Kingfisher

Final results for the year ended 31 January 2021

Financial summary	2020/21	2019/20	% Total Change Reported	% Total Change Constant currency*	% LFL* Change Constant currency
Sales*	£12,343m	£11,513m	+7.2%	+6.8%	+7.1%
Gross profit	£4,573m	£4,255m	+7.5%	+6.9%	
Gross margin %*	37.1%	37.0%	+10bps	-	
Operating profit	£916m	£283m	+223.7%		
Statutory pre-tax profit	£756m	£103m	+634.0%		
Statutory post-tax profit	£592m	£8m	n/a		
Statutory basic EPS	28.1p	0.4p	n/a		
Cash and bank overdrafts	£1,136m	£195m	n/a		
Total dividend(1)	8.25p	3.33p	n/a		
Adjusted metrics					
Retail profit*	£1,003m	£786m	+27.5%	+27.4%	
Retail profit margin %*	8.1%	6.8%	+130bps	+130bps	
Adjusted pre-tax profit*	£786m	£544m	+44.4%		
Adjusted pre-tax profit margin %*	6.4%	4.7%	+170bps		
Adjusted effective tax rate*	23%	26%	n/a		
Adjusted post-tax profit*	£604m	£400m	+51.0%		
Adjusted basic EPS*	28.7p	19.1p	+50.3%		
Free cash flow*	£938m	£191m	+391.1%		
Net debt*(2)	£(1,394)m	£(2,526)m	n/a		

Highlights

- **Supporting colleagues, customers and communities** – swift and robust action taken throughout the COVID crisis
- **New strategy delivering** – empowered banners supported by Group scale, strength & expertise
- **Strong financial performance** – driven by new strategy, agility in management in response to the COVID crisis, and strong demand for home improvement
- **Supportive market drivers and new trends** – offering longer-term growth opportunities
- **Emerging from the COVID crisis stronger** – improved competitive position in all key markets and strong new customer growth and digital adoption, with c.10 million new online customers
- **Resuming dividends** – progressive, sustainable dividend policy established (target dividend cover* of 2.25-2.75x)

FY 20/21 Group results

- **Sales** up 6.8% in constant currency, driven by strong trading from Q2 and reduced disruption
- **LFL sales** up 7.1% with growth across all banners in the UK & Ireland*, France*, Poland, Romania and Portugal
  - LFL sales up 15.5% in Q4 20/21 with growth across all retail banners and categories
- **E-commerce sales*** up 158%; now 18% of total Group sales (FY 19/20: 8%)
  - Click & collect sales up 226%; 78% of Group e-commerce sales (FY 19/20: 62%)
- **Retail profit** up 27.4% in constant currency, largely driven by B&Q performance
- **Adjusted pre-tax profit** up 44.4%, including c.£85 million of non-recurring net cost savings* in FY 20/21
- **Statutory pre-tax profit** up 634%, reflecting higher operating profit and significantly lower exceptional adjusting items*
- **Free cash flow** of £938 million, up £747 million, reflecting higher operating profit, working capital inflow of £376 million and lower capex
- **Net debt to EBITDA*** of 0.9x as at year-end (31 January 2020: 2.0x)
- **Dividend** payments resumed with a proposed total dividend per share of 8.25p for FY 20/21

Making good progress against ‘Powered by Kingfisher’ strategic objectives

- Announced new strategic plan in June 2020 - ‘Powered by Kingfisher’ - distinct retail banners addressing diverse customer needs, ‘powered’ by the Group
- New strategy and leadership teams firmly established in the business
- Progressing fix of issues from previous years, including: rebalancing Group and local activities, improving operational performance in France, implementing new trading approaches, and pausing or stopping some initiatives to focus our resources
- **Making good progress with core strategic priorities, including:**
  - Clear positioning and growth plans for all retail banners
  - Fundamental reorganisation of Kingfisher’s commercial operating model to enable a more balanced and agile local-Group operating model (refer to Section 2)
  - Acceleration of e-commerce growth initiatives
  - Successful roll-out of more own exclusive brands (OEB) including new kitchens and indoor lighting ranges
  - Introduction of several new mobile-led and service capabilities, including the acquisition of the services marketplace NeedHelp
  - Test and launch of new compact stores and partnership models
  - Progressing ESG priorities – strong actions to engage, develop and support colleagues, help tackle climate change and deforestation, support our communities and promote greener, healthier homes
  - Multiple actions to control costs, inventory and working capital during the COVID crisis; clear longer-term plan to further reduce costs and same-store inventory

Clear financial priorities

- Prioritise top line growth and grow sales ahead of market
- Aim to grow adjusted pre-tax profit in line with sales(3); gradually faster than sales over time
- Generate strong free cash flow to underpin shareholder returns

Thierry Garnier, Chief Executive Officer, said:

“The dedication and commitment of our 80,000 colleagues has enabled us to make substantial strategic, operational and financial progress this year. Kingfisher is coming out of the COVID crisis as a stronger business, with an improved competitive position in all key markets, strong new customer growth and a step change in digital adoption. I would like to express my personal thanks to all our teams for their incredible efforts in the most testing of circumstances.

“We rolled out our ‘Powered by Kingfisher’ strategy without delay and even accelerated in many areas. Our distinct retail banners are now empowered and much more agile, which enabled them to react quickly in what was a volatile situation last year, supported by the scale, strength and expertise of the Kingfisher Group.

“We continued to ‘focus and fix’ key aspects of the business. We have now finalised the fundamental reorganisation of our commercial operating model, and introduced new trading approaches tailored to local markets. In France, our performance and competitive position have significantly improved as we’ve addressed operational issues and strengthened our teams and ranges. There is still work to do, but our progress and the overall engagement of our teams are clear to see.

“We are making significant progress with our longer-term strategic goals. In the area of e-commerce, by rapidly implementing changes in our stores, IT systems and supply chain, we have met the demand of our customers for speed and convenience. This approach, supported by our model of placing stores at the centre, has driven rapid click & collect growth along with faster home delivery services. Group e-commerce sales grew by 158%, reaching 18% of our sales. We have also accelerated the pace of development in the areas of mobile, services, store concepts and partnerships, and have many ongoing and exciting innovations in progress.

“Throughout this year, we have remained committed to making the right decisions for our colleagues, customers, and our communities. This has included upgrading our safe operating standards, ring-fencing and donating PPE, supporting our colleagues and rewarding frontline staff, returning government support, and developing our plans to help tackle climate change and deforestation.

"Current trading remains positive and, while visibility is limited for the year as a whole, we are confident of continued outperformance of our wider markets. The COVID crisis has established new longer-term trends that are clearly supportive for our industry – including more working from home, the renewed importance of the home as a 'hub', and the development of a new generation of DIY'ers – and we expect these to endure. With our strategic progress, we are well positioned to capitalise on these new and positive market trends."

Outlook for FY 21/22

- The following guidance applies in the event of no adverse change in COVID-related confinement measures (e.g. new lockdown restrictions resulting in further store closures)
- Good start to the new financial year, with strong demand in the UK and France
  - Q1 21/22 Group LFL sales(4) up 24.2% (to 18 March 2021)
  - Mindful of continued uncertainty related to COVID in continental Europe
- **H1 21/22** – expect low double-digit LFL sales growth, supported by delivery of strategic objectives
- **H2 21/22** – planning for LFL scenarios of -15% to -5% (2-year LFLs* for H2 of -1% to +11%)
  - H2 likely to be impacted by strong year on year comparables (H2 20/21: Group LFL sales +16.6%) and uncertainty over the macroeconomic and consumer environment
- Aiming to grow full year adjusted pre-tax profit (before c.£85 million of non-recurring net cost savings in FY 20/21) in line with sales(3)
- Strategic execution and supportive market trends provide opportunity for sustained long-term growth

The remainder of this release consists of eight main sections:

1) FY 2020/21 Financial performance summary and current trading
2) Group update (including **'Powered by Kingfisher'** strategic plan)
3) Managing the impact of COVID
4) Trading review by division
5) FY 2021/22 Technical guidance
6) FY 2020/21 Financial review and, in part 2 of this announcement, the condensed financial statements
7) Glossary
8) Forward-looking statements

Footnotes
(1) The Board has proposed a total dividend per share of 8.25p in respect of FY 20/21, comprising an interim dividend of 2.75p in respect of the six months ended 31 July 2020 (FY 19/20 interim dividend: 3.33p) and a final dividend of 5.50p (FY 19/20 final dividend: nil). The final dividend is subject to the approval of shareholders at the Annual General Meeting on 30 June 2021, and will be paid alongside the interim dividend on 5 July 2021 to shareholders on the register at close of business on 4 June 2021.
(2) Net debt includes c.£2.4 billion lease liabilities under IFRS 16 in FY 20/21 (FY 19/20: c.£2.6 billion).
(3) Group total sales growth and adjusted pre-tax profit growth in constant currency.
(4) 'Q1 21/22 Group LFL sales' figures represent the period from 31 January 2021 to 18 March 2021 (compared against the equivalent period in the prior year, from 2 February 2020 to 19 March 2020). The figures are provisional and exclude certain non-cash accounting adjustments relating to revenue recognition.

Non-GAAP measures and other terms
Throughout this release '*' indicates the first instance of a term defined and explained in the Glossary (Section 7). Not all the figures and ratios used are readily available from the unaudited final results included in part 2 of this announcement. Management believe that these non-GAAP measures (also known as alternative performance measures), including adjusted profit measures, constant currency and like-for-like sales growth, are useful and necessary to assist the understanding of the Group's results. Where required, a reconciliation to statutory amounts is set out in the Financial Review (Section 6).

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Final results announcement
This announcement can be downloaded from www.kingfisher.com. We can be followed on Twitter (@kingfisherplc) with the full year results tag #KGFFY.

Results presentation
We will host an online results presentation and Q&A today, at 09.00 (UK time), for analysts and investors. A live audio webcast of the presentation and Q&A will be available via the Investors section of our website at www.kingfisher.com, and subsequently available on demand. To join via telephone please use the password already sent to you, or email investorenquiries@kingfisher.com. The presentation slides will be available on our website at 09.00 (UK time).

Financial calendar

Q1 trading update	20 May 2021±
Annual General Meeting	30 June 2021
Half year results	21 September 2021±
Q3 trading update	23 November 2021±

± *These dates are provisional and may be subject to change*

American Depository Receipts
Kingfisher American Depository Receipts are traded in the US on the OTCQX platform: (OTCQX: KGFHY) http://www.otcmarkets.com/stock/KGFHY/quote.

Kingfisher

Section 1: FY 2020/21 Financial performance summary and current trading

Income statement summary

£m	2020/21	2019/20	% Total Change Reported	% Total Change Constant currency	% LFL Change Constant currency
Sales	**12,343**	**11,513**	+7.2%	+6.8%	+7.1%
Gross profit	**4,573**	**4,255**	+7.5%	+6.9%	
Retail profit:					
UK & Ireland	**681**	**499**	+36.3%	+36.3%	
France	**181**	**164**	+10.3%	+7.9%	
Poland	146	151	(3.7)%	(1.9)%	
Iberia*	3	2	+66.3%	+62.7%	
Romania	(14)	(23)	+38.7%	+38.8%	
Russia	(3)	(12)	+85.7%	+83.9%	
Other±	-	(4)	n/a	n/a	
Turkey (50% joint venture)	9	9	(2.7)%	+22.4%	
Other International*	**141**	**123**	+14.5%	+17.8%	
Retail profit	**1,003**	**786**	+27.5%	+27.4%	
Central costs*	(54)	(62)	+15.4%		
Share of JV interest and tax	(3)	(7)	+49.7%		
Operating profit (pre-exceptional adjusting items)	**946**	**717**	+31.9%		
Net finance costs (pre-exceptional adjusting items)	(160)	(173)	+6.2%		
Adjusted pre-tax profit	**786**	**544**	+44.4%		
Exceptional adjusting items	(30)	(441)	+93.5%		
Statutory pre-tax profit	**756**	**103**	+634.0%		

± 'Other' relates to Screwfix Germany, where all 19 stores were closed during H1 19/20.

LFL sales by quarter

Quarterly sales	% LFL Change				
	Q1 20/21	Q2 20/21	Q3 20/21	Q4 20/21	FY 20/21
UK & Ireland	**(16.0)%**	**+19.6%**	**+19.9%**	**+19.4%**	**+10.7%**
- B&Q	(21.8)%	+28.0%	+24.0%	+22.6%	+13.0%
- Screwfix	(4.7)%	+2.4%	+12.8%	+14.7%	+6.6%
France	**(41.5)%**	**+27.0%**	**+19.2%**	**+15.4%**	**+5.1%**
- Castorama	(43.6)%	+25.3%	+23.2%	+20.5%	+6.2%
- Brico Dépôt	(39.2)%	+28.9%	+15.1%	+10.0%	+3.8%
Other International (ex-Russia)	**(15.8)%**	**+11.9%**	**+9.5%**	**+5.9%**	**+3.5%**
- Poland	(9.6)%	+15.0%	+7.5%	+5.3%	+4.9%
- Iberia	(47.2)%	(1.1)%	+18.1%	+2.8%	(7.0)%
- Romania(1)	+2.3%	+12.1%	+10.6%	+13.5%	+10.8%
Group LFL (ex-Russia)	**(25.4)%**	**+20.9%**	**+17.7%**	**+15.5%**	**+7.4%**
- Russia(2)	+4.4%	(32.4)%	+6.3%	n/a	(8.8)%
Group LFL(3)	**(24.8)%**	**+19.5%**	**+17.4%**	**+15.5%**	**+7.1%**
E-commerce sales(4)	**+120.7%**	**+203.2%**	**+152.6%**	**+153.5%**	**+158.4%**

Current operational status
The vast majority of our c.1,390 stores remain open for in-store purchasing and click & collect, under strict social distancing and safety protocols. In the United Kingdom and Republic of Ireland, restrictions imposed from late December 2020 mean that discrete areas of certain B&Q stores (e.g., showrooms in England and Scotland) remain temporarily closed. For those stores where showrooms are closed, B&Q is operating a virtual sales model for kitchens and bathrooms, and several thousands of virtual showroom planning sessions have been conducted since the start of this year.

Since late January 2021, the French government has gradually instructed certain regions (*départements*) with higher coronavirus infection rates to implement additional containment measures. While Castorama and Brico Dépôt stores retain their 'essential' retailer status, some *départements* have restricted trading for non-food stores larger than a certain size, and others require the closure of non-essential areas of stores.

