



# ONE Kingfisher

**2018/19 annual report & accounts**



Printed by Park Communications on recycled paper.

Park is an EMAS certified company and its Environmental Management System is certified to ISO 14001.

100% of the inks used are vegetable oil based, 95% of press chemicals are recycled for further use and, on average 99% of any waste associated with this production will be recycled.

This document is printed on Nomad and Revive 100 Natural Offset, papers containing 100% recycled fibre certified by the FSC®, with the accounts pages printed on Woodstock, a paper containing 80% recycled fibre and 20% virgin fibre sourced from well-managed, responsible, FSC® certified forests and other controlled sources.

Designed by public.london

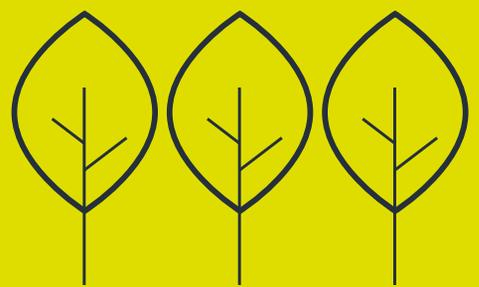
Artworking and production by Black Sun plc

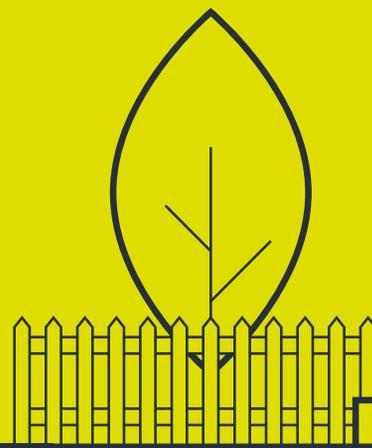
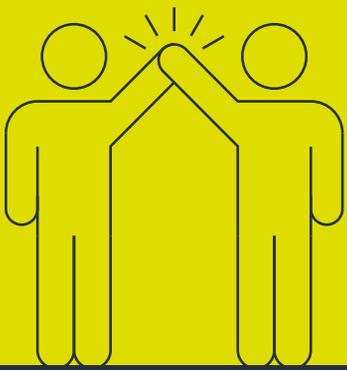
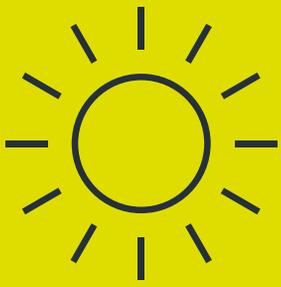
[blacksunplc.com](http://blacksunplc.com)

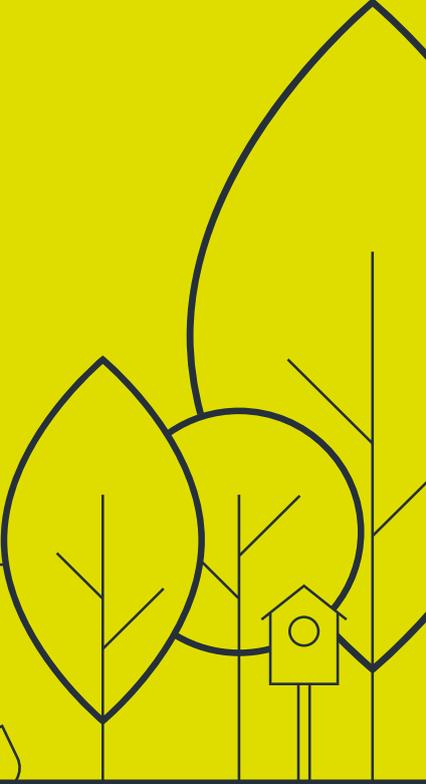
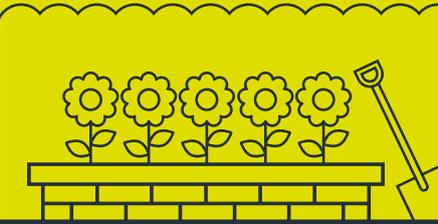
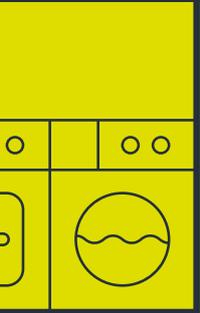
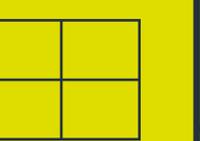
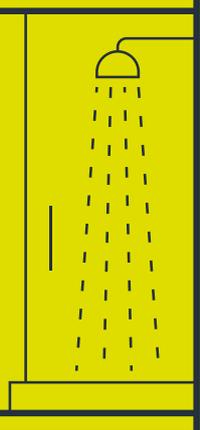
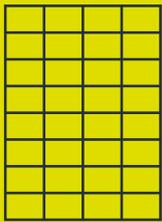
Simply by using C  
Paper  for the pr  
report, we have b  
balance the equiv  
of carbon , enab  
Land Trust to prot  
of critically threat  
forest . That's  
of neutralising **8,0**



Carbon Balanced  
Printing of this  
been able to  
valent of **2,325kg**  
oling the World  
tect **1,627m<sup>2</sup>**  
ened tropical  
the equivalent  
**56 car miles** .







**Our purpose is to make  
home improvement  
accessible for everyone.**



# contents

## strategic report

6	Kingfisher at a glance
8	Geographic contribution
10	Financial highlights
11	Chairman's statement
	<b>our ambition</b>
14	Our ambition and our purpose
15	Our home improvement ecosystem
16	Our framework for action
17	Our business model
	<b>our plan</b>
21	Chief Executive Officer's statement
22	Our market
23	Our transformation
	<b>our progress</b>
26	Progress against our strategic milestones in Year 3
31	Our strategic milestones for the year ahead
32	Our people
34	Sustainability
36	Financial review
44	Risks
52	Viability statement

## governance

56	Board of Directors
58	Corporate governance
66	Nomination committee report
71	Audit committee report
76	Directors' remuneration report
100	Directors' report
105	Directors' statement of responsibility

## accounts

108	Independent auditor's report to the members of Kingfisher plc
122	Consolidated income statement
123	Consolidated statement of comprehensive income
124	Consolidated statement of changes in equity
125	Consolidated balance sheet
126	Consolidated cash flow statement
127	Notes to the consolidated financial statements
168	Company balance sheet
169	Company statement of changes in equity
170	Notes to the company financial statements
180	Group five-year financial summary
181	Shareholder information
184	Glossary



# strategic report

# good progress on our journey

**In January 2016, we announced our transformation plan to become the leading home improvement company, focused on putting customer needs first. This report provides detail about our ambition, our plan, our progress in the third year, and our journey to create ONE Kingfisher.**

## **our ambition**

Our ambition is to become the leading home improvement company. At Kingfisher, we believe everybody should be able to have a home they can feel good about, so our purpose is to make home improvement accessible for everyone.

## **our plan**

The ONE Kingfisher transformation plan, which started in 2016/17, is leveraging the scale of the business by creating a unified company, where customer needs always come first.

## **our progress**

It has been another year of progress with our transformation plan. We have substantially delivered our strategic milestones for the third year in a row. This has included solid achievements in developing our Unified & Unique offer, driving our digital agenda and delivering operational efficiencies. We have also developed our people agenda and our sustainability plan.

# Kingfisher at a glance

**1,331\***  
stores

**77,300†\***  
colleagues

Kingfisher plc is a home improvement company with over 1,300 stores in 10 countries across Europe.

We employ 77,300†\* people and nearly six million customers shop in our stores and through our websites and apps every week.

Our ambition is to become the leading home improvement company. We believe everyone should have a home they feel good about, so our purpose is to make home improvement accessible for everyone.

UK &  
Ireland  
**923<sup>1</sup>**

France  
**224<sup>2</sup>**

Portugal  
**3**

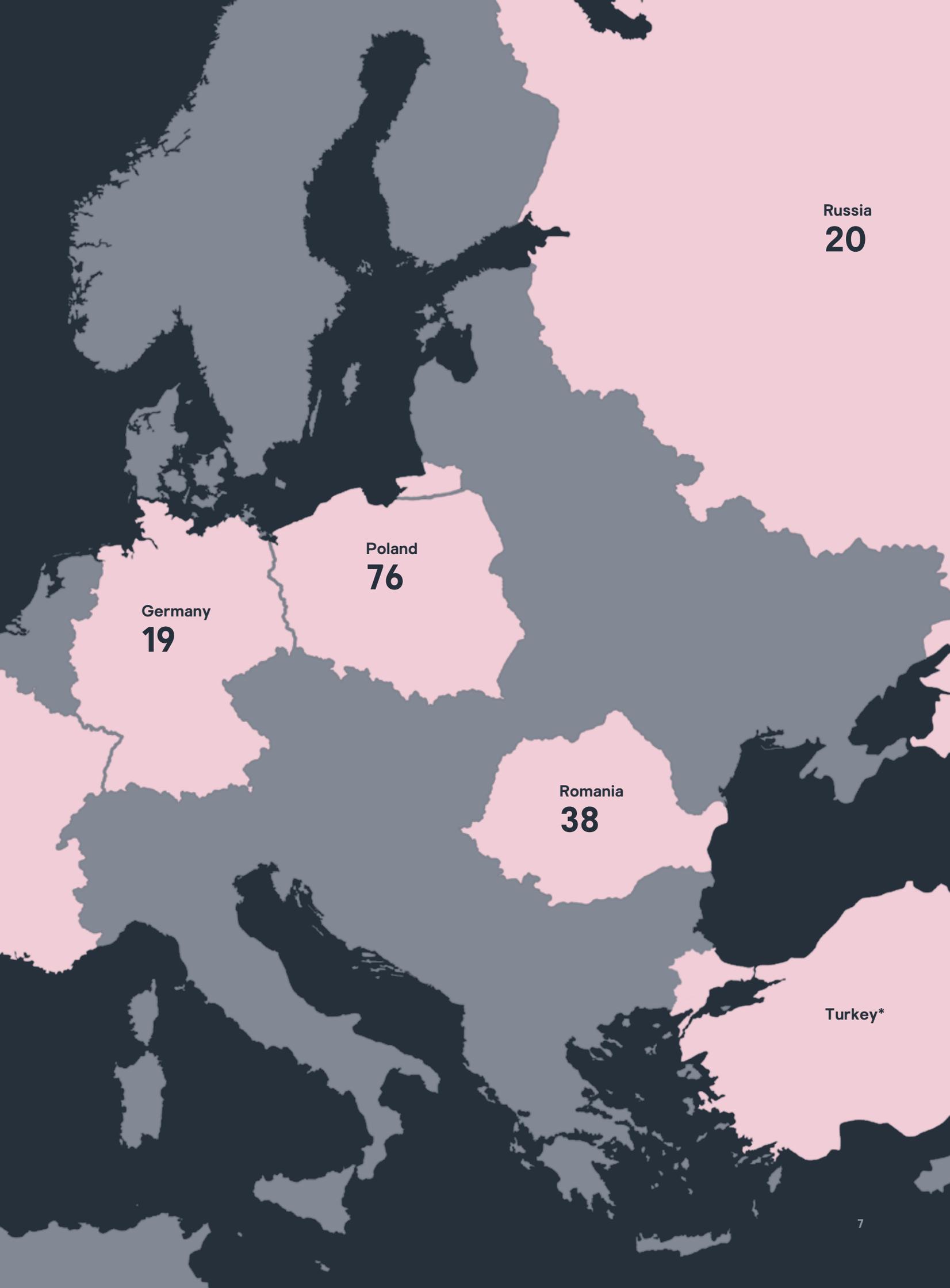
Spain  
**28**

1. B&Q 296. Screwfix 627.

2. Castorama 101. Brico Dépôt 123.

\* Turkey joint venture not consolidated.

† Total, not full-time equivalent.



Russia  
**20**

Poland  
**76**

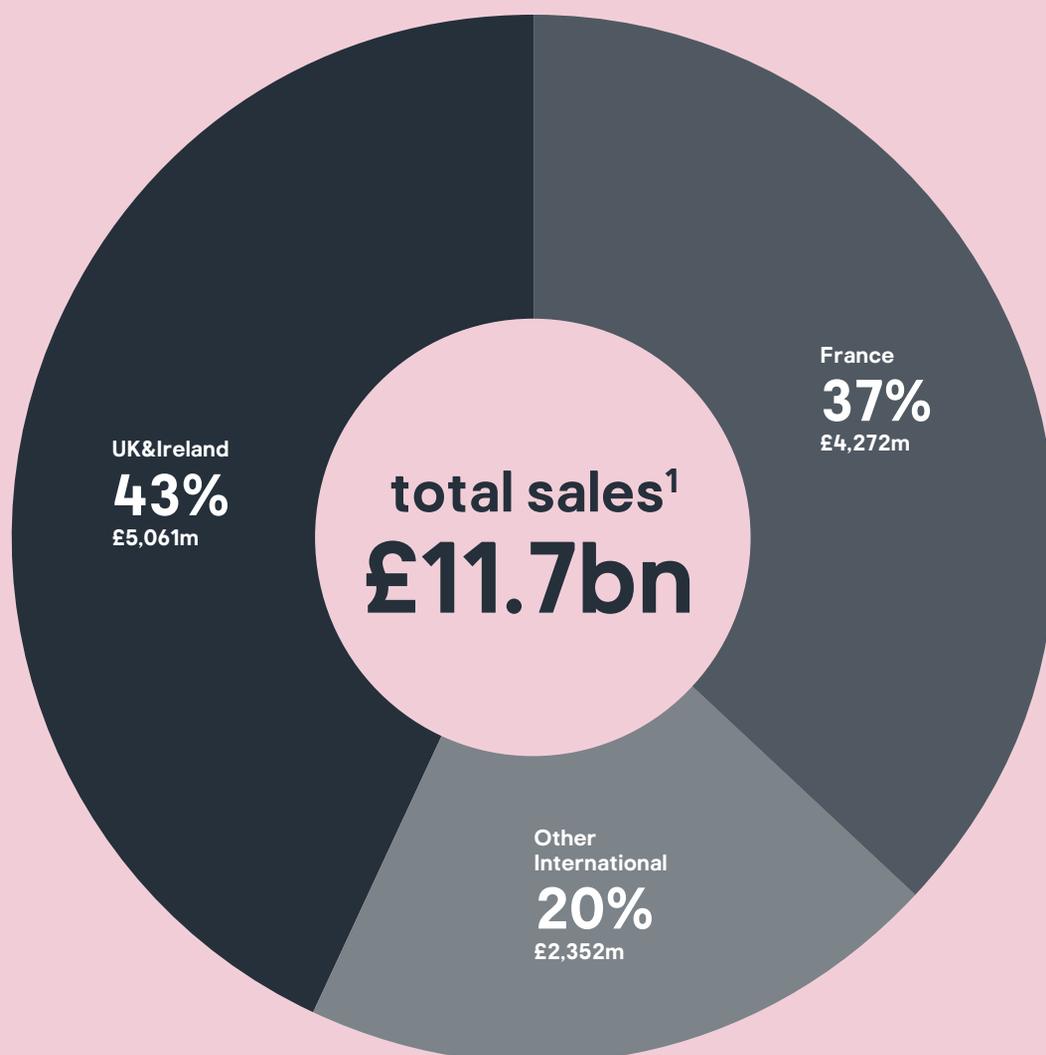
Germany  
**19**

Romania  
**38**

Turkey\*

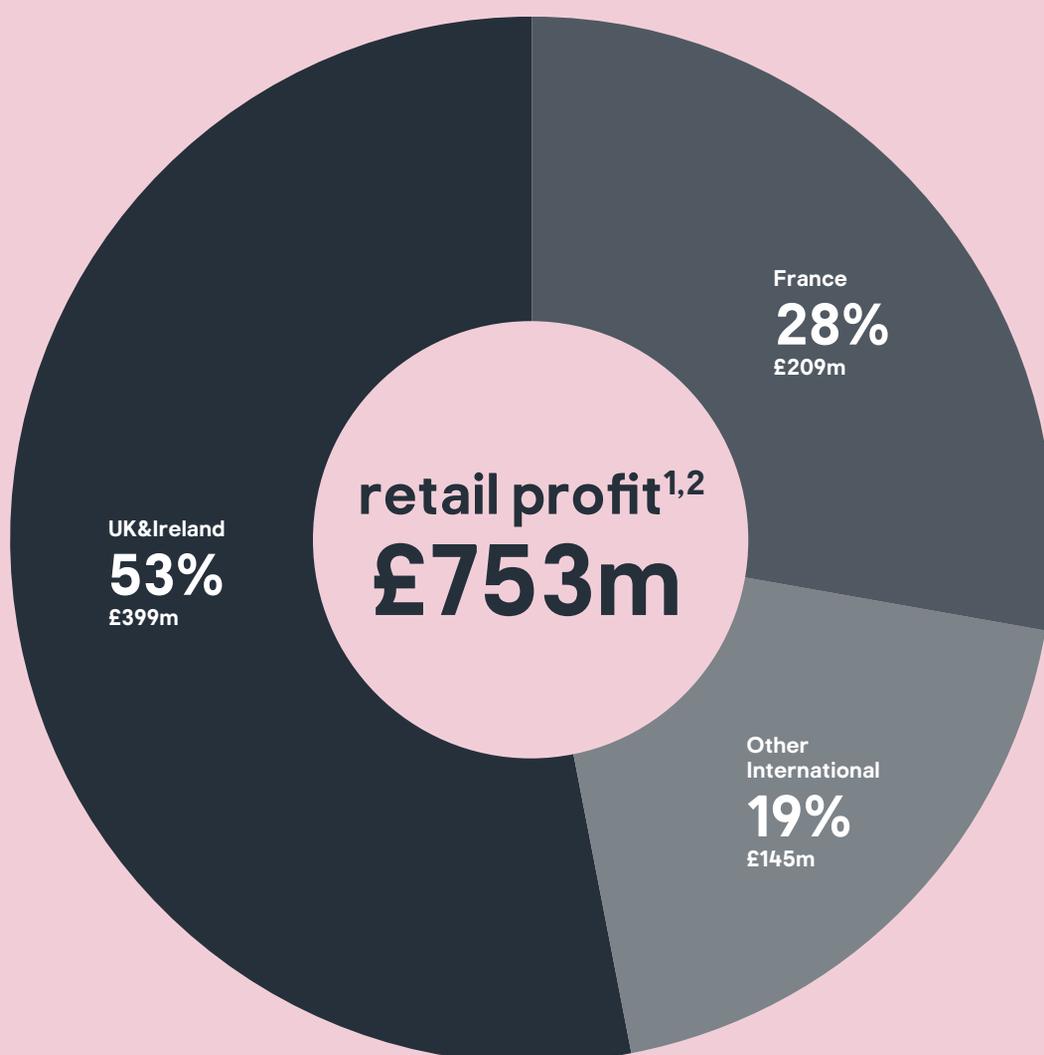
# geographic contribution

## Total sales



1. Financial Key Performance Indicator (KPI). For prior year comparison, see page 10.

## Retail profit



1. Financial Key Performance Indicator (KPI). For prior year comparison, see page 10.

2. Alternative Performance Measure (APM). See page 184 for definition of APMs.

# financial highlights

## Sales<sup>1</sup>

**£11,685m**  
+0.3%

2018/19 **£11,685m**

2017/18 **£11,655m**

## Retail profit<sup>2</sup>

**£753m**  
(11.4%)

2018/19 **£753m**

2017/18 **£849m**

## Underlying pre-tax profit<sup>3</sup>

**£693m**  
(13.0%)

2018/19 **£693m**

2017/18 **£797m**

## Adjusted pre-tax profit<sup>3</sup>

**£573m**  
(16.1%)

2018/19 **£573m**

2017/18 **£683m**

## Lease-adjusted return on capital employed (ROCE)<sup>4</sup>

**9.7%**  
(70)bps

2018/19 **9.7%**

2017/18 **10.4%**

## Full year dividend<sup>5</sup>

**10.8p**

2018/19 **10.8p**

2017/18 **10.8p**

## Statutory pre-tax profit<sup>5</sup>

**£322m**  
(52.8%)

2018/19 **£322m**

2017/18 **£682m**

## Statutory post-tax profit<sup>5</sup>

**£218m**  
(55.1%)

2018/19 **£218m**

2017/18 **£485m**

## Basic earnings per share<sup>5</sup>

**10.3p**  
(53.4%)

2018/19 **10.3p**

2017/18 **22.1p**

1. Financial Key Performance Indicator (KPI) and Alternative Performance Measure (APM).

2. Percentage change reported on a constant currency basis.

3. Alternative Performance Measure (APM). Percentage change reported on a reported currency basis.

4. Alternative Performance Measure (APM).

5. Statutory measure. Percentage change reported on a reported currency basis.

# chairman's statement



When our ONE Kingfisher transformation plan was launched three years ago, we could see the world was changing. Retail, in particular, has been going through an unprecedented period of change and if anything, the pace is accelerating. The macroeconomic environment has also changed. In the UK, consumer spending has weakened, with Brexit adding to an uncertain outlook. In France, there have been challenges for both the economy and wider society too.

We cannot control these factors, but we can respond to them; and with a programme of transformation that is ambitious and stretching, that is what we are doing. I became Chairman nearly two years ago and I am confident that the ONE Kingfisher plan will deliver. Its breadth and scale will fundamentally reposition the business and set us up for the long term. Our ambition and purpose are clear and everything we are doing now will allow us to make the most of the organisation's considerable resources, on behalf of the customer.

We have now completed three years of the initial phase of our plan and delivered huge changes in that time. Many of these changes have been "behind the scenes" and have caused some disturbance and disruption. These changes are the essential building blocks on which more visible changes are based. Over 40% of our sales now come from 'unified' product ranges. The roll-out of our new, unified IT platform is largely complete. Our work to deliver operational efficiencies is on schedule, having delivered £100m of cumulative savings.

We are making these changes from a position of strength. This remains a financially robust, profitable business, with a strong balance sheet, a well funded pension scheme and a significant freehold property portfolio. Very few major retailers have such a strong set of attributes. We also have strong market positions in our core markets of the UK, France, Poland and Romania.

In November, we announced plans to exit three of our markets where we are less strong – Russia, Spain and Portugal – in order to focus on our core geographies where the benefits of our strategy can be more quickly realised.

In the year, total sales were up 0.3% in constant currency to £11.7bn, with growth in Screwfix (UK), Brico Dépôt France and Castorama Poland offset by B&Q and Castorama France.

Our financial performance in the year was mixed and underlying pre-tax profits were £693m, down 13% on the prior year. In France, Brico Dépôt performed well, but Castorama was disappointing. Christian Mazauric was appointed as CEO of Castorama France last October and with other changes to strengthen the French board, the focus is improving on our pricing relative to competitors, further developing our digital offer and bolstering our marketing. We are recommending a maintained dividend of 10.8p per share in addition to the completion of the £600m capital return programme.

We are encouraged that the customer benefits from our internal changes are starting to come through, with better product ranges, and better prices making a difference for our customers. The transformation has therefore delivered benefits in line with our original plan. We are also completely convinced in our ability to deliver significant further financial and customer benefits from transformation, as we said we would. However, it is becoming increasingly evident that separating transformation benefits (+£500m) from the rest of the business no longer reflects how we manage the business. We are measuring our success through the delivery of growth in Group sales, gross margin, retail profit and ROCE over the medium-term – reflecting improved underlying business performance and further benefits from the transformation. See page 23 for more details.

In the coming year, we will press on with the latter stages of our transformation plan, and restore a strong customer and operational focus while ensuring that we become a more efficient organisation. In March, we outlined further plans for our property portfolio as well as the next phase of growth at Screwfix, which has been one of the success stories of UK retailing over the past decade.

Regarding our Board composition, Karen Witts our Chief Financial Officer left us in March after six years service and I would like to thank Karen for her unstinting hard work and wish her every success in her new role. In addition, Anders Dahlvig has indicated that he will retire as a Non-Executive Director in June 2019, following nine years on the Board, and I would like to thank him for his tremendous contribution during that time.

There were also several other changes during the year. Sophie Gasperment was appointed as a Non-Executive Director, bringing with her a wealth of experience from L'Oréal and other businesses undergoing deep transformation. As referred to in last year's annual report, Jeff Carr and Claudia Arney also joined, bringing to the Board their proven substantial expertise, and we welcome them all.

Finally, I would like to acknowledge our 77,300 colleagues across the business. These are challenging times, and in a customer-service business like ours it is our colleagues that make the difference. I would like to say a huge thank you to them for their hard work and commitment. It is acknowledged and sincerely appreciated.

**Andrew Cosslett**  
Chairman



# **our ambition**

**Our ambition is to become the leading home improvement company. At Kingfisher, we believe everybody should be able to have a home they can feel good about, so our purpose is to make home improvement accessible for everyone.**

# our ambition and our purpose

People want to cherish where they live and are willing to spend time making their homes better. But the home improvement journey can be a nightmare for people, with many barriers – ideas, cost, time, skills, or just everyday life – getting in the way.

We have visited thousands of homes across Europe, watching how people live and listening to our customers. We were excited by what we learnt. People's home improvement needs are more similar than different. People are brave and resourceful. They are willing to try, to learn and to do more in the home.

There is so much untapped potential. If we can simplify home improvement, make it more accessible and harness the knowledge and passion of our people, then we can play an important part in challenging the status quo and make a real difference to our customers.

## **ONE Kingfisher – with One ambition and One purpose**

We chose to change. We chose to line up our collective strengths behind one clear purpose: to create good homes by making home improvement accessible for everyone. Being accessible means delivering the right solutions at the right time with great quality and consistently fair and affordable prices. We know that even the smallest project can make a big difference. If we can create affordable, well-designed products and share our knowledge with our customers, then we can help people make a house a home. Help them turn the place they live into the place they love. We can only do this with our 77,300 colleagues, working together towards one ambition: to become the leading home improvement company.

## **Pursuing our ambition means operating in a totally different way**

ONE Kingfisher means we collaborate and do things together once. By working together and bringing together all our talents, we can make millions of people happier in their homes. Our customers are everyone wanting to improve their home. And those who help them – friends, family, expert home improvers and professionals. From inspiration to installation. From building to maintenance. We know how to remove hurdles, how to simplify things for customers and help them find the solutions they need. By doing this, we make home improvement accessible to millions of people.

We're one team with a common passion for home improvement. Just as we want our customers to love where they live, we want our people to love where they work. So, we've made a promise to our colleagues. We want our colleagues to develop, grow and thrive with us. We want to be an employer that allows colleagues to get more out than they put in, that helps them build skills for life and enables them to be themselves.

We use technology to create a seamless customer experience. Making it easy for customers to move from online to store. Or store to online. Making it easy for us to share our expertise with one click or one visit. From ideas and advice to planning and installation, when our customers get stuck or lost, we'll be there to answer their questions. And we'll complement our improved digital capability with stores that offer inspiration and support for customers, as well as ultimate convenience.

We have already unified over 40% of our ranges – making these products available to our customers at everyday prices that they can trust. By doing this we're developing deeper collaborations with fewer suppliers, in a simpler supply chain.

We are more than just a retailer selling other people's products. We're designing and developing our own innovative product ranges. We excite customers with these new ranges that are unique to us.

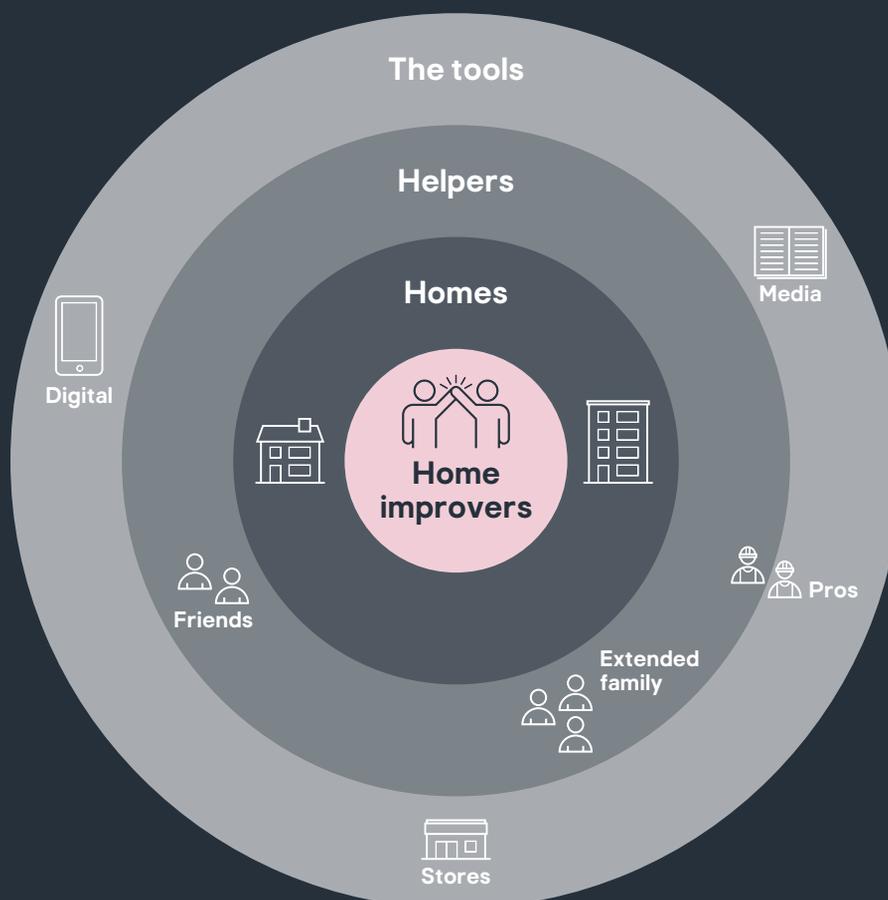
And we build in sustainability everywhere. We start with what matters most to our customers, our colleagues and our communities. We help people save money by saving energy and water. To live smarter by getting more from less, by re-using or using longer.

We are a purpose-driven organisation, meaning we are becoming a better employer for our colleagues; a better partner for our suppliers and communities; providing a better experience and more relevant offer for our customers; and by being a more valuable investment proposition for our investors.

We are aiming to create a leading, innovative home improvement company. One that is people-driven, international and standard-setting. A company that helps create good homes by making home improvement accessible for everyone.

# our home improvement ecosystem

Our market is a large ecosystem, rather than traditional, separate segments.



## Home improvers

Our customers are the millions of home improvers who want to improve their homes; whether they be an owner or a renter, whether they live in a flat or a house, whether they have a garden or not. Some of them have home improvement skills, some don't. Some of them have money, some less so.

## Homes

At the heart of our customers' lives are their homes. It is where they raise their families, see their friends and express themselves through design and decoration.

## Helpers

Outside help is often needed to get things done right, especially for bigger jobs or where people lack skills or confidence. This is when they call on their helpers. This could be the family member or neighbour who is willing to get involved, or a professional tradesperson.

## The tools

A home improvement project invariably starts with digital inspiration, such as finding ideas online, watching 'how to' videos, comparing prices and using planning tools, to touching and testing products and seeking advice and support from colleagues in stores.

# our framework for action

These are the seven actions we are doing together  
to achieve our ambition.

1

**We think of customer needs first**

2

**We are designing a seamless customer process**

3

**We create a unique and leading offer with  
an integrated supply chain**

4

**We are creating a leading customer experience  
in our stores**

5

**We are a truly sustainable company**

6

**We work as ONE**

7

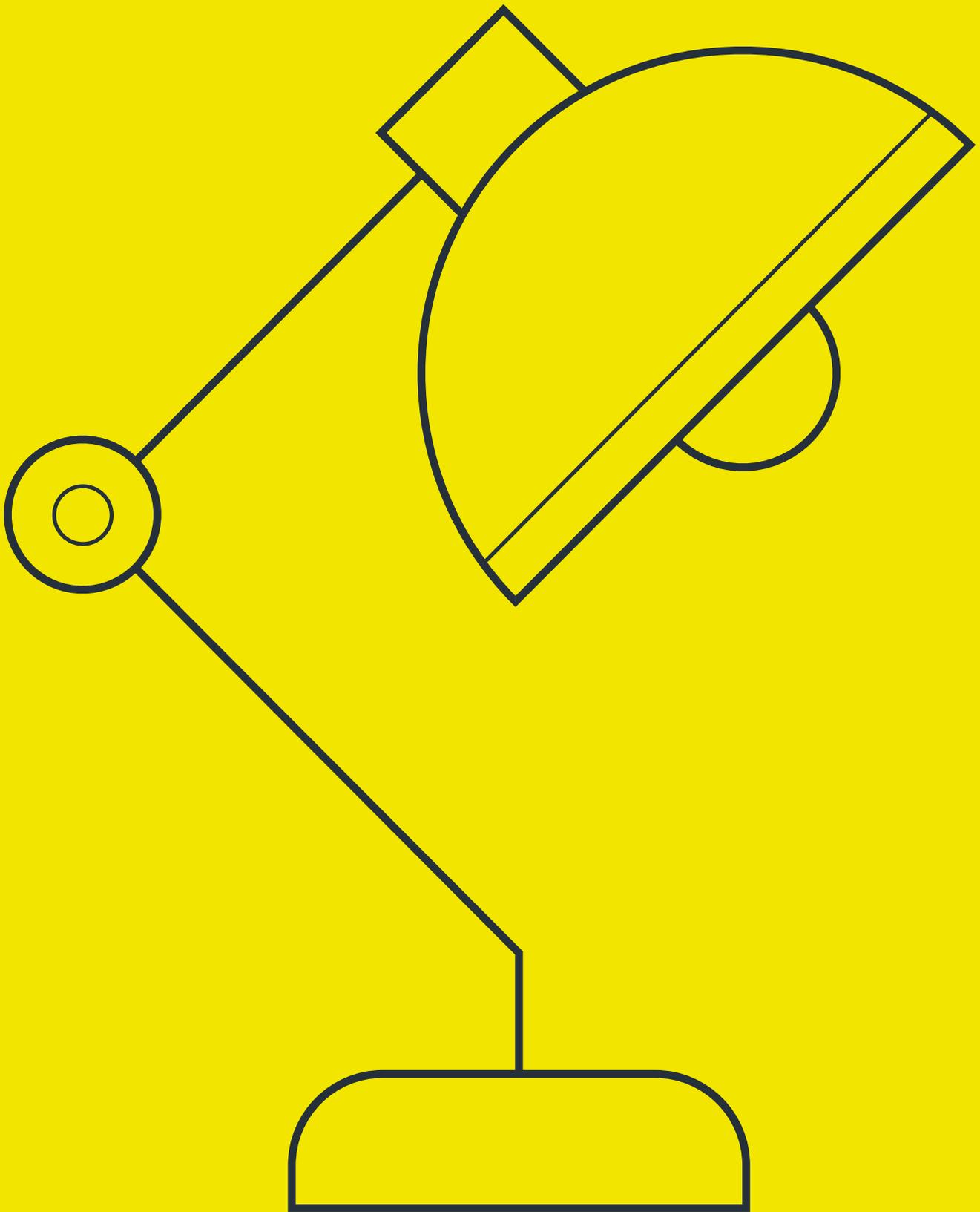
**We are becoming low cost always**

# our business model

We offer home improvement products and services to nearly six million customers who shop in our stores and through our digital channels every week.

By delivering on our strategy and operating sustainably, we create value for our customers, our colleagues, our shareholders, our suppliers and broader society.





# our plan

**The ONE Kingfisher transformation plan, which started in 2016/17, is leveraging the scale of the business by creating a unified company, where customers' needs come first.**



# chief executive officer's statement

We are now three years into our ONE Kingfisher plan to make home improvement accessible for everyone. During this time, we have been building a powerful 'engine' that can drive sustainable and profitable growth for Kingfisher. As a result of the hard work and commitment of all Kingfisher colleagues, we have substantially delivered our strategic milestones for the third consecutive year.

As the Chairman has mentioned, the external environment has changed since we launched our plan in 2016. We are operating in an uncertain economic and political environment which has seen weaker GDP growth, commodity price inflation, wage inflation and most recently social unrest, for example in France. At the same time, retailing is undergoing its biggest shake-up since the Second World War. Consumer behaviour is changing and new competitors are disrupting the market, forcing all retailers to transform themselves in order to adapt to the new realities (see box on page 22). Transformation is not an option anymore, it is vital for the survival of any retail organisation.

**As a result of the hard work and commitment of all Kingfisher colleagues, we have achieved our key strategic milestones for the third consecutive year.**

We saw these changes coming three years ago and we are now fundamentally re-positioning Kingfisher for the long-term. This has required radical changes across the organisation, both structurally and in terms of ways of working. Not all the work we have done is yet visible to customers, but it has been essential plumbing work to create scale and momentum. For example, in the last three years we have moved from having nine different buying organisations across the business to a single Offer & Sourcing organisation, grounded in customer needs. Also, we conducted our business through locally tailored merchandising and pricing. Today, all our markets operate under an 'Every Day Low Price' strategy, in line with our purpose of making home improvement affordable for everyone, supported by consistent merchandising and in-store trading. We have substantially completed the implementation of a new IT platform across the business which is key to support a consistent seamless customer experience, whether in-store or online.

Transformation of that scale and at that pace is tough and we always knew it would not be an easy journey. We made some mistakes, we have learned from them and we are delivering against our plan.

In Offer, we now have unified over 40% of our sales, and sales and gross margins of our unified ranges continue to outperform our non-unified ranges.

In Digital, the implementation of our unified IT platform is substantially complete. Our e-commerce initiatives also continue to make good progress and digital sales account for 6% of the Group total.

We also delivered a further £42m of operational efficiency benefits in the year, of which £28m resulted from our unified Goods Not For Resale (GNFR) programme.

For the coming year, we have three very clear priorities for the business as we move into a new phase of our plan.

Our first priority is to finalise the initial phase of our transformation and to make everything we have done more visible to our customers. This will involve the introduction of more innovative unique products, the extension of improved digital services, new global marketing campaigns, while, at the same time, piloting new store formats. We will provide more details soon on these new activities.

Second, we will continue to expand Screwfix in the UK and open stores in the Republic of Ireland, on the back of an already successful online business. Elsewhere in Europe, we believe that there is opportunity for Screwfix to enter new markets with an online presence.

Finally, we will address the underperforming parts of our business, such as Castorama France, as well as some of our smaller markets and under-performing stores. In November, we announced plans to exit three of our smaller markets – Russia, Spain and Portugal in the coming financial year.

In March, we said we would be closing all 19 of our Screwfix Germany outlets, while retaining an online presence. While the majority of stores in our portfolio are delivering satisfactory returns on capital, certain stores are loss-making and achieving low returns. As a result, we are considering closing 15 stores across the business over the next two years, including 11 stores in France.

These changes will enable us to focus our transformation plan on our core markets of the UK, France, Poland and Romania.

At Kingfisher, our people are essential to the delivery of our strategic objectives. During the year, we started to roll-out our Home Improvement Academy, which trains our store colleagues to know everything about our exciting new offer. We also launched a careers portal and have fundamentally re-examined how we develop and sustain a diverse culture in which our colleagues can thrive. We continue to use the Colleague Experience Platform to get open and honest feedback from our teams. Kingfisher maintained an engagement score of 78 last year, above the retail average of 66.

# 65%

**the proportion of Europeans who do a home improvement project each year**

Last year, we launched our sustainable growth plan which sets out the next stage on our journey towards being a truly sustainable business, starting with what customers care about most; their families, their homes and their communities.

In summary, much of our focus over the last three years has been on building an engine to deliver a leading innovative customer proposition and the agility to succeed in the new retail environment. Our customers are already benefiting from it and we believe that this coming year will be another big step in making home improvement accessible for everyone and will bring Kingfisher closer to becoming the leading home improvement company.

**Véronique Laury**  
CEO Kingfisher plc

## Our market

The retail environment has been experiencing a revolution and the extent and pace of it is profound. In the UK alone more than 70,000 retail jobs were lost during 2018 and 3,000 stores closed in the year. The same thing is starting in France, and it is far from over.

The rapid growth of digital is bringing enormous change and accelerating customer behaviour changes. Today, customers are always connected and they are used to on-demand services, such as Uber or Spotify, that they can access when they want. Consumers have grown accustomed to almost unlimited choice that they can access online, from anywhere, at any time. And they expect a seamless experience, that is joined up between physical stores, online, or phone, and where they can switch between channels easily.

This has re-written the rules of traditional retailing. A retailer's success no longer depends on its ability to provide a huge number of products. It no longer depends on offering promotions. And the number of stores is less relevant now, unless you're developing a convenience offer. It is difficult for all retailers to adapt to this new paradigm and we can see the consequences being reported almost daily in the media. The only way to embrace these changes is to challenge our old beliefs.

## The rules of traditional retailing are being completely rewritten

In the home improvement sector, the customer experience hasn't changed very much for the last 20 years. And yet we know the potential is there. People love their homes and will always spend money on them. The European home improvement market is worth £240bn, houses are old and therefore in need of improvement, and around two thirds of people did some sort of home improvement project last year. In addition, our research shows that customer needs are more similar than different. The potential is huge.

With our ONE Kingfisher plan we recognised these changes early and started fundamentally repositioning our business three years ago, so that it is equipped to deliver long-term sustainable growth. For us, this means accelerating our journey in order to become the leading home improvement company.

**Véronique Laury**  
CEO Kingfisher plc

# our transformation

In January 2016 we set out the financial targets of our transformation plan, with the intention for the transformation to deliver a sustainable annual profit uplift of £500m by the end of FY 20/21, over and above what the business would have delivered without the plan. The total expected cash cost of the transformation was £800m (P&L, exceptional and capex).

Three years into the five-year plan, we have significantly reorganised our business including establishing a single buying organisation, which is leveraging the scale of the Group, and implementing a unified IT infrastructure. For the third year in a row we have substantially delivered our

totalled £490m, and we anticipate the total cash cost of the transformation over the five-year period will be less than the £800m guidance.

'External' challenges have included weaker than expected economic growth in the UK, significant cost price inflation (commodity prices and FX) and higher wage inflation in the UK and Poland. 'Internal' factors, include transformation-related disruption and the underperformance of Castorama France. We have clear priorities for FY 19/20 and beyond, on which we provide more detail on pages 29-30.



strategic milestones, against the backdrop of profound changes in the retail landscape and an uncertain macroeconomic environment. We have unified 44% of our products (COGS) (exiting FY 18/19 at 50%) with the sales and margin from unified & unique ranges continuing to grow and outperforming our non-unified ranges. Our unified IT platform implementation is substantially complete and our digital sales continue to grow, now reaching 6% of the Group. And finally, our operational efficiency initiatives have delivered £100m of savings to date.

The transformation plan is delivering. After the first three years, the benefits from the transformation are in line with our initial plan. However, this has been outweighed by weakness in our base business, or 'business as usual' (BAU), due to a combination of 'internal' factors and 'external' challenges. Over the same time, a significant proportion of the costs to deliver the transformation has already been incurred, meaning that much of the 'heavy lifting' has been completed. We are now well positioned to benefit from future sales growth and will progressively start to see the benefits of operational leverage. To date, transformation costs (P&L, exceptional and capex) have

We continue to believe in the significant opportunity the transformation provides to grow sales, margin and returns. However, it is increasingly evident that separating transformation benefits (£500m profit uplift in FY 20/21) from the rest of the business (BAU) no longer reflects how we manage the business. Having established a single buying organisation, unified half of our offer, and substantially implemented our unified IT platform, transformation and business as usual are increasingly indistinguishable.

We are therefore targeting the following financial outcomes for the Group over the medium term, which combine market dynamics with our initiatives to drive profitable growth:

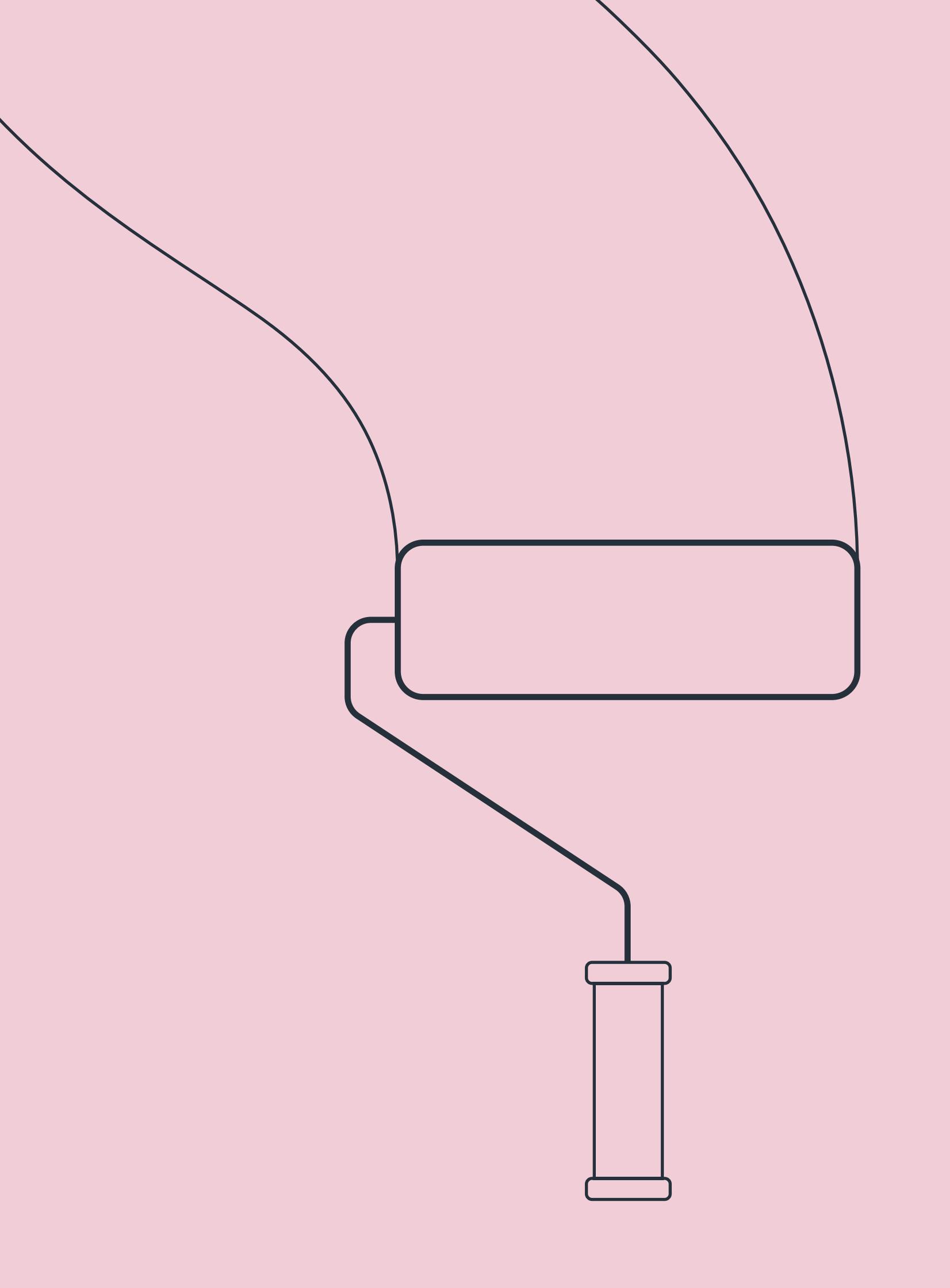
- Growth in ongoing Group sales
- Higher gross margin
- Higher retail profit
- Higher ROCE

See chart below

## Medium term targets

FY 15/16 to FY 18/19	FY 19/20	FY 20/21 – FY 21/22	Medium term
Achieved critical mass of transformation	Complete the building of the engine	Continue to drive Offer and Digital benefits	Sales <sup>1</sup> ▲
	Ongoing operational efficiency benefits		Gross margin % ▲
			Retail profit ▲
			ROCE ▲

1. Ongoing group sales.



# **our progress**

**It has been another year of progress with our transformation plan. We have substantially delivered our strategic milestones for the third year in a row. This has included solid achievements in developing our Unified & Unique offer, driving our digital agenda and delivering operational efficiencies. We have also developed our people agenda and our sustainability plan.**

# progress against our strategic milestones in year 3

**We have substantially delivered our strategic milestones for the third year in a row**

## Unified & Unique offer

- Unify 40% of product (cost of goods sold (COGS))
- Deliver growth in unified & unique sales and gross margin

### Unified & Unique offer

We are unifying our offer, with the same products, available to all our customers. This is delivering customer benefits (newer products, higher quality, better sustainability, lower prices, simpler ranges, clearer merchandising and better packaging) alongside business benefits (higher sales, fewer SKUs, fewer suppliers, cost price reduction (CPR) and improved processes).

Unifying ranges means rationalising the number of global SKUs and suppliers whilst improving the quality and functionality for our customers and leveraging our scale. This generates cost price reduction and better prices for customers. Products are unified across the whole range; from selling the same product in all our markets to having some customer driven market adaptations where needed. Unified includes our own exclusive brands alongside international and national brands.

Unique ranges are those which we have developed ourselves to provide differentiation for customers. These ranges are not available elsewhere and are always sold under our own exclusive brands. Instead of buying products off the shelf from suppliers, we are designing the ranges ourselves based on our deep customer insights.

Our 2018/19 strategic milestones were to:

- Deliver growth in unified and unique sales and gross margin
- Unify 40% of product (cost of goods sold (COGS))

In 2018/19, we achieved unification of 44% of products (COGS), ending the year at the rate of 50% unified. We have significantly reduced our number of global suppliers and SKUs on ranges that have been unified to date, while still offering customers similar breadth of choice.

In 2018/19 we continued to implement new ranges including additional outdoor products, doors, indoor and outdoor lights, nails, bolts and screws and glues. Sales of our unified & unique ranges continue to outperform non-unified ranges. Sales of unified & unique ranges including clearance, were up 1.3%<sup>1</sup> compared to last year and sales of non-unified ranges were down 1.8%<sup>1</sup>.

## Digital

- Deliver final year of unified IT platform roll out alongside better e-commerce
- Complete e-commerce roll out in France and Poland
- Market launch of first home improvement services in UK and France

## Operational efficiency

- Deliver a further £30 million of benefits from unified GNFR programme
- Implement finance shared services in at least two Operating Companies

## Retail operations

- Maintain higher than average retail sector colleague engagement scores

During the year, for unified & unique ranges, we achieved growth in four of the seven key categories and gross profit uplift in all seven (five at H1 2018/19). Growth in unique ranges, such as the new bathroom furniture and shower ranges, is ahead of unified ranges, however the mix of ranges implemented to date is weighted towards unified. For example, sales of unified & unique bathroom and storage increased by 5.0% whereas total sales for this category were up 1.1%.

Since the start of the plan, cumulative gross margin for unified & unique has increased by 230bps, after cost price inflation and price investment (before clearance and the impact of logistics and stock inefficiencies).

In 2018/19, gross margin for unified & unique ranges increased by 120bps year on year. This uplift was on the 44% of COGS that have been unified, contributing 50bps to the Group gross margin movement in 2018/19. Clearance costs were flat year on year.

1. In constant currency including clearance, excluding Praktiker Romania, Screwfix Germany, Brico Dépôt Portugal and services.

## Giving customers the best prices, everyday

As part of Kingfisher's purpose to make home improvement accessible for everyone, we have rolled out an "Every Day Low Price" campaign. In their 50th anniversary year, B&Q in the UK and Castorama in France, have simplified their prices to make them transparent. This means reducing the use of short term pricing deals and discounts. The stable, low prices have been made possible by Kingfisher's unified buying programme, which enables the business to buy product ranges at better prices from suppliers and pass those benefits on to customers.

B&Q invested over £100m in lowering more than 3,000 prices. This meant an average saving of 15% on these products. In France, Castorama invested €70m in lower

prices in October last year, as part of a promise to offer stable low prices, and make home improvement more affordable.

Christian Mazauric, Kingfisher CEO of France said: "Our customers need reliable benchmarks. When they go to a home improvement store, they have few price comparisons. Promotions blur things and consumers are lost. That is why we are committed to offering them quality products at a stable low price throughout the year, to enable them to carry out all their projects."



Last year we launched Every Day Low Price campaigns to make home improvement more affordable for customers, every day.



## our progress continued

### Digital

Implementation of a new unified IT system is a key enabler of our transformation plan. It is providing the foundation to deliver a seamless and stronger digital offer for our customers, and to increase sales and digital penetration.

Our 2018/19 strategic milestones were to:

- Complete the final year of the unified IT platform rollout
- Complete e-commerce rollout in France & Poland
- Market launch of first home improvement services in UK & France

This involves continuing to invest in our core e-commerce platforms, enabled by the new unified IT infrastructure, and leveraging our Screwfix best-in-class capability. This includes upweighted digital marketing, improved site search, new checkout and launching new mobile sites.

Our unified IT platform rollout is substantially complete and our e-commerce initiatives continue to make good progress. Digital sales grew by 17% and now account for 6% of the Group sales, double the level at the start of the

transformation plan. Click & Collect sales at B&Q grew by 42% year on year, mainly driven by the rollout of the one-hour Click & Collect service which went live in the second half of 2017/18.

We continued to invest in our core e-commerce platforms, enabled by the new unified IT infrastructure. This included in B&Q, the first phase of the 'next generation' e-commerce platform, improved site search, new checkout, as well as launching new mobile sites and upweighted digital marketing. In France, we launched a new castorama.fr website in January 2018. We are encouraged by the increase in conversion seen to date and continue to work on further content development to enhance the overall customer proposition.

We also continued to develop our digital home improvement services tools including the bathroom planner tool, which is integrated into the B&Q website. Since launch it has attracted 255,000 unique users. The bathroom planner tool was also launched in France and is now integrated into the castorama.fr website.

## Screwfix – going from strength to strength



Screwfix opened its 600th store in September 2018, as the business continued its highly successful growth and further enhanced its reputation as one of the fastest-growing retail businesses in the UK. The new store, in Hertfordshire, means that Screwfix has expanded its network of stores from 138 to 627 over the last 10 years. Sales have trebled in that period, from £492 million in 2008/9 to £1.7 billion during the year.

This growth has been based on Screwfix's relentless focus on its customers and making everything as convenient for them as possible. The aim is to help busy tradespeople, such as builders and plumbers, to get the job done, quickly and affordably, with great choice and value. Screwfix has opened 50 stores a year on average for the past eight years, meaning that 97% of the UK population are within a 30-minute drive from their nearest store. Its store network is visited by 8.5 million customers a year.

In addition to its stores, Screwfix's digital offer is one of its biggest strengths. Its easy-to-use website has 5 million unique visitors each week and its Click & Collect service is one of the fastest around, with customers able to pick up their orders in as little as one minute. This service has already received more than 27 million orders. Click & Collect orders have grown by 23% year-on-year and 90% of orders placed on a mobile device are for Click & Collect. Screwfix's best-in-class digital capabilities are also a valuable source of expertise for Kingfisher as the business develops its e-commerce platforms in its stores and back-office systems in its major markets.

In March 2019, Kingfisher announced the next phase of growth for Screwfix. These include plans to increase the target number of UK stores from 700 to 800. Screwfix will also look to enter new markets, starting with the Republic of Ireland.

## Operational efficiency

We are delivering operational efficiency benefits through several initiatives, including unifying our annual spend on GNFR. This programme is a combination of cost savings together with an opportunity to work in a simpler and more effective way across the business.

Our 2018/19 strategic milestones were to:

- Implement finance shared services in at least two Operating Companies
- Deliver £30 million of benefits (from the unified GNFR programme and other efficiencies)

In 2018/19 we delivered a further £42 million of operational efficiency benefits, of which £28 million resulted from our GNFR programme including categories such as building services, professional services and energy consumption. The remaining £14 million of benefits arose from restructuring activity at B&Q and France. We implemented finance shared services in three Operating Companies (B&Q, Castorama France and Brico Dépôt France) using our shared services centre in Krakow, Poland.

Cumulatively, we have delivered benefits of £100 million, of which £86 million resulted from our GNFR programme.

## Clear priorities for 2019/20 and beyond

### 1. Complete the building of the 'engine'

We will continue to implement our transformation plan in 2019/20 to complete the building of our 'engine'.

Having achieved a critical mass of unified products, we are placing much greater emphasis on developing more unique product in order to drive sales growth which, in conjunction with the delivery of cost price reduction on unified COGS, should drive gross margin uplift.

In 2019/20 we will complete a further rollout of our unified IT platform, which will unlock additional operational efficiencies. Enabled by the new IT infrastructure, we are planning to launch 'next generation' e-commerce capability in all remaining markets, as well as developing further digital services to support customers' home improvement projects.

Having successfully established finance shared services in Krakow, Poland, we plan to implement these services for further Operating Companies in 2019/20.

## 2. Make our innovation more visible to customers

Our aim is to differentiate ourselves from competitors by leveraging our in-depth knowledge of our customers' lives, homes, improvement projects and style preference. We are focused on applying this knowledge to help customers realise their entire home improvement projects.

To enable this, in 2019/20 we will:

- Accelerate the design and development of our own unique and differentiated product;
- Deliver a series of global and coordinated marketing campaigns;
- Reinforce our everyday low price proposition;
- Launch new digital planning and design tools;
- Upskill our store colleagues;
- Trial innovative new store concepts; and
- Develop new in-store services.

Investing in our people gives them the expertise to fully understand the needs of our customers and their home improvement projects. Our Home Improvement Academy provides relevant product training and project knowledge, through seminars, practical sessions, and situational role plays, both in person and through digital channels, to help our store colleagues become range ambassadors and take information and ideas back to their stores. In the future, we aim to provide similar resources to customers both in-store and through our digital channels.

During the year we will be testing innovative new store concepts. Initially, these will focus on France and the UK.

## our progress continued

### 3. Address underperformance of Castorama France and other parts of the business

In France, whilst Brico Dépôt's sales and gross margin improved, with clear benefits from the transformation plan, Castorama's performance has been weak, due to lower footfall, price repositioning and transformation-related activity (including logistics and stock inefficiencies). While there is no quick fix, the new management team has implemented a recovery plan that we expect to deliver a sustainably improved performance:

- In the second half of FY 18/19 Castorama accelerated its move to an everyday low price (EDLP) strategy. Price positioning has improved over the year and is now only slightly higher than the market;
- Progress was made in reducing Castorama's stock position which is helping to address logistics & stock inefficiencies;
- Variable cost reduction initiatives were implemented including a 5% reduction in employees (FTE) (FY 18/19);
- The rollout of our unified IT platform is substantially complete;
- In 2019 Castorama will benefit from new unique ranges, increased customer marketing and an improved digital experience.

These actions are ongoing and the benefit is still to be realised. Encouragingly, customer perception has improved at Castorama, with net promoter score (NPS) showing a clear increase in the second half of FY18/19.

#### **Closing underperforming stores across the business:**

Whilst the majority of stores in our portfolio are delivering satisfactory returns on capital, certain stores are loss making and achieving low returns. As a result, we are considering closing 15 stores across the business over the next two years. These stores are a combination of owned and leased properties and the estimated cash costs of exit are expected to be covered by sale proceeds from the owned stores.

#### **Focusing on markets where we are, or can be, leading:**

At Q3 we announced the strategic decision to exit Russia and Iberia to focus on markets where we have, or can reach, a market leading position. Those exit processes are ongoing. Further, we have taken the decision to close all 19 of our Screwfix Germany outlets, while retaining an online presence. These outlets are expected to close in FY 19/20.

### 4. Extend rollout of Screwfix outlets in the UK and enter new markets

Screwfix has achieved very strong growth over the last five years with compound annual sales growth of 20%. Its success is rooted in its customer focus, digital capability and convenience proposition. At the end of FY 18/19 Screwfix UK had 627 outlets (nearly double the number five years ago).

