**Company:** **Kingfisher**

**Conference Title:** **Kingfisher Final Results**

**Date:** **Wednesday, 21 March 2018**

**Conference Time:** **09:30 am UK**

Operator: Good day and welcome to the Kingfisher Plc Full Year Results Q&A Conference Call. Today's conference is being recorded. If you would like to ask a question during today's conference, please press the star or asterisk key followed by the digit one on your telephone. I will now like to turn the conference over to Sarah Willett, Group Investor Relations Director. Please go ahead.

Sarah Willett: Good morning everybody. Welcome to the Kingfisher final results year ended 31st January 2018 Q&A conference call. I am joined here by Véronique Laury, CEO; Karen Witts, CFO; Steve Willett, Chief Transformation Officer; and Arja Taaveniku, Chief Offer and Supply Chain Officer. Hopefully you've all had a chance to listen to our webcast, which was available on our website since 8.00 am this morning. For now, over to you for questions.

Operator: Thank you. If you would like to ask a question, please press the star or asterisk key followed by the digit one. Please ensure the mute function on your telephone is switched off to allow your signal to reach our equipment. Again, please press star one to ask a question. We will take our first question from Simon Irwin from Credit Suisse. Please go ahead.

Simon Irwin: Good morning everyone. Couple of questions for you, the first of which is just thinking of the year ahead, can you talk us through what your expectations are around the impact of clearance on the business, particularly relative to last year, given that the overall kind of delta of product across the year isn't going to be very different from last year?

Karen Witts: I can pick that one up Simon. I think you actually gave the answer in your question, that the delta of product, the number of implementations is going to be similar to the number we had this year. So we had 48 categories implemented in the year that we're reporting on, and we'll do 52 in the year that we are currently in. So on that basis, I would be thinking about broadly similar levels of clearance. There isn't any other reason for the clearance to be either higher or lower, significantly.

Simon Irwin: Okay. Karen, can you just take us through the maths of the 180 basis point improvement that you're seeing in terms of gross margin on the unified 23, versus the 5% overall uplift in buying, which I think was post-price investment across the five years.

Karen Witts: Yeah sure. So the 5% that you're talking about, so if we start with the strategic pillar of £350 million of uplift that's going to come from our unique and unified offer, we said that on a buying base of about £7 billion, to get to £350 million simplistically we would need to get a net cost price reduction of 5%. And not that we are looking at that 5% is to say it also equates to a 300 basis point uplift in margins.

And so then we're looking at what we've done in the year that we're reporting on. And remember we have unified 23% of our offer. And on the goods that we've unified to date, the margin uplift has been 180 basis points. And when you multiply that 180 by the 23% that we've actually unified, you get a contribution of 40 basis points to the overall margin position of the group. The overall margin position of the group, after clearance, is down 20 basis points, which is consistent with the broadly flat position that we guided to.

Simon Irwin: But should the 180 not be 300, or is there something missing here?

Karen Witts: (a) It is not after two years and (b) we didn't say that everything would come from cost price reduction. And I think what you've also seen in the release and the presentation to date is that our sales of unique and unified offer are actually doing quite well, particularly the unique. They're up ahead of our other sales. If you were to say we'll get even a small uplift in sales from a unique offer plus a margin uplift from the cost price reduction, then that would be another way of getting to an overall £350 million.

Simon Irwin: Okay, thank you very much.

Karen Witts: Okay.

Operator: We will now take our next question from Warwick Okines from Deutsche Bank. Please go ahead.

Warwick Okines: Good morning everyone. Couple of questions please. Firstly, could you give a bit more detail on the UK performance in Q4 and particularly you mentioned you had seen some evidence of big-ticket slowdown, and you also referenced Screwfix. Just a bit more detail on that please. And then secondly, you've not given a lot of detail on where you are with your store-of-the-future plans. Have you got anything more to say on that, and in particular, can you give any reassurance that CAPEX won't step up meaningfully in FY Jan 20? Thank you.

Véronique Laury: Hi. So in terms of the UK and what we've seen in Q4, I think we've been – in Q3, we were still saying that we didn't see any kind of a big influence on our sales of the macro. Actually if you look at the number that you've got, and I've got as well, I think consumer confidence is down, inflation is higher than the evolution of wages, you have housing transactions to add on. We have a number of big indicators that are really slowing down right now in the UK. How it has translated to ourselves, I think in the Q4, we started to see some evidence of that slowdown in the B&Q with the big-ticket items, but as well a little bit in Screwfix, which we haven't seen before. So that's what it is. And just as an example, the BRC non-food index was for November to January, -3.6%.

