

**Half year results for the 6 months ended 31 July 2016**  
**Sales up 2.7% and retail profit up 8.7%, in constant currencies**  
**Underlying pre-tax profit of £436m, up 13.5%**  
**Good early progress on ONE Kingfisher**

Financial highlights			% Total Change	% Total Change	% LFL* Change
	2016/17	2015/16	Reported	Constant currency	Constant currency
Adjusted sales*	£5,749m	£5,382m	+6.8%	+2.7%	+3.3%
Retail profit*	£464m	£410m	+13.1%	+8.7%	
Underlying* pre-tax profit	£436m	£384m	+13.5%		
Adjusted* pre-tax profit	£418m	£384m	+8.9%		
Underlying basic EPS	14.2p	12.3p	+15.4%		
Adjusted basic EPS	13.6p	12.3p	+10.6%		
Half year dividend	3.25p	3.18p	+2.2%		
Net cash*	£898m	£435m	n/a		

*\*Throughout this release '\*\*' indicates first instance of a term defined and explained in the Glossary (section 5). A reconciliation to statutory amounts is set out in the Financial Review (Section 4).*

- Total **adjusted sales** in constant currencies up 2.7% (UK & Ireland\* +3.1%; France\* +0.3%; Other International\* +7.5%)
- **Retail profit** in constant currencies up 8.7% (UK & Ireland +8.8%; France +1.6%; Other International +34.2%)
- **Underlying pre-tax profit** of £436m, up 13.5% driven by UK and Poland profit growth and £17m favourable FX movements on the translation of non-sterling retail profits
- Returned £317m of **cash** to shareholders year to date (£157m dividend; £160m buyback)
- **Net cash** of £898m including significant working capital timing benefits

## ONE Kingfisher

Good early progress and on track with first year strategic milestones:

- Unified & Unique Offer
  - Implementing first unified ranges; sales are encouraging and cost of change in line with expectations
  - New ONE Offer & Supply Chain organisation (OSC) global functions and roles started from early June; initial set up costs lower than anticipated
- Digital
  - Unified IT platform now in all B&Q stores (ahead of plan) with back office & supply chain underway; first Castorama France pilot store on track for Q3
- Operational efficiency
  - B&Q store closures 80% complete: 52 to date of the 65 planned; 50 lease exits secured
  - Goods Not For Resale\* (GNFR) benefits delivering earlier than plan: £12m in H1; raising FY guidance from up to £20m to up to £25m

No change to 5 year transformation cost\* guidance of c.£800m:

- Updated cost guidance for FY 2016/17: transformation P&L costs of c.£60m; transformation exceptional costs of up to £10m

Statutory reporting	2016/17	2015/16	% Change
Statutory sales*	£5,749m	£5,492m	+4.7%
Statutory pre-tax profit	£427m	£386m	+10.6%
Statutory post-tax profit	£321m	£318m	+0.9%
Basic EPS	14.1p	13.6p	+3.7%

**Véronique Laury, Chief Executive Officer, said:**

“It has been a productive first half. We have delivered a good 'business as usual' result with both sales and profit growth. Performance has been driven by Poland and the UK, especially Screwfix, and a stable profit performance in France. This has been achieved alongside managing the start of our ambitious transformation plan, based on creating a unified company where customer needs come first.

“In the UK, the EU referendum has created uncertainty for the economic outlook, even though there has been no clear evidence of an impact on demand so far on our businesses. In France we remain cautious on the short term outlook.

“Looking longer term, we are starting to build solid foundations to enable us to deliver our five year transformation, which is our key growth driver. We are making good progress on our strategic milestones for this first year and we are on track. The level of transformation activity will increase significantly, however given the expertise and energy of our colleagues we continue to feel confident about the challenges ahead.”

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Our next announcement will be the Q3 trading update (sales only) for the period ended 31 October 2016 on 22 November 2016.

The remainder of this release is broken down into six main sections:

- 1) ONE Kingfisher update
- 2) Trading review by division
- 3) FY 2016/17 Technical guidance
- 4) HY 2016/17 Financial review and, in part 2 of this announcement, the half year condensed Financial Statements
- 5) Glossary
- 6) Forward-looking statements

## Section 1: ONE Kingfisher update

The ONE Kingfisher five year plan, starting this year (FY 2016/17) will leverage the scale of the business by creating a unified company, where customer needs always come first.

Our intention is that this five year transformation plan will deliver a £500m sustainable annual profit uplift by end of year 5, over and above business as usual (BAU)\*. Furthermore, until we have unified our customer offer, we will have limited expansion, the focus of which will be Screwfix UK and Europe in the medium-term. The total expected cash cost of the transformation is £800m (P&L, exceptional and capex).