In FY 19/20, Screwfix will strengthen its overall customer proposition and extend its store plan in the UK. We are now targeting approximately 800 outlets in the UK, having previously targeted 700.

We also remain confident that the Screwfix model will work in markets outside of the UK. In 2019 Screwfix plans to open outlets in the Republic of Ireland. The choice of entering this market is a result of Screwfix's strong existing online presence and similarities in customer behaviour with the UK.

Screwfix's experience in Germany highlighted the importance of staying true to its core model and of extensive testing. We are embedding this experience into our plans and conducting extensive validation for market entry opportunities in France and Poland, initially via an online presence. These are both markets where the Group has existing scale, infrastructure and in-depth market knowledge.

# Strategic milestones for the year ahead

## Offer

- Deliver growth in unified & unique sales and gross margin
- Demonstrate improvement of our customer proposition

## Digital

- Deliver digital sales growth
- Complete common digital platform implementation in all Operating Companies

## Operational efficiency

- Deliver further benefits from operational efficiencies

## Retail operations

- Trial new concept stores
- Maintain higher colleague engagement scores than retail sector

## Summary and outlook

The building of Kingfisher's 'engine' is now nearing completion. We have now reached a critical mass of both unified product and the rollout of our unified IT platform, whilst unlocking significant operational efficiency benefits. We have also fulfilled our commitment to return £600 million via share buyback over the first three years of the transformation plan, in addition to ordinary dividends of £692 million over the same period.

During 2018/19, our financial performance was mixed due to a combination of internal challenges and the external macroeconomic environment. The UK, Poland and Brico Dépôt France performed well, leveraging the benefits of our transformation, and at a Group level we delivered solid gross margin progression in the second half of the year. However, the performance of Castorama France has been disappointing and we are in the process of implementing a clear plan to sustainably improve its results.

In Q3 we took the decision to exit Russia and Iberia to focus on markets where we are, or can be leading. We are also considering the closure of 15 underperforming stores across our business over the next two years and have taken the decision to close all 19 of our Screwfix Germany outlets, while retaining an online presence. Screwfix's leading omnichannel proposition has consistently delivered strong growth in recent years and we have identified additional expansion opportunities in both the UK and in new markets, initially in the Republic of Ireland.

Our customers are starting to benefit from differentiated product, in store and online, at everyday low prices. Over the next year we will be strengthening our customer proposition by accelerating our unique product launch and development activity and testing new store concepts in order to make our innovation more visible to customers. As we enter 2019/20, the outlook by country is mixed. The UK market remains uncertain and we are mindful of softer housing market activity in France. In Poland the market remains supportive. Longer-term, we are positive about the outlook for the home improvement sector and are focused on delivering growth in sales, margin and returns over the medium-term.

# our people

## a workplace we can call home

Our people strategy is at the heart of what we do. We want to ensure all our colleagues get back more than they put in and gain skills for life in a place where they can be themselves and be at their best.

Just as our customers' ways of shopping are evolving, our colleagues' expectations are also changing. We have been focusing on the moments that matter for colleagues, as they join us, as they contribute in their daily roles, as they grow and develop and even as they contemplate moving on.

Key developments in the year are as follows:

### Sharing and attracting talent

We rightly spend a lot of time thinking about customers. We also spend as much time thinking about colleagues. We recognise that our colleagues are what will make the difference as we work towards our ambition of becoming the leading home improvement company. We want to be an employer that provides a place where you can be yourself, builds skills for life, asks you to give a lot, but gives you even more back. We have launched a careers portal where colleagues and candidates can access all our opportunities across Kingfisher in one place. We have also fundamentally re-examined how we develop and sustain a culture in which our colleagues can thrive.

Alongside this, in line with our transformation we have continued to work on unifying our people policies, processes and reward policies to ensure equality and fairness, consistency and effectiveness across the board, and to achieve efficiencies where we know that working together makes more sense than working separately.

### Giving colleagues skills for life

We have the ability to make a difference for colleagues, customers and the community because everyone deserves to have a home they feel good about. So last year we launched our Home Improvement Academy that will enable us to give customers and colleagues skills for life. It's more than just about going to work. It's about coming to learn and coming to grow, to grasp opportunity and to develop.



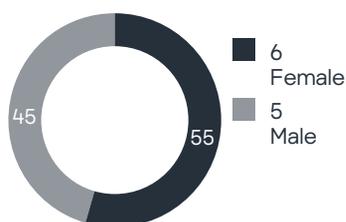
Through digital and physical learning experiences we are equipping store colleagues with the confidence and expertise they need. Colleagues are being trained to understand why customers are coming to us, how they plan on tackling their projects and what they need to help them succeed. To support this, we have created a new online space which will have everything colleagues need to know about customer needs, projects, products and services. This went live at the end of February 2019 alongside the launch of our Home Improvement Academy events that are attended by colleagues from all around our organisation.

We have also continued to grow our partnership with London Business School to secure first class support in developing our leadership development initiatives in support of us delivering our talent goals.

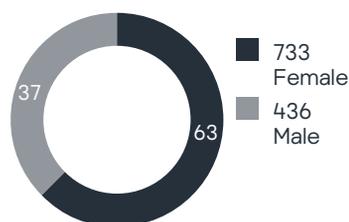
To help colleagues build their careers, we have continued to offer a range of programmes to support them in stores and head offices. Some of these programmes in 2018/19 included:

- Castorama and Brico Dépôt France work in partnership with universities and business schools to recruit apprentices for store-based undergraduate and Master's degree placements. In 2018/19, 632 apprentices were recruited across both businesses.
- B&Q's apprenticeship programmes offer eight standards to over 800 colleagues, providing in-role development that will stretch, challenge and develop them helping our colleagues to be the very best they can be. The retail team leader Level 3 has 368 colleagues going through the scheme. They

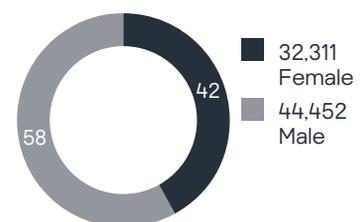
Total Board (%)



Total Senior Management (%)



Total Workforce (%)





are currently in an enrolment period for three new programmes for store colleagues and have over 400 colleagues currently approved to enrol. This number also includes head office apprenticeships in HR and Finance.

- Screwfix supports over 800 colleagues annually to enable them to progress within the business. In 2018 Screwfix introduced its first apprenticeship programmes and now has 300 colleagues on its 'Trade Up' programmes completing Level 3 and Level 4 Retail apprenticeships.
- Castorama Poland's 'Leaders' School' prepares colleagues for Store Director or Administration and Logistics Director roles with eight participants being promoted since October 2018. Its 'Captain's School' is aimed at preparing colleagues for Department Manager roles. In January 2019, 86 colleagues enrolled in the second group.
- In addition to the schemes above, Kingfisher has offered leaders from across the business the opportunity to join two experiential and highly transformative programmes: The Advanced Leadership Development Programme and Leadership Development Programme. To support leaders and colleagues through complex change, a series of learning workshops and a one-day programme have been designed and delivered to over 200 participants.

## A place where you can be yourself.

Our customers are all different and that's one reason why we recruit people from over 130 countries with a variety of backgrounds, skills and experiences. We see diversity as a strength and that is why we are committed to being a fair and diverse employer. We have trialled a number of initiatives including changing how we write job adverts; reviewing parental benefits and making more senior jobs open to flexible working and reduced hours. We have invested in helping leaders understand the importance and benefits of building inclusive teams and understand the concept of unconscious bias. In 2018, we developed a Group Wellness Framework with the aim of supporting colleagues to thrive at work. We will further develop this across the company this year.

Our second gender pay report was published in February 2019 (see [www.kingfisher.com/genderpayreport2018](http://www.kingfisher.com/genderpayreport2018)). We have also reviewed the gender pay gap using a simplified methodology across all our geographies, and this data will be used across the business when reviewing pay to ensure our reward is fair for all colleagues (i.e. not just those covered by the reporting regulation in the UK). We are members of the 30% Club and are committed to its principles of better gender balance at all levels of companies.

## Bringing colleagues on the journey with us

Ensuring colleagues remain engaged as we continue our transformation plan is very important to us. It is vital that colleagues get a say in what the future of Kingfisher looks like and so ONE Future workshops were held, across all market stores and head offices, to gain insight into what our colleagues felt the store of the future should look like, the colleague's role and the customer experience. This was the first campaign of its type and gathered 520 ideas with 3,500 votes from colleagues who voted for their favourite idea.

We also continue to use the colleague experience platform we launched last year to enable the business to get open and honest feedback from colleagues. Despite challenging trading conditions and internal restructuring, Kingfisher maintained an engagement score of 78 last year, remaining above the retail average of 66.

## new careers website and portal launched:



### 1. Internal careers portal

All market and global function vacancies can be accessed through one portal at any time through any device. Over 1000 colleagues a week are searching for opportunities across the group.

### 2. Careers website

Kingfisher's first standalone careers website was launched, showcasing the reasons to come to work at Kingfisher and featuring all of the market and global function careers opportunities in one place. Since launching the new careers website, traffic has increased by over 50%, with two thirds of visitors being new each month.

<https://careers.kingfisher.com>

# helping make homes more sustainable

Our Sustainable Growth Plan focuses on the sustainability issues that are most material to our business and our customers. We have set 12 targets and we monitor our progress using a range of key performance indicators. These are supported by a set of sustainability policies. Together, they enable us to reduce any negative impacts and to make progress towards our long-term goal to be a net positive business.

## How we performed in 2018/19

Our sustainable home products help customers create good homes while having a positive or much lower impact on people and the environment.

We use our Sustainable Home Product Guidelines, developed with experts Bioregional, to help us improve the performance of our ranges. Our target is for 50% of sales to come from products that help create a more sustainable home by 2020. We use our guidelines to help us achieve this. We fully updated the Guidelines in 2018, to make them easier to use and we published them on our website too. <http://www.kingfisher.com/shpguidelines>

Progress towards our four big Sustainable Growth plan Goals:

### 1: Save money by saving energy and water

We're helping customers enjoy efficient and comfortable homes through products that save energy and water.

By 2025 we will enable customers to achieve a 50% reduction in energy and water use in their homes through our energy and water saving products. Our most recent data shows an estimated reduction of over 30% in home energy use, enabled by our current energy saving products, and an improvement of over 40% in home water efficiency, enabled by our current water saving products.

We have set an ambitious target to reduce carbon emissions in our business, products and supply chain in line with the Paris Climate Agreement. This has been approved by the independent Science Based Targets initiative. It will see us reduce Scope 1 and 2 emissions from property and transport by 22% in absolute terms by 2025, compared to 2016; and reduce Scope 3 emissions from the supply chain and customer use of products by 40% per £million turnover by 2025, compared to 2017. This builds on our progress to date in achieving a 15% cut in our absolute carbon footprint since 2016/17.

Information about our approach to climate change risks and our carbon footprint data is on page 102-103.

### 2: Live smarter by getting more from less, re-using or using longer

By 2025 we have a target to create 20 product ranges or services that help customers and our business get more from less, reuse or use longer. We now have a total of five product ranges or services that achieve this target. In addition to easyGrow bedding plants, pro-Grow compost and the Green Pallets scheme, this year we also



have Méthisse insulation made from recycled textiles and our Safe By Nature plant food range. In our business we also aim to achieve zero waste to landfill by 2020 and to recycle 90% of our waste by 2025, and we are working hard across all our markets to achieve this.

We have a target to ensure the sustainable management and efficient use of key resources by 2025 including 100% responsibly sourced wood and paper by 2020. We continue to work to ensure that all wood and paper in our products and goods not for resale complies with the responsible sourcing criteria in our Wood and Paper Policy. We are also developing roadmaps to reduce impacts associated with other key materials in our supply chain, such as cement and plastic.

### **3: Create a healthier home and connect with nature**

In 2018/19, 6% of sales came from products that enable customers to create safer, healthier homes and connect with nature. Our target is 20% by 2025. To meet this, we're expanding our ranges that help our customers to enjoy healthy, toxin-free homes.

Within our business we have identified high priority chemicals that we will phase out and we are working with suppliers to progressively remove them from our supply chain processes, materials and products. For example, we have committed to phase out phthalates, PFCs and halogenated flame retardants from own-branded products by 2025.

### **4: Be part of a community that helps millions more people improve their home**

For people in difficult circumstances, such as those living in poverty or who are isolated or vulnerable, having a good home can seem impossible.

In January 2018 we began implementing a market-wide community strategy to ensure all our activities focus on home improvement, in line with our community policy which will enable us to reach our goal. Additionally, we are working to implement partnerships with local charities and engaging with a broad range of community groups at the heart of our communities.

During the year we have launched major strategic partnerships in our core markets including Fondation Abbé Pierre in France, and have continued working with Shelter in the UK to help improve housing for those in need. In Poland we have been working with Piękne Anioły, providing materials to help renovate the homes of single mothers.

To date, our community contribution towards projects relating to home improvement was worth £2.3 million in 2018/19. Over 60,000 people have directly benefited from our community contributions.

## **Human rights**

We respect human rights and aim to positively promote and support the human rights of our colleagues, workers in our supply chain and others affected by our business activities.

Our Human Rights Policy sets out our commitment to regularly review human rights' risks and to implement controls to mitigate them. Our Modern Slavery Working Group meets three times a year, to oversee due diligence and disclosure on human rights and modern slavery. It has agreed an action plan including internal training, supplier training, supplier ethical risk assessment and audit.

Our key focus is on human rights in our supply chain where we are building closer relationships with a smaller number of suppliers who share our values and ethical standards. Our target is to ensure suppliers meet our ethical and environmental standards by 2020. We assess progress through a programme of ethical audits. Nearly 1,000 production sites that supply us with finished goods have had an ethical audit in the past two years. We are involved in initiatives promoting responsible sourcing in the wider supply chain, such as the TFT Responsible Stone programme.

For further details and performance data, see our Modern Slavery Act Transparency Statement ([www.kingfisher.com/Modern-Slavery](http://www.kingfisher.com/Modern-Slavery)).

The information set out on page 65 provides a summary of how the Board has engaged with stakeholders, in accordance with their duties under section 172 of the Companies Act 2006.

## **Governance of sustainability and non-financial risks**

Our Group Sustainability Committee (GSC) leads and oversees delivery of our sustainability strategy and reviews risks and opportunities. It monitors performance against our targets and takes action to address any gaps. The GSC includes senior executives from our functions and Operating Companies. It meets at least twice a year. The Board receives regular updates about our performance and sustainability risks.

We also have an advisory panel with two external experts who provide our senior leaders with challenge, advice, and guidance on sustainability.

Further information will be available in our Sustainability Report, published later in 2019.

## **cutting water use in the bathroom**

As we launch our new unified ranges, we're building in sustainability – so our customers can make sustainable choices without having to think about it.

Our new bathroom ranges are one example. Almost all bathroom taps now have a maximum flow of 8 litres per minute, compared with up to 12 litres in previous ranges. By reducing water use, they help customers save money on their energy and water bills. We've redesigned our toilets too so they're all water-efficient and include a dual flush feature.



# financial review

Total sales increased by 0.3% on a constant currency basis to £11.7 billion, with LFL sales down 1.6%. On a reported rate basis, which includes the impact of exchange rates, sales increased by 0.3%. During the year, sales growth benefited from 51 net new stores (excluding 26 Praktiker Romania stores that were acquired in November 2017), mostly driven by 50 Screwfix outlet openings in the UK.

Gross margin was flat as increases in the UK, Brico Dépôt France and Poland were offset by a weak performance at Castorama France.

Reported retail profit decreased by 11.3% including £1 million of favourable foreign exchange movement on translating foreign currency results into sterling. In constant currencies retail profit decreased by 11.4%, reflecting a significant decrease in profit in France, partly offset by an increase in profit in the UK and Poland and including £43 million of losses in Russia, Romania and Screwfix Germany.

Underlying pre-tax profit, which excludes the impact of transformation P&L costs and exceptional items, decreased by 13.0%, to £693 million.

Adjusted pre-tax profit, which excludes the impact of exceptional items, decreased by 16.1% to £573 million, reflecting £120 million of transformation P&L costs.

Statutory pre-tax profit, which includes the impact of transformation costs and exceptional items, decreased by 52.8% to £322 million.

We continued to invest in the business and the transformation, we paid £231 million in cash dividends and repurchased a further £140 million of shares while maintaining a strong balance sheet.

A summary of the reported financial results for the year ended 31 January 2019 is set out below:

	2018/19	2017/18	% Reported Change	% Constant Currency Change
Sales	<b>£11,685m</b>	£11,655m	+0.3%	+0.3%
Gross margin	<b>36.9%</b>	36.9%	-	(10)bps
Retail profit	<b>£753m</b>	£849m	(11.3)%	(11.4)%
Underlying pre-tax profit	<b>£693m</b>	£797m	(13.0)%	
Transformation P&L costs <sup>1</sup>	<b>£(120)m</b>	£(114)m	n/a	
Adjusted pre-tax profit	<b>£573m</b>	£683m	(16.1)%	
Statutory pre-tax profit	<b>£322m</b>	£682m	(52.8)%	
Exceptional items (post-tax) <sup>1</sup>	<b>£(190)m</b>	-	n/a	
Adjusted effective tax rate	<b>27%</b>	30%	n/a	
Underlying basic earnings per share	<b>23.9p</b>	25.5p	(6.3)%	
Adjusted basic earnings per share	<b>19.8p</b>	21.8p	(9.2)%	
Basic earnings per share	<b>10.3p</b>	22.1p	(53.4)%	
Full year ordinary dividend	<b>10.8p</b>	10.8p	-	
Net cash	<b>£48m</b>	£68m		
Capital return – share buyback	<b>£140m</b>	£260m		

1. Kingfisher separately reports exceptional items and transformation P&L costs in order to calculate adjusted and underlying results, as it believes these measures provide additional useful information on underlying performance and trends.

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

	2018/19 £m	2017/18 £m	Increase/ (decrease)
<b>Retail profit</b>	<b>753</b>	849	(11.3)%
Central costs	(49)	(46)	
Share of interest and tax of joint ventures & associates	(4)	(4)	
Finance costs before exceptional items & financing fair value remeasurements (FFVR)	(7)	(2)	
<b>Underlying pre-tax profit</b>	<b>693</b>	797	(13.0)%
Transformation P&L costs	(120)	(114)	
<b>Adjusted pre-tax profit</b>	<b>573</b>	683	(16.1)%
FFVR	-	(1)	
Profit before exceptional items and tax	573	682	(16.0)%
Exceptional items before tax	(251)	-	
<b>Statutory pre-tax profit</b>	<b>322</b>	682	(52.8)%

Transformation P&L costs of £120 million principally relate to the Unified & Unique offer range implementation and the digital strategic pillar. Range implementation activities principally comprise remerchandising work associated with introducing the Unified & Unique offer, incremental in-store labour costs and point of sale change. Digital transformation P&L costs represent the initial revenue expenditure of investing in developing wider digital services to support customers' home improvement projects.

## Trading review by division

Note: all commentary below is in constant currencies

### UK & IRELAND

£m	2018/19	2017/18	Reported Change	% Constant Currency Change	% LFL Change
<b>Sales</b>	<b>5,061</b>	5,003	+1.1%	+1.1%	(0.8)%
<b>Retail profit</b>	<b>399</b>	375	+6.0%	+6.0%	

Kingfisher UK & Ireland sales were up 1.1% (-0.8% LFL) to £5,061 million within the context of a weak consumer backdrop. Gross margin increased by 20 basis points and costs were tightly managed resulting in retail profit up 6.0% to £399 million.

**B&Q** total sales declined by 2.8% to £3,390 million. LFL sales declined by 3.0%. The discontinuation of installations impacted LFL by around 2% in H2 and around 1% in the full year. LFL sales of weather-related categories increased by 1.8% while sales of non-weather-related categories, including showroom, were down 4.4%.

B&Q's total online sales, continued to make good progress with sales growing by 9% (including click & collect up 42% and mobile up 44%) and now represent 5% of total sales.

**Screwfix** total sales increased by 10.3% (+4.1% LFL) to £1,671 million, driven by specialist trade desks exclusive to plumbers and electricians, strong digital growth of 19% (e.g. mobile + 44%; click & collect +23%) and the continued rollout of new outlets. 50 new outlets were opened, taking the total to 627 and a fourth distribution centre was opened in Lichfield in May. We have increased our overall target to approximately 800 outlets in the UK, up from approximately 700 previously and also intend to open stores in the Republic of Ireland from 2019 to complement our existing online presence.

### FRANCE

£m	2018/19	2017/18	Reported Change	% Constant Currency Change	% LFL Change
<b>Sales</b>	<b>4,272</b>	4,387	(2.6)%	(3.4)%	(3.7)%
<b>Retail profit</b>	<b>209</b>	320	(34.7)%	(35.2)%	

Kingfisher France sales decreased by 3.4% (-3.7% LFL) to £4,272 million with improved sales performance at Brico Dépôt offset by a weak performance in Castorama. Both businesses were impacted by national demonstrations in Q4 which resulted in difficulty accessing stores and some temporary store closures. The estimated negative impact on France LFL was around 3% in Q4 and around 0.5% in 2018/19. According to Banque de France data, sales for the home improvement market were down 0.5% and continue to be volatile from month to month.

**Castorama** total sales declined by 7.3% (-7.1% LFL) to £2,246 million reflecting weak footfall, price repositioning, the impact of transformation-related activity and national demonstrations in Q4. LFL sales of weather-related categories were down 6.5% and sales of non-weather-related categories, including showroom, were down 7.4%.

**Brico Dépôt** total sales grew by 1.4% (+0.4% LFL) to £2,026 million reflecting a good performance of the new unified & unique ranges and supported by investment in marketing (representing the first year of LFL growth since 2011/12). Q4 performance was also impacted by national demonstrations.

## financial review continued

Across the two businesses space remained broadly flat, with Brico Dépôt adding two net new stores and Castorama closing one net store.

France gross margin declined by 60 basis points with an increase at Brico Dépôt offset by a decrease at Castorama. The gross margin at Castorama was impacted by logistics and stock inefficiencies resulting in a c.80bps impact on France gross margin. Retail profit decreased by 35.2% to £209 million. This reflected weak sales, a decrease in gross margin and higher costs, including additional marketing investment and higher digital costs.

### OTHER INTERNATIONAL \*

£m	2018/19	2017/18	% Reported Change	% Constant Currency Change	% LFL Change
<b>Sales</b>	<b>2,352</b>	2,265	+3.9%	+5.7%	+1.0%
Poland	<b>1,431</b>	1,384	+3.4%	+3.4%	+1.7%
Romania	<b>210</b>	130	+62.0%	+63.4%	+0.2%
Other	<b>711</b>	751	(5.3)%	(0.3)%	(0.3)%
<b>Retail profit</b>	<b>145</b>	154	(5.0)%	(4.3)%	
Poland	<b>181</b>	170	+6.6%	+6.6%	
Romania	<b>(15)</b>	3	n/a	n/a	
Other	<b>(21)</b>	(19)	n/a	n/a	

Other International total sales increased by 5.7% (+1.0% LFL) to £2,352 million reflecting growth in Poland and the acquisition of Praktiker Romania in November 2017. Retail profit decreased by 4.3% to £145 million, with growth in Poland offset by losses in Russia, Romania and Screwfix Germany.

Across the businesses space remained broadly flat, with three net store closures in Romania.

Sales in **Poland** were up 3.4% (+1.7% LFL) to £1,431 million despite the introduction of new laws on Sunday trading which had an estimated adverse impact on LFL sales of 1.5%. LFL sales of weather-related categories were up 3.4% with sales of non-weather-related categories, including showroom up 1.4%. Gross margin was up 110 basis points reflecting sourcing benefits. Retail profit grew by 6.6% to £181 million reflecting sales growth and higher gross margin, partly offset by higher staff costs (as wage inflation is running significantly ahead of retail price inflation).

In **Romania** sales increased by 63.4% (+0.2% LFL) to £210m driven by the acquisition of Praktiker Romania and made a retail loss of £15 million (2017/18: £3 million reported retail profit) reflecting a year of transition following acquisition of Praktiker Romania and significant range change. Brico Dépôt Romania continue to make a retail profit. The integration of Praktiker is progressing with new unified ranges being implemented and the stores now rebranded to Brico Dépôt.

At Q3 2018/19 we announced the strategic decision to exit Russia and Iberia to focus on markets where we have,

or can reach, a market leading position. With the FY2018/19 results we have also announced that we will close our 19 Screwfix Germany outlets and retain an online presence.

In **Iberia** sales decreased by 1.1% (-1.1% LFL) to £346 million and made a £1 million retail profit (2017/18: break even reported retail profit). In **Russia** sales increased by 0.3% (+0.2% LFL) to £352 million. The business incurred a £12 million retail loss (2017/18: £8 million reported retail loss) reflecting a challenging environment and store pre-opening and refurbishment costs.

**Screwfix Germany** sales increased by 8.3% (+9.1% LFL) and made a £16 million retail loss (2017/18: £18 million reported retail loss).

In **Turkey**, Kingfisher's 50% JV, Koçtaş, contributed retail profit of £6 million (2017/18: £7 million reported retail profit).

**Exceptional items** (post tax) resulted in a net charge of £190 million (2017/18: net nil impact) as detailed below:

	2018/19 £m Gain/(charge)	2017/18 £m Gain/(charge)
Transformation exceptional costs	<b>(58)</b>	(15)
UK & Ireland and Europe store closures	<b>(111)</b>	12
Property disposals	<b>(28)</b>	1
Russia & Iberia impairments	<b>(16)</b>	-
Romania acquisition integration	<b>(15)</b>	2
B&Q store replenishment restructuring	<b>(12)</b>	-
Other	<b>(11)</b>	-
<b>Exceptional items before tax</b>	<b>(251)</b>	-
Exceptional tax items	<b>61</b>	-
<b>Net exceptional items</b>	<b>(190)</b>	-

Transformation exceptional costs of £58m were driven by people changes associated with restructuring in France and the UK. People related changes include the move of transactional processing activity to a shared service centre in Poland.

We have recognised a £111 million charge principally relating to impairments for underperforming stores. This includes 15 stores across our business and 19 Screwfix Germany outlets. The stores are a combination of owned and leased properties and we expect to cover the cash costs (principally onerous lease provisions and redundancy costs) with sale proceeds.

A net charge of £28 million has been recorded relating to property disposals. This reflects a profit of £29 million relating to the disposal of properties in the UK and France and impairment losses of £57 million in advance of planned disposals for properties classified as held for sale in the UK and Poland.

As previously announced, we intend to exit Russia and Iberia and recognised a £16 million impairment during the period mainly relating to stores. Praktiker Romania integration costs of £15 million principally comprise planned store closure costs. B&Q store replenishment restructuring of £12 million relates to redundancy costs associated with the transfer of store replenishment routines from the nighttime into the daytime.

Other exceptionals of £11 million include a £6 million one-off 'Macron premium' payment to employees in

France and a £5 million charge as a result of the recent UK High Court ruling in respect of the equalisation of Guaranteed Minimum Pensions.

**Underlying basic earnings per share** decreased by 6.3% to 23.9p, which excludes the impact of transformation P&L costs, exceptional items and the effect of prior year tax items. **Adjusted basic earnings per share** decreased by 9.2% to 19.8p, which excludes the impact of exceptional items and prior year tax items. **Basic earnings per share** decreased by 53.4% to 10.3p as set out below:

	Earnings £m	2018/19 EPS pence	Earnings £m	2017/18 EPS pence
Underlying basic earnings per share	509	23.9	558	25.5
Transformation P&L costs (net of tax)	(88)	(4.1)	(79)	(3.7)
Adjusted basic earnings per share	421	19.8	479	21.8
Net exceptional items	(190)	(8.9)	-	-
Prior year tax items	(13)	(0.6)	7	0.3
FFVR (net of tax)	-	-	(1)	-
Basic earnings per share	218	10.3	485	22.1

During 2018/19, 51 million shares were returned to shareholders via share buyback, following a buyback of 82 million shares in the prior year.

## Dividends and capital returns

The Board has proposed a final dividend of 7.49p which results in a full year dividend of 10.82p (2017/18: 10.82p). The full year dividend is covered 1.8 times by adjusted earnings (2017/18: 2.0 times). We continue to be comfortable with medium-term dividend cover in the range of 2.0 to 2.5 times<sup>1</sup> based on adjusted basic earnings per share, a level the Board believes is consistent with the capital needs of the business.

The final dividend will be paid on 15 July 2019 to shareholders on the register at close of business on 7 June 2019. 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 June 2019. For those shareholders electing to receive the DRIP the last date for receipt of election is 24 June 2019.

In January 2016 Kingfisher announced its intention to return around a further £600 million of surplus capital to shareholders in the following three financial years. During 2018/19 £140 million of shares (51 million shares) were repurchased via share buyback. Cumulatively therefore, £600 million of shares (191 million shares) have now been repurchased.

1. Medium-term dividend cover range before the impact of the new lease accounting rules per IFRS 16.

## Taxation

Kingfisher's adjusted effective tax rate is sensitive to the blend of tax rates and profits in the Group's various jurisdictions. It is higher than the UK statutory rate because of the amount of Group profit that is earned in higher tax territories. The adjusted effective rate of tax, calculated on profit before exceptional items, prior year tax adjustments and the impact of future rate changes, was 27% (2017/18: 30%). The adjusted effective tax rate is lower than the prior year mainly due to the one off 30% French tax surcharge applicable in 2017/18 that increased the French tax rate to 44%. At a Group level this surcharge increased the adjusted effective tax rate by c.3% in the prior year.

The overall rate of tax includes the impact of exceptional items and prior year adjustments. The effect of such items increased the rate from 27% to 32%. This predominately reflects the applicable tax treatment of exceptional items and the decision to derecognise assets related to historic tax losses in Russia and Iberia, partially offset by a release of prior year provisions which reflect a reassessment of expected outcomes, agreed positions with tax authorities and items that have time expired.

Effective tax rate calculation	Pre-tax profit £m	Tax £m	2018/19 %	Pre-tax profit £m	Tax £m	2017/18 %
Profit before tax and exceptional items	573	(152)	27	682	(204)	30
Exceptional items	(251)	61		-	-	
Prior year items	-	(13)		-	7	
<b>Total</b>	<b>322</b>	<b>(104)</b>	<b>32</b>	<b>682</b>	<b>(197)</b>	<b>29</b>

## financial review continued

The Group continues to monitor developments in relation to a European Commission state aid investigation opened in October 2017, which concerns the UK's controlled foreign company rules.

Further details are provided in note 35 of the financial statements.

There continues to be a global focus on international tax reform, and as Kingfisher operates in numerous jurisdictions, changes to tax rules in countries around the world, including the impact of changes from the European Commission's state aid investigations or the OECD's Base Erosion and Profit Shifting ('BEPS') project, could impact the Group's future effective tax rate.

In addition, the Group's overall rate of tax could be affected by changes to tax rates in the jurisdictions in which we operate, changes in the blend of where profits are earned, restructuring and reorganisation of our businesses and resolution of open issues with authorities.

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

Jurisdiction	Statutory tax rate 2019/20	Statutory tax rate 2018/19
UK	19%	19%
France	32%	34%
Poland	19%	19%

### Tax contribution

Kingfisher makes a significant economic contribution to the countries in which it operates. In 2018/19 it contributed £2.1 billion in taxes it both pays and collects for these Governments. The Group pays tax on its profits, its properties, in employing 77,300 people, in environmental levies, in customs duties and levies as well as other local taxes. The most significant taxes it collects for governments are the sales taxes charged to its customers on their purchases (VAT) and employee payroll-related taxes. Taxes paid and collected together represent Kingfisher's total tax contribution which is shown below:

### Total taxes paid as a result of Group operations

£bn	2018/19	2017/18*
Taxes borne	0.8	0.8
Taxes collected	1.3	1.2
Total tax contribution	2.1	2.0

\* 2017/18 comparatives are presented on a constant currency basis.

Kingfisher participates in the Total Tax Contribution survey that PwC performs for the Hundred Group of Finance Directors. The 2018 survey ranked Kingfisher 30th (2017: 30th) for its Total Tax Contribution in the UK. In 2018, 97 (2017: 100) companies contributed to the survey.

### Taxation governance and risk management

The Kingfisher Code of Conduct applies high standards of transparency, honesty and fairness to employees and suppliers and requires that we carry out our work ethically and in compliance with the law. These principles underpin our approach to tax governance and risk management, which is Board approved, and documented in the Kingfisher Tax Strategy. Our core tax objectives are to pay the right amount of tax at the right time and to comply with all relevant tax legislation in all Group entities. Kingfisher undertakes its activities and pays tax in the countries in which it operates, in compliance with the local and worldwide tax rules. The responsibility for tax policy and management of tax risks lies with the Chief Financial Officer and the Group Tax & Treasury Director who engage regularly with the Board and the Audit Committee on all tax matters.

Tax risks can arise from changes in law, differences in interpretation of law and the failure to comply with the applicable rules and procedures. The Group seeks to take a balanced approach to tax risk having regard to the interests of all stakeholders including investors, customers, staff and the governments and communities in the countries in which it operates. The Group manages and controls this risk through local management, the tax specialists that it employs and agile monitoring of changes in law and interpretation of law. The Group may engage with reputable professional firms on areas of significant complexity, uncertainty or materiality, to support it in complying with its tax strategy. Group companies work within a tax controls framework, and compliance with this is monitored by the Internal Audit and Risk team.

The Group seeks to engage with tax authorities with professionalism, honesty and respect. It works with all tax authorities in a timely and constructive manner to resolve disputes where they arise, although it is prepared to litigate where this is not possible.

## Lease adjusted return on capital employed (ROCE)

Our key returns metric, lease adjusted ROCE declined by 70 basis points from 10.4% to 9.7% this year, reflecting our profit performance including the increase in P&L transformation costs. ROCE by geographic division is analysed below:

	Sales £bn	Proportion of Group sales	Capital Employed (CE) £bn	Proportion of Group CE %	ROCE 2018/19	ROCE 2017/18
UK & Ireland	5.1	43.3%	3.8	49.5%	14.0%	13.5%
France	4.3	36.6%	2.2	28.8%	8.0%	10.1%
Other International	2.4	20.1%	1.6	20.6%	9.3%	10.4%
Central			0.1	1.1%		
<b>Total</b>	<b>11.7</b>		<b>7.7</b>		<b>9.7%</b>	<b>10.4%</b>

## Free cash flow

A reconciliation of free cash flow is set out below:

	2018/19 £m	2017/18 £m
<b>Operating profit</b>	<b>329</b>	685
Exceptional items	<b>251</b>	-
<b>Operating profit (before exceptional items)</b>	<b>580</b>	685
Other non-cash items <sup>1</sup>	<b>305</b>	285
Change in working capital	<b>24</b>	(372)
Pensions and provisions	<b>(46)</b>	(41)
Operating cash flow	<b>863</b>	557
Net interest paid	<b>(10)</b>	(1)
Tax paid	<b>(132)</b>	(182)
Gross capital expenditure	<b>(339)</b>	(368)
<b>Free cash flow</b>	<b>382</b>	6
Ordinary dividends paid	<b>(231)</b>	(231)
Share buyback	<b>(140)</b>	(260)
Share purchase for employee incentive schemes	-	(13)
Acquisition of Praktiker Romania (including net debt acquired)	-	(19)
Disposal of assets and other <sup>2</sup>	<b>(30)</b>	(68)
<b>Net cash flow</b>	<b>(19)</b>	(585)
Opening net cash	<b>68</b>	641
Other movement including foreign exchange	<b>(1)</b>	12
<b>Closing net cash</b>	<b>48</b>	68

1. 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.

2. Includes exceptional cash flow items, principally relating to B&Q closures and transformation costs.

## financial review continued

Net cash at the end of the period was £48 million (2017/18: £68 million).

Operating profit before exceptional items was £105 million lower than last year reflecting higher transformation costs and lower profits in France.

Free cash flow of £382 million was generated in the year, an increase of £376 million against the prior year due primarily to more favourable movements in working capital. During the year the £180 million of mitigation stock held as at 2017/18 was sold through.

Gross capital expenditure for the year was £339 million (2017/18: £368 million). Of this 30% was invested on refreshing and maintaining existing stores, 19% on new stores, 29% on IT, 12% on the transformation and 10% on other areas including supply chain investment.

This resulted in free cash flow of £382 million. £371 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 year with £48 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 is 2.6 times as at 31 January 2019 (2.4x at 31 January 2018). 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:

	2018/19 £m	2017/18 £m
Retail Profit	753	849
Central costs	(49)	(46)
Transformation P&L costs	(120)	(114)
Depreciation and Amortisation	272	254
<b>EBITDA</b>	<b>856</b>	<b>943</b>
Property operating lease rentals	425	408
<b>EBITDAR</b>	<b>1,281</b>	<b>1,351</b>
Net cash	(48)	(68)
Property operating lease rentals (8x) <sup>1</sup>	3,400	3,264
<b>Lease adjusted net debt</b>	<b>3,352</b>	<b>3,196</b>
<b>Lease adjusted net debt to EBITDAR</b>	<b>2.6</b>	<b>2.4</b>

1. Kingfisher believes 8x is a reasonable industry standard for estimating the economic value of its leased assets.

The introduction of IFRS 16 (see page 166 for further details) is expected to result in a lower adjusted net debt to EBITDAR ratio of c. 2x, reflecting a lower IFRS 16 lease liability than the 8x adjustment above.

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.

At 31 January 2019 the Group had two undrawn committed facilities: £550 million that expires in August 2021 and £225 million that expires in March 2022.

In May 2018 the Group repaid its US Private Placement debt (notional value of \$179 million) and also updated its €2.5 billion European Medium Term Note (EMTN) programme. In July 2018, following a reverse enquiry, a €50 million Floating Rate Note (FRN) was issued under the programme. The note matures in July 2020.

The Group entered into two new fixed term bank loans in the financial year, €50 million in September 2018 and £50 million in December 2018. The loans mature in September 2021 and December 2021 respectively.

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)

### Capital Risk Management

The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern and retain financial flexibility in order to continue;
- to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a solid investment grade credit rating of BBB.

The Group manages its capital by:

- continued focus on free cash flow generation;
- setting the level of capital expenditure and dividend in the context of current year and forecast free cash flow generation;
- rigorous review of capital investments and post investment reviews to drive better returns; and
- monitoring the level of the Group's financial and leasehold debt in the context of Group performance and its credit rating.

Kingfisher Insurance Designated Activity Company (Ireland), a wholly owned subsidiary, is subject to minimum capital requirements as a consequence of its insurance activities. The Group complied with the externally imposed capital requirements during the year.

## Pensions

At the year end, the Group had a net surplus of £205 million (2017/18: £99 million net surplus) in relation to defined benefit pension arrangements, of which a £320 million surplus (2017/18: £214 million surplus) was in relation to the UK scheme. The favourable movement is mainly due to continued UK employer contributions and a lower pension increase assumption used to measure the UK scheme liabilities. This accounting valuation is sensitive to various assumptions and market rates which are likely to fluctuate in the future. A £5 million exceptional charge has been recognised in the year relating to the equalisation of guaranteed minimum pension benefits between men and women.

## Property

Kingfisher owns a significant property portfolio, almost all of which is used for trading purposes. A valuation was performed for internal purposes in October 2018 with the portfolio valued by external professional valuers. Based on this exercise, on a sale and leaseback basis with Kingfisher in occupancy, the value of property is £3.4 billion at year end (2017/18: £3.5 billion).

	2018/19 £bn	2018/19 Yields	2017/18 £bn	2017/18 Yields
France	1.8	7.4%	1.8	7.4%
UK	0.7	5.7%	0.8	6.1%
Poland	0.6	7.7%	0.6	7.7%
Other	0.3	–	0.3	–
<b>Total</b>	<b>3.4</b>		3.5	

This is compared to the net book value of £2.7 billion (2017/18: £2.8 billion) recorded in the financial statements. Balance sheet values were frozen at 1 February 2004 on the transition to IFRS.

## Retail profit on a fully rented basis

The Group currently operates out of a mix of freehold and leasehold property, with the mix varying significantly between our geographic markets. In order to more easily compare divisional performance, a summary of the retail profit margins on a fully rented basis are set out below:

	UK & Ireland	France	Poland
Retail Profit %	7.9%	4.9%	12.7%
Adjustment to Leasehold Basis	(0.9)%	(3.0)%	(2.6)%
<b>Retail Profit % on Leasehold Basis</b>	<b>7.0%</b>	<b>1.9%</b>	<b>10.1%</b>

# risks

## Risk management

Given the scale of our businesses, the Board of Directors recognises that the nature, scope and potential impact of our business and strategic risks is subject to constant change. As such, the Board has implemented the necessary framework to ensure that it has sufficient visibility of the principal risks and the opportunity to regularly review the adequacy and effectiveness of our mitigating controls and strategies. During the year the Board has considered the nature and level of risk that we are prepared to accept to deliver our business strategies, and has reviewed and approved our internal statement of risk appetite. This describes desired levels of accepted risk, supported by high level risk statements, ensuring that risks are proactively managed to the level agreed by the Board.

## Our approach to risk management

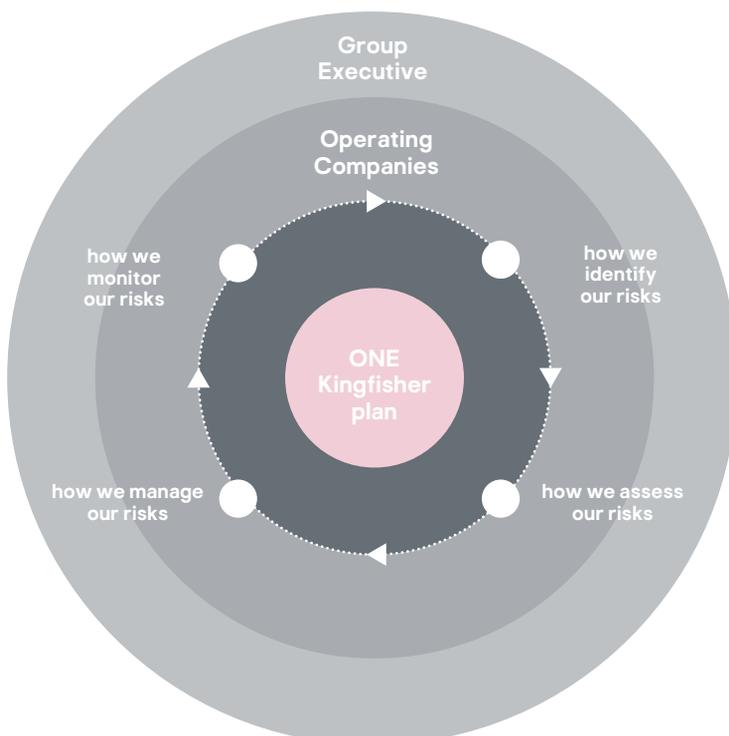
To **identify our risks**, we start with our strategic pillars and consider what might stop us achieving our ONE Kingfisher plan. The process is therefore looking at the risks we face within our strategic planning period. The approach combines a top-down strategic company-level view and a bottom-up operational view of the risks at Operating Company and functional level. Meetings are held with our Operating Company leadership teams

to identify the risks within the operations. To identify our principal risks, discussions are held with the Group Executive and Non-Executive Directors. The information from the operational assessments is also considered to arrive at our principal risks. The table opposite shows how the principal risks link to the strategic pillars.

To **assess our risks**, we consider the potential financial, reputational, regulatory or operational impact and the probability that the risk may materialise. This helps us to assess the level of control we need to put in place. For each of the principal risks, we have included an assessment of the change in risk from last year. This assessment is based on the external environment and the company's operations, and is made before considering the impact of the controls in place. We have considered whether the risk is increasing, decreasing or remains unchanged.

To **manage our risks**, ownership is assigned at all levels. Each Operating Company leadership team owns and is responsible for managing its own risks, putting appropriate controls and procedures in place to ensure that the controls are operating effectively. The same process is followed for our principal risks.

## Risk management process



## Management

### Group Executive

The Group Executive takes ownership of the principal risks. It is accountable for identifying, assessing and managing the principal risks, and for reviewing and assessing the Operating Company risks.

### Operating Company boards

The Operating Company boards are accountable for identifying, assessing and managing the risks within their Operating Company.

## Governance

### Board

The Board has overall responsibility for our risk management, and for the level of risk that the company is willing to take.

### Audit committee

The Audit committee takes responsibility for overseeing the effectiveness of risk management and internal control systems, including reviewing the process the company has put in place to identify, assess and manage our risks.

To ensure we effectively **monitor our risks**, the principal risks are reviewed by the Group Executive and Board twice a year. Changes to the principal risks and mitigation strategies are considered as part of this review. During the year, the Audit committee reviews the risk assessment process and receives presentations from some of the Operating Companies and functional areas. These presentations include the risk assessment, enabling the Audit committee to monitor the risks and level of control in place. Internal Audit also considers the risks at operational and Group level when developing the internal audit plan.

The Corporate Governance Report on page 58 gives further details about our governance processes.

**This year's update**

The principal risks have been reviewed this year considering the progress made against our transformation plan. We have decided that the following risk is no longer a principal risk:

**Price competitiveness**

- We continue to face a broad range of competitors across our markets. A lack of actual or perceived price competitiveness, particularly when compared to more discount-based or online competitors, would affect our ability to maintain market share or result in a loss of market share.

This remains an area of focus for us which is managed and monitored. However we believe this risk is related to and addressed in some of our other principal risks and therefore no longer a principal risk for us.

As part of our review process each year, we identify any new risks and whether the probability and impact of our risks is increasing, decreasing or unchanged. We have added one new principal risk this year relating to the level and impact of change underway across the Group. We are continuing to carry out a number of significant projects which impact all areas of the business. This may disrupt the business and be increased by the external factors we face.

One external factor is the decision of the UK to leave the EU. This is a principal risk for us and this year we think the level of risk has increased due to the continued uncertainty as to the operational implication of this decision and the impact on our trading performance from impacts on the economy in our key markets. The risk of a 'No Deal' outcome has added to this. We have identified possible scenarios and taken steps to mitigate these. On page 49 we have included the mitigation plan in place covering the key operational and macroeconomic impacts.

Further details are included on pages 46 to 51.

**Strategic pillars**

How our risks map against our strategic pillars		Strategic pillars			
		Unified & Unique offer	Digital	Operational efficiency	Retail operations
1.	Level and impact of change	U	D	O	
2.	Technology delivery		D		
3.	Unifying our offer and processes	U			
4.	Channel development	U	D		R
5.	Political environment				R
6.	EU referendum				R
7.	Investing in our people	U	D	O	R
8.	Legal and regulatory	U	D		R
9.	Cyber and data security		D		R

## risks continued

Principal risk	Strategic pillar	How our risks have changed
<p><b>1</b> <b>Level and impact of change</b> As our transformation to ONE Kingfisher progresses we are continuing to carry out a number of significant projects across the Group, while facing issues due to the external environment. The scope and pace of change may disrupt our business as usual activities and the external factors may increase this risk.</p>		 This is an area of increasing risk for us as we transform the business in a changing external environment.
<p><b>2</b> <b>Technology delivery</b> Technology is key to enabling our strategy, meeting customer needs and growing the business. Our unified IT platform is designed to deliver our requirements in line with the plan to support the strategy. Failure to do this may impact the anticipated benefits and disrupt the underlying business.</p>		 Having completed all the core activities within B&Q and Castorama France (our biggest Operating Companies) as well as implemented a number of key modules in all other markets, which includes the rollout to stores, we have learnt and continue to learn with each implementation and this is then rolled into the next area of change.
<p><b>3</b> <b>Unifying our offer and processes</b> We aim to offer customers a product range which is differentiated from that of our competitors through innovation, exclusivity and affordability. We are unifying our offer and standardising our activities and processes. This is a large and complex project therefore there is a risk of not executing this across the Group and delivering the projected benefits.</p>		 As the project progresses we have a better understanding of the risks following previous implementations and have used this information to improve our planning, execution and implementation of range changes.

Key:

▲ Increasing

◀ No change

▼ Decreasing

U Unified & Unique offer

D Digital

O Operational efficiency

R Retail operations

## How we manage and monitor the risk

---

- Programme of strategic updates to the Board planned during the year.
  - Monthly tracking against key milestones and reporting to the Group Executive and the Board.
  - Transformation function to coordinate and monitor progress.
  - Operating Company Transformation Directors in place to deliver the transformational change.
  - A release approach in place which:
    - Delivers groups of internally consistent deliverables.
    - Improves dependency management.
    - Delivers clearer implementation path.
  - Change control procedure in place with the leadership team having final approval on all functional changes.
  - The rollout plan avoids a 'big bang' implementation approach. Instead gradual increments are implemented over a short period, ensuring that dual running is kept to a minimum and allowing any issues to be identified and resolved before moving on.
  - Process in place to establish learning points and to ensure these are built into future rollouts.
  - 'Agile' ways of working are already in place and are currently being enhanced to support the appropriate areas.
  - Existing partners have skills that can support our needs in this area.
  - We have good quality skills and capabilities both in the central team and in the local teams which has been essential as we have rolled out further and will be important for maintaining and enhancing the platform in the future.
  - Applications are being provided in accordance with our proposed three-tier architecture, which provides flexibility to areas where innovative ideas are most likely. Tools are typically agnostic and therefore can be interchanged in the event this is required.
  - Digital IT team is integrated within the overall IT function with common release management and operations in place.
  - A clearly defined set of range principles and the main customer projects that will provide the opportunity to create the unique offer have been defined.
  - Teams with specialised roles are tasked to develop and take best practice and the best products from across the company.
  - Strong sourcing network which is focused on securing company buying opportunities.
  - Validation and governance processes in place for business case approvals of range and procurement decisions.
  - The plan for each range change is discussed and agreed with the trading function and Directors at key points in the process.
  - Strong project management process including capturing lessons learned for continuous improvement.
  - Monthly tracking and review by the Offer & Sourcing board to identify and respond to potential risks.
  - Performance of the ranges and brands is tracked, and strategies updated accordingly.
  - Vendor management process in place which includes vendor selection, risk assessments, monitoring of vendor responses, and communication.
  - We have a systems roadmap which is reviewed regularly with IT to identify and prioritise key programmes.
-

## risks continued

Principal risk	Strategic pillar	How our risks have changed
<p><b>4</b> <b>Channel development</b> As consumer preferences continue to change, we must ensure we create and deliver a culture of innovation in our format and digital channels that keeps pace with changing consumers behaviours and our competitors to be able to stimulate spend and deliver the desired sales growth.</p>		<p> Failing to keep pace within the digital area is a risk for us. However, we have continued to make good progress this year to ensure we are better positioned to fulfil our digital ambitions.</p>
<p><b>5</b> <b>Political environment</b> With continuing geopolitical and local market uncertainty and market volatility across all the economies in which we operate, we are exposed to potential risks which may both impact consumer confidence and disrupt the day-to-day operations of the business.</p>		<p> We have seen an increased number of uncertainties relating to the economy across our key markets, heightened geopolitical tensions, disruption in some of our markets and continued currency volatility.</p>
<p><b>6</b> <b>EU referendum</b> Following the UK's decision to leave the EU we continue to see increased economic uncertainty, exchange rate volatility and an impact on consumer confidence in the UK market. These issues may impact our purchase costs, including additional import tariffs and packaging costs, and our operations, including supply chain delays for the UK, Ireland and Northern Europe. Assuming an agreement to exit is reached, the negotiations on the future relationship may also result in further changes to regulation and operational frameworks which may impact our ability to operate across our European businesses as we do today.</p>		<p> This risk has increased due to the continuing uncertainty as to the operational implications of the decision to leave the EU and the impact on trading performance from impacts on the economy in our key markets.</p>

Key:

▲ Increasing

◀ No change

▼ Decreasing

U Unified & Unique offer

D Digital

O Operational efficiency

R Retail operations

## How we manage and monitor the risk

---

- A Group digital strategy has been developed and a prioritised delivery roadmap is underway across the local markets.
  - Rollout of next generation e-commerce in local markets and development of new kitchens and bathroom capability to be deployed in local markets.
  - A monthly Digital Governance Forum is in place to monitor financial and project portfolio performance and to prioritise upcoming digital initiatives, ensuring we deliver the greatest benefits and features to customers through our online channels and in store.
  - Group mobile and desktop platform has been built and launched in B&Q; new online search and content management capabilities will be launched in 2019 to improve diy.com customers' experience further. A rollout plan has also been developed for our other local markets in line with unified IT platform and Group transformation timelines.
  - Digital ways of working and increasing levels of Agile development are being progressed in all digital functions.
  - Unified IT Platform continues to be rolled out across the Group to provide the systems and capabilities required to deliver the foundations for the digital strategy.
  - Group Concept Director appointed.
  - Developing the concept combining the best of store format and digital in pilot stores to be launched in 2019.
  - Group Trading Director and trading team established.
  - Director of Pricing and Pricing Centre of Excellence created.
  - A Group pricing strategy is in place. The Offer & Sourcing and Trading functions set recommended prices on all unified ranges, securing the best selling price whilst optimising margin.
  - Pricing tools and tracking compliance in place.
  - Provision of supply chain finance programmes to support suppliers. Additional information on these arrangements can be found on page 150.
  - Portfolio of international banking partners that provide flexibility and reliable local retail cash and card payment processing services.
  - Access to funding: both debt funding, including an up-to-date debt capital markets programme, and significant committed liquidity facilities.
  - Diversification of cash holdings across a number of financial institutions with the strongest short-term credit rating.
  - An appropriate and prudent mix of hedging policies, cash deposits and debt financing to minimise the impact of foreign exchange currency volatility on the company.
  - Offer and pricing strategies designed to address consumer confidence.
  - Corporate Affairs team actively monitors the political and economic situations in the countries in which we operate or those which may impact our operations.
  - Strategies in place to identify, monitor and aim to influence changes to legislation which may impact the business.
  - Corporate Affairs team oversees direct policy and political engagement with dedicated resource in the UK, France, Belgium, Poland and Romania. This is supported by local representatives in our Operating Companies and our membership of key business trade associations in every market.
  - Crisis management processes and teams in place to monitor and manage situations as they arise.
  - A Brexit Steering Group has been in place since the 2016 referendum. This group is responsible for monitoring the Brexit process and agreeing actions. The Group consists of Finance, Tax, Treasury, HR, IT, Legal, Corporate Affairs, Regulatory and Operational teams.
  - Third-party advisors were engaged to advise on risk and mitigation plans, especially in the event of a 'No Deal', and action plans developed.
  - We continue to engage directly with government and alongside key trade bodies.
  - Work has been done to consider the implications of Brexit, considering different scenarios and preparing mitigation plans across key operational areas including:  
**Import tariffs**
    - We have assessed the impact of a 'No Deal' scenario on our tariff rates and have built mitigation contingency plans in case required.
    - We have also updated our sourcing tender process to take account of Brexit related risk in the selection of new vendors.
  - Customs clearance**
    - We are taking steps to mitigate the risk of UK port delays in the event that customs clearance processes and transport infrastructures become overwhelmed, including improving our customs and import management capability.
  - Vendor readiness**
    - We are working with our vendors through our buying offices to check that vendors are as ready as they can be for Brexit with necessary processes in place where they are responsible for importing product from EU to UK and from UK to EU.
  - Product standards**
    - We are working with vendors to ensure they have taken necessary steps to update product testing accreditation and regulations around chemicals, horticulture etc. so they remain valid both in the UK and EU markets as regulations start to diverge.
  - Data**
    - In order to continue to comply with General Data Protection Regulation we are acting to add additional clauses in some vendor agreements and inter-company agreements.
-

## risks continued

Principal risk	Strategic pillar	How our risks have changed
<p><b>7</b> <b>Attracting, retaining and investing in our people capability</b> Our colleagues are critical to the successful delivery of our strategy and business. We must ensure we take steps to retain and attract talent to the company and make the necessary investment in our people to ensure that we have the appropriate capacity, skills and capabilities.</p>		<p> We continue to monitor and manage this risk closely. While the risk exposure is significant we have a clear understanding of the scale of the change and plans in place to deliver the model.</p>
<p><b>8</b> <b>Legal and regulatory</b> The Group's operations are subject to an increasing range of regulatory requirements in the countries in which it operates. A major corporate issue or crisis, a significant corporate fraud or material non-compliance with legislative or regulatory requirements would impact Kingfisher's brand and reputation and could expose us to significant fines.</p>		<p> Regulatory requirements are increasing in many areas and therefore we see this as an area of increasing risk.</p>
<p><b>9</b> <b>Cyber and data security</b> Cyber-attacks and security incidents have increased in recent years and the retail sector is now a target. There have been a number of high-profile attacks in the sector in recent times that have had an impact on operations, profitability and reputation.</p>		<p> We continue to see an increase in the frequency and sophistication of cyber-attacks and security incidents which require us to remain vigilant in this area.</p>

Key:



Increasing



No change



Decreasing



Unified & Unique offer



Digital



Operational efficiency



Retail operations

## How we manage and monitor the risk

---

- The Chief People Officer is leading the work to improve our capabilities, ensuring we have effective KPIs and relevant reward structures.
- Work is underway to redesign, where required, HR processes, policies and guidelines to ensure they are fit for purpose and in line with our ambition. Initial focus will be on recruitment, reward, talent and engagement.
- Engagement process in place to ensure we have an appropriate and timely engagement methodology which enables us to check across all colleagues our ability to drive the changes we need whilst being able to respond to any insights which may impact upon our duty of care as an employer.
- Creating a strong pipeline of developing talent through structured programmes including graduate and high-potential schemes for the development of senior leaders.
- Continue to invest in development activities for our store-based colleagues and in how we support and recognise the role of our customer advisors across the organisation.
- Home Improvement and Range Academies developed to build capability and inform colleagues on the new ways of working and product ranges.
- Remuneration committee oversees reward policy.
- Nomination committee oversees Board composition and succession planning.

- Employees and suppliers working for or with Kingfisher must conduct themselves according to our minimum standards of ethics and behaviours as defined by our Code of Conduct.
- Responsibility for compliance with our Code of Conduct rests with each Operating Company CEO.
- Appropriate resources are available to our Operating Companies to ensure that both colleagues and suppliers are aware of, and comply with, the Code.
- Legal teams at Kingfisher and each of our Operating Companies work and communicate together to form a legal and compliance network.
- Communications teams at Kingfisher and each of our Operating Companies work together to form a communications network.
- A Crisis Communications team is in place to manage major incidents.
- Policies and procedures in place to support the health and safety, environmental, ethical, fraud, crisis management, legislative and regulatory areas.
- Anti-bribery training in place and all key individuals must complete this training.
- Whistleblowing hotline operates throughout the Group and all calls are followed up, including monitoring at the local Audit Committee level.
- Market Abuse Regulation policy and training in place.

### Cyber security

- Cyber security continues to receive Executive level sponsorship and Board focus.
- Dedicated IT governance boards are established to monitor this evolving risk and the associated mitigating controls.
- As part of the IT planning process, we have established a roadmap which covers security, governance and identity initiatives to continue to mature the tools and capabilities we have available to us.
- Independent reviews are performed of the Group's cyber security processes and initiatives on an annual basis.
- We regularly review the threats facing Kingfisher and have been working with partners and security specialists to implement tools and processes to identify and remediate vulnerabilities.

### Data protection

- We have data protection and management policies in place.
- Data protection has been enhanced in light of the General Data Protection Regulation.
- IT solutions and appropriate training regarding data protection and management in place.

