

Halcyon Finance Limited

Strategic Report

The Directors, in preparing this strategic report, have complied with section 414C of the Companies Act 2006.

Principal activities

Halcyon Finance Limited (the "Company") operates as a finance company within the Kingfisher plc group of companies (the "Group").

Business review

The profit for the year, after taxation, amounted to £7,625,000 (2018/19: £6,409,000). The profit after taxation is mainly due to net interest income and foreign exchange gains.

Net assets at year end were £38,573,000 (2018/19: £30,948,000). Assets are primarily composed of amounts owed from parent undertakings, which increased this year. However, this was predominantly offset by an increase in amounts owed to group undertakings.

Principal risks and uncertainties

The Company is a wholly-owned subsidiary of Kingfisher Holdings Limited, the ultimate parent is Kingfisher plc. From the perspective of the Directors, the principal risks and uncertainties are integrated with the principal risks of the Group and are not managed separately. The review of the business of Kingfisher plc and its subsidiaries, which provides a comprehensive analysis of the main trends and factors likely to affect the development, performance and position of the business, and a description of the principal risks and uncertainties facing the business can be found on pages 36 to 45 of the 2019/20 Kingfisher plc Annual Report and Financial Statements.

The specific risks relating to Brexit are continuing to be reviewed, and plans have been made and are continuously updated to mitigate these.

Financial risk management

Kingfisher's Group Treasury function has primary responsibility for managing certain financial risks to which the Group is exposed. The Kingfisher Board reviews the levels of exposure regularly and approves treasury policies covering the use of financial instruments required to manage these risks. In the context of the Company, the financial instruments used to manage these risks at the Group level are derivative contracts, typically interest rate swaps and foreign exchange contracts.

The Company is a counterparty to the vast majority of the external derivative contracts entered into by the Group. However, the Company is not run as a profit centre and does not enter into derivative contracts for speculative purposes. Instead, it enters into external derivative contracts to secure the instruments for the Group and manage market risks, before entering into matching internal derivative contracts with other members of the Group.

As a result, there is no material financial risk to the Company on the basis that the risks of an external derivative contract are offset by the risks of the corresponding internal derivative contract, and vice versa. Accordingly, specific disclosures in respect of financial risks affecting the Company are not included in these financial statements on the basis that they are not material. For additional information refer to note 13 on page 18.

Interest rate and foreign exchange risk

In the normal course of business, the Company enters into short and long-term derivatives (such as interest rate swaps, cross currency swaps and foreign exchange forward contracts) with external counterparties to hedge external exposures of other Group companies. These derivative transactions are offset with transactions to Group companies such that the Company has no significant residual derivative exposure.

Liquidity risk is the risk that cash is not available to meet obligations when they fall due. Credit risk is the risk that a counterparty will default on amounts due. These risks are managed by Group Treasury on a Group basis by ensuring that a diversity of funding sources and debt maturities allows flexible liquidity management and by operating within counterparty credit limits set with reference to published credit ratings.

As at 31 January 2020, the Directors believe that the Company's residual exposure to the above risks is at an acceptable level.

Halcyon Finance Limited

Strategic Report (continued)

Key performance indicators

The Directors manage the Company's operations on a group basis and so the Directors of the Company believe that analysis using key performance indicators for the Company is not necessary for an understanding of the development, performance or position of the business of the Company, other than the above mentioned net assets and profit/(loss). The Group's development, performance and position is discussed in the Kingfisher plc Annual Report and Financial Statements 2019/20, which does not form part of this report.

S.172(1) and stakeholder engagement statement

The Directors are fully aware of their responsibilities to promote the success of the company in accordance with Section 172 of the Act.

The Directors acknowledge that every decision they make will not necessarily result in a positive outcome for all of our stakeholders. By considering the company's purpose, vision, values together with its strategic priorities and having a process in place for decision-making, they do, however, aim to make sure that their decisions are consistent and predictable.

As is normal for companies that are part of a wider Group of entities, such as Halcyon Finance Limited, day-to-day management of the company is delegated to executives who, in turn, engage management in setting, approving, and overseeing execution of the business strategy and related policies. The Board of Halcyon Finance Limited reviews financial and operational performance and legal and regulatory compliance pertinent to any decision they are taking.

The purpose of Halcyon Finance Limited is primarily to act as a finance company within the Kingfisher Group of companies and the company's key stakeholders are its affiliates in the wider Kingfisher Group in which it operates. The views of and the impact of the company's activities on those stakeholders are an important consideration for the Directors when making relevant decisions. While there may be cases where the board itself judges that it should engage directly with certain stakeholder groups or on certain issues, the size and spread of both our stakeholders and the Kingfisher Group means that generally our stakeholder engagement best takes place at an operational or Group level. We find that as well as being a more efficient and effective approach, this also helps us achieve a greater positive impact on environmental, social, and other issues than by working alone as an individual company. Due to the nature of the Company, no decisions were made by the Directors during the reporting period which required them to have regard to the matters set out in Section 172 of the Act. For details on some of the engagement that takes place with the Group's stakeholders to encourage the Directors to understand the issues to which they must have regard please see pages 18 to 19 and 56 to 57 of the Kingfisher plc 2019/20 Annual Report and Accounts.

During the year, the Kingfisher Group received information to help it understand the interests and views of its key stakeholders and other relevant factors when making decisions. As a result of this, we as Directors of Halcyon Finance Limited have had an overview of engagement with stakeholders, and other relevant factors, which allows us to understand the nature of the stakeholders' concerns, and to comply with our section 172 duty to promote success of the company. For examples of how that engagement has influenced decisions at a Group level please see pages 56 and 57 of the Kingfisher plc 2019/20 Annual Report and Accounts.

Future developments

The Directors expect the general level of activity to remain consistent with 2019/20 in the forthcoming year.

By order of the board:

P. Moore
Director
25 January 2021