As a result of these measures, as at midday on 21 March 2021, 12 Castorama stores are currently temporarily closed for in-store browsing and purchasing. The majority of these temporary closures took effect on 6 March 2021. At all 12 stores impacted, click & collect, home delivery and virtual showroom planning services remain available for the general public. In addition, seven building external courtyards remain open, and seven of the 12 stores remain open for tradespeople. A further 26 Castorama stores and 32 Brico Dépôt stores are impacted by the temporary closure of non-essential areas of stores (e.g. showrooms and certain areas of surfaces & décor), which took effect on 20 March 2021. Trading continues to be strong across both retail banners in France.

In Poland, national restrictions are in place between 20 March and 9 April 2021. Hardware retail continues to be classified as 'essential' and all Castorama stores remain open.

Trading in Q4 20/21
Group LFL sales increased by 15.5%, supported by e-commerce sales growth of over 150%. Transaction volume and average basket value both grew in the quarter. The performance reflects continued strong execution together with increased demand for home improvement.

Within the quarter we experienced slower growth in November, relative to Q3, largely reflecting the impact in France of a negative calendar effect year on year, and the less favourable trend for trade-oriented businesses versus general home improvement during the November lockdown in France. Sales growth in December accelerated, helped by significantly stronger growth in France post the November lockdown. The UK & Ireland also performed strongly in December, with growth at Screwfix accelerating from November. In January, despite further lockdown restrictions, sales growth remained strong for most of our retail banners.

Trading since 1 February 2021
Q1 21/22 Group LFL sales(5) (to 18 March 2021) are up 24.2%, reflecting strong demand in the UK and France, supported by e-commerce growth of over 150%. However, we remain mindful of the continued uncertainty related to COVID in continental Europe, as described in the *'Current operational status'* above. To update on recent trading trends, the table below shows weekly sales data by market for the last seven weeks.

Sales: 7 weeks to	**% LFL Change**						
18 March 2021	**week 1(6)**	**week 2(6)**	**week 3(6)**	**week 4(6)**	**week 5(6)**	**week 6(6)**	**week 7(6)**
UK & Ireland	**+20.9%**	**+19.6%**	**+24.0%**	**+38.9%**	**+42.1%**	**+35.8%**	**+3.4%**
France	**+17.7%**	**+12.7%**	**+11.7%**	**+23.3%**	**+27.6%**	**+13.3%**	**+2,941.3%**
Other International	**+9.2%**	**(4.1)%**	**(2.3)%**	**+2.4%**	**+2.2%**	**+1.8%**	**+47.5%**
- Poland	+13.1%	(5.5)%	(3.4)%	+0.8%	(0.2)%	(3.1)%	+27.6%
- Iberia	(8.8)%	(2.3)%	+2.6%	+7.0%	+11.2%	+23.3%	+997.6%
- Romania	+14.1%	+2.2%	(2.8)%	+5.2%	+2.7%	+3.5%	+3.4%
Group LFL	**+17.8%**	**+13.1%**	**+15.2%**	**+26.8%**	**+29.9%**	**+21.7%**	**+59.1%**
E-commerce sales	**+165.8%**	**+152.6%**	**+153.9%**	**+155.0%**	**+168.1%**	**+169.4%**	**+119.3%**

In the UK and France, trading has remained strong across all banners, with growth in both transaction volume and average basket value. Sales in Poland have been impacted by abnormally cold weather conditions. E-commerce sales growth remained over 150% year on year.

During the second and third weeks of March (weeks 6 and 7 of FY 21/22), certain Castorama and Brico Dépôt stores in France were temporarily closed for in-store browsing and purchasing. Please refer to the *'Current operational status'* above. The third week of March (week 7 – to Thursday 18 March 2021) also saw the first significant impact in the comparable period in 2020 from lockdowns and store closures, following the onset of the coronavirus in Europe. During that week in 2020, France was severely impacted by the closure of all its stores, and the UK saw strong growth ahead of a national lockdown starting in the last week of March 2020.

<u>2-year LFLs</u>

The table below shows weekly sales data by market for the last seven weeks, calculated on a 2-year basis[7].

Sales: 7 weeks to 18 March 2021	**% 2-year LFL Change**						
	week 1[8]	**week 2[8]**	**week 3[8]**	**week 4[8]**	**week 5[8]**	**week 6[8]**	**week 7[8]**
UK & Ireland	**+27.2%**	**+19.6%**	**+24.7%**	**+36.7%**	**+45.0%**	**+47.5%**	**+35.8%**
France	**+19.6%**	**+14.4%**	**+13.0%**	**+20.9%**	**+27.3%**	**+19.6%**	**+19.0%**
Other International	**+16.3%**	**+0.6%**	**+5.6%**	**(0.2)%**	**+5.7%**	**+3.5%**	**+4.9%**
- Poland	+22.5%	(0.1)%	+5.4%	(3.8)%	+3.5%	+0.6%	+5.8%
- Iberia	(8.0)%	(2.6)%	+5.0%	+8.2%	+12.1%	+16.2%	+22.3%
- Romania	+19.2%	+14.4%	+9.2%	+20.8%	+12.1%	+2.1%	(3.4)%
Group LFL	**+22.7%**	**+14.6%**	**+17.4%**	**+24.4%**	**+31.8%**	**+29.4%**	**+24.1%**

Footnotes

[1] Kingfisher's subsidiary in Romania prepares its financial statements to 31 December. Its quarterly results presented are for January to December 2020, i.e. one month in arrears. The weekly results presented have no corresponding delay.

[2] Kingfisher completed the sale of Castorama Russia on 30 September 2020. As the business prepares its financial statements to 31 December, its results presented are for 1 January 2020 to 30 September 2020.

[3] Group LFL includes e-commerce sales and excludes Koçtaş (Kingfisher's 50% JV in Turkey).

[4] E-commerce sales are total sales derived from online transactions, including click & collect. This includes sales transacted on any device, however not sales through a call centre. E-commerce sales change is in constant currency and covers the total Group.

[5] 'Q1 21/22 Group LFL sales' figures represent the period from 31 January 2021 to 18 March 2021 (compared against the equivalent period in the prior year, from 2 February 2020 to 19 March 2020). The figures are provisional and exclude certain non-cash accounting adjustments relating to revenue recognition.

[6] Weekly sales figures are for the Sunday-to-Saturday weeks from 31 January 2021 (compared against prior year Sunday-to-Saturday weeks from 2 February 2020). Week 7 is a partial week (Sunday-to-Thursday). The figures are provisional and exclude certain non-cash accounting adjustments relating to revenue recognition.

[7] 2-year LFL is calculated by compounding current and prior year LFL growth. For example, current year LFL growth of 10% and prior year LFL growth of 5% results in 2-year LFL growth of 15.5%.

[8] Weekly sales figures on a 2-year basis are for the Sunday-to-Saturday weeks from 31 January 2021 (compared against Sunday-to-Saturday weeks from 3 February 2019). Week 7 is a partial week (Sunday-to-Thursday). The figures are provisional and exclude certain non-cash accounting adjustments relating to revenue recognition. Group LFL on a 2-year basis excludes Russia.

Section 2: Group update (including 'Powered by Kingfisher' strategic plan)

In June 2020, Kingfisher announced its new strategic plan – **'Powered by Kingfisher'**. Under this plan we aim to maximise the benefits of our distinct retail banners (which address diverse customer needs) with the scale, strength and expertise of the Kingfisher Group, to address the significant growth opportunities that exist within the home improvement market. To serve customers effectively today, we need to be more digital and service orientated, while leveraging our strong store assets.

Overview

This section provides an update on the markets in which we operate, and the progress made on our 'Powered by Kingfisher' strategy, organised around the following key messages:

1) The home improvement market is attractive and resilient, with supportive new long-term drivers
2) Market trends offer us opportunities
3) We are emerging from the COVID crisis stronger
4) We are making progress fixing issues from previous years
5) Our new strategy is delivering – empowered banners supported by the Group's scale, strength and expertise
6) Clear financial priorities and drivers

1. The home improvement market is attractive and resilient, with supportive new long-term drivers

The European home improvement market is large and attractive, with long-term growth supported by structural demand drivers. The market caters for a wide range of customer needs, ranging from maintenance, to repair or decoration tasks, and to heavy renovation projects. Kingfisher's total addressable market, based on the key countries in which it operates, is approximately £130 billion. This is comprised primarily of sales to private consumers and tradespeople. Consumer needs are met by a wide range of product categories (consisting of private label and branded products), from decoration to building materials, to garden and outdoor. Services, such as installation and design, complement these product categories and help customers complete their projects. Larger format home improvement stores and trade channels are the key distribution channels, but generalist and specialist online 'pure-players', online marketplaces, home improvement specialist stores and discounters also play a role.

Long-term structural market drivers are healthy due to continuing population growth, the gradual trend of urbanisation, stable home ownership levels (often supported by government initiatives) and an ageing housing stock. Within our markets, housing demand on average tends to exceed housing supply, which in turn supports house prices and secondary housing market transaction volumes. The housing stock in our markets is typically 50-60 years old, regularly requiring heavy maintenance and improvement. As a result, most of our markets are expected to experience a moderate increase in housing construction over the next three years. This new housing supply leads to a more dynamic housing market, with more house moves and increased demand for home improvement.

As a core consumer spending area, home improvement has grown steadily over time, and proven to be robust even during periods of economic weakness. For example, according to data from national statistical offices, between 2009 and 2019 the growth of expenditure on hardware and DIY goods outperformed total consumer expenditure growth across most of our markets.

Customers continue to be passionate about improving their homes, and current market trends and demand indicators are positive. In particular, the COVID crisis has established longer-term trends that are clearly supportive for our industry. Customers are placing a greater focus on improving comfort and wellness at home, resulting in a larger share of their income being allocated to home and garden spend. In addition, our homes are being transformed into 'hubs', where we work, exercise, entertain and rest. Longer term, we expect that people will spend more time working from home than they did before the crisis, resulting in more 'wear and tear' on the home, and the need to organise living space differently, thereby creating further demand for home improvement.

During the COVID crisis we've seen the emergence of a younger generation of 'DIY'ers', where interest, new skills and enthusiasm for DIY has grown considerably. While this accelerated trend is still emerging, it is encouraging and enables us to capture a broader range of customer segments. More generally, the more home improvement projects people undertake, the more DIY skills they learn – building confidence and ultimately increasing their interest and appetite for the activity, which is seen as a 'hobby' by some.

In summary, structural market drivers together with the establishment of longer-term trends following the COVID crisis, are clearly supportive for the overall growth prospects of our industry.

2. Market trends offer us opportunities

While the overall home improvement market is growing, there are also clear longer-term shifts within the market which provide us with opportunities. Our 'Powered by Kingfisher' strategy is closely aligned with, and seeks to address, these trends.

Before the COVID crisis, the overall shift towards online in our industry was gradual. Screwfix, our trade-focused retail banner, was the exception to this with 33% e-commerce sales penetration even before the crisis. However, the online trend has rapidly accelerated over the last year due to the COVID crisis, with all our key markets experiencing significant e-commerce growth. Stores are at the centre of our e-commerce proposition, providing support for the significant proportion of retail online orders picked in stores and fulfilled through click & collect (C&C), in-person returns, and fast delivery. Further detail on how we have enhanced our e-commerce capabilities is included below within *'Grow e-commerce sales'.*

Customers' increased demand for speed and convenience, along with demographic trends, are also driving a shift towards smaller and more localised compact stores. While the Screwfix format is already addressing this shift, the trend provides our other retail banners with the opportunity to widen their customer reach. B&Q, Screwfix and Castorama France are in the process of trialling more compact store formats, which are showing encouraging early signs. Further detail is included below within *'Test compact store concepts and adapt our store footprint'*.

In more mature markets across Europe, discounter format stores are growing and expanding their home improvement ranges. This growth has been supported by the trend of a rising focus on value for money and pricing transparency, which we are able to capture through offering competitively priced own exclusive brands (OEB) products, which represent 44% of total Group sales. Further detail is included below within *'Differentiate and grow through own exclusive brands'*. In addition, we are well placed in this area of the market with our renowned Brico Dépôt discounter banners in France and Iberia, as well as our overall Group-wide focus on attractive price positioning.

Before the COVID crisis, we saw a gradual shift in customer preference towards Do-it-For-Me ('DIFM') versus DIY. To a certain extent, this shift is linked to new generations of consumers having fewer DIY skills, and a shift in spending priorities – but is partly constrained by the limited supply of tradespeople and DIFM being more costly. More recently, the COVID crisis has favoured the DIY trend, which is seen as allowing better 'social distancing', cheaper, a hobby, and an activity that contributes to wellbeing. We expect the DIFM shift to remain gradual. New trends and innovations in DIFM provide us with opportunities. For example, in November 2020, we acquired NeedHelp, one of Europe's leading home improvement online services marketplaces. Further detail is included below within *'Build a mobile-first and service orientated customer experience'.*

Being a responsible business is more relevant and important than ever before. Customers are increasingly aware of the environmental and societal impact of their purchasing choices, providing us with tangible opportunities to build on our strong sustainability credentials. Further detail is included below within *'Lead the industry in Responsible Business practices'*.

3. We are emerging from the COVID crisis stronger

We are inspired and humbled by the way our colleagues have responded to the immense challenges brought about by the COVID crisis. While the crisis is not yet over, we believe that it has accelerated many elements of our strategy, and pushed us to be bolder and more agile. As a result, we are emerging from the crisis as a far stronger business:

- **Roll-out of company strategy fully on track** – while navigating through the COVID crisis has been incredibly challenging, the roll-out of our plans is fully on track (and ahead of plan in many areas). Our new strategy and new leadership teams are firmly established in the business, with our focus on speed, agility and '*done* is better than *perfect*' approach yielding results in the toughest of circumstances.
- **Acceleration of e-commerce progress by at least two years** – we believe that COVID has brought forward our e-commerce journey by at least two years. We have transformed our operations and enhanced our e-commerce capabilities to meet a surge in digital adoption, with c.10 million new online customers. Group e-commerce sales penetration is now at 18%, up from 8% in the prior year.
- **Leading with Responsible Business agenda** – the crisis has given us the opportunity to reinforce our Responsible Business credentials and goals, as well as demonstrate our culture across Kingfisher of 'doing the right thing'. We have been committed to supporting our colleagues, customers, local communities, and governments throughout the crisis, and took the painful but necessary step to close our stores for several weeks in March and April 2020 while we established safe store operating standards. We have also made significant strides forward with our actions to tackle climate change, deforestation, and sustainable home development.
- **Improved banner awareness and brand reputation** – through our Responsible Business agenda described above, offering a reliable omni-channel experience, and maintaining affordable prices and good stock availability, our retail banners have benefited from much improved awareness and brand reputation. This led to previous customers reconnecting with us, increased satisfaction from existing customers, and a rise in new customers.
- **Greater conviction in costs and inventory reduction** – the COVID crisis has underlined the longer-term opportunity to manage our costs and inventory with greater efficiency. We took swift and effective action during the crisis to manage our costs, and same-store net inventory* has reduced by £50 million (in constant currency) year on year. This is due to the exceptional demand levels seen in H2, but also to more focused inventory management initiatives. Further detail is included below within *'Source and buy better, reduce costs and same-store inventory'*.
- **Stronger balance sheet** – our net leverage (net debt to EBITDA) is one turn stronger year on year following our strong trading and disciplined cash management measures, now at 0.9 times (31 January 2020: 2.0 times). As of 18 March 2021, we have access to over £2.2 billion in total liquidity, including cash and cash equivalents of over £1.4 billion.