# viability statement

**In accordance with the UK Corporate Governance Code, the Directors have considered the prospects of the company over a period longer than 12 months**

## The assessment period

The Board has decided that the period for this review should be three years. The Board has concluded that this is an appropriate assessment period given the changes in consumer and retail trends and is in line with the usual business planning period and the period over which we assess our principal risks.

## How we assess the Group's prospects

The Board has continued to monitor progress against the strategic review this year and has therefore been able to review sufficient information to form a reasonable expectation as to the company's longer-term viability. The plan produced as part of the strategic review provides consolidated plans at both the company and Operating Company level. The plans also consider the company's cash flows, committed funding and liquidity positions, forecast future funding and key financial metrics. Sensitivity analysis of the main assumptions underlying the plans has also been carried out. The plan was approved by the Board and year one has been updated for the financial budgets and KPIs that are subsequently used by the Board to monitor performance during the year.

## Assessment of viability

In addition to the assessment above, as in previous years the Board has carried out a robust assessment of the principal risks facing the business, including those that would threaten the business model, future performance, solvency or liquidity. The principal risks are set out on pages 46 to 51. Scenarios have been developed to test the company's resilience to the occurrence of these risks. The scenarios relate to the macroeconomic environment and the strategy. With a Group of our size and diversity there are several scenarios which could be explored. We selected those which will enable the Board to make a reasonable assessment of the viability.

The scenarios have also been considered in clusters to evaluate the most severe situation. Stress testing has also been performed and taken into consideration for the assessment.

## Scenarios

### Macroeconomic scenarios

The macroeconomic scenarios assume a range of reductions in profit to model a recession or trading disruption in one of our key markets or currency fluctuations. We have also considered the impact of the UK's decision to leave the EU as part of this scenario as we have seen some of these issues already. Further uncertainty due to Brexit may increase these issues and disrupt our operational processes further.

Associated risks – Political environment, EU referendum, Level and impact of change, Technology delivery, Cyber and data security and Legal and regulatory.

### Strategic scenarios

For the strategic areas, we have considered viability in terms of reduced expected benefits: Unified & Unique offer and Digital have been considered as these projects have highest potential impact on our viability. Changes in sales uplift and margin benefits have been modelled to illustrate these scenarios.

Associated risks – Unifying our offer and processes, Channel development, Attracting, retaining and investing in our people capability.

The scenarios were developed to test the viability of the Group. However there are control measures in place to help prevent and mitigate the risks materialising. We also have options available to the Group to maintain liquidity, including reducing non-essential capital expenditure and withholding dividends. Therefore we believe we have sufficient capacity to maintain the viability of the Group should any of these scenarios materialise.

## Viability statement

As a result of the steps taken above, the Directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of the assessment.

## Going concern

The Directors confirm that, after reviewing expenditure commitments, expected cash flows and borrowing facilities, they have a reasonable expectation that Kingfisher plc and the Kingfisher group of companies have adequate resources to continue in operational existence. For this reason, we continue to adopt the going concern basis in preparing these financial statements. Further details of the company's liquidity are available in the Financial Review on pages 36 to 43.

## Non-financial information statement

The table below sets out where stakeholders can find information in our Strategic Report that relates to non-financial matters, as required under the new Non-Financial Reporting Directive requirements.

Reporting requirement	Where to read more in this report about related risk management and further additional information	Page
Environmental matters	Helping make homes more sustainable	34-35
	Governance and risk management for climate change	102
	Climate change targets and metrics	103
Employees	Our people	32-33
	Employee diversity	33
	Board diversity	70
Human rights	Human Rights Policy	35
Social matters	Our community strategy	35
	Preparing for the 2018 UK Corporate Governance Code – Consideration of our stakeholders	65
Anti-bribery and corruption	Anti-bribery and corruption statement	53
	Political donations	101
Description of business model	Our business model	17
Non-financial KPIs	Our sustainable growth plan goals	34-35
Principal risks and uncertainties	Our approach to risk management	44-45
	Principal risks	46-51
	Preparing for the 2018 UK Corporate Governance Code – risk management and appetite	64

### Anti-bribery and corruption

Kingfisher is fully committed to conducting its business with high ethical standards. In 2018, an updated version of the company's Code of Conduct was approved by Kingfisher's Group Executive and Board based on bribery and corruption risk assessment workshops undertaken as part of a review of the company's compliance programme. The Code of Conduct contains our commitment to comply with anti-bribery and corruption laws, as well as to compete fairly and not to tolerate any form of modern slavery. It underpins a set of five core integrity policies (anti-bribery and corruption, whistleblowing, fair competition, sanctions and preventing facilitation of tax evasion), which set out the vision for how we want to behave and comply with laws and regulations applicable across the Kingfisher Group. Additionally, new integrity standards were approved in 2018, providing more detailed information on what needs to be done to implement and comply with the Code of Conduct and associated integrity policies. The standards cover, among other areas: conflicts of interest, gifts and hospitality, anti-money-laundering and anti-bribery and corruption third-party due diligence. To raise awareness within the organisation about the company's integrity commitments and internal procedures, a risk-based competition law training has been launched and a new Code of Conduct online training module will be rolled out Group-wide in Q1 19/20. Also, enhanced

gifts and hospitality, conflicts of interest and bribery procedures and registers have been implemented to ensure consistency and increase transparency across the Operating Companies and global functions. Kingfisher's whistleblowing channel is in place and available in all countries where the company operates, and is communicated to our colleagues and suppliers.

In the coming financial year, the company will be primarily focused on consistently monitoring compliance with its Code of Conduct and updating its compliance risk matrix.

### Strategic Report approval

The Strategic Report is approved for and on behalf of the Board by:

**Véronique Laury**  
Chief Executive Officer

19 March 2019



**governance**

# board of directors



**Andrew Cosslett, Chairman** (N) (R)

**Appointed:** April 2017

**Chairman:** June 2017

Andrew's early career was with Unilever in a variety of branding and marketing roles. He then spent 14 years at Cadbury Schweppes in senior, international roles before becoming CEO for InterContinental Hotels Group (IHG). Andrew was at IHG for six years, creating value by leveraging the power of its brands alongside executing a programme of significant transformational and cultural change. He served as CEO for Fitness First, where he was instrumental in successfully repositioning the business and brand. Andrew joined the board of the Rugby Football Union in 2012 before being appointed chairman in 2016.



**Véronique Laury, Chief Executive Officer**

**Appointed:** December 2014

Véronique is a highly experienced international retailer who has worked in the home improvement sector for more than 25 years in France and in the UK. She joined Kingfisher in 2003, after spending 15 years at Leroy Merlin in various commercial roles, and in her 15 years with the business she has held several key roles including CEO of Castorama France, Group Commercial Director and Commercial Director of B&Q UK & Ireland.



**Karen Witts, Chief Financial Officer**

**Appointed:** October 2012

**Resignation effective:** March 2019

Karen is a seasoned chief financial officer and chartered accountant with a strong background in finance and management across a variety of sectors. Prior to joining Kingfisher, she served as CFO, Africa, Middle East, Asia and Asia Pacific for Vodafone Group plc and before that spent 11 years in finance director and general management roles at BT. Karen has also worked in companies including Diageo and Mars. She provides significant current relevant finance expertise to the Board. Karen is a non-executive director of Imperial Brands plc, and chairman of its audit committee.



**Mark Seligman, Senior Independent Director** (A) (N) (R)

**Appointed:** January 2012

Mark provides substantial expertise to the Board in the field of finance, having previously been a senior adviser at Credit Suisse. He began his career at Price Waterhouse and spent over 30 years in the City, including senior roles at SG Warburg, BZW and Credit Suisse First Boston. At Credit Suisse he was deputy chairman Europe and later chairman UK investment banking. Mark currently serves as an alternate member of the Panel on Takeovers and Mergers. He is also a non-executive director of Smiths Group plc and senior independent director of The Royal Bank of Scotland plc.



**Claudia Arney, Non-Executive Director** (N) (R)

**Appointed:** November 2018

Claudia brings a wealth of experience of business transformation and building digital capabilities to the Board having held previous non-executive roles including: chair of remuneration committee at Halfords plc, senior independent director of Telecity Group plc, Transport for London, The Shareholder Executive, Which?, Huawei Technologies, and chair of the Public Data Group. Claudia is currently non-executive director and remuneration committee chair at Derwent London. She also serves as a non-executive director and governance committee chair at Aviva plc, and as interim chair of the Premier League. Claudia began her career at McKinsey & Co, before holding roles at Pearson, the Financial Times, Goldman Sachs, and HM Treasury. She was group managing director, digital at EMAP.

**Pascal Cagni, Non-Executive Director** N**Appointed:** November 2010

Pascal provides the Board with expertise in the field of digital and multi-channel retailing. He was formerly the general manager, vice president of Apple Europe, Middle East, India and Africa. His previous experience includes roles at Packard Bell, NEC and Booz Allen Hamilton. He held the position of non-executive director on the board of Egg Banking plc, the online banking arm of Prudential plc, was an independent member of the supervisory board of Vivendi SA and served on the board of Style.com. He actively conducts strategy, consulting and venture capital activities through C4 Ventures – c4v.com, is a member of the board of directors of Banque Transatlantique, and is also chairman of Business France.

**Jeff Carr, Non-Executive Director** A N R**Appointed:** June 2018

Jeff is currently CFO of Koninklijke Ahold Delhaize N.V. (Ahold Delhaize), one of the world's largest retail groups. Ahold Delhaize is headquartered in the Netherlands, operates across Europe and the US, and has a strong physical and e-commerce offering. Jeff was previously group finance director at both FirstGroup plc and easyJet plc, and held senior finance roles at Associated British Foods plc and Reckitt Benckiser Group plc. He was also previously a non-executive director at McBride plc.

**Clare Chapman, Non-Executive Director** R N**Appointed:** December 2010

Clare brings international expertise from a series of high-profile HR leadership roles. She was previously group people director of BT Group and director general of workforce for the NHS and Social Care. She was also a non-executive director and remuneration committee chair of TUI Travel plc. Her previous experience includes group HR director of Tesco plc and HR vice president of Pepsi Cola's west and central European operations. Clare is a non-executive director and remuneration committee chair of Heidrick & Struggles International, Inc., and The Weir Group plc. Clare also serves as a commissioner on the Low Pay Commission.

**Anders Dahlvig, Non-Executive Director** A N**Appointed:** December 2009**Retirement effective:** June 2019

Anders brings extensive commercial retailing expertise to the Board. He was previously chief executive and president of the IKEA Group, having spent 26 years with the company. Prior to becoming chief executive, he was vice president of IKEA Europe and managing director of IKEA UK. Anders is chairman of the board of Inter Ikea Holding BV as well as a director of Oriflame Cosmetics AB, H&M Hennes & Mauritz AB, Axel Johnson AB, and Resurs Bank AB. Anders is also a member of the Advisory Board of Lund University Business School.

**Sophie Gasperment, Non-Executive Director** N**Appointed:** December 2018

Sophie brings to the Board expertise in strategy, brand and international retail markets as well as substantial experience in business transformation and digital capabilities, having held a number of senior leadership positions at L'Oréal, including executive chairman of The Body Shop International and managing director of L'Oréal UK & Ireland. Sophie is a non-executive director of AccorHotels, where she chairs the appointments, compensation and CSR committee. She is also a non-executive director of the D'leteren group, and the lead independent director on the board of Cimpres, a NASDAQ-listed technology company. Sophie was appointed French Foreign Trade Advisor in 2005.

**Rakhi Goss-Custard, Non-Executive Director** A N R**Appointed:** February 2016

Rakhi is a highly experienced director in digital retailing, having spent 11 years at Amazon.com. Most recently she was director, UK media at Amazon, responsible for ranges such as books, music and DVDs. She was previously director, UK hardlines, where she was responsible for home, garden and DIY product ranges. Prior to joining Amazon, Rakhi held roles at TomTom and in management consultancy in the United States. Rakhi is a non-executive director of Schroders plc, Rightmove plc, and Intu Properties plc.

Key



Audit committee



Nomination committee



Remuneration committee



Chairman

# corporate governance



Dear shareholder,

I am pleased to present our Corporate Governance Report for the year ended 31 January 2019, on behalf of the Board.

This report has been prepared in line with the requirements of the 2016 UK Corporate Governance Code (the Code) and aims to provide shareholders and other stakeholders with clarity regarding the governance and control framework within which we operate.

The Board and I are committed to maintaining the highest standards of corporate governance and this report sets out, on pages 62 to 63, how, during the year, we have continued to apply the principles, and comply with the provisions of the Code.

In addition, this report identifies the steps that have been taken during the year in preparation for compliance with the provisions of the 2018 Code that has applied to Kingfisher from 1 February 2019, including the adoption of a revised schedule of matters reserved to the Board and its committees' terms of reference, all of which are available to view on the company's website. This year, we have also taken the opportunity to include in this report a table showing how the Board takes into consideration Kingfisher's principal stakeholders.

There were several changes to the Board during 2018 with Claudia Arney, Jeff Carr, and Sophie Gasperment joining us as independent Non-Executive Directors and Andrew Bonfield stepping down at our 2018 AGM. In addition, Karen Witts, our Chief Financial Officer, leaves us on 21 March 2019 and Anders Dahlvig, who has served as a Non-Executive Director on the Board for nine years,

will retire in June 2019. The search for Karen's successor is underway and more details on succession planning and recruitment are set out in the Nomination committee's report on page 66.

The Board has maintained keen and effective oversight of the implementation of the ONE Kingfisher transformation plan and recognises the company is at the midpoint in the plan's delivery. Through the year, the Board received regular, detailed reporting from the Chief Transformation, Digital and IT Officer, which provided insight into the successes and challenges encountered.

The Board recognises that the retail sector across Europe continues to face major challenges, but we remain committed to building a strong business for the long term. Consistent with this commitment, during the year, the Board took the decision to exit certain markets in order to focus on the core geographies in which we operate.

In accordance with best practice and the Code, we conduct annual effectiveness reviews of the Board, its principal committees, and individual Directors to consider and assess performance, and to identify any areas of development. This year's review concluded that the Board continued to operate effectively and identified some areas for further development during the year ahead. Additional details of this review are set out on page 61, where you can also find an update on the progress we have made against last year's actions.

In conclusion, the Board and I continue to be committed to working with management with transparency and integrity, and to support delivery of the ONE Kingfisher transformation plan for the benefit of the company, our shareholders, and wider society.

**Andrew Cosslett**  
Chairman

19 March 2019

## Sub-sections of this report:

58	Corporate governance	76	Directors' remuneration report
66	Nomination committee report	100	Directors' report
71	Audit committee report		

## Governance structure

The company is governed through a structured framework comprising the Board and a number of committees, that enable the company and its Directors to effectively discharge their duties, as illustrated below:

### Kingfisher plc Board

The Board has overall responsibility for strategy, performance and governance oversight. The Board's key activities for the year are set out on page 60. The schedule of matters reserved to the Board is on our website.

#### Audit Committee

The Audit committee oversees financial reporting, audit and risk.  
Report on page 71

#### Nomination Committee

The Nomination committee oversees Board composition and succession planning.  
Report on page 66

#### Remuneration Committee

The Remuneration committee oversees the linking of reward to strategy.  
Report on page 76

#### Disclosure Committee

The Disclosure committee oversees the framework for control and release of inside information.

### Group Executive

Our Group Executive comprises the Chief Executive Officer (CEO), her direct reports including the Chief Financial Officer (CFO), and the Operating Company CEOs. Its members meet monthly and are responsible for the day-to-day execution of the strategy set by the Board and for the management of the business.

## Board attendance

The table below shows the attendance at Board and committee meetings during the year to 31 January 2019. Directors who are unable to attend scheduled meetings due to competing engagements or unforeseen circumstances are encouraged to input offline and, ideally, ahead of the meeting.

Current Directors	Board	Nomination	Audit	Remuneration
Andrew Cosslett	9/9	4/4	-	5/5
Claudia Arney <sup>1</sup>	2/3	1/1	-	1/2
Pascal Cagni <sup>2</sup>	8/9	4/4	-	-
Jeff Carr <sup>3</sup>	7/7	3/3	4/4	-
Clare Chapman	9/9	4/4	-	5/5
Anders Dahlvig <sup>2</sup>	8/9	4/4	5/5	-
Sophie Gasperment <sup>4</sup>	2/2	1/1	-	-
Rakhi Goss-Custard <sup>5</sup>	9/9	4/4	5/5	4/4
Véronique Laury	9/9	-	-	-
Mark Seligman <sup>2,6</sup>	8/9	3/4	5/5	5/5
Karen Witts	9/9	-	-	-
<b>Former Directors who served during 2018/19</b>				
Andrew Bonfield <sup>7</sup>	3/3	1/1	2/2	2/2

1. Claudia Arney joined the Board on 1 November 2018. She was unable to join one Board and one Remuneration committee owing to a prior commitment.
2. Pascal Cagni, Anders Dahlvig and Mark Seligman were each unable to join one Board meeting owing to prior commitments.
3. Jeff Carr joined the Board on 1 June 2018.
4. Sophie Gasperment joined the Board on 1 December 2018.
5. Rakhi Goss-Custard was appointed to the Remuneration committee on 13 March 2018.
6. Mark Seligman was unable to attend one Nomination committee meeting owing to a prior commitment.
7. Andrew Bonfield resigned as a Director on 12 June 2018.

## corporate governance continued

### Key activities for the year

#### Strategy and transformation

- Monitored delivery of the ONE Kingfisher strategy.
- Approved business developments relating to our Unified & Unique offer, pricing policy, integration of the supply chain, and investments in unified ranges.
- Oversaw continuing investment in digital technologies.
- Received regular updates and considered the possible outcomes of the Brexit negotiations.
- Received reports from the store investment performance review to assess and, where appropriate, challenge the current real estate strategy.
- Reviewed the investment portfolio and assessed poorly performing stores; reached decision to focus on core geographies.
- Reviewed our brand and customer experience and both new and existing, store concepts.

#### Operations

- Considered and challenged performance updates from the CEO.
- Reviewed the design strategy and visited the Offer and Supply Chain laboratory.
- Considered the supply chain strategy and identified potential improvements.
- Oversaw the rollout of new digital platforms and our unified IT platforms across the Group.
- Endorsed the rollout of Unified & Unique offer product ranges.
- Approved the Screwfix growth plan.

#### Finance and risk

- Received regular financial updates, and reviewed financial performance, financing and liquidity requirements.
- Appraised the principal risks, mitigation steps and set the Group's risk appetite.
- Reviewed cash flow and dividend cover, agreeing an interim dividend and recommending a final dividend.
- Approved a revised treasury policy and the Kingfisher funding plan, including the company's Euro Medium Term Note (EMTN) Programme.
- Approved the three year plan and budget.
- Explored sale and long-term leaseback proposals, having established strict criteria to ensure the benefits.
- Considered data protection and cyber security in the light of continuously evolving threats.
- Approved the reappointment of Deloitte LLP as auditor, subject to shareholder approval.

#### Governance, people and other

- Endorsed revised composition and duties of the Group Executive in support of the strategy.
- Considered Group Executive and senior management performance and succession planning.
- Received updates on colleague engagement and began to formalise and enhance the flow of employee feedback to the Board through the existing Kingfisher Colleague Forum.
- Received updates on the implementation of policies and procedures to comply with the new General Data Protection Regulation.
- Approved the Group's Modern Slavery Statement.
- Received Group-wide health and safety reviews.
- Considered the requirements of the 2018 UK Corporate Governance Code, and revisions for compliance.
- Took on responsibility for oversight of the Group's whistleblowing arrangements and reporting.

#### Two-day annual strategy review

- In reviewing the company's strategic objectives, the Board and senior management considered topics which included:
- The competitive environment and our relative positioning in each market.
  - The ongoing ONE Kingfisher transformation strategy.
  - Evolution and delivery of the digital strategy and unified IT platforms.
  - Transformation of our store and property strategy to meet the challenges of delivering customer needs.

- Customer feedback on:
  - the Group's positioning as the leading home improvement company; and
  - our Unified & Unique offer.
- The role of Screwfix in enhancing the Group's transformation.

#### Board focus for 2019/20

- Evolution of the strategy, including supply chain, store formats, and the ONE Kingfisher model.
- Overseeing our exit from the Russian and Iberian markets.
- Overseeing the ongoing delivery of the transformation strategy.
- Addressing the evolving repercussions of Brexit.
- Analysing and challenging financial performance.
- Reviewing and delivering further digital innovations.
- Operating Company visits, in line with strategic focus.
- Ongoing engagement with investors.
- Overseeing the company's compliance with the 2018 Corporate Governance Code.
- Reviewing and responding to reports from the Kingfisher Colleague Forum and whistleblowing updates.

## Board evaluation

Following the 2017/18 internally facilitated Board evaluation, the Board prepared an action plan to address key evaluation findings. Good progress was made in each area during the year:

- **Board support and information flows** – Board support had continued to improve, but it was felt there remained some scope for further improvement. By improving background reading and shortening presentations, the Board has been left more time to question and discuss those matters brought before it.
- **Board succession planning** – The Board’s desired composition, skills balance and succession remained crucial in a period of change, particularly in relation to the CFO role. These matters continued to be a critical focus for the Nomination committee during the year. The Board diversity and inclusion policy, developed to support the appointments process, was reviewed.
- **Risk management** – The Board increased the time allocated to consideration of risks and their linkage to the formal identification and management framework.
- **Board expertise and dynamics** – The Board continued to review customer insights data and employee views and needs including a proposal to formalise employee engagement whereby the Kingfisher Colleague Forum could act as a two-way conduit between employees and the Board.
- **Board strategic focus** – the Board increased the time allocated to the key initiatives underpinning the ONE Kingfisher transformation programme, including planning for the potential impacts of Brexit.

During 2018, a further internally facilitated evaluation was undertaken to consider the performance and effectiveness of the Board, its committees, and individual Directors. An online survey, facilitated by our third-party consultant, Lintstock, was developed and agreed by the Chairman and the Group Company Secretary.

The key areas of focus for the Board and committee reviews were:

- Board and committee composition, expertise, and dynamics;
- strategic oversight;
- management of meetings, agendas, and focus areas;
- risk management and controls;
- people; and
- Board and committee support and information.

The evaluation findings were considered and debated by the Board and each committee in January 2019, and no significant issues were identified. The evaluation indicated that the Board, its committees, the Chairman and each of the Directors continued to work effectively, although some areas of further development were identified. An action plan for 2019/20 was developed, based on these findings, and this is set out below. The Board will continue to review its procedures, effectiveness and development in the year ahead, and the Chairman will use the output of the Board evaluation and the individual performance reviews in his meetings with Directors during the year.

In 2019/20, the Board will initiate an externally facilitated evaluation.

Mark Seligman, Senior Independent Director, led a separate review of the Chairman’s performance in January 2019 after gauging the views of the other Non-Executive Directors. The review concluded that the Chairman continued to demonstrate effective and unbiased leadership, and that he fulfilled the expected commitment to the role.

## Board evaluation and 2019/20 action plan

Finding	Action
<b>Board succession and induction</b>	<ul style="list-style-type: none"> <li>– Board succession should continue to be a focus at the Nomination committee during 2019/20. The Nomination committee should continue to monitor the Board skills matrix to identify Board succession and recruitment requirements during 2019 and beyond.</li> <li>– The Non-Executive Director induction plan should be revisited and the Group Company Secretary should seek to identify where there may be gaps and areas for improvement and development.</li> <li>– A further Non-Executive Director should be recruited during 2019.</li> <li>– Ongoing focus on succession planning for the CEO, CFO, and within the Group Executive during 2019.</li> </ul>
<b>Investor engagement</b>	<ul style="list-style-type: none"> <li>– A capital markets event should be held during H1 2019, focusing on the next phase of strategy.</li> <li>– Ongoing engagement with investors on Kingfisher’s Remuneration Policy and targets.</li> </ul>
<b>Board information and discussion</b>	<ul style="list-style-type: none"> <li>– Further development of Board agendas to allow sufficient time for quality debate. The Group Company Secretary should review the Board’s forward agenda for the year, and when planning agendas for each meeting.</li> <li>– Continued focus on timeliness and improvements to Board pre-reading packs.</li> <li>– Dashboards to be further developed for standard reporting items.</li> </ul>
<b>Strategic focus</b>	<ul style="list-style-type: none"> <li>– Group strategy sessions should continue to be held twice a year and key strategic initiatives included in the Board’s forward agenda for focus throughout the year.</li> </ul>

## compliance with the UK Corporate Governance Code

The company was subject to the Financial Reporting Council (FRC) 2016 UK Corporate Governance Code (the Code) for the year ended 31 January 2019. The notes below outline how the company has applied the Principles of the Code, and further information is available in the Board's Corporate Governance Statement published on our website.

### A Leadership

#### A.1 The Board's role

The Board's role in leading the company is outlined in the Board's Corporate Governance Statement on our website. The formal schedule of matters reserved to the Board is also available on our website.

#### A.2 Division of responsibilities

The roles of Chairman and CEO are separate and clearly defined.

#### A.3 Role of the Chairman

The Chairman leads the Board, ensures its effectiveness and promotes an inspirational culture.

The Chairman, Andrew Cosslett, was independent at appointment.

#### A.4 Role of the Non-Executive Directors

The responsibilities of each of the Non-Executive Directors are set out in their letters of appointment.

The Board has a Senior Independent Director (SID), Mark Seligman, who may be contacted by shareholders and other Directors, as required.

Meetings are held between the Non-Executive Directors in the absence of the Executive Directors, and in the absence of the Chairman.

More information on the responsibilities of the Chairman, CEO and SID can be found in the Board's Corporate Governance Statement on our website.

### B Effectiveness

#### B.1 The Board's composition

The balance of skills, experience, independence and knowledge on the Board is the responsibility of the Nomination committee and is reviewed annually and whenever new appointments are considered.

The majority of the Board are independent Non-Executive Directors, as shown in the composition chart on page 67.

#### B.2 Board appointments

The appointment of new Directors to the Board is led by the Nomination committee, which then makes recommendations to the Board.

More detail about succession planning and the appointment process can be found in the Nomination committee's report on page 67.

#### B.3 Time commitments

The time commitments of Non-Executive Directors are considered by the Nomination committee at appointment and reviewed annually.

The Chairman considers new external appointments of current Directors which may impact existing time commitments.

The Executive Directors hold no more than one external non-executive directorship at a listed entity.

There are no Directors whose time commitments are considered to be a matter for concern.

#### B.4 Training and development

Directors' induction programmes are tailored for each appointment. The Chairman annually reviews the development needs of each of the Non-Executive Directors. Ongoing development needs are considered when setting the Board forward agenda, including deep-dives, topic briefings and site visits.

#### B.5 Provision of information and support

The Chairman, supported by the Group Company Secretary, ensures that Directors receive appropriate and timely information. All Directors may seek advice from the Group Company Secretary and may also take independent advice in relation to their duties, at the company's expense.

#### B.6 Board and committee performance and evaluation

An internally led performance evaluation was completed during the year. More information about the evaluation can be found on page 61. The findings and any actions for each committee are located in the relevant committee report.

#### B.7 Re-election of Directors

At the 2018 AGM, all Directors were subject to either election or re-election. At the 2019 AGM, with the exception of Anders Dahlvig and Karen Witts, all Directors will be standing for either election or re-election by shareholders.

**The Board considers that the company has complied with the Provisions of the Code for the whole year ending 31 January 2019, except with regards to Provision D.1.1 in relation to grants under long-term incentive schemes.**

**A copy of the Code, and the 2018 Code, are available on the FRC's website: [www.frc.org.uk](http://www.frc.org.uk).**

## **C Accountability**

### **C.1 Financial and business reporting**

The Directors' and auditor's statements of responsibility can be found on pages 105 and 119 respectively.

Information on the company's business model and strategy can be found in the Strategic Report on pages 3 to 53.

The Directors' viability statement and confirmation that the business is a going concern can be found on page 52.

### **C.2 Risk management and internal control systems**

The Board sets the company's risk appetite and reviews the Audit committee's assessment of the effectiveness of the risk management and internal controls during the year. The findings of this review are included in the Audit committee Report on page 75.

### **C.3 Role and responsibilities of the Audit committee**

The Audit committee supports the Board in its responsibilities in relation to corporate reporting, risk management and internal controls, and manages the relationship with the company's external auditor. The Committee provides regular reports to the Board. The Audit committee's terms of reference are available on our website.

## **D Remuneration**

### **D.1 Level and elements of remuneration.**

The Directors' Remuneration Report on pages 76 to 99 explains the work of the Remuneration committee. The remuneration received by the Directors, in accordance with the Remuneration Policy, is presented on pages 88 to 97.

As advised in the 2016, 2017 and 2018 Annual Reports, the company became non-compliant with Code Provision D.1.1 following the approval and grant of awards under the Kingfisher Alignment Share and Transformation Incentive Plan. Code Provision D.1.1 requires that long-term awards be phased rather than awarded in one large block; the Transformation Incentive conflicts with this, as it is designed to be a single block awarded to cover a five-year performance period.

### **D.2 Development of the Remuneration Policy and packages**

The Remuneration Policy was fully reviewed during 2015/16 and, following shareholder consultation, was approved at the 2016 AGM. The 2016 Annual Report contains more information about how the Policy was developed. In 2018 an extensive shareholder consultation was undertaken ahead of an updated Policy being put forward to shareholders at the AGM in July 2019. Further detail about how the Policy has been developed can be found on pages 77 to 87.

Under the Code, the Policy must be brought back to shareholders for review or revision no later than the 2019 AGM.

## **E Relations with shareholders**

### **E.1 Shareholder engagement**

Details of engagements with shareholders during the year may be found on page 65 and also on our website.

### **E.2 Use of the AGM**

The 2019 AGM will be held on 9 July 2019. The whole Board is expected to attend the AGM and be available to answer shareholders' questions.

## Preparing for the 2018 UK Corporate Governance Code

It is the Board's intention to be fully compliant with the 2018 Code and the company has undertaken a number of activities in preparation, which included the following:

- Adopted revised matters reserved for the Board
- Adopted revised committee terms of reference
- Assumed responsibility for oversight of our whistleblowing arrangements and reporting
- Began work to enhance the forums available for engagement with our colleagues
- Formalised means by which to record how the Board takes into account the impact, or potential impact, of Board decisions on the Group's stakeholders
- Considered the framework for risk management and internal control, and the Group's risk appetite

### Spotlight on:

#### The Board's role

In October 2018, the Board updated its schedule of matters reserved to align with the 2018 Code.

Key changes include:

- Alignment of the company's purpose, values and standards with its culture and work policies, having regard for the views of all its stakeholders and aiming to deliver long-term sustainable growth and contribute positively to wider society.
- Review of the integrity of all financial and narrative statements and the independence and effectiveness of both internal and external audit functions.
- Approval of the whistleblowing policy and oversight of the reports arising from its operation.
- Robust assessment of the company's emerging principal risks, monitoring risk management policies, oversight of the internal risk controls and approval of the company's risk appetite.
- The identification and management of conflicts of interest.
- The committees' terms of reference were also revised to reflect changes brought about by the 2018 Code. Further details are provided in each committee's report; the revised documents are available on the company's website.

#### Risk management and appetite

In line with the 2018 Code, the Board already reviews the effectiveness of the company's risk management and internal control systems, including financial, operational and compliance controls. In addition, the Board assesses the principal risks facing the company, considers the nature and level of risk that we are prepared to accept to deliver our business strategies, and reviews and approves our internal statement of risk appetite. Going forward, the Board will undertake an assessment of the company's perceived emerging risks.

The Board has delegated authority to the Audit committee to examine the activities and processes around the risk management systems and internal controls, reporting back as appropriate. The Board will continue to review its overall approach to risk controls and risk appetite at least annually whilst receiving frequent updates during the year on individual subjects with their associated risks.

During the year, the Board has considered the risks and uncertainties set out on pages 46 to 51 and the work of the Audit committee in monitoring risk management systems and internal controls, and as a result has satisfied itself that:

- it has carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity; and
- it has properly reviewed the effectiveness of the risk management and internal control systems, covering all material controls, including financial, operational and compliance controls.

This approach is designed to manage rather than eliminate the risk of failure to achieve the business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. Further information regarding our approach to risk management is provided on pages 44 to 45.

#### Engagement with our workforce

The company expanded the scope of an existing employee forum to establish the Kingfisher Colleague Forum (KCF) to fully embrace the provisions of the Code. The KCF is a joint forum of Kingfisher nominated management representatives and formally elected employee representatives of Kingfisher, and our Operating Companies. Through the KCF, the company will engage with colleagues, share information and consult on transnational issues as they relate to the performance and prospects of the business, as well as major decisions or events which would have a significant impact on the company and its employees.

The KCF will meet twice a year. A Non-Executive Director will attend each KCF meeting and a Board update will be presented, including responses from the Board to prior requests for information received from the workforce.

To support effective and efficient dialogue at each meeting, simultaneous translation and translated written materials will be provided, subject to the representatives' individual needs.

## Consideration of our stakeholders

The Board recognises its responsibility to take into consideration the needs and concerns of our stakeholders as part of its discussion and decision-making processes and welcomes the 2018 Code's fresh stance. The table below highlights how the Board ensures effective engagement with, and encourages participation from, our stakeholders. More detail is available in the Strategic Report on pages 3 to 53.



### The Board's approach to stakeholder engagement

**Shareholders**

The Board seeks to have regular, clear, and effective communication with its existing and potential shareholders to enable them to understand our business and strategy to deliver long-term shareholder value. Engagement takes a variety of forms, including investor presentations and events, and annual general meetings. The Board takes ultimate responsibility for ensuring that such engagement takes place. During the year, the Board engaged with shareholders on a range of topics, including: our investment case; ONE Kingfisher business strategy and five year plan; financial results and business performance; Board succession; our proposed Remuneration Policy; and sustainability.

**Suppliers**

The Board recognises that building trusted partnerships with our suppliers is critical. The Board maintains engagement through regular reporting from our offer, sourcing and supply chain management and approved a 'vendor readiness' programme to facilitate and simplify these relationships. In creating the GoodHome brand, the company has recognised the need to be a trusted source of products for our customers. We have sought to ensure good working conditions throughout our supply chain by working with the member-based organisation Sedex to manage responsible sourcing.

**Colleagues**

The Board receives regular updates on the company's people strategy and colleague matters. It has welcomed the opportunity to formalise engagement through the relaunched KCF, see also facing page. In addition, the Board has codified its role in approving the company's whistleblowing arrangements and its oversight of the reports arising from its operation within its schedule of matters reserved. More detail on our people strategy is also set out on pages 32 to 33.

**Community**

Through the company's sustainable growth plan we focus on the sustainability issues our customers care most about, identified through extensive customer research. With our plan, which includes targets up to 2025, we are improving the sustainability of all our ranges and embedding sustainability into our operations and supply chain. More detail is set out on pages 34 to 35 of this report.

**Customers**

# nomination committee report



Dear shareholder,

This has been a year of steady change to the Board membership, which is set to continue as we look forward to 2019/20. The role of the Nomination committee in securing the best candidates to meet the needs of the business is as important as ever. In this report we explain how we set about recruiting and inducting our new Directors, and evaluating ourselves as a Board and as individual Directors.

During the year, as part of the progressive refreshment of the Board, we welcomed Jeff Carr, Claudia Arney, and Sophie Gasperment. All three have brought deep experience in business transformation and digital capabilities in customer-facing businesses. Their biographies are set out on pages 56 to 57.

We were once again reminded of the need to be responsive to the evolving governance landscape and to meet challenges such as promoting diversity in all its forms, throughout the business. During the year, we reviewed our Board diversity and inclusion policy, renewing our commitment to several objectives which are central to our Non-Executive Director recruitment programme. The Committee also reviewed its terms of reference, updating them to be in line with the 2018 Code.

We are delighted to report that we retained our place in the Hampton Alexander FTSE 100 Top Ten Best Performers table for women on boards for the second year running and we continue to support the work of the 30% Club to drive improvements in diversity at all levels.

On 11 October 2018, we announced the resignation of our Chief Financial Officer, Karen Witts. Karen is due to leave the company on 21 March 2019 and the search for her successor is underway. In addition, having served as a Non-Executive Director on the Board for nine years, Anders Dahlvig will retire in June 2019.

Looking ahead, long-term succession planning at the Board and Group Executive level will remain a key priority of the Committee and we will continue to keep under review the composition of the Board and its committees during 2019/20.

**Andrew Cosslett**  
Chairman of the Nomination committee

19 March 2019

## Committee key activities 2018/19

1. Non-Executive Director recruitment
2. Board skills and development review
3. Developed the recruitment process for the CFO
4. Induction of Jeff Carr and Claudia Arney
5. Reviewed the Board diversity and inclusion policy
6. Considered future revisions to the Committee's role and terms of reference from the 2018 Code

## Areas of focus 2019/20

1. Ongoing Director recruitment
2. Induction of Sophie Gasperment
3. Succession planning

## Succession planning and recruitment

During the year, the Committee continued its recruitment of Non-Executive Directors with the appropriate mix of skills and experience to meet the challenges and opportunities faced by the company in a period of intense change in the retail environment, and in the delivery of the ONE Kingfisher transformation plan.

The Committee recommends candidates for appointment to the Board on merit, with regard for the need to maintain a diversity of skills, knowledge and experience in its composition, such that it may continue to complement the Group Executive through oversight, constructive challenge and expertise. During the year, the Committee continued to review tenure and anticipated retirement within the Non-Executive membership of the Board, while seeking to balance continuity and the introduction of fresh perspectives.

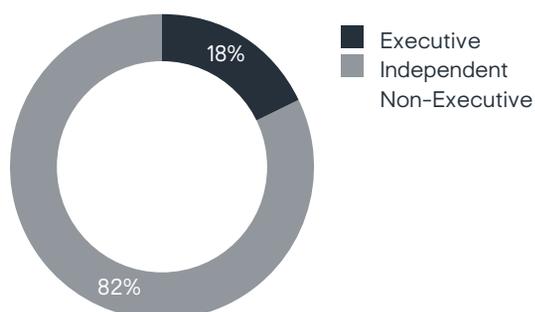
To inform this process, the Committee employs a skills matrix that captures the principal strategic and committee experience the Board considers to be required for running a UK listed company, and an international retail business. This is used to prioritise candidates when seeking Non-Executive Directors, and in their evaluation. A summary of the skills of our serving Non-Executive Directors can be found below.

Following a review of the skills, knowledge, experience, background, and diversity currently represented on the Board and its committees, and that which would be desirable in the future, the Committee recommended three new appointments during the year, including individuals capable of fulfilling the roles of Chair of each of the Audit and Remuneration committees, and at least one Non-Executive Director with strong retail experience. The Board have identified the need to recruit one additional Non-Executive Director during the coming year to further strengthen the depth of experience on the Board.

### Board composition

Current Directors	Nationality	Tenure at 31 January 2019		
		0-3 years	3-6 years	6-9 years
Andrew Cosslett		1 year, 10 months		
Claudia Arney		3 months		
Pascal Cagni		8 years, 3 months		
Jeff Carr		8 months		
Clare Chapman		8 years, 2 months		
Anders Dahlvig		9 years, 2 months		
Sophie Gasperment		2 months		
Rakhi Goss-Custard		3 years, 0 months		
Mark Seligman		7 years, 1 month		
Véronique Laury		4 years, 2 months		
Karen Witts		6 years, 4 months		

### Board independence



### Non-Executive Director sector experience



## nomination committee report continued

### Selection and appointment process

#### Board composition review

The Committee reviewed the structure, size and composition of the Board including the skills, experience, diversity and tenure of the Directors. The Committee considered the qualities that would be required, in light of the strategy, external environment and stage of the transformation.

#### Role brief development

The Committee, in conjunction with Egon Zehnder, developed comprehensive role briefs for the Non-Executive positions to be filled. The briefs are aligned to the desired Board and committee composition, with reference to the skills matrix, Board diversity policy and related commitments.

#### Shortlisting

An initial mandate to propose candidates for three Non-Executive positions supported Egon Zehnder in preparing an initial longlist which included candidates from a broad range of backgrounds. The Chairman and Group Company Secretary then worked with Egon Zehnder to prepare a shortlist for review by the Committee.

#### Interview

A formal two-stage interview process was used to assess candidates for Non-Executive positions, with interviews customised according to the specific role brief for each position. Additional advisory meetings with senior management were included where appropriate.

#### Due diligence and recommendation

A due diligence and referencing process was undertaken for all appointments. Upon satisfactory completion, the Committee made appointment recommendations to the Board.

### Recruitment outcomes

During the year, the Board approved the appointment of Sophie Gasperment who became a member of the Nomination committee. In addition, after considering the Board and committee composition and the recruitment needs of the Board, the Committee also recommended the appointments of Rakhi Goss-Custard and Jeff Carr to the Remuneration committee in March 2018 and January 2019, respectively.

A case study regarding Sophie's recruitment and induction is set out on the following page, together with her biographical details.

### Ongoing recruitment

The Committee anticipates further changes to the Board membership in 2019 as Non-Executive Directors approach the maximum tenure of nine years recommended under the Code. Mindful that Anders Dahlvig would step down during the coming months, the Committee considered whether it would be appropriate to recruit a further Non-Executive Director and decided to commence a new search. The Committee will continue to assess the Board and Group Executive team composition and consider how they may be complemented.

On 11 October 2018, we announced the resignation of our CFO, Karen Witts, who left us on 21 March 2019. Heidrick & Struggles were retained to assist in the search for her replacement, which is underway.

Both Egon Zehnder and Heidrick & Struggles have no other relationship to the company. However, the Chairman of the Remuneration committee, Clare Chapman, is a non-executive director and remuneration committee chair at Heidrick & Struggles International, Inc.

Egon Zehnder and Heidrick & Struggles are signatories to the latest Voluntary Code of Conduct for Executive search firms, which seeks to address gender diversity on corporate boards (November 2017).

#### Induction

The Committee oversees the induction programmes of new Directors, which are designed to help establish a broad knowledge and understanding of the company's operations and culture. Each programme is tailored to meet a new Director's specific requirements and is phased to allow feedback and further customisation of development activities, where required. Tailored induction programmes were created for Jeff Carr, Claudia Arney and Sophie Gasperment. They included:

- individual one-to-one meetings with all Directors and the Group Company Secretary;
- meetings with members of the Group Executive and Operating Companies' management;
- briefing sessions on the activities of each of the Board's committees;
- visits to the company's stores and offices; and
- access to an online resource site of key reference materials to support the above, including briefings on the state of the market and competition.

In preparation for his role as Audit committee Chairman, Jeff Carr was also invited to participate in a series of meetings, including with the CEOs of our Operating Companies, senior members of the Group Finance team, the Group Audit and Risk Management Director and the external auditor. Information about the Board's approach to ongoing Director development and training is available in the Corporate Governance Statement on our website.

## Effectiveness evaluation

The 2017/18 effectiveness evaluation of the Committee had identified the need for induction to include a briefing on the competitive environment and that there should be a continuing emphasis on succession planning. These points were incorporated into the Committee's forward agenda of activities for the year. The 2018/19 effectiveness evaluation concluded that the Committee continued to operate effectively, and that there should be further focus on senior and key management succession during the year. The Group Company Secretary further developed the Committee's forward agenda to allow more time and focus on this important area.

## Independence, time commitment, and re-election to the Board

The Board gives an approximate idea of the time commitment expected from its Non-Executive Directors on appointment, noting that additional requirements may emerge in certain circumstances. During the year, the Committee reviewed the independence, effectiveness and commitment of each of the Non-Executive Directors and concluded that none were overextended, or unable to fulfil their duties to the Board.

Kingfisher policy allows its Executive Directors to hold one external non-executive directorship, as it considers that the additional exposure may be of mutual benefit to the company and the Director. Karen Witts serves on the board of Imperial Brands plc and is chair of its audit committee.

Rakhi Goss-Custard completed her first three-year term during the year. The Committee reviewed her commitment and contribution to the Board and recommended Rakhi for a further three-year term. Anders Dahlvig was due to end his third three-year term on 31 January 2019, in line with the Code recommendation. The Board accepted the Committee's recommendation to extend his term of appointment until the date he steps down from the Board in June 2019.

## Case study:

### Selection, appointment and induction process of Sophie Gasperment, Non-Executive Director



**Sophie Gasperment**  
Non-Executive Director

Appointed to the Board effective 1 December 2018.

#### Expertise and experience

Sophie brings to the Board expertise in strategy, brand and international retail markets as well as substantial experience in business transformation and digital capabilities, having held a number of senior leadership positions at L'Oréal, including executive chairman of The Body Shop International and managing director of L'Oréal UK & Ireland.

Sophie is a non-executive director of AccorHotels, where she chairs the appointments, compensation and CSR committee. She is also a non-executive director of the D'leteren group, and the lead independent director on the board of Cimpress, a NASDAQ-listed technology company. Sophie was appointed French Foreign Trade Advisor in 2005.

#### Selection and appointment

The Committee recommended Sophie's appointment to the Board following a full and comprehensive search, undertaken in conjunction with Egon Zehnder.

In line with the selection and appointment process, the Chairman and Group Company Secretary developed a comprehensive role brief for the Non-Executive position and compiled an initial longlist of candidates in conjunction with Egon Zehnder, including candidates from a broad range of backgrounds, from which the shortlist was prepared for Committee review.

During the interview and due diligence process, it became clear that Sophie's wide range of skills and experience of the international retail markets would be of great benefit to the Board as we support the company to deliver the ONE Kingfisher transformation.

#### Induction

A comprehensive and ongoing induction plan was developed for Sophie, which included one-to-one meetings with key senior management from within the business, including her fellow members of the Board and the Group Company Secretary. In addition, Sophie has been visiting stores and key head office locations across the business to gain a full understanding of the company's operations and challenges.

The induction programme also includes access to a Directors' briefing pack encompassing a wide range of key company information.

## nomination committee report continued

### Diversity

The Committee reviews its Diversity Policy annually, on behalf of the Board. This year, the Board Diversity Policy has been reviewed and broadened to encompass 'inclusion' in line with the provisions of the 2018 Code, and the updated version has been adopted by the Board. A copy of the Board Diversity and Inclusion Policy is available on our website. In line with the Code (including the 2018 Code) Board and senior management appointments and succession plans remain based on merit and objective criteria, but within that context, the aim is to promote diversity of gender, social and ethnic background, and cognitive and personal strengths. During the year, the Committee reviewed the progress achieved by the Diversity Policy. The Policy has three objectives and the Committee had made a number of commitments to ensure delivery against these objectives, which are outlined in the table below, along with a description of progress against the objectives.

Disclosure	Commitments	Progress to date
Engage with executive search agencies in a manner which enhances opportunities for diverse candidates to be considered for appointment.	<ul style="list-style-type: none"> <li>– Only those executive search firms which are signatories to the Voluntary Code of Conduct for Executive Search Firms (the Voluntary Code) will be considered when recruiting for a Kingfisher plc Board position.</li> <li>– The Nomination committee will work with the executive search agency to prepare an appropriate role brief, including relevant skills, underlying competencies, and personal capabilities desired, in order to support the agency in assessing candidates from a broad range of backgrounds.</li> <li>– To facilitate the provision of a broad and diverse range of candidates the Nomination committee will require longlists to be drawn up following consideration of candidates from both within and beyond the corporate mainstream, in line with the requirements of the Voluntary Code.</li> </ul>	<ul style="list-style-type: none"> <li>– Egon Zehnder and Heidrick &amp; Struggles, our retained search consultants, are accredited firms under the UK Government's Enhanced Code of Conduct for Executive Search Firms.</li> <li>– The Committee met with Egon Zehnder and Heidrick &amp; Struggles during the year to discuss the recruitment of Non-Executive Directors and the CFO search respectively, in line with these requirements.</li> <li>– The longlist approach was carried out for each of the Non-Executive Director vacancies recruited for during the year. The Voluntary Code applies equally to Executive Director positions and Heidrick &amp; Struggles were tasked with the same requirement in recruiting for a CFO.</li> </ul>
Support Board-level diversity throughout the succession planning process.	<ul style="list-style-type: none"> <li>– Succession planning will be reviewed at least annually by the Nomination committee and will address the need for progressive refreshing of the Board, in accordance with the requirements of the Code.</li> <li>– The Nomination committee will assess current individual Board member competencies and develop its understanding of the qualities needed for the company's continued Board and committee effectiveness in the longer term. This review will also consider the long-term diversity of the Board.</li> <li>– Non-Executive Directors will normally serve no more than nine years to support progressive refreshing of the Board and to maintain appropriate levels of independence. Appointments of Non-Executive Directors for periods beyond nine years will be made only in exceptional circumstances.</li> </ul>	<ul style="list-style-type: none"> <li>– The Committee continues to look at Board succession and the skills matrix at least annually.</li> <li>– The Group Company Secretary developed and strengthened the questions within the 2018 Board evaluation, including those relating to diversity.</li> <li>– The 2018 Code reaffirmed the approach of a recommended maximum nine-year period of service in ordinary circumstances. It also clarified that this period should usually apply to the Chairman. These stipulations continued to be followed by the Committee.</li> </ul>
Support efforts to increase diversity in the senior management pipeline.	<ul style="list-style-type: none"> <li>– Senior management succession planning processes will include identification of individuals within the organisation with Board-level potential and will support those individuals to progress their careers.</li> </ul>	<ul style="list-style-type: none"> <li>– The company remains committed to better gender balance at all levels of its Operating Companies. It remained in the top ten companies reported on in the FTSE Women on Boards Leadership Index, which covered membership of both the Board and the Group Executive.</li> </ul>

The Committee considered that these commitments were met during the year and have been integral to the ongoing Non-Executive Director recruitment process. Gender diversity outcomes for the year are outlined in the figures below and in more detail on pages 32 to 33 in the Strategic Report.

#### Board

**55%  
female**



#### Senior management

**23%  
female**



#### Total workforce

**42%  
female**



# audit committee report



Dear shareholder,

I am pleased to present the Audit committee report for the year ended 31 January 2019.

During the year, the Audit committee has continued to keep under review the structure and effectiveness of Kingfisher's governance framework, on behalf of the Board.

The Committee's primary focus has been on the quality of financial reporting, internal controls and risk management. Our report provides an overview of the significant issues we assessed and our opinion on this Annual Report and Accounts, including the treatment and presentation of the Alternative Performance Measures used in Kingfisher's financial reporting.

The Committee works to a structured programme of activities, with a forward agenda focused on our financial reporting cycle and the Committee's duties in respect of risks and controls. The Committee approaches these activities against the continuing focus on delivery of the transformation objectives, the emergence of new risks, and the evolution of existing risks.

During the year, the Committee completed a competitive tender for external audit services. As announced in July 2018, the Board subsequently proposed the reappointment of Deloitte LLP as our external auditor, and following the Committee's recommendation, a resolution to approve the reappointment of Deloitte LLP as the company's external auditor will be put to shareholders at the 2019 AGM.

Finally, as outlined in last year's report Andrew Bonfield retired from the Board following the conclusion of the 2018 AGM. I succeeded him as Chairman of the Audit committee on 12 June 2018. I am very grateful for his significant contribution to the Committee and to the other members for their dedication and support during the year.

**Jeff Carr**  
Chairman of the Audit committee

19 March 2019

## Committee key activities 2018/19

1. Completed the external audit tender
2. Reviewed internal controls during the ONE Kingfisher transformation
3. Received controls presentations from our Operating Companies and central functions
4. Analysed significant financial reporting matters
5. Considered the impact of IFRS 16 on the accounting treatment of leases
6. Considered revisions to the Committee's role and terms of reference from the 2018 Code
7. Reviewed supplier payment practices

## Areas of focus 2019/20

1. Consideration of internal audits including the transformation programme, financial shared services centre, quality, supply chain, and pricing
2. Receive controls presentations from our Operating Companies and central functions
3. Adoption of the IFRS 16 leases standard

## audit committee report continued

### Significant financial reporting matters

---

- The Committee considered the **carrying value of goodwill** (£2.4 billion) and **poor-performing stores**, to determine whether any impairment had been suffered. The Committee reviewed the results of the impairment review undertaken by management and assessed the validity of cash flow projections based on the three-year strategic plans and the significant financial assumptions used, including the selection of discount and long-term growth rates. The Committee noted the outcome in light of weaker performance at Castorama France, the announced exit of Russia and Iberia, and the store closures being considered. These projections and assumptions were challenged further through sensitivity analysis. As set out in notes 12 and 14 to the consolidated financial statements, no impairments to goodwill resulted from this exercise but significant store asset impairments were recorded.
- The Committee reviewed the principal judgements relating to **inventory valuation**, which at £2.6 billion (note 17 to the consolidated financial statements) represents a significant component of the consolidated balance sheet. The Committee considered the reduction in inventories achieved, including elimination of last year's mitigation stock, the performance of the Unified & Unique offer range and the estimated impacts on future selling prices of range review and clearance activities. The Committee reviewed the Group's inventory provisions and policy, which take into account factors including stock turn, range or de-listed status, shrinkage, damage and obsolescence when assessing net realisable value. The level of provisions was judged appropriate in light of the profile of inventories held at the reporting date.
- The Committee reviewed and endorsed management's assessment of **exceptional items** (£251 million on a pre-tax basis), including restructuring costs related to the ONE Kingfisher transformation plan, the store closures being considered and profit and losses related to the disposal of properties. Whether an item is treated as exceptional falls outside of IFRS and the Group therefore makes its own determination, in accordance with its policies and practice. The Committee was content that the Group's policy of classification of exceptional items had been applied consistently and appropriately. Similarly, the Committee judged that the Group's classification of **transformation costs** (£120 million on a pre-tax basis), including those related to the Unified & Unique offer range implementation and the digital strategic pillar, had been consistent and appropriate. Definitions of exceptional items and transformation costs are set out in note 2 to the consolidated financial statements and in the glossary on pages 184–185.
- The Committee reviewed the choice of approaches available for the **new lease accounting standard IFRS 16**. The Committee endorsed the fully retrospective choice of adoption method, representing accounting best practice and enabling comparison with restated comparatives. The key accounting judgements were reviewed, including determination of appropriate discount rates and lease terms. The Committee assessed the indicative restatements of the 2018/19 income statement and balance sheet and corresponding disclosures, which are set out in note 37 to the consolidated financial statements.

### Fair, balanced and understandable

---

- The Committee formally reviews the company's annual and interim financial statements and associated announcements. It considers, and challenges management regarding, significant accounting principles, policies and practices and their appropriateness, financial reporting issues and significant judgements made, including those summarised above.
- The Committee also advises the Board on whether the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the necessary information to assess the company's position and performance, business model and strategy.
- In respect of this 2018/19 Annual Report and Accounts, the Committee concluded that these disclosures, and the processes and controls underlying their production, have met the latest legal and regulatory requirements for a UK listed company and that the 2018/19 Annual Report and Accounts are fair, balanced and understandable.

## Governance

In line with the Code requirements, the Board believes the Committee as a whole has competence relevant to the sector in which Kingfisher operates. All members contribute to the work of the Committee and have the skills and necessary degree of financial literacy.

Jeff Carr, with his record of current and past roles as a CFO, is designated as the Committee member with recent and relevant financial experience and so able to chair the Committee.

All members of the Audit committee are independent Non-Executive Directors. Biographical details of the members, their areas of expertise and contribution are set out on pages 56 to 57, along with details of attendance at Committee meetings on page 59.

All other Board Directors have the right to attend Committee meetings and the CEO, CFO, and Chairman attend as a matter of course. The Group Financial Controller, Deputy CFO, Group Audit and Risk Management Director as head of Internal Audit and representatives from Deloitte LLP also attend each meeting.

At least annually, the Committee meets with the Group Audit and Risk Management Director and representatives from Deloitte LLP without management present. There were no significant matters of note to report following either meeting. The Group Audit and Risk Management Director and Deloitte have direct access to the Committee Chairman should they wish to raise any concerns outside of formal meetings.

In September 2018, the Committee reviewed and updated its terms of reference to align with the release of the 2018 Code. As part of the update, the responsibility for oversight and reporting on whistleblowing arrangements became a matter reserved for the Board. Prior to this change, the Committee had reviewed the whistleblowing

policy and associated reports for the year to July 2018. The updated terms of reference are available on the company's website.

### Effectiveness evaluation

The 2017/18 effectiveness evaluation of the Committee concluded that the Committee and the Board should align more closely on risk discussions to ensure a shared view and understanding of both the company's risk appetite and the principal risks and uncertainties faced. The 2018/19 evaluation concluded that the Committee continued to operate effectively, and that there should be further focus on development of the forward and individual meeting agendas to align with the 2018 Code provisions in 2019/20.

### Overview of activities during the year

The Committee works to an annual forward agenda covering key events in the financial reporting cycle, a programme of reviews of Operating Companies and head office functions, and standing items, in line with its terms of reference. This agenda evolves in response to the changing risks and priorities to identify key issues impacting the business that may require additional consideration. Significant financial reporting matters considered by the Committee during the year are set out in detail on page 72.

The Chairman reports to the Board on the key areas of discussion and makes recommendations on behalf of the Committee, as appropriate, following each meeting.

During the year, among other matters, the Committee:

- considered the findings of the external audit selection panel and recommended to the Board the reappointment of Deloitte LLP as external auditor from 2019/20, subject to shareholder approval;
- considered the Internal Audit function's regular reviews of the unified IT platform and other strategic activities related to the ONE Kingfisher transformation, to provide the Committee with assurance regarding the governance, performance

and delivery of the programmes. These remain significant projects for the company and the Committee continues to be satisfied that the correct level of control is being maintained;

- considered the going concern and longer-term viability statements, and recommended them to the Board for approval having reviewed the scenarios and risk mitigations underpinning the sensitivity analysis completed, and considered how these align to the delivery of the transformation objectives. Further information is provided in the Strategic Report on pages 3 to 53;
- received briefings from Operating Companies and central functions on their risks and controls;
- considered supplier payment practices, in light of legislative requirements to report on payment practices, performance and policies for large UK companies and our initial reports in August 2018;
- considered the Group's business continuity planning framework; and
- received briefings from Deloitte LLP and management on emerging reporting and accounting regulation and standards, to the extent they impact the financial reporting matters for the Group.

### Group Internal Audit

Reports from the Internal Audit function during the year included updates on the company's risk management systems and findings from reviews of these systems. The Committee reviewed the remit, organisation, and resources of the function, together with the internal audit plan. The internal audit plan is regularly reviewed during the year to ensure the function remains aligned to the key risks of the business and responsive to matters developing as we proceed through the transformation, and the Committee approves any changes.

A review of the effectiveness of the Internal Audit function was undertaken during the year which was facilitated internally by the Group Company Secretary. A questionnaire was completed by Committee members, senior management in Group Finance and in the Operating Companies, and Deloitte LLP covering areas such as internal audit resourcing, delivery and reporting. The output of the review indicated that, overall, the Internal Audit function continued to be highly effective. These findings matched those of the previous year.

In line with the guidelines of the Chartered Institute of Internal Auditors, the Committee intends that the review in 2019/20 be conducted by external assessment.

## audit committee report continued

### External audit

The Committee reviews and makes recommendations to the Board on the reappointment of the external auditor. In doing so, the Committee considers auditor independence and audit partner rotation. Deloitte LLP were appointed in 2009/10 and are recommended for reappointment in 2019/20, subject to shareholder approval at the 2019 AGM. Richard Muschamp has been lead audit partner since the conclusion of the 2013/14 audit process.

