itself that might be creating some confusion, including changes in the UK B&Q, and what are your priorities when you rank all these things?

Ian Cheshire - *Kingfisher Plc - Group Chief Executive*

Yes, well, if I deal with the last question first; obviously there's so much going on I felt exhausted and had to run for the exit. (laughter) No, we're all big grown up people, and we're competent retailers and know what we're doing.

Each person has got different sets of activities going on. The team for example with Steve Willett doing project easier on the IT is drawn from all round the Group but it's totally focused on that, so the people there are not trying to do other things.

The sourcing and commercial teams are working very hard together on the common product; that is clearly their priority. The guys doing Screwfix off in Germany are from Screwfix.

What we're trying to do is use each element of the Group to generate growth, or cost and margin opportunity, and I don't think in a Group the size of Kingfisher you can have just one project going on at any one time. These are the things that we do need to do, and we've debated the strategic priorities at the Board and at the Group exec level and we're very clear on that.

Actually, what I think we have got is the most coherent set of plans that I've seen, and for the first time, again, 17 years of people talking about common systems and actually seeing it happen for the first time.

So I think a lot of these things are absolutely the right thing to do; we've got enough bandwidth to do it. And I think, most importantly, we've got the talent in the business to do it, and I think it is human capability that's the bandwidth limiter. But it's a question that we will always ask ourselves, and challenge, and the Board provides that challenge.

In terms direct sourcing, I probably don't want to nail down a six month by six month percentage target, but both direct and common have a lot further to go. We have individual OpCos who have over 30%, 35% direct sourcing, and there are over 25 nearly 30, and again Screwfix is one of [those attributable] for that.

What it is, is a process of -- the rate of which we can go is driven by the rate of range review, and we have deliberately slowed down the rate of range review to avoid some disruption last year. It's coming now in another wave and it won't ever go in a perfectly set line. It'll be very much when we do the paint tender, that's a big jump up, we do the power tools that's a big jump up.

What I am absolutely clear of, though, is that with Veronique driving the Group, she's coming from exactly this area of expertise ,and it was really her work three or four years ago now which set up the common brand. So I know that we're moving on to a phase where the person probably with the best qualifications in the Group is going to be supervising this.

So I'm very confident there's a lot more to come, and if anything, my guess would be that Veronique might be even a bit more radical than I've dared to be, so I look forward to that.

James Grzinic - *Jefferies & Co. - Analyst*

James Grzinic, Jefferies. Just a quick one; given all the changes do you feel that the structure of the LTIP is still valid? Do you need to relook at that; do you need to rethink [the triggers], etc?

Ian Cheshire - *Kingfisher Plc - Group Chief Executive*

I think that will be an excellent question for Veronique and the Board, as I won't be getting any (laughter) so I will leave that one for them. We look at it every year, at the structure, but I think it's quite important that you don't rewrite your incentives every time something changes.

I think you've got to have some consistency, but at the moment the LTIP is designed to reward for creating value, and creating growth, so I think it's in the right place.

Chris Chaviaras - *Barclays - Analyst*

Chris Chaviaras, Barclays. Three questions on B&Q all of them. The first one on the stores that you are thinking of closing; given this might take some time, can you tell us how many stores are unprofitable, or at least give a sense of the underperformance of the tail end of your stores there?

The second one on the kitchen sales; I see, Kevin, that you returned back to the EDLP, but there were more promotions than in the first quarter, so is it maybe that customers do want the promotional environment, and what makes you think that now giving up on promotions and keeping this every day low price will actually mean better sales?

And the last one, on marketing spend; can you give us a sense of how down that was year on year on percentage terms, and also on absolute value and where this is versus the average?

Kevin O'Byrne - *Kingfisher Plc - CEO, B&Q & Koctas Brands*

The first one, store closures, clearly we have a plan for each one; we know which ones we're closing. We're not disclosing them today, and there's a couple of reasons for that.

One primary reason is it's much better to negotiate things when people don't know what you're trying to do, and so I don't want to give Grahame a very difficult job; he's already got a challenging job by disclosing what we're trying to do.

But clearly, we will look with each landlord, we're looking at it catchment by catchment, and we'll look at it with British Land, with Hammerson, etc. We'll look at it with different retailers as there's lots of discussions going on, but they're obviously confidential, I'm afraid, at this stage.

But I do think it's manageable; I think there's a concern out there that this is some -- it's because it has to happen over five years, it just can't happen much quicker. In any one year it's manageable from a cash point of view.

You mentioned EDLP; it isn't EDLP, so it is every day great value and keep repeating that in the business. It's not about price, it's about value, so it is about price; of course, you've seen a lot of work we're doing on price, but it is about quality and we've got more to do on quality on the ranges, and it is about service. So it's the complete -- that's what B&Q is about; people don't want to buy cheap stuff from us, they want to buy good stuff.

