Kingfisher

Half year results for the six months ended 31 July 2020 (unaudited)

Financial summary	**2020/21**	**2019/20**	**% Total Change Reported**	**% Total Change Constant currency***	**% LFL* Change Constant currency**
Sales	£5,921m	£5,997m	(1.3)%	(1.1)%	(1.6)%
Gross profit	£2,186m	£2,221m	(1.6)%	(1.5)%	
Gross margin %*	36.9%	37.0%	(10)bps	(10)bps	
Statutory pre-tax profit	£398m	£245m	+62.4%		
Statutory post-tax profit	£317m	£171m	+85.4%		
Statutory basic EPS	15.1p	8.1p	+86.4%		
Interim dividend	-	3.33p	n/a		
Adjusted metrics					
Retail profit*(1)	£533m	£454m	+17.4%	+17.7%	
Retail profit margin %*	9.0%	7.6%	+140bps	+140bps	
Adjusted pre-tax profit*	£415m	£337m	+23.1%		
Adjusted effective tax rate*	24%	26%			
Adjusted post-tax profit*	£317m	£248m	+27.8%		
Adjusted basic EPS*	15.1p	11.8p	+28.0%		
Free cash flow*	£1,042m	£204m	+410.8%		
Net financial cash(2)	£1,149m	£254m	n/a		
Net debt*(3)	£(1,377)m	£(2,384)m	n/a		

** 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 half year 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 better understand the Group's results. Where required, a reconciliation to statutory amounts is set out in the Financial Review (Section 5).*

Highlights

- Resilient performance in H1 with strong sales recovery in Q2
- Stronger demand for home improvement across our markets
- New strategy delivering early benefits
- Crisis has reinforced our approach, pushing us to be bolder
- Encouraging progress with our strategic priorities
- Ongoing focus on managing through COVID-19
- Confident in the opportunities ahead and committed to returning Kingfisher to growth

H1 20/21 Group results:

- **Sales** down 1.1% in constant currency, reflecting adverse impact of COVID-19 in Q1 partially offset by strong recovery in Q2
- **LFL sales** down 1.6% with growth in B&Q, Poland and Romania offset by France*, Screwfix, Russia and Iberia*
  - LFL sales up 19.5% in Q2 20/21 with growth in all retail banners except Russia and Iberia
- **E-commerce sales*** up 164%; now 19% of total Group sales (H1 19/20: 7%)
- **Retail profit** up 17.7% in constant currency, largely driven by lower overall costs and B&Q performance
- **Adjusted pre-tax profit** up 23.1%
- **Statutory pre-tax profit** up 62.4% after net £17 million of exceptional* charges
- **Free cash flow** of £1,042 million, up £838 million, reflecting higher operating profit, working capital inflow of £656 million and lower capex
- **Net debt to last twelve months' EBITDA*** of 1.0x (2.0x as at year-end); below 2.0-2.5x medium term target range
- No **interim dividend** for H1 20/21 given ongoing uncertainty

Thierry Garnier, Chief Executive Officer, said:

“We delivered a resilient financial performance in the first half of the year, with the adverse impact of COVID-19 in Q1 offset by a strong recovery in Q2. This recovery has continued into Q3 to date, with growth across all banners and categories.

“The crisis has prompted more people to rediscover their homes and find pleasure in making them better. It is creating new home improvement needs, as people seek new ways to use space or adjust to working from home. It’s also clear that customers are becoming more comfortable with ordering online. And delivering value to consumers is imperative against a challenging economic backdrop.

“Through our new strategic direction our retail banners have gained agility and have leveraged their distinct positioning. This has strengthened our market positions and delivered much improved LFL sales before and after the lockdowns. Our experiences through the crisis have reinforced the benefits of our strategic direction and have made us bolder in our priorities.

“We have made progress against the strategic plan announced in June. We are fundamentally reorganising our commercial operating model to serve our customers better. We have accelerated our plans around e-commerce, with a focus on fulfilment from stores. We are continuing to improve our operational performance in France, and have introduced new trading approaches at each of our banners. We are testing a number of initiatives, including new concepts, services and partnerships.

“There remains considerable uncertainty around COVID-19 and our near term priorities have not changed – to provide support to the communities in which we operate, to look after our colleagues as a responsible employer, to serve our customers as a retailer of essential goods, and to protect our business for the long term. We remain proud of, and humbled by, the response of our teams to the current challenges.

“Looking forward, while the near term outlook is uncertain, the longer term opportunity for Kingfisher is significant. There is a lot more to do, but the new team and new plan is now established in the business and we are committed to returning Kingfisher to growth.”

‘Powered by Kingfisher’ strategic plan

- Announced new strategic plan on 17 June 2020 - ‘Powered by Kingfisher’ - distinct retail banners addressing diverse customer needs, ‘powered’ by the Group
- Making encouraging progress with priorities for 2020 and beyond, including:
  - Fundamental reorganisation of Kingfisher commercial operating model
  - Rollout of own exclusive brands (OEB) including new kitchens, lighting and storage ranges
  - Continuing to improve operational performance in France
  - Accelerating e-commerce growth initiatives in response to COVID-19
  - Implementing new trading approaches across Kingfisher, including trading events, reintroduction of local brands and new service propositions
  - Established four new Responsible Business priorities and, today, launched a new share plan for all colleagues

Managing the impact of COVID-19

- Continuing to manage the impact of COVID-19 on our business and stakeholders remains our top priority
- Ongoing commitment to supporting communities and governments, and protecting our colleagues and customers
- Quickly adapted our operating model following UK and France lockdowns to help meet customers' essential needs safely
- Limited the financial impact of COVID-19 to date and strengthened financial flexibility
- Focus on managing working capital with inventory position over £300 million lower year on year, reflecting strong Q2 sales
- Access over £3.7 billion of cash resources as at 18 September 2020, including c.£2.1 billion of cash at bank, providing significant liquidity headroom

Outlook for FY 20/21 and beyond

- Encouraging start to the second half of the year. Q3 20/21 Group LFL sales up 16.6% (to 19 September 2020) and growth across all banners and categories
- Continued uncertainty and concerns over COVID-19 and the wider economic outlook limit visibility on sales outlook for remainder of FY 20/21
- Financial guidance provided for FY 20/21 where possible
- Focused on continuing to operate safely, ensuring good product availability, driving through our strategic priorities, and returning the business to growth

The remainder of this release consists of eight main sections:

1) Group update (including **'Powered by Kingfisher'** strategic plan)
2) Managing the impact of COVID-19
3) Trading review by division
4) FY 2020/21 Technical guidance
5) H1 2020/21 Financial review and, in part 2 of this announcement, the half year condensed financial statements
6) Restatement of comparatives (for the six months ended 31 July 2019)
7) Glossary
8) Forward-looking statements

Footnotes

(1) H1 19/20 retail profit restated to reflect the reallocation of transformation P&L costs to country retail profits. There is no impact on operating profit. Refer to Section 6 of this announcement for further details
(2) Net financial cash excludes c.£2.5 billion lease liabilities under IFRS 16 in H1 20/21 (H1 19/20: c.£2.6 billion)
(3) Net debt includes c.£2.5 billion lease liabilities under IFRS 16 in H1 20/21 (H1 19/20: c.£2.6 billion)

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

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).

Our next announcement will be the Q3 trading update for the period ended 31 October 2020, provisionally set for 19 November 2020.

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.

Section 1: Group update (including **'Powered by Kingfisher'** strategic plan)

In June 2020, along with its FY 19/20 results, 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 'power' of the Kingfisher Group, thereby addressing 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.

Our conviction is that each of our retail banners addresses the often different needs of customers. Each banner has a differentiated positioning and business model, and by respecting these differences we will maximise their potential. Each banner needs the right product range, its own commercial approach, and services that meet its customers' needs. The development of banner-specific plans is ongoing, including a strong focus on ensuring we maximise the growth opportunity at Screwfix and re-establish a strong customer proposition in Castorama France.

Kingfisher's scale, used intelligently, is an important source of competitive advantage. Kingfisher has well-established Group capabilities in own exclusive brand (OEB) development, buying and sourcing, technology, and shared services. However, Kingfisher's organisation is still too complex and needs to be simpler, leaner, more agile, open to partnerships, and even more customer-focused. We will continue to adapt the operating model so that Group functions are set up efficiently to 'power' growth in our retail banners, providing:

- **Differentiated own exclusive brands (OEB)**, which are innovative and provide a key source of differentiation
- **Sourcing & buying**, delivering lower cost prices
- **Technology & partnerships**, providing all our banners with access to the best technologies and complementary partnerships
- **Shared services** and lower cost functions
- **Centres of excellence**, to set strategy and targets, to share knowledge and best practices, to support implementation, and to help steer progress. Centres of excellence include e-commerce, digital journey, data, store concepts, services and service platforms, and supply chain
- **Culture & values**, providing a framework for our core behaviours, values, and industry-leading responsible business practices

Our priorities under 'Powered by Kingfisher'

The business identified a number of immediate priorities (**'Focus and fix'** in 2020) for the Group as well as a series of medium term priorities (**'Simplify and grow'** – numbers 2 to 8 below), centred around empowering our distinct retail banners and simplifying Kingfisher's operating model, embracing digital and own exclusive brands, and returning the business to growth.

In early 2020, the outbreak of COVID-19 rapidly became the most critical issue facing our business. Managing its impact has therefore been, and remains, a top priority.

1) 'Focus and fix' in 2020 (including managing the impact of COVID-19 on the business)
2) Move to a balanced, simpler local-group operating model with an agile culture
3) Grow e-commerce sales
4) Build a mobile-first, service orientated customer experience
5) Differentiate and grow through own exclusive brands (OEB)
6) Test compact store concepts and adapt our store footprint
7) Source and buy better, reduce our costs and our inventory
8) Lead the industry in Responsible Business practices

1. ‘Focus and fix’ in 2020

Managing the impact of COVID-19: From the start of the outbreak we have been committed to supporting our communities and governments, we have taken measures to protect our colleagues and customers, to limit the impact on profitability and to preserve financial flexibility. Further detail is provided in Section 2 below.