On the store on the future, we haven't given that much because we are working on it actually right now. We've always said that it was not fully part of the first plan, and we are working on what should be the store of the future in relation with the growth of digital, and we are preparing for the growth of digital, as you know, with our IT platform and better e-commerce capability. So we are not ready to give you more around that. This is part of what we are working right now. Nothing that we should highlight right now from a CAPEX point of view. Karen, do you want to add something on the CAPEX thing?

Karen Witts: I would just say we are not guiding specifically to CAPEX, Warwick. I don't think the component parts of the CAPEX will change. We'll still spend broadly the same element on existing stores as we increasingly build our engines for growth, and we will be looking to expand. So we will also have an element of new stores. And whilst the transformation CAPEX will fall away, we're not saying what we would want to invest in in terms of IT. So I don't think the elements will change and we believe that we have the financial capability to invest what we need for growth.

Warwick Okines: Right, thank you very much.

Operator: We will now take our next question from Richard Chamberlain from RBC Capital Markets. Please go ahead.

Richard Chamberlain: Thanks very much. Good morning everybody. Couple of things from me please. Just on the French – the France digital offer, I wonder if you can just talk about the customer reception to the new website, how that's gone so far and when you expect to launch the new app. And then I guess also plans for Brico Depot. So just a general update on digital in France please. And then second on the inventory billed, in the statement you refer to non-unified mitigation stock. Can you just say, maybe Karen, how much of the inventory build that relates to and how long you expect to take to clear that part of the inventory? Thanks.

Steve Willett: Okay, so on the Castorama website I think probably the first thing we should say is it's early days. We put it live on the platform at the end of January. And as with all these things, you put it live and then you start tuning, so we're now in the optimisation phase, making sure that we've got the correct merchandise in each tune for searching Google, we're enriching content. So we're seeing some encouraging signs in conversion rates being up and encouraging signs from customers, but it's early days. So we're continuing the improvement programme, and we would expect it to start getting material improvement in Casto by H2, but at the moment we're still working our way through it.

On the mobile plans, effectively we're following up from the mobile platform in B&Q, and we'll be putting it out to Castorama basically towards the back end of half one, beginning of half two. Sorry, the apps will be first probably before the website.

Richard Chamberlain: Okay, thanks Steve.

Karen Witts: And then, Richard, just on the inventory build, the non-unified mitigation stock that you are referring to is the assurance stock, the buffer stock if you like, of fast selling items that we've brought in over and above the normal levels of that kind of inventory that we would hold. And that is about £180 million worth of stock. I'm just emphasising that it is fast selling, it's fast moving, and we do have plans in place to reduce that over the course of 2018, but we put it in place. We've taken these actions consciously on inventory to protect the customer experience. So we believe what we've done is good for the business and good for the customer and that's what we'll continue to be focusing on, but we do or – and we do have plans to reduce that element of it.

Richard Chamberlain: Okay, but it sounds like it's going to take a good part of the year to get that inventory down, I guess, if you need to keep the availability up.

Karen Witts: Yeah, it'll come down over the course of the year, yeah.

Richard Chamberlain: Got it, yeah. Okay, thanks Karen, thanks.

Operator: We will now take our next question from Geoff Ruddell from Morgan Stanley. Please go ahead.

Geoff Ruddell: Yeah, good morning everybody. Two questions please. The first one actually just following up from Richard's question there, is could you give us some guidance please on what sort of working capital movement we should expect in the coming year, given the size of the movement this year, which certainly I wasn't expecting? And then secondly, as I understand it, the ONE Kingfisher strategy target is for £500 million profit uplift, over and above what would have been earned otherwise. I was wondering what level of that £500 million has already been captured because I am not quite sure what is over and above what it would have been otherwise.

Karen Witts: Okay Geoff, it looks like me for both of these questions. So I'll start on the working capital. We're not actually going to give specific guidance on the working capital, but let me just kind of give you some help by taking you through the elements because the movement in working capital has come from three specific elements. So we've almost got a technical element, a structural element, and a tactical element. So technically, about £90 million of the movement related to growth and foreign exchange, so that will be what it will be. When we open new

Screwfix stores, we clearly have to have more inventory that goes into them and the exchange rates will do whatever exchange rates do.