I think this time it's difficult. We believe it's sustainable, I believe it's sustainable and I don't think it is sustainable to keep doing 60% off and 10% off, and we'll give you a small child on the last day or something. Customers are seeing, in a world of the Internet, they can see that, we've seen the problems that furniture retailers are getting with that type of marketing.

The successful players in the market don't do that, and if I look at Howdens and IKEA, but it's not an easy move. So we're working hard behind the scenes at how do we make that move; I think this time it's more sustainable because we've changed the whole store.

Last time we did every day lower prices for kitchens, you walked into the store and you had 20% here, 40% off, three for two, lots of claims all over the store. It's now consistent across the store, which I think allows people to believe that the brand is giving them a good price every day. And of course, there will be some promotions, there will be something, whether it's a deal on a worktop, or a deal on an appliance or something because you do [it] coming to close the deal, but it isn't a 60% off plus an extra 10%.

It's just not credible. If you look right now, if you go on Kitchen Compare, you can see a number of retailers out there have just increased their prices dramatically to then drop them by 60%, and consumers will see through that in due course.

Ian Cheshire - *Kingfisher Plc - Group Chief Executive*

On the property front, we've said publicly that we felt there was may be 15% or 20% of the space that can come out of the total estate, but you can't do that easily. And there are no loss making stores as such; they're making some sort of contribution.

So from our point of view, the economics of this are extremely difficult because you can have a value destroying store, but you can't generate -- the numbers aren't so awful that you can afford to pay the landlord to take it away because we've still got a cast iron lease.

And from our point of view, we've been working on this for sufficiently long to know we're going to have to do site by site, place by place. But we don't have an easy out of it with a bunch of lease renewals, we're talking about eight or nine years, so Vero's going to have to do eight or nine years to make sure she gets rid of the tail of the stores in that case; no pressure.

Marketing, we don't disclose the amounts, sorry.

Karen Witts - *Kingfisher Plc - Group Finance Director*

If I could just clarify [the comment I made] when I was talking about self-help measures, and that was very much in the context of the work that we do on goods not for resale, and more effective marketing, it wasn't a comment about starving the businesses of the funds that it needs, more effective buying.

Tony Shiret - *Espirito Santo Investment Bank - Analyst*

Tony Shiret, Espirito Santo. First of all, congratulations on your retirement, sorry to see you go and all that. Moving on to the question, just developing this property angle, can you remind us how many of the stores in phase 1 you've actually opened as joint food retail, DIY stores?

And secondly, on phase 2, can you give us some idea of the assumption you're building in for sales retention on the closed stores from these catchments, a couple of detailed ones?

And lastly, have you actually impaired any of these stores in your accounts, bearing in mind how, subject to the answer to part one, you haven't been very successful at doing this whole thing so far? And if you haven't impaired them, can Karen say how she looks at impairment?

Kevin O'Byrne - *Kingfisher Plc - CEO, B&Q & Koctas Brands*

Tony, we haven't impaired, because we don't need to impair, but Karen can cover it.

Karen Witts - *Kingfisher Plc - Group Finance Director*

I would have given the same answer.

Kevin O'Byrne - *Kingfisher Plc - CEO, B&Q & Koctas Brands*

Yes. So there's no requirement to do it. Technically, they don't require impairment.

Karen Witts - *Kingfisher Plc - Group Finance Director*

Everything is (inaudible) every year.

Tony Shiret - *Espirito Santo Investment Bank - Analyst*

Sorry, what I mean is, what is the test, so we can work it out for ourselves?

Karen Witts - *Kingfisher Plc - Group Finance Director*

I don't think we've spoken about exactly how we do it. But effectively, you're looking at long-term cash flows of the stores, and the value that you're carrying them for. And our stores make positive contributions. As Kevin said, we look at this every year, and we don't need to impair.

Tony Shiret - *Espirito Santo Investment Bank - Analyst*

I thought you just said they were value destructive. Is that something --?

Ian Cheshire - *Kingfisher Plc - Group Chief Executive*

That's on a [CVA] basis. So if you have a, and this is part of the tale, not all, but if you have a store that's making positive contribution and it's got positive cash flow, you wouldn't impair it. But it could still be value negative in terms of the capitalized lease obligation, but it doesn't trigger impairment.