The focus of the transformation plan is on three key strategic pillars:

1. creating a unified, unique and leading home improvement offer;
2. driving our digital capability; and
3. optimising our operational efficiency.

See below for half year progress against the annual strategic milestones of each of these strategic pillars:

### 1. Unified, unique and leading offer

We have started unifying our offer, with the same products, presented everywhere in the same way. This will deliver significant customer benefits (newer products, higher quality, better sustainability, lower prices, simpler ranges, clearer merchandising and better packaging) alongside significant business benefits (higher sales, fewer SKUs\*, fewer suppliers, cost price reduction (CPR) and improved processes).

- *Achieve 4% unified cost of goods sold (COGS)*

The first unified ranges (e.g. air treatment, light bulbs, batteries and kitchen sinks) are being implemented, as planned, from March 2016. Sales are encouraging and cost of change to date is in line with expectations.

- *Deliver new ONE Offer & Supply Chain Organisation*

We are moving away from an organisation structure with nine buying and logistics teams, in nine operating companies which source and merchandise their own ranges independently. Instead, we are reorganising as ONE organisation, starting with our offer.

New unified global functions and roles started from June, mostly as a result of internal moves, leading to lower transformation exceptional costs than originally anticipated for this year. New range teams, located across the UK and France, will work closely with operating companies, who retain responsibility for activities such as trading, range implementation, local pricing and customer needs.

## 2. Driving our digital capability

Implementation of a unified IT system is a key enabler of our ONE Kingfisher plan. It will also provide a significant opportunity, with a seamless and stronger digital offer for our customers, to substantially increase sales and digital penetration.

- *Complete unified IT platform roll out in B&Q and start Castorama France roll out*

Roll out completed in all B&Q stores in Q1 ahead of plan, with back office and supply chain well underway. The first Castorama pilot store is on track for launch in Q3.

- *Build Digital 'Brilliant Basics' platform for B&Q*

This involves investing in our core e-commerce platforms, enabled by the new unified IT platform, and leveraging our Screwfix best-in-class capability.

Upweighted digital marketing, improved site search and new checkout are all being developed for both diy.com and castorama.fr. We are also developing a new company wide mobile platform.

## 3. Optimising our operational efficiency

The main driver will come from unifying c.90% of the £1.2bn annual spend on GNFR. This programme is a combination of cost savings, and also an opportunity to work in a simpler and more effective way across the business.

- *Deliver benefits from unified Wave 1 of GNFR programme*

Wave 1 (£350m of the total GNFR programme including media buying, printing & paper) is now well advanced. Wave 2 (next £400m) is also progressing well.

In H1, alongside helping us to work in a simpler more effective way, we have achieved cost savings on categories reviewed so far, delivering a £12m benefit and earlier than plan. We are therefore raising our FY 2016/17 target benefit from up to £20m to up to £25m.

- *Complete closure of c.15% surplus space at B&Q (65 stores)*

Closure now 80% complete following the closure in H1 of a further 22 stores, taking the total to 52. Sales transference to date continues to support the business case for the closures.

In Q1 B&Q outsourced remaining lease exits to a third party via a lease liability transaction. Of the 10 exits secured year to date, six were undertaken by this third party. Of the 65 stores, we have now secured exits on a total of 50.

## Summary

Good progress has been made so far against our first year strategic milestones and we are on track to achieve them and the associated benefits. Total expected transformation costs for this year are lower than originally guided, reflecting lower initial reorganisation costs and phasing on spend. We are not however changing our five year total transformation cost guidance of £800m. It is early days and given the nature of the plan, phasing differences are to be expected.

We are very aware of the challenges ahead and we are planning accordingly. The level of transformation activity will significantly increase next year as we step up the unification of ranges across the company. This activity will involve more clearance of old ranges, more remerchandising of new ranges in stores and more pressure on the logistics networks.

We continue to monitor our progress against our financial and strategic milestones, and we will update as we progress.

## Section 2: Trading review by division

*Note: all commentary below is in constant currencies*

### UK & IRELAND

£m	2016/17	2015/16	% Reported Change	% Constant Currency Change	% LFL Change
<b>Sales</b>	2,609	2,527	+3.3%	+3.1%	+6.7%
<b>Retail profit</b>	211	194	+8.8%	+8.8%	

Kingfisher UK & Ireland sales were up 3.1% (+6.7% LFL) to £2,609 million benefiting from a broadly supportive backdrop and continued strong Screwfix performance. Retail profit grew by 8.8% to £211 million. Gross margins were down 100 basis points reflecting mix effects from strong growth in Screwfix, clearance related to the B&Q store closures and higher digital sales. Focus on cost control continued.