In terms of what I'm referring to as structural, that's not something that I see reversing in the short to medium term. It relates to a good thing. It relates to the fact that we are controlling more of our supply chain now. That gives us the ability to leverage the scale of the group, and work with supplies and manufacturers and control design etc. But it also means that until we've got the IT system rolled out, we can't actually take advantage of the very significant reduction in SKUs that we actually have in the system because at the moment although we've got a reduction in SKUs, we're still holding the SKUs specifically for individual operating companies.

And then, as I responded to Richard, we've got this element of kind of a tactical holding of more stock. It's not just the non-unified stock, we're also holding more of the new ranges. And I think you would expect us to do that in the short term because we want to make sure that in those first-time buys of the ranges, we've got enough inventory to cover display stock, and to meet customer demands for initial orders. And when you think about things like the way that the bathroom furniture has gone, we do not want to run out of the new stock.

And then I guess your question is how are we tracking against the £500 million, and I will bring it back to the three strategic pillars. And the easiest one to explain is the £100 million pillar that relates to the operational efficiency. So we said that that would largely but not entirely come from GNFR, and the GNFR benefits would largely be delivered over the first three years, over £58 million GNFR at the end of year two. And we're giving specific guidance on operational efficiency for year three, the year that we're in. We're saying that we'll get another £30 million of benefit coming through, £20 million of it from GNFR and £10 million from us starting to unlock other operational efficiencies. So at the end of the third year, we'll be sort of 90 out of 100 on that strategic pillar.

Then in terms of where are we tracking against the £350 million, that relates back to the question that Simon had about explaining the 5% uplift in terms of the 180 basis points of expansion that we've just reported on this year. And I would say that this year we said that we would be broadly flat in terms of growth margin, and we've explained the uplift that we've had specifically from the unique and unified offer. What we're guiding to next year is that we will have margin expansion after our clearance so –

Geoff Ruddell: Yeah I've just – sorry, just trying to understand what – of that £350 million, how much of that has already been delivered?

Karen Witts: Well, you could work back using the maths to get to what's been delivered before –

Geoff Ruddell: So if I take 180 basis points uplift on 23% of the product that would –

Karen Witts: Yeah.

Geoff Ruddell: – be the proportion of the £350 that's been delivered.

Karen Witts: That's right.

Geoff Ruddell: Okay.

Karen Witts: So that's been delivered pre-clearance, and in 2018, you'll actually see delivery even after clearance.

Geoff Ruddell: Okay, thank you. And then just so back to your point on the stock, so does that mean there's going to be – on your presentation that I've just watched on the webcast, you broke the inventory down into three parts.

Karen Witts: Yeah.

Geoff Ruddell: And I take the point about the £90-odd million from growth and FX. My question is really about the unified ranges, I think there's about £190 million outflow from the unified ranges sort of dynamics. Presumably there's more of that next year because you're obviously putting in more unified ranges.

Karen Witts: Yes, and we'll also be selling through some of the stock that we are holding at the moment, but yeah, I mean, I am not flagging that we'll get back to our previous levels of inventory during 2018. I think we will address, in 2018, a large part of that mitigation stock, but I am very comfortable with the position. Our balance sheet is strong, we're still within the net debt to EBITDA range that we said we would be in.

Geoff Ruddell: I'm just trying to understand it. On the net-net basis, are we likely to see further inventory build next year?

Karen Witts: I'm not going to comment specifically on that. I think it's going to be that balance between what we're calling the technical, if you like, the growth from new store openings and what we do against that mitigation stock. Those will be the two bits that move more significantly. We will bring in the stock that we need to protect the customer experience.

Geoff Ruddell: Okay thanks.

Operator: We will now take our next question from Geoff Lowery from Redburn. Please go ahead.

Geoff Lowery: Yeah, hi team. One question please. Given the deteriorating performance of B&Q, given its return on capital, what does that make you feel about the go-forward shape and number of B&Q stores? I'm thinking in particular of the amount of lease-adjusted capital employed you have tied up relative to the margin compression you are seeing. Does that encourage a more aggressive view of what that store base should look like?

Karen Witts: Geoff, as you know, we closed the 65 stores over the two years, and that was really to take out what we believed was over-spacing in B&Q. At the moment, we've got just under 300 B&Q stores and we're comfortable with that position now. But as Véro said, we're looking at what the right format will be for the future.