4. We are making progress fixing issues from previous years

One of the key drivers of our strategic progress over the last year has been leveraging some of the strengths developed by Kingfisher in previous years, such as Group sourcing and buying, differentiated OEB development, and common SAP platform investments.

However, going in to 2020, we were also faced with many issues from previous years. As part of 'Powered by Kingfisher', we set out our 'Focus and Fix' priorities aimed at addressing these. We are pleased with the progress made so far, but there is still more work to be done.

These actions have had a significant positive impact on our trading in FY 20/21, enabling us to respond to the challenges of the COVID crisis while also priming the roll-out of our new strategy.

Build the new team:

- Kingfisher's Group Executive team was completed in March 2020 (see FY 19/20 results for further detail). We have an experienced team in place with a strong mix of functional expertise (including

in digital and supply chain) as well as experience from Kingfisher, other home improvement companies and the broader retail and service industries.
- Additional key hires have been made at banner and Group level to reinforce some of our key teams, including the supply chain team in France and our Group Digital team.

Rebalance local vs. Group:
- Initial steps were taken in Q4 19/20 to address the imbalance and complexity of our previous operating model. The agility demonstrated by Kingfisher during the COVID crisis is testament to the move towards this approach.
- In September 2020 we launched a formal reorganisation of our commercial operating model, which is now fully implemented at Group level and across all our banners.
- We are also in the process of establishing new local-Group operating models for our IT and digital teams.

Further detail is included below within *'Move to a balanced and agile local-group operating model'*.

New trading approach:
- During FY 20/21 we trialled and implemented new trading approaches in all our retail banners.
- This included placing a higher focus on promotion-based trading events, targeted price investments at Screwfix (maintaining its more favourable price position versus its nearest peers), strengthening ranges, and introducing new services (both in-store and online).
- The new commercial operating model has enabled our banners to reintroduce more well-known local ranges which had been removed from the assortment in previous years (e.g. Sandtex, Dewalt and Ryobi in the UK), as well as introducing some higher price-point brands and reinforcing existing brands, such as Tarkett and De'Longhi in Castorama France.

Focus:
- As planned prior to the onset of the COVID crisis, we paused or stopped several Group-wide initiatives this year, prioritising key activities and enabling us to do fewer things quicker and better.
- During the year, we reduced the level of range reviews by around 50%, and stopped all non-critical range changes, resulting in lower store disruption and clearance.
- Store net promoter scores (NPS) have improved across the majority of Kingfisher, with customers reacting positively to the renewed focus on the customer proposition.
- We completed the SAP roll-out at Castorama France, Castorama Poland and Brico Dépôt Romania in FY 20/21.
- To increase focus on Castorama France's SAP implementation, we paused the roll-out of our global SAP platform to Brico Dépôt France and Brico Dépôt Iberia, with implementation shifted to 2021.
- On 30 September 2020, we completed the sale of Castorama Russia for a total consideration of £72 million (refer to Section 4 for further detail). As previously reported, we reversed the original decision to exit Iberia and have plans to build a profitable, sustainable business under the discounter Brico Dépôt banner.

Fix France:
- Established strong new leadership in France and strengthened key teams.
- As part of the commercial operating model reorganisation noted above, the teams now have more local autonomy to manage the business needs and requirements of each of the French banners.
- We stopped all non-critical IT projects and paused certain elements of global SAP roll-out, to prioritise and focus on Castorama France. During FY 20/21, a total of 18 key 'pain points' were identified and addressed, significantly improving the effectiveness of Castorama's SAP template.
- This enabled us, without any material disruption, to accelerate the implementation of our Group digital technology stack at Castorama. This upgraded digital capability played a crucial role in allowing the business to meet the exceptional levels of demand seen in FY 20/21.
- As part of the commercial operating model reorganisation noted above, the supply chain and logistics team in France has been strengthened with more than 25 critical hires, allowing for more autonomy and agility. As a result of this and the SAP 'fixes', both Castorama and Brico Dépôt have benefited from a more reliable supply chain and healthy levels of stock availability, despite the disruption and incremental demand brought about by the COVID crisis.

- The new trading approach described above was implemented, including the reintroduction of local ranges, more trading events, and restoring the 'discounter DNA' at Brico Dépôt with upweighted special promotions (*arrivages*) and improved price positioning.
- Fewer range reviews as described in the 'Focus' initiatives above, led to less store disruption.

The above mentioned actions have contributed significantly to the improved performance in France, with FY 20/21 LFL sales at Castorama and Brico Dépôt up 6.2% and 3.8%, respectively. Store and website NPS scores also improved in both banners, with customers reacting positively to the renewed focus on customer propositions. We are also seeing significant improvements in our competitive position, especially at Castorama, where the banner outperformed the market for the first time in many years (based on *Banque de France** data). While the progress is promising, there is still much work to do to further improve both the operational performance and longer-term customer propositions of Castorama and Brico Dépôt.

5. Our new strategy is delivering – empowered banners supported by the Group's scale, strength and expertise

Under our new strategic plan, 'Powered by Kingfisher', we aim to maximise the benefits of our distinct retail banners (which address diverse customer needs) with the scale, strength and expertise of the Kingfisher Group, thereby addressing the significant growth opportunities that exist within the home improvement market.

Our retail banners occupy number one or two positions in all our key home improvement markets (number one in the UK, Poland and Turkey). While some of our banners are focused on trade (Screwfix, TradePoint at B&Q), others address more general DIY needs (B&Q, Castorama France, Castorama Poland, Brico Dépôt Romania, Koçtaş), while Brico Dépôt France and Brico Dépôt Iberia are positioned as discounters. This differentiation is a major strength, especially in a world that is more volatile and uncertain. In FY 20/21 every one of our retails banners has built on their clear market positioning to develop long-term growth plans.

Kingfisher's scale and resources, used intelligently, is an important source of growth acceleration and competitive advantage for our banners, through its OEB development, sourcing and buying scale, access to technologies, shared services, and lower cost functions. We are continuing our work to adapt our operating model so that these Group functions are set up in the most efficient way to 'power' growth in our retail banners.

This sub-section covers the progress made in FY 20/21 against our key strategic areas of focus:

a) Move to a balanced and agile local-group operating model
b) Grow e-commerce sales
c) Differentiate and grow through own exclusive brands (OEB)
d) Build a mobile-first and service orientated customer experience
e) Test compact store concepts and adapt our store footprint
f) Source and buy better, reduce costs and same-store inventory
g) Lead the industry in Responsible Business practices

a) <u>Move to a balanced and agile local-group operating model</u>

We believe that striking the right balance between Group and local responsibilities sets the right conditions for our distinct retail banners to thrive.

In September 2020 we announced to our colleagues a fundamental reorganisation of our commercial operating model. The overall aim was to formalise the approach taken since Q4 19/20 to provide our retail banners with the flexibility and agility to address specific positioning and needs in local markets, while leveraging Group scale and resources to provide critical capabilities. This approach has had a clear positive impact on business performance in FY 20/21.

Under the new model we have established clear roles and accountabilities:

- Our **retail banners** are closest to our customers and are responsible for category strategies, overall product range, non-OEB buying, pricing and promotions, marketing, and merchandising.
- The **Group Offer & Sourcing (O&S)** team drives the development and sourcing of our market-leading OEBs, leveraging strong sourcing, design, and engineering capabilities to enable differentiation and higher OEB participation across our business. They collaborate with the retail banners on OEB ranges and manage global relationships with our top international brand suppliers.
- The **Group Supply Chain & Logistics (S&L)** team provides expertise in the development and execution of new OEB ranges, including contributing towards the selection of new OEB vendors, the optimisation of logistics conditions and the selection of the most appropriate routes to market. The retail banners are responsible and accountable for making their own decisions relating to local supply, availability, inventory, and logistics performance.

The reorganisation is now fully implemented at Group level and across all our banners, with France having been completed this month.

We are also in the process of establishing new local-Group operating models for our IT and digital teams, to provide speed, agility and local knowledge to our retail banners. The Group will continue to provide overall direction, technology and systems infrastructure, and a framework for efficient ways of working. The right balance of local and Group input has been critically important in responding to the challenges of the COVID crisis.

Finally, we are in the process of implementing Group 'Centres of Excellence' in the areas of e-commerce, digital journey, data, store concepts, services and service platforms, property, and supply chain. The role of these Centres is to set strategy and targets, to share knowledge and best practices, to support implementation, and to help steer progress.

b) Grow e-commerce sales

We are committed to delivering growth in e-commerce sales through providing speed, convenience and choice to our customers.

Following the onset of the COVID crisis and the rapid changes seen in consumer habits, we accelerated several of our planned e-commerce initiatives to offer greater convenience and faster deliveries to our customers.

To meet a significant increase in C&C demand, we rapidly transformed our operations in March 2020 to shift to store-based picking and fulfilment as a priority. During FY 20/21, 92% of the Group's online orders were picked in store, 11 percentage points higher than the prior year. Excluding Screwfix, 89% of online orders were picked in store, up 32 percentage points. To offer customers more pick-up options, we are trialling the use of C&C lockers at B&Q, Castorama France and Poland, and have implemented contactless 'Drive-thru' and car park collections in France.

Home delivery from store was also quickly introduced in all markets, supported by improved store-picking processes and new fulfilment relationships. Around 20% of our B&Q stores are being used as 'digital hubs', enabling an expanded available range. We are also testing 'same day' home delivery at B&Q which we believe, over time, will drive a key competitive advantage over online 'pure-plays'.

In addition, we are making progress with our plans to modernise the front-end IT architecture of Kingfisher's banners through the roll-out of our Group digital technology stack. Through cloud-based components, this technology enables more efficient and agile digital capabilities including scalable mobile apps, lower latency, seamless payments, smart search, and more efficient web content management. Roll-out has been successfully completed at B&Q, TradePoint and Castorama France, without disruption, with implementation planned for Poland in early 2022. This scalable platform is currently supporting over 500,000 C&C orders a week in B&Q and Castorama France combined, and helping to drive increased website conversion rates, a better customer mobile journey, and a smoother C&C and home delivery experience. During the summer of 2020 we reached a milestone of over 1.5 million online orders in one week, across the Group.

In FY 20/21, e-commerce sales accounted for 18% of total Group sales (FY 19/20: 8%) reflecting the substantial uplift in online orders in all retail banners since the onset of COVID. E-commerce sales penetration at our retail banners excluding Screwfix was 7% on average in FY 20/21 (FY 19/20: 2%).

Group e-commerce sales grew by 158% during FY 20/21, and by 144% excluding Screwfix.
C&C sales, the largest and fastest growing fulfilment channel at a Group level, grew by 226% in FY 20/21, accounting for 90% of online orders (75% excluding Screwfix) and 78% of Group e-commerce sales (61% excluding Screwfix). In the prior year C&C accounted for 82% of online orders (63% excluding Screwfix) and 62% of Group e-commerce sales (48% excluding Screwfix).

Finally, the Group continues to explore e-commerce marketplace models, with common technology and vendor management, but tailored customer propositions by retail banner.

c) <u>Differentiate and grow through own exclusive brands (OEB)</u>

As described above, under 'Move to a balanced and agile local-group operating model', we believe that the Kingfisher Group's OEB product development is a significant source of value for our retail banners and their customers. OEB provides a strong point of differentiation for our retail banners in terms of design, functionality, sustainability, and value for money, as well as carrying a higher gross margin. We aim to grow our OEB sales further as we bring even more innovation to our ranges.

The performance of our OEB ranges in FY 20/21 was strong, with total OEB sales of c.£5.3 billion, up 7.5% (+15.7% in H2 20/21). This represents 44% of Group sales (FY 19/20: 44%; previously reported comparable was 39%, updated due to a definitional change).

During the year we implemented several new OEB ranges across our markets. The roll-out of Kingfisher's new OEB kitchen range completed in B&Q in H1 20/21, and will be fully implemented at Castorama France and Brico Dépôt France this month. The range is also in the process of being implemented at Castorama Poland. Supported by attractive price positioning and the establishment of both a socially-distanced and virtual sales model, the LFL sales performance of the new B&Q kitchens range in H2 20/21 was at double-digit growth. We also implemented our new indoor lighting range at all banners, starting with Castorama France in June 2020 where we saw a positive customer reaction and strong double-digit sales growth in FY 20/21.

In addition, we have seen a strong improvement in OEB brand awareness this year, and our five leading OEB brands contributed c.23% to total Group sales. Going forward, we plan to extend our ranges so that they are more specifically designed to cater for general home improvement, trade, or discounter banners. We are also continuing to simplify our OEB development approach, including engineering enhancements and prioritising key range reviews, to bring new products to market more quickly. This should also support more profitable sales growth over the longer term.

d) <u>Build a mobile-first and service orientated customer experience</u>

We intend to make it easier for customers to shop with us by building a mobile-first, data-led and service orientated customer experience. We also aim to provide customers with a more compelling and complete services offer, including visualisation tools and installation services.

More than ever, mobile is at the centre of our customers' home improvement journeys and experiences, from research and inspiration, all the way through to purchase, delivery, building and installation. We believe that this channel will remain the focal point of the end-to-end customer journey and experience. Mobile is our fastest growing channel, with orders up by over 200% in FY 20/21, accounting for c.56% of our total e-commerce orders (FY 19/20: 40%).

Across our banners, we have made good progress in optimising the mobile user experience through increasing page load speed, enhancing search functions, and developing mobile tools and apps. During FY 20/21, Castorama France launched its new website (including visual search) along with its new mobile app. Screwfix plans to rapidly roll out an upgraded mobile app in FY 21/22. In addition, both B&Q and Brico Dépôt Iberia are trialling mobile 'Scan & Go' technology for customers, enabling a speedier self-service store checkout process.

We also continue to test and launch new service propositions in all our banners. During FY 20/21, B&Q restarted kitchen and bathroom installation services, now available in all UK mainland stores. We are encouraged by the early take-up rate.