Following the outcome of the EU referendum result in the UK there has been no clear evidence of an impact on demand so far on our businesses.

**B&Q** total sales declined by 1.9% reflecting store closures and sales transference (+4.6% LFL) to £1,997 million. LFL sales benefited by c.2% from sales transference associated with the store closures. LFL sales of outdoor seasonal products were up 1.6% while sales of indoor products, including showroom, were up 5.9%.

B&Q's click & collect is now available on over 18,000 products. Total online sales\*, including home delivery, continued to make good progress with sales growing by 39%.

**Screwfix** grew total sales by 24.0% (+14.7% LFL) to £612 million, driven by strong growth from the specialist trade desks exclusive to plumbers and electricians, strong digital growth (e.g. mobile +117%; click & collect +59%); and the continued roll out of new outlets. 20 net new outlets were opened, taking the total to 477.

## FRANCE

£m	2016/17	2015/16	% Reported Change	% Constant Currency Change	% LFL Change
<b>Sales</b>	2,175	1,976	+10.1%	+0.3%	(1.6)%
<b>Retail profit</b>	187	167	+11.5%	+1.6%	

Kingfisher France sales increased slightly by +0.3% (-1.6% LFL) to £2,175 million. According to Banque de France data\*, sales for the home improvement market were up 0.2%. New private housing starts and planning permits\* were up 2.5% and 1.4% respectively in the six months to the end of July. Widespread industrial action and exceptionally wet weather created a more challenging environment in Q2 after a more encouraging Q1.

Across the two businesses, one net new store was opened and four were revamped, adding around 1% new space.

Retail profit grew by 1.6% to £187 million <sup>(1)</sup>, despite the weaker sales, reflecting higher gross margins (+70 basis points) benefitting from less promotional activity, and continued focus on cost control.

**Castorama** total sales declined by 1.1% (-2.1% LFL) to £1,188 million. LFL sales of outdoor seasonal products were down 6.2% and sales of indoor and building products were down 1.3%.

**Brico Dépôt** total sales increased by 2.1% (-0.9% LFL) to £987 million reflecting store openings.

<sup>(1)</sup> See Section 3 (FY 2016/17 Technical Guidance) for explanation of cost phasing from TASCOS\* legislation change

## OTHER INTERNATIONAL

£m	2016/17	2015/16	% Reported Change	% Constant Currency Change	% LFL Change
<b>Sales</b>	965	879	+9.7%	+7.5%	+5.9%

<b>Retail profit</b>					
Other International (established)	77	60	+27.6%	+24.2%	
New Country Development*	(11)	(11)	n/a	n/a	
<b>Total</b>	66	49	+35.9%	+34.2%	

Other International total sales increased by 7.5% (+5.9% LFL) to £965 million and retail profit increased by 34.2% to £66 million, both driven by Poland.

During H1 three net new stores were opened, after opening one in Poland and three in Screwfix Germany, adding 2% more space compared to H1 last year.

### Other International (established):

Sales in **Poland** were up 11.4% (+8.9% LFL) to £587 million benefiting from a supportive market and new ranges. LFL sales of outdoor seasonal products were up 10.6% with sales of indoor and building products up 8.5%. Gross margins were up 140 basis points reflecting strong trading. Retail profit grew by 32.7% to £73 million reflecting the sales growth and higher gross margins.

In **Russia** sales declined slightly by 0.6% (+1.2% LFL) to £157 million against strong comparatives (2015/16: +15.3% LFL). The business delivered a breakeven result (2015/16: £3 million reported retail profit) reflecting a challenging environment and adverse foreign currency exchange movements on the cost base. In **Spain** sales increased by 3.2% (+0.8% LFL) to £163 million, delivering a £3 million retail profit (2015/16: £2 million reported retail profit). In **Turkey**, Kingfisher's 50% JV, Koçtaş, contributed retail profit of £1 million (2015/16: £2 million reported retail profit).

### New Country Development:

New Country Development includes operations in Romania, Portugal and Germany. Sales were £58 million with losses of £11 million (2015/16: £11 million reported retail loss) including reduced losses in Romania. Three new outlets in Screwfix Germany were opened.