Kevin O'Byrne - *Kingfisher Plc - CEO, B&Q & Koctas Brands*

Going back to the first part of your question, we've done one properly, which is Belvedere, where we've actually got ASDA open up next door. We opened Norwich a few weeks ago, with Morrisons haven't even started to fit out their half. In effect, we don't have the complete -- it's open in a couple of weeks, but we don't have a tenant next door. So as one is complete, which is where we've seen the 70% --

Tony Shiret - *Espirito Santo Investment Bank - Analyst*

When did you start doing it? Sorry, I seem to recall this from a previous [slide]. When did you start the program?

Ian Cheshire - *Kingfisher Plc - Group Chief Executive*

18 months ago.

Kevin O'Byrne - *Kingfisher Plc - CEO, B&Q & Koctas Brands*

Yes.

Ian Cheshire - *Kingfisher Plc - Group Chief Executive*

We said the planning was two years ago. You then go through negotiation with the landlord, negotiation with the other half, then you've had two years of planning. And ultimately, the thing that's shifted and is, frankly, disappointing is the planning environment has killed a number of these deals, and it means we just have to keep working harder.

But if you've got [followed] institutional leases that you can't get out of, and you've got stores that are generating cash flow, so it's not a disaster zone, you're in that middle ground where you can't easily throw money at the problem, and it takes time.

Kevin O'Byrne - *Kingfisher Plc - CEO, B&Q & Koctas Brands*

And, Tony, we're trying to learn from past mistakes, which is why we're not saying -- and also what we're doing right now, because we need to do some stuff and then we'll tell you about it.

Ian Cheshire - *Kingfisher Plc - Group Chief Executive*

[It's all activity under the hood].

Tony Shiret - *Espirito Santo Investment Bank - Analyst*

Okay. Thanks.

Paul Steegers - *BofA Merrill Lynch - Analyst*

[Paul Steegers, Bank of America Merrill Lynch]. As someone who's new to this industry, my question is a simple one. It looks to me like your margins, over the last few years, have actually done all right, certainly close to your targets in the UK, Poland good, yet your returns don't look particularly impressive. And if you lease adjust them, certainly not that impressive, in my view, and correct me if I'm wrong.

As you grow, can you give us some indication of how you look at growth CapEx returns, and where do you see sustainable returns from capital, going forward?

Ian Cheshire - *Kingfisher Plc - Group Chief Executive*

Kingfisher is essentially -- I think you think about it in three different lumps, from a returns point of view, you've got the UK, which is a mass of capitalized leases, and by far the biggest lump of invested capital, which is getting to the point we're just stuck in [cursory of] institutional leases that we can't get out of.

So while returns over the last five years in the UK, as Kevin said, have improved significantly, the amount of capitalized leases have not materially come down. And over a period, they will start to do that.

And longer term, Kingfisher essentially needs to deleverage invested capital out of the UK and invest in the growth entities that it's got, notably Brico and Screwfix.

So there is the historic reality of a deadweight of invested capital that just does not disappear. And much that everyone would like to find the magic wand that makes it disappear, unless they dis-invent the institutional lease in the UK, it can't happen.

And the story as I said, the irony is, if we were losing a pile of money and I could create a CDO, which is what we ended up doing in Ireland, you'd do it. But you just can't. So that's a gradual runoff of invested capital. And you're not putting more money into that model, so this is capital coming out.

The second area is high return areas like Brico and Screwfix, where we are absolutely in fantastic returns, very high returns. And the question is, can we just have more of them, which is why Mr. Bricolage is important to Brico, and why we're expanding Screwfix.

And the third area is there are some geographic areas of further big-box expansion which we're interested in, where the returns are excellent, notably, Poland, Russia and Turkey, so we will continue to invest in those.

But we have, courtesy of Karen and the team at Paddington, a very strict returns policy. We're allocating investment to the future in high return. It's prioritized, it's post-investment checked, and we are very rigorous about the discipline. And one of the things I did early on in 2008 when I took over was put everyone on a CapEx diet, and make sure the returns are going -- the investment goes where the returns go.

What you can't see -- what you're right to say is the total returns, but they are so driven by that historic lump of UK capitalized leases that, that's just too big a number to shift, no matter how brilliantly we do in small investments in Brico and Screwfix, and elsewhere.

So it's going in the right direction. And, again, over an eight to nine year period, I think you'll see a transformation of the shape, but it's that UK heritage.

Karen Witts - *Kingfisher Plc - Group Finance Director*

I think if you want to take a look at the prelim presentation from two prelims ago, I think pretty much everything that Ian's said is actually described in there. It takes a look at our capital structure; it takes a look at the way that we govern our capital expenditure; and it takes a look at where we want to invest our CapEx, going forward.

Ian Cheshire - *Kingfisher Plc - Group Chief Executive*

Okay. Well, thanks very much. I won't see you again, but Veronique will see you here in March. Thanks.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.