We're in quite a good position in B&Q at the moment with regards to the lease profile, we've got about a quarter of our leases that come up for renewal over the next four to five years. I'm not at all saying that we won't renew those leases, but we've got flexibility there. And I think given the overall environment, we should have some good leverage with the landlords as well. So I think we've got flexibility here to do what we need to do, but just at the moment, we're okay with the stores.

Véronique Laury: It's really linked with the store-of-the-future work that we are doing. I think the answer is not out there for us to pick. I think you need to, specifically for home improvement, design it. We know that what people are looking is experience and convenience. I think we are well placed with our home improvement big box and our Screwfix model to learn from those two elements to design what would be good for the customer in the future. And as we've done since we started the journey, we will take the decision accordingly.

Geoff Lowery: Okay, thank you.

Operator: We will now take our next question from Anne Critchlow from Societe Generale. Please go ahead.

Anne Critchlow: Good morning everyone, thank you. I've got two questions. My first one is about the 180 basis points. If I just multiply that by the sales you announced this year, I am getting £210 million. So I am just wondering if you could help me bridge that with the £350 million target. And then secondly a quick question on Bunnings Homebase. I was reading they're opening a handful of outlet stores to discount products. Do you think that will affect you, and could the continued distress mark down by Bunnings cause problems to B&Q over in the years to come perhaps?

Karen Witts: Okay, so I think if I start with the margin, a cost of goods sold base of £7 billion, that's our start point for our analysis. That's where you get to the £350 million, so a net 5% cost price reduction on £7 billion gives you £350 million. £350 million equates to 300 basis points of growth margin. We are showing a sort of an underlying pre-clearance trajectory at the moment of 180 basis points.

Anne Critchlow: Okay thanks, and then do you expect that to rise as time goes on, closer to the 300?

Karen Witts: I think it depends on the view that you want to take of the sales uplift that we'll get, particularly from our unified offer. It wouldn't take very much uplift from the unified sales to deliver around 100 of those basis points, so really you get 200 to 300 from margin and then something from sales.

Véronique Laury: Yeah, the thing as well is as you develop your unique offer, your margin will be even higher. Today, the weighting is more on unified than on unique because it takes more time to develop the unique product, so in the mix we are more on unified right now. The more we go into the plans, the more unique will be weighted, which will increase the margin rate as well.

Arja Taaveniku: And there is one more aspect of the 23% of unified COGS that we delivered in the last year. One third of that was our outdoor ranges because that's the easiest range to go into unifying because that's by fact the seasonal range that we do almost every year. But that's also one of the categories that runs on a slightly lower margin than the others. And by the end of this year, we expect that to be roughly – as a share of that unified 40% COGS it will be maybe roughly 24%. So that shift is making a margin improvement on the total of unified offer this year.

Karen Witts: So I think, Anne, we're saying we think we're on the right trajectory to deliver the margin and the £350 million.

Véronique Laury: Can you repeat your question on Bunnings?

Anne Critchlow: Sure. So I was reading that Bunnings is going to open about six outlet stores to discount product, so entirely discount product. And I just wondering if you think that would affect sales at B&Q, especially as Bunnings continues to mark down and becomes distressed in any way.

Véronique Laury: Actually it's six stores against more than 300, so I don't think it's going to matter to the situation. And anyway over the course of the year, because Homebase/Bunnings, they would move into an EDLP position, they've been reducing pricing a lot already over the course of the year.

Anne Critchlow: Okay, thank you.

Véronique Laury: No material impact.

Anne Critchlow: That's great, thank you. Very helpful.

Operator: We will now take our next question from Adam Cochrane from Citi. Please go ahead.

Adam Cochrane: Hi good morning. Couple of questions. Firstly on pricing in France. You mentioned on presentation 108 to 104. I suppose I was just wondering where that has to go to and can it be largely done with the introduction of your lower prices on sort of unified and unique product rather than cutting prices across the entire existing range.

And then secondly on clearance, you talked a lot about clearance with regards the sort of unified and unique, or probably more the unified ranges as well. I just want to clarify, did you have to put clearance into the unified ranges as well? I was sort of hoping that as you put your new unified ranges in, the clearance should relate to maybe old products rather than new products. If you can just clarify exactly what you're referring to with that 180 pre and post clearance please.

Karen Witts: If I do that one really quickly, Adam, yeah the clearance is old range – is the old stock. We're not clearing, we're selling the new stuff, and we're selling it fast.