### Section 3: FY 2016/17 Technical guidance

Employee, new stores and space growth:

	Employees (FTE) at 31 Jul 2016	Store Numbers at 31 Jul 2016	Sales area <sup>(1)</sup> (000s m <sup>2</sup> ) at 31 Jul 2016	Net new stores FY 2016/17	Space % change FY 2016/17
B&Q UK & Ireland	19,208	308	2,305	(35)	(7.5)%
Screwfix	6,507	477	29	60	+10.6%
<b>UK &amp; Ireland</b>	<b>25,715</b>	<b>785</b>	<b>2,334</b>	<b>25</b>	<b>(7.3)%</b>
Castorama	12,625	102	1,253	-	+1.1%
Brico Dépôt	7,375	119	829	1	+0.9%
<b>France</b>	<b>20,000</b>	<b>221</b>	<b>2,082</b>	<b>1</b>	<b>+1.0%</b>
Poland	11,302	74	627	2	+2.9%
Portugal	134	2	12	1	n/a
Romania	851	15	114	-	-
Russia	3,199	20	198	-	+1.3% <sup>(2)</sup>
Spain	1,694	29	182	-	-
Screwfix Germany	127	12	1	9	n/a
<b>Other International</b>	<b>17,307</b>	<b>152</b>	<b>1,134</b>	<b>12</b>	<b>+2.6%</b>
<b>Total</b>	<b>63,022</b>	<b>1,158</b>	<b>5,550</b>	<b>38</b>	<b>(2.3)%</b>

<sup>(1)</sup> Screwfix sales area relates to the front of counter area of an outlet

<sup>(2)</sup> Includes one closure and one opening

Income statement:

- Underlying profit expected to include up to c.£25m operational efficiency benefits
- Transformation P&L costs of £220m over next five years to be mostly incurred in first three years (FY 2016/17 expected to be c.£60m, previously c.£70m, due to phasing of spend)
- Transformation exceptional costs of £270m over next five years to be mostly incurred in first three years (FY 2016/17 transformation exceptional costs expected to be up to £10m, previously c.£50m, reflecting lower initial reorganisation costs)
- Retail losses from new country development activity expected to be c.£20m driven by Screwfix Europe\*
- Group interest charge expected to be c.£10m (excluding FFVR\* and exceptionals)
- Effective tax rate expected to be around 26%, subject to the blend of profit within the companies' various jurisdictions
- B&Q closures - income statement impact expected to be broadly neutral assuming on average that around a third of sales transfer
- As a result of a change in legislation during the year relating to TASCOT, operating costs increased by £9m during H1 which will be offset by a corresponding reduction in H2, hence not impacting the full year. Comparatives are not restated.

Cash flow:

- Investing up to c.£450m total capex for FY 2016/17 (includes BAU and transformation); c.£500m for FY 2017/18 and FY 2018/19
- Capital return of c.£600m by the end of FY 2018/19 expected to be via share buyback (£160m of shares (47m shares) repurchased year to date)

## Section 4: HY 2016/17 Financial review

A summary of the reported financial results for the half year ended 31 July 2016 is set out below:

	2016/17	2015/16	% Reported Change	% Constant Currency Change
Adjusted sales	<b>£5,749m</b>	£5,382m	+6.8%	+2.7%
Statutory sales <sup>(1)</sup>	<b>£5,749m</b>	£5,492m	+4.7%	+0.8%
Retail profit	<b>£464m</b>	£410m	+13.1%	+8.7%
Underlying pre-tax profit	<b>£436m</b>	£384m	+13.5%	
Transformation P&L costs	<b>£18m</b>	-	n/a	
Adjusted pre-tax profit	<b>£418m</b>	£384m	+8.9%	
Statutory pre-tax profit <sup>(1)</sup>	<b>£427m</b>	£386m	+10.6%	
Exceptional items (post-tax)	<b>£9m</b>	£38m	n/a	
Underlying basic earnings per share	<b>14.2p</b>	12.3p	+15.4%	
Adjusted basic earnings per share	<b>13.6p</b>	12.3p	+10.6%	
Basic earnings per share <sup>(1)</sup>	<b>14.1p</b>	13.6p	+3.7%	
Dividends – Ordinary	<b>3.25p</b>	3.18p	+2.2%	
Effective tax rate	<b>26%</b>	26%		
Net cash	<b>£898m</b>	£435m		
Capital Return				
- Share buyback	<b>£126m</b>	£139m		

<sup>(1)</sup> Statutory results include B&Q China up to the date of disposal of controlling 70% stake (30 April 2015)

Reported retail profit grew by 13.1% including £17 million of favourable foreign exchange movement on translating foreign currency results into sterling. In constant currencies retail profit grew by 8.7%, reflecting good performance in the UK and Poland. Our ongoing focus on cash and tight capital discipline meant we were able to continue to invest in the business and the transformation whilst maintaining a strong balance sheet, pay £157 million in cash dividends and return a further £126 million to shareholders via share buybacks (£160 million to date).