Build the new Group Executive team: Kingfisher’s Group Executive team was completed in March 2020 (see FY 19/20 results for further details). We have an experienced team in place with a strong mix of functional expertise as well as experience from Kingfisher, other home improvement companies and the broader retail and service industries.

Rebalancing local vs Group responsibilities: One of the key enablers for the new strategy is to establish the right balance between Kingfisher Group and our local operations, with the overall aim of giving our retail banners the flexibility and agility to address specific positioning and needs in local markets.

In early September we announced a new proposed commercial operating model which will allow us to better leverage our Group scale and capabilities to serve our local banners (for more detail see number 2 below – “*Move to a balanced, simpler local-group operating model with an agile culture*”).

We have also started work on new operating models for our IT and digital teams, which has so far enabled much greater speed, agility and local knowledge to respond successfully to the challenges of the coronavirus crisis, while at the same time ensuring that Group provides overall direction, technology and systems, and a framework for ways of working.

Pause or stop some initiatives: As planned prior to the onset of the coronavirus crisis, we have paused or stopped several Group-wide initiatives this year, to focus on doing fewer things rapidly and better. For example, we significantly reduced the level of planned range reviews for FY 20/21 and stopped all non-critical range changes. During H1 we continued the rollout of our new kitchen range, completing implementation at B&Q and commencing the rollout in France, with Poland also expected to commence in H2.

In addition, by stopping all non-critical IT projects and pausing certain elements of our global SAP rollout (for example, at Brico Dépôt France), this has enabled us to prioritise Castorama France where we have significantly improved the effectiveness of its SAP template. This has contributed to Castorama’s improved operational performance in H1, and has allowed us to complete the initial implementation at Castorama of our ‘next generation’ digital technology stack, without disruption to the business. As part of our longer term e-commerce strategy, this technology will enable more efficient and agile digital capabilities.

SAP implementation is now complete at B&Q, Castorama France and Brico Dépôt Romania; is due to complete in Poland by the end of September 2020, and is partially complete at Brico Dépôt France. Screwfix plans to leverage its current back-end IT architecture to build enhanced front-end digital capabilities.

In November 2018, Kingfisher announced the decision to exit Russia and Iberia. In relation to Russia, whilst there has been some disruption from the coronavirus crisis, the exit process is ongoing and we are making good progress. In relation to Iberia, as previously reported, in H1 we reversed the original decision to exit Iberia and believe we can build a profitable, sustainable business under the discounter Brico Dépôt banner. The business is profitable and not a burden on group resources (capital or management).

Operational improvements in France: As described above, in H1 we continued to make progress in improving Castorama France’s IT (SAP) platform, helped by pausing the further rollout of SAP at Brico Dépôt. In addition, the supply chain and logistics teams in France have been significantly strengthened and reorganised, and are benefiting from more autonomy and agility in order to meet the requirements of the French banners.

While the coronavirus crisis has caused disruption to global supply chains, the underlying performance of our supply chain and logistics operations in France has continued to improve and is reflected in the improving sales performance during H1 20/21 versus the market (as measured by *Banque de France** data). Kingfisher France LFL sales were down 5.9% in H1, versus a 5.3% decline of the market over the same period, representing a continued narrowing of the gap between our sales performance and the market. Our LFL sales performance in France in February, June and July were better than the market. Work is continuing to further improve both the operational performance and long-term customer propositions for Castorama and Brico Dépôt.

Enabling e-commerce from stores: In line with trends within thriving e-commerce markets, we are committed to placing stores at the centre of our e-commerce proposition. During H1 we rapidly accelerated our plans due to COVID-19, focusing heavily on orders picked in stores and fulfilled through click & collect (C&C), in-person returns, and fast delivery.

In H1 we quickly adjusted our operations across all markets to scale up to high e-commerce demand flows. This included introducing additional online capacity quickly, implementing new capabilities to manage and fulfil order flows more efficiently (including improving our in-store picking processes and managing peak demand through online queuing systems), and adapting our collection and delivery processes. For example, at B&Q we rapidly established a ‘home delivery from store’ service, covering 98% of the UK population which, by the end of H1, was processing over 50% of all home delivery volumes for B&Q. C&C now represents 79% of group e-commerce sales (and over 90% of all group online orders), with B&Q committed to delivering C&C within one hour, and Screwfix in as little as one minute. In Iberia, following the easing of lockdown restrictions in H1, we rapidly launched a home delivery service fulfilled through our stores and a 1-hour C&C service.

Many of these initiatives were deployed very quickly and without extensive trials, highlighting the significant potential for e-commerce in the home improvement market as well as demonstrating our capabilities to serve this market.

At the height of the coronavirus crisis, while the majority of our stores were closed for in-store browsing and purchasing, we were able to scale our e-commerce operations to grow Group e-commerce sales as much as fourfold. Naturally, while e-commerce sales penetration in all banners has moderated since our stores reopened (except for Screwfix where orders were exclusively online until 27 July 2020), e-commerce sales penetration remains higher than pre-crisis levels. For further detail on our longer term e-commerce priorities, see number 3 below – “*Grow e-commerce sales*”.

Implement our new trading approach: As part of our commitment to address the diversity of our customers’ needs, and offer consistently excellent value for money, in Q4 19/20 we trialled a series of promotion-based trading events in our major retail banners and commenced targeted price investments at Screwfix. We were pleased with the customer response, helping to drive a better LFL sales performance in Q4 19/20 and into the early part of FY 20/21.

During H1 we continued to implement our new trading approach, including more trading events and the upweighting of special promotions (or *‘arrivages’*) within our discounter brand in France, Brico Dépôt. In B&Q, Castorama France and Brico Dépôt France, some of the planned trading plans were paused as we focused on managing the coronavirus crisis, and were restarted in Q2 20/21. TradePoint, B&Q’s trade-focused banner, is in the process of being relaunched, focusing initially on increasing customer awareness of the TradePoint proposition. Further work is ongoing at TradePoint to identify gaps in range, improve the digital customer journey and services proposition. At Screwfix we have continued to make targeted investments in price, reinforcing its now more favourable price position versus its nearest peers.

Across our retail banners, our ranges have been strengthened by the addition of local ranges, such as paint in the UK (e.g. Sandtex and Leyland). We also continue to test new service propositions in all our banners – including kitchen installations at B&Q, ahead of our plans to relaunch this service in all B&Q stores within the next six to 12 months.

Accelerate cost reduction: As outlined at our FY 19/20 results, we believe that there are significant cost reduction opportunities across Kingfisher. While our work here is ongoing as we reshape the organisation of Kingfisher and implement our new strategic plan, the coronavirus crisis has underscored the need to become simpler, leaner and more agile.

2. Move to a balanced, simpler local-group operating model with an agile culture

We believe that striking the right balance between Group and local responsibilities sets the right conditions for our distinct retail banners to thrive. This will enable them to continue leveraging the Group's scale and expertise to meet customer needs that are similar across markets, whilst allowing them to focus on those needs that are different.

Initial steps towards this operating model were taken in Q4 19/20, with a clearly positive impact on business performance. Furthermore, the agility and rapid progress demonstrated by Kingfisher during the coronavirus crisis is testament to the move towards this approach, supported by a Group-wide culture of focus, intensity and '*done* is better than *perfect*'.

In early September 2020 we announced to our colleagues a new commercial operating model which will allow us to better leverage our Group scale and capabilities to serve our local banners. Under the proposed changes we will establish clear roles and accountabilities for the banners and Kingfisher Group:

- Our **retail banners** are closest to our customers and will be responsible for category strategies, overall product range, non-OEB buying, pricing and promotions, marketing, and merchandising.
- The **Group Offer & Sourcing (O&S)** team will drive the development and sourcing of our market-leading OEBs, leveraging strong sourcing, design, and engineering capabilities to drive differentiation and higher OEB participation across our business. They will collaborate with the retail banners on OEB ranges and will manage global relationships with select international suppliers (e.g. the top 20-30).

In addition, the Group Supply Chain & Logistics (S&L) team will provide S&L expertise in the development and execution of new OEB ranges, including the selection of new OEB vendors, the optimisation of buying conditions and the selection of the most appropriate routes to market. The retail banners will be responsible and accountable for making their own decisions relating to local supply, availability, inventory, and logistics performance.

The winning proposition for customers will therefore be delivered through the commercial choices that the retail banners make, as well as the choices that our Group O&S and Group S&L teams make in conjunction with our retail banners to ensure that we use our OEB expertise as a source of differentiation and growth.

As a result of these proposals, some roles within our Group teams are expected to change, and we are currently in consultation with those colleagues impacted.

3. Grow e-commerce sales

We are committed to delivering growth in e-commerce sales through a combination of:

- ***Shifting to store-based picking and fulfilment as a priority***, redesigning the store operating model accordingly to enable a more efficient delivery and click & collect (C&C) network, with specific categories delivered from fulfilment centres (FCs)
- ***Developing efficient last-mile delivery from stores***, enabling faster fulfilment capability
- ***Prioritising rollout of the Group's digital technology stack***, enabling more efficient and agile digital capabilities, supported by a more balanced local-Group operating model for IT
- ***Exploring use of e-commerce marketplaces***, with common technology and vendor management, but tailored customer propositions by retail banner

As described above under "*Enabling e-commerce from stores*", as part of our response to COVID-19 and the rapid changes seen in consumer habits, we have accelerated a number of initiatives to place stores at the centre of our e-commerce proposition. We transformed our operations to meet a material increase in online transactions through our C&C service, with considerable success. Home delivery from some of our stores was also quickly introduced to meet our customers' needs.