Adam Cochrane: Okay. When you said unified and unique gross margin up 180 basis points excluding clearance.

Karen Witts: Okay.

Adam Cochrane: The clearance isn't really related to that at all.

Karen Witts: No, so that – so if you take the group's perspective, the group growth margin is down 20 basis points. The 20 basis points is a combination of the uplift that we get from the unique and unified clearance, which is our old ranges, and then the others, which is whatever has been happening on the rest of the business that's not been unified. Does that make sense to you?

Adam Cochrane: Yeah, sure, but I was just reading the words in the presentation.

Karen Witts: Yeah, exactly, it's on slide ten of the presentation, and you can see the 40 basis points uplift on the unique and unified. That 40 basis points is on 23% of the ranges being unified, that's where the 180 comes from. The clearance is separate from that. It's clearance of our old stock to allow the new unique and unified ranges to come in. That has cost us, if you like, 50 basis points, and then everything in the mix from the rest of the business is broadly flat.

Adam Cochrane: Okay, thanks.

Véronique Laury: Okay, on pricing in France, so I think, as you mentioned, I think we've been working hard this year to make Castorama actually because Brico Depot is at 99 index compared to competition. But in Castorama we were 108, as we say, and we are now at 103.8 to be very precise, and this is a slight improvement in H2 again. How far it is going to go? At least our first target is to be at 100, and I think we are investing, as you mentioned, you were right, on the unified offer, specifically. This is where we are progressively repositioning our pricing through the introduction of the new ranges.

Adam Cochrane: Okay, so as your proportion goes from 23 to 40 etc. that price point should just go from 104 to 100 or whatever the number is, yeah? Okay.

Véronique Laury: Yes, yes.

Adam Cochrane: Great thanks.

Operator: We will now take our next question from Simon Irwin from Credit Suisse. Please go ahead.

Simon Irwin: Hi, sorry back again. Can you just talk a little bit about trading the business? It kind of felt like last year that there was so much change going on through the business that survival was kind of more of the way you kind of ran it. And I don't recall, as a UK customer, for example, really being kind of told about the one hour click & collect or going into stores and being kind of told here is some great new product. Will that change this year where you will kind of get on the front foot a bit more?

Véronique Laury: Yeah I think you are making a good point. It's really hard to transform such a business as ours and at the same time doing all the other things that you were normally doing. And let's be honest, I don't think we struggled, but I think we are bits and pieces that were not working.

As you probably noticed, we decided to appoint a kind of Senior Trading Director into the business. John Colley joined us two months ago right now. He has been Commercial Director for B&Q and Commercial Director for Screwfix as well, and he knows Continental Europe very well as well because he was the Group Commercial Director for Maxeda in the Netherlands. And again I think his role is really to line up all the Trading Directors of all the operating companies to trade offer. When we say trade offer, I don't put things in opposition because it's not about the old versus the new, it's to trade the new as well as consistently as possible.

So again, I wouldn't be negative about what has happened this year. I think from a customer point of view – and you're right, you mention it and what you've seen it in the UK was true in France as well or as worse. When you do big refurbishment, and I'm using that word in a store, in a way you are impacting the customer a little bit, which is quite normal, but we are on it.

Simon Irwin: Thank you, and, Karen, just one quick one. What's your guidance around tax rates for the current year?

Karen Witts: Well, we're assuming that we will not have another French surcharge

Véronique Laury: No, we won't Karen.

Karen Witts: So that would take about three percentage points off the 30, so that might stay around about the 27.

Simon Irwin: Okay, thank you.

Operator: We will now take our next question from Chris Chaviaras from Bloomberg Intelligence. Please go ahead.

Chris Chaviaras: Good morning everybody. Got two or three questions. First, I'm sorry to go back to that cost price reduction that you mentioned and the 180 basis points uplift. So, Karen, you said that there is a combination of cost price reduction and like-for-like uplifts to drive this extra 300 basis points overall eventually. Is it fair to assume that up until now, it's mostly cost price reduction? And if that's the case, if we take this 23% on the £7-something billion cogs, that makes £1.7 billion. And applying the 180 basis points makes around £50 million of cost saving, which seems like a 3% cost price reduction. Question being, should we expect higher cost price reductions to follow from the new unified ranges, or it's more of a like-for-like uplift game now? That's the first question.