Total adjusted sales grew by 2.7%, on a constant currency basis, to £5.7 billion, with LFL sales up 3.3%. On a reported rate basis, which includes the impact of exchange rates, adjusted sales increased by 6.8%. During H1, sales growth benefited from two net new stores, driven by 20 Screwfix outlet openings in the UK, offset by the impact from the previously announced B&Q store closures (65 planned over two years; the first 30 closed in FY 2015/16 and 22 in H1 2016/17).

On a constant currency basis retail profit of £464 million increased by 8.7% including £11 million of new country development losses relating to Romania, Portugal and Screwfix Europe.

In FY 2015/16 Kingfisher adjusted for IFRIC 21 'Levies' changes relating to quarterly phasing of operating levies in France to reflect a new IFRS accounting requirement. Since then, a change in legislation during the year relating to one of these levies (TASCOM) has led to the reversal of this accounting treatment in the period increasing operating costs by £9 million in the period offset by a corresponding reduction in H2. There is no full year impact. Comparatives are not restated.

As previously announced, Kingfisher disposed of a controlling 70% stake in B&Q China on 30 April 2015. On 23 March 2016 Kingfisher exercised its option to dispose of the remaining 30% economic interest, with the agreement of Wumei Holdings Inc. ("Wumei"). Following regulatory approval, Kingfisher received net proceeds of £63 million in July 2016, completing the transaction.

**Underlying pre-tax profit**, which excludes the impact of transformation P&L costs and exceptional items and FFVR, increased by 13.5%, to £436 million, in line with reported retail profit.

**Adjusted pre-tax profit**, which excludes the impact of exceptional items and FFVR, increased by 8.9% to £418 million, reflecting £18 million of transformation P&L costs.

**Statutory pre-tax profit**, which includes the impact of transformation costs, exceptional items and FFVR, increased by 10.6% to £427 million. A reconciliation from the underlying basis to the statutory basis for pre-tax profit is set out below:

	2016/17 £m	2015/16 £m	Increase
<b>Retail profit</b>	<b>464</b>	410	+13.1%
Central costs	(22)	(19)	n/a
Share of interest and tax of joint ventures & associates	(2)	(2)	n/a
Finance costs before exceptional items & financing fair value remeasurements (FFVR)	(4)	(5)	n/a
<b>Underlying pre-tax profit</b>	<b>436</b>	384	+13.5%
Transformation P&L costs	(18)	-	n/a
<b>Adjusted pre-tax profit</b>	<b>418</b>	384	+8.9%
B&Q China operating loss	-	(4) <sup>(1)</sup>	
FFVR	(2)	(3)	
Profit before exceptional items and tax	416	377	+10.3%
Exceptional items before tax	11	9	
<b>Statutory pre-tax profit</b>	<b>427</b>	386	+10.6%

<sup>(1)</sup> Up to the date of disposal (30 April 2015)

Transformation P&L costs of £18 million principally relate to the unified and unique offer range implementation and the digital strategic initiative.

**Exceptional items** (post tax) were a gain of £9 million (2015/16: £38 million gain) as detailed below:

	2016/17 £m Gain/(charge)	2015/16 £m Gain/(charge)
Transformation exceptional costs	(1)	-
UK & Ireland and Europe restructuring	9	(151)
Profit on disposal of B&Q China	3	143
Property and other disposals <sup>(1)</sup>	-	17
<b>Exceptional items before tax</b>	<b>11</b>	9
Exceptional tax items	(2)	29
<b>Net exceptional items</b>	<b>9</b>	38

<sup>(1)</sup> Disposal of properties includes the disposal of a property company which held 3 non-operational properties

As previously announced, B&Q will complete the closure of around 15% of space by the end of FY 2016/17. There will also be a small number of closures of loss making stores across Europe. In addition to the 30 B&Q stores closed in FY 2015/16 a further 22 stores were closed in H1. In Q1 B&Q outsourced the remaining lease exits to a third party via a lease liability transaction. The total store rationalisation programme was expected to give rise to an exceptional charge of around £350 million, relating principally to onerous lease provisions. An exceptional charge of £305 million was reported in FY 2015/16. An overall exceptional gain of £9 million was recorded in H1 (FY 2015/16: £38 million) reflecting the decision to keep one store open that was originally planned for closure. This was partly offset by the forced closure of one other store.

The disposal of the remaining 30% stake in B&Q China for a net consideration of £63 million resulted in a gain of £3 million.