In addition, we are pushing ahead with our plans to modernise the front-end IT architecture of Kingfisher's banners through the rollout of our 'next generation' 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. Initial implementation has been successfully completed at both B&Q and, during H1, Castorama France without disruption, with initial implementation planned for Poland in 2021.

In H1 20/21, e-commerce sales accounted for 19% of Group sales (H1 19/20: 7%) reflecting the substantial uplift in e-commerce orders in all retail banners since the onset of coronavirus. E-commerce sales penetration at our retail banners excluding Screwfix was 8% on average H1 20/21 (H1 19/20: 3%).

Group e-commerce sales grew by 164% during H1 20/21, and by 173% excluding Screwfix.
C&C sales, our largest and fastest growing channel at a Group level, grew by 243% in H1 20/21, accounting for 79% of group e-commerce sales (66% excluding Screwfix).

4. Build a mobile-first and service orientated customer experience

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 in-store services (e.g. paint mixing, timber cutting), visualisation tools, installation services and consumer credit.

More than ever, mobile is at the centre of our customers' home improvement journeys and experiences, from the point at which their initial needs emerge, 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. Through our mobile-first approach we intend to make it easier for customers to shop online and in-store.

During the period, we made two key appointments to help drive forward our digital strategy. Sienne Veit was appointed as our Group Digital Product and Platform Director, joining from the John Lewis Partnership where she was Digital Director (and before that Director of Online Product). In addition, Tom Betts was appointed as Group Data Director, joining from Financial Times where he was Chief Data Officer. Tom will play a key role as we seek to leverage customer data and analytics in order to personalise content and offers.

In H1 we began work to optimise the mobile user experience across our banners, increase page load and search speeds, and continue our development of mobile, store-based tools. At B&Q we are trialling 'Scan & Go' technology for customers (meaning customers self-scan their products with no need to unload trolleys or baskets at checkout) and the business is also trialling a new colleague-assisted kitchen design tool.

We are also currently trialling several new customer services. At B&Q we are trialling a kitchens installation service, ahead of plans to relaunch this service in all B&Q stores within the next six to 12 months. We are also testing tool hire services and are in the process of installing self-checkout terminals across the B&Q network. In France, we continue to deepen our partnership with NeedHelp, a mobile-based network linking trade professionals with customers.

5. Differentiate and grow through own exclusive brands (OEB)

Kingfisher Group's Offer & Sourcing organisation continues to develop own exclusive brands (OEB), bringing innovation to customers across seven core categories – surfaces & décor, tools & hardware, bathroom & storage, kitchen, EPHC (electricals, plumbing, heating & cooling), building & joinery, and outdoor. OEB provides a strong point of differentiation for our retail banners in terms of design, *functionality and value for money, as well as providing us with a higher gross margin opportunity. We aim to grow our proportion of sales which are OEB, bringing innovation to our ranges.*

During H1, the rollout of Kingfisher's new kitchen range was completed in B&Q, and commenced in Castorama France with completion expected in early 2021. Brico Dépôt France has started to test the new range in a small number of stores, with further rollout planned for later this year. Poland will start the new kitchen range rollout in Q3 20/21. We also implemented our new lighting range at Castorama France, with a positive customer reaction.

OEB sales represented 38% of Group sales in H1 20/21 (H1 19/20: 38%), with the balance including local, national and international brands as well as unbranded products.

In B&Q our kitchen and bathroom offer was closed for nine weeks as a result of the coronavirus crisis. Following the successful establishment of both a social distanced and virtual sales model, supported by a strong trading plan, orders have increased significantly with the 'order well' at the end of H1 20/21 substantially ahead of the same period last year.

As described in number 2 above – "*Move to a balanced, simpler local-group operating model with an agile culture*" – we believe that our Group Offer & Sourcing team's focus on OEB product development will be a significant source of value for our retail banners and their customers, providing both product differentiation and value for money propositions. We are continuing to simplify our OEB development approach to bring new products to market more quickly, supporting profitable sales growth over the longer term.

6. <u>Test compact store concepts and adapt our store footprint</u>

We firmly believe that the role of the store is integral to long-term success in retail. Our 1,350+ stores are key to delivering a seamless customer experience, whether goods are purchased in-store or via click & collect (C&C) or home delivery. The coronavirus crisis has highlighted the importance of e-commerce and we believe our stores have an integral role to play in meeting the increasing customer need for convenience and immediacy.

During H1 we continued to test compact store concepts including a new compact B&Q format in Merton, London. The store contains compact ranges, showroom design, and additional products available for home delivery or C&C. The performance of this store has so far been very encouraging, and plans are in place across many of our retail banners to develop more compact stores and experiment with innovative stores formats.

In September we announced an agreement to trial B&Q concessions in four ASDA stores, starting from later this autumn. The small format B&Q stores will be in prominent locations at the front of each store and will be branded and operated by B&Q.

The coronavirus crisis has also underscored the need to achieve lower property costs and higher sales densities. Year to date, seven B&Q leases renegotiations have been approved, with a combined net rent reduction of over 20%.

As part of the store closure programme announced in March 2019, during H1 20/21 we closed four loss-making Castorama France stores reducing Group space by 0.6%. We expect to close two further Castorama stores in H2. With regards to three other Castorama stores previously earmarked for closure, we have made the decision to convert two into Brico Dépôt stores given the potential for a discounter format at these locations.

7. <u>Source and buy better, reduce our costs and our inventory</u>

Through the intelligent use of our scale we expect to extract further value from buying and sourcing. We also believe that there are significant cost reduction opportunities across Kingfisher – in areas such as goods not for resale (GNFR), store operating efficiencies, property costs (including lease renegotiations), supply and logistics, and central costs*, all of which will benefit from reduced organisational complexity. Reducing inventory levels and improving inventory turn is also a major priority.*

While some value has been extracted from buying and sourcing as a Group over the last four years, the significant number of change initiatives within the business, as well as our complex organisational structure, has meant that Kingfisher's overall cost and inventory levels have become too high, both in absolute terms and relative to Group sales.

Work is continuing to validate and measure the opportunities to achieve sustainable cost reductions across the Group, including the capital and one-off expenditure required to achieve these savings, balanced against cost inflation and the future investment requirements of our business. The coronavirus crisis meant that we needed to take multiple actions to reduce costs and preserve cash and, while some of these cost reductions were temporary, the crisis has highlighted the opportunity to operate effectively as a Group within a simpler and leaner cost envelope over the longer term.

Our net inventory at the end of H1 (including amounts classified as held for sale, relating to our business in Russia) decreased by £308 million to £2,457 million (H1 19/20: £2,765 million), largely reflecting deferred stock orders due to the coronavirus crisis and strong sales in Q2. While we expect inventories to rebuild in H2 as our order cycle largely 'normalises', our work to sustainably reduce 'same store' inventories over the medium term continues, including 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). In H1, while stock availability has been under significant strain from volatile demand levels, we have seen lower clearance levels and a significant reduction in delisted product year on year.

8. Lead the industry in Responsible Business practices

Our commitment to make a positive impact on society, so that our customers' homes and wider communities can flourish, has been at the forefront of our response throughout the coronavirus crisis (for more details see Section 2). In our new 'Powered by Kingfisher' strategy, we set out four new priority areas for responsible business where Kingfisher can use its experience, scale and influence to achieve a positive impact.

In August 2020, we published our latest Responsible Business Report. Our performance against our four priority areas is as follows:

- **Becoming a more inclusive company** – we have developed Group Diversity and Inclusion principles and will further develop our action plans within all our retail banners in FY 20/21;
- **Helping to tackle climate change and creating more forests than we use** – 94% of wood and paper in our products for B&Q and our retail banners in France is from proven, well-managed forests or recycled sources, and we have achieved an 18% reduction in scope 1 and 2 emissions (market-based) since FY 16/17;
- **Helping to make greener, healthier homes affordable** – 37% of Group sales come from products that help make customers' homes greener and healthier (versus our target of 50% by FY 20/21), including LED lighting, low-flow taps, and low VOC paint; and
- **Fighting to fix bad housing** – over 355,000 people have benefited from grants, volunteer support and product donations since FY 16/17, with 19,600 colleague hours spent volunteering in our local communities in FY 19/20.

For the first time, a portion of the Kingfisher colleague bonus plan for FY 20/21 will be linked to performance against our Responsible Business priorities.

To support delivery of our targets, Kingfisher held the first meeting of its new Responsible Business Committee (RBC) in July 2020. The RBC is a sub-committee of Kingfisher's Board of Directors, meeting at least twice a year and chaired by Sophie Gasperment, a non-executive director of the Board.

Please visit www.kingfisher.com/sustainability for further details.

Improved employee engagement: Our annual colleague engagement survey, conducted in July 2020, showed a 2 point increase versus last year to 81 for the Kingfisher Group. This represents a top quartile score and is significantly higher than the retail benchmark score of 66. Themes from the survey include our ongoing support to ensure our colleagues and customers are safe, the positive impact of our new strategy, and a greater sense of empowerment to make decisions in an agile way. We are also actively working on addressing constructive 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 senior management team members.

All colleague share plan: As part of our commitment to build a responsible and inclusive business, we are today launching the 1+1 “Sharing In Our Future” plan, giving our 77,000 colleagues the opportunity to share in our future. All Kingfisher colleagues will be given the opportunity to become shareholders. Following a holding period of one year Kingfisher will match each participant’s investment (awarded one free share for every share bought), up to a value of £1,500.