Karen Witts: On the cost price reduction, I am not quite sure where you got your figures from, but we are getting at least the net 5% that we talked to. We are on track with cost price reduction, and I think in the presentation, we've got some good examples of some very attractive cost price reductions. In terms of the uplift on sales, and Arja may want to say a bit more about this, it goes back to the point that she made about what we've done to date being more weighted to unified ranges than to unique ranges. And we fully expect that the more significant uplift in sales will come from the unique ranges.

Yeah, so we're very early in our journey on unique, so you might want to think that there is more to come in sales uplift from that. We are absolutely on track when it comes to cost price reduction.

Arja Taaveniku: And, Chris, what we have done so far we feel very confident in the outlook for 2018. We've done more than two-thirds of the negotiations on the ranges that are landing this year. And there is absolute no reason to believe that the cost price reductions that we have seen so far are decreasing on when we are unifying. It's coming through.

Chris Chaviaras: Okay, I'll take my calculations offline with you, but can I ask another question there? On the price points of the unified versus the non-unified products, do you have to come in a bit lower in terms of the overall pricing? I know it's not exactly like-for-like products, but the ASPs, are they lower than the non-unified products? With the real question there being, do you find the need to invest in price as you unify the product in order to offer the sales uplifting? In which case how shall we think about the margin gain dropping to the bottom line eventually, rather than being reinvested into price?

Arja Taaveniku: First of all, we want to remind that those £350 million that we're talking about, that's net after price investment. And what we have seen so far is that you almost do both in terms of – there are companies – operating companies where we are taking bigger price investments to make them competitive again. But we also see in other countries where we are putting products on the markets, which we haven't had in the higher part... in the price ladders, in the higher segment, an example being the new bathroom furniture in Poland. They've never sold ranges of that high quality and that drives margin on the higher part of the price rather.

So at the end of day, it would have the effect on both, and this works really well across. So I am not particularly worried about that price investment, and again we're monitoring this range by range to see that we're really getting the benefits that we have calculated. We're doing the business case validations range by range by looking at what cost price reduction do we have and what price investments can we afford.

Véronique Laury: There is no extra need, because we are unifying, of decreasing pricing.

Chris Chaviaras: Okay, that's very clear. Last one, very quick one on the one of the buckets of the transformational plan, the IT, the unifying the IT platform, which is supposed to deliver £50 million. What is the progress there on that specific bucket? Have you delivered any of that in the numbers or we're still to expect those in the years to come?

Steve Willett: Sorry, primarily the £50 million comes from basically increasing our e-commerce, so it's the e-commerce business, and then the flow through profit that comes from that. And actually if you look in the statements, we say that we've already moved group digital sales from 4% to 6%, so we're working hard on moving that digital sales through. And a lot of that increase came from Screwfix and B&Q, and as I said earlier, we're now working on Castorama France. And we'll be starting to do – before the end of the year, we'll have Brico and Poland live, so we're on track for where we are with digital sales. And then behind the scenes, we're also doing a lot of work on how that converts into profit and making sure that all the channels of that are profitable. Sorry, the main channel that we see as an opportunity is click & collect, which is very good, obviously, for the stores and for add-on sales.

Chris Chaviaras: So fair to say that the £50 million on that specific bucket is ahead of us?

Karen Witts: Well we're just starting to put some of the new websites in place, so for an extent it follows on the IT rollout, so I don't know if you've seen the new B&Q mobile app, but the functionality on that, the ease of use is a whole lot better than the previous one. The new Castorama website just went in at the end of January. We need to build traffic on that, but we're seeing some really good conversion rates, and you don't need an awful lot on conversion to give you a fairly chunky uplift on sales.

Steve Willett: A 0.1% increase in conversion on the websites equates to about £40 million of sales at group level.

Chris Chaviaras: Thank you very much guys.

Operator: We will now take our next question from Tushar Jain from Goldman Sachs. Please go ahead.

Tushar Jain: Yeah, hi, good morning. Tushar from Goldman Sachs. Just can I touch base on the cost of goods sold? I mean, there is a raw material inflation coming through. Can you just give the split what sort of raw materials impact your COGS, and are you seeing an inflationary pressure coming in your COGS as well? And second question just on working capital, working for this year, sorry to come back to this again. So £180 million mitigation stock will be run down this year, so you will get some working capital benefit from that, which largely should offset any increase in working capital in unified ranges, i.e. this year the working capital change should not be materially higher as what we have seen in the last year. Just if you can confirm that, thanks.