**Underlying basic earnings per share** grew by 15.4% to 14.2p, which excludes the impact of transformation costs, exceptional items, FFVR and the effect of prior year tax items. **Adjusted basic earnings per share** grew by 10.6% to 13.6p (2015/16: 12.3p), which excludes the impact of exceptional items, FFVR and prior year tax items. **Basic earnings per share** increased by 3.7% to 14.1p (2015/16: 13.6p) as set out below:

	Earnings £m	2016/17 EPS pence	Earnings £m	2015/16 EPS pence
<b>Underlying basic earnings per share</b>	<b>323</b>	<b>14.2</b>	285	12.3
Transformation P&L costs (net of tax)	(13)	(0.6)	-	-
<b>Adjusted basic earnings per share</b>	<b>310</b>	<b>13.6</b>	285	12.3
B&Q China operating loss	-	-	(4)	(0.2)
Net exceptional items	9	0.4	38	1.6
Prior year tax items	4	0.2	1	-
FFVR (net of tax)	(2)	(0.1)	(2)	(0.1)
<b>Basic earnings per share</b>	<b>321</b>	<b>14.1</b>	318	13.6

## Dividends and capital returns

The Board has declared an interim dividend of 3.25p, an increase of 2.2% (2015/16: 3.18p). We continue to be comfortable with medium term dividend cover in the range of 2.0 to 2.5 times based on adjusted basic earnings per share, a level the Board believes is prudent and consistent with the capital needs of the business.

The interim dividend will be paid on 11 November 2016 to shareholders on the register at close of business on 7 October 2016. A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. The shares will go ex-dividend on 6 October 2016. For those shareholders electing to receive the DRIP the last date for receipt of election is 21 October 2016.

On 25 January 2016 Kingfisher announced its intention to return around a further £600 million of surplus capital to shareholders over this year and the next two years. This is expected to be via share buyback. During H1 2016/17 £126 million (37 million shares) was returned to shareholders via share buyback and since year end, £160 million of shares (47 million shares) have been repurchased.

## Taxation

The adjusted effective rate of tax, calculated on profit before exceptional items, prior year tax adjustments and the impact of rate changes was 26% (2015/16: 26%). This effective rate of tax is consistent with FY 2015/16.

The overall rate of tax includes the impact of exceptional items and prior year adjustments. The impact of such items reduced the rate from 26% to 25%.

Effective tax rate calculation	Profit £m	Tax £m	2016/17 %	2015/16 %
Profit before tax and exceptional items	416	(108)	26%	26%
Exceptional items	11	(2)		
Prior year items		4		
<b>Total – overall</b>	<b>427</b>	<b>(106)</b>	<b>25%</b>	<b>18%</b>

The statutory rates for the Group's main operating companies during FY 2016/17 are:

- UK: 20%
- France: 34%
- Poland: 19%

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

## Free cash flow\*

A reconciliation of free cash flow is set out below:

	2016/17 £m	2015/16 £m
<b>Operating profit (before exceptional items)</b>	<b>422</b>	<b>385</b>
Other non-cash items <sup>(1)</sup>	<b>140</b>	133
Change in working capital	<b>200</b>	39
Pensions and provisions	<b>(21)</b>	(20)
Operating cash flow	<b>741</b>	537
Net interest paid	<b>(4)</b>	(7)
Tax paid	<b>(63)</b>	(65)
Gross capital expenditure	<b>(141)</b>	(177)
<b>Free cash flow</b>	<b>533</b>	288
Ordinary dividends paid	<b>(157)</b>	(160)
Share buyback	<b>(126)</b>	(139)
Share purchase for employee incentive schemes	-	(11)
Disposal of B&Q China (net of disposal costs)	<b>63</b>	137
Disposal of assets <sup>(2)</sup> and other <sup>(3)</sup>	<b>(37)</b>	22
<b>Net cash flow</b>	<b>276</b>	137
Opening net cash	<b>546</b>	329
Other movement including foreign exchange	<b>76</b>	(31)
<b>Closing net cash</b>	<b>898</b>	435

<sup>(1)</sup> Other non-cash items include depreciation and amortisation, share-based compensation charge, share of post-tax results of JVs and associates, pension operating cost and profit/loss on non-property disposals

<sup>(2)</sup> Disposal of assets includes the disposal of an overseas property company in FY 2015/16

<sup>(3)</sup> Includes exceptional items (excluding property disposals), principally relating to B&Q closures, dividends received from JVs and associates and issue of shares

Net cash at the end of the period was £898 million (H1 2015/16: £435 million net cash; FY 2015/16: £546 million net cash).