During the year, the Committee led a full and comprehensive audit tender, in line with the requirements of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (the Regulations). To support the Committee's recommendation to the Board, a selection panel was formed comprising certain Committee members and the CFO. A selection of firms were invited to tender, including the incumbent and firms from outside the 'big four' accountancy firms.

The selection panel undertook the assessment of firms on behalf of the Committee, supported by a management review of each tender submission. Ultimately, two firms were shortlisted and considered against a scorecard that contained the following categories:

#### Audit team strengths

- seniority, technical competence and relevance of experience of the central audit team;
- strength of local teams in operational jurisdictions; and
- proposed organisation and ways of working.

#### Audit approach

- understanding of the business;
- approach to audit planning and execution;
- innovation and use of technology;
- transition arrangements for a change of auditor or lead partner; and
- understanding of the business's governance arrangements.

#### Fees on a value for money basis.

The tender exercise itself encompassed technical screenings, meetings with Kingfisher's core tender team, including selected Operating Company CFOs, and final presentations to the selection panel. The Committee met to review the findings of the selection panel and decided that while both shortlisted firms could undertake the work, there was a strong argument in favour of continuity at a point when Kingfisher was midway through its transformation. The Committee, therefore, determined to recommend the reappointment of Deloitte LLP to the Board, with a change of lead audit partner to Nikki Mitchell from the end of the 2018/19 financial year to meet the provisions relating to audit partner rotation set out in the Regulations.

The Board approved proposing the reappointment of Deloitte LLP as the company's auditor and the authorising of the Audit committee to fix their remuneration to the shareholders for approval at the 2019 AGM.

To assist the transition between partners, both Richard Muschamp and Nikki Mitchell have attended Committee meetings during 2018/19.

The company will be required to put its external audit process out to tender again in 2029, at the latest.

The Committee also reviewed the terms of engagement and fees payable for the 2018/19 audit work. Details of the amounts paid to Deloitte LLP for their audit services are given in note 7 to the consolidated financial statements.

In addition to their statutory duties, the services of Deloitte LLP are also engaged where, due to their position as external auditor, they are best placed to perform non-statutory audit services. This is primarily work in relation to matters such as the interim review, additional assurance procedures, shareholder circulars, regulatory filings and certain business acquisitions and disposals. Other work is awarded by competitive tendering. The company's policy on the use of the external auditor for non-audit work can be found on the company's website.

The Committee has a duty to monitor and review the effectiveness of the external audit process and assess annually the external auditor's independence, objectivity and effectiveness. During the year, it reviewed all audit and other services provided by Deloitte LLP and decided that no breaches of policy had been identified that would call into question the independence or objectivity of the auditors in providing a true and fair opinion on the company's financial statements and Annual Report. In addition, Deloitte confirmed that they were not aware of anything that they should bring to the company's attention in relation to their independence and objectivity.

The effectiveness of the external auditor was assessed with questionnaires and supported by discussions. A questionnaire was issued to the CFOs of each Operating Company and the heads of Group functions involved in the year-end audit. The questionnaire covered the quality of the audit team, the scope of the audit, the quality of the audit itself and the effectiveness of communication between the auditor and senior management and finance teams. Another questionnaire was issued to Audit committee members and the CFO, focussing on the performance of the audit partner, the audit approach and communication and reporting between Deloitte LLP, management and the Audit committee.

The results of the survey were broadly consistent with findings in the previous year, and no significant issues were raised as to the effectiveness of their service. Deloitte LLP had responded effectively on recommendations for improvements made in the previous year's evaluation.

During the year, the Committee also considered the findings of the FRC's Audit Quality Review on Deloitte LLP and in particular, how Deloitte LLP were addressing the points raised.

## **Accountability, risk management and internal control**

### **Accountability**

The Board has overall responsibility for the system of internal control, which is designed to safeguard the assets of the company and ensure the reliability of the financial information for both internal use and external publication.

The Board has delegated to the Audit committee the role of reviewing the effectiveness of the company's risk management and internal control systems. Kingfisher's approach is designed to comply with the requirements of the Code and has been developed with reference to the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued by the FRC. Within this approach, the Committee provides an independent overview of internal control matters. Reports from Deloitte LLP include risk and control findings relevant to their audit.

### **Risk management and internal control**

The Board has approved a set of policies, procedures and frameworks for effective internal control. The company has procedures for the delegation of authorities for significant matters, to ensure approval is sought at the appropriate level. These procedures are subject to regular review and provide an ongoing process for identifying, evaluating and managing the significant risks faced by the company. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

Management is required to apply judgement in evaluating the risks facing the company in achieving its objectives, in determining the risks that are considered acceptable to bear, in assessing the likelihood of those risks materialising, in identifying the company's ability to reduce the incidence and impact on the business of risks that do materialise, and in ensuring the costs of operating particular controls are proportionate to the benefit provided. Further information regarding our approach to risk management is provided on pages 44 to 45.

There are clear processes for controlling and monitoring the system of internal control and reporting any significant control failings or weaknesses, together with details of corrective action. These include:

- an annual planning process and regular financial reporting, comparing results with plan and the previous year on both a monthly and cumulative basis;
- written reports from the CEO and CFO which are submitted to each Board meeting;

- regular formal reports from Operating Companies' management to the Audit committee on the control environment in their business and actions taken to maintain or improve the environment as appropriate; and
- reports and presentations to the Board on certain areas of specialist risk. These include treasury, insurance, tax and pensions.

A formal biannual certification is provided by the CEO and CFO of each Operating Company, stating that appropriate internal controls were in operation and confirming compliance with the company's policies and procedures. Any weaknesses are highlighted and the results are reviewed by Operating Company management, the Group Audit and Risk Management Director, the Deputy CFO, the Audit committee and the Board.

The Internal Audit function monitors and selectively checks the results of this exercise, ensuring that representations made are consistent with the results of its work during the year. Each year the Internal Audit function reviews are aligned to the company's risks. The function works with the Operating Companies to develop, improve and embed risk management tools and processes into their business operations.

Internal Audit reports directly to the Audit committee and has the authority to review any relevant part of the company and its businesses and to oversee the operation of the individual Operating Companies' audit committees. The function provides the Audit committee and the Board with objective assurance on the control environment across the Kingfisher group of companies.

# directors' remuneration report



Dear shareholder,

I am pleased to present the Directors' Remuneration Report for the financial year ended 31 January 2019. In this introductory statement I describe the key items considered by the Committee during the year, including the review of our Remuneration Policy, Annual Bonus outcomes for 2018/19, and Executive Director departure terms.

Pursuing our ambition means operating in a totally different way: completion of our strategy will transform Kingfisher and deliver a more valuable proposition for our investors whilst also creating value for our customers, our colleagues, our suppliers and broader society. It is my objective in this report to provide an update on how the 2016 Policy is supporting the delivery of the transformation plan, to outline some fine-tuning to our Policy for 2019 which will be brought to the 2019 AGM for shareholder approval, as well as to report on the remuneration decisions we have taken for 2018/19 and 2019/20.

The third year of the transformation was always going to be the most difficult and there have also been challenging external headwinds in the retail sector. The company has, however, continued to make good progress in delivering against the key strategic milestones that are so critical to unlocking value and leveraging the Screwfix best-in-class digital platform. The Committee has considered this context both in the assessment of incentives for 2018/19 and in the consideration of the 2019 Policy.

## Review of Remuneration Policy

During the year we undertook extensive consultation with major investors and proxy voting agencies. We thank them for their engagement and the feedback received, which we have factored into our proposals in a number of areas.

Given that our Policy is more long-term than a traditional Long Term Incentive Plan, prior to describing the changes we are making for 2019 onwards, I start by reminding investors of the context to the previous Policy, and how it has operated in the period since 2016.

## Context to the 2016 Remuneration Policy

Three years ago we announced our ONE Kingfisher strategy to transform the business to meet emerging customer and competitive demands in the home improvement sector, representing one of the most significant and far-reaching transformations in European retail. This ambitious strategy to achieve best-in-class standards will unlock significant incremental value for customers and shareholders in three ways: simplifying our product range through our Unified & Unique offer; Digital Transformation of our business and development of e-commerce platforms; and generation of Operational Efficiencies through shared service and supply chain optimisation. As described elsewhere in this Annual Report, this transformation is essential in a period of unprecedented change for the retail industry. We underpinned this plan with an innovative remuneration structure that had three key differences from a standard UK remuneration model, reflecting the scale and nature of the transformation being undertaken:

1. the Annual Bonus was reduced by 60%, and focused on strategic milestones linked to the strategy execution;
2. an annual award of Alignment Shares was introduced, with vesting and release over a combined five-year period and with underpins based on long-term dividend and balance sheet health metrics; and
3. a single five-year Transformation Incentive award replaced the three annual long-term incentive awards that would normally have been made under our Policy.

## Contents

76	Annual Statement from the Chairman of the Remuneration committee
80	At a glance and rationale for remuneration structure
81	Directors' Remuneration Policy
88	Annual Report on Remuneration
95	Statement of implementation of the Remuneration Policy for 2019/20

## About this report

This report has been prepared in compliance with the remuneration disclosures required under the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).

Overall, these changes significantly shifted the incentive package from being equally weighted between short and long term to being over 75% weighted towards long-term measures. In addition, we strengthened our shareholding requirements and were an early mover in incorporating a post-employment shareholding policy. The Policy was approved by over 98% of shareholders at the 2016 AGM and its implementation has received the support of over 98% of shareholders in each of the 2017 and 2018 AGMs.

#### Operation of the Remuneration Policy since 2016

Over the period since 2016 we have faced headwinds that were not anticipated at the outset of the transformation. Currency volatility, accelerated changes in buying patterns and the competitive landscape in retail have all acted to create a hugely challenging environment for the business. But this environment makes our plan even more relevant and essential. Indeed, as reported in our results announcement, we are starting to see now the benefits of our improved customer offer and scale through the outperformance of Unified & Unique products in both sales growth and margin. The Remuneration committee has reviewed the operation of the Remuneration Policy and believes that it has broadly worked as intended over the three-year policy period:

- The Annual Bonus has kept a management focus throughout the business on delivery of the strategic milestones that are required to deliver the transformation. The plan structure encourages management to focus on fundamental operating model change that will ultimately both create competitive advantage and unlock value. Overall, execution of these priorities has been strong as has been reflected in Annual Bonus outcomes between 66% and 72% of salary (between 82% and 90% of maximum) over the period.
- The Alignment Shares have created immediate alignment of executives with long-term value creation through the share price, and have ensured a degree of certainty for executives given the significantly increased risk in the Transformation Incentive, while also ensuring accountability for maintaining balance sheet strength through the vesting period. Issues relating to stock build-up and the performance of the French business, explained more fully elsewhere in this report, have resulted in the net debt to EBITDAR underpin on the Alignment Shares being triggered, resulting in a 50% reduction in the award due to vest in 2019. This discretionary reduction is in addition to the downward discretion of 5% exercised by the Committee in the 2017/18 Annual Bonus.
- The Transformation Incentive will reward management to the extent that the aspirations set out in 2016 are ultimately met in the form of additional value creation. A general worsening in the external macroeconomic and retail environment since 2016, coupled with underperformance of Castorama France and certain other parts of our business, means that the Transformation Incentive is now likely to vest in the bottom half of the range originally envisaged.
- Overall, the Committee believes that the Policy will deliver outcomes that have reflected the shareholder experience, with reward delivered on an annual basis for the progress made on execution, but with reduced long-term incentive payouts given overall results arising from a mix of macro, sector-related and company-specific factors.

#### Revised 2019 Remuneration Policy

Given the context set out above, the Committee considers the broad policy framework still to be appropriate. The combination of a cash Annual Bonus focused on strategic execution and Alignment Share awards with underpins based on balance sheet health creates a simple and motivating annual package that can be flowed through the business. On top of this, a single five-year long-term incentive continues to be more relevant to the scale of transformation being undertaken at Kingfisher than conventional annual awards of three-year plans. The Committee is, therefore, proposing that the Policy be largely unchanged for the three-year policy period starting at the 2019 AGM, with minor adjustments to reflect the next phase of our strategy. Three years into the transformation, the big difference the Committee wanted to recognise in the incentive arrangements is the shift away from the focus in the early years of the transformation on 'building the engine' to where we are now which is 'using the engine to deliver growth'. We are therefore proposing to keep the existing Policy but to adjust it slightly by adding two elements to incentivise benefit delivery and growth. The proposed changes are as follows:

- Introduce a relative total shareholder return (TSR) metric to provide a competitive measure of performance with one-third weighting, and adjusted earnings per share (EPS) and return on capital employed (ROCE) measurements reduced to one-third each. Previously EPS and ROCE were each weighted 50%. Relative TSR also helps to insure against windfall gains or losses for management by automatically adjusting for the external sector environment. To accommodate a TSR measure with market-aligned calibration of targets, the Policy will now allow up to 25% of the maximum award available to vest at threshold.
  - Maintain the five-year long-term incentive (renamed the Delivering Value Incentive for 2019) but measure performance over two separate three-year performance periods. One performance period commences at the start of the Policy and is assessed at the end of the 2021/22 financial year, and the second three-year period commences at the start of the 2021/22 financial year and is measured at the end of 2023/24 to ensure an overall five-year time horizon. Measuring performance over two periods brings two key benefits: first, a measurement in 2021/22, one year after the end of the original 2016 plan, keeps a strong focus for management on maximising the rate of realisation of benefits from the first phase of the transformation; second, targets for the second period can be set once the full exit rate from the first phase of the transformation is known at the end of 2020/21, ensuring they are stretching but realistic, and mitigating the challenge of setting a single set of five-year targets in what remains a highly uncertain period.
- In addition, we are further strengthening alignment with shareholders in two ways:
- The full shareholding requirement will apply for two years post employment, in line with developing best practice, compared with the current Policy, which requires the full number to be held for one year, and half for two years.
  - The underpin for new Executive Director hires will apply to the entire Alignment Share award, rather than to 75% of the award as under the current Policy.

## directors' remuneration report continued

We have not disclosed targets for the first tranche of the Delivering Value Incentive in this report, which will be made later in the year. Given the importance of the Delivering Value Incentive and the concerns we heard in the shareholder consultation about the continued relevance of the business targets set in 2016, the Committee considered it appropriate to consult with shareholders on the targets before finalising them. It is also more helpful to shareholders to do this when they have access to the information included within the March 2019 results announcement. We will therefore consult with investors on the targets after the results announcement, and prior to finalising awards, and we will communicate the final targets for the first tranche of the 2019 Delivering Value Incentive separately. We will consult again for the second tranche of the Delivering Value Incentive prior to setting them at the start of 2021.

Our consultation with investors and proxy agencies revealed wide support for our Policy framework and the changes we are proposing. In particular, shareholders welcomed measuring the Delivering Value Incentive in two tranches, because this retained a strong focus on accelerating benefits as we exit from the initial five-year phase of the transformation, while also ensuring that appropriately stretching targets could be set for the growth phase. There was also support for retaining the focus on strategic execution in the Annual Bonus, with a shift towards financial outcome metrics over the policy period. However, in response to feedback we have added two leading US home improvement firms, Lowe's and Home Depot, to our TSR peer group, in addition to the retailers within the STOXX Europe 600 Index, and have strengthened the post-employment shareholding as described above. In response to feedback received we are also recognising developing market practice by removing immediate vesting and applying underpins to 100% of Alignment Share awards for new Executive Director appointments.

### Performance and remuneration decisions in Year 3 of the Transformation

Despite a difficult retail environment, Kingfisher has maintained a focus on delivering against the strategic priorities of creating the Unified & Unique offer across the Group, establishing a digital platform for customers and delivering operating efficiency. Read more about these in the Annual Report on Remuneration, which begins on page 88.

The intent of the 2016 Policy and the revised 2019 Policy, and our commitments to shareholders, was to focus executive reward on long-term outcomes, aligned to the strategy and to be weighted in shares. The remuneration decisions detailed below illustrate how we as a Committee are executing this commitment.

#### Annual Bonus outturn

The 2018/19 Annual Bonus was assessed against key strategic milestones linked to the transformation. The milestones were substantially met, and after taking into account a holistic view of business performance, the Committee agreed a bonus of 66% of salary for both the CEO and CFO. Full detail on the performance against each 2018/19 strategic milestone can be found on page 89.

#### 2016 Alignment Share awards

Performance against the underpins attached to the 2016 Alignment Share awards was assessed prior to vesting. The Committee reviewed the underpins as at 31 January 2019 and, as a result of the ratio of adjusted net debt to EBITDAR exceeding 2.5 times, the Committee applied its discretion to reduce vesting of the relevant 2016 Alignment Share awards by 50%. The remaining awards are expected to vest in July 2019. Further details of the performance assessment can be found on page 90.

### Summary of 2019 Remuneration Policy

Pay element	2019 Policy
<b>Base salary</b>	– Set with reference to FTSE 25-75 and the retail peer group.
<b>Pension</b>	– Provided by way of defined contribution scheme or cash allowance. – CEO cash allowance of 12.5% of base salary in line with pension arrangements for wider UK colleague population.
<b>Annual Bonus</b>	– Maximum of 80% of salary based on strategic milestone measures (we expect the balance of measures to shift towards output financial measures over the course of the policy period). We reduced the Annual Bonus by more than 50% in 2016 so we could introduce Alignment Shares and use the annual incentive programme to better incentivise the strategic milestones to delivery of long-term value.
<b>Alignment Shares</b>	– 100% of awards subject to underpins for new Executive Director appointments. – 25% of award vesting immediately and 75% of award vesting subject to underpins over three years for existing Executive Directors. – 100% of Alignment Shares must be held for a minimum of five years from grant, or until the shareholding requirement has been met.
<b>Delivering Value Incentive</b>	– Granted once every three years with a five-year performance period. – On-target award of 220% of salary for the CEO and 200% for the CFO, with maximum award of 4 times target. – Two measurement periods of three years ending 2021/22 and 2023/24. – Performance measures one-third each on EPS, ROCE, and relative TSR.
<b>Shareholding requirement</b>	– 350% of salary for the CEO and 250% for the CFO. – Requirement to hold 100% of the shareholding requirement for two years post employment.

### **Remuneration arrangements for the departing CFO**

Karen Witts will continue to be remunerated up to her date of leaving (21 March 2019) in accordance with her contractual entitlements and the Directors' Remuneration Policy, as approved by shareholders on 15 June 2016.

To reflect her contribution to the business, and continued delivery of the transformation during 2018/19 (she was in role for the full year), the Committee awarded a bonus in respect of 2018/19 in line with the outcome of the strategic milestones, as discussed above.

Karen will not be eligible for a salary increase for 2019/20. She will not receive a bonus in respect of 2019/20, nor be granted any share awards in 2019 under the Kingfisher Alignment Share and Transformation Incentive Plan (KASTIP).

Her unvested awards under the KASTIP (Alignment Shares and Transformation Incentive) will lapse on cessation of employment. She will be required to retain the lower of her current shareholding and the equivalent of 250% of salary until the anniversary of her date of leaving, and the lower of her current shareholding and the equivalent of 125% of salary until the second anniversary of her date of leaving, in accordance with the 2016 Policy.

Karen will receive no payments by way of compensation for loss of office.

### **Key remuneration decisions for 2019/20**

For more details on the key remuneration decisions and application of the Policy for 2019/20 please see page 95 of the Annual Report on Remuneration.

### **Consideration of the broader context**

It is Kingfisher colleagues who make all the difference every day for customers and that is why the Committee also oversees the drive for fair employment practices across the whole workforce. We are also mindful of the evolving public focus on executive remuneration and the Committee's role in ensuring that rewards are fair and proportionate. To respond to this, I also provide an update on activity underway to ensure that all colleagues are fairly paid.

The Committee remains focused on ensuring that colleagues are paid appropriately and fairly, in a way that engages them and provides an opportunity to share in the success of the transformation. The Committee continues to oversee management's review of reward practices across the Group, which in turn supports some of the organisational design that is fundamental to our transformation. During the last year, management have taken steps to make changes that will simplify the organisation and bring consistency to key reward processes and structures throughout the Group. I mentioned the launch of a new unified approach to reward in the Offer and Supply Chain functions in my letter last year and early indications suggest that this approach has improved understanding of reward elements and created a feeling of greater fairness in reward application.

The Committee recognises that Kingfisher will only achieve our ambitions if all colleagues are engaged, motivated and rewarded appropriately. The Committee will continue to receive updates on the development and implementation of the review of organisation

effectiveness and reward for the wider colleague population. For our colleagues in store roles, our UK rates of pay exceed the National Living Wage.

The Committee has also overseen Kingfisher's second gender pay report, which is available from [www.kingfisher.com/genderpayreport2018](http://www.kingfisher.com/genderpayreport2018). Whilst this analysis is a statutory requirement, the Committee believes that having a diverse workforce, with fair representation, is strategically important and generates value for all our stakeholders.

The Committee has reviewed the 2018 UK Corporate Governance Code (the 2018 Code) and believes that our Remuneration Policy is well positioned against the changes. Where required we are making progress on a number of actions to satisfy the 2018 Code. Notably, we have taken steps to supplement our existing channels for employees to be heard at Board level. We have widened our existing pan-European consultative body, the Kingfisher Colleague Forum (KCF) to include representation from all our markets and functions. This will complement other engagement mechanisms that exist in each country. Direct engagement with Board members will be achieved by attendance of a Non-Executive Director at KCF meetings, on a rotational basis, to help communicate key Board decisions and to support regular reporting back to the Board on issues affecting the workforce.

Given the philosophical commitment to colleague-led improvement, employee engagement is critical and at the start of 2018 Kingfisher launched its new colleague engagement tool. The first results reviewed by the Board demonstrated that we were significantly above the retail benchmark for the key measures of engagement. In the past year we have maintained our engagement score above the retail benchmark.

### **Looking ahead**

The Committee and I remain committed to ensuring that we have an open and transparent dialogue with shareholders and so welcome any questions you may have on the implementation of the 2016 Policy in Year 3, our revised 2019 Policy and how we intend to implement that Policy in the coming year, or any other relevant topics. I look forward to receiving your support for our Annual Report on Remuneration and our revised Remuneration Policy at the 2019 AGM.

Finally, as I enter my final year as a Director of Kingfisher, and after eight years as Chair of the Committee, this will be my last letter of this kind and I would like to sincerely thank shareholders, proxy agencies, Board colleagues and remuneration advisors for the strong partnership that has enabled Kingfisher to incentivise performance linked to the strategy and also play our part in business purpose inspired remuneration reform.

### **Clare Chapman**

Chairman of the Remuneration Committee

19 March 2019

## directors' remuneration report continued

### At a glance

The following pages provide a summary of our approach to remuneration, how this approach links to the delivery of our strategy and the award decisions we have taken to date under our Remuneration Policy.

### Our remuneration principles

#### Employees as shareholders

- Share ownership acting as transparent performance pay aligned to interests of shareholders
- Encouraging employees to become substantial long-term shareholders, even after leaving the business

#### ONE Kingfisher

- Focusing incentives on team performance and development, and strategic delivery
- Maintaining fairness through a consistent cascade of pay structures, enabling all employees to share in our success

#### Delivering value to stakeholders

- Prioritising long-term value creation over short-term financial goals
- Long-term reward linked to long-term performance as the strategy is delivered

#### Simple, transparent and relevant

- Simple and transparent reward to ensure we pay people in a way that motivates them
- Awarding long-term incentives to those with the most impact on the business strategy

Element	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Strategic link
Base Salary	Reviewed annually						
	<p><b>Policy</b> Set with reference to FTSE 25-75 and the retail peer group. Salary increase effective 1 April.</p> <p><b>Application of policy in 2019/20</b> CEO: £800.9k (0% increase) CFO: £615.8k (0% increase).</p>						
Annual Bonus	Annual award						
	<p><b>Policy</b> To focus executives on the achievement of annual strategic objectives critical to the transformation plan. Maximum of 80% of base salary, paid fully in cash and based on performance against annual strategic milestones.</p> <p><b>Remuneration in respect of 2017/18</b> Based on strategic milestones resulting in an outturn of 87% of maximum (70% of salary) for both the CEO and CFO. CEO: £534.2k CFO: £406.9k</p> <p><b>Remuneration in respect of 2018/19</b> Based on strategic milestones resulting in an outturn of 82% of maximum (66% of salary) for both the CEO and CFO. CEO: £522.0k CFO: £400.8k</p>						Achievement of annual strategic milestones critical to the delivery of the transformation plan
Alignment Shares	25% of award: five-year holding period						
	75% of award: three-year vesting period			Two-year post-vesting holding period			
<p><b>Policy</b> To align Executives' reward with the long-term health of the company and shareholder returns through a long-term share award. Maximum of 80% of base salary. For new Executive Director appointments 100% vesting in Year 3, subject to business health underpin measures.</p> <p><b>Remuneration in respect of 2018/19</b> Award made in full (80% of salary) in April 2018. The Committee made the award based on the strong performance of both the CEO and CFO in 2017/18.</p> <p><b>Application of Policy in 2019/20</b> Award to be made in full to the CEO (80% of salary). 25% of award to vest immediately. 75% to vest in Year 3, subject to underpins. The Committee to make the award based on strong performance of the CEO in 2018/19. No award to be made to the outgoing CFO.</p>							Balance sheet health
Delivering Value Incentive (formerly the Transformation Incentive)	2016: Five-year performance period						
	2019A: Three-year performance period			2019B: Three-year performance period	Two-year deferral period		
<p><b>Policy</b> To align Executives' reward with the interests of shareholders; rewarding executives for the delivery of improved growth and providing shareholder returns through the execution of the transformation plan. Awards granted once every three years, subject to five-year vesting period. On-target award of 220% of salary for CEO; 200% for CFO. Maximum opportunity of 4 times on-target award.</p> <p><b>Remuneration in respect of 2016/17</b> Award granted at maximum opportunity in July 2016. Final vesting of awards is subject to EPS (50%) and ROCE (50%) performance over the five-year transformation period.</p> <p><b>Application of Policy in 2017/18 and 2018/19</b> No award made in 2017/18 or in 2018/19, in line with Policy.</p> <p><b>Application of Policy in 2019/20</b> Award to be granted to the CEO at maximum opportunity in 2019/20. Final vesting of awards is subject to EPS (1/3), ROCE (1/3) and relative TSR (1/3) measured over two separate three-year performance periods within the five-year period.</p>							Delivering long-term benefits for shareholders

## Directors' Remuneration Policy

The Remuneration Policy (the 'Policy') is set out in this section. Our current Policy was approved by shareholders at the 2016 AGM, held on 15 June 2016. We are seeking approval for our 2019 Policy at the AGM in July 2019, which represents a refinement of the current arrangements rather than significant change to structure. The Committee consulted with Kingfisher's largest shareholders prior to submitting the Policy to all shareholders for approval.

### Future Policy table (to be approved at the 2019 AGM)

---

#### Base salary

---

**Element and purpose**

Base salary reflects the individual's role, experience and contribution to the company and is set at levels that support the recruitment and retention of Executive Directors of the calibre required by the company.

**Operation**

Base salaries are set with reference to two primary comparator groups: i) FTSE 25-75 excluding financial services organisations, and ii) FTSE 100 retailers and privately held retailers which are considered to be of a similar size and market capitalisation to the company. Alternative peer groups may need to be referenced depending on the business circumstances or domicile of individual Executive Directors outside the UK.

Base salaries are paid monthly in cash.

**Maximum opportunity**

Maximum increase of 8% per annum.

Increases awarded each year will be set out in the statement of implementation of the Remuneration Policy.

**Assessment of performance**

Individual performance is an important factor considered by the Committee when reviewing base salary each year.

**Changes**

None.

---

#### Benefits

---

**Element and purpose**

Benefits are provided to assist Executive Directors in the performance of their roles and are designed to be competitive and cost-effective.

**Operation**

The company may provide pension benefits (set out below), a company car or cash alternative, medical insurance, and life assurance cover. Other benefits may be provided from time to time if considered reasonable and appropriate by the Committee, such as relocation allowances, and would be explained in the subsequent Annual Report on Remuneration.

The company pays the cost of providing benefits on a monthly basis or as required for one-off events such as financial planning advice.

Store discount may be offered to all Directors on the same basis as offered to other company employees.

**Maximum opportunity**

Maximum levels of benefit provision are:

- Car allowance £25,000 per annum.
- Private medical insurance on a family basis.
- Life assurance cover of four times base salary.

The cost of providing insurance benefits varies according to premium rates so there is no formal maximum monetary value.

Any relocation allowance will be limited to 50% of base salary (inclusive of any tax payable on expenses reimbursed).

Store discount of up to 20% is offered.

**Assessment of performance**

None.

**Changes**

The removal of provision of financial planning as a standard benefit for Executive Directors.

---

#### Pension

---

**Element and purpose**

To provide retirement benefits, support retirement planning, and provide a competitive fixed pay package.

**Operation**

Pension provision for Executive Directors is by way of contributions to a defined contribution scheme or cash allowance.

**Maximum opportunity**

Maximum employer contribution into a defined contribution scheme of 14% of base salary or a cash alternative of 12.5% of base salary, in line with arrangements for other UK colleagues.

**Assessment of performance**

None.

**Changes**

None.

---

#### Annual Bonus

---

**Element and purpose**

To incentivise Executive Directors to achieve or exceed annual strategic objectives set by the Committee at the start of each financial year.

**Operation**

Annual bonuses are earned over the year and paid in cash after the end of the financial year to which they relate, based on performance against targets over the year.

The Committee has the discretion to adjust the bonus outcome in light of overall underlying performance. Any adjustment made using this discretion will be explained in the following Annual Report on Remuneration.

Malus and clawback apply under circumstances as set out in the notes to the policy table.

**Maximum opportunity**

The maximum Annual Bonus award is 80% of base salary.

The level of payment at threshold is set on an annual basis but will not exceed 25% of maximum.

**Assessment of performance**

The specific measures, targets and weightings may vary from year to year in order to align with the company's strategy over each year.

The measures will be dependent on the company's goals over the year under review and directly link to the key measurable strategic milestones to incentivise executives to focus on the execution of the strategy.

The performance targets are calibrated each year to align with the announced strategic plan.

The actual performance targets set are not disclosed at the start of the financial year, as they are considered to be commercially sensitive. Where no longer commercially sensitive, performance targets and outcomes will be disclosed following the payment of bonuses.

**Changes**

None.

## directors' remuneration report continued

---

### Alignment Shares

---

#### Element and purpose

To align executives with the long-term health of the company and with shareholder returns by providing a long-term share award subject to underpinning business health conditions, while ensuring competitive total reward.

#### Operation

Alignment Shares are awarded annually subject to good personal performance.

- For future Executive Director appointments, 100% of the award vests after three years, subject to the achievement of an underpin. Awards vesting are subject to a two-year holding period.
- For Executive Directors in role as at 31 January 2019, 25% of the Alignment Shares vest immediately to create an immediate alignment with shareholders but must be held for five years from the date of grant. The remaining 75% of the award vests after three years, subject to the achievement of an underpin. Awards vesting under this portion are subject to a two-year holding period.

Dividend equivalents are payable in respect of the shares that vest. Malus and clawback apply under circumstances as set out in the notes to the policy table.

Change of control provisions apply as set out in the notes to the policy table.

#### Maximum opportunity

Annual award of 80% of salary.

#### Assessment of performance

Alignment Shares have two underpin conditions to ensure balance sheet and business health:

- maintenance of the dividend subject to a dividend cover test; and
- assessment of the ratio of lease-adjusted net debt to EBITDAR.

The performance targets are calibrated to be robust in the context of the announced strategic plan.

If one condition is not met then up to 50% of the unvested shares would lapse.

If both are not met then up to 100% of the unvested shares would lapse.

Performance will be considered each year and any reduction will apply to the relevant award next due to vest.

The specific metrics may vary in future years in order to align with the company's strategy, but will always include objective financial metrics, which will be set out prospectively in each Annual Report on Remuneration.

In the event that the lease adjusted net debt to EBITDAR ratio is exceeded due to a Board-approved acceleration of investment plans then the Remuneration Committee may apply discretion to allow vesting. In these circumstances the Committee may delay vesting by a further year to ensure sustainability of performance.

#### Changes

Removing immediate vesting and applying underpins to 100% of awards for new Executive Director appointments.

---

### Delivering Value Incentive (formerly the Transformation Incentive)

---

#### Element and purpose

To incentivise executives to deliver improved growth and returns for shareholders by executing the transformation plan. To retain executives and provide market-competitive total reward.

Performance conditions are aligned with shareholder interests and our ONE Kingfisher strategy.

#### Operation

Awards are granted once every three years, subject to a five-year vesting period and stretching performance conditions throughout the five-year performance period.

Dividend equivalents are payable in respect of the shares which vest.

The Committee has the discretion to adjust the vesting outcome if the pure application of a formula is not felt to produce an appropriate result in light of overall underlying company performance. Any adjustment made using this discretion will be explained in the following Annual Report on Remuneration.

Malus and clawback apply under circumstances as set out in the notes to the policy table.

Change of control provisions apply as set out in the notes to the policy table.

#### Maximum opportunity

The on-target award granted once every three years is 220% of salary for CEO and 200% for CFO and any other Executive Directors.

A maximum multiplier of four times target can apply for exceptional performance.

For threshold performance on any measure at most 25% of the maximum award available for that measure may vest.

Only one award will be made to each Executive Director during each three-year period. The equivalent annualised maximum opportunity that can be awarded is 293% of salary for the CEO and 267% of salary for the CFO.

#### Assessment of performance

Awards granted will vest based on performance over five years against the following performance measures:

- 1/3 relative TSR;
- 1/3 EPS; and
- 1/3 ROCE.

Performance will be measured over two periods (i) 1 February 2019 to 31 January 2022 and (ii) 1 February 2021 to 31 January 2024. The outcomes of both periods will be assessed at the end of the five-year period to ensure they are appropriate within the context of the wider business performance. The performance measures have been chosen to balance growth and returns and ensure sustainable delivery of performance.

#### Changes

Aligning measures for the five-year 2019 Delivering Value Incentive award with the evolving business strategy by:

- introducing an element based on relative TSR;
- introducing the ability for the Remuneration Committee to calibrate performance scales to give a non-zero level of vesting for threshold performance on any measure – but limited to at most 25% of the maximum available for that measure; and
- aligning our performance period with the time horizons of our strategy.

---

## Chairman and Non-Executive Director fees

---

### **Element and purpose**

To attract and retain a Chairman and Non-Executive Directors of the highest calibre.

### **Operation**

The fees paid to the Chairman are determined by the Committee, while the fees of the Non-Executive Directors are determined by the Board with affected persons absenting themselves from the discussions, as appropriate.

The Committee reviews the Chairman's fees annually.

The Chairman's fees are determined with reference to time commitment and relevant benchmark market data.

Contributions are made towards the cost of running the Chairman's office.

The Board determines Non-Executive Directors' fees under a policy which seeks to recognise the time commitment, responsibility and technical skills required to make a valuable contribution to an effective Board.

A base fee is paid to all Non-Executive Directors and additional fees are also paid to the Senior Independent Director and the Chairman of each of the Audit and Remuneration committees.

Chairman and membership fees may be introduced for current and new committees.

Appropriate benefits, including the reimbursement of appropriate expenses may be provided from time to time, as required.

The Board may annually review fees paid to Non-Executive Directors against those in similar companies and take into account the time commitment expected of them.

Fees are paid monthly wholly in cash.

The Chairman and the Non-Executive Directors do not participate in any of the company's performance-related pay programmes and do not receive pension benefits.

### **Maximum opportunity**

Aggregate annual fees paid to the Chairman and Non-Executive Directors are limited by the company's Articles of Association, which may be varied by special resolution of the shareholders. The current limit contained within the Articles of Association is £1.75 million as approved at the 2014 AGM. Contributions towards the cost of running the Chairman's office will not exceed £60,000 per annum and are included within the aggregate fees set out above.

### **Assessment of performance**

None.

### **Changes**

None.

---

## All-employee share plans

---

### **Element and purpose**

Executive Directors may participate in all-employee share plans on similar terms as other employees.

### **Operation**

In particular UK-based Executive Directors may participate in a tax-approved all-employee scheme (Sharesave) under which they make monthly savings over a period of three or five years, that may be used to buy Kingfisher shares at a discounted price when the scheme matures. They may also choose to withdraw their savings at the end of the savings period or at any time during the savings contract.

UK-based Executive Directors may also participate in the Share Incentive Plan (SIP). Designed to promote employee share ownership, the SIP enables participants to make monthly investments in Kingfisher shares.

### **Maximum opportunity**

The maximum monthly limit for the Sharesave plan is currently £500 per month.

The maximum monthly amount an individual may invest in partnership shares under the SIP is currently £150 per month.

The SIP also allows the award of free and matching shares up to the limits set by the UK Government.

The company may increase the amounts that can be saved or invested under the Sharesave and SIP plans in line with any increases authorised by the UK Government for approved plans.

### **Assessment of performance**

None.

### **Changes**

None.

---

## directors' remuneration report continued

### Approach to recruitment remuneration

Area	Policy and operation
<b>Overall</b>	<ul style="list-style-type: none"><li>– When hiring a new Executive Director, or making internal promotions to the Board, the Committee will apply the Remuneration Policy. The rationale for the package offered will be explained in the following Annual Report on Remuneration.</li><li>– For internal promotions, any commitments made prior to appointment may continue to be honoured as the executive is transitioned to the new remuneration arrangements. Where an individual is promoted after the Delivering Value Incentive grant in the Policy period, an award may be made to bring the executive onto the in-flight cycle at an opportunity level reflecting their new role, subject to the limits set out in the Policy. Awards may be pro-rated to reflect the remaining portion of the vesting period. Any award will take into consideration awards granted prior to promotion.</li><li>– The Policy below is consistent with the principles of the previous Recruitment Policy which have been adapted in line with the new remuneration structure.</li></ul>
<b>Base salary</b>	<ul style="list-style-type: none"><li>– Base salary would be set at an appropriate level to recruit the best candidate based on their skills, experience and current remuneration.</li></ul>
<b>Benefits</b>	<ul style="list-style-type: none"><li>– Benefits provision would be in line with normal Policy.</li><li>– Where appropriate the executive may also receive relocation benefits or other benefits reflective of normal market practice in the territory in which the Executive Director is employed.</li></ul>
<b>Pension</b>	<ul style="list-style-type: none"><li>– Pension provision would be in line with normal Policy.</li></ul>
<b>Incentive awards</b>	<ul style="list-style-type: none"><li>– Incentive awards would be made under the Annual Bonus, Alignment Share and Delivering Value Incentive in line with the normal Policy, which determines the maximum incentive award that can be made.</li><li>– Where an individual joins after the Delivering Value Incentive grant in the Policy period, an award may be made to bring the executive onto the in-flight cycle subject to the limits set out in the policy. Awards may be pro-rated for the portion of vesting period served.</li></ul>
<b>Buyout awards</b>	<ul style="list-style-type: none"><li>– In addition to normal incentive awards, buyout awards may be made to reflect value forfeited through an individual leaving their previous employer.</li><li>– If a buyout award is required, the Committee would aim to reflect the nature, timing, and value of awards forgone in any replacement awards. Awards may be made in cash, shares, Alignment Shares, Delivering Value Incentive or by any other method deemed appropriate by the Committee. Where possible, share awards will be replaced with share awards. Where performance conditions applied to the forfeited awards, performance conditions will be applied to the replacement award or the award size will be discounted accordingly.</li><li>– In establishing the appropriate value of any buyout the Committee would also take into account the value of the other elements of the new remuneration package.</li><li>– The Committee would aim to minimise the cost to the company, however, buyout awards are not subject to a formal maximum. Any awards would be broadly no more valuable than those being replaced.</li></ul>

### Shareholding requirements

To ensure the alignment of the interests of executives and shareholders over the long term, Executive Directors are required to build a significant shareholding.

The shareholding requirement is 350% of salary for the CEO and 250% for any other Executive Director.

All shares beneficially owned and nil-cost awards which have vested but that the executive has yet to exercise are considered to count towards the shareholding on a notional post-tax basis. Deferred bonus shares, awarded under the 2014 Remuneration Policy, are not included in the assessment of the shareholding requirement until the transfer of beneficial ownership to the executive at the end of the three-year deferral period.

Until the shareholding requirement is met, Executive Directors are required to retain 100% of vested post-tax Alignment Shares, retain 50% of vested post-tax Transformation Incentive or Delivering Value Incentive shares, and retain 50% of post-tax shares that vest from awards granted under the 2014 Remuneration Policy. It is expected that executives would retain 100% of post-tax shares from the Transformation Incentive or Delivering Value Incentive until the requirement is met.

As first implemented in 2016, upon leaving the company the shareholding requirements will continue to apply for two years. From 2019, the full shareholding requirement will apply for two years post employment (previously 100% of the shareholding requirement for the first year and 50% of the shareholding requirement for the second year applied after departure). The Committee has established mechanisms to enforce the post-employment shareholding guidelines once an Executive Director has left the company.

## Notes to the Policy table

### Malus and clawback

Malus and clawback may operate in respect of the Annual Bonus, Alignment Shares and Delivering Value Incentive. These provisions enable the company to reduce (including, if appropriate, to nil) the payout and vesting levels or to recover the relevant value following the cash bonus payout or vesting of shares. Clawback will apply to the cash bonus for a period of three years following payment and for a period of two years following vesting under the Alignment Shares and Transformation Incentive or Delivering Value Incentive grants. These provisions could take effect in the event of financial misstatement, serious reputational damage, or material misconduct in individual cases.

### Change of control

In the event of a change of control, share awards will normally vest subject to performance conditions. Alignment Shares and Transformation Incentive or Delivering Value Incentive awards will normally be reduced on a time pro-rated basis in line with the treatment for good leavers which is set out in the 'Service contracts and the policy on payment for loss of office' section of this Directors' Remuneration Policy.

The Committee may alternatively consider that such a reduction is inappropriate, e.g. if it is agreed with an acquirer to roll over outstanding awards. Other awards may be reduced at the Committee's discretion.

### Discretions

The Committee retains certain discretions in relation to the Annual Bonus Plan which are set out in full in the plan rules, and which include but are not limited to:

- the determination, and timing, of any bonus payment;
- the impact of a change of control or restructuring;
- overriding formulaic outcomes in line with the provisions of the Code;
- adjustments for accounting or equivalent changes for both bonus and KASTIP; and
- any adjustments required as a result of a corporate event (such as a transaction, corporate restructuring event, special dividend, share buyback or rights issue).

Discretions set out as part of this Remuneration Policy provide the Committee with discretion in certain matters regarding the administration and operation of the Alignment Shares, Transformation Incentive and Delivering Value Incentive (as set out in the corresponding plan rules approved by shareholders), including, but not limited to the following:

- any adjustments to performance conditions or awards required as a result of a corporate event (such as a transaction, corporate restructuring event, special dividend or rights issue);
- the assessment of good leaver status;
- overriding formulaic outcomes in line with the provisions of the Code; and
- minor administrative matters to improve the efficiency of the operation of the plans or to comply with local tax law or regulation.

In relation to the Annual Bonus Plan, Alignment Shares, Transformation Incentive and Delivering Value Incentive, and in line with the plan rules, the Committee retains the ability to amend the performance conditions and/or measures in respect of any award or payment if one or

more event(s) occur which would lead the Committee to consider that it would be appropriate to do so, provided that such an amendment would not be materially less difficult to satisfy than the unaltered performance condition would have been but for the event in question.

Should the Committee use any of the discretions set out above, these would, where relevant, be disclosed in the following Annual Report on Remuneration. The views of major shareholders may also be sought. Discretion in relation to the company's All-Employee Share Plans (Sharesave and Share Incentive Plan) would be exercised within the parameters of the HMRC-approved plan status and the Financial Conduct Authority's Listing Rules.

### Legacy awards

In-flight awards made before the adoption of this Policy will continue in line with the approved policy under which they were granted. Further details of these awards can be found within the Remuneration Policy approved at the 12 June 2014 AGM and included within the 2013/14 Annual Report and Accounts, or the Remuneration Policy approved at the 15 June 2016 AGM and included within the 2015/16 Annual Report and Accounts.

### Differences in remuneration policy for all employees

The remuneration structure for members of the Group Executive follows a similar approach as for the Executive Directors but with a lower maximum opportunity as appropriate. The Delivering Value Incentive is granted only to the Executive Directors and members of the Group Executive.

For the next tier of management below the Group Executive, the remuneration structure consists of base salary, benefits, pension, bonus, and Alignment Shares. Performance measures are tailored to reflect the position of the individual and the part of the business in which they operate, however, many of our colleagues have a proportion of their remuneration assessed against our strategic milestones.

All other employees are entitled to base salary and benefits and may also receive bonus, pension, profit share and share awards which vary according to local jurisdiction and market practice. The maximum provision and incentive opportunity available are determined by the seniority and responsibility of the role.

### Statement of consideration of employment conditions elsewhere in the company

The Chief People Officer is invited to present to the Committee on the proposals for salary increases for the employee population generally and on any other changes to the Group's wider remuneration policy. The Chief People Officer consults with the Committee on the performance conditions for the Executive Directors' bonuses and the extent to which these should be cascaded to other employees. The Committee has oversight of all long-term incentive awards across the Group.

The Committee is provided with data on the remuneration structure for all individuals in Kingfisher's leadership team which includes Operating Company CEOs and Group function directors. The Committee approves the policy on share award levels for all employees and uses this information to ensure that there is consistency of approach across Kingfisher.

The Group did not consult with employees when drafting the Directors' Remuneration Policy.

## directors' remuneration report continued

### Statement of consideration of shareholder views

When determining remuneration, the Committee considers the views of our shareholders and best practice guidelines issued by institutional investor bodies. The Committee is always open to feedback from shareholders on our Remuneration Policy and remuneration arrangements and commits to ensuring consultation with our largest shareholders in advance of any significant changes to the Remuneration Policy. The Committee continues to monitor trends and developments in corporate governance and market practice to ensure the structure of executive remuneration remains appropriate.

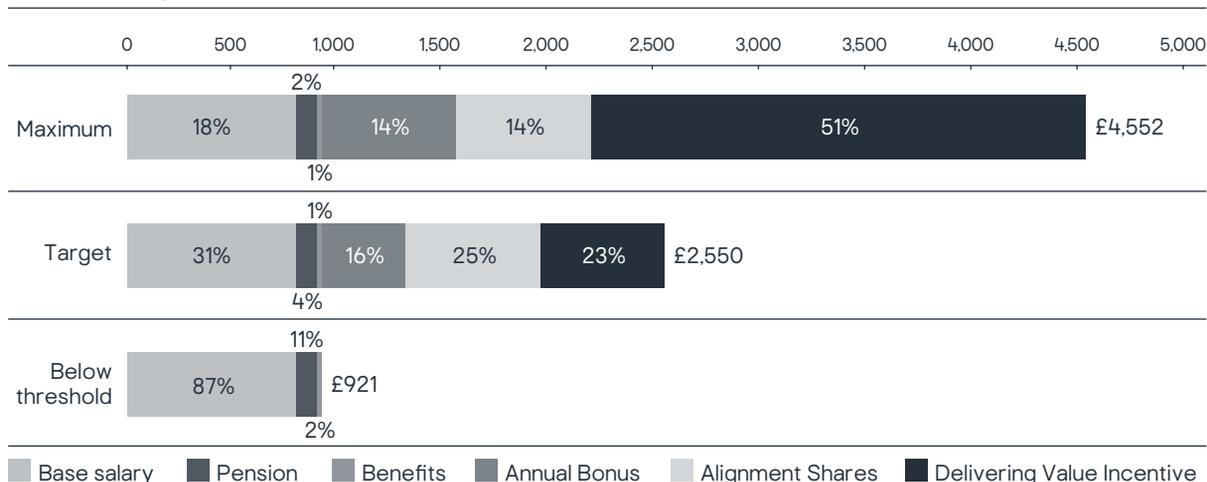
The Committee is consulting extensively with the company's largest shareholders and representative bodies leading up to the 2019 AGM on our proposed Directors' Remuneration Policy.

### Illustration of the application of the Remuneration Policy

The tables and charts below provide estimates of the potential total future remuneration for each Executive Director based on the remuneration opportunity expected to be granted in 2019/20. Potential outcomes for each Executive Director, based on three different performance scenarios, are shown. These graphs do not take into account share price appreciation or dividends received, however, the impact of share price appreciation is included as a footnote.

#### Véronique Laury

Value of package (£'000)



#### Notes:

Base salary: reflects the salary effective 1 April 2019.

Benefits: estimate based upon benefits received during 2018/19 as recorded in the single total figure of remuneration table.

Pension: shown as a percentage of salary in line with Policy.

Delivering Value Incentive: one award will be granted in the first three years. The figures above have been annualised by dividing the Delivering Value Incentive by three in recognition that there will be no award in years two (2020/21) and three (2021/22).

Fixed remuneration comprises base salary, benefits and pension. Short-term variable compensation comprises the Annual Bonus. Long-term variable compensation comprises both the Alignment Shares and the Delivering Value Incentive.

The Committee has also calculated the implied Target and Maximum remuneration scenario with the overlay of 50% share price increase on equity incentives. This would result in a target and maximum value of Veronique Laury's package of £3,164k and £6,047k respectively.

Below threshold	On-target	Maximum
<p>Only the fixed pay elements (base salary, benefits and pension) of the package are received.</p> <p>Minimum performance targets for the Annual Bonus and Delivering Value Incentive are not achieved, therefore no payments are made and awards will lapse.</p> <p>The underpin requirement for the unvested Alignment Shares is not met and the pre-grant requirement is not achieved.</p>	<p>Fixed pay elements plus target Annual Bonus are received, Alignment Shares and target Delivering Value Incentive vest.</p> <p>Alignment Shares are equivalent to 80% of base salary.</p> <p>Annual Bonus on-target performance is achieved, resulting in a bonus of 50% of salary.</p> <p>Annualised Delivering Value Incentive on-target performance is achieved, resulting in a 1 times multiplier. The annualised value is 73% of salary for the CEO and 67% of salary for the CFO.</p>	<p>Fixed pay elements plus maximum Annual Bonus are received, Alignment Shares and maximum Delivering Value Incentive vest.</p> <p>Alignment Shares are equivalent to 80% of base salary.</p> <p>Annual Bonus maximum performance achieved, resulting in a bonus of 80% of salary.</p> <p>Annualised Delivering Value Incentive maximum performance achieved resulting in a 4 times multiplier. The annualised value is 293% of salary for the CEO and 267% of salary for the CFO.</p>

Area	Policy
<b>Notice period</b>	12 months' notice by either the Director or the company.
<b>Non-compete</b>	During employment and for 12 months after leaving.
<b>Executive Directors' contractual termination payment</b>	<p><b>Resignation</b> No payments on departure will be made on termination, even if by mutual agreement the notice period is cut short.</p> <p><b>Departure not in the case of resignation</b> For the period of notice served, the Executive Director may continue to receive their monthly base salary, benefits and pension. During this time, at the discretion of the company, they may continue their duties or be assigned garden leave. For the period of notice not served, the Executive Director may receive a payment in lieu of notice. This would be delivered by continuing to pay their monthly base salary over this period and would be subject to mitigation. No other payments should be due on departure.</p> <p><b>Settlement agreement</b> The Committee may agree payments it considers reasonable in settlement of legal claims. This may include an entitlement to compensation in respect of a Director's statutory rights under employment protection legislation in the UK or in other jurisdictions. The Committee may also include in such payments reasonable reimbursement of professional fees in connection with such agreements.</p>
<b>Treatment of incentives for bad leavers</b>	No payments under any incentive plans will be made in the event of the Committee determining the departing individual to be a bad leaver as defined by the Plan Rules.
<b>Leaver provisions for Annual Bonus for good leavers</b>	<p>Bonus payments may be receivable at the normal date, pro-rated for time, and taking into account performance achieved.</p> <p>The Committee retains the ultimate discretion to make bonus payments and determine the basis upon which they are made and their value, taking into account the individual circumstances of the departure.</p>
<b>Alignment Shares for good leavers</b>	<p>The default position is that awards will lapse upon cessation of employment.</p> <p>If the Committee is of the view that performance has been good, discretion may be applied for the shares to vest.</p> <p>The shares would continue to be subject to the normal underpin condition and would be released according to the normal timeframe, but not subject to the holding period after the second anniversary of cessation provided that the shareholding requirement is met.</p> <p>Awards made in the 12 months prior to departure may be pro-rated based on the proportion of the 12 months from grant that has been served.</p> <p>Where the participant ceases to be employed as a result of death, then the award will vest shortly after the company is notified, pro-rated for time, and take into account the Committee's assessment of performance achieved to that date.</p> <p>The Committee may decide, acting fairly and reasonably, that any adjustment set out above to reduce the vesting of the award would be inappropriate.</p>
<b>Transformation Incentive and Delivering Value Incentive for good leavers</b>	<p>Awards will vest on the normal date, pro-rated for time, and will take into account performance achieved.</p> <p>The Committee retains discretion to further reduce the awards granted to reflect any personal performance issues.</p> <p>Where the participant ceases to be employed as a result of death, then the award will vest shortly after the company is notified, pro-rated for time, and taking into account the Committee's assessment of performance achieved to that date.</p> <p>The Committee may decide, acting fairly and reasonably, that any adjustment set out above to reduce the vesting of the award would be inappropriate.</p>
<b>Shareholding requirements</b>	<p>Upon leaving the company, the shareholding requirement will continue to apply for two years. The shareholding requirement will be 100% of the shareholding requirement for two years after departure.</p> <p>Shareholding requirements will no longer apply in the case of death. At its discretion, the Committee may apply the same treatment in cases of ill-health.</p>
<b>Chairman and Non-Executive Directors' contractual termination payment</b>	<p>Non-Executive Directors are appointed under letters of engagement.</p> <p>Appointments have historically been for an initial period of three years and invitations to act for subsequent three-year terms are subject to a review of performance, and take into account the need to progressively refresh the Board.</p> <p>The appointment may be terminated by either party giving the other not less than three months' prior written notice, unless terminated earlier in accordance with the company's Articles of Association.</p> <p>The company has no obligation to pay compensation when the appointment terminates.</p>

## directors' remuneration report continued

### Annual Report on Remuneration

The Annual Report on Remuneration outlines how the Committee implemented the Directors' Remuneration Policy for the financial year ended 31 January 2019. This report, together with the Annual Statement from the Chairman of the Remuneration committee, will be put to shareholders for approval at the Annual General Meeting to be held on 9 July 2019. Shareholder approval is on an advisory basis only.

These reports have been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and include the items required to be disclosed under 9.8.6R and 9.8.8R of the Financial Conduct Authority's Listing Rules. Where information disclosed has been subject to audit by the Group's auditor, Deloitte LLP, this is highlighted.

### Single total figure of remuneration for the Executive Directors (audited information)

The table below sets out the remuneration of each of the Executive Directors for the financial year ended 31 January 2019 and the comparative figures for the financial year ended 31 January 2018.

		1. Base salary £'000	2. Taxable benefits £'000	3. Annual Bonus £'000	4. Alignment Shares £'000	5. LTIP £'000	6. Pension £'000	Total £'000
<b>Executive Director</b>								
Véronique Laury	<b>2018/19</b>	<b>795.8</b>	<b>20.2</b>	<b>522.0</b>	<b>333.7</b>	–	<b>99.5</b>	<b>1,771.2</b>
	2017/18	767.6	28.0	534.2	156.9	–	95.9	1,582.6
Karen Witts	<b>2018/19</b>	<b>610.9</b>	<b>26.7</b>	<b>400.8</b>	<b>124.8</b>	–	<b>106.9</b>	<b>1,270.1</b>
	2017/18	584.6	28.7 <sup>1</sup>	406.9	119.5	–	102.3	1,242.0
<b>Total</b>	<b>2018/19</b>	<b>1,406.7</b>	<b>46.9</b>	<b>922.8</b>	<b>458.5</b>	–	<b>206.4</b>	<b>3,041.3</b>
	2017/18	1,352.2	56.7	941.1	276.4	–	198.2	2,824.6

1. Note that this figure is lower than that disclosed in last year's Annual Report to reflect a reduction in the actual benefit received relating to financial advice for 2017/18. This benefit was discontinued from 2018/19.

### Notes to the single total figure of remuneration table

#### 1. Base salary (audited information)

Executive Directors' salaries were increased at the start of the 2018/19 financial year with effect from 1 April 2018. No other reviews took place during the year.

	As at 1 April 2018 £'000	As at 1 April 2017 £'000	% increase
<b>Executive Director</b>			
Véronique Laury	<b>800.9</b>	770.1	4%
Karen Witts	<b>615.8</b>	586.5	5%

As disclosed in the 2015/16 Annual Report on Remuneration, there was an intention over the life of the current Policy to move the salary of the CEO toward the market median, and to move the salary of the CFO to an appropriate position between the FTSE 25-75 and the retail peer group. Following continued strong performance from both the CEO and CFO, and delivery of transformation objectives, the Committee awarded 4% and 5% increases to the CEO and CFO, respectively. This followed an increase in 2017 that was limited to 2%, at the request of the CEO, so as to be in line with the wider workforce given the transformation was in its early stages.

#### 2. Taxable benefits (audited information)

The benefits provided to Executive Directors for both 2018/19 and 2017/18 included car benefit (or cash allowance), private medical insurance, death-in-service cover, financial advice and, where applicable, relocation support.

	Car benefit <sup>1</sup>	Medical £'000	Tax advice £'000	Life assurance £'000	Total 2018/19 £'000	Total 2017/18 £'000
<b>Executive Director</b>						
Véronique Laury	8.6	4.3	4.2 <sup>2</sup>	3.1	<b>20.2</b>	28.0
Karen Witts	22.2	2.1	–	2.4	<b>26.7</b>	28.7

1. Véronique Laury opted for a company car. Karen Witts opted for the cash allowance.

2. This benefit relates to ongoing annual tax preparation assistance provided to the CEO in the UK and France. This assistance is provided in recognition of the international nature of the CEO's role and is limited to income tax return preparation required in respect of the CEO's employment income. Note that this figure is inclusive of tax payable on expenses reimbursed.

### 3. Annual Bonus (audited information)

The purpose of the Annual Bonus is to focus executives on the achievement of strategic milestones that are critical to the transformation of Kingfisher. The 2018/19 annual bonus was based on strategic milestones within the following four pillars: Unified & Unique offer; Digital; Operational efficiency; and Retail operations.

The table below sets out the targets that were set in respect of each of the four pillars, the corresponding achievement against these targets during the period ending 31 January 2019, and the resulting payout.