Brexit preparation

Kingfisher’s internal Brexit steering committee, in place since the outcome of the UK referendum on EU membership in June 2016, continues to assess the progress and adequacy of the business’ contingency planning. We are continuing with our planning throughout 2020 to meet the requirements of either a new trading relationship with the EU or, if no trade agreement is reached, the UK abiding by World Trade Organisation (WTO) rules. We have taken several measures to mitigate delays at the border as far as possible, such as increasing the number of ports used for deep-sea imports and securing access to simplified customs procedures. We will continue with our vendor engagement programme to ensure their readiness to operate under a hard border with the UK, providing support where needed.

On tariffs, we note the publication of the UK’s new Global Tariff (UKGT) in May 2020. In the event that no Free Trade Agreement is reached with the EU, and the UKGT is applied, we expect that EU and non-EU imports would attract an average tariff of c.2% on our products. This would be slightly lower than the current average duty rate for all direct imports into the UK. On people-related matters, there has been no significant impact on either retention or hiring following the referendum. We will continue to monitor the status of the negotiations, and review and adjust our contingency planning accordingly.

Summary and outlook

The first half of this financial year has been very challenging given the coronavirus crisis. However, we are both proud and inspired with how our colleagues have responded to the challenges presented by this crisis, and in parallel we have worked hard to develop and implement our new ‘Powered by Kingfisher’ strategy. We are continuing to improve our operations in France, implemented new trading approaches and have started to recalibrate the balance between Group and local activities. We are encouraged that, prior to the onset of the coronavirus crisis, we delivered encouraging LFL sales trends in Q4 19/20 and the first half of Q1 20/21.

Throughout the COVID-19 crisis, our priorities have been clear – to provide support to the communities in which we operate, to look after our colleagues as a responsible employer, to serve our customers as a retailer of essential goods, and to protect our business for the long term. The operational and financial actions we have taken this year, together with the strong demand for home improvement we are currently seeing, give us a sound footing in the current crisis and beyond.

We have already made good inroads against all of our medium term strategic objectives, and will continue our focus to empower our distinct retail banners, simplify Kingfisher’s operating model, embrace digital and own exclusive brands, and return the business to growth. Our clear intent is to become a more digital and service orientated company, using our strong store assets as a platform.

While we are entering the second half against a favourable trading backdrop, continued uncertainty and concerns over COVID-19 and the wider economic environment limit our visibility. As such, we are not able to provide specific sales outlook commentary. We are however providing financial guidance for FY 20/21 where it is possible to do so (see Section 4).

Financial priorities
Our immediate financial priority has been to manage the impact of the COVID-19 crisis on our business and financial performance (see Section 2).

Beyond the coronavirus crisis, and through the implementation of our new 'Powered by Kingfisher' strategic plan, we are focused on growth and creating shareholder value, with the following financial priorities:

- Prioritise sales growth in all retail banners
- Drive benefits from buying, sourcing and product development
- Focus on operational efficiency, simplifying the organisation and reducing associated cost
- Focus on growing retail profit
- Reduce 'same-store' inventory

Capital allocation and dividend
We aim to allocate capital, subject to strict returns criteria, to meet the strategic needs of the business. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and retain financial flexibility, to provide returns for shareholders and benefits for other stakeholders, to maintain an investment grade credit rating and, over the medium term, to maintain a target range of 2.0 to 2.5 times net debt to EBITDA.

Considering these objectives and the continued uncertainty being caused by COVID-19, retaining financial flexibility is more important than ever. The Board is therefore not declaring an interim dividend for H1 20/21. The Board recognises the importance of dividends to shareholders and will continue to evaluate the quantum and timing of any future dividend payments.

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Section 2: Managing the impact of COVID-19

The following section provides a summary of how we have managed, and continue to manage, the impact of COVID-19 on our business. See also our FY 19/20 results and Q2 pre-close update, which include details of Kingfisher's weekly sales throughout the crisis: www.kingfisher.com/en/investors/results-presentations.html).

Risk management

Following the COVID-19 outbreak in Asia, Kingfisher formed central and retail business crisis committees in January 2020 to monitor and manage risks and impacts of COVID-19. These committees continue to monitor closely the impact on all areas of our business, as well as ensuring publicly available advice is followed and that appropriate safeguards are quickly implemented. From the start of the outbreak, Kingfisher has taken measures to protect its colleagues and customers, to support governments across its markets, to be a responsible employer, to limit the impact on profitability and to preserve financial flexibility.

Supporting our communities and governments

Throughout the crisis we have been active in supporting our communities and governments, while focusing on making sure that we can safely serve our customers' essential needs as effectively as possible. As part of this commitment, in March we ringfenced all remaining stock of personal protective equipment (PPE) and donated it to frontline healthcare workers. Total committed donations to our communities, charity partners and health authorities amount to over £2.5 million.

Social distancing and safety measures

All reopened Kingfisher stores 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.

In most cases, the measures applied have gone beyond government recommendations in each market. Furthermore, we have set up formal and regular internal audits of the application of health, hygiene and safety rules. To date these measures have been met with strong approval by both customers and colleagues and we continue to both monitor and improve the effectiveness of these on a day-to-day basis.

Supply chain and availability

Kingfisher has global sourcing offices in China, other Asian countries and Europe. Approximately 75% of our total annual cost of goods sold is directly sourced from Europe, with the balance sourced from other markets including Asia.

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

In March, having made the decision to initially close our stores in the UK and France, we acted quickly to adjust the supply of certain goods in order to manage to demand levels and control our costs. Since reopening our stores in April, the key risks to availability have been driven by polarised demand within our categories and, in particular, exceptional demand levels within the paint, decorating materials, outdoor and building materials ranges, where vendors (who in many cases are still operating below 100% capacity) are challenged in keeping up with high demand levels. We continue to work closely with key vendors to speed up production and accelerate our supply chain within these specific categories. As a result, in-store availability is currently below last year reflecting the high and volatile levels of demand we have been experiencing. We continue to work hard on improving product availability in the second half of the year.

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Operational status

All our 1,366 stores are now open for in-store purchasing, under strict social distancing and safety protocols. Screwfix, having operated on a 100% online basis since late March 2020, reopened its stores for in-store purchasing in late July.

Trading since 1 February 2020

LFL sales by quarter during H1 and Q3 (to date)

Quarterly sales	% LFL[1] Change			
	Q1 20/21	Q2 20/21	H1 20/21	Q3 20/21 (to date)[5]
UK & Ireland	**(16.0)%**	**+19.6%**	**+2.4%**	**+18.9%**
- B&Q	(21.8)%	+28.0%	+4.1%	+23.9%
- Screwfix	(4.7)%	+2.4%	(1.1)%	+9.9%
France	**(41.5)%**	**+27.0%**	**(5.9)%**	**+16.7%**
- Castorama	(43.6)%	+25.3%	(7.4)%	+20.6%
- Brico Dépôt	(39.2)%	+28.9%	(4.3)%	+12.6%
Other International	**(13.6)%**	**+6.1%**	**(2.7)%**	**+11.5%**
- Poland	(9.6)%	+15.0%	+3.5%	+10.3%
- Romania[2]	+2.3%	+12.1%	+9.2%	+13.2%
- Iberia	(47.2)%	(1.1)%	(22.3)%	+21.3%
Group LFL[3]	**(24.8)%**	**+19.5%**	**(1.6)%**	**+16.6%**
E-commerce sales[4]	**+120.5%**	**+203.5%**	**+164.1%**	**+158.2%**

LFL sales by month during H1

Monthly sales	% LFL[1] Change					
	Feb 2020	Mar 2020	Apr 2020	May 2020	Jun 2020	Jul 2020
UK & Ireland	+6.2%	(5.7)%	(43.0)%	+15.5%	+25.9%	+18.1%
France	+8.6%	(52.0)%	(69.0)%	+23.6%	+33.0%	+24.8%
Poland	+11.1%	(13.7)%	(20.4)%	+16.3%	+15.3%	+13.6%
Romania[2]	+16.4%	+15.9%	(15.0)%	(14.3)%	+25.7%	+23.1%
Iberia	+6.7%	(51.5)%	(87.5)%	(49.6)%	+25.5%	+19.0%
Group LFL[3] incl. leap year	**+7.6%**	**(24.6)%**	**(49.6)%**	**+14.3%**	**+25.1%**	**+19.6%**
Group LFL[3] excl. leap year	**+2.3%**					
E-commerce sales[4]	**+30.2%**	**+59.2%**	**+252.3%**	**+202.1%**	**+225.1%**	**+184.6%**

[1] 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-19 are also included.
[2] Kingfisher's subsidiary in Romania prepares its financial statements to 31 December. Its monthly and quarterly results presented are for January to June, i.e. one month in arrears.
[3] Group LFL includes total e-commerce sales. Group LFL also includes Russia (included within 'Other International') 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 covers the total Group, and the benefit from the leap year in February 2020.
[5] 'Q3 20/21 to date' figures represent the period from 2 August 2020 to 19 September 2020 (compared against the equivalent period in the prior year, from 4 August 2019 to 21 September 2019). The figures are provisional, and exclude certain non-cash accounting adjustments relating to revenue recognition.

Trading pre-coronavirus lockdown measures

Trading from 1 February up to 14 March (before any COVID-related store closures) continued the positive trends we saw in Q4 19/20, benefiting from operational improvements in France and a new trading approach across the Group, including local trading events.

In February 2020, Group LFL sales growth was +7.6%, or +2.3% excluding the leap year impact. In the first two weeks of March (up to and including 14 March) Group LFL sales continued to be positive.

Trading from mid-March to late April (during the period of lockdown measures)

In the third week of March, the UK continued to see positive LFL sales growth, while France (LFL sales -97.7%) was severely impacted by the closure of all its stores and Poland experienced lower footfall and sales. The last week of March was impacted by UK store closures following the government's announcement on 23 March, together with lower footfall in Romania.