Free cash flow of £533 million was generated in the period, an increase of £245 million against the prior period, due primarily to favourable timing in working capital.

Gross capital expenditure for H1 was £141 million (2015/16: £177 million). Of this around 14% was invested in new stores and relocations, 30% on refreshing and maintaining existing stores, 34% on IT, supply chain and digital development and 4% on the transformation.

Of free cash flow, £283 million was returned to shareholders in the form of the ordinary dividend and share buybacks.

### Management of balance sheet and liquidity risk and financing

The Group finished the period with £898 million of net cash on the balance sheet. However the Group's overall leverage is more significant when including capitalised lease debt that in accordance with accounting standards does not appear on the balance sheet. The ratio of the Group's lease adjusted net debt (capitalising leases at 8 times annual rent) to EBITDAR\* on a moving annual total basis is 1.7 times as at 31 July 2016. At this level the Group has financial flexibility whilst retaining an efficient cost of capital.

A reconciliation of lease adjusted net debt to EBITDAR is set out below:

	<b>2016/17</b>	<b>2015/16<sup>(1)</sup></b>
	<b>Moving annual total</b>	<b>Year end</b>
	<b>£m</b>	<b>£m</b>
EBITDA*	<b>975</b>	941
Property operating lease rentals	<b>398</b>	402
<b>EBITDAR</b>	<b>1,373</b>	1,343
Net cash	<b>(898)</b>	(546)
Property operating lease rentals (8x) <sup>(2)</sup>	<b>3,184</b>	3,216
<b>Lease adjusted net debt</b>	<b>2,286</b>	2,670
<b>Lease adjusted net debt to EBITDAR</b>	<b>1.7</b>	2.0

<sup>(1)</sup> Excludes contribution from China following disposal of controlling 70% stake in April 2015

<sup>(2)</sup> Kingfisher believes 8x is a reasonable industry standard for estimating the economic value of its leased assets

Kingfisher holds a BBB credit rating with all three rating agencies. Kingfisher aims to maintain its solid investment grade credit rating whilst investing in the business where economic returns are attractive and paying a healthy annual dividend to shareholders. After satisfying these key aims and taking into account the economic and trading outlook, any surplus capital would be returned to shareholders.

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.



The Group has a £225 million committed facility that expires in 2021 and was undrawn at 31 July 2016. The next significant debt maturity is in May 2018 when the Group is required to repay US Private Placement debt with a notional value of \$179 million.

The maturity profile of Kingfisher's debt is illustrated at:

[www.kingfisher.com/index.asp?pageid=74](http://www.kingfisher.com/index.asp?pageid=74)

## **Disposals**

On 22 December 2014, Kingfisher announced a binding agreement for Wumei to acquire a controlling 70% stake in its B&Q China business. Gross cash proceeds of £140 million were received in April 2015 following MOFCOM (Chinese Ministry of Commerce) approval. Kingfisher, with the agreement of Wumei, exercised its option to dispose of the remaining 30% economic interest on 23 March 2016. Following regulatory approval, Kingfisher received £63 million of net proceeds in July 2016, completing the transaction.

## **Pensions**

At the period end, the Group had a net surplus of £78 million (£159 million net surplus at 31 January 2016) in relation to defined benefit pension arrangements, of which a £178 million surplus (£246 million surplus at 31 January 2016) was in relation to the UK scheme. The adverse movement reflects a significantly lower discount rate being applied to the UK scheme liabilities (£3.0 billion at 31 July 2016), largely offset by the growth in UK asset values over the period due to the interest rate hedging in place. 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 have been reviewed as part of our half year procedures. We have considered the impact of the EU referendum result as part of this review. The EU referendum result has created uncertainty for the economic outlook in the UK. Although there has been no clear evidence of an impact neither on demand so far on our businesses nor our principal risks, we have established a working group to monitor developments and the potential future impact of Brexit.

We therefore consider the principal risks to be unchanged from those reported in the Annual Report and are listed below.