Strategic pillar (weighting)	Target	Detail	Achievement	Total score
Unified & Unique offer (30%)	Achieve at least 40% unified cost of goods sold (COGS).	Reduce the number of suppliers we use through successful implementation of the unified process. The unified process will increase the efficiency of our procurement, standardise our product offering, and help to reduce costs.	44% COGS had successfully gone through the unified process for the 2018/19 financial year.	78%
	Deliver growth in Unified & Unique sales and gross margin.	Deliver year-on-year like-for-like Group sales growth and Group margin growth from Unified & Unique ranges while maintaining agreed pricing index.	2018/19 sales and margin growth from Unified & Unique ranges were between the threshold and stretch targets set by the Committee.	
Digital (30%)	Complete final year of unified IT platform rollout to markets.	Implement the unified IT platform across remaining markets in the Group.	Substantially completed during the year. Board decision taken to postpone implementation in Castorama Iberia, Castorama Russia and Screwfix.	78%
	Complete e-commerce rollout in France and Poland.	Digital platform implemented into all Operating Companies in line with plan. Implement a new desktop digital platform building on the new mobile infrastructure.	Substantially completed during the year. New digital platform now fully implemented in B&Q and next generation rollout to all other Operating Companies scheduled for first half of 2019.	
	Market launch of first home improvement services in UK and France.	Home improvement services' features start to be integrated into the new digital desktop and mobile platform.	Features implemented into the e-commerce journey and bathroom planner tool implemented in B&Q and Castorama France.	
Operational efficiency (30%)	Implement finance shared services in at least two Operating Companies.	Finance shared services implemented for France and B&Q.	Shared service centre implemented for Castorama France, Brico Dépôt France and B&Q.	85%
	Deliver additional £30 million of benefits from goods not for resale (GNFR) programme and other efficiencies.	Drive operational efficiency by consolidating GNFR. Categories covered included media buying, facilities management and building services.	£40 million benefit (consisting of savings and working in a simpler and more effective way across the business) was delivered ahead of budget and plan.	
	Operating model developed in line with plan.	Fully designed the new operating model for Kingfisher.	Design of new operating model broadly complete.	
Retail operations (10%)	Engagement scores higher than comparators.	Maintenance of 2017/18 Kingfisher colleague engagement score and higher than retail sector score.	Colleague engagement scores for the year maintained at 2017/18 levels and significantly above the retail benchmark.	100%
<b>Total achievement</b>				<b>82%</b>

At the Committee meeting in March, the Committee approved amendments to the milestones to reflect a Board decision to incorporate home improvement services' features into core e-commerce journeys, which is captured in the 'Digital' milestones above.

The Committee considered the Annual Bonus outcome in view of the performance against the strategic milestones as set out above and a holistic view of business performance. It was concluded that the milestones had been substantially met, resulting in a payout of 82% of maximum. This resulted in a bonus of 66% of salary payable to the Executive Directors. This equates to £522,023 for the CEO, and £400,775 for the CFO. The 2018/19 Annual Bonus will be paid entirely in cash in April 2019.

## directors' remuneration report continued

### 4. Alignment Shares (audited information)

In line with our Policy, the Committee determined that personal performance for both the CEO and CFO had been strong throughout the 2017/18 financial year and approved the grant of Alignment Shares at the level of 80% of salary. Further detail on the performance of the Executive Directors during 2017/18 can be found in last year's Remuneration Report. Twenty-five per cent of the Alignment Share award vested immediately; the number and value of the shares vested during the year is shown below.

Executive Director	Number of shares <sup>1</sup>	Value of shares vested <sup>2</sup> £'000
Véronique Laury	52,449	162.3
Karen Witts	40,329	124.8

- The number of shares shown represents the proportion of the Alignment Share award granted in April 2018, which vested immediately.
- Calculated using the closing share price on the date of vesting of 309.4p.

At the March 2019 Remuneration Committee meeting the Committee reviewed performance against the underpins attached to the Alignment Shares awarded in 2016 which are due to vest in 2019. It was confirmed that whilst the dividend cover underpin was met, being above 1.75 times (1.8 times for 2018/19), the ratio of adjusted net debt to EBITDAR exceeded 2.5 times (2.6 times for 2018/19) and this underpin was not met. The Committee therefore applied its discretion to reduce vesting of the relevant 2016 Alignment Share awards by 50%. The remaining awards are expected to vest in July 2019.

The table below sets out the Alignment Share awards due to vest in 2019 in respect of the performance period ended 31 January 2019.

Executive Director	Number of shares <sup>1</sup>	Number of dividend equivalents <sup>1</sup>	Value of shares vested <sup>2</sup> £'000
Véronique Laury	68,346	5,559	171.4
Karen Witts <sup>3</sup>	0	0	0

- The number of shares shown represents the proportion of the Alignment Share award granted in April 2016, which is expected to vest on 19 July 2019.
- Calculated using the average share price 1 November 2018 to 31 January 2019 of 232.0p. None of this value is attributable to share price appreciation.
- Karen Witts' unvested 2016 Alignment Share award will be forfeited on leaving the company.

### 5. LTIP (audited information)

The value of long-term incentives shown in the single figure table shows the level of award vesting based on targets set and measured over the relevant reporting period (financial year ended 31 January 2019). As disclosed in last year's Annual Report, the 2015 LTIP that was due to vest in April 2018 lapsed in full. This was the final award granted under the LTIP.

### 6. Pensions (audited information)

Executive Directors based in the UK are eligible to join the UK defined contribution pension plan (the DC Scheme). No Executive Director has a prospective right to a defined benefit pension.

The company operates a policy to limit the combined employer and member pension contributions during a tax year to the annual allowance, with the excess employer contribution being directed into a taxable monthly cash allowance. In addition, Directors may choose to opt out of the scheme completely if, for example, they have reached the lifetime allowance.

A summary of the arrangements for the Executive Directors is set out below.

	Notional employer contribution rate into defined contribution pension scheme for which the individual is eligible	Member of the UK DC Scheme?	Cash allowance in lieu of employer contributions into DC Scheme?	Equivalent cash allowance rate as % of salary
Véronique Laury	14%	No	Yes, in full	12.5%
Karen Witts	20%	Yes	Yes, in excess of the annual allowance	17.5%

#### Notes:

Karen Witts' own member contributions exhausted the annual allowance headroom, meaning that the full employer contribution was paid as a cash alternative.

Cash allowances are provided on a cost-neutral basis for the company. This means that a discount is applied to those Directors joining after the introduction of pension salary sacrifice (SMART pensions) in 2012.

This accounts for the fact that employer's national insurance is payable on the cash alternative, whereas it is not payable on employer pension contribution into the defined contribution scheme. Accordingly, the cash alternative for Véronique Laury is 12.5% of salary and for Karen Witts is 17.5% of salary.

### Pension benefits paid during the year

	Employer contributions into DC Scheme £'000	Cash alternative £'000	Total 2018/19 £'000	Total pension benefit as a % of base salary
Véronique Laury	–	99.5	99.5	12.5%
Karen Witts <sup>1</sup>	–	106.9	106.9	17.5%

- Salary sacrifice member contributions into the Kingfisher defined contribution pension scheme DC were made by Karen Witts to the value of £9,999.96.

## Payments to past Directors and loss of office (audited information)

There were no payments to past Directors or for loss of office. Karen Witts will receive no payments by way of compensation for loss of office.

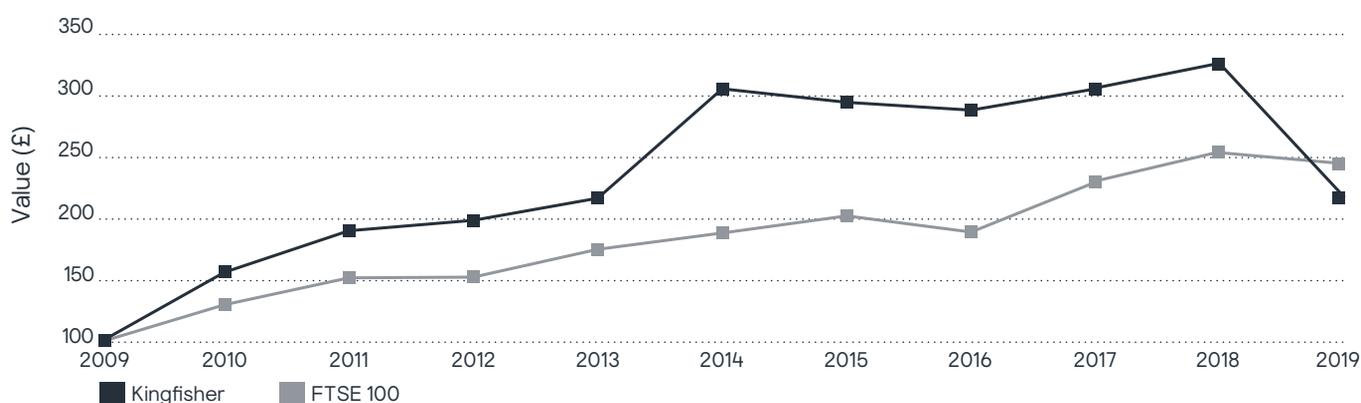
## Outside appointments for Executive Directors

Subject to the rules governing conflicts of interest, Kingfisher is supportive of its Executive Directors holding external non-executive positions. The exercise of such roles can provide valuable insight for the Executive Directors, which can be of benefit to Kingfisher. Subject to the Committee's agreement, the individual may retain any fees applicable for these roles.

Karen Witts is a non-executive director of, and the audit committee chair at, Imperial Brands plc. Karen receives £109,000 per annum for fulfilling this role. She retains these fees.

## Performance graph

The graph below shows Kingfisher's total shareholder return for the 10 years to 31 January 2019, which assumes that £100 was invested in Kingfisher on 1 February 2009. The company chose the FTSE 100 Index as an appropriate comparator for this graph, as Kingfisher has been a constituent of that index throughout the period.



## CEO's remuneration over the last 10 years

The table below sets out the total remuneration of the holder of the office of CEO for the period from 1 February 2009 to 31 January 2019.

Year	CEO	Bonus % of maximum awarded <sup>1</sup>	Value of bonus awarded £'000	Original Alignment Share grant as a % of salary <sup>2</sup>	Alignment Share % of maximum vesting <sup>2</sup>	Value of shares vested £'000	Original LTIP grant level as a % of salary <sup>3</sup>	LTIP % of maximum vesting	Total value of vested shares £'000	CEO's single figure £'000
2009/10	Sir Ian Cheshire	98.7	1,610.8	-	-	-	125	44.6	265.9	3,067.8
2010/11	Sir Ian Cheshire	83.8	1,367.6	-	-	-	200	100.0	2,819.7	5,350.8
2011/12	Sir Ian Cheshire	93.5	1,525.9	-	-	-	200	98.9	6,083.0	8,628.3
2012/13	Sir Ian Cheshire	30.8	502.7	-	-	-	200	50.0	1,157.6	2,817.2
2013/14	Sir Ian Cheshire	32.0	532.7	-	-	-	500	31.1	1,799.4	3,455.4
2014/15 <sup>4</sup>	Sir Ian Cheshire/Véronique Laury	12.3	202.6	-	-	-	n/a	n/a	n/a	1,306.1
2015/16	Véronique Laury	69.1	967.4	-	-	-	n/a	n/a	n/a	1,983.0
2016/17	Véronique Laury	90.0	537.0	20 <sup>5</sup>	100	151.1	200	24.5	100.1	1,715.1
2017/18	Véronique Laury	87.0	534.2	20 <sup>5</sup>	100	156.9	200	0.0	0.0	1,582.6
2018/19	Véronique Laury	82.0	522.0	80 <sup>6</sup>	62.5	333.7	n/a	n/a	n/a	1,771.2

- The maximum bonus opportunity was 200% of base salary up to the end of the 2015/16 financial year. The maximum bonus opportunity from 2016/17 onwards was 80% of salary.
- New element of reward introduced under the Remuneration Policy approved by shareholders at the 2016 AGM.
- The original LTIP grant shows the award level at the point of grant, three years prior to the date the vesting percentage was determined.
- Sir Ian Cheshire stepped down as CEO on 8 December 2014, at which point Véronique Laury took over the position. Sir Ian Cheshire's remuneration in the table is from the start of the financial year up until 8 December 2014, and Véronique Laury's is from 8 December 2014 to the end of the financial year. The single total figure in the table above shows the combined total remuneration for both Sir Ian Cheshire and Véronique Laury.
- This represents 25% of the total Alignment Share award (equivalent to 80% of salary) granted in 2016 and 2017 respectively. This portion vested upon grant. The remaining 75% of this award (equivalent to 60% of salary) will vest three years after the date of grant, subject to performance against the underpin measures set out in the corresponding Remuneration Report.
- This represents 25% of the total Alignment Share award (equivalent to 80% of salary) granted in 2018 (that vested upon grant) and 75% of the total Alignment Share award granted in 2016 that is due to vest in June 2019 and which was subject to performance against the underpin measures set out in the corresponding Remuneration Report.

## directors' remuneration report continued

### Change in the remuneration of the CEO

The table below shows how the percentage change in the CEO's salary, benefits and bonus between 2017/18 and 2018/19 compared with the average percentage change of each of those components for all full-time equivalent employees based in the UK.

The UK employee workforce was chosen as a suitable comparator group as the CEO is based in the UK (albeit with a global role and responsibilities) and pay changes across Kingfisher vary widely depending on local market conditions.

	CEO		All UK Employees
	To 31 January 2019 £'000	Percentage change 2018/19 vs 2017/18	
Base salary	795.8	3.7%	0.7%
Taxable benefits	20.2	-27.9%	-14.1%
Annual Bonus	522.0	-2.3%	14.3%

### Relative importance of spend on pay

The table below shows the relative importance of spend on employee remuneration when compared with distributions to shareholders.

	2018/19 £m	2017/18 £m	Percentage change
Overall expenditure on pay	1,760	1,735	1.4%
Total dividends paid in the year	231	231	0%

### Pay ratio analysis

The Committee has decided to early-adopt the CEO pay ratio analysis, and a summary of the data for 2018/19 is included below.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2018/19	Option B (i.e. 25th percentile, median and 75th percentile individual identified from our April 2018 gender pay gap analysis)	106:1	97:1	81:1

We have used Option B in the legislation to leverage the analysis completed as part of our UK gender pay gap reporting exercise. We have determined our 25th, median and 75th percentile individual using data from the 5 April 2018 snapshot. Whilst gender pay gap legislation and CEO pay ratio legislation employ different calculations, the three identified UK employees receive similar remuneration structures, and therefore we are confident that they also represent broadly the same respective percentiles when calculated using the single figure of total remuneration methodology required in the CEO pay ratio calculation. Where relevant we have pro-rated the date to reflect full-time equivalent remuneration.

### Executive Directors' shareholdings and share interests (audited information)

Executive Directors are required to build a significant shareholding in the company. Unvested awards are not included when assessing holding requirements. Vested awards are included when assessing holdings, but are adjusted to take into account the tax liability arising on exercise.

The table opposite sets out the beneficial interests of the Executive Directors in the ordinary shares of the company and a summary of the outstanding share awards as at 31 January 2019. Calculations are based on a share price of 222.7p (being the closing price of a Kingfisher share on 31 January 2019).

Executive Director	Shares held		Awards over nil-cost options				
	Number of shares held outright		Vested but not exercised <sup>1,2</sup>	Unvested and subject to continued employment <sup>3</sup>	Unvested and subject to performance conditions and continued employment <sup>4</sup>	Shareholding requirement (% of base salary)	Shareholding 31 Jan 19 (% of base salary)
	31 Jan 19	31 Jan 18					
Véronique Laury <sup>5</sup>	227,655	227,655	200,007	160,930	2,629,059	350%	93%
Karen Witts <sup>5,6</sup>	244,932	163,056	117,460	125,584	1,853,363	250%	111%

- Nil-cost options and awards which have vested but have yet to be exercised are considered to count towards the shareholding requirement, other than any such shares that correspond to the estimated income tax and national insurance contributions that would arise on their exercise (estimated at 47% of the award).
- These awards include the immediate vest element of the Alignment Share awards granted to both Véronique Laury and Karen Witts in 2016, 2017 and 2018. These also include options granted to Véronique Laury under the 2014 LTIP.
- These awards include options granted to Véronique Laury (13,479 shares) and Karen Witts (9,730 shares) under a HMRC-approved Sharesave plan which are not in the form of nil-cost options. These awards also include options granted to both Véronique Laury and Karen Witts under the Kingfisher Incentive Share Plan (KISP) 2015 and the KISP 2016.
- These awards include options granted to Véronique Laury and Karen Witts in respect of both the 2016, 2017 and 2018 Alignment Share awards (excluding those which vested immediately upon grant) and the 2016 Transformation Incentive award.
- As potential beneficiaries of the Kingfisher Employee Benefit Trust (the 'Trust'), Véronique Laury and Karen Witts are deemed to have an interest in the company's ordinary shares held by the Trust. The Trust held 8,161,750 ordinary shares at 31 January 2019.
- Between 1 February 2019 and the date of this report, Karen Witts acquired 127 partnership shares under the Kingfisher Share Investment Plan (SIP). There were no other changes in the beneficial interests of the Executive Directors' shareholdings between these dates.

## Share awards made during the financial year (audited information)

Options and awards over shares were made during the year ended 31 January 2019 under the Kingfisher Alignment Share and Transformation Incentive Plan (KASTIP) in respect of the 2018/19 Alignment Share award.

### 2018/19 Alignment Share award

#### (i) Immediate vest – no performance conditions

Name	Date of grant	Number of shares	Face value of award <sup>1,2</sup> £'000	Date vested	Final exercise date <sup>3</sup>
Executive Director					
Véronique Laury	23 Apr 18	52,449	162.3	23 Apr 18	23 Mar 28
Karen Witts	23 Apr 18	40,329	124.8	23 Apr 18	23 Mar 28

- The award value, at the time of grant, was based on 20% of base salary.
- The awards were made under the KASTIP and the value of the award is based on the share price as at the date of vesting of 309.4 pence per share.
- The awards are structured as nil-cost options and have an exercise period of 10 years less one month.

#### (ii) Vesting subject to performance conditions

Name	Date of grant <sup>1</sup>	Number of shares	Face value of award <sup>2</sup> £'000	End of performance period <sup>3</sup>	Final exercise date <sup>4</sup>
Executive Director					
Véronique Laury	23 April 18	157,347	486.8	31 Jan 21	23 Mar 28
Karen Witts <sup>5</sup>	23 April 18	120,987	374.3	31 Jan 21	23 Mar 28

- Vesting date of 23 April 2021.
- The award value, at the time of grant, was based on 60% of base salary. The awards were made under the KASTIP and the amount above is based on the price as at the date of grant, of 309.4 pence per share.
- The shares will vest subject to performance against the underpin conditions over the period to the end of 2020/21 financial year.
- The awards are structured as nil-cost options and have an exercise period of 10 years less one month.
- As detailed elsewhere in this report, Karen's awards will lapse on cessation of employment.

The performance conditions attached to the 2018 Alignment Share award are as follows.

- maintenance of the dividend subject to dividend cover being above 1.75 times; and
- maintenance of ratio of adjusted net debt to EBITDAR below 2.5 times.

If one condition is not met then up to 50% of the unvested shares will lapse. If both are not met then up to 100% of the unvested shares will lapse.

## directors' remuneration report continued

### Scheme interests exercised during the financial year (audited information)

Name		Number of shares	Exercise price per share (p)	Total exercise price £'000	Date of exercise	Market value of shares at date of exercise (p)	Gain on exercise of options £'000
<b>Executive Director</b>							
Karen Witts	Kingfisher Incentive Share Plan	32,194	Nil	Nil	4 Dec 18	239.5	77.1
	Kingfisher Incentive Share Scheme	30,914	Nil	Nil	4 Dec 18	239.5	74.0

### Dilution limits

The terms of the company's share plans set limits on the number of newly-issued shares that may be issued to satisfy awards. In accordance with guidance from the Investment Association, these limits restrict overall dilution under all plans to under 10% of the issued share capital over a 10-year period, with a further limitation of 5% in any 10-year period on executive plans.

Only those awards granted under the Sharesave plan are satisfied by newly-issued shares.

Any awards which are satisfied by market-purchased shares are excluded from these calculations. These include awards granted under discretionary plans, including those awards which have been exercised by the Executive Directors during the year, and the Alignment Share and Transformation Incentive awards granted during 2017/18.

No treasury shares were held or utilised in the year ended 31 January 2019.

### Single total figure of remuneration for the Non-Executive Directors (audited information)

#### Fees payable to Non-Executive Directors

The table below sets out the remuneration of each Non-Executive Director during the financial year ended 31 January 2019 and the comparative figures for the year ended 31 January 2018. During the year, no payments were made to Non-Executive Directors for expenses other than those incurred in the ordinary course of their appointments.

	Additional responsibilities	Committee membership <sup>1</sup>	Fees 2018/19 £'000	Taxable benefits 2018/19 £'000	Total 2018/19 £'000	Fees 2017/18 £'000	Taxable benefits 2017/18 £'000	Total 2017/18 £'000
Andrew Cosslett <sup>2</sup>	Chairman, Nomination committee	R, N	495.0	1.1 <sup>3</sup>	496.1	382.5	0.9 <sup>3</sup>	383.4
Claudia Arney <sup>4</sup>		R, N	16.3	–	16.3	–	–	–
Pascal Cagni		N	65.0	–	65.0	63.7	–	63.7
Jeff Carr <sup>5</sup>	Audit committee Chairman	A, N	56.7	–	56.7	–	–	–
Clare Chapman	Remuneration committee Chairman	R, N	85.0	–	85.0	83.7	–	83.7
Anders Dahlvig		A, N	65.0	–	65.0	63.7	–	63.7
Sophie Gasperment <sup>6</sup>			10.8	–	10.8	–	–	–
Rakhi Goss-Custard		A, R, N	65.0	–	65.0	63.7	–	63.7
Mark Seligman	Senior Independent Director	A, R, N	85.0	–	85.0	83.7	–	83.7
Former Directors								
Andrew Bonfield <sup>7</sup>	Audit committee Chairman	A, R, N	31.0	–	31.0	83.7	–	83.7
<b>Total</b>			<b>974.8</b>	<b>1.1</b>	<b>975.9</b>	<b>824.7</b>	<b>0.9</b>	<b>825.6</b>

1. Indicates which Directors served on each committee during the year: Audit committee = A; Nomination committee = N; Remuneration committee = R.

2. From the time of his appointment as a Non-Executive Director and Chairman Designate, until his appointment as Chairman following the 2017 AGM, Andrew Cosslett received a fee of £225,000 per annum. For his role as Chairman, Andrew Cosslett receives a fee of £450,000 per annum. The fees paid to Andrew include a contribution of £45,000 towards the costs of an assistant.

3. These relate to private medical cover for Andrew Cosslett and his family.

4. Claudia Arney joined the Board on 1 November 2018.

5. Jeff Carr joined the Board on 1 June 2018.

6. Sophie Gasperment joined the Board on 1 December 2018.

7. Andrew Bonfield stepped down from the Board on 12 June 2018.

## Notes to the single total figure of remuneration for the Non-Executive Directors (audited information)

### Fees

Fees paid to the Chairman and Non-Executive Directors for 2018/19 and 2017/18 are shown below. No benefits are provided except for a store discount card of up to 20%.

	Fees £'000		% increase
	As at 1 February 2018	As at 1 February 2017	
Chairman <sup>1</sup>	495.0	n/a	n/a
Non-Executive Director fee	65.0	63.7	2.0%
Senior Independent Director	20.0	20.0	n/a
Audit committee Chairman	20.0	20.0	n/a
Remuneration committee Chairman	20.0	20.0	n/a

1. Andrew Cosslett, who was appointed as Chairman with effect from 13 June 2017, receives a fee of £450,000 per annum, plus a contribution towards the costs of an assistant of £45,000 per annum and private medical insurance for himself and his family.

### Non-Executive Directors' shareholdings (audited information)

The table below sets out the current shareholdings of the Non-Executive Directors (including beneficial interests) as at 31 January 2019. The company does not operate a share ownership policy for the Non-Executive Directors, but encourages Non-Executive Directors to acquire shares on their own account.

	Number of shares held outright as at 31 January 2019 <sup>1</sup>	Number of shares held outright as at 31 January 2018 <sup>1</sup>
Andrew Cosslett	146,505	99,802
Claudia Arney	27,460	n/a
Pascal Cagni	30,570	30,570
Jeff Carr	–	n/a
Clare Chapman	6,990	6,990
Anders Dahlvig	75,000	75,000
Sophie Gasperment	–	n/a
Rakhi Goss-Custard	6,124 <sup>2</sup>	6,124
Mark Seligman	15,000	15,000
Former Directors		
Andrew Bonfield	10,000 <sup>3</sup>	10,000

1. There have been no changes to the beneficial interests of the Non-Executive Directors between 1 February 2018 and 19 March 2018.

2. Rakhi Goss-Custard acquired her interest in these shares through her spouse.

3. Shares held at date of stepping down from the Board.

## Statement of implementation of the Remuneration Policy for 2019/20

### Implementation of Remuneration Policy for Executive Directors in 2019/20

#### Base salary

Implemented in line with Policy.

Base salary £'000	As at 1 April 2019	As at 1 April 2018	% increase
Véronique Laury	800.9	800.9	0%
Karen Witts	615.8	615.8	0%

## directors' remuneration report continued

### Benefits

Implemented in line with Policy.

### Pension

Implemented in line with Policy.

### Annual Bonus

Implemented in line with Policy.

The Annual Bonus will have a maximum opportunity of 80% of salary.

The Annual Bonus will be judged based on the achievement of a number of strategic milestones critical to the delivery of the transformation as set out below:

- Deliver growth in Unified & Unique sales and gross margin;
- Demonstrate improvement of customer proposition;
- Deliver digital sales growth;
- Complete common digital platform implementation in all Operating Companies;
- Deliver further benefits from operational efficiencies;
- Trial new concept stores; and
- Maintain higher colleague engagement scores than retail sector.

Group financial performance will also be taken into consideration.

In the opinion of the Committee, the detail of the Annual Bonus measures and targets for 2019/20 are commercially sensitive and accordingly are not disclosed. These will be disclosed next year. The targets are aligned to the operational milestones set out in the Strategic Report on pages 26 to 31. It is the Committee's policy to progress from process objectives to a greater focus on strategic output measures as the company progresses through to delivery of the transformation.

### Alignment Shares

Implemented in line with Policy.

The Committee recognised the strong personal performance of the CEO throughout 2018/19 and so Alignment Share awards will be made at the level of 80% of salary in line with the Policy for existing Executive Directors. A summary of the personal performance for each Executive Director is set out below:

Véronique Laury demonstrated strong personal performance through: strong leadership across the organisation and on decisions to ensure the sustainable long-term growth of Kingfisher; operational delivery through the ongoing transformation in a challenging retail environment; and, the continued delivery of the strategic milestones (see Strategic Report pages 26 to 31 for further details).

Karen Witts is leaving the Group on 21 March 2019 and will therefore not be considered for an Alignment Share award in 2019.

The underpin conditions for the Alignment Share awards relate to maintaining the underlying health of the business over the course of the five-year strategy period, to the end of 2021/22. The underpin conditions for the 2019/20 awards, which will apply throughout the duration of the three-year vesting period, are:

- maintenance of the 10.82p dividend subject to dividend cover being above 1.75 times; and
- maintenance of the ratio of lease-adjusted net debt to EBITDAR below 2.5 times.

If one underpin condition is not met, then up to 50% of the unvested shares will lapse. If both are not met, then up to 100% of the unvested award will lapse.

The Committee would determine the appropriate deduction considering business performance.

Performance against the underpin will be considered annually and any reduction will apply to the award next due to vest.

In the event that the lease-adjusted net debt to EBITDAR ratio is exceeded due to Board-approved acceleration of investment plans, then the Committee may apply discretion to allow vesting. In these circumstances, the Committee would consider delaying vesting (in whole or part) by a further year to ensure sustainability of performance.

Kingfisher is applying the new IFRS 16 accounting standard from February 2019, which will have an impact on the financial metrics used in our incentives. The impact will be considered by the Committee to ensure that performance continues to be measured on a neutral basis. Any adjustments required will be set out in next year's report.

### Delivering Value Incentive

Implemented in line with Policy subject to shareholder approval of the Remuneration Policy at the July 2019 AGM.

The Delivering Value Incentive target award level will be 220% of salary for the CEO and 200% of salary for the CFO.

Awards granted will vest based on performance over five years against the following performance measures:

- 1/3 relative TSR;
- 1/3 EPS; and
- 1/3 ROCE.

The performance measures have been chosen to balance growth and returns and ensure sustainable delivery of performance.

Up to 1 times target may vest at threshold, rising to four times target at maximum performance.

Performance will be measured over the two periods (i) 1 February 2019 to 31 January 2022 and (ii) 1 February 2021 to 31 January 2024, to better align with the phasing of the business strategy. Due to time constraints surrounding publication of the Annual Report, targets and the vesting schedule will be communicated separately to the Annual Report on a prospective basis.

EPS will be reported on the basis of adjusted earnings per share. This is basic earnings per share for continuing operations adjusted to exclude the following:

- exceptional items; and
- financing fair value remeasurements.

The Remuneration Committee will apply a quality of earnings test prior to awards vesting and may use this to adjust the formulaic outcome. This test would include considering the overall execution of strategy, balance sheet health, the relative performance of growth versus returns, the level of transformational costs relative to the plan (capex and P&L costs), and the overall GDP growth level in the economy.

The previous award under the KASTIP (the 2016 Transformation Incentive) was made in 2016/17.

### Implementation of Remuneration Policy for Non-Executive Directors in 2019/20

Fees £'000	As at 1 February 2019	As at 1 February 2018	% increase
Chairman <sup>1</sup>	495.0	495.0	n/a
Non-Executive Director fee	65.0	65.0	n/a
Senior Independent Director fee	20.0	20.0	n/a
Audit committee Chairman	20.0	20.0	n/a
Remuneration committee Chairman	20.0	20.0	n/a

1. The Chairman's was initially appointed on a fee of £225,000 from 1 April 2017 until taking over the role of Chairman at the 13 June 2017 AGM. Part of his fee relates to a contribution to the cost of his assistant of £45,000 per annum. He additionally receives private medical insurance for himself and his family.

### Service contracts/letters of appointment

	Date of service contract/ letter of appointment	Expiry of current term	Length of service at 31 January 2019
Andrew Cosslett	01 Apr 17	31 Mar 20	2 years
Claudia Arney	01 Nov 18	31 Oct 21	3 months
Pascal Cagni	17 Nov 10	16 Nov 19	8 years
Jeff Carr	01 Jun 18	31 May 21	8 months
Clare Chapman	02 Dec 10	01 Dec 19	8 years
Anders Dahlvig <sup>1</sup>	16 Dec 09	31 Jan 19	9 years
Sophie Gasperment	01 Dec 18	30 Nov 21	2 months
Rakhi Goss-Custard <sup>2</sup>	01 Feb 16	31 Jan 19	3 years
Véronique Laury	08 Dec 14	12 months rolling	4 years
Mark Seligman	01 Jan 12	31 Dec 20	7 years
Karen Witts	01 Oct 12	12 months rolling	6 years

1. Anders Dahlvig's term was extended to 12 June 2019. Anders will retire from the Board on this date.  
2. Rakhi Goss-Custard's term was extended for a further three years and will expire on 31 January 2022.

**Note:**

Andrew Bonfield and Karen Witts stepped down from the Board on 12 June 2018 and 21 March 2019 respectively.

## directors' remuneration report continued

### Remuneration Committee

The Committee has delegated authority from the Board over the company's remuneration framework and Policy. The Committee reviewed its terms of reference, in addition to its remuneration framework and principles, in September 2018. These were subsequently approved by the Board at its meeting in October 2018. As part of this review, only minor amendments were made to the terms of reference to reflect the latest UK Corporate Governance Code. The key amendments concerned formalising the Committee's role in considering Kingfisher's long-term strategic goals, compatibility with the remuneration framework and benefit structures across the Group when determining remuneration policies for senior management and executives, and the Committee's existing role in reviewing remuneration in respect of the general workforce, ensuring it remains aligned with our culture.

Under its terms of reference, the Committee is responsible for:

- determining and making recommendations to the Board on the Group's framework and policy for executive remuneration and its costs;
- determining individual remuneration and benefits for the Executive Directors, other members of the Group Executive, the Chairman of the Board and the Group Company Secretary;
- reviewing remuneration and related policies for the general workforce;
- exercising the powers delegated to it by the Board in relation to the company's all-employee and long-term incentive share plans;
- setting and overseeing the selection and appointment process of remuneration advisors to the Committee;
- monitoring external remuneration trends and market conditions, and receiving reliable, up-to-date information on remuneration elsewhere within our stated peer group; and
- reporting to shareholders on an annual basis on the work of the Committee.

The Committee's terms of reference can be found on our website. The Committee Chairman reports to the Board on the Committee's activities at the Board meeting following each meeting.

### Committee composition

The Committee comprised the following members during the financial year ended 31 January 2019:

	From	Attendance
Clare Chapman (Chairman)	16 Feb 11	5/5
Andrew Cosslett	13 Jun 17	5/5
Claudia Arney (joined the Board and the Committee on 1 November 2018)	01 Nov 18	1/2
Andrew Bonfield (stepped down from the Board and the Committee on 12 June 2018)	17 Jun 10	2/2
Rakhi Goss-Custard (joined the Committee on 13 March 2018)	13 Mar 18	4/4
Mark Seligman	22 Jan 16	5/5

Non-Executive Directors who are not members may also attend Committee meetings. The CEO, Chief People Officer, Group Reward Director and the Committee's remuneration advisors were regular attendees at Committee meetings held during the year. No individual was present when their own remuneration or benefits were discussed.

### Activities during the year

The significant matters considered by the Committee during 2018/19 included:

- judging performance against the 2017/18 strategic milestones and agreeing the 2017/18 bonus outturn for the Executive Directors and the other members of the Group Executive;
- approving the 2018/19 strategic milestones and underpins to be used for the 2018 Alignment Shares;
- approving the grant of 2018 Alignment Share awards;
- approving the vesting of the 2015 LTIP award;
- agreeing the performance targets for the Annual Bonus for the 2018/19 financial year;
- reviewing the 2019 Remuneration Policy proposals;
- receiving updates from the Group Reward function on progress of the Group's project to provide a fair and appropriate pay structure for all colleagues;
- considering the treatment of remuneration for Karen Witts, Arja Taaveniku and Pierre Woreczek in advance of their departure from the company, and approving the new remuneration packages for John Colley, Henri Solere, Graham Bell, Christian Mazauric, Sebastien Krysiak and John Mewett following their appointment to the Group Executive; and
- monitoring developments in corporate governance and market practice in respect to executive remuneration.

### Advisors to the Committee

During the financial year ended 31 January 2019, the following external advisors provided services to the Committee. Unless otherwise stated, the advisors have no other connection with the company, and the Committee firmly believes that the advice received was, and continues to be, objective and independent.

### PricewaterhouseCoopers LLP (PwC)

PwC was appointed by the Committee as its principal advisor on 1 February 2013 following a robust tender process. PwC is a member of, and adheres to, the Code of Conduct for Remuneration Consultants (which can be found at [www.remunerationconsultantsgroup.com](http://www.remunerationconsultantsgroup.com)). During the year, PwC provided the Committee with executive remuneration advice. PwC also provided Kingfisher with reward advice (including on structures for below-Board and below Board benchmarking), tax advice, accounting advice, and legal advice during the year. For services provided to the Remuneration Committee, the fees paid to PwC were £310,150. These fees were incurred through a retainer, and on a time and expenses basis. The advice received from PwC by the Committee was considered, and it was determined that PwC provides objective and independent advice to the Committee.

### Voting at the Annual General Meeting (AGM)

At the AGM on 12 June 2018, the Annual Report on Remuneration was put to an advisory vote.

The Directors' Remuneration Policy was put to a binding vote at the 15 June 2016 AGM. The results of the votes were as follows:

Resolution	Votes for (and % of votes cast)	Votes against (and % of votes cast)	Proportion of share capital voting	Shares on which votes were withheld
Annual Report on Remuneration (2018 AGM)	1,685,785,098 (98.05%)	33,484,744 (1.95%)	80.26%	4,289,317
Directors' Remuneration Policy (2016 AGM)	1,690,379,201 (98.71%)	22,137,385 (1.29%)	75.38%	46,532,822

The Annual Report on Remuneration, together with the Chairman's statement, will be subject to an advisory vote and the Remuneration Policy will be subject to a binding vote by shareholders at the AGM on 9 July 2019.

### Clare Chapman

Chairman of the Remuneration Committee

19 March 2019

# directors' report

This report sets out the information the company and the Group are required to disclose in the Directors' Report in compliance with the Companies Act 2006 (the Act), the Financial Conduct Authority's Listing Rules (Listing Rules), the Disclosure and Transparency Rules (DTRs), and the 2016 UK Corporate Governance Code (the Code). This report should be read in conjunction with the Strategic Report on pages 3 to 53 and the Corporate Governance Report on pages 55 to 99. Together, the Strategic Report, this Directors' Report, and other sections of the Corporate Governance Report incorporated by reference, when taken as a whole, form the Management Report as required under Rule 4.1.5R of the DTRs.

The table below sets out the location of disclosures incorporated into the Directors' Report, by reference. The majority of the disclosures required under Listing Rule 9.8.4 R are not applicable to the Group. The table below includes the location of the disclosures for those requirements that do apply:

Disclosure	page
Allotment of equity securities (LR9.8.4 R)	102
Annual general meeting (AGM)	181
Corporate Governance Report, including reports from each Board Committee	55-99
Directors' interests	88-95
Directors' statement of responsibility	105
Diversity	70
Employee share schemes	162
Financial instruments and financial risk management	152-156
Financial review (LR9.8.4 R)	36-43
Future developments	29-31
Going concern and viability statement	52
Interest capitalised by the Group (LR9.8.4 R)	138
Key performance indicators	10
People and development	32-33
Risk management and internal control	44-51

## Articles of Association (Articles)

The Articles of the company may only be amended by a special resolution at a meeting of the shareholders. The Articles are available on the company's website.

## Branches

The Kingfisher Group, through various subsidiaries, has established branches in a number of different countries in which the business operates.

## Directors

The Board and their biographical details are set out on pages 56 to 57. During the year, Andrew Bonfield retired on 12 June 2018 and Jeff Carr, Claudia Arney and Sophie Gasperment were appointed on 1 June 2018, 1 November 2018 and 1 December 2018 respectively. Karen Witts and Anders Dahlvig will step down on 21 March 2019 and 12 June 2019, respectively. Directors are appointed and replaced in accordance with the Articles, the Act, and the Code.

## Directors' indemnity arrangements

The Directors who served on the Board during the year have been granted a qualifying third-party indemnity, under the Act which remains in force. The Group also maintains Directors' and officers' liability insurance in respect of itself and its Directors, and the directors of the Group's subsidiary companies. Neither the company's indemnity nor insurance provides cover in the event that an indemnified individual is proved to have acted fraudulently or dishonestly.

## Directors' powers

Subject to provisions of the Act, the Articles, and to any directions given by special resolution, the business of the company shall be managed by the Board, which may exercise all the powers of the company.

## Borrowing powers

The Directors may exercise all the powers of the company to borrow money.

## Pre-emptive rights, new issues and share buybacks

The Directors were authorised by shareholders at the 2018 AGM to allot shares, as permitted by the company's Articles. During the year, 632,903 shares were issued under the terms of the Sharesave plan at prices between 217p and 315p.

The Directors were also authorised to make market purchases of up to 10% of the company's issued share capital, as permitted under the company's Articles. During the year 51,278,686 ordinary shares of 15<sup>5/7</sup>p each, representing 2% of the company's issued share capital at the end of the year ended 31 January 2019, were purchased for an aggregate consideration of £140 million. All shares purchased under this authority have been cancelled.

These resolutions were in line with guidance issued by the Investment Association and remain in force until the conclusion of the 2019 AGM. The company will seek to renew these standard authorities at the 2019 AGM.

### Conflicts of interest

The company has robust procedures in place to identify, authorise and manage potential or actual conflicts of interest, and these procedures have operated effectively during the year. Where potential conflicts arise, they are reviewed, and if appropriate, approved by the Board. Processes for managing such conflicts are put in place to ensure no conflicted Director is involved in any decision related to their conflict. Directors' other key appointments are set out in the Directors' biographies on pages 56 to 57.

### Dividends

The interim dividend of 3.33 pence per ordinary share was paid on 9 November 2018. The Board is recommending a final dividend of 7.49 pence per ordinary share, making a total ordinary dividend for the year of 10.82 pence per ordinary share. Subject to the approval of shareholders at the 2019 AGM, the final dividend will be paid on 15 July 2019 to shareholders on the register at 7 June 2019.

The Kingfisher Employee Benefit Trust, Wealth Nominees Limited, (the Trust) waived the following dividends payable by the company in respect of the ordinary shares it held:

Dividend	Number of shares waived (% of holding)	Total value of dividends waived
Final 2017/18 (paid June 2018)	8,270,906 (99.92%)	£619,490.86
Interim 2018/19 (paid November 2018)	7,594,646 (100%)	£252,901.71
<b>Total for year to 31 January 2019</b>		<b>£872,392.57</b>

### Equal opportunities

The company is committed to equal opportunities in employment and creating a workplace where everyone is treated with fairness, dignity and respect. It is our policy to ensure that all employees are treated no less favourably on the grounds of disability and are not subject to unlawful discrimination. This policy applies to all aspects of employment including recruitment and selection processes, opportunities for training, development and promotion, and terms and conditions of employment. Through its policies, the company ensures that entry into, and progression within, the company is based solely on personal ability and competence to meet set job criteria. The company ensures that all our employment policies, practices and procedures are accessible for disabled people, providing reasonable adjustment where appropriate.

### Major shareholdings

The company had been notified under Rule 5 of the DTRs of the following interests in voting rights in its shares as at 31 January 2019 and the date of this report. The information below was calculated at the date on which the relevant disclosures were made in accordance with the DTRs, however, the number of shares held by each may have changed since the company was notified.

	Number of ordinary shares held	% of total voting rights
BlackRock, Inc. <sup>1</sup>	133,791,739	6.28%
Templeton Global Advisors Limited	112,611,851	5.11%
Mondrian Investment Partners Limited	112,274,595	5.00%

1. Part of the shares held by BlackRock, Inc. are in the form of ADRs.

### Political donations

The company made no political donations during the year (2017/18: £nil), and does not intend to make any political donations in the future.

As is our policy and practice, the company will continue to seek shareholder approval annually to enable us to make donations or incur expenditure in relation to EU political parties, other political organisations or independent election candidates. This is on a precautionary basis to avoid any unintentional breach of the relevant provisions set out in the Act.

### Research and development

The company undertakes research and development activities in order to develop its digital capability. More information is available on pages 27 to 30 of the Strategic Report.

### Share capital

The share capital of the company comprises ordinary shares of 15<sup>5/7</sup>p each. All of the company's issued shares are fully paid up and each share carries the right to one vote at general meetings of the company. The authorised and issued share capital of the company, together with movements in the company's issued share capital during the year, are shown in note 27 to the financial statements on page 161. The Articles, available on the company's website, contain provisions governing the ownership and transfer of shares.

The holders of ordinary shares are entitled to receive the company's Annual Report and Accounts, to attend and speak at general meetings, to appoint proxies and to exercise voting rights. There are no restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them, except (i) where the company has exercised its right to suspend voting rights or to prohibit their transfer following the omission of their holder or any person interested in them to provide the company with information requested by it in accordance with Part 22 of the Act, or (ii) where their holder is precluded from exercising voting rights by the Listing Rules or the City Code on Takeovers and Mergers.

The company has a Sponsored Level 1 American Depositary Receipt (ADR) programme in the United States. Each ADR represents two Kingfisher ordinary shares.

### Governance and risk management for climate change

Governance of climate-related risks and opportunities is integrated into our overall sustainability governance and risk management structures. Our CEO, Véronique Laury, has ultimate accountability for the issues of energy and climate change. Our Board receives regular updates on sustainability risks and performance against our targets, including those relating to climate change and energy.

Climate change has the potential to impact our strategy through increased operational and raw material costs and reduced demand for goods, as well as commercial opportunities associated with the transition to a low-carbon economy. Identification and management of sustainability risks is incorporated in our strategic risk assessment processes. Our Group Sustainability Committee (GSC), a sub-committee of the Group Executive, monitors short-term (1-3 years), and medium and long-term (over 3 years) sustainability risks, alongside their probability, potential impact on our business, and our mitigation measures. The GSC meets at least twice a year and risks are reviewed at each meeting. Our most significant risks are included in our sustainability risk register (part of our overall Group risk management process). At an asset level, we manage climate-related risks through our insurance programmes and by incorporating climate change factors into our planning and design of new stores, refurbishment projects and preventative maintenance programmes.

We have identified a number of climate-related risks and opportunities that may impact our business strategy. The most material of these is the opportunity from the growing market for energy-efficient products and services, estimated to be worth €70 billion by 2020 across our key European markets (Boston Consulting Group report, commissioned by Kingfisher, 2011). The most material risks include the potential impact of rising energy and insurance costs on our business and supply chain. For all our risks, including climate-related risks, we assess the recurring or one-off impact on (i) like-for-like sales, (ii) our net margin, and (iii) cost. We have set numerical thresholds for each of these metrics to define 'substantive financial impact'.

We support the Task Force on Climate-related Financial Disclosures and aim to align our reporting with its recommendations over time.

### Climate change targets and metrics

We have established targets and KPIs to help us manage climate-related risks and monitor progress. These are integrated into our sustainable growth plan, summarised on page 34.

We have achieved a 15% reduction in Scope 1 and 2 emissions compared with our baseline year of 2016/17.

In 2018/19, we reviewed and updated our target. We have now set our first science-based target to help us reduce our greenhouse gas emissions in line with climate science. The target includes two elements:

- reduce our absolute greenhouse gas emissions from our direct operations by 22% by 2025 compared to a 2016/17 baseline (Scope 1 and 2); and
- achieve a 40% reduction (per million pounds (£) turnover) from (i) use of sold products, and (ii) key suppliers and materials value chains by 2025 from a 2017/18 baseline (Scope 3).

We use a range of metrics and KPIs to monitor progress. We report our annual greenhouse gas (GHG) emissions in tonnes of CO<sup>2</sup> equivalent (CO<sup>2</sup>e) from activities for which the company is responsible. Details of our emissions for the year ended 31 January 2019 are provided below.

Our Sustainability Report contains further details and will be published in June 2019.

We will start reporting progress against the second target in 2019/20.

### Methodology

Our GHG emissions have been calculated using UK Government (Defra) and International Energy Agency (IEA) emissions factors. Our data covers our material impacts: emissions from property energy use and dedicated delivery fleets (i.e. Scopes 1 and 2). Our sustainability data, including our GHG data, covers all our Operating Companies. We report on an 'operational control' basis, meaning that the data covers Kingfisher's Operating Companies where we have the full authority to introduce and implement operating policies. Emissions from our Koçtaş joint venture are reported under our Scope 3 emissions (category investments).

GHG emissions (tonnes of CO <sup>2</sup> e) and energy use	2016/17	2017/18	2018/19
GHG emissions from combustion of fuel and operation of facilities (Scope 1)	144,508	147,046	<b>156,678</b>
GHG emissions from the purchase of electricity, heat and steam (market-based Scope 2)	164,299	129,238	<b>104,282</b>
GHG emissions from the purchase of electricity, heat and steam (location-based Scope 2)	212,592	184,996	<b>162,966</b>
Total market-based Scope 1 and 2 GHG emissions (2025 target = 22% reduction)	308,807	276,284	<b>260,960</b>
GHG emissions per m <sup>2</sup> of floor space (market-based, kg CO <sup>2</sup> e)	39.9	35.2	<b>32.5</b>
Total energy consumption (GWh)	1,355	1,331	<b>1,370</b>
Energy intensity (kWh/m <sup>2</sup> reported floor space)	175.1	169.7	<b>170.8</b>

### Significant agreements – change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of the company following a takeover bid, such as bank loan agreements, Medium Term Note (MTN) documentation, private placement debt and employee share plans. None of these are deemed to be significant in terms of their potential impact on the business of Kingfisher as a whole except for:

- the £225 million credit facility dated 25 March 2015 between the company, HSBC Bank plc (as the facility agent) and the banks named therein as lenders, which contains a provision such that in the event of a change of control any lender shall not be obliged to fund a new drawing, and may, if they so require, notify the agent that they wish to cancel their commitment whereupon the commitment of that lender will be cancelled and all their outstanding loans, together with accrued interest, will become immediately due and payable;
- the £400 million credit facility dated 29 November 2016 between the company, HSBC Bank plc (as the facility agent) and the banks named therein as lenders, which contains a provision such that in the event of a change of control any lender shall not be obliged to fund a new drawing, and may, if they so require, notify the agent that they wish to cancel its commitment whereupon the commitment of that lender will be cancelled and all their outstanding loans, together with accrued interest, will become immediately due and payable;
- the US\$179 million US Private Placement notes, issued pursuant to a note purchase agreement dated 24 May 2006 by the company to various institutions, which contains a provision such that in the event of a change of control, the company is required to make an offer to the holders of the US Private Placement notes to prepay the principal amount of the notes together with interest accrued;

- the £50 million loan facility dated 13 December 2018 between the company and BNP Paribas S.A., which contains a provision such that in the event of a change of control, the bank may cancel its commitment whereupon all outstanding loans together with accrued interest will become immediately due and payable; and
- the €50 million credit facility dated 21 September 2018 between the company and Raiffeisen Bank International AG, which contains a provision such that in the event of a change of control, the bank may cancel its commitment whereupon all outstanding loans together with accrued interest will become immediately due and payable.

There are no agreements in place with any Director or officer that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the company's share incentive schemes may cause options and awards granted under such schemes to vest on a takeover.

### Disclosure of information to auditors

Each person who is a Director at the date of approval of this report confirms that:

- so far as he or she is aware, there is no relevant audit information (as defined by section 418 of the Act) of which the company's auditor is unaware; and
- each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

By order of the Board

**Paul Moore**  
Company Secretary

19 March 2019

# directors' statement of responsibility

## Responsibility for preparing financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

UK company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulations and have elected to prepare the parent company financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law) including FRS 101 'Reduced Disclosure Framework'. Under section 393 of the Act, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- follow applicable UK Accounting Standards (except where any departures from this requirement are explained in the notes to the parent company financial statements); and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the Group financial statements in accordance with IAS 1, 'Presentation of financial statements', the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Act. They are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation, regulation and practice in the UK governing the preparation and dissemination of financial statements may differ from legislation, regulation and practice in other jurisdictions.

## Responsibility statement

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face; and
- the Annual Report and financial statements, taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

By order of the Board

**Paul Moore**  
Company Secretary

19 March 2019



**accounts**

# Independent auditor's report to the members of Kingfisher plc

## Report on the audit of the financial statements

### Opinion

In our opinion:

- the financial statements of Kingfisher plc (the Company) and its subsidiaries (the Group) give a true and fair view of the state of the Group's and of the Company's affairs as at 31 January 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the International Accounting Standards (IAS) Regulation.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and Company balance sheets;
- the consolidated and Company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 37 to the Group financial statements and notes 1 to 15 to the Company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs, as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards, including the Financial Reporting Standard (FRS) 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC's) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Summary of our audit approach

<b>Key audit matters</b>	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> <li>– inventory valuation;</li> <li>– recognition of supplier rebates;</li> <li>– impairment of store-based assets: France;</li> <li>– impairment of goodwill: France cash-generating unit grouping;</li> <li>– taxation matters: transfer pricing;</li> <li>– classification and presentation of exceptional and adjusted items; and</li> <li>– IFRS 16 'Leases' disclosure.</li> </ul> <p>All key audit matters listed above, with the exception of IFRS 16 'Leases' disclosure, were identified as key audit matters in the prior year.</p> <p>Within this report, any new key audit matters are identified with ▲ and any key audit matters which are the same as the prior year are identified with ►.</p>
<b>Materiality</b>	<p>The materiality that we used for the Group financial statements was £28 million (2017/18: £34 million) representing 5% (2017/18: 5%) of profit before tax and exceptional items.</p> <p>We excluded exceptional items when determining the basis for materiality because the items, primarily relating to impairments from store closure programmes and market exits, redundancy programmes and other costs arising from the implementation of the Unified Offer do not form part of the underlying trading performance of the Group.</p>
<b>Scoping</b>	<p>We focused our Group audit scope primarily on all significant trading entities and the Group head office. These locations represent the principal business units and account for 99% (2017/18: 99%) of the Group's revenue, 100% of the Group's profit before tax (2017/18: 97%) and 97% (2017/18: 93%) of the Group's net assets.</p>
<b>Significant changes in our approach</b>	<p>Apart from the addition of a key audit matter relating to IFRS 16 'Leases' disclosure, as described above, there were no other significant changes in our approach during the year.</p>

---

## Conclusions relating to going concern, principal risks and viability statement

---

### Going concern

We have reviewed the Directors' statement in note 2.a to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

We considered, as part of our risk assessment, the nature of the Group, its business model and related risks, including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

### Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 46–51 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 44 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 52 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

---

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Independent auditor's report to the members of Kingfisher plc continued

### Inventory valuation

#### Key audit matter description

As at 31 January 2019, the value of inventory held by the Group was £2,574 million (31 January 2018: £2,701 million) as disclosed in note 17 to the financial statements.

Assessing the valuation of inventory requires significant judgement in estimating the eventual selling price of items held, as well as assessing which items may be slow-moving or obsolete.

As detailed in the Strategic Report on page 26 the Group has continued to rationalise the number of stock keeping units (SKUs) as it continues to unify its product offering with the same products, presented everywhere in the same way, as detailed in the financial review on page 36.

This adds additional complexity to assessing the level of inventory that may become obsolete and the expected net realisable value (NRV) of inventory which will be sold. Further, given there has been clearance activity over recent years as the Group looks to unify its ranges, this can impact the eventual selling price and hence the NRV of inventory, which ultimately influences the level of provisions recorded.

The Group's principal accounting policy on inventory is on page 131 and the sources of estimation uncertainty for inventory are on page 134.

Judgements relating to inventory and stock provisioning policy are a significant issue considered by the Audit Committee, as discussed on page 72.

Given the level of judgement applied and the potential for manipulation, we consider this to be a possible risk of fraud, specifically in relation to considering the ongoing appropriateness of the Group's policy in the context of inventory rationalisation and clearance activities taking place across the Group's operating units.

#### How the scope of our audit responded to the key audit matter

Our audit focused on whether the valuation of year end inventory was in accordance with IAS 2 'Inventory'. This included challenging the judgements taken regarding the recording of obsolescence and NRV provisions.

We obtained assurance over the appropriateness of management's assumptions applied in calculating the value of inventory provisions by:

- evaluating the design and implementation of relevant controls over inventory provisioning and, in certain Operating Companies, testing the operating effectiveness of these controls;
- reviewing the cost of clearance for Unified ranges that have been implemented to date and understanding how this impacted the year end provision;
- critically assessing the Group's inventory provisioning policy, with specific consideration given to the movements in inventory and expected clearance activity;
- verifying the existence and condition of inventory by attending a sample of inventory counts throughout the year across all full scope audits, including those at 15 distribution centres and 63 retail stores;
- checking the value of a sample of inventory to determine whether it is held at the lower of cost and NRV through comparison to vendor invoices and current sales prices; and
- recomputing the provisions recorded to verify that they are recorded in line with the Group's policy and IAS 2. This was done in conjunction with IT specialists for those components where the provision is automatically calculated.

#### Key observations

The results of our audit work were satisfactory and we concur that the level of inventory provisions are materially correct.

## Recognition of supplier rebates

<b>Key audit matter description</b>	<p>The Group receives significant amounts of supplier incentives, discounts and rebates and recognises these as a deduction to cost of sales.</p> <p>These agreements largely comprise volume-based rebates based on percentage levels agreed for the calendar year, but also include arrangements with a greater degree of judgement such as advertising and marketing support.</p> <p>Assessing the point at which a rebate earned from suppliers should be recognised as a reduction to cost of sales, including adherence to contractual terms, is an area of complexity and requires a detailed understanding of the contractual arrangements and the source data on which management's calculations are based. As the majority of volume rebates are settled on a calendar year basis, we identified a risk relating to recognition of non-volume based rebates and any judgement in the volume rebates recognised in January (and which have not yet been settled).</p> <p>The majority of rebate agreements are subject to netting agreements with the supplier. As detailed in note 18, there are £149 million of rebate debtors recorded at year end (2017/18: £274 million).</p> <p>The Group's principal accounting policy for rebates is on page 130.</p> <p>As part of the transition to unified offer, the Group is transitioning from rebate arrangements in favour of net pricing arrangements. As such, we have observed declining rebates across the Group. We therefore pinpointed our key audit matter to the rebate arrangements in Screwfix, Brico Dépôt France and Castorama France, where the arrangements continue to be significant.</p> <p>Given the level of judgement applied and the potential for manipulation, we identified this key audit matter as a possible risk of fraud.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>We evaluated the design and implementation of relevant controls that the Group has established in relation to the recognition of supplier rebates.</p> <p>We tested that amounts recognised were accurate and recorded in the correct period based on the contractual performance obligations. We obtained and reviewed a sample of contracts with suppliers to assess the conditions required for rebate income to be recognised and verified whether or not these had been met.</p> <p>We circularised a sample of suppliers and/or agreed rebates to supplier agreement to give assurance that the arrangements recorded were accurate and complete and, where outstanding balances were significant at the year end, to confirm the amounts owed. Where responses were not received, we completed alternative procedures such as obtaining rebate contracts, understanding the contractual terms and recomputing the rebate recognised.</p> <p>For accrued volume-based agreements, we recalculated the rebates due based on shipments in the year and contractual terms. For other rebates, we also focussed on the timing of recognition of the rebate income based on the contractual performance obligations.</p>
<b>Key observations</b>	<p>We concluded that rebate income and the rebate accrual is materially correct and has been recognised in accordance with the Group's policy and in the correct period. We consider the disclosure given around supplier rebates to provide an appropriate understanding of the types of rebate income received and the impact on the Group's balance sheet as at 31 January 2019.</p>

## Independent auditor's report to the members of Kingfisher plc continued

### Impairment of store-based assets: France

#### Key audit matter description

As at 31 January 2019, the value of property, plant and equipment held by the Group was £3,454 million, as disclosed in note 14 to the financial statements (2017/18 £3,736 million).

A number of stores have been impaired following either poor trading performance, the exiting of the market or the implementation of a local store closure programme. Total net impairment across the Group, as disclosed in note 4, was £160 million.

Following these impairments, we consider the key impairment risk to be in relation to the Brico Dépôt France and Castorama France operating units due to recent trading performance.

There are several judgements in assessing store impairment that are set out below. We note that cash flow forecasting, impairment modelling and assessing property values are all inherently judgemental.

The key assumptions applied by management in their store impairment reviews are:

- determining the cash-generating units (CGUs) that show indicators of impairment. A CGU is determined to be an individual store;
- country-specific discount rates and long term growth rates;
- forecast store costs, including rent, staff payroll and general operating costs; and
- forecast contribution growth.

As detailed in note 2h (iii) to the financial statements, the Group uses vacant possession valuations to approximate fair value less costs to sell when considering impairment in relation to freehold stores.

#### How the scope of our audit responded to the key audit matter

- We evaluated the design and implementation of relevant controls in respect of the impairment reviews across the Group.
- We challenged the completeness and accuracy of the impairment models prepared by management. We also checked the mechanical accuracy of these models.
- We have assessed the discount rates applied in forming the impairment review against external benchmarks and used our internal valuation specialists in this assessment.
- We have evaluated the growth rates applied by management against external economic data.
- We have benchmarked the forecasts prepared in the current year against those prepared in the prior year and considered the implications of forecasting accuracy on these models.
- We have challenged the assumptions made by management in respect of forecast sales growth and margins through comparison to external information and performed sensitivity analysis based on internal and external reference data.
- We have agreed the vacant possession value of freehold property to third party valuation reports and challenged the inputs and valuation methodology applied, using our internal real estate specialists.
- We considered the disclosures within the financial statements against the requirements of IFRS.

#### Key observations

Whilst we identified certain judgemental differences in approach to management, these did not result in any material additional impairments over and above those recorded by management and we are satisfied that the carrying value of store-based assets is appropriate.