B&Q also acted quickly to establish a virtual sales model during the year for kitchens and bathrooms, which has proved to be popular. Several thousands of virtual showroom planning sessions have been conducted since the start of January 2021. Our showroom design capabilities will soon be supported by our new tool for 3D kitchen and bathroom design, which is currently being trialled in some of our retail banners.

In response to customer demand and in partnership with Speedy Hire we are trialling a comprehensive tool hire service. To date, we have opened 14 Speedy concessions within B&Q stores in the UK. We are also in the process of trialling new self-checkout terminals at B&Q.

Finally, in November 2020 Kingfisher acquired NeedHelp (www.needhelp.com), one of Europe's leading home improvement services marketplaces, for a total cash consideration of £9 million (before cash acquired of £1 million). The business is an innovative online platform that connects customers who need home improvement help, either in-store or online, with vetted professional tradespeople and other skilled experts.

NeedHelp is growing rapidly, having tripled its gross merchandise value and revenue every year since it launched in 2014. Through its open IT architecture, NeedHelp already provides its services to customers in over 500 stores, including Castorama France, Brico Dépôt France and a growing number of leading home improvement retailers. While most of its business is currently in France, NeedHelp also operates in Switzerland and has recently expanded into Germany, Belgium, Austria, and the Netherlands. NeedHelp is targeting expansion into the UK and Poland in FY 21/22, supported by B&Q, Screwfix and Castorama Poland.

e) <u>Test compact store concepts and adapt our store footprint</u>

We believe that stores have an increasingly important role to play in the home improvement market. Our c.1,390 stores are key to meeting our customers' needs, whether goods are purchased in-store or ordered online.

Stores are a critical feature of the home improvement market, due to the importance placed by customers on inspiration and visualisation, the advice and design expertise of in-store experts, serving as a 'one-stop shop' for projects, and the provision of customised services. However, as highlighted by the COVID crisis, our conviction is that stores also play an integral role in meeting the increasing customer demand for convenience and speed, whether through fast C&C or home delivery. After the onset of the COVID crisis in early 2020, Kingfisher rapidly transformed its operations to shift to store-based picking and fulfilment, in order to meet a surge in online demand.

As described above in the section *'Market trends offer us opportunities'*, we believe that the demand for speed and convenience is driving both the shift towards online in our industry, as well as the need for smaller and more localised stores. In response, over the next few years, we have plans to increase our overall store count, while at the same time reducing the average size of our stores. We expect to achieve this through a combination of opening more compact stores (less than 2,000 sqm), rebalancing our 'new store' opening programme to focus on 'medium-box' stores (2 to 6,000 sqm), and rightsizing some of our larger format 'big-box' stores (more than 8,000 sqm).

Compact stores are a key enabler for market share growth in urban catchment areas. In 2020 we tested six compact store concepts, including two new compact B&Q formats (in Merton and Twickenham); two B&Q store-in-store concessions within ASDA supermarkets (in Sheffield and Dagenham); one Castorama France high-street format called *'Casto Solférino'* (in Lille); and one 'ultra-compact' Screwfix outlet called *'Screwfix Collect'* (in central London). The performance of our new compact stores is showing encouraging signs. We plan to trial two further B&Q concession stores within ASDA stores in Q1 21/22, alongside several more tests of compact store formats in the UK, France and Poland during FY 21/22.

Screwfix, whose store operating model is based entirely around compact stores, opened a total of 38 new outlets in FY 20/21 with 30 in the UK and eight in the Republic of Ireland. This brought its total to 722, with an average sales floor size of 64 sqm per store. Following the identification of further opportunities in certain catchment areas, we now see a medium-term roadmap to over 900 stores in both the UK and Republic of Ireland (versus previous target of 800 in the UK alone). In H1 21/22 the business will commence its broader international expansion plans, initially through an 'online-first' approach, similar to that applied to the Republic of Ireland.

Medium-box stores in our banners tend to be well-located and with good sales densities. In FY 20/21 we opened three medium boxes in the UK and Poland.

In the UK and France, we have identified certain big-box stores which we believe to be over-spaced based on our analysis of catchment demand, store economics and proximity to other stores. As a result, we have selected a small number of stores to be tested for rightsizing at B&Q and Castorama France over the next two to three years. B&Q Canterbury is the first of these, where our rightsizing completed this month. The c.30% space reduction was taken over by Aldi and is expected to generate c.33% of annualised savings in store costs (including rent). Following the learnings from these tests we will establish a plan to target a larger sub-set of stores over the longer term.

As discussed above, we are testing store-in-store B&Q concessions within ASDA supermarkets, as well as Speedy Hire (tool hire) concessions within B&Q stores. More generally, we believe partnership models can enable Kingfisher to attract new customers and generate incremental revenues. As communicated earlier this month, we signed a franchise agreement with the Al-Futtaim Group to expand B&Q into the Middle East, with a first step being the opening of two B&Q-franchised stores in Saudi Arabia in autumn 2021. The stores and support office functions will be fully operated and staffed by the Al-Futtaim Group.

f) <u>Source and buy better, reduce costs and same-store inventory</u>

We believe there are significant opportunities to reduce costs across Kingfisher – in areas such as store productivity, supply and logistics, goods not for resale (GNFR), property (including lease renegotiations), IT and central costs, all of which will benefit from reduced organisational complexity over time. In addition, through the intelligent use of our scale, we expect to extract further value from sourcing and buying. Reducing same-store inventory levels is also a major priority.*

Following the onset of the COVID crisis in 2020, we took swift and decisive actions to reduce our costs while our stores were temporarily closed for several weeks in March and April 2020. While some of these cost reductions were temporary or one-off in nature (refer to Section 3 for further detail), the crisis has deepened our conviction over the opportunity to operate effectively as a Group within a more efficient cost envelope over the longer term.

During the year, we validated and measured cost reduction programmes over several key areas of the Group, including identifying the capital and one-off expenditure required to achieve these savings. All cost programmes were launched in the year and are being managed by our retail banners and Group functions, with robust overall governance at Group Executive and Board level. To date we have made progress in the following areas:

- Fundamental reorganisation of commercial operating model: fully completed in the UK & Ireland, France, Poland, Romania and Iberia. Recorded £16 million of restructuring costs in FY 20/21.
- Commenced big-box rightsizing programme at B&Q; expect further tests at B&Q and Castorama France in FY 21/22.
- Completed nine B&Q lease renegotiations with a combined net rent reduction of approximately 25%, alongside improved lease terms.
- Commenced trials of store productivity initiatives such as 'Scan & Go' and new self-checkout terminals at B&Q.
- Commenced IT cost optimisation programme, covering areas such as IT hosting, telecoms, and other network costs.
- Launched GNFR efficiency initiatives across all retail banners.

In the area of sourcing and buying, we continue to deliver cost price efficiencies through leveraging our scale, and believe there is further potential for upside. In addition to driving sourcing and engineering benefits from our large OEB product base (c.44% of Group sales), we are also in the process of renewing strategic partnerships with our top 20-30 international brands.

While we are not disclosing the expected value of our multi-year cost reduction programmes, the net savings achieved are expected to partially offset the cost of inflation, expansion and space changes, and the investment requirements of our business over the next few years.

While stock availability has been under significant strain due to the COVID crisis and volatile demand levels, we have seen lower clearance levels and an improvement in our inventory health year on year, mainly due to a reduction in range review activity and lower delisted stock. Net inventory at the end of FY 20/21 decreased by £63 million to £2,488 million (FY 19/20: £2,551 million, excluding Russia, in constant currency), largely driven by France. Same-store net inventory (in constant currency) decreased by £50 million, reflecting exceptional demand levels in H2 20/21 and the benefit of improved inventory management initiatives. Net stock days reduced by c.10% in FY 20/21.

While we expect to rebuild inventory levels ahead of peak trading periods during FY 21/22 (as our order cycle largely 'normalises'), our work to sustainably reduce same-store inventory continues. This includes a combination of better ranging and deployment (with a focus on removing and redeploying slow-moving inventory) and better planning and forecasting (including tighter control of purchase quantities and lead times). The completion of our SAP roll-out in 2021 and the further implementation of our Group digital technology stack will further support the above initiatives.

g) Lead the industry in Responsible Business practices

We are committed to leading our industry in responsible business practices, seeking to maximise our positive impact on the lives of our customers, colleagues, communities and the planet. This commitment has been at the forefront of our response throughout the COVID crisis (refer to Section 3 for further detail). Building on our strong ESG credentials, our 'Powered by Kingfisher' strategy sets out four priority areas for Responsible Business, where Kingfisher can apply its experience, scale and influence to achieve a positive impact.

We are all seeing enormous political, social, economic and environmental challenges within our world, many of which have been amplified over the last year by the COVID crisis. Issues such as wellbeing and mental health, housing standards, climate change and inequality – to name a few – require urgent action. We want to play our part in helping tackle them.

Our COVID response: Throughout the pandemic, we have been focused on serving our customers' essential needs as effectively as possible, while protecting the safety of all concerned, especially our colleagues on the frontline. We also demonstrated our commitment to supporting communities and governments in managing the pandemic. For further detail on the significant actions we have taken, please refer to Section 3.

Responsible Business priorities: During the year, we set out four priority areas where we can apply our experience, scale and influence to achieve a positive impact. These priorities, and our performance against them, are as follows:

- **Becoming a more inclusive company:**
  - In 2020, the Board approved our 'Inclusivity and Diversity' strategy. As part of this, each of our retail banners has developed an inclusivity action plan, showing how they will apply this strategy at local level.
  - During the year we launched an all-colleague share plan, as described further below.

- **Helping to tackle climate change and create more forests than we use:**
  - We continued to make strong progress with our Science Based Targets Initiative (SBTi)-approved greenhouse gas reduction targets, which are consistent with reductions required to help limit global warming to 2°C. To date, we have reduced our absolute Scope 1 and 2

(market-based) greenhouse gas emissions by 27%, compared with the baseline year of FY 16/17. This is a large movement from the previous year (FY 19/20: 18%), driven by the temporary closure of stores due to COVID as well as strong underlying improvements.
  - We have therefore reviewed our plans and agreed new appropriate capital investment to now commit to a 1.5°C trajectory to 2025. We recently made our updated submission to SBTi and are awaiting their approval on this improved plan. Once approved, this should put Kingfisher among c.2% of retailers worldwide to have approved 1.5°C science-based targets.
  - As part of our commitment to be 'forest positive' by 2025, we have formed a partnership with the Rainforest Alliance to become a founding member of its 'Forest Allies' initiative. In FY 21/22 we will start investing in projects to protect, restore, and enable the responsible management of tropical forests in some of the countries at most risk of deforestation.

- **Helping to make greener, healthier homes affordable:**
  - Approximately 40% of our total Group sales now come from products that create greener, healthier homes (versus a target we set 10 years ago of 50% by FY 20/21). This includes LED lighting, low-flow taps, and low VOC paint.
  - In FY 21/22, we will be reviewing our approach with a view to updating this target.

- **Fighting to fix bad housing:**
  - During the year we launched a network of charitable Foundations for our banners in the UK, France, Poland, and Romania. These Foundations support charities who provide, maintain, repair and improve housing and community spaces.
  - Since FY 16/17 we have supported a total of 791,000 people and are well on our way towards our goal of helping more than one million people whose housing needs are greatest by 2025.

Including our response to the COVID pandemic, we made community investments totalling over £5.5 million in FY 20/21. In addition, our colleagues and customers raised over £2.7 million.

In FY 20/21, for the first time, we linked a portion of our colleague bonus programme to our performance against our key Responsible Business priorities, and will continue to do so in FY 21/22.

To support the governance of Responsible Business, facilitate the setting of our priorities and monitor our performance against these, we established a new Responsible Business Committee (RBC) in FY 20/21. The RBC is a sub-committee of Kingfisher's Board, meeting at least twice a year and chaired by Sophie Gasperment, a non-executive director (NED) of the Board. The RBC also includes a further NED, as well as our Group CEO.

Please visit www.kingfisher.com/sustainability for further detail. Further data and performance against our priority areas will be published in our Responsible Business Report in June 2021.

All-colleague share plan: As part of our commitment to build a responsible and inclusive business, we were proud to launch our 1+1 'Sharing In Our Future' plan in September, giving all our colleagues the opportunity to become Kingfisher shareholders. We were very pleased with the take-up rate, with over 9,000 colleagues (c.12%) electing to participate in the plan, of which nearly 75% are store-based colleagues. Following a holding period of one year, Kingfisher will match each participant's investment (awarding one free share for every share bought), up to a value of £1,500. The value of colleague contributions that Kingfisher will match in FY 21/22 is approximately £8.5 million.

Improved employee engagement: Our annual colleague engagement survey, conducted in July 2020, showed a score of 81 for the Kingfisher Group, an increase of two points versus the prior year. This represents a top quartile score and is significantly higher than the retail benchmark of 66. Strengths highlighted by the survey included our ongoing support to ensure our colleagues and customers were safe, the positive impact of our new strategy, and a greater sense of empowerment to make decisions in a less bureaucratic and more agile way. We are actively working to address feedback from the survey, together with the output from our regular Kingfisher Colleague Forum meetings, which includes representatives from all parts of the Kingfisher business and is attended by Board and Group Executive team members.

6. Clear financial priorities and drivers

Group financial priorities
Through the implementation of our 'Powered by Kingfisher' strategic plan we are focused on growth and creating shareholder value, with the following financial priorities:

- **Prioritise top line growth and grow sales ahead of market:**
  - Clear strategy and actions to drive market share growth
  - Focused on store and website customer satisfaction
  - Attractive market with new longer-term industry support
- **Aim to grow adjusted pre-tax profit in line with sales±; gradually faster than sales over time:**
  - Focused on driving scale benefits and cost self-help, enabling us to accelerate investment in top line growth
- **Generate strong free cash flow to underpin shareholder returns:**
  - Focused on driving inventory self-help and capital expenditure discipline (targeting gross capex of c.3.0-3.5% of total sales per annum, on average)
  - Progressive, sustainable dividend policy, with target dividend cover of 2.25-2.75x
  - Committed to efficient capital structure while maintaining prudent position in times of uncertainty

± Group total sales growth and adjusted pre-tax profit growth in constant currency.