The first week of April saw the trough for Group LFL sales in H1, at -74.0%, reflecting the first full week of store closures in both the UK and France. The trend improved in the second and third weeks of April as we rapidly transformed our operations to meet a sharp increase in online demand, with e-commerce sales increasing week-on-week in the UK and France. Furthermore, in France we started to reopen some of our stores' Building & Joinery external courtyards in the third week of April.

The fourth week of April (Group LFL sales -35.6%) reflected a significant improvement in the UK at both B&Q and Screwfix, largely due to increasing demand via contactless C&C, and the reopening of some B&Q stores towards the end of the week. In addition, the trend in France improved as we opened more of our stores' Building & Joinery external courtyards. Poland experienced growth as lockdown measures started to be eased.

Trading in Q2

From the final week of April (Group LFL sales -17.5%), the Group LFL sales trend improved significantly due to phased store reopenings in the UK and France. Sales growth continued throughout May, June and July in our general home improvement and discounter banners as lockdown restrictions eased in our core markets, and consumers spent more time at home undertaking home improvement projects.

Trading at our trade-focused banner, Screwfix, recovered in Q2 but was impacted relative to our other banners due to weaker demand from trade customers and the fact that its stores were open for C&C only since late March 2020. Screwfix reopened its stores for in-store purchasing in late July.

Iberia's sales performance in Q2 was impacted by prolonged store closures in Spain relative to our other markets. Stores in Spain reopened, in phases, to tradespeople from 13 May and to the general public from 25 May.

Trading in Q3 to 19 September

From 2 August until 19 September, trading has remained strong with Group LFL sales up 16.6%. All banners are growing LFL sales in the quarter to date with demand broadly spread across all categories, including showroom.

Financial impact

Alongside the rapid changes we made to our operating model during the crisis, as described above, we also took significant and effective actions to limit the impact on profitability and preserve our financial flexibility. The actions we took to reduce costs and optimise our cash flow and liquidity are detailed below.

Uncertainty remains around the potential resurgence of the COVID-19 virus and its potential impact on household spending and the wider economies within the markets in which the Group operates. To assess the likely impact on cash flow and liquidity, we continue to model the financial impact from various scenarios of reduced sales including prolonged periods of disruption to the business from further lockdown restrictions. While we do not consider the impact of COVID-19 to be a longer term viability risk, we view this potential disruption, if extended in scope and duration, as posing a risk, albeit remote, to short-term liquidity.

Actions to reduce costs and preserve cash
During H1 we implemented multiple actions to reduce costs and preserve cash, including the benefit from several government support measures. As described in Section 1 above, while some of these cost reductions were temporary, the crisis has highlighted the opportunity to operate effectively as a Group within a simpler and leaner cost envelope over the longer term.

- **Furloughing:** Kingfisher welcomed the announcement of the Coronavirus Job Retention Scheme (CJRS) in the UK, *'activité partielle'* relief measures in France, and similar schemes in Spain and Romania. From mid-March, we gradually announced furlough programmes to colleagues in the UK, France, Spain and Romania. This led to c.50% of our total Group colleagues being furloughed in April, although this figure reduced significantly to c.10% by the end of May as we reopened stores within the UK and France. With the exception of those who are vulnerable and/or at a higher risk of infection, all remaining colleagues in France and Romania returned from furlough on 1 June, with remaining colleagues in the UK and Spain returning on 1 July. From this date we decided to no longer claim under the furlough programmes in the UK and France. A total of c.£55 million was claimed under furlough schemes in our markets in H1. Along with not claiming the UK Job Retention Bonus (as announced by the UK government in late July 2020), we are also intending to repay the UK furlough claim (c.£23m) in second half of the year, unless any material changes in the trading environment occur
- **UK business rates:** The UK government announced in March that retail premises in England will 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) have been announced by the local governments and assemblies of Scotland, Wales and Northern Ireland. Kingfisher's annual business rates bill for retail premises in the United Kingdom is c.£140 million, of which c.£130 million is eligible for relief. The benefit in H1 from this government initiative was c.£45 million.
- **Store operating efficiencies:** In conjunction with our furlough programmes and the operational requirements of our stores, some measures were put in place to temporarily reduce store variable costs during those periods when our stores were closed for in-store browsing and purchasing. These measures included reducing non-essential store maintenance costs and optimising store opening hours.
- **Discretionary costs:** Discretionary P&L spend was temporarily reduced in H1, including reductions in marketing, advertising, consumables and other GNFR spend, stopping all travel, and freezing pay reviews.
- **Inventory purchases:** We continually adjusted our purchasing plans in response to the significant changes in demand seen across the Group during H1. We continue to monitor trends in demand closely, working with suppliers to improve availability where demand remains high. Our net inventory at the end of H1 (including amounts classified as held for sale, relating to our business in Russia) decreased by £308 million to £2,457 million (H1 19/20: £2,765 million).
- **Capital expenditure:** From mid-March all non-committed development capital expenditure (for example, IT and new stores) was paused, and repairs and maintenance capital expenditure reduced to essential items. Following the gradual reopening of stores from mid-April onwards, 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 continue as normal. Gross capital expenditure during H1 was £87 million (H1 19/20: £163 million).
- **Dividend:** As announced on 23 March 2020, in light of the unprecedented uncertainty caused by COVID-19, the Board did not propose a final dividend in relation to FY 19/20. The cash cost of last year's final dividend was £157 million.
- **Rental payments:** In the UK and France, we have moved a significant proportion of our quarterly-in-advance rental payments to monthly payments.
- **Deferral of indirect taxation (VAT) payments:** The UK government announced in March that all UK VAT-registered businesses have 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, mutual agreements were reached with certain larger suppliers to extend payment terms by 30 days or more. Notwithstanding this, we have maintained our policy to pay all suppliers in full and according to contractual payment terms. Trade and other payables at the end of H1 increased by £221 million to £2,779 million (H1 19/20: £2,558 million), excluding Russia held for sale.

<u>Board and Group Executive team remuneration</u>

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 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 2020, with the CEO and CFO following on 1 August. Board fees will be restored from 1 October.
- The Group CEO and Group CFO received no annual FY 19/20 bonus payment.

<u>Cash position</u>

As at 31 July 2020, Kingfisher had cash and cash equivalents of £1,764 million, including £15 million of cash held in Russia and included within assets held for sale on the balance sheet.

As announced on 12 May 2020, Kingfisher arranged a €600 million (c.£540 million) term facility with three French banks in support of its operations in France. The loan is guaranteed at 80% by the French State (*'Prêt garanti par l'État'*) and has 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 Group's free cash flow in H1 was £1,042 million, benefiting from Kingfisher's strong sales performance in Q2 following the reopening of stores in the UK and France as well as the cost and cash preservation actions detailed above.

<u>Liquidity headroom</u>

Kingfisher remains eligible to access funding under the Bank of England's Covid Corporate Financing Facility (CCFF). During H1, Kingfisher issued and subsequently redeemed £600 million of 11-month commercial paper.

The Group also has access to undrawn Revolving Credit Facilities (RCFs) of £250 million (due to expire in May 2021), £225 million (due to expire in March 2022) and £550 million (most of which is due to expire in August 2023), totalling £1,025 million.

Overall, the Group has significant liquidity headroom with its current cash balance to cover a prolonged period of reduced sales. As at 18 September 2020, the Group had access to over £3.7 billion in total liquidity, including cash and cash equivalents of c.£2.1 billion and eligibility to access over £1.6 billion of funding under the CCFF and RCFs.

Section 3: Trading review by division

Note: all commentary below is in constant currencies. As reported in our FY 19/20 results, certain H1 19/20 comparatives have been restated to reflect the reallocation of central support costs and transformation P&L costs. These are summarised in Section 6.

UK & IRELAND

£m	2020/21	2019/20	% Reported Change	% Constant Currency Change	% LFL Change
Sales	2,753	2,655	+3.7%	+3.7%	+2.4%
Retail profit	411	279	+47.2%	+47.1%	
Retail profit margin %	14.9%	10.5%	+440bps	+440bps	

Kingfisher UK & Ireland sales increased 3.7% (LFL +2.4%) to £2,753 million, reflecting a strong recovery in demand in Q2 (LFL +19.6%) following COVID-related temporary store closures and disruption in Q1 (LFL -16.0%).

Gross margin % was up 100 basis points mainly reflecting higher full-price sales and lower clearance in B&Q, partly offset by higher supply & logistics costs in Screwfix.

Retail profit increased by 47.1% to £411 million, largely reflecting a decrease in operating costs by 8.8%. Operating costs reduced largely due to cost reduction measures taken following the onset of the coronavirus crisis, the UK government's business rates relief for retail premises, and staff cost savings arising from the UK government furlough scheme. These savings were partly offset by the impact of overall cost inflation, the space increase at Screwfix year on year, and incremental COVID-related costs.

B&Q total sales increased by 3.7% to £1,839 million. LFL sales increased by 4.1%. LFL sales of weather-related categories increased by 13.6% while sales of non-weather-related categories, including showroom, were broadly flat. B&Q's e-commerce sales grew strongly in H1, increasing by 135% and representing 11% of total sales during the period (H1 19/20: 5% of total sales).

Across the business, space remained broadly flat with one new store opening in H1 20/21.

Screwfix total sales increased by 3.7% (LFL -1.1%) to £914 million, reflecting net space growth, with LFL sales impacted by COVID-related temporary store closures and disruption to the trade market. E-commerce sales grew by 160%, representing 80% of total sales during the period (H1 19/20: 32% of total sales). 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.

Screwfix's five stores in the Republic of Ireland, which have opened since December 2019, traded well prior to lockdown restrictions being imposed in March and have traded well since reopening in May.

One net new store was opened in H1 20/21, compared to 16 in H1 19/20, reflecting the decision to temporarily pause expansion due to the coronavirus crisis. 30 store openings are planned for the UK in FY 20/21, and 10 store openings in the Republic of Ireland. The total number of stores is 687, including five in the Republic of Ireland.