- Organising Kingfisher as a more unified company with a unified customer offer rather than a collection of individual businesses fails to deliver the anticipated benefits
- We fail to deliver the benefits of a more unified and unique offer and standardised activities and processes
- A lack of perceived price competitiveness, particularly when compared to more discount based or online competitors, would affect our ability to maintain or grow market share
- We fail to deliver our sustainability targets due to not integrating our sustainability plan into the day-to-day operations of the business

- We fail to create a culture of innovation in our offer, format and digital channels to stimulate consumer spend and deliver desired sales growth
- Our investments fail to deliver value to the Company
- Our Unified IT platform programme fails to deliver the requirements in line with the plan needed to enable and support the delivery of the Company strategy
- We fail to identify and maximise potential cost reductions and efficiency savings
- We do not make the necessary investment in our people to ensure that we have the appropriate capacity, skills and experience
- Uncertainty surrounding the resilience of the global economy and increased geopolitical volatility may impact both consumer confidence and the long-term sustainability and capabilities of our supplier base
- We fail to maintain a safe environment for our customers and store colleagues which results in a major incident or fatality that is directly attributable to a failure in our health and safety management systems
- Kingfisher's reputation and brand are affected by a major environmental or ethical failure, a significant corporate fraud or material non-compliance with legislative or regulatory requirements resulting in punitive or custodial procedures

Further details of the Group risks and risk management process can be found on pages 31 to 35 of the 2015/16 Annual Report and Accounts.



## Section 5: Glossary (terms are listed in alphabetical order)

**Adjusted** measures are before exceptional items, FFVR, amortisation of acquisition intangibles, related tax items and tax on prior year items including the impact of rate changes on deferred tax. Half year 2015/16 comparatives exclude B&Q China's results.

**Adjusted pre-tax profit** is used to report the performance of the business at a Group level including both the benefits of our transformation programme and the associated costs. This is stated before exceptional items and FFVR.

**Adjusted sales** represents statutory sales excluding B&Q China sales.

**Banque de France** data includes relocated and extended stores.

<http://webstat.banque-france.fr/en/browse.do?node=5384326>

**BAU** (business as usual) refers to activity without the transformation. When referring to our performance, we would expect this to be broadly in line with the macroeconomic backdrop in our respective markets.

**EBITDA** (earnings before interest, tax, depreciation and amortisation) is calculated as retail profit less central and transformation P&L costs and before depreciation and amortisation.

**EBITDAR** (earnings before interest, tax, depreciation, amortisation and property operating lease rentals) is calculated as retail profit less central and transformation P&L costs, before depreciation and amortisation and property operating lease rentals.

**France** consists of Castorama France and Brico Dépôt France.

**Free cash flow** represents cash generated from operations (excluding exceptional items) less the amount spent on interest, tax and capital expenditure during the year (excluding business acquisitions and disposals and asset disposals). A reconciliation from operating profit (before exceptional items) is set out in the Financial Review (Section 4).

**FFVR** (financing fair value remeasurements) represents fair value fluctuations from financial instruments.

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

**LFL** stands for like-for-like sales growth representing the constant currency, year on year sales growth for stores that have been open for more than a year.

**Net cash** comprises cash and cash equivalents and short term deposits, less borrowings and financing derivatives (excluding accrued interest). It excludes balances classified as held for sale.

**New Country Development** consists of Screwfix Europe, Portugal and Romania.

**New private housing starts and planning permits** for the 6 months to 31 July 2016 according to the Ministry of Housing.

<http://www.statistiques.developpement-durable.gouv.fr/logement-construction/s/construction-logements.html>

**Online sales** are sales derived from online transactions, including click & collect. This includes sales transacted on any device, however not sales through a call centre.

**Other International** consists of Poland, Portugal, Romania, Russia, Screwfix Europe, Spain and Turkey (Koçtaş JV).

**Retail profit** is our operating profit measure used to report the performance of the underlying retail businesses including the sustainable benefits of our transformation programme. This is stated before central costs, transformation costs, exceptional items and the Group's share of interest and tax of JVs and associates. Half year 2015/16 comparatives exclude B&Q China's operating loss.

**Screwfix Europe** - Screwfix outside of UK in continental Europe.

**Statutory sales** - Group sales exclude Joint Venture (Koçtaş JV) sales.

**SKU** (Stock Keeping Unit) - 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.

**TASCOM** (taxe sur les surfaces commerciales) is a French levy charged based on store turnover per square metre.

**Transformation costs** represent the additional costs of the ONE Kingfisher transformation programme launched in 2016/17. They comprise 'transformation exceptional costs', 'transformation P&L costs' (i.e. non-exceptional items) and 'transformation capex' (capital expenditure).

**Underlying pre-tax profit** is used to report the performance of the underlying business at a Group level, including the sustainable benefits of our transformation programme. This is stated before the short-term costs associated with our transformation programme, exceptional items and FFVR.

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

## **Section 6: 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 half year ended 31 July 2016. 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 concerning, among other things, the Company’s results of operations, financial condition, changes in tax rates, liquidity, prospects, growth and strategies. By their nature, forward-looking statements involve 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. 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 change in circumstances or in the Company’s expectations.