## Impairment of goodwill: France cash generating unit grouping

<b>Key audit matter description</b>	<p>As at 31 January 2019, the value of goodwill held by the Group was £2,436 million (2017/18: £2,437 million), as disclosed in note 12 to the financial statements.</p> <p>The goodwill attributable to CGUs is reviewed for impairment using a value in use model, as described in note 12 to the financial statements.</p> <p>Determining the carrying value of goodwill requires management to make significant estimates and judgements, including forecast cash flows and the discount and long term growth rates.</p> <p>As detailed in the financial review on page 36, there have been trading challenges in France and therefore we focused our work on the risk of impairment against the £523 million (2017/18: £524 million) of goodwill allocated to the France CGU.</p> <p>The Group's principal accounting policy on goodwill and intangible assets is on page 130.</p> <p>The carrying value of goodwill is a significant issue considered by the Audit Committee as discussed on page 72.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>In order to address this key audit matter we assessed the assumptions used in the impairment model for goodwill of the France cash generating unit. Our work included:</p> <ul style="list-style-type: none"><li>– evaluating the design and implementation of controls in place around the Group's impairment review;</li><li>– assessing whether management's cash flow forecasts are in compliance with IAS 36 'Impairment of Assets' and specifically that they exclude cash flows not permitted by IAS 36 such as costs and revenue that are considered an enhancement;</li><li>– agreeing the forecast cash flows to the relevant Board-approved business plans and challenging the forecast future cash flows in light of historic performance;</li><li>– assessing historical forecasting accuracy by comparing historic forecasts to actuals;</li><li>– comparing the long-term growth rates to external economic forecasts;</li><li>– assessing, in conjunction with our valuation specialists, the discount rates applied to the impairment review;</li><li>– assessing the appropriateness of the sensitivities applied by management and whether these gave rise to an impairment;</li><li>– checking the arithmetic accuracy of the impairment model; and</li><li>– reviewing the disclosures within the financial statements.</li></ul>
<b>Key observations</b>	<p>We concurred with the judgement made by management that no impairment is required against the French CGU's Goodwill. Based on sensitivity analysis performed using a reasonably possible change in assumptions, no impairment was identified.</p>

## Independent auditor's report to the members of Kingfisher plc continued

### Taxation matters : transfer pricing

<b>Key audit matter description</b>	<p>The Group files tax returns in many jurisdictions and is periodically subject to tax audits in the ordinary course of its business, including matters relating to transfer pricing, indirect taxes and transaction-related tax. Applicable tax laws and regulations are subject to differing interpretations and the resolution of a final tax position can take several years. Where it is considered that future tax liabilities are more likely than not to arise, an appropriate provision is recognised in the financial statements.</p> <p>Our key audit matter focused on the valuation of transfer pricing provisions as we consider this to be the most judgemental area of the provisioning given the range of possible outcomes and the number of tax authorities involved for a multinational Group such as Kingfisher plc.</p> <p>The Group's principal accounting policy for taxation is on page 132 and the sources of estimation uncertainty for taxation is on page 134 and tax disclosures are given in notes 9, 24 and 35.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<ul style="list-style-type: none"><li>– We evaluated the design and implementation of relevant controls around the valuation of transfer pricing provisions.</li><li>– The Group audit team, in conjunction with tax specialists, evaluated the tax positions taken by management in the context of local tax law and tested the accuracy and completeness of transfer pricing provisions. This included reviewing external opinions and other support received from the Group's tax advisers, which management has used in assessing the level of transfer pricing provisions to record.</li><li>– We further tested the valuation and accuracy of underlying schedules used to compute the transfer pricing provisions.</li><li>– We also involved our internal transfer pricing specialists to understand the approach taken to transfer pricing, the transactions that flow between Group entities including any changes in approach during the year.</li></ul>
<b>Key observations</b>	<p>We consider the provisions recorded for transfer pricing to be acceptable in the context of the Group's overall tax exposures and our materiality.</p> <p>We consider the overall clarity of disclosure in relation to tax provisioning and the discussion of contingent liabilities to be appropriate.</p>

## Classification and presentation of exceptional and adjusted items

<b>Key audit matter description</b>	<p>The presentation and consistency of costs and income within transformation costs and exceptional items is a key determinant in assessing the quality of the Group's underlying earnings.</p> <p>For the year ended 31 January 2019, the Group incurred non-exceptional transformation costs of £120 million (2017/18: £114 million) along with a net pre-tax exceptional balance of £251 million (2017/18: £nil) as shown in note 5.</p> <p>The presentation of certain income and costs as non-GAAP measures under IFRSs is judgemental, with IFRSs only requiring the separate presentation of material items. The exceptional items are expected to be non-recurring and are disclosed separately by virtue of their nature, size or incidence.</p> <p>Management judgement is required in determining whether an item meets the Group's definition of transformation costs or is exceptional and non-recurring and we therefore identified this key audit matter as a possible risk of inappropriate manipulation.</p> <p>The Group has established definitions of exceptional items and transformation costs. The Group's principal accounting policy on use of non-GAAP measures is on page 128 and the judgements made in applying the accounting policy is on page 135.</p> <p>The treatment and presentation of transformation costs and exceptional items is a significant issue considered by the Audit Committee as discussed on page 72.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<ul style="list-style-type: none"><li>– We evaluated the design and implementation of controls around the Group's classification of transformation costs and exceptional items.</li><li>– We agreed a sample of exceptional items and transformation costs to supporting evidence. We evaluated the presentation of items, both individually and in aggregate, considering consistency with the Group's definition of transformation costs and exceptional items and latest guidance from the FRC and the European Securities and Markets Authority. For exceptional items, we reviewed management's application of the policy on exceptional items for consistency with previous accounting periods.</li><li>– We also assessed whether the disclosures within the financial statements provide sufficient detail for the reader to understand the nature of these items.</li><li>– For all significant adjustments recorded in calculating underlying profits, we discussed the appropriateness of the item and any disclosure considerations with the Audit Committee.</li></ul>
<b>Key observations</b>	<p>As a result of our work, we are satisfied that the amounts classified as exceptional items and transformation costs are presented in accordance with the Group's stated accounting policy and that the related disclosure of these items in the financial statements is appropriate.</p>

## Independent auditor's report to the members of Kingfisher plc continued

### IFRS 16 'Leases' disclosure

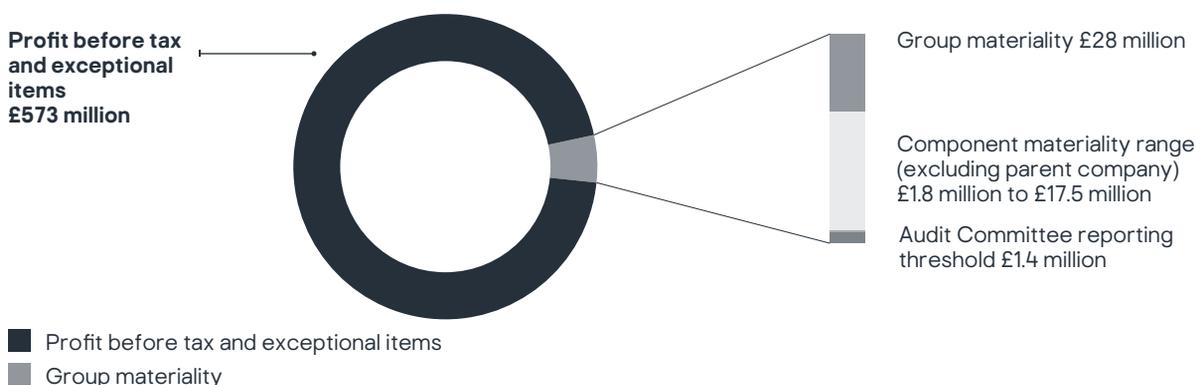
<b>Key audit matter description</b>	<p>In advance of adopting IFRS 16 'Leases' from 1 February 2019, the Group has finalised its assessment on the impact that IFRS 16 will have on the Group's balance sheet. The Group intends to adopt the standard retrospectively. The expected impact of IFRS 16 as at 31 January 2019 and on the results for the year ended 31 January 2019 is disclosed in note 37 to the 2018/19 financial statements. A number of judgements and estimates have been made in calculating the impact of the standard.</p> <p>In order to compute the transition impact of IFRS 16, a significant data extraction exercise was undertaken to summarise all property and equipment lease data such that the inputs can be uploaded into management's internal IFRS 16 model.</p> <p>Given the significant volume of leases, there is a significant risk that management either inaccurately extract lease data or do not identify all lease data required for modelling. Management judgement is also required in determining the implicit rate of interest in each lease when calculating the lease liability. The incremental borrowing rate (IBR) method has been adopted where the implicit rate of interest in a lease is not readily determinable. There is a risk that the judgements made when determining the IBR do not accurately reflect the implicit rate of interest in the lease.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<ul style="list-style-type: none"><li>– We evaluated the design and implementation of controls around the Group's transition to IFRS 16.</li><li>– We agreed a sample of leases to the original lease contract or other supporting documentation. We then recalculated the expected IFRS 16 adjustment for each lease sampled, using our internal IFRS 16 modelling template, to assess management's IFRS 16 calculation.</li><li>– We performed completeness procedures through a reconciliation of lease payments to the IFRS 16 lease data. We also considered the nature of key service contracts to assess whether they contained a lease under IFRS 16.</li><li>– We profiled all lease data against specific risk indicators to identify trends within the lease data that might indicate that the data was either incomplete or inaccurate.</li><li>– We benchmarked the IBR against external market data with input from our internal valuation specialists.</li><li>– We assessed whether the disclosures within the financial statements are appropriate in light of the requirements of IAS 1.</li></ul>
<b>Key observations</b>	<p>As a result of our work, we are satisfied that the disclosure of the expected impact of IFRS 16 is in accordance with the Group's stated accounting policy and that the related disclosure of these items in the financial statements is appropriate.</p>

## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
<b>Materiality</b>	£28 million (2017/18: £34 million)	£26.6 million (2017/18: £30.6m)
<b>Basis for determining materiality</b>	5% (2017/18: 5%) of profit before tax and exceptional items. Exceptional items are defined in note 2.	0.4% (2017/18: 0.5%) of net assets which is capped at 95% (2017/18: 90%) of Group materiality.
<b>Rationale for the benchmark applied</b>	<p>In determining our benchmark for materiality we considered the focus of the users of the financial statements.</p> <p>Profit before taxation and exceptional items was selected as the basis of materiality because this is the primary measure by which stakeholders and markets assess the performance of the Group.</p> <p>In coming to this judgement we also considered further benchmarks including revenue and net assets as alternative benchmarks.</p> <p>We excluded exceptional items when determining the basis for materiality because the items, primarily relating to impairments from store closure programmes and market exits, redundancy programmes and other costs arising from the implementation of the Unified Offer, do not form part of the underlying trading performance of the Group.</p>	<p>The Company is non-trading and contains the investments in all of the trading components in the Group.</p> <p>Company materiality was capped at a percentage of Group materiality.</p>



We determined performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at £19.6 million (2017/18: £23 million), representing 70% (2017/18: 68%) of Group materiality. In determining performance materiality, we considered factors including:

- our risk assessment, including our assessment of the Group’s overall control environment and that we consider it appropriate to rely on controls over a number of business processes; and
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.4 million (2017/18: £1.5 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

# Independent auditor's report to the members of Kingfisher plc continued

## An overview of the scope of our audit

### Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. The Group operates over 1,300 stores in 10 countries across Europe. All markets are wholly-owned with the exception of Turkey, which operates through a joint venture.

We focused our Group audit scope primarily on all significant trading entities, central sourcing and support entities and the Group head office entities. Full scope audits were performed for each of these entities, which included B&Q UK, Screwfix UK, KITS UK, Kingfisher Digital, KIPL UK, Castorama France, Brico Dépôt France, Castorama Poland, Castorama Russia, Brico Dépôt Romania, Praktiker Romania, Brico Dépôt Spain and the Koçtaş Turkey joint venture. All financial reporting is managed by local finance functions with Group oversight at the head office in London.

These entities represent the principal business units and account for 99% (2017/18: 99%) of the Group's revenue, 100% of the Group's profit before tax (2017/18: 97%) and 97% (2017/18: 93%) of the Group's net assets.



Our audit work at these locations was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and was set at £26.6 million (2017/18: £30.6 million) for the Company and ranged from £1.8 million to £17.5 million (2017/18: £2.7 million to £17.5 million) for all other components.

The entities which were out of our audit scope are primarily individually insignificant cost entities and other smaller operations. The locations in scope were selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

At a Group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full audit or audit of specified accounts balances.

### How we work closely with our component auditors

The Group audit team worked closely with the component auditors to involve them in our planning procedures and also to maintain oversight throughout the audit process. We communicated our requirements of the component auditor regularly throughout the year and issued referral instructions formalising our requirements of the component teams. We held an internal component team meeting where component teams meet with the Group audit team to discuss the planned audit approach and the risks within each component.

At least one senior member of the Group audit team maintained regular contact with the component audit teams and discussed significant audit matters arising from the performance of local audit procedures. Regular meetings with Group and component management were held throughout the year to build on the understanding of the significant audit matters within components to inform our Group audit approach.

The most significant components of the Group are its retail businesses in the UK, France and Poland. As such, there was a high level of communication between these teams to ensure an appropriate level of Group audit team involvement in the component audit work.

For each of these most significant components, a senior member of the Group audit team reviewed the component working papers including key planning and reporting documents, the procedures performed to address Group significant risks and the procedures performed to respond to other areas of focus and local significant risks, in order to satisfy ourselves that the Group audit team have obtained sufficient appropriate audit evidence in response to the identified risks. The Senior Statutory Auditor met with the component teams of B&Q UK, Screwfix UK, Castorama France, Brico Dépôt France and Castorama Poland at least once in the current year.

The Senior Statutory Auditor or another senior member of the Group audit team attended the audit close meeting of every component within Group audit scope. A senior member of the Group audit team reviewed the communications from component teams detailing matters relevant to our conclusion in relation to the Group audit and assessed the impact on our Group audit.

## Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon.

**We have nothing to report in respect of these matters.**

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information included where we conclude that:

- **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

## Responsibilities of directors

As explained more fully in the directors' statement of responsibility, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out on page 120.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Independent auditor's report to the members of Kingfisher plc continued

### Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

#### Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing amongst the engagement team including all component audit teams and involving relevant internal specialists, including tax, valuations, pensions, IT, real estate, financial instrument and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the areas of inventory valuation, the recognition of supplier rebates and the classification and presentation of exceptional and adjusted items; and
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the Companies Act 2006; the Listing Rules; UK corporate governance legislation and UK and overseas tax legislation.

#### Audit response to risks identified

Specifically, as a result of performing the above, we identified the following as key audit matters related to the potential risk of fraud:

- inventory valuation;
- recognition of supplier rebates; and
- classification and presentation of exceptional and adjusted items.

The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with taxation authorities; and
- in addressing the risk of fraud through management override of control
  - testing the appropriateness of journal entries and other adjustments;
  - assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and
  - evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

## Report on other legal and regulatory requirements

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

### Matters on which we are required to report by exception

---

#### Adequacy of explanations received and accounting records

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

**We have nothing to report in respect of these matters.**

---

#### Directors' remuneration

Under the Companies Act 2006, we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

**We have nothing to report in respect of these matters.**

---

## Other matters

### Auditor tenure

Following the recommendation of the Audit Committee, we were appointed as auditors by the Directors to fill a casual vacancy on 5 October 2009 and this was approved subsequently by the shareholders at the Annual General Meeting on 17 June 2010 to audit the financial statements for the year ending 30 January 2010 and subsequent financial periods. The period of total uninterrupted engagement, including previous renewals and reappointments of the firm, is 10 years, covering the years ending 30 January 2010 to 31 January 2019.

### Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

## Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

### Richard Muschamp FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom

19 March 2019

# Consolidated income statement

Year ended 31 January 2019

£ millions	Notes	2018/19			2017/18		
		Before exceptional items	Exceptional items (note 5)	Total	Before exceptional items	Exceptional items (note 5)	Total
<b>Sales</b>	4	<b>11,685</b>	<b>–</b>	<b>11,685</b>	11,655	–	11,655
Cost of sales		(7,376)	–	(7,376)	(7,352)	–	(7,352)
<b>Gross profit</b>		<b>4,309</b>	<b>–</b>	<b>4,309</b>	4,303	–	4,303
Selling and distribution expenses		(2,954)	(160)	(3,114)	(2,863)	14	(2,849)
Administrative expenses		(804)	(63)	(867)	(782)	(15)	(797)
Other income		27	29	56	24	1	25
Other expenses		–	(57)	(57)	–	–	–
Share of post-tax results of joint ventures and associates	16	2	–	2	3	–	3
<b>Operating profit</b>		<b>580</b>	<b>(251)</b>	<b>329</b>	685	–	685
Finance costs		(20)	–	(20)	(19)	–	(19)
Finance income		13	–	13	16	–	16
Net finance costs	6	(7)	–	(7)	(3)	–	(3)
<b>Profit before taxation</b>	7	<b>573</b>	<b>(251)</b>	<b>322</b>	682	–	682
Income tax expense	9	(165)	61	(104)	(197)	–	(197)
<b>Profit for the year</b>		<b>408</b>	<b>(190)</b>	<b>218</b>	485	–	485

Earnings per share	10		
Basic		<b>10.3p</b>	22.1p
Diluted		<b>10.2p</b>	22.0p
Adjusted basic		<b>19.8p</b>	21.8p
Adjusted diluted		<b>19.7p</b>	21.7p
Underlying basic		<b>23.9p</b>	25.5p
Underlying diluted		<b>23.8p</b>	25.4p

Reconciliation of non-GAAP underlying and adjusted pre-tax profit:

<b>Underlying pre-tax profit</b>		<b>693</b>	797
Transformation costs before exceptional items	4	(120)	(114)
<b>Adjusted pre-tax profit</b>		<b>573</b>	683
Financing fair value remeasurements		–	(1)
Exceptional items		(251)	–
<b>Profit before taxation</b>		<b>322</b>	682

The proposed final dividend for the year ended 31 January 2019, subject to approval by shareholders at the Annual General Meeting, is 7.49p per share.

# Consolidated statement of comprehensive income

Year ended 31 January 2019

£ millions	Notes	2018/19	2017/18
<b>Profit for the year</b>		<b>218</b>	485
Actuarial gains/(losses) on post-employment benefits	26	<b>78</b>	(58)
Inventory cash flow hedges – Fair value gains		<b>85</b>	–
Tax on items that will not be reclassified		<b>(53)</b>	16
<b>Total items that will not be reclassified subsequently to profit or loss</b>		<b>110</b>	(42)
Currency translation differences			
Group		<b>(46)</b>	84
Joint ventures and associates		<b>(2)</b>	(1)
Inventory cash flow hedges			
Fair value losses		–	(93)
Losses transferred to inventories		–	20
Other cash flow hedges			
Fair value losses		<b>(2)</b>	–
Losses transferred to income statement		<b>2</b>	–
Tax on items that may be reclassified		–	12
<b>Total items that may be reclassified subsequently to profit or loss</b>		<b>(48)</b>	22
<b>Other comprehensive income/(loss) for the year</b>		<b>62</b>	(20)
<b>Total comprehensive income for the year</b>		<b>280</b>	465

# Consolidated statement of changes in equity

Year ended 31 January 2019

£ millions	Notes	Share capital	Share premium	Own shares held	Retained earnings	Capital redemption reserve	Other reserves (note 28)	Total equity
<b>At 1 February 2018</b>		<b>340</b>	<b>2,228</b>	<b>(29)</b>	<b>3,790</b>	<b>35</b>	<b>384</b>	<b>6,748</b>
Profit for the year		-	-	-	218	-	-	218
Other comprehensive income for the year		-	-	-	46	-	16	62
<b>Total comprehensive income for the year</b>		-	-	-	<b>264</b>	-	<b>16</b>	<b>280</b>
Inventory cash flow hedges – Gains transferred to inventories		-	-	-	-	-	(22)	(22)
Share-based compensation	29	-	-	-	15	-	-	15
New shares issued under share schemes	27	-	-	-	2	-	-	2
Own shares issued under share schemes		-	-	4	(4)	-	-	-
Purchase of own shares for cancellation	27	(8)	-	-	(140)	8	-	(140)
Dividends	11	-	-	-	(231)	-	-	(231)
Tax on equity items		-	-	-	-	-	5	5
<b>At 31 January 2019</b>		<b>332</b>	<b>2,228</b>	<b>(25)</b>	<b>3,696</b>	<b>43</b>	<b>383</b>	<b>6,657</b>
<b>At 1 February 2017</b>		<b>352</b>	<b>2,221</b>	<b>(23)</b>	<b>3,837</b>	<b>22</b>	<b>362</b>	<b>6,771</b>
Profit for the year		-	-	-	485	-	-	485
Other comprehensive (loss)/income for the year		-	-	-	(42)	-	22	(20)
<b>Total comprehensive income for the year</b>		-	-	-	<b>443</b>	-	<b>22</b>	<b>465</b>
Share-based compensation	29	-	-	-	8	-	-	8
New shares issued under share schemes	27	1	7	-	-	-	-	8
Own shares issued under share schemes		-	-	7	(7)	-	-	-
Purchase of own shares for cancellation	27	(13)	-	-	(260)	13	-	(260)
Purchase of own shares for ESOP trust		-	-	(13)	-	-	-	(13)
Dividends	11	-	-	-	(231)	-	-	(231)
<b>At 31 January 2018</b>		<b>340</b>	<b>2,228</b>	<b>(29)</b>	<b>3,790</b>	<b>35</b>	<b>384</b>	<b>6,748</b>

# Consolidated balance sheet

At 31 January 2019

£ millions	Notes	2018/19	2017/18
<b>Non-current assets</b>			
Goodwill	12	2,436	2,437
Other intangible assets	13	371	355
Property, plant and equipment	14	3,454	3,736
Investment property	15	8	20
Investments in joint ventures and associates	16	20	25
Post-employment benefits	26	320	214
Deferred tax assets	24	9	30
Other receivables	18	10	8
		<b>6,628</b>	6,825
<b>Current assets</b>			
Inventories	17	2,574	2,701
Trade and other receivables	18	453	550
Derivative assets	22	26	41
Current tax assets		1	-
Cash and cash equivalents	19	229	230
Assets held for sale	33	89	-
		<b>3,372</b>	3,522
<b>Total assets</b>		<b>10,000</b>	10,347
<b>Current liabilities</b>			
Trade and other payables	20	(2,444)	(2,666)
Borrowings	21	(14)	(140)
Derivative liabilities	22	(21)	(79)
Current tax liabilities		(118)	(140)
Provisions	25	(35)	(25)
		<b>(2,632)</b>	(3,050)
<b>Non-current liabilities</b>			
Other payables	20	(64)	(61)
Borrowings	21	(162)	(36)
Derivative liabilities	22	(2)	-
Deferred tax liabilities	24	(286)	(264)
Provisions	25	(82)	(73)
Post-employment benefits	26	(115)	(115)
		<b>(711)</b>	(549)
<b>Total liabilities</b>		<b>(3,343)</b>	(3,599)
<b>Net assets</b>	4	<b>6,657</b>	6,748
<b>Equity</b>			
Share capital	27	332	340
Share premium		2,228	2,228
Own shares held in ESOP trust		(25)	(29)
Retained earnings		3,696	3,790
Capital redemption reserve		43	35
Other reserves	28	383	384
<b>Total equity</b>		<b>6,657</b>	6,748

The financial statements were approved by the Board of Directors on 19 March 2019 and signed on its behalf by:

**Véronique Laury**  
Chief Executive Officer

**Karen Witts**  
Chief Financial Officer

# Consolidated cash flow statement

Year ended 31 January 2019

£ millions	Notes	2018/19	2017/18
<b>Operating activities</b>			
Cash generated by operations	30	781	475
Income tax paid		(132)	(182)
<b>Net cash flows from operating activities</b>		<b>649</b>	293
<b>Investing activities</b>			
Purchase of property, plant and equipment and intangible assets	4	(339)	(368)
Purchase of businesses, net of cash acquired	32	–	(12)
Disposal of property, plant and equipment, investment property and intangible assets		45	6
Interest received		11	11
Dividends received from joint ventures and associates		5	–
<b>Net cash flows used in investing activities</b>		<b>(278)</b>	(363)
<b>Financing activities</b>			
Interest paid		(19)	(10)
Interest element of finance lease rental payments		(2)	(2)
Repayment of bank loans		(1)	(7)
Repayment of fixed term debt		(134)	–
Issue of fixed term debt		139	–
Receipt on financing derivatives		37	–
Capital element of finance lease rental payments		(10)	(11)
New shares issued under share schemes		2	8
Purchase of own shares for ESOP trust		–	(13)
Purchase of own shares for cancellation		(140)	(260)
Ordinary dividends paid to equity shareholders of the Company	11	(231)	(231)
<b>Net cash flows from financing activities</b>		<b>(359)</b>	(526)
<b>Net increase/(decrease) in cash and cash equivalents</b>			
		<b>12</b>	(596)
Cash and cash equivalents at beginning of year		230	795
Exchange differences		(13)	31
<b>Cash and cash equivalents at end of year</b>	19	<b>229</b>	230

# Notes to the consolidated financial statements

## 1 General information

Kingfisher plc ('the Company'), its subsidiaries, joint ventures and associates (together 'the Group') supply home improvement products and services through a network of retail stores and other channels, located mainly in the United Kingdom and continental Europe. The nature of the Group's operations and its principal activities is set out in the Strategic Report on pages 3 to 53.

The Company is incorporated in England, United Kingdom, and is listed on the London Stock Exchange. The address of its registered office is 3 Sheldon Square, Paddington, London W2 6PX. A full list of related undertakings of the Company and their registered offices is given in note 15 of the Company's separate financial statements.

These consolidated financial statements have been approved for issue by the Board of Directors on 19 March 2019.

## 2 Principal accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

### a. Basis of preparation

The consolidated financial statements of the Company, its subsidiaries, joint ventures and associates are made up to 31 January, except as disclosed in note 16 of the consolidated financial statements and in note 4 of the Company's separate financial statements. The current financial year is the year ended 31 January 2019 ('the year' or '2018/19'). The comparative financial year is the year ended 31 January 2018 ('the prior year' or '2017/18'). The consolidated income statement and related notes represent results for continuing operations, there being no discontinued operations in the years presented.

The directors of Kingfisher plc, having made appropriate enquiries, consider that adequate resources exist for the Group to continue in operational existence and that, therefore, it is appropriate to adopt the going concern basis in preparing the consolidated financial statements for the year ended 31 January 2019. Refer to the Strategic Report on page 52.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS') and those parts of the Companies Act 2006 applicable to companies reporting under IFRS and therefore the consolidated financial statements comply with Article 4 of the EU IAS legislation.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the use of valuations for certain financial instruments, share-based payments and post-employment benefits. A summary of the Group's principal accounting policies is set out below.

The preparation of financial statements in accordance with IFRS requires the use of certain accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving critical accounting estimates and judgements, which are significant to the consolidated financial statements, are outlined in note 3.

### Changes to accounting policies as a result of new standards issued and effective

The following new standards, which are mandatory for the first time for the financial year ended 31 January 2019, are relevant for the Group:

- IFRS 9, 'Financial instruments'; and
- IFRS 15, 'Revenue from contracts with customers'.

The Group has adopted IFRS 9 and IFRS 15 from 1 February 2018. The new standards have been adopted prospectively with no retrospective adjustments required. The effect of adopting these standards is outlined below.

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and addresses the classification, measurement and recognition of financial assets and liabilities, and introduces a new impairment model for financial assets as well as new hedge accounting rules. A detailed assessment of the new standard was undertaken and concluded that there are no material impacts on the consolidated financial statements, except for additional disclosure requirements relating to hedge accounting. The standard has also resulted in changes to the presentation of inventory cash flow hedge gains and losses within the consolidated statements of other comprehensive income and changes in equity.

IFRS 9 introduces the following new requirements:

- The classification and measurement of financial assets is now based on the entity's business model for managing the financial asset and its contractual cash flow characteristics. Given the nature of the Group's financial assets, comprising principally derivatives, trade and other receivables and cash, this has had no material impact.
- The new impairment model requires the recognition of expected credit losses, in contrast to the requirement to recognise incurred credit losses under IAS 39. The Group does not hold financial assets for which application of the new impairment model is significant. The Group's trade and other receivables mainly relate to trade receivables and rebates which comprise low individual balances with short maturity spread across a large number of unrelated customers and suppliers, resulting in low credit risk levels.

All Group hedging relationships designated under IAS 39 at 31 January 2018 met the criteria for hedge accounting under IFRS 9 at 1 February 2018, and are therefore regarded as continuing hedging relationships.

IFRS 15 replaces IAS 18 'Revenue' and establishes a principles-based approach to revenue recognition and measurement based on the concept of recognising revenue when performance obligations are satisfied.

The adoption of IFRS 15 has not had a material effect on the financial statements or the amount, timing or nature of revenue recognised by the Group. All revenue from the Group relates to contracts with customers and the Group does not apply significant judgment in determining the timing of satisfaction of its performance obligations or the transaction price allocated to those performance obligations, as the vast majority of the Group's revenue derives from in-store purchases of products by customers, where revenue is generally recognised at the point of cash receipt. Revenue arising from performance obligations satisfied over a period of time or at a future point in time (delivered products and services) typically have contract lengths of less than one year and represent only a small component of the Group's sales.

## Notes to the consolidated financial statements continued

### 2 Principal accounting policies continued

The Group's accounting policies for financial instruments and revenue recognition have been updated to reflect the above changes in requirements.

No retrospective adjustments, restatements or changes to opening retained earnings have been made to the financial statements as a result of adopting IFRS 9 and IFRS 15.

Other new standards, amendments and interpretations are in issue and effective for the Group's financial year ended 31 January 2019, but they do not have a material impact on the consolidated financial statements.

#### Standards issued but not yet effective

Refer to note 37 for details of the IFRS 16 'Leases' standard, which will be effective for the Group's 2019/20 financial year.

Other new standards, amendments and interpretations which are in issue but not yet effective are not expected to have a material impact on the consolidated financial statements.

#### Risks and uncertainties

The principal risks and uncertainties to which the Group is exposed, including those in relation to Brexit, are set out in the Strategic Report on pages 44 to 51.

#### Use of non-GAAP measures

In the reporting of financial information, the Group uses certain measures that are not required under IFRS, the generally accepted accounting principles ('GAAP') under which the Group reports. Kingfisher believes that retail profit, underlying pre-tax profit, adjusted pre-tax profit, adjusted effective tax rate, underlying earnings per share and adjusted earnings per share provide additional useful information on performance and trends to shareholders. These and other non-GAAP measures (also known as 'Alternative Performance Measures'), such as net cash, are used by Kingfisher for internal performance analysis and incentive compensation arrangements for employees. The terms 'retail profit', 'exceptional items', 'transformation costs', 'underlying', 'adjusted', 'adjusted effective tax rate' and 'net cash' are not defined terms under IFRS and may therefore not be comparable with similarly titled measures reported by other companies. They are not intended to be a substitute for, or superior to, GAAP measures.

Retail profit is defined as continuing operating profit before central costs, the Group's share of interest and tax of joint ventures and associates, transformation costs and exceptional items. It includes the sustainable benefits of the transformation plan. Central costs principally comprise the costs of the Group's head office before transformation costs and exceptional items.

The separate reporting of exceptional items, which are presented as exceptional within their relevant income statement category, helps provide an indication of the Group's ongoing business performance. The principal items which are included as exceptional items are:

- non-trading items included in operating profit such as profits and losses on the disposal, closure or impairment of subsidiaries, joint ventures, associates and investments which do not form part of the Group's trading activities;
- profits and losses on the disposal of properties and impairment losses on non-operational assets; and
- the costs of significant restructuring, including certain restructuring costs of the Group's five year transformation plan launched in 2016/17, and incremental acquisition integration costs.

The term 'adjusted' refers to the relevant measure being reported for continuing operations excluding exceptional items, financing fair value remeasurements, related tax items and prior year tax items (including the impact of changes in tax rates on deferred tax). Financing fair value remeasurements represent changes in the fair value of financing derivatives, excluding interest accruals, offset by fair value adjustments to the carrying amount of borrowings and other hedged items under fair value hedge relationships. Financing derivatives are those that relate to hedged items of a financing nature.

The term 'underlying' refers to the relevant adjusted measure being reported before non-exceptional transformation costs. Non-exceptional transformation costs represent the additional costs that arise 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 are incurred are not considered as exceptional items. These costs principally relate to the unified and unique offer range implementation and the digital strategic initiative. The separate reporting of such costs (in addition to exceptional items) helps provide an indication of the Group's underlying business performance, which includes the sustainable benefits of the transformation plan.

The 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 rate of tax.

Net cash comprises cash and cash equivalents and short-term deposits less borrowings and financing derivatives (excluding accrued interest).

#### b. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company, its subsidiaries, joint ventures and associates.

##### (i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries acquired are recorded under the acquisition method of accounting and their results included from the date of acquisition. The results of subsidiaries which have been disposed are included up to the effective date of disposal.

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-

controlling interests even if this results in the non-controlling interests having a deficit balance.

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interests in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of acquired subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### (ii) Joint ventures and associates

Joint ventures are entities over which the Group has joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The equity method is used to account for the Group's investments in joint ventures.

Associates are entities over which the Group has the ability to exercise significant influence but not control, generally accompanied by a shareholding of between 20% and 50% of the voting rights. The equity method is used to account for the Group's investments in associates.

Under the equity method, investments are initially recognised at cost. The Group's share of post-acquisition profits or losses is recognised in the income statement within operating profit, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses equals or exceeds its interest, including any other long-term receivables, the Group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the joint venture or associate.

Unrealised gains on transactions between the Group and its joint ventures and associates are eliminated to the extent of the Group's interest. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures and associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

The equity method of accounting is discontinued from the date an investment ceases to be a joint venture or associate, that is the date on which the Group ceases to have joint control or significant influence over the investee or on the date it is classified as held for sale.

### **c. Foreign currencies**

#### (i) Presentation and functional currencies

The consolidated financial statements are presented in Sterling, which is the Group's presentation currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (i.e. its functional currency).

#### (ii) Transactions and balances

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the date of the transaction or, for practical reasons, at average monthly rates where exchange rates do not fluctuate significantly.

Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange at the balance sheet date. Exchange differences on monetary items are taken to the income statement. Exceptions to this are where the monetary items form part of the net investment in a foreign operation or are designated and effective net investment or cash flow hedges. Such exchange differences are initially deferred in equity.

#### (iii) Group companies

The balance sheets of overseas subsidiaries are expressed in Sterling at the rates of exchange at the balance sheet date. Profits and losses of overseas subsidiaries are expressed in Sterling at average exchange rates for the period. Exchange differences arising on the retranslation of foreign operations, including joint ventures and associates, are recognised in a separate component of equity.

On consolidation, exchange differences arising from the retranslation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold, such exchange differences recorded since 1 February 2004 (being the date of transition to IFRS) are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rates of exchange at the balance sheet date. Goodwill arising prior to 1 February 2004 is denominated in Sterling, and not subsequently retranslated.

#### (iv) Principal rates of exchange against Sterling

	2018/19		2017/18	
	Average rate	Year end rate	Average rate	Year end rate
Euro	1.13	1.15	1.14	1.14
US Dollar	1.33	1.31	1.30	1.42
Polish Zloty	4.83	4.88	4.83	4.75
Russian Rouble	84.34	86.01	75.53	79.74

### **d. Revenue recognition**

Sales represent the supply of home improvement products and services. Sales exclude transactions made between companies within the Group, Value Added Tax, other sales-related taxes and are net of returns, trade and staff discounts.

Revenue is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue relating to sales of in-store products is generally recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the product and on cash receipt. Where customers have a right to return purchased goods in exchange for a refund, a liability for returns is recognised based on historic trends and offset against revenue in the period in which the sale was made. An asset (with a corresponding adjustment to Cost of sales) is also recognised for goods expected to be returned from customers.

Where award credits such as vouchers or loyalty points are provided as part of the sales transaction, the amount allocated to the credits is deferred and recognised when the credits are redeemed and the Group fulfils its obligations to supply the awards.

## Notes to the consolidated financial statements continued

### 2 Principal accounting policies continued

For delivered products and services, sales are recognised when the relevant performance obligations have been satisfied. Sales from delivered products and services represent only a small component of the Group's sales as the majority relates to in-store purchases of products.

Other income is primarily comprised of external rental income and gains on disposal of assets. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are capitalised and then depreciated on a straight-line basis over the lease term.

#### e. Rebates

Rebates received from suppliers mainly comprise volume related rebates on the purchase of inventories. Contractual volume related rebates are accrued as units are purchased based on the percentage rebate applicable to forecast total purchases over the rebate period, where it is probable the rebates will be received and the amounts can be estimated reliably. Discretionary rebates are not anticipated and only recognised once earned. Rebates relating to inventories purchased but still held at the balance sheet date are deducted from the carrying value so that the cost of inventories is recorded net of applicable rebates. Such rebates are credited to the Cost of sales line in the income statement when the goods are sold.

Other rebates received, such as those related to advertising and marketing, are credited to Cost of sales in the income statement when the relevant conditions have been fulfilled.

#### f. Dividends

Interim dividends are recognised when they are paid to the Company's shareholders. Final dividends are recognised when they are approved by the Company's shareholders.

#### g. Intangible assets

##### (i) Goodwill

Goodwill represents the future economic benefits arising from assets acquired in a business combination that are not individually identified and separately recognised. Such benefits include future synergies expected from the combination and intangible assets not meeting the criteria for separate recognition.

Goodwill is carried at cost less accumulated impairment losses. Goodwill is not amortised and is tested annually for impairment at country level, representing the lowest level at which it is monitored for internal management purposes, by assessing the recoverable amount of each cash generating unit or groups of cash generating units to which the goodwill relates. The recoverable amount is assessed by reference to the net present value of expected future pre-tax cash flows ('value-in-use') or fair value less costs to sell if higher. The pre-tax discount rates are derived from the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made for each country in which the cash generating unit ('CGU') operates. When the recoverable amount of the goodwill is less than its carrying amount, an impairment loss is recognised immediately in the income statement which cannot subsequently be reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

##### (ii) Computer software

Where software is not an integral part of a related item of computer hardware, it is classified as an intangible asset.

Costs that are directly associated with the acquisition or production of identifiable software products controlled by the Group, which are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Capitalised costs include those of software licences and development, including costs of employees, consultants and an appropriate portion of relevant overheads.

Costs associated with identifying, sourcing, evaluating or maintaining computer software are recognised as an expense as incurred.

Software under development is held at cost less any provisions for impairment, with impairment reviews being performed annually.

Amortisation commences when the software assets are available for use and is over their estimated useful lives of two to ten years.

#### h. Property, plant and equipment

##### (i) Cost

Property, plant and equipment held for use in the business are carried at cost less accumulated depreciation and any provisions for impairment.

Properties that were held at 1 February 2004 are carried at deemed cost, being the fair value of land and buildings as at the transition date to IFRS. All property acquired after 1 February 2004 is carried at cost less accumulated depreciation.

##### (ii) Depreciation

Depreciation is provided to reflect a straight-line reduction from cost to estimated residual value over the estimated useful life of the asset as follows:

Freehold land	– not depreciated
Freehold and long leasehold buildings	– over remaining useful life
Short leasehold land and buildings	– over remaining period of the lease
Fixtures and fittings	– between 4 and 20 years
Computers and electronic equipment	– between 3 and 5 years
Motor cars	– 4 years
Commercial vehicles	– between 3 and 10 years

Long leaseholds are defined as those having remaining lease terms of more than 50 years. Asset lives and residual values are reviewed at each balance sheet date.

##### (iii) Impairment

At each reporting date an assessment is performed as to whether there are any indicators that property, plant and equipment, including the Group's stores, may be impaired and, should such indicators exist, the assets' recoverable amounts are subsequently estimated. The recoverable amount is assessed by reference to the net present value of expected future pre-tax cash flows ('value-in-use') of the relevant cash generating unit or fair value less costs to sell if higher. For poorly performing stores, a vacant possession valuation basis is used to approximate the fair value less costs to sell. The pre-tax discount rates are derived from the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made for each country. Any impairment in value is charged to the income statement in the period in which it occurs.

#### (iv) Disposal

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement. Sales of land and buildings are accounted for when there is an unconditional exchange of contracts.

#### (v) Subsequent costs

Subsequent costs are included in the related asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

All other repairs and maintenance are charged to the income statement in the period in which they are incurred.

#### **i. Leased assets**

Where assets are financed by leasing agreements which give rights approximating to ownership, the assets are treated as if they had been purchased outright. The amount capitalised is the lower of the fair value of the leased asset or the present value of the minimum lease payments during the lease term at the inception of the lease. The assets are depreciated over the shorter of the lease term or their useful life. Obligations relating to finance leases, net of finance charges in respect of future periods, are included, as appropriate, under borrowings due within or after one year. The finance charge element of rentals is charged to finance costs in the income statement over the lease term.

All other leases are operating leases and the rental payments are generally charged to the income statement in the period to which the payments relate, except for those leases which incorporate fixed minimum rental uplift clauses. Leases which contain fixed minimum rental uplifts are charged to the income statement on a straight-line basis over the lease term.

Where a lease is taken out for land and buildings combined, the buildings element of the lease may be capitalised as a finance lease if it meets the criteria for a finance lease, but the land element will in most cases be classified as an operating lease. If the contracted lease payments are not split between land and buildings in the lease contract, the split is made based on the market values of the land and buildings at the inception of the lease.

Incentives received or paid to enter into lease agreements are released to the income statement on a straight-line basis over the lease term.

#### **j. Investment property**

Investment property is property held by the Group to earn rental income or for capital appreciation. Investment properties are carried at cost less depreciation and provision for impairment. Depreciation is provided on a consistent basis with that applied to property, plant and equipment.

#### **k. Capitalisation of borrowing costs**

Interest on borrowings to finance the construction of properties held as non-current assets is capitalised from the date work starts on the property to the date when substantially all the activities which are necessary to get the property ready for use are complete. Where construction is completed in parts, each part is considered separately when capitalising interest. Interest is capitalised before any allowance for tax relief.

#### **l. Inventories**

Inventories are carried at the lower of cost and net realisable value, on a weighted average cost basis.

Trade discounts and rebates received are deducted in determining the cost of purchase of inventories. Cost includes appropriate attributable overheads and direct expenditure incurred in the normal course of business in bringing goods to their present location and condition. Costs of inventories include the transfer from equity of any gains or losses on qualifying cash flow hedges relating to purchases.

Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. Write downs to net realisable value are made for slow moving, display, damaged or obsolete items and other events or conditions resulting in expected selling prices being lower than cost. The carrying value of inventories reflects known and expected losses of product in the ordinary course of business.

#### **m. Employee benefits**

##### (i) Post-employment benefits

The Group operates various defined benefit and defined contribution pension schemes for its employees, some of which are required by local legislation. A defined benefit scheme is a pension scheme which defines an amount of pension benefit which an employee will receive on retirement. A defined contribution scheme is a pension scheme under which the Group usually pays fixed contributions into a separate entity. In all cases other than some of the legally required schemes, a separate fund is being accumulated to meet the accruing liabilities. The assets of each of these funds are either held under trusts or managed by insurance companies and are entirely separate from the Group's assets.

The asset or liability recognised in the balance sheet in respect of defined benefit pension schemes is the fair value of scheme assets less the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds which are denominated in the currency in which the benefits will be paid and which have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited or charged to the statement of comprehensive income as they arise.

For defined contribution schemes, the Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

##### (ii) Share-based compensation

The Group operates several equity-settled, share-based compensation schemes. The fair value of the employee services received in exchange for the grant of options or deferred shares is recognised as an expense and is calculated using Black-Scholes and stochastic models. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or deferred shares granted, excluding the impact of any non-market vesting conditions. The value of the charge is adjusted to reflect expected and actual levels of options vesting due to non-market vesting conditions.

## Notes to the consolidated financial statements continued

### 2 Principal accounting policies continued

#### n. Taxation

The income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year.

The Group is subject to income taxes in numerous jurisdictions and there are many transactions for which the ultimate tax determination is uncertain during the ordinary course of business. For uncertain tax positions, on the basis that tax authorities have full knowledge of the relevant information it is determined whether it is probable that, in aggregate, an outflow of economic resources will occur following investigation. The potential impact of the relevant tax authority's examination of the uncertain tax positions is measured to make the best estimate of the amount of the tax benefit that may be lost, for which provisions are then recorded. Where the final outcome of these matters is different from the amounts which were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. These adjustments in respect of prior years are recorded in the income statement, or directly in equity, as appropriate.

Taxable profit differs from profit before taxation as reported in the income statement because it excludes items of income or expense which are taxable or deductible in other years or which are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences or unused tax losses can be utilised. Deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill in a business combination. Deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Current and deferred tax are calculated using tax rates which have been enacted or substantively enacted by the balance sheet date and are expected to apply in the period when the liability is settled or the asset is realised.

Current and deferred tax are charged or credited to the income statement, except when they relate to items charged or credited to other comprehensive income, in which case the current or deferred tax is also recognised in other comprehensive income.

Current and deferred tax assets and liabilities are offset against each other when they relate to income taxes levied by the same tax jurisdiction and when the Group intends to settle its current tax assets and liabilities on a net basis.

Operating levies, such as certain revenue, property and payroll-based taxes, are not treated as income tax and are included within operating profit. The timing of recognition of a liability to pay an operating levy is determined by the event identified under the relevant legislation that triggers the obligation to pay the levy.

#### o. Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

A provision is recorded if the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it. The unavoidable costs reflect the lease net cost of exiting the contract.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate which reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Credits or charges arising from changes in the rate used to discount the provisions are recognised within net finance costs.

Contingent liabilities are possible obligations arising from past events, whose existence will only be confirmed by future uncertain events that are not wholly within the Group's control, or present obligations where it is not probable that an outflow of resources will be required or the amount of the obligation cannot be reliably measured. If the outflow of economic resources is not considered remote, contingent liabilities are disclosed but not recognised in the financial statements.

#### p. Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or the Group has substantially transferred the risks and rewards of ownership. Financial liabilities (or a part of a financial liability) are derecognised when the obligation specified in the contract is discharged or cancelled or expires.

Financial assets and liabilities are offset only when the Group has a currently enforceable legal right to set-off the respective recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

##### (i) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks and other short-term highly liquid investments with original maturities of three months or less.

##### (ii) Borrowings

Interest bearing borrowings are recorded at the proceeds received, net of direct issue costs and subsequently measured at amortised cost. Where borrowings are in designated and effective fair value hedge relationships, adjustments are made to their carrying amounts to reflect the hedged risks. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are amortised to the income statement using the effective interest method.

##### (iii) Other investments (including short-term deposits)

Other investments may include equity investments (where the Group does not have control, joint control or significant influence in the investee), short-term deposits with banks and other investments with original maturities of more than three months. Any dividends received are recognised in the income statement. Changes in fair

value of the investments are recognised in the profit and loss as they arise unless the Group irrevocably elects at initial recognition (if criteria are met) to recognise changes in fair value through other comprehensive income. The fair value movements recognised in other comprehensive income are never reclassified to profit and loss, even if the asset is impaired, sold or otherwise derecognised.

(iv) Trade receivables

Trade receivables are initially recognised at fair value and are subsequently measured at amortised cost less any provision for bad and doubtful debts.

(v) Trade payables

Trade payables are initially recognised at fair value and are subsequently measured at amortised cost.

(vi) Derivatives and hedge accounting

Where hedge accounting is not applied, or to the extent to which it is not effective, changes in the fair value of derivatives are recognised in the income statement as they arise. Changes in the fair value of derivatives transacted as hedges of operating items and financing items are recognised in operating profit and net finance costs respectively.

Derivatives are initially recorded at fair value on the date a derivative contract is entered into, and are subsequently carried at fair value. The accounting treatment of derivatives and other financial instruments classified as hedges depends on their designation, which occurs at the start of the hedge relationship. The Group designates certain financial instruments as:

- a hedge of the fair value of an asset or liability or unrecognised firm commitment ('fair value hedge');
- a hedge of a highly probable forecast transaction or firm commitment ('cash flow hedge'); or
- a hedge of a net investment in a foreign operation ('net investment hedge').

**Fair value hedges**

For an effective hedge of an exposure to changes in fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry being recorded in the income statement. Gains or losses from remeasuring the corresponding hedging instrument are recognised in the same line of the income statement.

**Cash flow hedges**

Changes in the effective portion of the fair value of derivatives that are designated as hedges of future cash flows are recognised directly in other comprehensive income, with any ineffective portion being recognised immediately in the income statement where relevant. If the cash flow hedge of a firm commitment or forecast transaction results in the recognition of a non-financial asset or liability, then, at the time it is recognised, the associated gains or losses on the derivative that had previously been deferred in equity are included in the initial measurement of the non-financial asset or liability. For hedges that result in the recognition of a financial asset or liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

**Net investment hedges**

Where the Group hedges net investments in foreign operations through foreign currency borrowings, the gains or losses on the retranslation of the borrowings are recognised in other comprehensive income. If the Group uses derivatives as the hedging instrument, the effective portion of the hedge is recognised in other comprehensive income, with any ineffective portion being recognised immediately in the income statement. Gains and losses accumulated in equity are recycled through the income statement on disposal of the foreign operation.

In order to qualify for hedge accounting, the Group documents in advance the risk management objective and strategy for undertaking the hedge and the relationship between the item being hedged and the hedging instrument. The Group also documents and demonstrates an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis and provides an analysis of the sources of hedge ineffectiveness. The effectiveness testing is performed at half year and year end or upon a significant change in circumstances affecting the hedge effectiveness requirements.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument is retained in equity until the highly probable forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss deferred in equity is transferred to the income statement.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts, and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

**q. Assets and liabilities held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale.

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. This excludes financial assets, deferred tax assets and assets arising from employee benefits, which are measured according to the relevant accounting policy.

Property, plant and equipment and intangible assets are not depreciated once classified as held for sale. The Group ceases to use the equity method of accounting from the date on which an interest in a joint venture or an interest in an associate becomes classified as held for sale.

## Notes to the consolidated financial statements continued

### 3 Critical accounting estimates and judgements

The preparation of consolidated financial statements under IFRS requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The significant judgements applied in the preparation of the financial statements, along with estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill and other assets has been added to the list of sources of estimation uncertainty due to the weak performance of the Castorama France business, the announced exit of Russia and Iberia, planned property disposals and the store closures being considered.

Rebates have been removed from the list of sources of estimation uncertainty due to their declining significance within the business and judgement being significantly reduced at the Group's January financial year end for volume-based rebates (the significant majority of the Group's rebates) related to calendar year purchases.

#### Sources of estimation uncertainty

##### Inventories

As inventories are carried at the lower of cost and net realisable value, this requires the estimation of the eventual sales price of goods to customers in the future. A high degree of judgement is applied when estimating the impact on the carrying value of inventories of factors such as stock turn, range or delisted status, shrinkage, damage, obsolescence and range review activity. The quantity, age and condition of inventories are regularly measured and assessed as part of range reviews and inventory counts undertaken throughout the year and across the Group. Refer to note 17 for further information.

During the year, the Group has continued to unify its product offer, requiring judgements over the net realisable value of certain ranges being removed from the business. The level of inventory held at the year end has decreased in comparison with the prior year in line with the Group's stock reduction plans, however assessments have continued to be undertaken of those items that may become obsolete and the expected net realisable value of those items that will be sold.

##### Income taxes

The Group is subject to income taxes in numerous jurisdictions in which it operates and there are many transactions for which the ultimate tax determination is open to differing interpretations during the ordinary course of business. Significant judgement may therefore be required in determining the provision for income taxes in each of these territories. Where it is anticipated that additional taxes are probable, the Group recognises liabilities for the estimate of any potential exposure. These estimates are continually reassessed, and where the final outcome of these matters is different from the initially recorded amount, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. These adjustments in respect of prior years are recorded in the income statement, or directly in other comprehensive income as appropriate, and are disclosed in the notes to the accounts. Refer to notes 9, 24 and 35 for further information.

During the year, judgements have continued to be required around the likelihood of future tax liabilities arising for a dispute with the French tax authority regarding the treatment of interest paid, and for the European Commission's state aid investigation, for which further details are given in note 35.

##### **Impairment of goodwill and other assets**

The Group applies procedures to ensure that its assets are carried at no more than their recoverable amount. These procedures, by their nature, require estimates and assumptions to be made. The most significant are set out below.

The Group is required, on at least an annual basis, to test whether goodwill has suffered any impairment. As part of this testing the recoverable amounts of cash generating units have been determined based on value-in-use calculations. The use of this method requires the estimation of future cash flows expected to arise from the continuing operation of the cash generating unit and the choice of suitable discount and long-term growth rates in order to calculate the present value of the forecast cash flows. Actual outcomes could vary significantly from these estimates and sensitivity analyses are undertaken to assess the impact of projected benefits not being realised.

During the year, the Group has determined that for goodwill allocated to its mature markets, there is a significant level of headroom. Further information on the impairment tests undertaken, including the key assumptions, is given in note 12.

Property, plant and equipment and other intangible assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Computer software under development, including investments in the Group's unified IT system and digital home improvements services, is assessed for impairment annually. When a review for impairment is conducted, the recoverable amount of an asset or a cash generating unit is determined as the higher of fair value less costs to sell and value-in-use, calculated on the basis of management's assumptions and estimates.

During the year, the Group has recorded significant impairments for underperforming stores. This includes 15 stores across our business that we are considering closing in the next two years, 11 of which are in France, and 19 Screwfix Germany outlets. Impairments have been recognised where their carrying amounts exceeded their recoverable amounts. Impairments were also recorded for UK and Poland properties classified as held for sale and for assets in Russia and Iberia. Further information is given in notes 5 and 14.

#### Restructuring and onerous lease provisions

The Group carries a number of provisions in relation to historical and ongoing restructuring programmes, relating to both the cost of people change and the cost to exit stores and property contracts. For the latter, the ultimate costs and timing of cash flows are dependent on exiting the property lease contracts on the closed stores and subletting surplus space. Significant assumptions are used in making these calculations, in particular the nature, timing and value of mitigating the lease costs, including void periods and level of sublease income, and changes in these assumptions and future events could cause the value of these provisions to change. Refer to note 25 for further information.

The Group is considering closing 15 stores across the business over the next two years, 11 of which are in France, and 19 Screwfix Germany outlets. Onerous lease provisions have been recognised for those stores for which the unavoidable costs under the lease contracts exceed the benefits expected to be received under them. In 2016/17, the Group entered into a lease liability transaction with a third party to dispose of a number of UK leases following the closure of these stores, and the continued progress made during the current year has resulted in a reduction in the level of associated provisions held.

#### Post-employment benefits

The present value of the defined benefit liabilities recognised on the balance sheet is dependent on a number of market rates and assumptions including interest rates of high quality corporate bonds, inflation and mortality rates. The net interest expense or income is dependent on the interest rates of high quality corporate bonds and the net deficit or surplus position. The market rates and assumptions are based on the conditions at the time and changes in these can lead to significant movements in the estimated obligations. To help the reader understand the impact of changes in the key market rates and assumptions, a sensitivity analysis is provided in note 26.

#### **Judgements made in applying accounting policies**

##### Exceptional items and transformation costs

The Group separately reports exceptional items and transformation costs in order to calculate adjusted and underlying results, as it believes these measures provide additional useful information on underlying performance and trends to shareholders.

Judgement is required in determining whether an item should be classified as a non-exceptional transformation cost, exceptional item or included within underlying results.

The Group's definitions of exceptional items and transformation costs are outlined in note 2 (a) and have been applied consistently year on year. During the year the Group has recorded, before taxation, exceptional items of £251m and non-exceptional transformation costs of £120m. The exceptional items primarily relate to store closure programmes, costs of the Group's transformation and costs associated with markets to be exited or with integrating businesses recently acquired. The non-exceptional transformation costs relate principally to the unified and unique offer range implementation and the digital strategic pillar of the Group's transformation plan. Refer to notes 4 and 5 for further information on transformation costs and exceptional items.

## Notes to the consolidated financial statements continued

### 4 Segmental analysis

#### Income statement

£ millions	2018/19				Total
	UK & Ireland	France	Poland	Other International	
<b>Sales</b>	<b>5,061</b>	<b>4,272</b>	<b>1,431</b>	<b>921</b>	<b>11,685</b>
<b>Retail profit</b>	<b>399</b>	<b>209</b>	<b>181</b>	<b>(36)</b>	<b>753</b>
Central costs					(49)
Share of interest and tax of joint ventures and associates					(4)
Transformation costs before exceptional items					(120)
Exceptional items					(251)
<b>Operating profit</b>					<b>329</b>
Net finance costs					(7)
<b>Profit before taxation</b>					<b>322</b>

£ millions	2017/18				Total
	UK & Ireland	France	Poland	Other International	
<b>Sales</b>	<b>5,003</b>	<b>4,387</b>	<b>1,384</b>	<b>881</b>	<b>11,655</b>
<b>Retail profit</b>	<b>375</b>	<b>320</b>	<b>170</b>	<b>(16)</b>	<b>849</b>
Central costs					(46)
Share of interest and tax of joint ventures and associates					(4)
Transformation costs before exceptional items					(114)
<b>Operating profit</b>					<b>685</b>
Net finance costs					(3)
<b>Profit before taxation</b>					<b>682</b>

#### Balance sheet

£ millions	2018/19				Total
	UK & Ireland	France	Poland	Other International	
<b>Segment assets</b>	<b>1,579</b>	<b>1,533</b>	<b>702</b>	<b>519</b>	<b>4,333</b>
Central liabilities					(160)
Goodwill					2,436
Net cash					48
<b>Net assets</b>					<b>6,657</b>

£ millions	2017/18				Total
	UK & Ireland	France	Poland	Other International	
<b>Segment assets</b>	<b>1,589</b>	<b>1,643</b>	<b>685</b>	<b>477</b>	<b>4,394</b>
Central liabilities					(151)
Goodwill					2,437
Net cash					68
<b>Net assets</b>					<b>6,748</b>

## Other segmental information

	2018/19					Total
	Other International				Central	
	UK & Ireland	France	Poland	Other		
Capital expenditure	118	86	56	56	23	339
Depreciation and amortisation	127	85	25	25	10	272
Net impairment losses	85	42	5	22	6	160
Non-current assets <sup>1</sup>	3,069	2,049	694	439	38	6,289

	2017/18					Total
	Other International				Central	
	UK & Ireland	France	Poland	Other		
Capital expenditure	141	79	63	62	23	368
Depreciation and amortisation	122	84	22	20	6	254
Impairment losses/(gains)	–	1	(1)	1	–	1
Non-current assets <sup>1</sup>	3,326	2,105	678	435	29	6,573

1. Non-current assets comprise goodwill, other intangible assets, property, plant and equipment, investment property and investments in joint ventures and associates.

The operating segments disclosed above are based on the information reported internally to the Board of Directors and Group Executive, representing the geographical areas in which the Group operates. The Group only has one business segment being the supply of home improvement products and services. The majority of the sales in each geographical area are derived from in-store sales of products.

The 'Other International' segment consists of Poland, Spain, Portugal, Germany, Russia, Romania and the joint venture Koçtaş in Turkey. Poland has been shown separately due to its significance.

Central costs principally comprise the costs of the Group's head office before transformation costs and exceptional items. Central liabilities comprise unallocated head office and other central items including pensions, insurance, interest and tax.