FRANCE

£m	2020/21	2019/20	% Reported Change	% Constant Currency Change	% LFL Change
Sales	2,028	2,158	(6.1)%	(7.0)%	(5.9)%

Retail profit	63	112	(43.5)%	(44.1)%
Retail profit margin %	3.1%	5.2%	(210)bps	(210)bps

Kingfisher France sales decreased by 7.0% (LFL -5.9%) to £2,028 million, reflecting the significant impact from COVID-related store closures in Q1 (following a longer period of lockdown measures in France, relative to the UK). Q1 LFL was -41.5%, and this was partly offset by a strong recovery in demand in Q2 (LFL +27.0%). According to *Banque de France* data, sales for the home improvement market were 5.3% lower during the half. Following store reopenings, Kingfisher France's LFL sales outperformed the market by 3.0% in June, and by 5.7% in July.

Gross margin % decreased by 130 basis points, largely reflecting 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), the decision to upweight special promotions (or *'arrivages'*) sales in Brico Dépôt, and more trading events at both banners.

Retail profit decreased 44.1% to £63 million largely reflecting the decline in gross profit, partly offset by a decrease in operating costs of 4.9%. Operating costs declined largely due to cost saving initiatives and staff cost savings arising from the French government's '*activité partielle*' relief measures, partly offset by higher COVID-related costs and higher staff bonuses to frontline colleagues in France. Costs also included a shift of employee profit share into H1, with an offsetting c.£22m benefit in H2.

Castorama total sales decreased by 8.7% (LFL -7.4%) to £1,055 million. LFL sales of weather-related categories were up 0.5% while sales of non-weather-related categories, including showroom, were down 9.6%. Further commentary on many of the operational improvements at Castorama France are detailed in Section 1. Castorama's total e-commerce sales grew by 202% in H1, representing 6% of total sales during the period (H1 19/20: 2% of total sales).

Brico Dépôt total sales decreased by 5.1% (LFL -4.3%) to £973 million. The weighting of *'arrivages'* increased during the half as the business re-established its discounter credentials. Total e-commerce sales grew by 219% in H1, representing 7% of total sales during the period (H1 19/20: 2% of total sales).

Across the two businesses, space has declined by c.2% since 31 January 2020, with Castorama closing four stores in H1 20/21 in line with the previously announced store closure programme.

OTHER INTERNATIONAL*

£m	2020/21	2019/20	% Reported Change	% Constant Currency Change	% LFL Change
Sales	1,140	1,184	(3.7)%	(1.2)%	(2.7)%
Poland	783	753	+3.9%	+6.8%	+3.5%
Iberia	138	176	(21.5)%	(22.3)%	(22.3)%
Romania	107	96	+10.9%	+11.7%	+9.2%
Russia	112	154	(27.0)%	(21.7)%	(17.5)%
Screwfix Germany	n/a	5	n/a	n/a	n/a

Retail profit	59	63	(6.4)%	(3.2)%
Poland	74	81	(9.5)%	(7.0)%
Iberia	1	2	(55.8)%	(56.2)%
Romania	(11)	(12)	n/a	n/a
Russia	(5)	(7)	n/a	n/a
Screwfix Germany	n/a	(4)	n/a	n/a
Turkey (50% joint venture)	-	3	n/a	n/a

Retail profit margin %	5.1%	5.3%	(20)bps	-
Poland	9.4%	10.8%	(140)bps	(140)bps

Other International total sales decreased by 1.2% (LFL -2.7%) to £1,140 million, with growth in Poland and Romania offset by declines in Iberia and Russia. Retail profit decreased by 3.2% to £59 million, reflecting a modest decline in Poland partly offset by lower combined retail losses in Romania and Russia.

Sales in **Poland** increased by 6.8% (LFL +3.5%) to £783 million, with stores remaining open throughout the half, and a strong recovery in demand in Q2 following COVID-related footfall declines in Q1. One new store was opened during the period. LFL sales of weather-related categories were up 11.8% while sales of non-weather-related categories, including showroom, were up 2.0%. Gross margin % was down 120 basis points largely reflecting mix, better price positioning, and more trading events. Retail profit decreased by 7.0% to £74 million with gross profit growth offset by an increase in operating costs of 7.6%. Operating costs increased largely due to wage inflation, the increase in space year on year, incremental COVID-related costs and higher staff bonuses to frontline colleagues. Poland's e-commerce sales grew by 230% representing 5% of total sales (H1 19/20: 2% of total sales).

In **Iberia**, sales decreased by 22.3% (LFL -22.3%) to £138 million, largely due to COVID-related store closures in Spain, with retail profit decreasing by 56.2% to £1 million. **Romania** sales increased by 11.7% (+9.2% LFL) to £107 million with stores remaining open throughout the half. The business made a retail loss of £11 million (H1 19/20: £12 million reported retail loss).

In **Russia** sales decreased by 21.7% (LFL -17.5%) to £112 million, due to the impact of COVID-related disruption. The business made a retail loss of £5 million (H1 19/20: £7 million reported retail loss). The Russian business continues to be classified as 'held for sale' in the Group's balance sheet.

In **Screwfix Germany**, all 19 stores were closed during the first half of the previous year.

In **Turkey**, Kingfisher's 50% JV, Koçtaş, broke even at a retail profit level despite being significantly impacted by COVID-related store closures (H1 19/20: £3 million reported retail profit).

EMPLOYEES, STORE NUMBERS AND SALES AREA

	Employees (FTE) at 31 July 2020	Store numbers at 31 July 2020	Sales area[1] (000s m^2) at 31 July 2020
B&Q	17,653	297	2,203
Screwfix	8,896	687	44
UK & Ireland	**26,549**	**984**	**2,247**
Castorama	11,685	96	1,207
Brico Dépôt	7,709	121	847
France	**19,394**	**217**	**2,054**
Poland	11,527	81	701
Romania	2,262	35	253
Iberia	2,011	31	195
Russia	2,862	18	188
Other International	**18,662**	**165**	**1,337**
Total	**64,605**	**1,366**	**5,638**

(1) Screwfix sales area relates to the front of counter area of an outlet

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Section 4: FY 2020/21 Technical guidance

Income statement:

- Sales outlook
  - Q3 trends to date remain encouraging, but continued uncertainty and concerns over COVID and wider economic environment limit visibility
- Costs
  - COVID-related costs – incremental costs[1] expected to be c.£40m
  - Central costs – expected to be c.£58-60m (FY 19/20: £62m)
  - UK business rates – payment relief for parts of the UK, effective for 20/21 tax year. c.£130m of Kingfisher's annual business rates bill is eligible for this relief
  - Furlough – no claims under furlough programmes in the UK and France from 1 July; not claiming UK government Job Retention Bonus. Intending to repay UK furlough benefit (c.£23m) in second half of the year, unless any material changes in the trading environment occur
- Net finance costs
  - Expected to be in line with prior year (FY 19/20: £173m, before exceptional items) due to incremental financing costs for PGE, CCFF and RCFs, offset by impact of reduced lease liability
- Tax rate
  - Group adjusted effective tax rate expected to be c.24%[2] (FY 19/20: 26%)

Cash flow:

- *Prêt garanti par l'État* – subject to circumstances and certain conditions being met, the Group is considering a repayment of the c.£540m French Term facility in H2
- Working capital – anticipate rebuild of inventory and reversal of creditor positions in H2
- Capital expenditure – gross capex of up to c.£300m (FY 19/20: £342m); c.£50m of further expenditure deferred into FY 21/22
- Tax – HMRC accelerated UK corporation tax payments (incremental one-off cash impact this year of c.£45-50m)

Previously announced 11 store closures in France:

- 3 stores closed in France (1 Castorama, 2 Brico Dépôt) in H2 19/20
- 4 Castorama stores closed in H1 20/21; 2 further Castorama stores to close in H2 20/21. Cash costs of exit in FY 20/21 fully provided for in previous periods
- 2 Castorama stores now to be converted to Brico Dépôt stores

(1) Includes incremental costs of PPE & social distancing, donations, new store layouts, additional store security, and bonuses to frontline store staff
(2) Subject to the blend of profit within the companies' various jurisdictions, as well as the timing of the planned sale of Russia

Section 5: H1 2020/21 Financial review

A summary of the reported financial results for the six months ended 31 July 2020 is set out below.

Financial highlights	**2020/21**	**2019/20**	**% Total Change Reported**	**% Total Change Constant currency***	**% LFL* Change Constant currency**
Sales	£5,921m	£5,997m	(1.3)%	(1.1)%	(1.6)%
Gross profit	£2,186m	£2,221m	(1.6)%	(1.5)%	
Gross margin %	36.9%	37.0%	(10)bps	(10)bps	
Operating profit	£486m	£328m	+48.2%		
Statutory pre-tax profit	£398m	£245m	+62.4%		
Statutory post-tax profit	£317m	£171m	+85.4%		
Statutory basic EPS	15.1p	8.1p	+86.4%		
Interim dividend	-	3.33p	n/a		
Adjusted metrics					
Retail profit[(1)]	£533m	£454m	+17.4%	+17.7%	
Retail profit margin %	9.0%	7.6%	+140bps	+140bps	
Adjusted pre-tax profit	£415m	£337m	+23.1%		
Adjusted effective tax rate	24%	26%			
Net exceptional items	£(13)m	£(74)m	n/a		
Adjusted post-tax profit	£317m	£248m	+27.8%		
Adjusted basic EPS	15.1p	11.8p	+28.0%		
Free cash flow	£1,042m	£204m	+410.8%		
Net financial cash[(2)]	£1,149m	£254m	n/a		
Net debt[(3)]	£(1,377)m	£(2,384)m	n/a		

(1) H1 19/20 retail profit restated to reflect the reallocation of transformation P&L costs to country retail profits. There is no impact on operating profit. Refer to Section 6 of this announcement for further details
(2) Net financial cash excludes c.£2.5 billion lease liabilities under IFRS 16 in H1 20/21 (H1 19/20: c.£2.6 billion)
(3) Net debt includes c.£2.5 billion lease liabilities under IFRS 16 in H1 20/21 (H1 19/20: c.£2.6 billion)

Total **sales** decreased by 1.1%, on a constant currency basis, to £5.9 billion, with LFL sales down 1.6%. On a reported rate basis, which includes the impact of exchange rates, sales decreased by 1.3%. During H1, one net store was closed overall, including one net store opening for each of B&Q and Screwfix in the UK, one Castorama store opening in Poland, and four Castorama stores closures in France.