Key drivers
We believe that progressing the following key drivers will support the delivery of our financial priorities over time:

- **E-commerce sales growth and penetration –** grow e-commerce sales and lead the industry;
- **OEB sales growth –** grow total OEB sales, providing differentiation, value for money, and margin;
- **New compact stores –** test and roll out compact stores across our markets;
- **'Big-box' rightsizings –** starting with tests at B&Q and Castorama France;
- **Costs and same-store inventory reduction –** opportunity for self-help and to reverse inefficiencies; and
- **Responsible Business –** 'forest positive' and helping to limit global warming to 1.5°C

Capital allocation
We aim to allocate capital, subject to strict returns criteria, to meet the strategic needs of the business. Our target is gross capex of approximately 3.0 to 3.5% of total sales per annum, on average. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and retain financial flexibility, invest in the business where economic returns are attractive, provide attractive returns to shareholders, target a solid investment grade credit rating and, over the medium term, to maintain a target of c.2.0 times net debt to EBITDA on an IFRS 16 basis (previously 2.0 to 2.5 times). To facilitate additional liquidity headroom during this current period of heightened uncertainty, net leverage is expected to be lower than 2.0 times in the short term (FY 20/21: 0.9 times).

Considering these objectives, the Board is pleased to announce a new progressive and sustainable dividend policy, with a target dividend cover range of 2.25 to 2.75 times, based on adjusted basic earnings per share (previously 2.0 to 2.5 times). The new policy will be applied from FY 21/22. The Board believes this target dividend cover range provides a solid base from which to sustainably grow the dividend over time while being consistent with the ongoing capital needs of the business.

Dividend for FY 20/21
In March 2020, the Board took the difficult decision to not propose a final dividend in relation to FY 19/20, given the unprecedented challenges around the COVID crisis and the need to preserve financial flexibility. Like many businesses, we continue to face challenges associated with the COVID crisis. However, since reopening our stores from mid-late April 2020, our sales performance has been strong, supported by the significant progress our business has made under our 'Powered by

Kingfisher' strategy and favourable demand trends for home improvement. While uncertainty remains in the markets in which we operate, we are confident that we can address the key risks we face and that, as our strategy is delivered, we will continue to grow our business.

As a result, the Board is pleased to confirm that we will be resuming dividend payments beginning with a proposed total dividend of 8.25 pence per share (approximately £175 million) in respect of the year ended 31 January 2021. The proposed dividend of 8.25 pence per share comprises an interim dividend of 2.75 pence per share in respect of the six months ended 31 July 2020 and a final dividend of 5.50 pence per share. The final dividend is subject to the approval of shareholders at the Annual General Meeting on 30 June 2021, and will be paid alongside the interim dividend on 5 July 2021 to shareholders on the register at close of business on 4 June 2021.

Brexit preparation

Kingfisher has been preparing for the new EU-UK trading relationship since the outcome of the UK Brexit referendum in 2016. Since the new Trade and Cooperation Agreement (TCA) came into force on 1 January 2021, we have been working to ensure we comply with the new requirements. We had taken several measures since 2016 to mitigate delays at the border as far as possible in advance of the new trading relationship, and continue to engage with our vendors to provide support on the new requirements where needed. Our teams are also continuing to work through the new requirements of the TCA and to limit the risk of delays wherever possible – for example, by introducing new IT and process changes. While we have experienced some relatively minor issues in exporting products to the Republic of Ireland due to overall market challenges, we are not experiencing any material challenges to our EU-UK flows to date. On tariffs, the direct impact resulting from rules of origin requirements are broadly neutral in comparison with our pre-Brexit position.

Outlook for FY 21/22

The new financial year has started positively, with Q1 21/22 Group LFL sales (to 18 March 2021) up 24.2%, reflecting strong demand in the UK and France. However, we remain mindful of the continued uncertainty related to COVID in continental Europe.

Recognising that these are highly unusual and uncertain times, we would like to provide more specific guidance where we can, to help frame expectations for the year ahead. The following guidance applies in the event of no adverse change in COVID-related confinement measures (e.g. new lockdown restrictions resulting in further store closures).

Given the profile of trading during FY 20/21, we expect distinct performances in the two halves of the coming year. In H1 21/22 we expect low double-digit Group LFL sales growth, supported by the delivery of our strategic objectives. In H2 21/22, we are planning for Group LFL sales scenarios of -15% to -5% (representing 2-year LFLs for H2 of -1% to +11%), given the strong comparable period performance (H2 20/21: Group LFL sales +16.6%) and uncertainty over the macroeconomic and consumer environment.

Despite the uncertain outlook for sales growth, especially through the latter half of the year, the Group is focused on carefully managing its cost base and is targeting full year adjusted pre-tax profit (before c.£85 million of non-recurring net cost savings in FY 20/21) to grow in line with total sales.

While the exceptional demand we have seen over the last year may moderate as vaccines are rolled out and restrictions for our customers become less prevalent, the COVID crisis has established longer-term trends that are clearly supportive for our industry – including the renewed importance of the home, both as a 'hub' and for general wellness, more working from home, and the development of a new generation of DIY'ers. We now expect these broad trends to endure. With our strategic progress, we are well positioned to capitalise on these positive, long-term market trends and are confident of continued outperformance of our wider markets.

Additional financial guidance for FY 21/22 is provided in Section 5.

Section 3: Managing the impact of COVID

Throughout the COVID crisis, Kingfisher has taken swift and effective measures to support our clear commitments – to serve our customers as a retailer of essential goods, to look after our colleagues as a responsible employer, to provide support to the communities in which we operate, and to protect our business for the long term. These commitments are ultimately about 'doing the right thing' – one of the key cultural characteristics of our 'Powered by Kingfisher' strategy.

The following section provides a summary of how we have managed, and continue to manage, the impact of COVID on our business.

Risk management

Kingfisher's central and retail business crisis committees continue to meet on an ongoing basis to monitor and manage the risks and impacts of COVID. These committees monitor the impact on all areas of our business, as well as ensuring publicly available advice is followed and appropriate safeguards are quickly implemented.

Social distancing and safety measures

All our Kingfisher stores continue to operate under strict social distancing and safety measures to protect customers and colleagues. Similar measures are also in place at our distribution and fulfilment centres, and our corporate offices. In addition, we have provided support for safe home working where relevant, including risk assessments and the provision of office equipment. In most cases, the measures applied have gone beyond government recommendations in each market, which has been met with strong approval by both customers and colleagues.

Supporting our colleagues

Along with ensuring the safety of our colleagues, we are also committed to providing proactive support for wellness and mental health during this period of unprecedented challenges. We have invested significant time and resources in Group-wide colleague engagement activities and initiatives, as well as ensuring that the tireless efforts of our colleagues during the pandemic are rewarded through frontline staff bonuses.

We have made dedicated training and support available for all line managers on leading through a crisis, leading remotely, and supporting their teams' mental health and wellbeing. Following our annual colleague engagement survey conducted over the summer, we implemented several actions related directly to the provision of advice and psychological support for colleagues, as well as support on wellbeing.

Colleagues who are unable to work due to being high-risk, vulnerable, or self-isolating, continue to have their salaries paid by the Group.

Finally, as mentioned in Section 2 above, during the year we launched an all-colleague share plan, giving nearly 78,000 colleagues the opportunity to share in our future. Over 9,000 colleagues elected to participate in the plan, of which just under 75% are store-based colleagues.

Supporting our communities and governments

Throughout the pandemic, we have been focused on serving our customers' essential needs as effectively as possible, while protecting the safety of all concerned, especially our colleagues on the frontline. We also demonstrated our commitment to supporting communities and governments in managing the pandemic.

Our actions over the last year have included:

- **Closing our stores:** Taking the painful but necessary decision to close our stores in the UK and France for several weeks in March and April 2020 (despite holding 'essential' retailer status), to protect colleagues and limit the spread of the virus.

- **PPE:** Ringfencing and donating stock of personal protective equipment (PPE), worth over £2.5 million, for use by key health workers across all our markets.
- **Charitable donations:** Supporting our banners' charitable Foundations and charitable partners who work with communities affected by the pandemic, through donations worth over £2.5 million. Of this amount, over £1.5 million was raised by our colleagues and customers.
- **Furlough:** Repaying £25 million received under the UK and Republic of Ireland furlough programmes.
- **Business rates:** Foregoing £105 million of business rates relief in the UK and Republic of Ireland in FY 20/21.
- **Government-supported debt:** Repaying, in full, government-supported debt in the UK (£600 million) and France (€600 million), which was arranged earlier in 2020 to provide the Group with additional liquidity headroom.
- **Executive pay restraint:** Reduced Group Executive team pay and Board fees for several months during the crisis to reflect the challenging business environment; no bonus payments to the Group CEO and CFO relating to FY 19/20.

Finally, supporting our local communities, Kingfisher hired approximately 4,800 colleagues into its stores in the UK, France, and Poland in FY 20/21.

<u>Supply chain and availability</u>

During the initial phases of the coronavirus outbreak in China, and subsequently in Europe, we experienced only modest disruption to our supply chain. There was a relatively limited impact on the supply of goods to our retail banners from any temporary closures of vendor factories.

From mid-to-late March 2020, following the decision to temporarily close our stores in the UK and France, we acted quickly to adjust the supply of certain goods in certain categories, to manage to demand levels and control our costs. Since reopening our stores from mid-late April 2020, the key risks around stock availability have been driven by polarised demand within our categories and, in particular, exceptional demand levels within the paint, decorating materials, outdoor, building materials and kitchen ranges, where our suppliers have been challenged in keeping up with high order levels.

These challenges have been driven by a combination of capacity constraints and extended lead-times from their own raw material suppliers. In addition, the pandemic continues to place a considerable strain, industry-wide, on the international logistics infrastructure (in particular, port congestion and the cost and availability of shipping containers). We expect these challenges to continue for at least the next few months.

As a result of this, together with the consistently high demand levels in recent months, in-store availability is currently below last year, although is gradually improving. To date, we have been able to manage our supply and logistics needs well and expect to rebuild our inventory levels ahead of peak trading periods during FY 21/22.

<u>Financial impact</u>

Significant actions were taken to limit the impact of store closures and trading restrictions in FY 20/21 on our profitability, and to preserve our financial flexibility.

<u>Actions to reduce costs and preserve cash</u>

We implemented multiple actions to reduce costs and preserve cash, especially during H1 20/21, including the benefit from several government support measures (many of which were subsequently repaid). As described in Section 2 above, many of the cost reductions achieved were temporary or one-off in nature. Total non-recurring net cost savings in FY 20/21 were c.£85 million.

The actions we took to reduce costs and optimise our cash flow were as follows:

- **Furloughing:** From mid-March 2020, we announced furlough programmes to some of our colleagues in the UK, Republic of Ireland, France, Spain and Romania, such as the Coronavirus Job Retention Scheme (CJRS) in the UK and *'activité partielle'* relief measures in France.

Approximately 50% of our total Group colleagues were furloughed in April 2020, reducing to c.10% by the end of May as we reopened stores within the UK and France. With the exception of those who were vulnerable and/or at a higher risk of infection, all furloughed colleagues returned by 1 July. From this date we decided to no longer claim under the furlough programmes in the UK, Republic of Ireland and France, while our stores remain open. In Q4 20/21, we repaid £25 million received in the first half of the year under the UK and Republic of Ireland furlough programmes. A total of c.£45 million was claimed across other markets in FY 20/21, including France, Poland and Iberia.

- **UK and Republic of Ireland business rates:** The UK government announced in March 2020 that retail premises in England would be granted a relief from paying business rates in the 2020/21 tax year, effective from April. Similar measures (a combination of payment deferrals and relief) were announced by the local governments and assemblies of Scotland, Wales and Northern Ireland, as well as the Republic of Ireland. Kingfisher's total business rates bill eligible for relief in FY 20/21 was £105 million, of which £42 million was claimed in H1 20/21. In December, we decided to repay this and forego all UK and Republic of Ireland business rates relief for the entire 2020/21 tax year.
- **Store operating efficiencies:** Measures were put in place to reduce store variable costs during those periods when our stores were temporarily closed for in-store browsing and purchasing. These measures included reducing non-essential store maintenance costs and optimising store opening hours.
- **Discretionary costs:** We temporarily reduced spend on discretionary costs, including reducing or stopping travel, marketing, advertising, consumables and other GNFR spend. As we began to experience high levels of demand from Q2 20/21, it became necessary to resume most of these costs, and in some cases accelerate spend.
- **Inventory purchases:** We rapidly adjusted our purchasing plans in response to the significant changes in demand seen across the Group, particularly in Q1 20/21 when we temporarily closed our stores.
- **Capital expenditure (capex):** From mid-March 2020 we paused all non-committed development capex (for example, IT and new stores), and reduced repairs and maintenance capex to essential items. Following the reopening of stores from mid-late April 2020, all expenditure plans were evaluated on a case-by-case basis by the Group's investment committee. Obligatory contractual, legal or health and safety expenditures continued as normal. Gross capex during H1 20/21 was £76 million lower year on year. Spend on capex accelerated in H2 20/21 as we resumed new store openings and investment in IT initiatives, ending the year with total gross capex spend of £281 million (FY 19/20: £342 million). In line with our guidance, approximately £70 million of gross capex originally planned for FY 20/21 was deferred to FY 21/22.
- **Dividend:** As announced on 23 March 2020 and 22 September 2020, in light of the uncertainty caused by COVID, the Board did not propose a final dividend in relation to FY 19/20 (FY 18/19: £157 million) and did not declare an interim dividend for H1 20/21 (H1 19/20: £70m), respectively. As announced today, the Board will be resuming dividend payments. For further detail please refer to *'Dividend for FY 20/21'* within Section 2.
- **Rent:** In the UK and France, we paid a significant proportion of our quarterly-in-advance rental payments as monthly payments. We continue to negotiate rent reductions with landlords and in FY 20/21 we completed nine B&Q lease renegotiations with a combined net rent reduction of approximately 25%, alongside improved lease terms.
- **Deferral of indirect taxation (VAT) payments:** The UK government announced in March 2020 that all UK VAT-registered businesses had the option to defer any VAT payments due between 20 March 2020 and 30 June 2020. Having initially made use of this relief, all outstanding VAT payments were settled in June 2020.
- **Payments to suppliers:** To help optimise our working capital during H1 20/21, mutual agreements were reached with certain larger suppliers to temporarily extend payment terms by 30 days or more. Notwithstanding this, we maintained our policy to pay all suppliers in full and according to contractual payment terms.

Board and Group Executive team remuneration
In recognition of the impact of the above measures on Kingfisher's stakeholders and, at the request of the Board and Group Executive team, in March 2020 the Company's Remuneration Committee applied the following discretionary measures regarding executive remuneration:

- The entire Board and Group Executive team voluntarily reduced their base salaries and Board fees by 20%, from 1 April. The Group Executive team (excluding the CEO and CFO) returned to full salaries on 1 July, with the CEO and CFO following on 1 August. Board fees were restored from 1 October.
- The Group CEO and Group CFO received no annual FY 19/20 bonus payment.