Arja Taaveniku: Okay, so I'll start with answering on the commodity price increases on the market. That is definitely happening and this is normal retailing. This is something that any retailer works with every year, and it's a market issue, it's not a company issue. And some of it, you adapt prices. However, what I can say is that in this space where we are at, the negotiation power that we have created with buying as one group is one of the big levers for us to mitigate parts of those CPIs that are being requested. We have a really good opportunity to mitigate a big part of them, not everything because some of it is definitely coming through on particularly non-unified ranges. So it's an ongoing thing that we're working with as a retailer.

Karen Witts: I was just going to say, on the working capital we're not – as you said, we're not guiding it's a materially higher level.

Tushar Gain: Got it, thank you. Can I just come back on the commodity inflation, so if you're not going to pass through the pricing then, I mean, hopefully you will be more incrementally better priced, both in France and probably UK. Is that the right way to look at it? Because probably all the retailers might have to –

Arja Taaveniku: Some of it we are passing on in pricing and some of it we are not. It depends on our competitor situation on those ranges and what we want to do. So it's a mix. We don't have a fixed rule for it. We look at range by range and how competitive we are, and it's a part of this whole sales planning and the savings plan that Véro talked about.

Véronique Laury: But anyway, whatever happens and if we have to raise prices somewhere, we won't be less positioned than anyone else in the market. And that's true in the UK and in the rest of Europe.

Tushar Gain: Great, very clear. Thank you.

Operator: We will now take our next question from Kate Calvert from Investec. Please go ahead.

Kate Calvert: Morning everyone. I've got a couple of questions from me, first on Poland. Can you give me your thoughts on how you think the Sunday trading changes could impact your business over there? The second question is you talk about 23% of your products being unified. Can you give us an idea of what proportion of sales that actually represents? And the third question also on the unified products is, in the presentation you talked about some categories which haven't performed. Can you give us some examples of those categories which haven't performed? And my final question is on online and the profitability of that within B&Q specifically. From your comments, Steve, I'm sort of taking the profitability of the online business is dilutive at the moment to margin.

Véronique Laury: Okay, so let me start with Poland. So I think it's really early days because it's the first month where the store had been closed. So it's too early to say. Because the market is quite supportive, we think we can cope with this much better than it was – you know, we were in a different situation. What we've seen so far is that customer was a little bit lost between when the store opens because, as you know, we can open two Sundays per month, and when they are not, yeah, but you know, we'll see. I think we have a plan. The team there is really communicating, and we've put more people on the Saturday because we see that the Saturday are growing, so let's see. It's difficult to give a number right now. We think that we can... A part of it will be reported into other day, but it's early days. But anyway we are in a good position there as well. We are market leader. We won very recently an award about being the third preferred company in Poland, so we're dealing with it.

Karen Witts: And just in terms of the unified position because we look at it in terms of cost of goods sold, then the 23% of COGS is pretty much the same as the level of sales that we got unified.

Steve Willett: Okay, on digital profitability, as is usual when you look at e-commerce across anybody, actually there isn't one answer. So the truth is it's a bit like pricing that Arja was talking about, some categories actually are dilutive. So the truth is if you're delivering smaller parcels it tends to be reasonably good economics; if you're delivering very big stuff, it's not good economics. So what we are doing basically, as most e-commerce business doing, is working through each of those channels and optimising it. And actually from an opportunity point of view, which is what I said earlier, we see click & collect as really a big opportunity to step-change that economics to actually drive sales through the stores. And click & collect in B&Q last year was up 89%, and actually online sales were up about 11%, so we are driving and we're managing channel economics. And a lot of it is also related to delivery charging and proposition, which we're currently working on.

Kate Calvert: It's rather dilutive at the moment to margin?.

Steve Willett: Some categories are, some categories aren't.

Kate Calvert: Sorry, carry on. The ones which – the categories which aren't performing in terms of unified categories.

Arja Taaveniku: So it's Arja here and I will answer that. So we have grown five out of seven categories, and the one that we had most challenging was the outdoor category because the weather conditions were, to say the least, very challenging last year. And I think in one example of a big – one of the biggest bricks within outdoor category, which is the garden power tools, which affected us quite heavy last year in terms of sales performance, both in terms of the weather, which has double meaning. We had the too late summer and the wet summer in the eastern part of Europe, which means that you don't buy a lawnmower. And you had the opposite in UK where it got too dry, and when it's too dry, you don't need to cut your grass. So I have to say the outdoor category, we were not particularly happy with.