Gross margin % decreased by 10 basis points reflecting higher supply & logistics costs and more trading initiatives, partially offset by lower clearance and fewer range changes compared to the same period last year.

Reported **retail profit** increased by 17.4% including £1 million of adverse foreign exchange movement on translating foreign currency results into sterling. In constant currencies, retail profit increased by 17.7%, driven largely by a strong performance in the UK & Ireland where sales and gross profit increased and operating costs reduced. This was partly offset by profit declines in France and Poland.

Statutory pre-tax profit, which includes the impact of exceptional items, increased by 62.4% to £398 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	**533**	454	+17.4%
Central costs	**(28)**	(29)	
Share of interest and tax of joint ventures & associates[(1)]	**(2)**	(5)	
Net finance costs	**(88)**	(83)	
Adjusted pre-tax profit	**415**	337	+23.1%
Exceptional items before tax	**(17)**	(93)	
Exchange differences on lease liabilities	**-**	1	
Statutory pre-tax profit	**398**	245	+62.4%

[(1)] Excludes exchange differences relating to translation of leases denominated in non-functional currencies (e.g. USD leases in Russia)

Net finance costs of £88 million (2019/20: £83 million) consists principally of interest on IFRS 16 lease liabilities.

Exceptional items (post-tax) were £13 million (2019/20: £74 million) as detailed below:

	2020/21 £m Gain/(charge)	2019/20 £m Gain/(charge)
Store closures	**-**	(68)
Russia & other exit costs	**(27)**	(26)
Gain on disposal of properties	**-**	1
Other	**10**	-
Exceptional items before tax	**(17)**	(93)
Exceptional tax items	**4**	19
Net exceptional items	**(13)**	(74)

Exceptional costs of £27 million have been recognised in the current year relating to the exit of Russia, predominately relating to additional impairments that reflect anticipated net proceeds from sale of the business. The Group announced the decision to exit Russia in November 2018 and the business was classified as held for sale in January 2020.

A £14 million liability that was held in relation to warranties as part of the B&Q China disposal in 2014 has been released in the period 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 tax items.

Taxation

The adjusted effective tax rate, calculated on the best estimate of full year profit before exceptional items, prior year tax adjustments and the impact of future rate changes is 24% (2019/20: 26%). The overall tax rate includes the impact of exceptional items and prior year tax adjustments.

	Pre-tax profit £m	**Tax £m**	**2020/21 %**	Pre-tax profit £m	Tax £m	2019/20 %
Adjusted effective tax rate	**415**	**(98)**	**24%**	338	(89)	26%
Exceptional items	**(17)**	**4**		(93)	19	
Prior year items		**13**			(4)	
Overall tax rate	**398**	**(81)**	**20%**	245	(74)	30%

The statutory rates for the Group's main operating companies during FY 2020/21 are:

- UK: 19%
- France: 32%
- Poland: 19%

The Group's adjusted effective tax rate is sensitive to the blend of tax rates and profits in the Group's various jurisdictions. The adjusted effective tax rate is higher than the UK statutory rate because of the amount of Group profit that is earned in higher tax jurisdictions.

Adjusted basic earnings per share increased by 28.0% to 15.1p (2019/20: 11.8p), which excludes the impact of exceptional items and prior year tax items. **Basic earnings per share** increased by 86.4% to 15.1p (2019/20: 8.1p) as set out below:

	Earnings £m	**2020/21 EPS pence**	Earnings £m	2019/20 EPS pence
Adjusted basic earnings per share	**317**	**15.1**	248	11.8
Net exceptional items	**(13)**	**(0.6)**	(74)	(3.5)
Prior year tax items	**13**	**0.6**	(4)	(0.2)
Net exchange differences on lease liabilities	**-**	**-**	1	-
Basic earnings per share	**317**	**15.1**	171	8.1

Dividends

In light of the continuing uncertainty caused by COVID-19, the Board is not declaring an interim dividend for H1 20/21. The Board recognises the importance of dividends to shareholders and will continue to evaluate the quantum and timing of any future dividend payments.

Free cash flow

A reconciliation of free cash flow, net cash flow and net debt is set out below:

	2020/21 £m	2019/20 £m
Operating profit	**486**	328
Exceptional items	**17**	93
Operating profit (before exceptional items)	**503**	421
Other non-cash items(1)	**286**	288
Change in working capital	**656**	(45)
Pensions and provisions	**(14)**	(20)
Net rent paid	**(211)**	(236)
Operating cash flow	**1,220**	408
Net interest paid	**(11)**	(7)
Tax paid	**(80)**	(34)
Gross capital expenditure	**(87)**	(163)
Free cash flow	**1,042**	204
Ordinary dividends paid	**-**	(157)
Share purchase for employee incentive schemes	**-**	(10)
Disposal of assets and other(2)	**(17)**	95
Net cash flow*	**1,025**	132
Opening net debt	**(2,526)**	(2,542)
Movement in lease liabilities	**69**	18
Other movement including foreign exchange	**55**	8
Closing net debt	**(1,377)**	(2,384)

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

Net debt (including IFRS 16 lease liabilities) at the end of the period was £1,377 million (2019/20: £2,384 million).

Operating profit before exceptional items was £82 million higher than last year, largely reflecting higher profits in the UK & Ireland.

The working capital inflow of £656 million reflects reduced stock purchases (due to COVID-19 and the strong sales recovery in Q2 20/21) and an increase in trade creditors as we mutually agreed extended payment terms with certain larger suppliers. We anticipate some of the favourable movements in working capital in H1 20/21 to reverse in H2 20/21 as we rebuild inventories and settle accounts payable.

Gross capital expenditure for H1 20/21 reduced significantly to £87 million (2019/20: £163 million). After the onset of the coronavirus crisis, expenditure was limited to essential areas (see Section 2 for more detail). Of the expenditure during H1, 23% was invested in refreshing and maintaining existing stores, 20% on new stores, 33% on IT and digital development, 14% on range reviews and 10% on other areas including supply chain investment.

Overall, free cash flow for H1 20/21 was £1,042 million (2019/20: £204 million).

Management of balance sheet and liquidity risk and financing

Management of cash and debt facilities
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.

Net debt to EBITDA
The Group ended the period with £1.4 billion of net debt on the balance sheet including the recognition of £2.5 billion of total lease liabilities under IFRS 16. The ratio of the Group's net debt to EBITDA on a moving annual total basis is 1.0 times as at 31 July 2020 (2.0 times as at 31 January 2020). The reduction in net leverage reflects both the strong recovery in sales in Q2 20/21 and the measures taken to preserve cash flows, providing the Group with strong financial flexibility.

Net debt to EBITDA is set out below:

	2020/21 Moving annual total £m	2019/20 Year end £m
Retail profit	**865**	786
Central costs	**(61)**	(62)
Depreciation and amortisation	**539**	545
EBITDA	**1,343**	1,269
Net debt	**1,377**	2,526
Net debt to EBITDA	**1.0**	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. Over the longer term, Kingfisher aims to maintain its investment grade rating, whilst investing in the business where economic returns are attractive and, when the time is right, paying an annual dividend to shareholders.

Revolving credit facilities
As at 31 July 2020, the Group had undrawn revolving credit facilities (RCFs) of £250 million due to expire in May 2021, £225 million due to expire in March 2022 and £550 million due to expire in August 2022. In August 2020, the Group completed an extension of c.90% of the £550 million RCF, taking the term to August 2023.

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 and was fully repaid.

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 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. At 31 July 2020, Kingfisher's ratio was higher than this requirement.

Prêt garanti par l'État
In May 2020, Kingfisher arranged a €600 million (c.£540 million) term facility with three French banks in support of its operations in France. The loan is guaranteed at 80% by the French State (*'Prêt garanti par l'État'*) and has 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.

Euro Commercial Paper (ECP) programme and Covid Corporate Financing Facility (CCFF)
During H1, the Group established an ECP programme which allows 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 enabled the Group to participate in the CCFF, as well as allowing access to funding through standard commercial paper issuance.

Following the UK Government's announcement on 17 March 2020, the Group applied for the Bank of England's CCFF, which was made available to assist UK businesses to bridge COVID-19 related disruption to their cash flows. In May 2020, Kingfisher confirmed its eligibility to access funding under the CCFF. In June 2020, Kingfisher issued £600 million of 11-month commercial paper under the CCFF, which was subsequently redeemed in full in July 2020.

Total liquidity
As at 18 September 2020, the Group had access to over £3.7 billion in total liquidity, including cash and cash equivalents of c.£2.1 billion and eligibility to access over £1.6 billion of funding under the CCFF and RCFs.

Further details of Kingfisher's debt and facilities can be found at www.kingfisher.com.

Pensions
As at 31 July 2020, the Group had a net surplus of £470 million (2019/20: £277 million net surplus as at 31 January 2020) in relation to defined benefit pension arrangements, of which a £612 million surplus (£404 million surplus as at 31 January 2020) 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.