Cash and liquidity
As of 31 January 2021, Kingfisher had cash and cash equivalents (net of bank overdrafts) of £1,136 million (FY 19/20: £195 million). Free cash flow for FY 20/21 was £938 million (FY 19/20: £191 million), benefiting from Kingfisher's strong sales performance as well as the cost and cash preservation actions detailed above.

The Group also has access to undrawn Revolving Credit Facilities (RCFs) of £225 million (due to expire in March 2022) and £550 million (most of which is due to expire in August 2023), totalling £775 million. The Group cancelled its £250 million RCF in February 2021 (which was due to expire in May 2021).

During H1 20/21, Kingfisher issued and subsequently redeemed £600 million of 11-month commercial paper under the Bank of England's Covid Corporate Financing Facility (CCFF). The Bank of England intends to close the CCFF to new purchases on 23 March 2021.

In May 2020, Kingfisher arranged a €600 million term facility with three French banks in support of its operations in France. As required under the terms of the loan, the full amount was drawn down on 18 May 2020. The term facility was repaid in full in December 2020 and cannot be redrawn.

As of 18 March 2021, the Group has access to over £2.2 billion in total liquidity, including cash and cash equivalents of over £1.4 billion.

Section 4: Trading review by division

Note: all commentary below is in constant currency.

UK & IRELAND

£m	2020/21	2019/20	% Reported Change	% Constant Currency Change	% LFL Change
B&Q	3,707	3,284	+12.9%	+12.8%	13.0%
Screwfix	2,036	1,828	+11.4%	+11.4%	6.6%
Total sales	**5,743**	**5,112**	**+12.4%**	**+12.3%**	**10.7%**

Retail profit	**681**	**499**	**+36.3%**	**+36.3%**
Retail profit margin %	11.9%	9.8%	+210 bps	+210bps

Kingfisher UK & Ireland sales increased by 12.3% (LFL +10.7%) to £5,743 million, reflecting strong trading from Q2 20/21 onwards, following the impact of COVID-related temporary store closures and disruption in Q1 20/21. Gross margin % increased by 80 basis points, largely reflecting higher full-price sales and lower clearance in B&Q, partly offset by higher supply & logistics costs in Screwfix.

Retail profit increased by 36.3% to £681 million, with a strong performance from both B&Q and Screwfix. Operating costs increased by 7.2% largely due to higher staff costs (headcount increases, higher bonuses and wage inflation), 41 net new store openings, and COVID-related costs. This was partially offset by temporary cost reduction measures (e.g. reduced advertising & marketing).

In H2 20/21, Kingfisher repaid the full amount of £25 million received in H1 20/21 under the UK and Republic of Ireland furlough programmes. In addition, in December 2020, Kingfisher decided to forego all UK and Republic of Ireland business rates relief, worth £105 million in FY 20/21. Of this, the benefit in H1 20/21 from business rates relief was £42 million, which was repaid.

B&Q total sales increased by 12.8% to £3,707 million. LFL sales increased by 13.0% with building & joinery the strongest performing category, followed by outdoor and surfaces & décor. LFL sales of weather-related categories increased by c.22% while sales of non-weather-related categories, including showroom, increased by c.10%. B&Q's e-commerce sales grew strongly in FY 20/21, increasing by 117% and representing 10% of total sales (FY 19/20: 5% of total sales).

In FY 21/22 we plan to relaunch **TradePoint**, B&Q's trade-focused banner. The business continues to be a significant part of B&Q at c.19% of its sales, with sales growth of c.11% in FY 20/21. Work is ongoing to address gaps in ranges, and to improve the digital customer journey and services proposition. Engagement from trade customers has been high in FY 20/21, with TradePoint's H2 20/21 LFL sales growing at over 20%.

B&Q opened five new stores in FY 20/21, including three compact stores.

Screwfix total sales increased by 11.4% (LFL +6.6%) to £2,036 million, with net space growth of nearly five percentage points. E-commerce sales grew by 165%, representing 78% of total sales (FY 19/20: 33% of total sales). Screwfix's stores in the Republic of Ireland continue to trade well (first store opened in December 2019). Screwfix orders were taken exclusively online from late March to late July 2020, with all stores closed for in-store browsing and purchasing during that period.

In FY 20/21, Screwfix opened 36 net new stores (including eight in the Republic of Ireland). The total number of stores at year-end is 722, including 12 in the Republic of Ireland. The business has a longer-term target of over 900 stores in both the UK and Republic of Ireland (versus previous target of 800 in the UK). In H1 21/22 the business will commence its broader international expansion plans, initially through an 'online-first' approach, similar to that applied to the Republic of Ireland.

FRANCE

£m	2020/21	2019/20	% Reported Change	% Constant Currency Change	% LFL Change
Castorama	2,265	2,145	+5.6%	+3.3%	+6.2%
Brico Dépôt	2,044	1,937	+5.5%	+3.2%	+3.8%
Total sales	**4,309**	**4,082**	**+5.5%**	**+3.2%**	**+5.1%**

Retail profit	**181**	**164**	**+10.3%**	**+7.9%**
Retail profit margin %	4.2%	4.0%	+20bps	+20bps

Kingfisher France sales increased by 3.2% (LFL +5.1%) to £4,309 million, reflecting strong trading from Q2 20/21 onwards, following the impact of COVID-related temporary store closures and disruption in Q1 20/21. The previously announced closure of eight Castorama stores impacted total sales growth by c.-2%. LFL sales growth also benefited by c.1% from our decision to gradually open more stores on Sundays, from Q3 20/21, in order to satisfy higher demand safely. Our banners significantly improved their competitive position in the French home improvement market, in particular Castorama, where the banner outperformed the market for the first time in many years (based on *Banque de France* data, which shows DIY retail sales +6.1% in FY 20/21).

Gross margin % decreased by 120 basis points, largely reflecting more trading events at both banners, the upweighting of special promotions (*arrivages*), and higher supply & logistics costs (including storage costs arising from strike action at French ports, and the impact during the French lockdown period from closed ports and warehouses).

Retail profit increased by 7.9% to £181 million driven by an overall decrease in operating costs of 0.9%. Operating costs decreased largely due to cost saving initiatives and *'activité partielle'* relief, and the closure of eight Castorama stores. This was partially offset by higher staff costs (headcount and higher frontline staff incentives & bonuses) and COVID-related costs.

Castorama total sales increased by 3.3% (LFL +6.2%) to £2,265 million. LFL sales of weather-related categories increased by c.12% while sales of non-weather-related categories, including showroom, increased by c.5%. Further commentary on many of the operational improvements made at Castorama France are detailed in *'We are making progress fixing issues from previous years'*, within Section 2. Castorama's e-commerce sales increased by 187% in FY 20/21, representing c.5% of total sales (FY 19/20: 2% of total sales).

Brico Dépôt total sales increased by 3.2% (LFL +3.8%) to £2,044 million. The upweighting of *arrivages* sales increased as the business continued to re-establish its discounter credentials. Brico's sales performance rebounded strongly in Q2 20/21, following the COVID-related temporary store closures in Q1. In H2 20/21, sales performance remained strong but (relative to Castorama) was impacted by the less favourable trend for trade-oriented business versus general home improvement during periods of lockdown. Brico's e-commerce sales increased by 169% in FY 20/21, representing c.5% of total sales (FY 20/21: 2% of total sales).

The store closure programme announced in March 2019 is now complete. As part of this, we closed four loss-making Castorama stores during H1 20/21 and a further four stores in H2 20/21, resulting in an overall reduction in space in France of c.4% (year on year). Two of the Castorama stores that were closed in H2 20/21 will be reopened in FY 21/22 as Brico Dépôt stores, given the potential for discounter formats within these locations. In December 2020, Castorama opened a new high-street compact format store in Lille.

OTHER INTERNATIONAL

	2020/21	2019/20	% Reported Change	% Constant Currency Change	% LFL Change
Sales (£m)					
Poland	1,550	1,461	+6.1%	+8.0%	+4.9%
Iberia	310	326	(4.9)%	(7.0)%	(7.0)%
Romania	242	216	+12.1%	+11.8%	+10.8%
Other±	-	5	n/a	n/a	n/a
Other International (ex-Russia)	**2,102**	**2,008**	**+4.7%**	**+5.6%**	**+3.5%**
Russia	189	311	(39.4)%	(31.8)%	(8.8)%
Other International	**2,291**	**2,319**	**(1.2)%**	**+1.2%**	**+2.3%**

Retail profit (£m)				
Poland	146	151	(3.7)%	(1.9)%
Iberia	3	2	+66.3%	+62.7%
Romania	(14)	(23)	+38.7%	+38.8%
Other±	-	(4)	n/a	n/a
Turkey (50% JV)	9	9	(2.7)%	+22.4%
Other International (ex-Russia)	**144**	**135**	**+6.1%**	**+10.0%**
Russia	(3)	(12)	+85.7%	+83.9%
Other International	**141**	**123**	**+14.5%**	**+17.8%**

Retail profit margin %				
Poland	9.4%	10.4%	(100)bps	(100)bps
Other International (ex-Russia)	**6.8%**	**6.7%**	**+10bps**	**+30bps**
Other International	**6.2%**	**5.3%**	**+90bps**	**+90bps**

± 'Other' relates to Screwfix Germany, where all 19 of its stores were closed during H1 19/20.

Other International (ex-Russia) total sales increased by 5.6% (LFL +3.5%) to £2,102 million, with growth in Poland and Romania offset by a decline in Iberia. Retail profit increased by 10.0% to £144 million, largely reflecting a lower retail loss in Romania. Including Russia, whose sale was completed on 30 September 2020, **Other International** retail profit increased by 17.8%.

Sales in **Poland** increased by 8.0% (LFL +4.9%) to £1,550 million, reflecting strong trading (in particular in Q2 and Q3 20/21, following COVID-related footfall declines in Q1 20/21). In addition, space growth contributed c.3% to total sales. LFL sales of weather-related categories increased by c.13% while sales of non-weather-related categories, including showroom, increased by c.4%. Poland's e-commerce sales grew strongly in FY 20/21, increasing by 171% and representing c.4% of total sales (FY 19/20: 2% of total sales). Gross margin % decreased by 60 basis points, largely reflecting mix, price positioning, and higher distribution costs. Retail profit decreased by 1.9% to £146 million with gross profit growth offset by an increase in operating costs of 9.4%. Operating costs increased largely due to space growth, wage and general inflation, higher frontline staff incentives & bonuses, and COVID-related costs. This was partially offset by the benefit of a COVID-related employment support scheme. Three new stores were opened during the year, including a new medium-box format.

In **Iberia**, sales decreased by 7.0% (LFL -7.0%) to £310 million, largely due to COVID-related temporary store closures in Spain (in H1 20/21), partially offset by a strong recovery in H2 20/21 (LFL sales +10.8%). Despite the impact of lockdowns on sales, operating costs were well controlled with retail profit increasing by 62.7% to £3 million.

Romania sales increased by 11.8% (+10.8% LFL) to £242 million, driven by higher demand across all product categories and the full year benefit from the successful rebranding of former Praktiker stores to the Brico Dépôt banner. As a result, the business reduced its retail loss by c.40% to £14 million (FY 19/20: £23 million reported retail loss), helped by lower operating costs.

Romania currently prepares its financial statements to 31 December. For FY 21/22, Romania will migrate to Kingfisher's financial reporting calendar, meaning Kingfisher's Q1 21/22 results will include an additional month of results for Romania (i.e. January to April).

As previously announced, Kingfisher completed the sale of Castorama Russia to Maxidom, a leading home improvement company in Russia, on 30 September 2020. Of the total consideration of £72 million, £57 million was received during the year, with the remaining £15 million to be received in equal instalments over the next two years. As a result of the timing of the transaction, **Russia** sales decreased by 31.8%, although on a LFL basis decreased by 8.8% to £189 million. Up to 30 September, the business made a retail loss of £3 million (FY 19/20: £12 million reported retail loss).

In **Turkey**, Kingfisher's 50% joint venture, Koçtaş, contributed £9 million of retail profit (FY 19/20: £9 million reported retail profit).

Finally, in November 2020, Kingfisher acquired **NeedHelp**, one of Europe's leading home improvement services marketplaces. The consolidated results of the business for the two-month period post-acquisition are included in 'Other International' but, due to its size and rounding, do not appear in the tables above. For further detail please refer to *'Build a mobile-first and service orientated customer experience'* within Section 2.

RETAIL BANNER EMPLOYEES, STORE NUMBERS AND SALES AREA

	Employees (FTE) at 31 Jan 2021	Store numbers at 31 Jan 2021	Sales area[1] (000s m^2) at 31 Jan 2021
B&Q	18,034	301	2,210
Screwfix	9,342	722	46
UK & Ireland	**27,376**	**1,023**	**2,256**
Castorama	10,728	93	1,160
Brico Dépôt	8,124	121	847
France	**18,852**	**214**	**2,007**
Poland	12,160	83	717
Iberia	1,849	31	195
Romania	2,254	35	253
Other International[2]	**16,263**	**149**	**1,165**
Total[2]	**62,491**	**1,386**	**5,428**

(1) Screwfix sales area relates to the front of counter area of an outlet.
(2) Excludes NeedHelp employees.

Section 5: FY 2021/22 Technical guidance

The following guidance applies in the event of no adverse change in COVID-related confinement measures (for example, new lockdown restrictions resulting in further store closures). Please also refer to Section 8 for further details regarding forward-looking statements.

Income statement:

- LFL sales outlook
  - **H1 21/22** – expect low double-digit LFL sales growth
  - **H2 21/22** – planning for LFL scenarios of -15% to -5% (2-year LFLs for H2 of -1% to +11%). Range reflects uncertainty over the macroeconomic and consumer environment in H2
- Space
  - Anticipate net space growth (excluding Russia) to impact total sales by c.+1.5%, largely from the UK and Poland. Total sales impact from the disposal of Russia will be c.-1.5%
- Costs
  - Central costs – expected to be broadly flat year on year (FY 20/21: £54m)
  - COVID-related costs – expected to be c.£10m (FY 20/21: £45m)
- Net finance costs
  - Expected to decrease by c.£10m as a result of lower lease liability balance and lower non-lease interest (FY 20/21: £160m)
- Adjusted pre-tax profit
  - Aiming to grow full year adjusted pre-tax profit (before c.£85 million of non-recurring net cost savings in FY 20/21) in line with sales(1)
- Tax rate
  - Group adjusted effective tax rate expected to be c.23%(2) (FY 20/21: 23%)

Cash flow:

- Capital expenditure – targeting gross capex of up to 3.5% of total sales, including c.£70m of capex deferred from FY 20/21 (FY 20/21: £281m; FY 19/20: £342m)
- Tax – as anticipated, in February 2021 we paid c.£57m (excluding interest) to HMRC in relation to the EC state aid challenge (contested and recorded as a receivable)

(1) Group total sales growth and adjusted pre-tax profit growth in constant currency.
(2) Subject to the blend of profit within the Group's various jurisdictions.