Transformation costs before exceptional items principally relate to the unified and unique offer range implementation and the digital strategic pillar, with £47m (2017/18: £42m) included within selling and distribution expenses and £73m (2017/18: £72m) included within administrative expenses.

## 5 Exceptional items

£ millions	2018/19	2017/18
<b>Included within selling and distribution expenses</b>		
UK & Ireland and continental Europe restructuring	(111)	12
Impairments of Russia and Iberia assets	(16)	–
B&Q store replenishment	(12)	–
Romania acquisition integration	(15)	2
France exceptional employee bonus	(6)	–
	<b>(160)</b>	<b>14</b>
<b>Included within administrative expenses</b>		
Transformation exceptional costs	(58)	(15)
UK guaranteed minimum pension charge	(5)	–
	<b>(63)</b>	<b>(15)</b>
<b>Included within other income/expenses</b>		
Profit on disposal of properties	29	1
Impairments of properties held for sale	(57)	–
	<b>(28)</b>	<b>1</b>
<b>Exceptional items before tax</b>	<b>(251)</b>	<b>–</b>
Tax on exceptional items	61	–
<b>Exceptional items</b>	<b>(190)</b>	<b>–</b>

Current year exceptional items include a £111m net restructuring charge principally relating to impairments for underperforming stores. This includes 15 stores across our business that we are considering closing in the next two years, 11 of which are in France, and 19 Screwfix Germany outlets. In the prior year, a £12m credit was recognised, principally due to savings on B&Q store exit costs as compared with the original restructuring provisions recognised.

Impairments of £16m have been recorded relating to assets, including stores and non-operational assets, in Russia and Iberia. We announced in November 2018 the decision to exit these markets.

Costs of £12m have been recognised relating to B&Q redundancies associated with the local transfer of store replenishment routines from the night-time into the daytime.

## Notes to the consolidated financial statements continued

### 5 Exceptional items continued

Romania acquisition integration costs of £15m principally comprise the costs of closure of certain Praktiker stores acquired in November 2017.

Our businesses in France have experienced significant disruption from national demonstrations. In line with a number of other large corporates, we have committed to paying our staff an exceptional end-of-year bonus, resulting in a charge of £6m in the year.

In February 2018, the Group commenced formal consultation with employee representatives regarding its plans in France to restructure the business as part of the Group's transformation plan. Transformation exceptional costs of £58m have been recorded in the year, principally representing restructuring costs in France of £39m and other costs of people change in the UK.

In the UK we have incurred a £5m charge for the equalisation of guaranteed minimum pension benefits between men and women. This increases the liabilities of our UK defined benefit scheme, which was closed to future accrual in 2012.

A profit of £29m has been recorded on the disposal of properties in the UK and France. In addition, impairment losses of £57m have been recognised in advance of planned disposals for properties classified as held for sale in the UK and Poland.

### 6 Net finance costs

£ millions	2018/19	2017/18
Bank overdrafts and bank loans	(15)	(10)
Fixed term debt	(3)	(2)
Finance leases	(2)	(2)
Financing fair value remeasurements	–	(1)
Unwinding of discount on provisions	(2)	(1)
Capitalised interest	2	2
Other interest payable	–	(5)
<b>Finance costs</b>	<b>(20)</b>	<b>(19)</b>
Cash and cash equivalents and short term deposits	9	8
Net interest income on defined benefit pension schemes	4	5
Other interest income	–	3
<b>Finance income</b>	<b>13</b>	<b>16</b>
<b>Net finance costs</b>	<b>(7)</b>	<b>(3)</b>

Fixed term debt interest includes net interest income accrued on derivatives of £2m (2017/18: £8m income) and amortisation of issue costs of borrowings of £1m (2017/18: £1m).

Financing fair value remeasurements comprise a net gain on derivatives, excluding accrued interest, of £18m (2017/18: £30m loss), offset by a net loss from fair value adjustments to the carrying value of borrowings and cash of £18m (2017/18: £29m gain).

## 7 Profit before taxation

The following items of revenue have been credited in arriving at profit before taxation:

£ millions	2018/19	2017/18
Sales	<b>11,685</b>	11,655
Other income	<b>56</b>	25
Finance income	<b>13</b>	16
<b>Revenue</b>	<b>11,754</b>	11,696

The following items of expense/(income) have been charged/(credited) in arriving at profit before taxation:

£ millions	2018/19	2017/18
Operating lease rentals		
Minimum lease payments – Property <sup>1</sup>	<b>425</b>	408
Minimum lease payments – Equipment	<b>38</b>	36
Sublease income	<b>(1)</b>	(1)
	<b>462</b>	443
Research and development recognised as an expense	<b>7</b>	15
Rental income received on investment property	<b>(2)</b>	(2)
Amortisation of intangible assets <sup>2</sup>	<b>60</b>	56
Depreciation of property, plant and equipment and investment property:		
Owned assets	<b>199</b>	189
Under finance leases	<b>13</b>	9
Impairment of intangible assets	<b>11</b>	–
Impairment of property, plant and equipment	<b>152</b>	5
Reversal of impairment of property, plant and equipment	<b>(3)</b>	(4)
(Gain)/loss on disposal:		
Land and buildings and investment property	<b>(29)</b>	(1)
Fixtures, fittings and equipment	<b>4</b>	3
Write down to recoverable value of trade and other receivables	<b>1</b>	5

1. Excludes rentals provided against as part of exceptional restructuring provision (see note 25).

2. Of the amortisation of intangible assets charge, £1m (2017/18: £1m) and £59m (2017/18: £55m) are included in selling and distribution expenses and administrative expenses respectively.

### Auditor's remuneration

£ millions	2018/19	2017/18
Fees payable for the audit of the Company and consolidated financial statements	<b>0.5</b>	0.4
Fees payable to the Company's auditor and their associates for other services to the Group:		
The audit of the Company's subsidiaries pursuant to legislation	<b>1.4</b>	1.3
<b>Audit fees</b>	<b>1.9</b>	1.7
Audit-related assurance services	<b>0.1</b>	0.1
Other assurance services	<b>0.2</b>	0.3
Non-audit fees	<b>0.3</b>	0.4
<b>Auditor's remuneration</b>	<b>2.2</b>	2.1

Details of the Group's policy on the use of auditors for non-audit services, the reasons why the auditor was used rather than another supplier and how the auditor's independence and objectivity were safeguarded are set out in the Audit Committee Report on page 74. No services were provided pursuant to contingent fee arrangements.

## Notes to the consolidated financial statements continued

### 8 Employees and directors

£ millions	2018/19	2017/18
Wages and salaries	1,431	1,416
Social security costs	278	276
Post-employment benefits		
Defined contribution	23	26
Defined benefit (service cost)	13	11
Share-based compensation	15	8
<b>Employee benefit expenses</b>	<b>1,760</b>	<b>1,737</b>

Number thousands	2018/19	2017/18
Stores	73	72
Administration	6	6
<b>Average number of persons employed</b>	<b>79</b>	<b>78</b>

The average number of persons employed excludes those employed by the Group's joint ventures and associates.

#### Remuneration of key management personnel

£ millions	2018/19	2017/18
Short-term employee benefits	7.7	6.4
Post-employment benefits	0.6	0.5
Termination benefits	–	0.7
Share-based compensation	3.8	3.8
	<b>12.1</b>	<b>11.4</b>

The Group defines key management personnel as being those members of the Board of Directors and the Group Executive.

Further detail with respect to the Directors' remuneration is set out in the Directors' Remuneration Report on pages 76 to 99. Other than as set out in the Directors' Remuneration Report, there have been no transactions with key management during the year (2017/18: £nil).

### 9 Income tax expense

£ millions	2018/19	2017/18
<b>UK corporation tax</b>		
Current tax on profits for the year	(52)	(32)
Adjustments in respect of prior years	(1)	(8)
	<b>(53)</b>	<b>(40)</b>
<b>Overseas tax</b>		
Current tax on profits for the year	(66)	(152)
Adjustments in respect of prior years	7	(2)
	<b>(59)</b>	<b>(154)</b>
<b>Deferred tax</b>		
Current year	27	(20)
Adjustments in respect of prior years	(19)	1
Adjustments in respect of changes in tax rates	–	16
	<b>8</b>	<b>(3)</b>
<b>Income tax expense</b>	<b>(104)</b>	<b>(197)</b>

### Factors affecting tax charge for the year

The tax charge for the year differs from the standard rate of corporation tax in the UK of 19% (2017/18: 19%). The differences are explained below:

£ millions	2018/19	2017/18
Profit before taxation	322	682
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2017/18: 19%)	(61)	(130)
Net expense not deductible for tax purposes	(16)	(5)
Temporary differences:		
Losses not recognised	(14)	(2)
Foreign tax rate differences	-	(67)
Adjustments in respect of prior years	(13)	(9)
Adjustments in respect of changes in tax rates	-	16
Income tax expense	(104)	(197)

The adjusted effective tax rate, based on profit before exceptional items and excluding prior year tax adjustments and the impact of changes in tax rates on deferred tax, is 27% (2017/18: 30%). The reduction in the adjusted effective tax rate is largely due to the one-off French tax surcharge that was applicable in 2017/18. Tax on exceptional items for the year amount to a credit of £61m (2017/18: £nil). The effective tax rate calculation is set out in the Financial Review on page 36.

The overall tax rate for the year is 32% (2017/18: 29%). This predominately reflects the reversal of previously recognised tax losses in some overseas markets. This has resulted in an increased deferred tax prior year charge in the year, as well as foregoing current year deferred tax credits. This has been partially offset by movements on prior year provisions which reflect a reassessment of expected outcomes, agreed positions with tax authorities and items that have time expired.

In addition to the amounts charged to the income statement, tax of £48m has been debited directly to equity (2017/18: £28m debit) of which a £4m credit (2017/18: £2m debit) is included in current tax and a £52m debit (2017/18: £26m debit) is included in deferred tax and principally relates to post-employment benefits.

### Changes in tax rates

The UK corporation tax rate has been legislated to fall to 17% from 1 April 2020. The surcharge in France that retrospectively increased the applicable rate to 44.43% in the prior year was a one-off. Enacted legislation will progressively reduce the applicable rate in France to 25.83% by 2022/23, with the first reduction applicable to Kingfisher Group companies in the accounting period ended 31 January 2020 when the rate will become 32.02%. The intervening rates applicable will be 28.92% (2020/21) and 27.37% (2021/22). These accounts reflect all the above enacted future rates, where appropriate.

## Notes to the consolidated financial statements continued

### 10 Earnings per share

	2018/19			2017/18		
	Earnings £ millions	Weighted average number of shares millions	Earnings per share pence	Earnings £ millions	Weighted average number of shares millions	Earnings per share pence
<b>Basic earnings per share</b>	<b>218</b>	<b>2,129</b>	<b>10.3</b>	485	2,192	22.1
Effect of dilutive share options	–	11	(0.1)	–	9	(0.1)
<b>Diluted earnings per share</b>	<b>218</b>	<b>2,140</b>	<b>10.2</b>	485	2,201	22.0
<b>Basic earnings per share</b>	<b>218</b>	<b>2,129</b>	<b>10.3</b>	485	2,192	22.1
Exceptional items before tax	251		11.8	–		–
Tax on exceptional and prior year items	(48)		(2.3)	(7)		(0.3)
Financing fair value remeasurements	–		–	1		–
<b>Adjusted basic earnings per share</b>	<b>421</b>	<b>2,129</b>	<b>19.8</b>	479	2,192	21.8
Transformation costs before exceptional items	120		5.6	114		5.2
Tax on transformation costs before exceptional items	(32)		(1.5)	(35)		(1.5)
<b>Underlying basic earnings per share</b>	<b>509</b>	<b>2,129</b>	<b>23.9</b>	558	2,192	25.5
<b>Diluted earnings per share</b>	<b>218</b>	<b>2,140</b>	<b>10.2</b>	485	2,201	22.0
Exceptional items before tax	251		11.8	–		–
Tax on exceptional and prior year items	(48)		(2.3)	(7)		(0.3)
Financing fair value remeasurements	–		–	1		–
<b>Adjusted diluted earnings per share</b>	<b>421</b>	<b>2,140</b>	<b>19.7</b>	479	2,201	21.7
Transformation costs before exceptional items	120		5.6	114		5.2
Tax on transformation costs before exceptional items	(32)		(1.5)	(35)		(1.5)
<b>Underlying diluted earnings per share</b>	<b>509</b>	<b>2,140</b>	<b>23.8</b>	558	2,201	25.4

Basic earnings per share is calculated by dividing the profit for the year attributable to equity shareholders of the Company by the weighted average number of shares in issue during the year, excluding those held in the Employee Share Ownership Plan trust ('ESOP trust') which for the purpose of this calculation are treated as cancelled.

For diluted earnings per share, the weighted average number of shares is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where both the exercise price is less than the average market price of the Company's shares during the year and any related performance conditions have been met.

### 11 Dividends

£ millions	2018/19	2017/18
<b>Dividends paid to equity shareholders of the Company</b>		
Ordinary interim dividend for the year ended 31 January 2019 of 3.33p per share (31 January 2018: 3.33p per share)	71	72
Ordinary final dividend for the year ended 31 January 2018 of 7.49p per share (31 January 2017: 7.15p per share)	160	159
	<b>231</b>	<b>231</b>

The proposed final dividend for the year ended 31 January 2019 of 7.49p per ordinary share (amounting to £158m, based on the issued share capital at the year end) is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

## 12 Goodwill

£ millions

<b>Cost</b>	
At 1 February 2018	2,452
Exchange differences	(1)
At 31 January 2019	2,451
<b>Impairment</b>	
At 1 February 2018	(15)
At 31 January 2019	(15)
<b>Net carrying amount</b>	
At 31 January 2019	2,436

<b>Cost</b>	
At 1 February 2017	2,414
Additions	36
Exchange differences	2
At 31 January 2018	2,452

<b>Impairment</b>	
At 1 February 2017	(15)
At 31 January 2018	(15)

<b>Net carrying amount</b>	
At 31 January 2018	2,437

During the prior year the Group acquired Praktiker Romania S.A. resulting in additions to goodwill of £36m (see note 32).

### Impairment tests for goodwill

Goodwill has been allocated for impairment testing purposes to groups of cash generating units ('CGUs') as follows:

£ millions	UK	France	Poland	Romania	Total
At 31 January 2019					
Cost	1,796	523	81	51	2,451
Impairment	-	-	-	(15)	(15)
Net carrying amount	1,796	523	81	36	2,436
At 31 January 2018					
Cost	1,796	524	81	51	2,452
Impairment	-	-	-	(15)	(15)
Net carrying amount	1,796	524	81	36	2,437

The recoverable amounts of the CGUs have been determined based on value-in-use calculations.

The groups of CGUs for which the carrying amount of goodwill is deemed significant are the UK, France and Poland. The key assumptions used for value-in-use calculations are set out below.

## Notes to the consolidated financial statements continued

### 12 Goodwill continued

#### Assumptions

The cash flow projections are based on approved strategic plans covering at least a three-year period. These are based on both past performance and expectations for future market development. The projections reflect certain benefits of the 'ONE Kingfisher' plan, including creating a unified, unique and leading offer and optimising operational efficiency. For further details, refer to the Strategic Report on pages 3 to 53.

Key drivers in the strategic plans are sales growth, margin and operating profit percentages. Sales projections take into consideration both external factors such as market expectations, and internal factors such as trading plans and certain elements of the Group's transformation plan. They assume sales increases in each country that are higher than recent experience and market growth expectations, driven by an improved and differentiated offer. Assumed margin percentage improvements reflect a lower cost of goods sold from leveraging the Group's buying scale through a unified offer, which will be partially offset by range clearance and implementation costs. Higher assumed operating profit percentages reflect operational leverage from increased sales as well as cost savings through operational efficiencies, in particular from unifying goods not for resale spend.

Cash flows beyond the period of the strategic plans are calculated using a growth rate which does not exceed the long-term average growth rate for retail businesses operating in the same countries as the CGUs.

The Board has reviewed a sensitivity analysis and does not consider that a reasonably possible change in the assumptions used in the value-in-use calculations would cause the carrying amounts of the UK, France and Poland CGUs to exceed their recoverable amounts.

The pre-tax discount rates are derived from the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made for each country in which the CGU operates.

The risk adjusted nominal discount rates and long-term nominal growth rates used are as follows:

Annual % rate	2018/19			
	UK	France	Poland	Romania
Pre-tax discount rate	8.7	7.5	8.8	11.8
Post-tax discount rate	7.7	6.3	7.8	10.7
Long-term growth rate	3.0	2.8	3.6	3.6

Annual % rate	2017/18			
	UK	France	Poland	Romania
Pre-tax discount rate	8.5	8.8	10.1	13.0
Post-tax discount rate	7.6	7.0	8.9	11.7
Long-term growth rate	3.2	2.6	3.5	3.9

### 13 Other intangible assets

£ millions	Computer software	Other	Total
<b>Cost</b>			
At 1 February 2018	643	15	658
Additions	88	-	88
Disposals	(30)	-	(30)
Exchange differences	(1)	-	(1)
At 31 January 2019	700	15	715
<b>Amortisation</b>			
At 1 February 2018	(294)	(9)	(303)
Charge for the year	(59)	(1)	(60)
Impairment losses	(11)	-	(11)
Disposals	29	-	29
Exchange differences	1	-	1
At 31 January 2019	(334)	(10)	(344)
<b>Net carrying amount</b>			
At 31 January 2019	366	5	371
<b>Cost</b>			
At 1 February 2017	708	14	722
Acquisition of subsidiaries	-	1	1
Additions	100	-	100
Disposals	(170)	-	(170)
Exchange differences	5	-	5
At 31 January 2018	643	15	658
<b>Amortisation</b>			
At 1 February 2017	(405)	(9)	(414)
Charge for the year	(56)	-	(56)
Disposals	170	-	170
Exchange differences	(3)	-	(3)
At 31 January 2018	(294)	(9)	(303)
<b>Net carrying amount</b>			
At 31 January 2018	349	6	355

Additions in the current and prior year primarily related to the development of IT infrastructure for the benefit of the Group. This included the unified IT platform, which is amortised over its estimated useful life of 10 years as it becomes available for use in the operating companies.

Computer software includes £233m (2017/18: £191m) of internally generated development costs.

None of the Group's other intangible assets have indefinite useful lives.

## Notes to the consolidated financial statements continued

### 14 Property, plant and equipment

£ millions	Land and buildings	Fixtures, fittings and equipment	Total
<b>Cost</b>			
At 1 February 2018	3,322	2,859	6,181
Additions	99	157	256
Disposals	(67)	(40)	(107)
Transfers to assets held for sale	(145)	–	(145)
Exchange differences	(34)	(11)	(45)
At 31 January 2019	3,175	2,965	6,140
<b>Depreciation</b>			
At 1 February 2018	(526)	(1,919)	(2,445)
Charge for the year	(44)	(168)	(212)
Impairment reversals	2	1	3
Impairment losses	(126)	(26)	(152)
Disposals	8	37	45
Transfers to assets held for sale	63	–	63
Exchange differences	6	6	12
At 31 January 2019	(617)	(2,069)	(2,686)
<b>Net carrying amount</b>			
At 31 January 2019	2,558	896	3,454
<b>Cost</b>			
At 1 February 2017	3,183	2,760	5,943
Additions	103	192	295
Acquisition of subsidiaries	3	6	9
Disposals	(9)	(124)	(133)
Exchange differences	42	25	67
At 31 January 2018	3,322	2,859	6,181
<b>Depreciation</b>			
At 1 February 2017	(488)	(1,866)	(2,354)
Charge for the year	(43)	(155)	(198)
Impairment reversals	3	1	4
Impairment losses	(2)	(3)	(5)
Disposals	7	121	128
Exchange differences	(3)	(17)	(20)
At 31 January 2018	(526)	(1,919)	(2,445)
<b>Net carrying amount</b>			
At 31 January 2018	2,796	940	3,736
<b>Assets in the course of construction included above at net carrying amount</b>			
At 31 January 2019	66	85	151
At 31 January 2018	64	81	145
<b>Assets held under finance leases included above at net carrying amount</b>			
At 31 January 2019	7	24	31
At 31 January 2018	11	30	41

Net impairment losses of £149m have been recorded in the year (2017/18: £1m). The impairment losses principally relate to UK and Poland properties classified as held for sale, underperforming stores, and assets in Russia and Iberia. These were based on a determination of recoverable amounts of the stores as the net present value of future pre-tax cash flows ('value-in-use') or fair value less costs to sell (using market valuations performed by independent external valuers) if higher.

The cumulative total of capitalised borrowing costs included within property, plant and equipment, net of depreciation, is £29m (2017/18: £27m).

Land and buildings are analysed as follows:

£ millions	2018/19			2017/18
	Freehold	Long leasehold	Short leasehold	Total
Cost	2,579	191	405	3,175
Depreciation	(316)	(37)	(264)	(617)
<b>Net carrying amount</b>	<b>2,263</b>	<b>154</b>	<b>141</b>	<b>2,558</b>

Included in land and buildings is leasehold land that is in effect a prepayment for the use of land and is accordingly being amortised on a straight-line basis over the estimated useful life of the assets. The net carrying amount of leasehold land included in land and buildings at 31 January 2019 is £140m (2017/18: £144m).

The Group does not revalue properties within its financial statements. A valuation exercise is performed for internal purposes annually in October by independent external valuers. Based on this exercise the value of property is £3.3bn (2017/18: £3.5bn) on a sale and leaseback basis with Kingfisher in occupancy. The key assumption used in calculating this is the estimated yields. Property, plant and equipment market valuations are considered to have been determined by level 3 inputs as defined by the fair value hierarchy of IFRS 13, 'Fair value measurement'. For poorly performing stores, a vacant possession valuation basis is used to approximate the fair value less costs to sell when reviewing for impairment.

## 15 Investment property

£ millions

<b>Cost</b>	
At 1 February 2018	27
Disposals	(5)
Transfers to assets held for sale	(11)
At 31 January 2019	11
<b>Depreciation</b>	
At 1 February 2018	(7)
Transfers to assets held for sale	4
At 31 January 2019	(3)
<b>Net carrying amount</b>	
At 31 January 2019	8
<b>Cost</b>	
At 1 February 2017	36
Disposals	(9)
At 31 January 2018	27
<b>Depreciation</b>	
At 1 February 2017	(12)
Disposals	6
Exchange differences	(1)
At 31 January 2018	(7)
<b>Net carrying amount</b>	
At 31 January 2018	20

A property valuation exercise is performed for internal purposes annually as described in note 14. Based on this exercise the fair value of investment property is £9m (2017/18: £47m). All the investment property market valuations are considered to have been determined by level 3 inputs as defined by the fair value hierarchy of IFRS 13, 'Fair value measurement'.

## Notes to the consolidated financial statements continued

### 16 Investments in joint ventures and associates

£ millions

At 1 February 2018	25
Share of post-tax results	2
Dividends	(5)
Exchange differences	(2)
At 31 January 2019	20
At 1 February 2017	23
Share of post-tax results	3
Exchange differences	(1)
At 31 January 2018	25

No goodwill is included in the carrying amount of investments in joint ventures and associates (2017/18: £nil).

Details of the Group's significant joint ventures and associates are shown below:

	Principal place of business	% interest held	Class of shares owned	Main activity
Principal joint venture				
Koçtaş Yapi Marketleri Ticaret A.S. <sup>1</sup>	Turkey	50%	Ordinary	Retailing
Principal associate				
Crealfi S.A. <sup>1</sup>	France	49%	Ordinary	Finance

1. The financial statements of these companies are prepared to 31 December.

Aggregate amounts relating to joint ventures and associates:

£ millions	2018/19			2017/18		
	Joint ventures	Associates	Total	Joint ventures	Associates	Total
Non-current assets	12	2	14	16	2	18
Current assets	41	55	96	44	58	102
Current liabilities	(26)	(46)	(72)	(40)	(45)	(85)
Non-current liabilities	(18)	–	(18)	(10)	–	(10)
<b>Share of net assets</b>	<b>9</b>	<b>11</b>	<b>20</b>	<b>10</b>	<b>15</b>	<b>25</b>
Sales	119	11	130	150	11	161
Operating expenses	(113)	(11)	(124)	(143)	(11)	(154)
Operating profit	6	–	6	7	–	7
Net finance costs	(4)	–	(4)	(3)	–	(3)
Profit before taxation	2	–	2	4	–	4
Income tax expense	–	–	–	(1)	–	(1)
<b>Share of post-tax results</b>	<b>2</b>	<b>–</b>	<b>2</b>	<b>3</b>	<b>–</b>	<b>3</b>

### 17 Inventories

£ millions

Finished goods for resale	2,574	2,701
---------------------------	-------	-------

Included within finished goods for resale is a deduction for rebates to reflect inventories that have not been sold at the balance sheet date.

The cost of inventories recognised as an expense and included in cost of sales for the year ended 31 January 2019 is £6,700m (2017/18: £6,710m).

## 18 Trade and other receivables

£ millions	2018/19	2017/18
<b>Non-current</b>		
Prepayments	9	7
Property receivables	1	1
	<b>10</b>	<b>8</b>
<b>Current</b>		
Trade receivables	72	66
Provision for bad and doubtful debts	(6)	(5)
Net trade receivables	66	61
Property receivables	3	10
Property disposal receivable	46	–
Merchandise returns asset	9	–
Prepayments	102	124
Rebates due from suppliers	149	274
Other receivables	78	81
	<b>453</b>	<b>550</b>
<b>Trade and other receivables</b>	<b>463</b>	<b>558</b>

The fair values of trade and other receivables approximate to their carrying amounts. Refer to note 23 for information on the credit risk associated with trade and other receivables.

Where customers have a right to return purchased goods in exchange for a refund, a liability for returns was previously presented on a net basis, as part of current trade and other payables. On adoption of IFRS 15, they are now presented on a gross basis in current trade and other payables. A corresponding merchandise returns asset for goods expected to be returned from customers is now presented in current trade and other receivables.

Other receivables include items related to other taxation and social security.

## 19 Cash and cash equivalents

£ millions	2018/19	2017/18
Cash at bank and in hand	220	202
Other cash and cash equivalents	9	28
Cash and cash equivalents	<b>229</b>	<b>230</b>

Other cash and cash equivalents, fixed for periods of up to three months, comprise bank deposits and investments in money market funds. The fair values of cash and cash equivalents approximate to their carrying amounts.

The Group enters into net overdraft facilities and cash pooling agreements with its banks. These agreements and similar arrangements generally enable the counterparties to offset overdraft balances against available cash in the ordinary course of business and/or in the event that the counterparty is unable to fulfil its contractual obligations.

## Notes to the consolidated financial statements continued

### 20 Trade and other payables

£ millions	2018/19	2017/18
<b>Current</b>		
Trade payables	1,401	1,552
Other taxation and social security	218	243
Deferred income	90	146
Merchandise returns provision	17	10
Accruals and other payables	718	715
	<b>2,444</b>	<b>2,666</b>
<b>Non-current</b>		
Accruals and other payables	64	61
<b>Trade and other payables</b>	<b>2,508</b>	<b>2,727</b>

The fair values of trade and other payables approximate to their carrying amounts.

Included in trade payables are amounts at 31 January 2019 of £184m (2017/18: £175m) due under supply chain finance arrangements with third party banks. Suppliers choose to enter into these arrangements, which provide them with the option of access to earlier payment at favourable interest rates from the third party banks based on Kingfisher's investment grade credit rating. If suppliers do not choose early payment under these arrangements, their invoices are settled by the third party banks in accordance with the originally agreed payment terms. Under certain of these arrangements, Kingfisher has agreed extended payment terms. The total amount outstanding on such extended payment terms at 31 January 2019 is £22m (2017/18: £22m). These arrangements do not provide the Group with a significant benefit of additional financing and accordingly are classified as trade payables.

Accruals and other payables include items related to goods not for resale, property, capital expenditure, payroll, insurance and interest.

### 21 Borrowings

£ millions	2018/19	2017/18
<b>Current</b>		
Bank loans	1	2
Fixed term debt	–	125
Finance leases	13	13
	<b>14</b>	<b>140</b>
<b>Non-current</b>		
Bank loans	3	4
Fixed term debt	136	–
Finance leases	23	32
	<b>162</b>	<b>36</b>
<b>Borrowings</b>	<b>176</b>	<b>176</b>

#### Bank loans

Current bank loans mature within 12 months of the balance sheet date. These are arranged at floating rates of interest.

Non-current bank loans have an average maturity of two years (2017/18: one year) and are arranged at fixed rates of interest with an effective interest rate of 1.4% (2017/18: 2.3%).

The net movement in bank loans of £2m arises from £1m of cashflows to repay loans and foreign exchange gains of £1m.

## Fixed term debt

	Principal outstanding	Maturity date	Coupon	Effective interest rate	2018/19	2017/18
					Carrying amount £m	Carrying amount £m
US Dollar Private Placement	–	24/05/18	6.4%	6.4%	–	125
EUR Medium Term Note	€50m	31/07/20 <sup>1</sup>	3M EURIBOR +45bps	0.1%	43	–
EUR Term Loan	€50m	21/09/21 <sup>2</sup>	6M EURIBOR +47.5bps	0.5%	43	–
GBP Term Loan	£50m	13/12/21	6M LIBOR +83bps	1.9%	50	–
					<b>136</b>	125

1. €50m swapped to floating rate Sterling based on 3-month LIBOR plus a margin using a cross-currency interest rate swap

2. €50m swapped to floating rate Sterling based on 6-month LIBOR plus a margin using a cross-currency interest rate swap

Medium Term Notes ("MTNs") were issued in the current year under the Group's €2,500m MTN programme and GBP and EUR term loans were issued in the year. The US Dollar Private Placement matured in May 2018.

The net movement in fixed term debt of £11m arises from cashflows of £(134m) on repayments and £139m on issuing debt, foreign exchange losses of £5m and amortisation of issue costs of £1m.

The GBP Term loan contains a covenant requiring that, as at the end of each semi-annual and annual financial reporting period, the ratio of operating profit to net interest payable, excluding exceptional items, should not be less than 3 to 1 for the preceding 12-month period. The Group has complied with this covenant for the year ended 31 January 2019.

## Finance leases

The Group leases some of its buildings and fixtures and equipment under finance leases. The average lease term maturity for buildings is six years (2017/18: six years) and for fixtures and equipment is two years (2017/18: two years). Certain building leases include a clause to enable upward revision of the rental charge to prevailing market conditions.

Future minimum lease payments under finance leases, together with the present value of minimum lease payments, are as follows:

£ millions	2018/19		2017/18	
	Present value of payments	Minimum payments	Present value of payments	Minimum payments
Less than one year	13	14	13	15
One to five years	18	20	24	28
More than five years	5	8	8	10
Total	<b>36</b>	<b>42</b>	45	53
Less amounts representing finance charges		(6)		(8)
Present value of minimum lease payments		<b>36</b>		45

The interest rates inherent in the finance leases are fixed at the contract date for the lease term. The weighted average effective interest rate on the Group's finance leases is 9.3% (2017/18: 6.9%).

The net movement in finance lease liabilities of £9m arises from new finance leases entered into of £3m, less £2m of reclassification to operating leases and £10m net cashflows to repay finance leases.

## Fair values

£ millions	Fair value	
	2018/19	2017/18
Bank loans	5	5
Fixed term debt	138	129
Finance leases	52	56
Borrowings	<b>195</b>	190

Fair values of borrowings have been calculated by discounting cash flows at prevailing interest and foreign exchange rates. This has resulted in level 2 inputs as defined by the fair value hierarchy of IFRS 13, 'Fair value measurement'.

## Notes to the consolidated financial statements continued

### 22 Derivatives

The net fair value of derivatives by hedge designation at the balance sheet date is:

£ millions	2018/19	2017/18
Fair value hedges	–	32
Cash flow hedges	7	(51)
Non-designated hedges	(4)	(19)
	<b>3</b>	<b>(38)</b>
Current assets	<b>26</b>	41
Current liabilities	<b>(21)</b>	(79)
Non-current liabilities	<b>(2)</b>	–
	<b>3</b>	<b>(38)</b>

The Group holds the following derivative financial instruments at fair value:

£ millions	2018/19	2017/18
Cross currency interest rate swaps	–	32
Foreign exchange contracts	<b>26</b>	9
Derivative assets	<b>26</b>	41

£ millions	2018/19	2017/18
Cross currency interest rate swaps	<b>(2)</b>	–
Foreign exchange contracts	<b>(21)</b>	(79)
Derivative liabilities	<b>(23)</b>	(79)

The fair values are calculated by discounting future cash flows arising from the instruments and adjusted for credit risk. These fair value measurements are all made using observable market rates of interest, foreign exchange and credit risk.

All the derivatives held by the Group at fair value are considered to have fair values determined by level 2 inputs as defined by the fair value hierarchy of IFRS 13, 'Fair value measurement', representing significant observable inputs other than quoted prices in active markets for identical assets or liabilities. There are no non-recurring fair value measurements nor have there been any transfers of assets or liabilities between levels of the fair value hierarchy.

At 31 January 2019, net derivative liabilities included in net cash amount to £5m (2017/18: £14m net derivative assets). The net movement in these derivatives of £19m arises from cashflows of £37m on maturity, less net fair value gains of £18m.

#### Fair value hedges

In the prior year, fair value hedges comprised cross currency interest rate swap contracts that convert US Private Placement fixed rate debt into floating rate liabilities. These matured in May 2018. At 31 January 2019, the Sterling equivalent amount of such contracts is £nil (2017/18: £126m).

#### Cash flow hedges

Forward foreign exchange contracts hedge currency exposures of forecast inventory purchases. At 31 January 2019 the Sterling equivalent amount of such contracts is £878m (2017/18: £892m). These are located in the derivative asset and derivative liability lines in the consolidated balance sheet with carrying amounts of £15m asset and £6m liability. The associated fair value gains and losses will be transferred to inventories when the purchases occur during the next 12 months. The amount recognised in other comprehensive income during the year is a gain of £85m (2017/18: £93m loss). Gains of £22m (2017/18: £20m losses) have been transferred to inventories for contracts which matured during the year. There is no ineffectiveness for 2018/19 on these hedges. The weighted average hedged rates of the hedging instruments for our material currencies are USD/EUR 1.19 and USD/GBP 1.33.

Cross currency interest rate swap contracts hedge currency exposures of EUR debt. At 31 January 2019 the Sterling equivalent amount of such contracts is £86m. These are located in the derivative liability line in the consolidated balance sheet with a carrying amount of £2m. The amount recognised in other comprehensive income during the year is a loss of £2m. Losses of £2m have been transferred to the income statement in net finance costs (see note 6) and offset with the foreign exchange movement on the debt. The weighted average hedged rate for the cross currency swaps is EUR/GBP 1.12. There is no ineffectiveness for 2018/19 in relation to the cross currency interest rate swaps.

Hedge effectiveness is assessed at the inception of the hedge relationship and on an ongoing basis to ensure that an economic relationship exists between the hedged item and the hedging instrument. The Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group therefore performs a qualitative assessment of effectiveness.

For foreign currency inventory purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated or if there are changes in the credit risk of the Group or the derivative counterparty. For the interest rate swaps, hedge ineffectiveness may arise from credit risk of the Group or the derivative counterparty.

### Non-designated hedges

The Group has entered into certain derivatives to provide a hedge against fluctuations in the income statement arising from balance sheet positions. At 31 January 2019, the Sterling equivalent amount of such contracts is £1,772m (2017/18: £1,423m). These have not been accounted for as hedges, since the fair value movements of the derivatives in the income statement offset the retranslation of the balance sheet positions. These include short-term foreign exchange contracts.

The Group has reviewed all significant contracts for embedded derivatives and none of these contracts has any embedded derivatives which are not closely related to the host contract and therefore the Group is not required to account for these separately.

The Group enters into netting agreements with counterparties to manage the credit and settlement risks associated with over-the-counter derivatives. These netting agreements and similar arrangements generally enable the Group and its counterparties to settle cash flows on a net basis and set-off liabilities against available assets in the event that either party is unable to fulfill its contractual obligations.

Offsetting of derivative assets and liabilities:

£ millions	Gross amounts of recognised derivatives	Gross amounts offset in the consolidated balance sheet	Net amounts of derivatives presented in the consolidated balance sheet	Gross amounts of derivatives not offset in the consolidated balance sheet	Net amount
At 31 January 2019					
Derivative assets	26	–	26	(26)	–
Derivative liabilities	(23)	–	(23)	26	3
At 31 January 2018					
Derivative assets	41	–	41	(41)	–
Derivative liabilities	(79)	–	(79)	41	(38)

## 23 Financial risk management

Kingfisher's treasury function has primary responsibility for managing certain financial risks to which the Group is exposed. The Board reviews the levels of exposure regularly and approves treasury policies covering the use of financial instruments required to manage these risks. Kingfisher's treasury function is not run as a profit centre and does not enter into any transactions for speculative purposes.

In the normal course of business, the Group uses financial instruments including derivatives. The main types of financial instruments used are fixed term debt, bank loans and deposits, money market funds, interest rate swaps and foreign exchange contracts.

### Interest rate risk

Borrowings arranged at floating rates of interest expose the Group to cash flow interest rate risk, whereas those arranged at fixed rates of interest expose the Group to fair value interest rate risk. The Group manages its interest rate risk by entering into certain interest rate derivative contracts which modify the interest rate payable on the Group's underlying debt instruments.

### Currency risk

The Group's principal currency exposures are to the Euro, US Dollar, Polish Zloty and Russian Rouble. The Euro, Polish Zloty and Russian Rouble exposures are operational and arise through the ownership of retail businesses in France, Spain, Portugal, Germany, Ireland, Poland and Russia.

In particular, the Group generates a substantial part of its profit from the Eurozone, and as such is exposed to the economic uncertainty of its member states. The Group continues to monitor potential exposures and risks, and consider effective risk management solutions.

It is the Group's policy not to hedge the translation of overseas earnings into Sterling. In addition, the Group has significant transactional exposure arising on the purchase of inventories denominated in US Dollars, which it hedges using forward foreign exchange contracts. Under Group policies, the Group companies are required to hedge committed inventory purchases and a proportion of forecast inventory purchases arising in the next 12 months. This is monitored on an ongoing basis.

In the current year the Group has issued EUR loans at a floating rate. This exposes the Group to EUR currency risk which has been swapped to a Sterling floating rate using cross currency swaps.

## Notes to the consolidated financial statements continued

### 23 Financial risk management continued

Kingfisher's policy is to manage the interest rate and currency profile of its debt and cash using derivative contracts. The effect of these contracts on the Group's net cash is as follows:

£ millions	Sterling		Euro		US Dollar		Other		Total
	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	
At 31 January 2019									
Net cash before financing derivatives	(20)	11	(21)	26	–	8	–	49	53
Financing derivatives	–	(1,197)	–	599	–	541	–	52	(5)
Net cash	(20)	(1,186)	(21)	625	–	549	–	101	48
At 31 January 2018									
Net cash before financing derivatives	(22)	54	(29)	91	(127)	18	–	69	54
Financing derivatives	–	(1,084)	–	353	128	525	–	92	14
Net cash	(22)	(1,030)	(29)	444	1	543	–	161	68

Financial instruments principally affected by interest rate and currency risks, being the significant market risks impacting Kingfisher, are borrowings, deposits and derivatives. The following analysis illustrates the sensitivity of net finance costs (reflecting the impact on profit) and derivative cash flow hedges (reflecting the impact on other comprehensive income) to changes in interest rates and foreign exchange rates.

£ millions	2018/19	2017/18
	Net finance costs income/(costs)	Net finance costs income/(costs)
<b>Effect of 1% rise in interest rates on net finance costs</b>		
Sterling	(12)	(10)
Euro	6	4
US Dollar	5	5
Other	1	2

Due to the Group's hedging arrangements and offsetting foreign currency assets and liabilities, there is no significant impact on profit from the retranslation of financial instruments.

£ millions	2018/19	2017/18
	Derivative cash flow hedges increase	Derivative cash flow hedges increase
<b>Effect of 10% appreciation in foreign exchange rates on derivative cash flow hedges</b>		
US Dollar against Sterling	43	40
US Dollar against Euro	24	30
US Dollar against other	9	10

The impact of changes in foreign exchange rates on cash flow hedges results from retranslation of forward purchases of US Dollars used to hedge forecast US Dollar purchases of inventories. The associated fair value gains and losses are deferred in equity until the purchases occur. See note 22 for further details.

The sensitivity analysis excludes the impact of movements in market variables on the carrying amount of trade and other payables and receivables, due to the low associated sensitivity, and are before the effect of tax. It has been prepared on the basis that the Group's debt, hedging activities, hedge accounting designations, and foreign currency proportion of debt and derivative contracts remain constant, reflecting the positions at 31 January 2019 and 31 January 2018 respectively. As a consequence, the analysis relates to the position at those dates and is not necessarily representative of the years then ended. In preparing the sensitivity analysis it is assumed that all hedges are fully effective.

The effects shown above would be reversed in the event of an equal and opposite change in interest rates and foreign exchange rates.

### Liquidity risk

The Group regularly reviews the level of cash and debt facilities required to fund its activities. This involves preparing a prudent cash flow forecast for the next three years, 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 following table analyses the Group's non-derivative financial liabilities and derivative assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. It excludes trade and other payables and short term foreign exchange contracts due to the low associated liquidity risk. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest) and as such may differ from the amounts disclosed on the balance sheet.

£ millions	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
At 31 January 2019							
Bank loans	(1)	(1)	(1)	(1)	(1)	–	(5)
Fixed term debt	(1)	(45)	(95)	–	–	–	(141)
Finance leases	(14)	(8)	(6)	(4)	(2)	(8)	(42)
Derivatives – receipts	–	44	44	–	–	–	88
Derivatives – payments	(2)	(46)	(46)	–	–	–	(94)
At 31 January 2018							
Bank loans	(2)	(1)	(1)	(1)	(1)	–	(6)
Fixed term debt	(130)	–	–	–	–	–	(130)
Finance leases	(15)	(10)	(8)	(6)	(4)	(10)	(53)
Derivatives – receipts	130	–	–	–	–	–	130
Derivatives – payments	(97)	–	–	–	–	–	(97)

At 31 January 2019, the Group had undrawn revolving committed facilities of £225m due to mature in March 2022 and £550m due to mature in August 2021. The facilities both contain a covenant requiring that, as at the end of each annual and semi-annual financial reporting period, the ratio of operating profit to net interest payable, excluding exceptional items, should not be less than 3 to 1 for the preceding 12-month period. The Group has complied with this covenant for the year ended 31 January 2019.

### Credit risk

The Group deposits surplus cash with a number of banks with strong short-term credit ratings and with money market funds which have AAA credit ratings and offer same-day liquidity. A credit limit for each counterparty is agreed by the Board covering the full value of deposits and the fair value of derivative contracts. The credit risk is reduced further by spreading the investments and derivative contracts across several counterparties. At 31 January 2019, the highest total cash investment with a single counterparty was £56m (2017/18: £14m).

The Group's exposure to credit risk at the reporting date is the carrying value of trade and other receivables, cash at bank, short-term deposits and the fair value of derivative assets. Trade and other receivables mainly relate to trade receivables and rebates which comprise low individual balances with short maturity spread across a large number of unrelated customers and suppliers, resulting in low credit risk levels. They do not have a significant financing component and therefore the Group has elected to measure expected credit losses using lifetime expected losses. The estimated lifetime expected losses are based on historical loss rates adjusted where necessary for expected changes in economic conditions.

At 31 January 2019, trade and other receivables that are past due but not provided against amount to £50m (2017/18: £88m), of which £7m (2017/18: £6m) are over 120 days past due.

Refer to note 35 for details on guarantees provided by the Group.

### Capital risk

Capital risk management disclosures are provided in the Financial Review on pages 42 to 43.

## Notes to the consolidated financial statements continued

### 24 Deferred tax

£ millions	2018/19	2017/18
Deferred tax assets	9	30
Deferred tax liabilities	(286)	(264)
	(277)	(234)

Deferred tax assets and liabilities are offset against each other when they relate to income taxes levied by the same tax jurisdiction and when the Group intends, and has the legally enforceable right, to settle its current tax assets and liabilities on a net basis.

£ millions	Accelerated tax depreciation	Gains on property	Provisions	Tax losses	Post-employment benefits	Investment in subsidiaries	Other	Total
At 1 February 2018	(141)	(83)	59	18	(100)	-	13	(234)
(Charge)/credit to income statement	(1)	14	13	(12)	1	(7)	-	8
Charge to equity	-	-	-	-	(36)	-	(16)	(52)
Exchange differences	1	-	(1)	-	-	-	1	1
At 31 January 2019	(141)	(69)	71	6	(135)	(7)	(2)	(277)
At 1 February 2017	(141)	(96)	79	16	(108)	-	(4)	(254)
Credit/(charge) to income statement	4	13	(21)	3	(2)	-	-	(3)
Credit to other comprehensive income	-	-	-	-	9	-	17	26
Exchange differences	(4)	-	1	(1)	1	-	-	(3)
At 31 January 2018	(141)	(83)	59	18	(100)	-	13	(234)

At the balance sheet date, the Group has unused trading tax losses of £258m (2017/18: £161m) available for offset against future profits. A deferred tax asset has been recognised in respect of £14m (2017/18: £93m) of such losses. No deferred tax asset has been recognised in respect of the remaining £244m (2017/18: £68m) due to the unpredictability of future profit streams. Previously recognised deferred tax assets relating to the tax losses in Russia and Iberia have been derecognised in the year as a result of the decision to exit these markets.

Included in this amount there are tax losses arising in Romania of £84m (2017/18: £46m) and Portugal of £14m (2017/18: £12m) which can only be carried forward in the next one to seven and one to twelve years respectively. Other unrecognised losses may be carried forward indefinitely.

At the balance sheet date, the Group also has unused capital tax losses of £51m (2017/18: £88m) available for offset against future capital gains. A deferred tax asset has been recognised in respect of £24m (2017/18: £nil) of such losses. All of these losses may be carried forward indefinitely.

A new deferred tax liability has been recognised in the period, reflecting the tax anticipated to arise in light of a planned repatriation of certain earnings that were generated in prior years. All other unremitted earnings of overseas subsidiaries and joint ventures are continually reinvested by the Group. Therefore, as no tax is expected to be payable on these earnings in the foreseeable future, no deferred tax liabilities are recorded in relation to them. Additional earnings which could be remitted on which there would be tax to pay total £152m (2017/18: £197m).

## 25 Provisions

£ millions	Onerous property contracts	Restructuring	Total
At 1 February 2018	31	67	98
Charge to income statement	–	98	98
Utilised in the year	(6)	(73)	(79)
Unwinding of discount	–	2	2
Exchange differences	(1)	(1)	(2)
At 31 January 2019	24	93	117
Current liabilities	5	30	35
Non-current liabilities	19	63	82
	24	93	117

Within the onerous property contracts provisions, the Group has provided against future liabilities for properties sublet at a shortfall and long-term idle properties. Such provisions exclude those related to restructuring programmes which are included in the restructuring provisions. The provisions are based on the present value of future cash outflows relating to rent, rates and service charges net of sublease income. Onerous property contract provisions also include amounts relating to properties acquired on acquisition of subsidiaries at above-market rents.

Restructuring provisions include both the cost of people change and the cost to exit stores and property contracts.

In February 2018, the Group commenced formal consultation with employee representatives regarding its plans in France to restructure the business as part of the Group's transformation plan. Provisions for the cost of the employee redundancy plan have been recognised in the year.

The Group is considering closing poor performing stores, as set out in note 5, with associated onerous lease provisions recognised for those stores where the unavoidable costs under the lease contracts exceed the benefits expected to be received under them. In 2016/17, the Group entered into a lease liability transaction with a third party to dispose of a number of UK leases following the closure of these stores, and the continued progress made during the current year has resulted in a reduction in the level of associated provisions held. The ultimate costs and timing of cash flows related to the above provisions are largely dependent on exiting the property lease contracts and subletting surplus space.

The provisions have been discounted to reflect the time value of money and the risks associated with the specific liabilities.

## 26 Post-employment benefits

The Group operates a variety of post-employment benefit arrangements covering both funded and unfunded defined benefit schemes and defined contribution schemes. The most significant defined benefit and defined contribution schemes are in the UK. The principal overseas defined benefit schemes are in France, where they are mainly retirement indemnity in nature.

### Defined contribution schemes

Costs for the Group's defined contribution pension schemes, at rates specified in the individual schemes' rules, are as follows:

£ millions	2018/19	2017/18
Charge to operating profit	23	26

From July 2012, an enhanced defined contribution pension scheme was offered to all UK employees. Eligible UK employees have been automatically enrolled into the scheme since 31 March 2013.

### Defined benefit schemes

The Group's principal defined benefit arrangement is its funded, final salary pension scheme in the UK. This scheme was closed to new entrants from April 2004 and was closed to future benefit accrual from July 2012.

The scheme operates under trust law and is managed and administered by the Trustee on behalf of members in accordance with the terms of the Trust Deed and Rules and relevant legislation. The Trustee Board consists of ten Trustee directors, made up of five employer-appointed directors, one independent director and four member-nominated directors. The Trustee Board delegates day-to-day administration of the scheme to the Group pensions department of Kingfisher plc.

The main risk to the Group is that additional contributions are required if investment returns and demographic experience are worse than expected. The scheme therefore exposes the Group to actuarial risks, such as longevity risk, currency risk, inflation risk, interest rate risk and market (investment) risk. The Trustee Board regularly reviews such risks and mitigating controls, with a risk register being formally approved on an annual basis. The assets of the scheme are held separately from the Group and the Trustee's investment strategy includes a planned medium-term de-risking of assets, switching from return-seeking to liability-matching assets. Other de-risking activities have included the scheme acquiring an interest in a property partnership, as set out further below, and entering into bulk annuities.

A full actuarial valuation of the scheme is carried out every three years by an independent actuary for the Trustee and the last full valuation was carried out as at 31 March 2016.

## Notes to the consolidated financial statements continued

### 26 Post-employment benefits continued

Following this valuation and in accordance with the scheme's Statement of Funding Principles, the Trustee and Kingfisher have agreed annual employer contributions of £37m from April 2017. The contribution schedule has been derived with reference to a funding objective that targets a longer-term, low risk funding position in excess of the minimum statutory funding requirements. This longer-term objective is based on the principle of the scheme reaching a point where it can provide benefits to members with a high level of security, thereby limiting its reliance on the employer for future support. The Company monitors the scheme funding level on a regular basis and will review with the scheme Trustee at future valuations the continued appropriateness of the repayment schedule currently in place.

The Trust Deed provides Kingfisher with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the Trustee has no rights to unilaterally wind up, or otherwise augment the benefits due to members of, the scheme. Based on these rights, any net surplus in the UK scheme is recognised in full.

#### UK scheme interest in property partnership

In 2010/11, the Group established a partnership, Kingfisher Scottish Limited Partnership ('Kingfisher SLP'), as part of an arrangement with the UK scheme Trustee to address an element of the scheme deficit and provide greater security to the Trustee. The partnership interests are held by the Group and by the scheme, the latter resulting from investments of £78m and £106m made by the Trustee in January and June 2011 respectively. These investments followed Group contributions of the same amounts into the scheme. In accordance with IAS 19, 'Employee benefits', the investments held by the scheme in Kingfisher SLP do not represent plan assets for the purposes of the Group's consolidated financial statements. Accordingly, the reported pension position does not reflect these investments.

UK property assets with market values of £83m and £119m were transferred, in January 2011 and June 2011 respectively, into the partnership and leased back to B & Q plc. The Group retains control over these properties, including the flexibility to substitute alternative properties. The Trustee has a first charge over the properties in the event that Kingfisher plc becomes insolvent. The scheme's partnership interest entitles it to much of the income of the partnership over the 20-year period of the arrangement. The payments to the scheme by Kingfisher SLP over this term are reflected as Group pension contributions on a cash basis. At the end of this term, Kingfisher plc has the option to acquire the Trustee's partnership interest in Kingfisher SLP.

The Group has control over the partnership and therefore it is consolidated in these Group financial statements. Accordingly, advantage has been taken of the exemptions provided by Regulation 7 of the Partnerships (Accounts) Regulations 2008 from the requirements for preparation, delivery and publication of the partnership's accounts.

#### Income statement

£ millions	2018/19			2017/18		
	UK	Overseas	Total	UK	Overseas	Total
<b>Amounts charged/(credited) to operating profit</b>						
Current service cost	2	9	11	2	9	11
Past service cost	5	(3)	2	-	-	-
Administration costs	4	-	4	4	-	4
	11	6	17	6	9	15
<b>Amounts (credited)/charged to net finance costs</b>						
Net interest (income)/expense	(6)	2	(4)	(7)	2	(5)
<b>Total (credited)/charged to income statement</b>	<b>5</b>	<b>8</b>	<b>13</b>	<b>(1)</b>	<b>11</b>	<b>10</b>

Of the net charge to operating profit, a £13m charge (2017/18: £11m charge) and £4m charge (2017/18: £4m charge) are included in selling and distribution expenses and administrative expenses respectively. Actuarial gains and losses have been reported in the statement of comprehensive income. The UK past service cost of £5m in the year relates to the equalisation of guaranteed minimum pension benefits between men and women, which has been recorded as an exceptional item (refer to note 5).

## Balance sheet

£ millions	2018/19			2017/18		
	UK	Overseas	Total	UK	Overseas	Total
Present value of defined benefit obligations	(2,842)	(135)	(2,977)	(3,002)	(134)	(3,136)
Fair value of scheme assets	3,162	20	3,182	3,216	19	3,235
<b>Net surplus/(deficit) in schemes</b>	<b>320</b>	<b>(115)</b>	<b>205</b>	214	(115)	99

Movements in the surplus or deficit are as follows:

£ millions	2018/19			2017/18		
	UK	Overseas	Total	UK	Overseas	Total
<b>Net surplus/(deficit) in schemes at beginning of year</b>	<b>214</b>	<b>(115)</b>	<b>99</b>	239	(108)	131
Current service cost	(2)	(9)	(11)	(2)	(9)	(11)
Past service cost	(5)	3	(2)	-	-	-
Administration costs	(4)	-	(4)	(4)	-	(4)
Net interest income/(expense)	6	(2)	4	7	(2)	5
Net actuarial gains/(losses)	74	4	78	(62)	4	(58)
Contributions paid by employer	37	3	40	36	2	38
Exchange differences	-	1	1	-	(2)	(2)
<b>Net surplus/(deficit) in schemes at end of year</b>	<b>320</b>	<b>(115)</b>	<b>205</b>	214	(115)	99

Movements in the present value of defined benefit obligations are as follows:

£ millions	2018/19			2017/18		
	UK	Overseas	Total	UK	Overseas	Total
Present value of defined benefit obligations at beginning of year	(3,002)	(134)	(3,136)	(2,999)	(126)	(3,125)
Current service cost	(2)	(9)	(11)	(2)	(9)	(11)
Past service cost	(5)	3	(2)	-	-	-
Interest expense	(73)	(2)	(75)	(79)	(2)	(81)
Actuarial gains/(losses) – changes in financial assumptions	52	(2)	50	(23)	1	(22)
Actuarial gains/(losses) – experience adjustments	8	5	13	(49)	3	(46)
Benefits paid	180	3	183	150	2	152
Exchange differences	-	1	1	-	(3)	(3)
Present value of defined benefit obligations at end of year	<b>(2,842)</b>	<b>(135)</b>	<b>(2,977)</b>	(3,002)	(134)	(3,136)

## Notes to the consolidated financial statements continued

### 26 Post-employment benefits continued

The present value of UK scheme defined benefit obligations is 66% (2017/18: 66%) in respect of deferred members and 34% (2017/18: 34%) in respect of current pensioners.

The weighted average duration of the UK scheme obligations at the end of the year is 19 years (2017/18: 19 years).

Movements in the fair value of scheme assets are as follows:

£ millions	2018/19			2017/18		
	UK	Overseas	Total	UK	Overseas	Total
Fair value of scheme assets at beginning of year	3,216	19	3,235	3,238	18	3,256
Administration costs	(4)	–	(4)	(4)	–	(4)
Interest income	79	–	79	86	–	86
Actuarial gains – actual return less interest income	14	1	15	10	–	10
Contributions paid by employer	37	3	40	36	2	38
Benefits paid	(180)	(3)	(183)	(150)	(2)	(152)
Exchange differences	–	–	–	–	1	1
Fair value of scheme assets at end of year	3,162	20	3,182	3,216	19	3,235

The fair value of scheme assets is analysed as follows:

£ millions	2018/19				2017/18			
	UK	Overseas	Total	% of total	UK	Overseas	Total	% of total
Government bonds <sup>1</sup>	1,489	–	1,489	47%	1,382	–	1,382	43%
Corporate bonds	864	–	864	27%	880	–	880	27%
Derivatives	(51)	–	(51)	(2%)	(82)	–	(82)	(3%)
UK equities	13	–	13	–%	17	–	17	1%
Overseas equities	164	–	164	5%	224	–	224	7%
Property	24	–	24	1%	23	–	23	1%
Annuities	372	–	372	12%	394	–	394	12%
Cash and other	287	20	307	10%	378	19	397	12%
Total fair value of scheme assets	3,162	20	3,182	100%	3,216	19	3,235	100%

1. Including LDI repurchase agreement liabilities.

All UK scheme assets have quoted prices in active markets, except for £570m (2017/18: £572m) of property, annuity and other assets.

To reduce volatility risk a liability driven investment (LDI) strategy forms part of the Trustee's management of the UK defined benefit scheme's assets, including government bonds, corporate bonds and derivatives. The government bond assets category in the table above includes gross assets of £2.8bn (2017/18: £2.8bn) and associated repurchase agreement liabilities of £1.3bn (2017/18: £1.4bn). Repurchase agreements are entered into with counterparties to better offset the scheme's exposure to interest and inflation rates, whilst remaining invested in assets of a similar risk profile. Interest rate and inflation rate derivatives are also employed to complement the use of fixed and index-linked bonds in matching the profile of the scheme's liabilities.

The estimated amount of total contributions to be paid to the UK and overseas pension schemes by the Group during the next financial year is £37m.

#### Principal actuarial valuation assumptions

The assumptions used in calculating the costs and obligations of the Group's defined benefit pension schemes are set by the Directors after consultation with independent professionally qualified actuaries. The assumptions are based on the conditions at the time and changes in these assumptions can lead to significant movements in the estimated obligations, as illustrated in the sensitivity analysis.

The UK scheme discount rate is derived using a single equivalent discount rate approach, based on the yields available on a portfolio of high-quality Sterling corporate bonds with the same duration as that of the scheme liabilities.

Annual % rate	2018/19		2017/18	
	UK	Overseas	UK	Overseas
Discount rate	2.5	1.4	2.5	1.5
Price inflation	3.3	2.0	3.4	2.0
Rate of pension increases	3.0	–	3.1	–
Salary escalation	n/a	2.4	n/a	2.4

For the UK scheme, the mortality assumptions used for IAS 19 purposes have been selected with regard to the characteristics and experience of the membership of the scheme as assessed from time to time relating to triennial funding valuations. The base mortality assumptions have been derived using an analysis of current mortality rates carried out by Club Vita for the Trustee and the CMI life expectancy projection model data published by the UK actuarial profession. The latter allowance is in line with CMI 2015 improvements subject to a long-term rate of 1.25% p.a. for both males and females. The assumptions for life expectancy of UK scheme members are as follows:

Years	2018/19	2017/18
Age to which current pensioners are expected to live (60 now)		
– Male	<b>87.3</b>	87.2
– Female	<b>89.0</b>	88.9
Age to which future pensioners are expected to live (60 in 15 years' time)		
– Male	<b>88.5</b>	88.4
– Female	<b>90.9</b>	90.8

The following sensitivity analysis for the UK scheme shows the estimated impact on the obligation resulting from changes to key actuarial assumptions, whilst holding all other assumptions constant.