The second one being our decor and surfaces and this is a category where we have had more phasing issues in phasing out old ranges and coming in with new ranges. But other than that, the other five are all showing growth.

Kate Calvert: Okay, thank you.

Operator: We will now take our last question from Andrew Hughes from UBS. Please go ahead.

Andrew Hughes: Hi, yes, good morning everybody.

Véronique Laury: Good morning.

Andrew Hughes: Hi, just a final question on the 180 basis points. If I get it right, you're not getting 300 basis points, you're getting 180 because you're reinvesting more of the gains into price. Is that the sort of the right summary of why you are only getting 180?

Karen Witts: No, I wouldn't say that. I would say that we can get to 180. We can get to 300. The 180, as Arja explained, has got an element of mix in it. So as we go through unified, it's not going to be a straight line. There will be – we'll get some that would be 180, some that would be – some portions would be more than 300 if you like. But overall, if we were to do nothing but get the kind of margin uplift that we are seeing, we would get to somewhere between 200 and 300, and also we are seeing some uplift on our unique ranges. So a category like outdoor would be dilutive to the margin that we get from our unified ranges. A unique category would be accretive to our unified ranges, and at the moment, our mix is skewed to unified and things like outdoors so i.e. the lower end.

Véronique Laury: Let me put it in a less financial way, guys. I'm very confident with the margin increase for the unique and the unified rate when we will be finished the programme.

Andrew Hughes: Right, okay, and where you have the...?

Véronique Laury: It is less financial, but I hope it give you a form of different type of guidance.

Arja Taaveniku: I'm adding to what Véro says, I see what's coming through in cost price reductions, I'm not worried about this.

Andrew Hughes: Right, okay, and where you have been putting a little bit more back into price, is that really all in France? Because it seems to be France where you're focusing on getting that relative price position to improve. I'm assuming in the UK that prices have actually been going up as a result of currency.

Karen Witts: Yeah, it's always a mix, Andrew, because as the new ranges come in, we put them in at a price that we think is the right price to make us competitive. So, even in an environment like the UK where we said we took some modest price increases to offset some of those foreign exchange headwinds, we also made some price reductions. But I think the more noticeable ones over the year were in France, and that's where we said we had some focus. But despite what we did in France, actually the margins were pretty good.

Andrew Hughes: And do you think what you've done on price in France actually helped that Q4 performance, or was that more sort of rising tide from the macro?

Karen Witts: It takes a little while for price perception to come through, so it was probably quite early to say that it was entirely down to price, but we have been speaking about our price reductions in France. I'm sure it's not unhelpful.

Véronique Laury: We continue to do as well. I think we have launched, by back end of this year, a campaign which is talking about every-day low price and not the high-low we were used to do massively in France. And it takes time for those things, so it's very difficult to kind of dissociate what are the different effects. But actually in the long term, we think that's something that will help us to come back in the game.

Andrew Hughes: Yes, yeah, I mean, just on that topic, I mean, how did the price position actually get to as high as 108? I mean, it sounds like it wasn't a sort of a very sensible strategy.

Véronique Laury: Yes, I am not commenting on the past. I think we are busy doing what is right now.

Andrew Hughes: Okay, and just one last random question. Kitchen space within B&Q, what sort of percentage of B&Q floor space is kitchens?

Véronique Laury: We are kind of looking at ourselves, you know.

Véronique Laury: I think we would have to come back –

Véronique Laury: Yeah, we could come back, we can come back.

Andrew Hughes: Alright. I mean, it doesn't seem to be in a category that's made much money over the cycle. And if it's turning down again, plus you have this sort of retail-to-trade structural shift continuing as well, I mean, is it a bit of a dead weight that on B&Q that floor space?

Véronique Laury: I think we have a strategy per category. Kitchen is a big category. We have a strategy for kitchen. That's part of what Arja and her team are working on right now, and as soon as we are ready, you will see how we want to tackle this market, globally.

Andrew Hughes: Alright, great. Thank you very much.

Véronique Laury: Thank you.

Operator: I will now turn the call back to Sarah Willett for additional or closing remarks.

Sarah Willett: Okay everybody. Thank you very much for your questions. If you have any more, obviously the IR team are available, so don't hesitate to contact us. Our next update will be Q1 sales on 24th May, so goodbye for now and thanks again.

Véronique Laury: Thank you.

Arja Taaveniku: Thank you.

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