Kingfisher

Section 6: FY 2020/21 Financial review

A summary of the reported financial results for the year ended 31 January 2021 is set out below.

Financial summary	**2020/21**	**2019/20**	**% Total Change Reported**	**% Total Change Constant currency**	**% LFL Change Constant currency**
Sales	£12,343m	£11,513m	+7.2%	+6.8%	+7.1%
Gross profit	£4,573m	£4,255m	+7.5%	+6.9%	
Gross margin %	37.1%	37.0%	+10bps	-	
Operating profit	£916m	£283m	+223.7%		
Statutory pre-tax profit	£756m	£103m	+634.0%		
Statutory post-tax profit	£592m	£8m	n/a		
Statutory basic EPS	28.1p	0.4p	n/a		
Cash and bank overdrafts	£1,136m	£195m	n/a		
Total dividend	8.25p	3.33p	n/a		
Adjusted metrics					
Retail profit	£1,003m	£786m	+27.5%	+27.4%	
Retail profit margin %	8.1%	6.8%	+130bps	+130bps	
Adjusted pre-tax profit	£786m	£544m	+44.4%		
Adjusted pre-tax profit margin %	6.4%	4.7%	+170bps		
Adjusted effective tax rate	23%	26%	n/a		
Adjusted post-tax profit	£604m	£400m	+51.0%		
Adjusted basic EPS	28.7p	19.1p	+50.3%		
Free cash flow	£938m	£191m	+391.1%		
Net debt(1)	£(1,394)m	£(2,526)m	n/a		

(1) Net debt includes c.£2.4 billion lease liabilities under IFRS 16 in FY 20/21 (2019/20: c.£2.6 billion).

Total **sales** increased by 6.8% on a constant currency basis, to £12,343 million, driven by a strong sales performance in all our key markets. On a reported basis, which includes the impact of exchange rates, total sales increased by 7.2%. LFL sales increased by 7.1%, which excludes the sales impact from an overall reduction in space of -0.3%. During the year, we opened 47 new stores (including 43 stores in the UK & Ireland, three in Poland and one in France), closed 10 stores (including 2 stores in the UK & Ireland and eight in France), and disposed of all 18 stores in Russia as part of the sale of the business.

Gross margin % was flat on a constant currency basis, reflecting higher full-price sales and lower clearance, offset by higher supply & logistics costs and more trading initiatives at some banners compared to the same period last year. On a reported basis, gross margin increased by 10 basis points.

Reported **retail profit** increased by 27.5% including £1 million of favourable foreign exchange movement on translating foreign currency results into sterling. In constant currency, retail profit increased by 27.4%, driven largely by a strong performance in the UK & Ireland. Participation in government support schemes, after amounts repaid, lowered the operating costs of the Group by £45 million in the year.

Statutory pre-tax profit, which includes exceptional adjusting items, increased by 634% to £756 million.

A reconciliation from the adjusted basis to the statutory basis for pre-tax profit is set out below:

	2020/21 £m	2019/20 £m	Increase/ (decrease)
Retail profit	**1,003**	786	27.5%
Central costs	**(54)**	(62)	
Share of interest and tax of joint ventures & associates	**(3)**	(7)	
Net finance costs (pre-exceptional adjusting items)	**(160)**	(173)	
Adjusted pre-tax profit	**786**	544	44.4%
Exceptional adjusting items before tax	**(30)**	(441)	
Statutory pre-tax profit	**756**	103	634.0%

Net finance costs of £160 million (2019/20: £173 million) consists principally of interest on IFRS 16 lease liabilities. Net finance costs decreased by 6.2%, largely due to lower lease liabilities.

Net exceptional adjusting items were £33 million (2019/20: £400 million), as detailed below:

	2020/21 £m Gain/(charge)	2019/20 £m Gain/(charge)
Transformation exceptional costs	**-**	(8)
Store closures	**-**	(67)
Russia impairments & other exit costs	**(27)**	(130)
Russia loss on disposal	**(49)**	-
Store impairments / reversals	**42**	(118)
Romania impairments	**-**	(39)
FTA settlement and business tax	**-**	(50)
Property disposals	**13**	15
Commercial operating model restructuring	**(16)**	-
Other	**7**	(44)
Exceptional adjusting items before tax	**(30)**	(441)
Exceptional adjusting tax items	**(3)**	41
Net exceptional adjusting items	**(33)**	(400)

Exceptional costs of £27 million have been recognised in FY 20/21 in relation to the sale of Castorama Russia in September 2020, mainly relating to additional impairments that reflect the net proceeds from the sale of the business.

The sale of Russia also resulted in a loss on disposal of £49 million. This relates largely to the transfer of cumulative foreign exchange losses previously recorded in the translation reserve and arising on consolidation from the retranslation of the Group's net investment in Castorama Russia.

Revised future store performance projections, reflecting the Group's 'Powered by Kingfisher' strategy and judgements on the sustainable benefits of the COVID pandemic on the market for home improvement products and services, have resulted in net store asset impairment reversals of £42 million. These comprise predominately of reversals of impairment charges recorded in FY 19/20.

A profit of £13 million was recorded on the disposal of a property in the UK. In September 2020 we announced to our colleagues a fundamental reorganisation of our commercial operating model, for which a restructuring charge of £16 million was recorded.

'Other' exceptional adjusting items include a £14 million liability that was held in relation to warranties as part of the B&Q China disposal in 2014. This was released in FY 20/21 following the expiry of the warranty claims period. Of this amount, £10 million has been recognised within operating profit and £4 million has been recognised within exceptional adjusting tax items. 'Other' exceptional adjusting items in FY 20/21 also include £3 million in relation to IT asset write-downs.

Taxation

The Group's adjusted effective tax rate is sensitive to the blend of tax rates and profits in the Group's various jurisdictions. It is higher than the UK statutory rate because of the amount of Group profit that is earned in higher tax jurisdictions. The adjusted effective tax rate, calculated on profit before exceptional adjusting items, prior year tax adjustments and the impact of future rate changes, is 23% (2019/20: 26%).

The overall effective tax rate includes the impact of exceptional adjusting items and prior year adjustments. The impact of these lower the rate from 23% to 22%. This mainly reflects the applicable tax treatment of exceptional adjusting items, the revaluation of deferred tax balances in the year due to the repealed UK tax rate reduction, and the release of prior year provisions which reflect a reassessment of expected outcomes, agreed positions with tax authorities and items that have time-expired.

	Pre-tax profit £m	**Tax £m**	**2020/21 %**	Pre-tax profit £m	Tax £m	2019/20 %
Adjusted effective tax rate	**786**	**(182)**	**23%**	544	(144)	26%
Exceptional adjusting items	**(30)**	**(3)**		(441)	41	
Prior year items	**-**	**21**		-	8	
Overall tax rate	**756**	**(164)**	**22%**	103	(95)	92%

The Group has been impacted by the European Commission's state aid decision published in April 2019, which concerns the UK's controlled foreign company rules. Along with the UK government and other UK-based international companies, Kingfisher has appealed the decision to the European courts. Refer to note 15 of the condensed financial statements.

The statutory tax rates applicable to this financial year and the expected statutory tax rates for next year in our main jurisdictions are as follows:

	Statutory tax rate 2021/22	Statutory tax rate 2020/21
UK	**19%**	19%
France	**28%**	32%
Poland	**19%**	19%

Adjusted basic earnings per share increased by 50.3% to 28.7p (2019/20: 19.1p), which excludes the impact of exceptional adjusting items and prior year tax items. **Basic earnings per share** increased to 28.1p (2019/20: 0.4p) as set out below:

	Earnings(1) £m	**2020/21 EPS pence**	Earnings(1) £m	2019/20 EPS pence
Adjusted basic earnings per share	**604**	**28.7**	400	19.1
Net exceptional adjusting items	**(33)**	**(1.6)**	(400)	(19.1)
Prior year tax items	**21**	**1.0**	8	0.4
Basic earnings per share	**592**	**28.1**	8	0.4

(1) Earnings figures presented reconcile adjusted post-tax profits to statutory post-tax profits.

Dividends

The Board has proposed a total dividend per share of 8.25p in respect of FY 20/21, comprising an interim dividend of 2.75p in respect of the six months ended 31 July 2020 (2019/20 interim dividend: 3.33p) and a final dividend of 5.50p (2019/20 final dividend: nil). The final dividend is subject to the approval of shareholders at the Annual General Meeting on 30 June 2021, and will be paid alongside the interim dividend on 5 July 2021 to shareholders on the register at close of business on 4 June 2021.

A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. The shares will go ex-dividend on 3 June 2021. For those shareholders electing to receive the DRIP the last date for receipt of election is 14 June 2021.

For further detail on dividends please refer to *'Dividend for FY 20/21'* within Section 2.

Return on capital employed (ROCE*)
In FY 20/21 Kingfisher's post-tax ROCE was 12.7% (2019/20: 8.6%). The increase was mainly driven by higher profit in the UK & Ireland, and the impact on capital employed of favourable movements in working capital. Kingfisher's weighted average cost of capital (WACC) is 6.9%.

ROCE by geographic division is analysed below (Russia is excluded from 2020/21):

	Sales £bn	Proportion of Group sales	Capital employed (CE) £bn	Proportion of Group CE	**ROCE 2020/21**	ROCE 2019/20
UK & Ireland	5.7	47.3%	2.8	48.8%	**19.6%**	13.6%
France	4.3	35.4%	1.7	30.3%	**7.0%**	6.0%
Other International	2.1	17.3%	1.2	20.5%	**9.3%**	6.7%
Central			-	0.4%		
Total	**12.1**		**5.7**		**12.7%**	8.6%

Free cash flow
A reconciliation of free cash flow is set out below:

	2020/21 £m	2019/20 £m
Operating profit	**916**	283
Exceptional adjusting items	**30**	434
Operating profit (before exceptional adjusting items)	**946**	717
Other non-cash items(1)	**570**	566
Change in working capital	**376**	(127)
Pensions and provisions	**(29)**	(33)
Net rent paid	**(456)**	(469)
Operating cash flow	**1,407**	654
Net interest paid	**(22)**	(17)
Tax paid	**(166)**	(104)
Gross capital expenditure	**(281)**	(342)
Free cash flow	**938**	191
Ordinary dividends paid	**-**	(227)
Share purchase for employee incentive schemes	**(14)**	(10)
Disposal of Castorama Russia and acquisition of NeedHelp	**19**	-
Disposal of assets and other(2)	**(1)**	49
Net cash flow*	**942**	3
Opening net debt	**(2,526)**	(2,542)
Lease liabilities disposed	**27**	-
Other movements in lease liabilities	**136**	40
Other movement including foreign exchange	**27**	(27)
Closing net debt	**(1,394)**	(2,526)

(1) Includes principally depreciation and amortisation, share-based compensation charge and pension operating cost.
(2) Includes exceptional adjusting cash flow items, principally relating to store closures and other restructuring costs.

Operating profit before exceptional adjusting items was £229 million higher than last year, largely reflecting higher profits in the UK & Ireland and France.

The working capital inflow of £376 million reflects the consistently strong sales performance of the Group from Q2 20/21 onwards. The inflow is driven by a £86 million decrease in stock, largely due to the strong demand levels seen in H2 20/21; and an increase in payables (net of receivables) of £290 million, reflecting timing of inventory purchases and higher payroll and VAT creditors associated with stronger sales levels.

Gross capital expenditure for the year was £281 million (2019/20: £342 million). After the onset of the coronavirus crisis, expenditure was largely limited to essential areas during the remainder of H1 20/21 (refer to Section 3 for further detail). Overall, approximately £70 million of gross capital expenditure originally planned for FY 20/21 was deferred to FY 21/22. Of the expenditure in FY 20/21, 32% was invested on refreshing, maintaining and adapting existing stores (including renewable energy initiatives), 23% on new stores, 27% on IT and digital development, 12% on range reviews and 6% on other areas including supply chain investment.

Overall, free cash flow for FY 20/21 was £938 million (2019/20: £191 million).

Kingfisher completed the sale of Castorama Russia to Maxidom, a leading home improvement company in Russia, on 30 September 2020. Of the total consideration of £72 million, £57 million was received during the year, with the remaining £15 million to be received in equal instalments over the next two years. This resulted in a net cash inflow on disposal of £27 million, after cash disposed with the business and transaction costs. Refer to note 14 of the condensed financial statements.

In November 2020, Kingfisher acquired NeedHelp, one of Europe's leading home improvement services marketplaces, for a total cash consideration of £9 million (before cash acquired of £1 million), resulting in a net cash outflow on acquisition of £8 million. Refer to note 13 of the condensed financial statements.

Net debt (including IFRS 16 lease liabilities) as of 31 January 2021 was £1,394 million (2019/20: £2,526 million).

Management of balance sheet and liquidity risk and financing

<u>Management of cash and debt facilities</u>
Kingfisher regularly reviews the level of cash and debt facilities required to fund its activities. This involves preparing a prudent cash flow forecast for the medium term, determining the level of debt facilities required to fund the business, planning for repayments of debt at its maturity and identifying an appropriate amount of headroom to provide a reserve against unexpected outflows and/or unexpected impacts to cash inflows (for example, COVID-related temporary store closures).

<u>Net debt to EBITDA</u>
As a result of the Group's strong cash position, the Group ended the period with £1.4 billion (2019/20: £2.5 billion) of net debt on its balance sheet including £2.4 billion (2019/20: £2.6 billion) of total lease liabilities. The ratio of the Group's net debt to EBITDA was 0.9 times as of 31 January 2021 (2.0 times as of 31 January 2020). At this level, the Group has the necessary financial flexibility during this current period of heightened uncertainty, whilst retaining an efficient cost of capital. Over the medium term, the Group's objective is to maintain a target of c.2.0 times net debt to EBITDA.

Net debt to EBITDA is set out below:

	2020/21 £m	2019/20 £m
Retail profit	**1,003**	786
Central costs	**(54)**	(62)
Depreciation and amortisation	**536**	545
EBITDA	**1,485**	1,269
Net debt	**1,394**	2,526
Net debt to EBITDA	**0.9**	2.0

Credit ratings
Kingfisher holds a BBB- credit rating with Fitch, (P) Baa2 rating with Moody's, and a BBB- rating with Standard and Poor's.