Risks
The principal risks and uncertainties, while unchanged since the FY 19/20 year-end, have been reviewed as part of our half year procedures and are listed below:

- **Level and impact of change:** As we continue to evolve our business, there are significant programmes of work underway targeting improvements in our offer, market positions and cost base. These programmes may not achieve their objectives and have the potential to disrupt our business if we fail to properly prioritise activity and manage change effectively. Failure to realise programme targets and/or business disruption could result in weaker than anticipated sales growth and a failure to maintain operating margins or generate sufficient cash to meet our objectives.

- **Contagious Diseases:** A prolonged global health threat could adversely affect our business by disrupting our and our partners' operations, causing a significant reduction in footfall and consumer spending and by negatively impacting our ability to receive products from affected countries. Also, high levels of absence in our workforce could impact our ability to operate stores or provide appropriate functional support to our business. Such restrictions and/or reductions in demand could adversely affect our financial condition and results of operations.

- **Business Resilience:** Technology is key to our business and the achievement of our strategic objectives. We are increasingly reliant on resilient and secure systems and networks to maintain our operations. Similarly, we are dependent on complex supply chains and delivery solutions to deliver our products to our customers. A significant failure of our IT infrastructure or key systems could result in the loss of data or an inability to operate efficiently, with an adverse financial, regulatory or reputational impact. A disruption to our supply chain could have a similar impact.

- **Competition:** Intensifying competition, including online, may put downward pressure on sales and margins and could have an adverse effect on our revenues and profitability. We compete with many companies in each of our markets. Targeted actions by competitors could negatively impact our market share, the value of our assets and our financial results.

- **Changing Customer Preferences:** As customer preferences change, we must ensure we have innovative digital channels supported by a strong and agile infrastructure, including supply chain and logistics capability and an optimised property portfolio, to make our product sufficiently compelling to customers and available when and where they want it. Failure to optimise our channels could affect our ability to stimulate spend and deliver the desired sales growth. It could also adversely impact the value of our assets and our financial results.

- **Political and Market Volatility:** Geopolitical uncertainty and local volatility, including strikes and work stoppages, exist across all the markets in which we operate, exposing us to potential risks which may impact consumer confidence, availability of our workforce or negatively impacting our ability to receive products from affected countries potentially disrupting the day-to-day operations of our business.

- **Brexit:** Following completion of the UK exit agreement, significant risks remain from the ongoing negotiation of the future trade agreement with the European Union and possible divergence of the UK regulatory framework. Failure to reach an adequate agreement within the currently agreed transition period may impact our purchase costs, the continuity of our supply chain and our ability to operate our European businesses as we do today. These conditions also present economic uncertainty impacting UK consumer confidence.

- **Attracting, Retaining and Investing in our People Capability:** Our colleagues are critical to the successful delivery of our strategy and business. Failure to achieve an effective organisational design, appropriate ways of working and the right balance of skills, capability and capacity as well as adequate succession plans, could impact our ability to meet our business objectives.

- **Legal and Regulatory:** The Group's operations are subject to an increasing range of regulatory requirements in the markets in which it operates. A major corporate issue or crisis, a significant fraud or material non-compliance with legislative or regulatory requirements would impact our brand and reputation, could expose us to significant fines or penalties and would require significant management attention.

- **Cyber and Data Security:** The risk of a sustained cyber-attack has increased in the retail sector. Failure to meet our legal and regulatory obligations in respect of data privacy and security could result in financial penalties and adverse reputational damage, as well as impacting our ability to maintain efficient operations.

- **Reputation and Trust:** Our customers, colleagues, suppliers and the communities in which we operate expect us to conduct our business in a way that is responsible. Our Code of Conduct establishes the behaviours we expect of ourselves and others and we have publicly communicated ambitious Responsible Business targets. Failure to deliver on our obligations and commitments could undermine trust in Kingfisher, damage our reputation and impact our ability to meet our strategic objectives.

- **Acquisitions and Disposals:** As part of the optimisation of our business activities we may from time to time divest activities or acquire new businesses. Divestments or acquisitions are based on detailed plans that assess the value creation opportunity for the company. These plans are inherently uncertain and provide execution and market risks which might have been overlooked or incorrectly forecasted. If an existing, or future, divestment or acquisition effort is delayed or is not successful, we may incur additional costs and the value of our asset may decrease significantly and have an adverse effect on our revenues and profitability.

Further details of the Group risks and risk management process can be found on pages 36 to 45 of the 2019/20 Annual Report and Accounts.

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Section 6: Restatement of comparatives (for the six months ended 31 July 2019)

As reported in our FY 19/20 results, the H1 19/20 comparatives have been restated to reflect the reallocation of central support costs and transformation P&L costs, as summarised below. An overview of the impact on FY 19/20, FY 18/19 and H1 18/19 is provided in the FY 19/20 data tables published on www.kingfisher.com.

Central support costs

In recent years the Group has developed its offer, sourcing and supply chain organisations. The services and benefits provided to each of Kingfisher's retail banners have evolved over time. Consequently, at the FY 19/20 year-end, management updated its assessment of how the Group's centrally-incurred costs are most appropriately allocated across the businesses. Although neutral at a Group retail profit level, this resulted in a change to retail profit by geography for H1 19/20, with the principal effect of more costs being allocated to Poland and less to the UK & Ireland.

Transformation P&L costs

The Group no longer reports profits on an 'underlying' basis. The term 'underlying' referred to the relevant adjusted measure being reported before non-exceptional transformation P&L costs. Non-exceptional transformation P&L costs represented the additional costs that arose only as a result of the transformation plan launched in 2016/17 which, either because of their nature or the length of the period over which they were incurred, were not considered as exceptional items. With the launch of the Group's new strategy, 'Powered by Kingfisher', any further 'start-up' or incremental costs of change are not separately disclosed. The removal of the 'underlying' basis of reporting ensures consistency with that principle and ensures a simpler comparison of business performance. As a result, H1 19/20 retail profit and central costs have been restated to include their respective share of costs previously reported as non-exceptional transformation P&L costs. Note that operating profit and adjusted performance measures are unaffected by this change.

Summary of impacts – H1 19/20

£m	H1 19/20 As previously reported	Reallocation of costs Central support	 Transformation P&L	H1 19/20 Restated
UK & Ireland	**277**	**7**	**(5)**	**279**
France	**114**	**1**	**(3)**	**112**
Poland	88	(6)	(1)	81
Romania	(8)	(1)	(3)	(12)
Iberia	3	(1)	-	2
Russia	(7)	-	-	(7)
Screwfix Germany	(4)	-	-	(4)
Turkey (50% joint venture)	3	-	-	3
Other International	**75**	**(8)**	**(4)**	**63**
Retail profit	**466**	**-**	**(12)**	**454**
Central costs	(25)	-	(4)	(29)
Share of JV interest and tax	(5)	-	-	(5)
JV FX on lease liabilities	1	-	-	1
Transformation P&L costs	(16)	-	16	-
Operating profit (before exceptional items)	**421**	**-**	**-**	**421**
Net finance costs	(83)	-	-	(83)
Add back: FX on lease liabilities	(1)	-	-	(1)
Adjusted pre-tax profit	**337**	**-**	**-**	**337**
Exceptional items	(93)	-	-	(93)
FX on lease liabilities	1	-	-	1
Statutory pre-tax profit	**245**	**-**	**-**	**245**

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Section 7: Glossary

Alternative Performance Measures (APMs)

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures (APMs), also termed 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 5) and note 9 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 items, lease FX, FFVR, 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 items, lease FX, 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 5)	Adjusted effective tax rate is calculated as continuing income tax expense excluding tax on exceptional 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 items. The exclusion of items relating to prior years and those not in the ordinary course of business helps provide a better 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 5) 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 items, lease FX and FFVR. The exclusion of exceptional items, lease FX and FFVR helps provide an indication of the Group's ongoing business performance.
Adjusted post-tax profit	Profit after tax	A reconciliation of adjusted post-tax profit is set out in the Financial Review (Section 5) and the consolidated income statement 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 items, lease FX, 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 items, lease FX, FFVR and

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
			tax items relating to prior years and those not in the ordinary course of business helps provide a better 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 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.
EBITDA	Profit before taxation	A reconciliation of EBITDA is set out in the Financial Review (Section 5)	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 items	No direct equivalent	Not applicable	Exceptional items are certain types of income or cost that are excluded by virtue of their size and nature in order to reflect management's view of the ongoing performance of the Group. The principal exceptional 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 impairment losses on non-operational assets; the costs of significant restructuring; and incremental acquisition integration costs.
FFVR	No direct equivalent	Included within net finance costs in note 6 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 5)	Free cash flow represents the cash generated from operations (excluding exceptional items) less the amount spent on interest, tax and capital expenditure during the year (excluding business

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
			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.
Lease FX	No direct equivalent	Included within share of interest and tax of joint ventures and associates in note 4 of the condensed financial statements	Lease FX (exchange differences on lease liabilities) represents the income statement impact of translating lease liabilities denominated in non-functional currencies (e.g. a USD denominated lease in Russia).
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-19 are also included. 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 16 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	No direct equivalent	A reconciliation of net cash flow is set out in the Financial Review (Section 5)	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.
Net financial cash	No direct equivalent	A reconciliation of this measure is provided in note 16 of the condensed financial statements	Net financial cash represents net debt excluding both lease liabilities and lease liabilities classified as held for sale
Retail profit	Profit before taxation	A reconciliation to profit before taxation is set out in the Financial Review (Section 5) and note 4 of the condensed financial statements	Retail profit is stated before central costs, exceptional 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

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
			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.

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 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 relate to growth at constant currencies.

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, Russia, Turkey (Koçtaş JV) and, in the prior year, Screwfix Germany

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 six months ended 31 July 2020. 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 in this announcement and in 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 or change in circumstances or in the Company's expectations.