Revolving credit facilities
As of 31 January 2021, the Group had undrawn revolving credit facilities (RCFs) of £225 million due to expire in March 2022 and £550 million, most of which is due to expire in August 2023. The Group also had access to a £250 million RCF (that was due to expire in May 2021), which was cancelled in February 2021.

Other borrowings
In July 2018, following a reverse enquiry, a €50 million Floating Rate Note (FRN) was issued under Kingfisher's €2.5 billion European Medium Term Note (EMTN) programme. The note matured in July 2020.

The Group also has two fixed term loans: €50 million maturing in September 2021 and £50 million maturing in December 2021.

Covenants
The terms of the committed RCFs and the £50 million term loan require that the ratio of Group operating profit (excluding exceptional adjusting items), to net interest payable (excluding interest on IFRS 16 lease liabilities) must be no less than 3:1 for the preceding 12 months as at the half and full year-ends. As of 31 January 2021, Kingfisher's ratio was higher than this requirement.

Prêt garanti par l'État
In May 2020, Kingfisher arranged a €600 million (c.£537 million) term facility with three French banks in support of its operations in France. The loan was guaranteed at 80% by the French State (*Prêt garanti par l'État*) and had a maturity of one year, extendable for up to five years. As required under the terms of the loan, the full amount was drawn down on 18 May 2020. The term facility was repaid in full in December 2020 and cannot be redrawn.

Euro Commercial Paper (ECP) programme and Covid Corporate Financing Facility (CCFF)
During FY 20/21, the Group established an ECP programme, allowing it to issue short-term commercial paper for periods from one week up to 12 months into the market to provide liquidity. The establishment of this programme also enabled the Group to participate in the Bank of England's CCFF.

Following the UK Government's announcement on 17 March 2020, the Group successfully applied for the CCFF, which was made available to assist UK businesses bridge COVID-related disruption to their cash flows. During H1 20/21, the Group issued and subsequently redeemed £600 million of 11-month commercial paper under the CCFF. The Bank of England intends to close the CCFF to new purchases on 23 March 2021.

Total liquidity
As of 18 March 2021, the Group has access to over £2.2 billion in total liquidity, including cash and cash equivalents of over £1.4 billion and access to £775 million of funding under the RCFs.

Further detail on Kingfisher's debt and facilities can be found at www.kingfisher.com.

Property

Kingfisher owns a significant property portfolio, almost all of which is used for trading purposes. A valuation was performed for internal purposes in October 2020 with the portfolio valued by external professional valuers. Based on this exercise, on a sale and leaseback basis with Kingfisher in occupancy, the value of property is £2.7 billion as of 31 January 2021 (2019/20: £2.9 billion).

	2020/21 £bn	**2020/21 Yields**	2019/20 £bn	2019/20 Yields
France	**1.4**	**8.3%**	1.4	8.1%
UK	**0.5**	**6.9%**	0.6	5.8%
Poland	**0.6**	**7.9%**	0.6	7.4%
Other	**0.2**	**n.a.**	0.3	n.a.
Total	**2.7**		2.9	

This is compared to the net book value of £2.2 billion (2019/20: £2.2 billion) recorded in the financial statements (including investment property and property included within assets held for sale). Balance sheet values were frozen at 1 February 2004 on the transition to IFRS.

Pensions

As of 31 January 2021, the Group had a net surplus of £359 million (2019/20: £277 million) in relation to defined benefit pension arrangements, of which a £504 million surplus (2019/20: £404 million) was in relation to the UK scheme. The favourable movement in the net surplus is driven by returns on the UK scheme assets more than offsetting the actuarial losses on the liabilities due to a lower discount rate assumption. This accounting valuation is sensitive to a number of assumptions and market rates which are likely to fluctuate in the future. Refer to note 10 of the condensed financial statements for a sensitivity analysis.

Section 7: Glossary

Alternative Performance Measures (APMs)

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures (APMs), also known as non-GAAP measures, of historical or future financial performance, position or cash flows other than those defined or specified under International Financial Reporting Standards (IFRS). These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including those used by other retailers. APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
Adjusted basic earnings per share (EPS)	Basic earnings per share	A reconciliation of adjusted basic earnings per share is included in the Financial Review (Section 6) and note 8 of the condensed financial statements	Adjusted basic earnings per share represents profit after tax attributable to the owners of the parent, before the impact of exceptional adjusting items, FFVR (see below), related tax items and tax on prior year items, divided by the weighted average number of shares in issue during the period. The exclusion of exceptional adjusting items, FFVR, related tax items and tax on prior year items helps provide an indication of the Group's ongoing business performance.
Adjusted effective tax rate	Effective tax rate	A reconciliation to the overall tax rate is set out in the Financial Review (Section 6)	Adjusted effective tax rate is calculated as continuing income tax expense excluding tax on exceptional adjusting items and adjustments in respect of prior years and the impact of changes in tax rates on deferred tax, divided by continuing profit before taxation excluding exceptional adjusting items. The exclusion of items relating to prior years and those not in the ordinary course of business helps provide an indication of the Group's ongoing tax rate.
Adjusted pre-tax profit	Profit before taxation	A reconciliation of adjusted pre-tax profit is set out in the Financial Review (Section 6) and the consolidated income statement of the condensed financial statements	Adjusted pre-tax profit is used to report the performance of the business at a Group level. This is stated before exceptional adjusting items and FFVR. The exclusion of exceptional adjusting items and FFVR helps provide an indication of the Group's ongoing business performance.
Adjusted pre-tax profit margin %	No direct equivalent	Refer to definition	Adjusted pre-tax profit is used to report the performance of the business at a Group level and is separately defined. Adjusted pre-tax

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
			profit margin % represents adjusted pre-tax profit as a percentage of sales. It is a measure of overall business profitability.
Adjusted post-tax profit	Profit after tax	A reconciliation of adjusted post-tax profit is set out in the Financial Review (Section 6) and note 8 of the condensed financial statements	Adjusted post-tax profit is used to report the after tax performance of the business at a Group level. This is stated before exceptional adjusting items, FFVR and tax on those items. This also excludes tax adjustments in respect of prior years and the impact of changes in tax rates on deferred tax. The exclusion of exceptional adjusting items, FFVR and tax items relating to prior years and those not in the ordinary course of business helps provide an indication of the Group's ongoing after tax business performance.
Central costs	No direct equivalent	Not applicable	Central costs principally comprise the costs of the Group's head office before exceptional adjusting items. This helps provide an indication of the Group's ongoing head office costs.
Constant currency	No direct equivalent	Not applicable	Constant currency changes in total sales, LFL sales, gross profit, gross margin % and retail profit reflect the year on year movements after translating the prior year comparatives at the current year's average exchange rates. These are presented to eliminate the effects of exchange rate fluctuations on the reported results.
Dividend cover	No direct equivalent	Not applicable	Dividend cover represents the ratio of earnings to dividends. It is calculated as adjusted basic earnings per share divided by the total (full year) dividend per share. It is used as an indication of how sustainable dividend payments are.
EBITDA	Profit before taxation	A reconciliation of EBITDA is set out in the Financial Review (Section 6)	EBITDA (earnings before interest, tax, depreciation and amortisation) is calculated as retail profit less central costs and before depreciation and amortisation. This measure is widely used in calculating the ratio of net debt to EBITDA, and is used to reflect the Group's leverage.
Exceptional adjusting items	No direct equivalent	Not applicable	Exceptional adjusting items are certain types of income or cost that are excluded by virtue of their size

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
			and/or nature in order to reflect management's view of the ongoing performance of the Group. The principal exceptional adjusting items are: non-trading items included in operating profit such as profits and losses on the disposal, closure, exit or impairment of subsidiaries, joint ventures, associates and investments which do not form part of the Group's ongoing trading activities; profits and losses on the disposal of properties and significant write-downs of goodwill and significant write-downs (or impairment reversals) of other assets; the costs of significant restructuring; and incremental acquisition integration costs; and significant one-off tax settlements and provision charges/releases and the tax effects of other exceptional adjusting items.
FFVR	No direct equivalent	Included within net finance costs in note 5 of the condensed financial statements	FFVR (financing fair value remeasurements) represent fair value fluctuations from financial instruments.
Free cash flow	No direct equivalent	A reconciliation of free cash flow is set out in the Financial Review (Section 6)	Free cash flow represents the cash generated from operations (excluding exceptional adjusting items) less the amount spent on interest, tax and capital expenditure during the year (excluding business asset disposals). This provides a measure of how much cash the business generates that can be used for expansion, capital returns and other purposes.
Gross margin %	No direct equivalent	Refer to definition	Gross profit represents sales from the supply of home improvement products and services (excluding VAT), less the associated cost of those sales. Gross margin % represents gross profit as a percentage of sales. It is a measure of operating performance.
LFL	Sales	Refer to definition	LFL (like-for-like) sales growth represents the constant currency, year on year sales growth for stores that have been open for more than one year. Stores temporarily closed or otherwise impacted due to COVID are also included. It is a measure to

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
			reflect the Group's performance on a comparable basis.
2-year LFL	Sales	Refer to definition	2-year LFL is calculated by compounding current and prior year LFL growth. For example, current year LFL growth of 10% and prior year LFL growth of 5% results in 2-year LFL growth of 15.5%. It is a measure to reflect the Group's performance on a comparable basis.
Net debt	No direct equivalent	A reconciliation of this measure is provided in note 12 of the condensed financial statements	Net debt comprises lease liabilities, borrowings and financing derivatives (excluding accrued interest), less cash and cash equivalents and short-term deposits, including such balances classified as held for sale.
Net cash flow	Net increase in cash and cash equivalents and bank overdrafts	A reconciliation of net cash flow is set out in note 12 of the condensed financial statements	Net cash flow is a measure to reflect the total movement in the net debt balance during the year excluding the movement in lease liabilities, exchange differences and other non-cash movements.
Non-recurring net cost savings	No direct equivalent	Not applicable	Non-recurring net cost savings include discretionary cost savings such as advertising & marketing and government furlough programme support. This is net of one-off COVID-related costs, including supply & logistics costs, costs of PPE and social distancing, donations, new store layouts, additional store security, and additional bonuses to frontline store staff.
Retail profit	Profit before taxation	A reconciliation to profit before taxation is set out in the Financial Review (Section 6) and note 3 of the condensed financial statements	Retail profit is stated before central costs, exceptional adjusting items and the Group's share of interest and tax of JVs and associates. This is the Group's operating profit measure used to report the performance of our retail businesses.
Retail profit margin %	No direct equivalent	Refer to definition	Retail profit is the Group's operating profit measure used to report the performance of our retail businesses and is separately defined. Retail profit margin % represents retail profit as a percentage of sales. It is a measure of operating performance.
ROCE	No direct equivalent	Refer to definition	ROCE is the post-tax retail profit less central costs, excluding exceptional adjusting items, divided by capital employed excluding

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
			historic goodwill, net cash and exceptional adjusting restructuring provision. The measure provides an indication of the ongoing returns from the capital invested in the business. Capital employed is calculated as a two point average. The calculation excludes disposed businesses.
Same-store net inventory	Inventory	Refer to definition	Same-store net inventory movement represents the constant currency, year on year change in net inventory before the impact of store openings and closures. Stores temporarily closed or otherwise impacted due to COVID are also included. It is a measure to reflect the Group's inventory management on a comparable basis.

Banque de France data for DIY retail sales (non-seasonally adjusted). Includes relocated and extended stores. http://webstat.banque-france.fr/en/browse.do?node=5384326

E-commerce sales are total sales derived from online transactions, including click & collect. This includes sales transacted on any device, however not sales through a call centre. References to digital or e-commerce sales growth relates to growth at constant currency.

France consists of Castorama France and Brico Dépôt France.

GNFR (Goods Not For Resale) covers the procurement of all goods and services a retailer consumes (including media buying, mechanical handling equipment, printing & paper).

Iberia consists of Brico Dépôt Spain and Brico Dépôt Portugal.

Other International consists of Poland, Iberia, Romania, NeedHelp, Russia, Screwfix Germany and Turkey (Koçtaş JV). Screwfix Germany was wound down in H1 19/20 and the sale of Russia was completed in H2 20/21 (on 30 September 2020).

Sales refer to Group sales excluding Joint Venture (Koçtaş JV) sales.

SKU (Stock Keeping Unit) is defined as the number of individual variants of products sold or remaining in stock. It is a distinct type of item for sale, such as a product and all attributes associated with the item type that distinguish it from others. These attributes could include, but are not limited to, manufacturer, description, material, size, colour, packaging and warranty terms.

UK & Ireland consists of B&Q in the UK & Ireland and Screwfix UK & Ireland.

Section 8: Forward-looking statements

You are not to construe the content of this announcement as investment, legal or tax advice and you should make your own evaluation of the Company and the market. If you are in any doubt about the contents of this announcement or the action you should take, you should consult a person authorised under the Financial Services and Markets Act 2000 (as amended) (or if you are a person outside the UK, otherwise duly qualified in your jurisdiction).

This announcement has been prepared in relation to the financial results for the full year ended 31 January 2021. The financial information referenced in this announcement is not audited and does not contain sufficient detail to allow a full understanding of the results of the Group. Nothing in this announcement should be construed as either an offer or invitation to sell or any offering of securities or any invitation or inducement to any person to underwrite, subscribe for or otherwise acquire securities in any company within the Group or an invitation or inducement to engage in investment activity under section 21 of the Financial Services and Markets Act 2000 (as amended).

Certain information contained in this announcement may constitute "forward-looking statements" (including within the meaning of the safe harbour provisions of the United States Private Securities Litigation Reform Act of 1995), which can be identified by the use of terms such as "may", "will", "would", "could", "should", "expect", "anticipate", "project", "estimate", "intend", "continue", "target", "plan", "goal", "aim" or "believe" (or the negatives thereof) or other variations thereon or comparable terminology. These forward-looking statements include all matters that are not historical facts and include statements regarding the Company's intentions, beliefs or current expectations and those of our Officers, Directors and employees concerning, amongst other things, the Company's results of operations, financial condition, changes in global or regional trade conditions, changes in tax rates, changes to customer preferences, liquidity, prospects, growth and strategies, acts of war or terrorism worldwide, work stoppages, slowdowns or strikes, public health crises, outbreaks of contagious disease, environmental disruption or political volatility. By their nature, forward-looking statements involve inherent risks, assumptions and uncertainties that could cause actual events or results or actual performance of the Company to differ materially from those reflected or contemplated in such forward-looking statements. For further information regarding risks to Kingfisher's business, please consult the risk management section of the Company's Annual Report (as published). No representation or warranty is made as to the achievement or reasonableness of and no reliance should be placed on such forward-looking statements.

The Company does not undertake any obligation to update or revise any forward-looking statement to reflect any new information, change in circumstances, or change in the Company's expectations.