Assumption	Change in assumption	Impact on defined benefit obligation
Discount rate	Increase/decrease by 0.5%	Decrease/increase by £315m
Price inflation	Increase/decrease by 0.5%	Increase/decrease by £252m
Rate of pension increases	Increase/decrease by 0.5%	Increase/decrease by £260m
Mortality	Increase in life expectancy by one year	Increase by £94m

Due to the asset-liability matching investment strategy, the above impacts on the obligations of changes in discount rate and price inflation would be significantly offset by movements in the fair value of the scheme assets.

## 27 Share capital

	Number of ordinary shares millions	Ordinary share capital £ millions
Allotted, called up and fully paid:		
At 1 February 2018	<b>2,161</b>	<b>340</b>
Purchase of own shares for cancellation	<b>(51)</b>	<b>(8)</b>
At 31 January 2019	<b>2,110</b>	<b>332</b>
At 1 February 2017	2,240	352
New shares issued under share schemes	3	1
Purchase of own shares for cancellation	(82)	(13)
At 31 January 2018	2,161	340

Ordinary shares have a par value of 15<sup>5</sup>/<sub>7</sub> pence per share.

During the year the Group purchased 51 million (2017/18: 82 million) of the Company's own shares for cancellation at a cost of £140m (2017/18: £260m) as part of its capital returns programme.

## Notes to the consolidated financial statements continued

### 28 Other reserves

£ millions	Translation reserve	Cash flow hedge reserve	Other	Total
<b>At 1 February 2018</b>	<b>262</b>	<b>(37)</b>	<b>159</b>	<b>384</b>
Inventory cash flow hedges – Fair value gains	–	<b>85</b>	–	<b>85</b>
Tax on items that will not be reclassified subsequently to profit or loss	–	<b>(21)</b>	–	<b>(21)</b>
Currency translation differences				
Group	<b>(46)</b>	–	–	<b>(46)</b>
Joint ventures and associates	<b>(2)</b>	–	–	<b>(2)</b>
Other cash flow hedges				
Fair value losses	–	<b>(2)</b>	–	<b>(2)</b>
Losses transferred to income statement	–	<b>2</b>	–	<b>2</b>
<b>Other comprehensive (loss)/income for the year</b>	<b>(48)</b>	<b>64</b>	–	<b>16</b>
Inventory cash flow hedges – Gains transferred to inventories	–	<b>(22)</b>	–	<b>(22)</b>
Tax on equity items	–	<b>5</b>	–	<b>5</b>
<b>At 31 January 2019</b>	<b>214</b>	<b>10</b>	<b>159</b>	<b>383</b>
<b>At 1 February 2017</b>	184	19	159	362
Currency translation differences				
Group	84	–	–	84
Joint ventures and associates	(1)	–	–	(1)
Cash flow hedges				
Fair value losses	–	(93)	–	(93)
Losses transferred to inventories	–	20	–	20
Tax on items that may be reclassified subsequently to profit or loss	(5)	17	–	12
<b>Other comprehensive income/(loss) for the year</b>	78	(56)	–	22
<b>At 31 January 2018</b>	262	(37)	159	384

The 'other' category of reserves represents the premium on the issue of convertible loan stock in 1993 and the merger reserve relating to the acquisition of Darty in 1993.

### 29 Share-based payments

	2018/19		2017/18	
	Number of options thousands	Weighted average exercise price £	Number of options thousands	Weighted average exercise price £
Outstanding at beginning of year	<b>36,541</b>	<b>0.87</b>	36,694	0.87
Granted during the year <sup>1</sup>	<b>12,952</b>	<b>0.94</b>	12,210	1.05
Forfeited and expired during the year	<b>(8,218)</b>	<b>1.13</b>	(7,421)	0.75
Exercised during the year	<b>(1,919)</b>	<b>0.80</b>	(4,942)	1.57
Outstanding at end of year	<b>39,356</b>	<b>0.84</b>	36,541	0.87
Exercisable at end of year	<b>3,430</b>	<b>1.56</b>	1,534	0.96

1. The weighted average exercise price for options granted during the year represents a blend of nil price Transformation Incentive awards, Alignment Share awards, KISP awards and discounted Sharesave options (see below).

Information on the share schemes is given in note 12 of the Company's separate financial statements.

Options have been exercised on a regular basis throughout the year. On that basis, the weighted average share price during the year, rather than at the date of exercise, is £2.83 (2017/18: £3.20). The options outstanding at the end of the year have exercise prices ranging from nil to £3.15 and a weighted average remaining contractual life of 5.2 years (2017/18: 5.4 years).

The Group recognised a total expense of £15m in the year ended 31 January 2019 (2017/18: £8m) relating to equity-settled share-based payment transactions.

The fair value of share options and deferred shares is determined by independent valuers using Black-Scholes and stochastic option pricing models. The inputs of the principal schemes into these models are as follows:

	Date of grant	Share price at grant £	Exercise price £	Expected life <sup>2</sup> years	Expected volatility <sup>3</sup> %	Dividend yield <sup>4</sup> %	Risk free rate %	Fair value £
Kingfisher Incentive Share Scheme <sup>1</sup>	25/04/12	2.96	–	7	–	–	–	2.96
	11/04/13	2.97	–	7	–	–	–	2.97
	23/04/14	4.19	–	7	–	–	–	4.19
Kingfisher Incentive Share Plan – Deferred Bonus Awards	23/04/15	3.52	–	7	–	–	–	3.52
	21/04/16	3.61	–	7	–	–	–	3.61
	03/05/17	3.40	–	7	–	–	–	3.40
	23/04/18	3.09	–	7	–	–	–	3.09
Performance Share Plan	17/06/11	2.65	–	7	–	–	–	2.65
	21/10/11	2.63	–	7	–	–	–	2.63
	03/05/12	2.91	–	7	–	–	–	2.91
	16/10/12	2.81	–	7	–	–	–	2.81
	25/04/13	3.10	–	7	–	–	–	3.10
	22/10/13	3.74	–	7	–	–	–	3.74
Long Term Incentive Awards	03/07/14	3.61	–	7	–	–	–	3.61
	15/09/14	3.16	–	7	–	–	–	3.16
	05/05/15	3.54	–	7	–	–	–	3.54
	20/10/15	3.63	–	7	–	–	–	3.63
UK and International Sharesave	19/10/12	2.85	2.17	5.5	37.6%	3.3%	0.9%	0.49
	22/10/13	3.74	3.15	5.5	33.6%	2.5%	1.6%	0.59
	21/10/14	2.94	2.52	3.5	23.8%	3.4%	1.1%	0.35
	21/10/14	2.94	2.52	5.5	24.5%	3.4%	1.5%	0.31
	22/10/15	3.51	2.81	3.5	22.4%	2.9%	0.8%	0.48
	22/10/15	3.51	2.81	5.5	23.1%	2.9%	1.2%	0.41
	01/11/16	3.64	3.06	3.5	22.9%	2.8%	0.4%	0.44
	01/11/16	3.64	3.06	5.5	23.5%	2.8%	0.7%	0.39
	31/10/17	3.13	2.42	3.5	22.8%	3.4%	0.6%	0.43
	31/10/17	3.13	2.42	5.5	22.3%	3.4%	0.8%	0.34
UK and International Sharesave	01/11/18	2.62	2.06	3.5	23.2%	4.1%	1.1%	0.33
	01/11/18	2.62	2.06	5.5	23.0%	4.1%	0.8%	0.27
Alignment Shares	19/07/16	3.32	–	10	–	–	–	3.32
	19/07/16	3.32	–	10	–	–	–	3.03
	24/04/17	3.37	–	10	–	–	–	3.37
	24/04/17	3.37	–	10	–	–	–	3.07
	23/04/18	3.09	–	10	–	–	–	3.09
Transformation Incentive	19/07/16	3.32	–	10	–	–	–	3.32

1. The Kingfisher Incentive Share Scheme ('KISS') includes the Company Share Option Plan ('CSOP') element of the KISS awards.

2. Expected life is disclosed based on the UK schemes. For the KISP, KISS and PSP schemes in the UK, the expiry date is 7 years from the date of grant. For the Transformation Incentive award and Alignment Share award the expiry date is 10 years from the date of grant. Expiry of the overseas Alignment Share award is 3 years from the date of grant.

3. Expected volatility was determined for each individual award, by calculating the historical volatility of the Group's share price (plus reinvested dividends) immediately prior to the grant of the award, over the same period as the vesting period of each award, adjusted by expectations of future volatility.

4. As these awards are made under an approved SAYE scheme, option holders cannot be compensated for dividends foregone. As such the historical dividend yield is used, calculated as dividends announced in the 12 months prior to grant as a percentage of the share price on the date of grant.

## Notes to the consolidated financial statements continued

### 30 Cash generated by operations

£ millions	2018/19	2017/18
<b>Operating profit</b>	<b>329</b>	685
Share of post-tax results of joint ventures and associates	(2)	(3)
Depreciation and amortisation	272	254
Net impairment losses	160	1
(Profit)/loss on disposal of property, plant and equipment and investment property	(25)	2
Share-based compensation charge	15	8
Decrease/(increase) in inventories	95	(473)
Decrease in trade and other receivables	144	12
(Decrease)/increase in trade and other payables	(203)	87
Movement in provisions	19	(75)
Movement in post-employment benefits	(23)	(23)
<b>Cash generated by operations</b>	<b>781</b>	475

### 31 Net cash

£ millions	2018/19	2017/18
Cash and cash equivalents	229	230
Bank loans	(4)	(6)
Fixed term debt	(136)	(125)
Financing derivatives	(5)	14
Finance leases	(36)	(45)
<b>Net cash</b>	<b>48</b>	68

Liabilities arising from financing activities comprise bank loans, the Group's EUR MTN and USPP, GBP and EUR term loans, and finance leases. The EUR MTN, GBP and EUR term loans were issued in the year and the USPP matured in the year. Associated derivatives are cross currency interest rate swaps and cash management swaps.

£ millions	2018/19	2017/18
<b>Net cash at beginning of year</b>	<b>68</b>	641
Net increase/(decrease) in cash and cash equivalents and bank overdrafts	12	(596)
Repayment of bank loans	1	7
Repayment of fixed term debt	134	-
Issue of fixed term debt	(139)	-
Receipt on financing derivatives	(37)	-
Capital element of finance lease rental payments	10	11
<b>Cash flow movement in net cash</b>	<b>(19)</b>	(578)
Borrowings acquired	-	(7)
Exchange differences and other non-cash movements	(1)	12
<b>Net cash at end of year</b>	<b>48</b>	68

## 32 Acquisitions

In the prior year on 30 November 2017, the Group obtained control of Praktiker Romania S.A. ("Praktiker") by acquiring 100% of its share capital for a cash consideration of £14m (excluding cash acquired of £2m). Praktiker is a home improvement retailer and was acquired to strengthen the Group's position in Romania.

Goodwill of £36m was recognised on net liabilities acquired of £22m, representing a strategic premium to strengthen the Group's position in Romania and anticipated synergies that will arise from the acquisition.

## 33 Assets held for sale

£ millions	2018/19	2017/18
Assets held for sale	89	–

At 31 January 2019, assets held for sale comprise freehold properties in the UK and Poland.

## 34 Commitments

### Operating lease commitments

The Group is a lessee of various retail stores, offices, warehouses and plant and equipment under lease agreements with varying terms, escalation clauses and renewal rights.

The Group is also a lessor and sub-lessor of space with freehold and leasehold properties respectively. Lease arrangements under which rental payments are contingent upon sales, other performance or usage are not significant for the Group.

There are no corporate restrictions imposed by lease arrangements such as those concerning dividends, additional debt and further leasing.

Undiscounted total future minimum rentals payable under non-cancellable operating leases are as follows:

£ millions	2018/19	2017/18
Less than one year	451	444
One to five years	1,481	1,461
More than five years	1,602	1,664
	3,534	3,569

The prior year commitment analysis above has been revised to reflect the reassessment of certain land use rights as operating leases.

Undiscounted total future minimum rentals receivable under non-cancellable operating leases are as follows:

£ millions	2018/19	2017/18
Less than one year	10	10
One to five years	29	32
More than five years	20	29
	59	71

The total of future minimum operating sublease receipts expected to be received is £42m (2017/18: £42m).

### Capital commitments

Capital commitments contracted but not provided for by the Group amount to £40m (2017/18: £52m).

## Notes to the consolidated financial statements continued

### 35 Contingent liabilities

The Group has arranged for certain guarantees to be provided to third parties in the ordinary course of business. Of these guarantees, £43m (2017/18: £43m) could crystallise due to possible future events not wholly within the Group's control.

The Group is subject to claims and litigation arising in the ordinary course of business and provision is made where liabilities are considered likely to arise on the basis of current information and legal advice.

The Group files tax returns in many jurisdictions around the world and at any one time, is subject to periodic tax audits in the ordinary course of its business. Applicable tax laws and regulations are subject to differing interpretations and the resolution of a final tax position can take several years to complete. Where it is considered that future tax liabilities are more likely than not to arise, an appropriate provision is recognised in the financial statements.

Included within these audits is a dispute with the French Tax Authority regarding the treatment of interest paid since the 2010 year end, where additional French tax of €49m (£43m) has been assessed and for which a bank guarantee is now in place. At the balance sheet date, interest and penalties of €51m (£44m) would be due on this assessment if not challenged successfully. Having taken external professional advice, the Group disagrees with the assessment and intends to defend its position through the courts. The Group does not consider it necessary to make provision for the amounts assessed at the current time, nor for any potential further amounts which may be assessed for subsequent years.

In October 2017, the European Commission opened a state aid investigation into the Group Financing Exemption section of the UK controlled foreign company rules. Along with many other UK-based international companies, the Group may be affected by the outcome of this investigation and is therefore monitoring developments. The Group does not currently consider any provision is required in relation to EU State Aid.

Whilst the procedures that must be followed to resolve these types of tax issues make it likely that it will be some years before the eventual outcome is known, the Group does not currently expect the outcome of these contingent liabilities to have a material effect on the Group's financial position.

### 36 Related party transactions

During the year, the Company and its subsidiaries carried out a number of transactions with related parties in the normal course of business and on an arm's length basis. The names of the related parties, the nature of these transactions and their total value are shown below:

£ millions	2018/19		2017/18	
	Income	Receivable	Income	Receivable
Transactions with Koçtaş Yapi Marketleri Ticaret A.S. in which the Group holds a 50% interest				
Commission and other income	0.4	–	0.7	0.2
Transactions with Crealfi S.A. in which the Group holds a 49% interest				
Provision of employee services	0.6	–	0.2	–
Commission and other income	5.7	0.3	6.6	0.2
Transactions with the Kingfisher Pension Scheme				
Provision of administrative services	1.5	–	1.3	–

Services are usually negotiated with related parties on a cost-plus basis. Goods are sold or bought on the basis of the price lists in force with non-related parties.

The remuneration of key management personnel is given in note 8.

Other transactions with the Kingfisher Pension Scheme are detailed in note 26.

### 37 Standards issued but not yet effective – IFRS 16 'Leases'

At the date of authorisation of these financial statements, the following new standard, which has not been applied in these financial statements, was in issue but not yet effective:

- IFRS 16, 'Leases' (effective from the Group's 2019/20 financial year).

IFRS 16 was issued by the IASB in January 2016 and has been endorsed by the European Union. The standard supersedes IAS 17 'Leases' and is effective for periods beginning on or after 1 January 2019. The adoption of IFRS 16 will have a material impact on the Group's primary financial statements, including impacts on operating profit, profit before tax, total assets and total liabilities lines. The project is being led by Group Finance and has a steering committee in place to provide appropriate oversight and governance.

### Lessee accounting

For operating leases in which the Group is a lessee, the Group will recognise a new right-of-use asset and a new lease liability for its leases of properties and equipment assets. Existing finance leases and onerous lease provisions for rental charges will be derecognised under IFRS 16.

Under IFRS 16 the income statement expense comprises a straight-line depreciation charge on the right-of-use asset and a front-loaded interest charge on the lease liability, both over the term of the lease. For an individual lease, this provides an overall front-loaded expense profile compared with the straight-line rental charge recognised under IAS 17.

The historical discount rates applied have been based on the incremental borrowing rate where the implicit rate in the lease is not readily determinable. The lease term comprises the non-cancellable lease term, in addition to optional periods when the Group is reasonably certain to exercise an option to extend (or not to terminate) a lease.

### Lessor accounting

No significant impact is expected for leases in which the Group is a lessor. Where the Group subleases assets, it is determined whether the sublease should be classified as an operating lease or a finance lease, with reference to the right-of-use asset (not the underlying asset as per IAS 17).

### Transition

The Group plans to apply IFRS 16 from 1 February 2019 using the full retrospective method and will thereby restate the comparatives for the year ended 31 January 2019. The Group plans to apply the practical expedient available for low-value items and short-term leases, recognising rental payments for these leases on a straight-line basis but not recognising a right-of-use asset or lease liability.

### Impact of the new standard

The Group has assessed the impact that the application of IFRS 16 has on its income statement for the year ended 31 January 2019 and on its balance sheet as at that date. The standard is not expected to result in a material impact on restated underlying profit before tax. It is expected that the right-of-use asset recognised on the restated balance sheet as at 31 January 2019 will be c.£2.0bn, whilst the lease liability will be c.£2.6bn.

### IFRS 16 indicative impact on FY 2018/19 income statement

£m	IAS 17	Adjustment <sup>1</sup>	IFRS16
<b>Sales</b>	<b>11,685</b>	<b>–</b>	<b>11,685</b>
<b>Retail profit</b>	<b>753</b>	<b>160</b>	<b>913</b>
Central costs, joint venture/associate interest and tax	(53)	–	(53)
Finance costs (excl. lease FX) <sup>2</sup>	(7)	(170)	(177)
<b>Underlying pre-tax profit</b>	<b>693</b>	<b>(10)</b>	<b>683</b>
Rent elimination		430	
Right-of-use asset depreciation		(270)	
<b>Retail profit adjustment</b>		<b>160</b>	

1. Numbers are rounded to the nearest £10m

2. Excludes foreign exchange differences relating to translation of leases denominated in non-functional currencies

### IFRS 16 indicative impact on 31 January 2019 balance sheet

£bn	IAS 17	Adjustment	IFRS 16
Right-of-use assets	–	2.0	2.0
Other fixed assets <sup>1</sup>	6.3	(0.2)	6.1
Inventory, trade and other receivables/payables	0.5	0.1	0.6
Provisions	(0.1)	0.1	–
Current and deferred tax	(0.4)	0.1	(0.3)
Lease debt	–	(2.6)	(2.6)
Financial net cash	0.1	–	0.1
Net cash/(debt) <sup>2</sup>	0.1	(2.6)	(2.5)
Other	0.3	–	0.3
<b>Net assets</b>	<b>6.7</b>	<b>(0.5)</b>	<b>6.2</b>

1. Includes goodwill, other intangible assets, property, plant and equipment, investment property and investments in joint ventures and associates

2. Net debt under IFRS 16 comprises lease liabilities and financial net cash ('net cash' under IAS 17 excluding finance leases)

Other new standards, amendments and interpretations which are in issue but not yet effective are not expected to have a material impact on the consolidated financial statements.

# Company balance sheet

At 31 January 2019

£ millions	Notes	2018/19	2017/18
<b>Non-current assets</b>			
Investment in subsidiary	4	6,831	6,825
Post-employment benefits	10	15	12
		<b>6,846</b>	6,837
<b>Current assets</b>			
Trade and other receivables	5	4,494	4,133
Derivative assets	8	10	40
Current tax assets		49	44
Cash and cash equivalents		69	55
		<b>4,622</b>	4,272
<b>Total assets</b>		<b>11,468</b>	11,109
<b>Current liabilities</b>			
Trade and other payables	6	(5,107)	(4,819)
Borrowings	7	-	(125)
Derivative liabilities	8	(11)	(12)
Provisions	9	-	(1)
		<b>(5,118)</b>	(4,957)
<b>Non-current liabilities</b>			
Borrowings	7	(136)	-
Derivative liabilities	8	(2)	-
Provisions	9	(3)	(3)
		<b>(141)</b>	(3)
<b>Total liabilities</b>		<b>(5,259)</b>	(4,960)
<b>Net assets</b>		<b>6,209</b>	6,149
<b>Equity</b>			
Share capital	11	332	340
Share premium		2,228	2,228
Own shares held in ESOP trust		(25)	(29)
Retained earnings		2,920	2,864
Capital redemption reserve		43	35
Other reserves		711	711
<b>Total equity</b>		<b>6,209</b>	6,149

The Company's profit for the year was £412m (2017/18: £430m).

The financial statements were approved by the Board of Directors on 19 March 2019 and signed on its behalf by:

**Véronique Laury**  
Chief Executive Officer

**Karen Witts**  
Chief Financial Officer

# Company statement of changes in equity

Year ended 31 January 2019

£ millions	Notes	Share capital	Share premium	Own shares held	Retained earnings	Capital redemption reserve	Other reserves <sup>1</sup>	Total equity
<b>At 1 February 2018</b>		<b>340</b>	<b>2,228</b>	<b>(29)</b>	<b>2,864</b>	<b>35</b>	<b>711</b>	<b>6,149</b>
Profit for the year		-	-	-	412	-	-	412
Other comprehensive income for the year		-	-	-	2	-	-	2
<b>Total comprehensive income for the year</b>		-	-	-	<b>414</b>	-	-	<b>414</b>
Share-based compensation		12	-	-	4	-	-	4
Capital contributions given relating to share-based payments		-	-	-	11	-	-	11
New shares issued under share schemes		-	-	-	2	-	-	2
Own shares issued under share schemes		-	-	4	(4)	-	-	-
Purchase of own shares for cancellation		11	(8)	-	(140)	8	-	(140)
Dividends		-	-	-	(231)	-	-	(231)
<b>At 31 January 2019</b>		<b>332</b>	<b>2,228</b>	<b>(25)</b>	<b>2,920</b>	<b>43</b>	<b>711</b>	<b>6,209</b>
<b>At 1 February 2017</b>		352	2,221	(23)	2,925	22	711	6,208
Profit for the year		-	-	-	430	-	-	430
Other comprehensive loss for the year		-	-	-	(2)	-	-	(2)
<b>Total comprehensive income for the year</b>		-	-	-	<b>428</b>	-	-	<b>428</b>
Share-based compensation		12	-	-	3	-	-	3
Capital contributions given relating to share-based payments		-	-	-	6	-	-	6
New shares issued under share schemes		-	1	7	-	-	-	8
Own shares issued under share schemes		-	-	-	(7)	-	-	-
Purchase of own shares for cancellation		11	(13)	-	(260)	13	-	(260)
Purchase of own shares for ESOP trust		-	-	-	(13)	-	-	(13)
Dividends		-	-	-	(231)	-	-	(231)
<b>At 31 January 2018</b>		<b>340</b>	<b>2,228</b>	<b>(29)</b>	<b>2,864</b>	<b>35</b>	<b>711</b>	<b>6,149</b>

1. The other reserves represent the premium on the issue of convertible loan stock in 1993 and the merger reserve relating to the acquisition of Darty in 1993.

# Notes to the Company financial statements

## 1 General information

The Company is non-trading and is the ultimate parent of the Kingfisher plc group ('the Group'). The nature of the Group's operations and its principal activities is set out in the Strategic Report on pages 3 to 53.

The Company is incorporated in England, United Kingdom, and is listed on the London Stock Exchange. The address of its registered office is 3 Sheldon Square, Paddington, London W2 6PX. A full list of related undertakings of the Company and their registered offices is given in note 15.

## 2 Principal accounting policies

The financial statements of Kingfisher plc ('the Company') are for the year ended 31 January 2019 ('the year' or '2018/19') and were authorised for issue by the Board of Directors on 19 March 2019. The comparative financial year is the year ended 31 January 2018 ('the prior year' or '2017/18').

The directors of Kingfisher plc, having made appropriate enquiries, consider that adequate resources exist for the Company to continue in operational existence and that, therefore, it is appropriate to adopt the going concern basis in preparing the financial statements for the year ended 31 January 2019. Refer to the Strategic Report on page 52.

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 and as such these financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101') and the provisions of the Companies Act 2006. The financial statements have been prepared under the historical cost convention, as modified by the use of valuations for certain financial instruments, share-based payments and post-employment benefits.

As permitted by section 408 of the Companies Act 2006, the income statement of the Company has not been presented.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based Payment';
- the requirements of IFRS 7 'Financial Instruments: Disclosures';
- the requirements of paragraphs 91 to 99 of IFRS 13 'Fair Value Measurement';
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 'Presentation of Financial Statements';
- the requirements of IAS 7 'Statement of Cash Flows';
- the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Error';
- the requirements of paragraphs 17 and 18A of IAS 24 'Related Party Disclosures';
- the requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and

- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 'Impairment of Assets'.

Where required, equivalent disclosures are given in the consolidated financial statements of Kingfisher plc.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

The Company has adopted IFRS 9 'Financial Instruments' from 1 February 2018. IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and addresses the classification, measurement and recognition of financial assets and liabilities, and introduces a new impairment model for financial assets as well as new hedge accounting rules. A detailed assessment of the new standard was undertaken and concluded that there are no material impacts on the Company financial statements.

### a. Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange at the balance sheet date. Exchange differences on monetary items are taken to the income statement.

Principal rate of exchange against Sterling:

Euro	2018/19	2017/18
Year end rate	1.15	1.14

The financial statements are presented in Sterling, which is the Company's presentation currency and the currency of the primary economic environment in which the entity operates (i.e. its functional currency).

### b. Investments

Investments in subsidiaries are included in the balance sheet at cost, less any provisions for impairment.

### c. Operating leases

Operating lease rental payments are generally charged to the income statement in the period to which the payments relate, except for those leases which incorporate fixed minimum rental uplift clauses. Leases which contain fixed minimum rental uplifts are charged to the income statement on a straight-line basis over the lease term.

### d. Employee benefits

#### (i) Post-employment benefits

The Company operates defined benefit and defined contribution pension schemes for its employees. A defined benefit scheme is a pension scheme which defines an amount of pension benefit which an employee will receive on retirement. A defined contribution scheme is a pension scheme under which the Company usually pays fixed contributions into a separate entity. In all cases a separate fund is being accumulated to meet the accruing liabilities. The assets of each of these funds are held under trusts and are entirely separate from the Company's assets.

The asset or liability recognised in the balance sheet in respect of defined benefit pension schemes is the fair value of scheme assets less the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds which are denominated in the currency in which the benefits will be paid and

which have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited or charged to other comprehensive income as they arise.

For defined contribution schemes, the Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

#### (ii) Share-based compensation

The Company operates several equity-settled, share-based compensation schemes. The fair value of the employee services received in exchange for the grant of options or deferred shares is recognised as an expense and is calculated using Black-Scholes and stochastic models. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or deferred shares granted, excluding the impact of any non-market vesting conditions. The value of the charge is adjusted to reflect expected and actual levels of options vesting due to non-market vesting conditions.

The fair value of the compensation given to subsidiaries in respect of share-based compensation schemes is recognised as a capital contribution over the vesting period. The capital contribution is reduced by any payments received from subsidiaries in respect of these schemes.

#### (iii) Employee Share Ownership Plan trust ('ESOP trust')

The ESOP trust is a separately administered discretionary trust. Liabilities of the ESOP trust are guaranteed by the Company and the assets of the ESOP trust mainly comprise shares in the Company.

Own shares held by the ESOP trust are deducted from equity and the shares are held at historical cost until they are sold. The assets, liabilities, income and costs of the ESOP trust are included in both the Company's and the consolidated financial statements.

#### **e. Taxation**

The tax currently payable or receivable is based on taxable profit or loss for the year.

Taxable profit differs from profit before taxation as reported in the income statement because it excludes items of income or expense which are taxable or deductible in other years or which are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences or unused tax losses can be utilised. Deferred tax assets and liabilities are not generally recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is

probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Current and deferred tax are calculated using tax rates which have been enacted or substantively enacted by the balance sheet date and are expected to apply in the period when the liability is settled or the asset is realised.

Current and deferred tax are charged or credited to the income statement, except when they relate to items charged or credited directly to equity, in which case the current or deferred tax is also recognised directly in equity.

#### **f. Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

A provision is recorded if the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it. The unavoidable costs reflect the lease net cost of exiting the contract.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate which reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### **g. Financial instruments**

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or the Company has substantially transferred the risks and rewards of ownership. Financial liabilities (or a part of a financial liability) are derecognised when the obligation specified in the contract is discharged or cancelled or expires.

Financial assets and liabilities are offset only when the Group has a currently enforceable legal right to set-off the respective recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### (i) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks and other short-term highly liquid investments with original maturities of three months or less.

#### (ii) Borrowings

Interest bearing borrowings are recorded at the proceeds received, net of direct issue costs and subsequently measured at amortised cost. Where borrowings are in designated and effective fair value hedge relationships, adjustments are made to their carrying amounts to reflect the hedged risks. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are amortised to the income statement using the effective interest method.

## Notes to the Company financial statements continued

### 2 Principal accounting policies continued

#### (iii) Trade receivables

Trade receivables are initially recognised at fair value and are subsequently measured at amortised cost less any provision for bad and doubtful debts.

#### (iv) Trade payables

Trade payables are initially recognised at fair value and are subsequently measured at amortised cost.

#### (v) Derivatives and hedge accounting

Where hedge accounting is not applied, or to the extent to which it is not effective, changes in the fair value of derivatives are recognised in the income statement as they arise.

Derivatives are initially recorded at fair value on the date a derivative contract is entered into and are subsequently carried at fair value. The accounting treatment of derivatives and other financial instruments classified as hedges depends on their designation, which occurs at the start of the hedge relationship. The Company designates certain derivatives as a hedge of the fair value of an asset or liability ('fair value hedge').

For an effective hedge of an exposure to changes in fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry being recorded in the income statement. Gains or losses from remeasuring the corresponding hedging instrument are recognised in the same line of the income statement.

In order to qualify for hedge accounting, the Company documents in advance the risk management objective and strategy for undertaking the hedge and the relationship between the item being hedged and the hedging instrument. The Company also documents and demonstrates an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis and provides an analysis of the sources of hedge ineffectiveness. The effectiveness testing is performed at half year and year end or

upon a significant change in circumstances affecting the hedge effectiveness requirements.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

#### h. Dividends

Interim dividends are recognised when they are paid to the Company's shareholders. Final dividends are recognised when they are approved by the Company's shareholders.

### Judgements and sources of estimation uncertainty

The preparation of the Company financial statements requires the Company to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

#### Sources of estimation uncertainty

##### Post-employment benefits

The present value of the defined benefit liabilities recognised on the balance sheet is dependent on a number of market rates and assumptions including interest rates of high quality corporate bonds, inflation and mortality rates. The net interest expense or income is dependent on the interest rates of high quality corporate bonds and the net deficit or surplus position. The market rates and assumptions are based on the conditions at the time and changes in these can lead to significant movements in the estimated obligations. To help the reader understand the impact of changes in the key market rates and assumptions, a sensitivity analysis is provided in note 10.

### 3 Income statement disclosures

The audit fee for the Company and the consolidated financial statements is disclosed in note 7 of the Kingfisher plc consolidated financial statements. Fees payable to Deloitte LLP and their associates for audit and non-audit services to the Company are not required to be disclosed because the Group financial statements disclose such fees on a consolidated basis. Details of the Company's policy on the use of auditors for non-audit services, the reasons why the auditor was used rather than another supplier and how the auditor's independence and objectivity were safeguarded are set out in the Audit Committee Report on page 74.

Dividend disclosures are provided in note 11 to the Kingfisher plc consolidated financial statements.

£ millions	2018/19	2017/18
Wages and salaries	30	26
Social security costs	5	5
Post-employment benefits – defined contribution	2	2
Share-based compensation	4	3
<b>Employee benefit expenses</b>	<b>41</b>	<b>36</b>

Number	2018/19	2017/18
Average number of persons employed		
Administration	267	304

Directors' remuneration and details of share option exercises are disclosed in the Directors' Remuneration Report on pages 76 to 99. Total Directors' remuneration for the year is £6m (2017/18: £5m).

As permitted by s408 of Companies Act 2006, no separate income statement or statement of comprehensive income is presented in respect of the parent Company. The profit attributable to the Company is disclosed in the footnote to the Company's balance sheet.

## 4 Investments

£ millions	Investment in subsidiary
At 1 February 2018	<b>6,825</b>
Capital contributions given relating to share-based payments	<b>11</b>
Contributions received relating to share-based payments	<b>(5)</b>
At 31 January 2019	<b>6,831</b>

The more significant subsidiary undertakings of the Company at 31 January 2019 and the ultimate percentage holding are set out below. For a full list of subsidiaries and related undertakings, see note 15.

	Country of incorporation and operation	% interest held and voting rights	Class of share owned	Main activity
B & Q plc	United Kingdom	100%	Ordinary & Special <sup>1</sup>	Retailing
B&Q Properties Limited	United Kingdom	100%	Ordinary	Property investment
Halcyon Finance Limited	United Kingdom	100%	Ordinary	Financing
Kingfisher Digital Limited	United Kingdom	100%	Ordinary	Digital services
Kingfisher Holdings Limited	United Kingdom	100%	Ordinary	Holding company
Kingfisher International Products Limited	United Kingdom	100%	Ordinary	Sourcing
Kingfisher Information Technology Services (UK) Limited	United Kingdom	100%	Ordinary	IT services
Screwfix Direct Limited	United Kingdom	100%	Ordinary	Retailing
Sheldon Holdings Limited	United Kingdom	100%	Ordinary	Holding company
Zeus Land Investments Limited	United Kingdom	100%	Ordinary	Holding company
B&Q Ireland Limited	Ireland	100%	Ordinary	Retailing
Brico Dépôt S.A.S.U.	France	100%	Ordinary	Retailing
Castorama France S.A.S.U.	France	100%	Ordinary	Retailing
Euro Dépôt Immobilier S.A.S.U.	France	100%	Ordinary	Property investment
L'Immobilière Castorama S.A.S.U.	France	100%	Ordinary	Property investment
Kingfisher Asia Limited	Hong Kong	100%	Ordinary	Sourcing
Kingfisher Investissements SAS	France	100%	Ordinary	Holding company
Castim Sp. z o.o.	Poland	100%	Ordinary	Property investment
Castorama Polska Sp. z o.o.	Poland	100%	Ordinary	Retailing
Brico Dépôt Portugal S.A.	Portugal	100%	Ordinary	Retailing
Castorama RUS LLC <sup>2</sup>	Russia	100%	Ordinary	Retailing
Bricostore Romania S.A. <sup>2</sup>	Romania	100%	Ordinary	Retailing
Praktiker Romania S.A. <sup>2</sup>	Romania	100%	Ordinary	Retailing
Euro Dépôt España S.A.U.	Spain	100%	Ordinary	Retailing

1. The special shares in B & Q plc are owned 100% by Kingfisher plc and are non-voting.

2. Owing to local conditions, these companies prepare their financial statements to 31 December.

Impairment reviews have been performed for the Company's investments with no resulting impairments.

## 5 Trade and other receivables

£ millions	2018/19	2017/18
<b>Current</b>		
Owed by Group undertakings	<b>4,494</b>	4,132
Other receivables	-	1
	<b>4,494</b>	4,133

## Notes to the Company financial statements continued

### 6 Trade and other payables

£ millions	2018/19	2017/18
<b>Current</b>		
Owed to Group undertakings	5,069	4,789
Other taxation and social security	4	2
Accruals and other payables	34	28
	<b>5,107</b>	<b>4,819</b>

Amounts owed to Group undertakings are repayable on demand and any interest due thereon is at current market rates.

### 7 Borrowings

£ millions	2018/19	2017/18
<b>Current</b>		
Fixed term debt	–	125
	–	125
<b>Non-current</b>		
Fixed term debt	136	–
	<b>136</b>	–

Details of the fixed term debt, representing EUR50m Medium Term Notes, a EUR50m term loan and a GBP50m term loan issued during the year and the repayment of the US Dollar Private Placement ("USPP") during the year are given in note 21 to the consolidated financial statements.

### 8 Derivatives

£ millions	2018/19	2017/18
Cross currency interest rate swaps	–	32
Foreign exchange contracts	10	8
Derivative assets	<b>10</b>	<b>40</b>
Cross currency interest rate swaps	(2)	–
Foreign exchange contracts	(11)	(12)
Derivative liabilities	<b>(13)</b>	<b>(12)</b>

The cross currency interest rate swap contracts convert the Euro fixed term floating rate debt to Sterling floating rate debt. Details of these contracts are given in note 22 to the consolidated financial statements. In the prior year, the cross currency interest rate swap contracts converted the USPP fixed rate debt into floating rate Sterling debt based on 6-month LIBOR plus a margin.

The fair values are calculated by discounting future cash flows arising from the instruments and adjusted for credit risk. These fair value measurements are all made using observable market rates of interest, foreign exchange and credit risk. Further details are given in note 22 to the consolidated financial statements.

### 9 Provisions

£ millions	Onerous property contracts
At 1 February 2018	<b>4</b>
Release to income statement	<b>(1)</b>
At 31 January 2019	<b>3</b>
Current liabilities	–
Non-current liabilities	<b>3</b>
	<b>3</b>

Within the onerous property contracts provision, the Company has provided against future liabilities for all properties sublet at a shortfall and long-term idle properties. The provision is based on the present value of future cash outflows relating to rent, rates and service charges. The weighted average remaining lease term to earliest exit, before any surrenders, assignments or mitigation through subleases, is three years.

## 10 Post-employment benefits

The Company participates in both a funded defined benefit scheme and a funded defined contribution scheme.

### Defined contribution scheme

Pension costs for the defined contribution scheme, at rates specified in the scheme's rules, are as follows:

£ millions	2018/19	2017/18
Charge to operating profit	2	2

From July 2012, an enhanced defined contribution scheme was offered to all Company employees. Eligible Company employees have been automatically enrolled into the defined contribution scheme since 31 March 2013.

### Defined benefit scheme

Kingfisher plc is one of a number of Group companies that participate in the Kingfisher Pension Scheme, and therefore the Company has accounted for its share of the scheme assets and liabilities. The Group's policy is for each entity to recognise its share of assets and liabilities based on the proportion of the scheme contributions paid by that the entity. See note 26 to the consolidated financial statements for further detail on the Kingfisher Pension Scheme. The valuation of the scheme has been based on the most recent actuarial valuation as at 31 March 2016 and has been updated to 31 January 2019.

The final salary pension scheme was closed to future benefit accrual with effect from July 2012.

The Trust Deed provides Kingfisher with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the Trustee has no rights to unilaterally wind up, or otherwise augment the benefits due to members of, the scheme. Based on these rights, any net surplus in the scheme is recognised in full.

In 2010/11 and 2011/12 the Company entered into two phases of a property partnership arrangement with the scheme Trustee to address an element of the scheme deficit. Further details on this arrangement are given in note 26 to the consolidated financial statements. The reported pension position reflects the Company's share of the resulting scheme asset.

### Income statement

£ millions	2018/19	2017/18
Net interest income	-	-
<b>Total credited to income statement</b>	<b>-</b>	<b>-</b>

### Balance sheet

Movements in the present value of the defined benefit obligation and the fair value of scheme assets are as follows:

£ millions	Defined benefit obligation	Scheme assets	Total
At 1 February 2018	(88)	100	12
Interest (expense)/income	(2)	2	-
Actuarial gains <sup>1</sup>	2	-	2
Contributions paid by employer	-	1	1
Benefits paid	5	(5)	-
At 31 January 2019	(83)	98	15
At 1 February 2017	(88)	101	13
Interest (expense)/income	(2)	2	-
Actuarial losses <sup>1</sup>	(2)	-	(2)
Contributions paid by employer	-	1	1
Benefits paid	4	(4)	-
At 31 January 2018	(88)	100	12

1. Representing the total amounts recognised in other comprehensive income for the year.

The fair value of scheme assets is analysed as follows:

£ millions	2018/19	2017/18
Equities	5	7
Government and corporate bonds	73	66
Property	1	1
Cash and other	19	26
<b>Total fair value of scheme assets</b>	<b>98</b>	<b>100</b>

## Notes to the Company financial statements continued

### 10 Post-employment benefits continued

The following sensitivity analysis for the scheme shows the estimated impact on the obligation resulting from changes to key actuarial assumptions, whilst holding all other assumptions constant.

Assumption	Change in assumption	Impact on defined benefit obligation
Discount rate	Increase/decrease by 0.5%	Decrease/increase by £9m
Price inflation	Increase/decrease by 0.5%	Increase/decrease by £7m
Rate of pension increases	Increase/decrease by 0.5%	Increase/decrease by £8m
Mortality	Increase in life expectancy by one year	Increase by £3m

### 11 Called up share capital

	Number of ordinary shares millions	Ordinary share capital £ millions
Allotted, called up and fully paid:		
At 1 February 2018	2,161	340
Purchase of own shares for cancellation	(51)	(8)
At 31 January 2019	2,110	332

Ordinary shares have a par value of 15<sup>5</sup>/<sub>7</sub> pence per share.

During the year the Group purchased 51 million (2018/19: 82 million) of its own shares for cancellation at a cost of £140m (2017/18: £260m) as part of its capital returns programme.

### 12 Share-based payments

The Company operates a number of share incentive plans including the Kingfisher Alignment Share and Transformation Incentive Plan ('KASTIP'), Kingfisher Incentive Share Plan ('KISP'), Long Term Incentive Plan ('LTIP') and Sharesave plans in the UK and Ireland.

Options have been exercised on a regular basis throughout the year. On that basis, the weighted average share price during the year, rather than at the date of exercise, is £2.83 (2017/18: £3.20). The options outstanding at the end of the year have exercise prices ranging from nil to £3.15 and a weighted average remaining contractual life of 7.2 years (2017/18: 7.4 years).

The Executive Directors' awards are disclosed in the Directors' Remuneration Report on pages 76 to 99. The KASTIP awards are described as part of the Directors' Remuneration Report.

Under the KISP, share awards are deferred for three years. The awards were granted as nil cost options. Vesting dates may vary according to individual grants.

LTIP was granted annually based on performance over a three-year period. Performance conditions were based on 50% EPS and 50% Kingfisher Economic Profit ('KEP'). The awards were granted as nil cost options, and only accrue dividends after they vest. Vesting dates varied according to individual grants.

Under the UK Sharesave scheme, eligible UK employees have been invited to enter into HMRC-approved savings contracts for a period of three or five years, whereby shares may be acquired with savings under the contract. The option price is the average market price over three days shortly before the invitation to subscribe, discounted by 20%. Options are exercisable within a six-month period from the conclusion of a three- or five-year period. The Irish Sharesave plan, which operates along similar lines to the UK Sharesave scheme, includes eligible employees in Ireland.

The rules of all schemes include provision for the early exercise of options in certain circumstances.

#### The Employee Share Ownership Plan trust ('ESOP trust')

The ESOP trust is funded by an interest free loan from the Company of £85m (2017/18: £92m) to enable it to acquire shares in Kingfisher plc. The shares are used to satisfy options awarded under the Transformation Incentive award, Alignment Share award, KISP and LTIP.

The ESOP trust's shareholding at 31 January 2019 is 7 million shares (2017/18: 9 million shares) with a nominal value of £1m (2017/18: £1m) and a market value of £17m (2017/18: £29m). Dividends on these shares were waived for the interim and final dividends.

## 13 Commitments

### Operating lease commitments

The Company is a lessee of offices under lease agreements.

Undiscounted total future minimum rentals payable under non-cancellable operating leases are as follows:

£ millions	2018/19	2017/18
Less than one year	3	4
One to five years	7	14
	10	18

Undiscounted total future minimum rentals receivable under non-cancellable operating leases (being the total of future minimum operating sublease receipts expected to be received) are as follows:

£ millions	2018/19	2017/18
Less than one year	–	–
One to five years	1	1
	1	1

## 14 Related party transactions

During the year, the Company carried out a number of transactions with related parties in the normal course of business and on an arm's length basis. The names of the related parties, the nature of these transactions and their total value are shown below:

£ millions	2018/19		2017/18	
	Income	Receivable	Income	Receivable
Transactions with Koçtaş Yapi Marketleri Ticaret A.S. in which the Kingfisher plc Group holds a 50% interest				
Commission and other income	0.2	–	0.5	0.2
Transactions with the Kingfisher Pension Scheme				
Provision of administrative services	1.5	–	1.3	–

Services are usually negotiated with related parties on a cost-plus basis. Goods are sold or bought on the basis of the price lists in force with non-related parties.

Directors' remuneration and details of share option exercises are disclosed in the Directors' Remuneration Report on pages 76 to 99.

Other transactions with the Kingfisher Pension Scheme are detailed in note 10.

## Notes to the Company financial statements continued

### 15 Related undertakings of the Group

In accordance with Section 409 of the Companies Act 2006, a full list of related undertakings as at 31 January 2019, the address of their registered office and their country of incorporation is shown below. The entire issued share capital is held within the Group except where otherwise shown.

#### Subsidiary undertakings

All subsidiary undertakings, unless otherwise noted, are consolidated in the Group's financial statements, have only one class of share in issue (being ordinary shares), and have all their shares held by companies within the Group other than the Company (Kingfisher plc).

ADSR Real Estate S.A.S.U. <sup>1</sup>	Kingfisher (Paddington) Limited <sup>2</sup>
Alcedo Finance Limited <sup>2</sup>	Kingfisher (Shanghai) Sourcing Consultancy Co. Limited <sup>20</sup>
B&Q (Retail) Guernsey Limited <sup>3</sup>	Kingfisher Asia Limited <sup>16</sup>
B&Q (Retail) Jersey Limited <sup>4</sup>	Kingfisher B.V. <sup>17</sup>
B&Q Ireland Limited <sup>5</sup>	Kingfisher Digital Limited <sup>2</sup>
B & Q plc <sup>a,6</sup>	Kingfisher France Limited <sup>2</sup>
B&Q Properties Chesterfield Limited <sup>6</sup>	Kingfisher France Services S.A.S.U. <sup>1</sup>
B&Q Properties Chestnut Retail Park Limited <sup>6</sup>	Kingfisher Group Limited <sup>2</sup>
B&Q Properties Farnborough Limited <sup>6</sup>	Kingfisher Holdings B.V. <sup>17</sup>
B&Q Properties Investments Limited <sup>7</sup>	Kingfisher Holdings Limited <sup>b,2</sup>
B&Q Properties Limited <sup>6</sup>	Kingfisher Information Technology Services (France) S.A.S.U. <sup>1</sup>
B&Q Properties New Malden Limited <sup>6</sup>	Kingfisher Information Technology Services (UK) Limited <sup>2</sup>
B&Q Properties Nursling Limited <sup>6</sup>	Kingfisher Insurance Designated Activity Company <sup>18</sup>
B&Q Properties South Shields Limited <sup>6</sup>	Kingfisher International Finance S.A. <sup>c,19</sup>
B&Q Properties Sutton-In-Ashfield Limited <sup>6</sup>	Kingfisher International France Limited <sup>2</sup>
B&Q Properties Swindon Limited <sup>6</sup>	Kingfisher International Holdings Limited <sup>2</sup>
B&Q Properties Witney Limited <sup>6</sup>	Kingfisher International Holdings S.A.S.U. <sup>1</sup>
B&Q Properties Wrexham Limited <sup>6</sup>	Kingfisher International Products B.V. <sup>17</sup>
Bargain Bob's Limited <sup>8</sup>	Kingfisher International Products France S.A.S.U. <sup>1</sup>
Brico Communication S.R.L. <sup>9</sup>	Kingfisher International Products Limited <sup>2</sup>
Brico Dépôt Portugal S.A. <sup>10</sup>	Kingfisher International Products Romania SRL <sup>9</sup>
Brico Dépôt S.A.S.U. <sup>11</sup>	Kingfisher International Products RUS LLC <sup>14</sup>
Brico Supply S.A. <sup>9</sup>	Kingfisher Investissements SAS <sup>13</sup>
Bricostore Romania S.A. <sup>9</sup>	Kingfisher Nominees Limited <sup>2</sup>
Castim Sp. z o.o. <sup>12</sup>	Kingfisher Pension Trustee Limited <sup>2</sup>
Castorama France S.A.S.U. <sup>13</sup>	Kingfisher Properties Investments Limited <sup>2</sup>
Castorama Partenariat SNC <sup>1</sup>	Kingfisher Scottish Limited Partnership <sup>d,7</sup>
Castorama Polska Sp. z o.o. <sup>12</sup>	Kingfisher Sourcing Eastern Europe Sp. z o.o. <sup>12</sup>
Castorama RUS LLC <sup>14</sup>	Kingfisher TMB Limited <sup>6</sup>
Dickens Limited <sup>6</sup>	Kingfisher UK Investments Limited <sup>2</sup>
DIY Express Limited <sup>8</sup>	Kingfisher UK Limited <sup>2</sup>
EasyDrive (GB) Limited <sup>8</sup>	KSO Istanbul Sourcing Ev Geliştirme Ürünleri ve Hizmetleri Limited Şirketi <sup>21</sup>
Eijsvogel Finance Limited <sup>2</sup>	L'Immobilière Castorama S.A.S.U. <sup>13</sup>
Electricfix Limited <sup>8</sup>	La Tourelle S.A.S.U. <sup>11</sup>
Erbauer (UK) Limited <sup>8</sup>	Locke & Co Limited <sup>8</sup>
Euro Dépôt España S.A.U. <sup>15</sup>	Martin Pecheur Finance S.A.R.L. <sup>22</sup>
Euro Dépôt Immobilier S.A.S.U. <sup>11</sup>	Martin Pecheur Holdings Limited <sup>23</sup>
Forge Steel Limited <sup>8</sup>	Martin Pecheur Investments Limited <sup>24</sup>
Geared Up Limited <sup>8</sup>	Martin Pecheur Limited <sup>24</sup>
Good Home Products Limited <sup>2</sup>	Martin Pecheur Sterling Investments Limited <sup>2</sup>
Halcyon Finance Limited <sup>2</sup>	Moretti (UK) Limited <sup>8</sup>
Immobilière de l'Épinoy S.A.S.U. <sup>1</sup>	New England Paint Company Limited <sup>2</sup>
KF3 S.A.S.U. <sup>1</sup>	No Nonsense Limited <sup>8</sup>
KF5 S.A.S.U. <sup>1</sup>	Owl Developments Sp. z o.o. <sup>12</sup>
KF6 S.A.S.U. <sup>1</sup>	Paddington Investments Ireland Limited <sup>20</sup>
KF7 S.A.S.U. <sup>1</sup>	Plumbfix Limited <sup>8</sup>
KFL7 S.A.S.U. <sup>1</sup>	Portswood B.V. <sup>17</sup>
KFL8 S.A.S.U. <sup>1</sup>	Portswood Investments Limited <sup>2</sup>
KFS Sp. z o.o. <sup>12</sup>	Powersmith Limited <sup>8</sup>

Praktiker Romania S.A. <sup>26</sup>	Sheldon Sterling Investments Limited <sup>2</sup>
ProLand Corporation LLC <sup>25</sup>	Site (UK) Limited <sup>8</sup>
Screwfix Direct Limited <sup>e,8</sup>	SNC Dynastock <sup>27</sup>
Screwfix Investments Limited <sup>2</sup>	Société Commanditée de Castorama Dubois Investissements Socodi S.A.R.L. <sup>1</sup>
Screwfix Limited <sup>8</sup>	Société Letranne S.C.I. <sup>11</sup>
Screwfix S.A.S.U. <sup>1</sup>	Street Club Limited <sup>6</sup>
Screws Limited <sup>8</sup>	Titan Power Tools (UK) Limited <sup>8</sup>
SFD Limited <sup>8</sup>	Trade Point Limited <sup>6</sup>
Sheldon Euro Investments 2 Limited <sup>2</sup>	Watersmith UK Limited <sup>8</sup>
Sheldon Euro Investments Limited <sup>2</sup>	Wildbird International Limited <sup>f,8</sup>
Sheldon Holdings Limited <sup>2</sup>	Zeus Land Investments Limited <sup>2</sup>
Sheldon Poland Investments Limited <sup>2</sup>	

### Related undertakings other than subsidiaries

Crealfi S.A. (France, 49%) <sup>28</sup>

Koçtaş Yapı Marketleri Ticaret A.S. (Turkey, 50%) <sup>29</sup>

- a. Kingfisher plc holds 1,000 Special Shares of £0.05 each, and 1,000 Special A Shares of £0.05 each – both representing 100% of the nominal value of each class of share. The shares held by Kingfisher plc represent less than 0.01% of the total issued share capital and are non-voting. The remaining shares in issue are Ordinary shares, have voting rights attached and are held by Kingfisher International Investments S.A.S.U.
- b. The shares are held directly by Kingfisher plc.
- c. 90,889,378 Ordinary shares of no par value, 43,041,757 A Preference Shares of no par value and 17,299,082 B Preference Shares of €1.00 each – each representing 100% of the nominal value of each class of share. These represent 100% of the total issued share capital.
- d. Kingfisher Properties Investments Limited and Kingfisher Pension Trustee Limited are the limited partners; B&Q Properties Investments Limited is the general partner.
- e. 4,083 Ordinary A shares of £1 each, 45,917 Ordinary C shares of £1 each and 4,591,700 Ordinary D Shares – each representing 100% of the nominal value of each class of share. These represent 100% of the total issued share capital.
- f. 200 Ordinary shares of £1 each, 100 Ordinary B shares of £1 each, 5 Ordinary C shares of £1 each, 5 Ordinary D shares of £1 each and 10 Ordinary E shares of £1 each – each representing 100% of the nominal value of each class of share. These represent 100% of the total issued share capital.

### Registered offices and country of incorporation:

1. Parc d'Activités, 59175 Templemars, France
2. 3 Sheldon Square, Paddington, London, W2 6PX, United Kingdom
3. Canada Court, Upland Road, St Peter Port, GY1 2AS, Guernsey
4. Gaspe House, 66-72 Esplanade, St. Helier, JE2 3QT, Jersey
5. 6th Floor, 2 Grand Canal Square, Dublin 2, Ireland
6. B&Q House, Chestnut Avenue, Chandlers Ford, Eastleigh, Hampshire, SO53 3LE, United Kingdom
7. 13 Albyn Terrace, Aberdeen, Scotland, AB10 1YB, United Kingdom
8. Trade House, Mead Avenue, Houndstone Business Park, Yeovil, BA22 8RT, United Kingdom
9. 1-3 Calea Giulesti, 2nd floor, Bricostore Commercial Centre, District 6, Bucharest, Romania
10. Rua Castilho, 5 – 1º Esq. Sala 12, Freguesia de San Mamede, Concelho de Lisboa, Portugal
11. 30-32 Rue de la Tourelle, 91310 Longpont-sur-Orge, France
12. ul. Krakowiaków 78, 02-255, Warsaw, Poland
13. Zone Industrielle, 59175 Templemars, France
14. Derbenevskaya nab. 7, Building 8, 115114, Moscow, Russian Federation
15. C/ la Selva, 10 Inblau Edificio A 1a, 08820 El Prat de Llobregat, Barcelona, Spain
16. 2/F, Koho, 73 – 75 Hung To Road, Kwun Tong, Hong Kong
17. Rapenburgerstraat 175, E, 1011 VM, Amsterdam, Netherlands
18. Willis Towers Watson House, Elm Park, Merrion Road, Dublin 4, Ireland
19. Regus Park Atrium, Rue des Colonies 11, 1000 Brussels, Belgium
20. B&Q China, 4th Floor, B&Q Pudong Commercial Building, No. 393 Yin Xiao Road, Pudong New Area, Shanghai, 201204, China
21. Çolakoglu Is Merkezi Turgut Özal Bulvarı , No: 82/3-4-5-6 Taşd. Çekmeköy, İstanbul, Turkey
22. 99 Grand-rue, L-1661, Luxembourg
23. 1st – 2nd Floors, 1-2 Victoria Buildings, Haddington Road, Dublin 4, D04 XN32, Ireland
24. Ogier House, The Esplanade, St Helier, JE4 9WG, Jersey
25. 12 Krasnopresnenskaya Naberezhnaya, 123610, Moscow, Russian Federation
26. 1st floor, 319 L and M Splaiul Independentei, District 6, Bucharest, RO-060044, Romania
27. Parc d'Activités, Zone Industrielle 59175 Templemars, France
28. Rue du Bois Sauvage, 91038, EVRY CEDEX, France
29. Tasdelen, Sile otobani 11Km.Alemdar Sapagi Sirri Celik Bulvari, No.1C.Blok Cekmekoy, Istanbul, 34788, Turkey

# Group five year financial summary

£ millions	2014/15 <sup>1,2</sup> 52 weeks	2015/16 Calendar year <sup>3</sup>	2016/17 Calendar year	2017/18 Calendar year	2018/19 Calendar year
<b>Income statement</b>					
Sales	10,966	10,441	11,225	11,655	<b>11,685</b>
B&Q China sales	(361)	(110)	–	–	–
Adjusted sales	10,605	10,331	11,225	11,655	<b>11,685</b>
Retail profit	742	746	847	849	<b>753</b>
Central costs	(40)	(45)	(48)	(46)	<b>(49)</b>
Share of interest and tax of joint ventures and associates	(6)	(5)	(5)	(4)	<b>(4)</b>
Net finance costs before financing fair value measurements and exceptional items	(12)	(10)	(7)	(2)	<b>(7)</b>
Underlying pre-tax profit	684	686	787	797	<b>693</b>
Transformation P&L costs	–	–	(44)	(114)	<b>(120)</b>
Adjusted pre-tax profit	684	686	743	683	<b>573</b>
B&Q China operating loss	(9)	(4)	–	–	–
Exceptional items (before tax)	(35)	(166)	17	–	<b>(251)</b>
Financing fair value remeasurements	4	(4)	(1)	(1)	–
Profit before taxation	644	512	759	682	<b>322</b>
Income tax expense (including exceptional items)	(71)	(100)	(149)	(197)	<b>(104)</b>
Profit for the year	573	412	610	485	<b>218</b>
<b>Balance sheet</b>					
Goodwill and other intangible assets	2,672	2,673	2,707	2,792	<b>2,807</b>
Property, plant and equipment and investment property	3,233	3,237	3,613	3,756	<b>3,462</b>
Investments in joint ventures and associates	28	23	23	25	<b>20</b>
B&Q China investment	–	62	–	–	–
Assets and liabilities held for sale	79	6	–	–	<b>89</b>
Other net current assets <sup>4</sup>	182	55	51	368	<b>439</b>
Post-employment benefits	112	159	131	99	<b>205</b>
Other net non-current liabilities <sup>4</sup>	(405)	(575)	(395)	(360)	<b>(413)</b>
Capital employed	5,901	5,640	6,130	6,680	<b>6,609</b>
Equity shareholders' funds	6,220	6,186	6,771	6,748	<b>6,657</b>
Non-controlling interests	10	–	–	–	–
Net cash	(329)	(546)	(641)	(68)	<b>(48)</b>
Capital employed	5,901	5,640	6,130	6,680	<b>6,609</b>
<b>Other financial data</b>					
Like-for-like sales growth	0.9%	2.3%	2.3%	(0.7%)	<b>(1.6%)</b>
Adjusted effective tax rate <sup>5</sup>	27%	26%	26%	30%	<b>27%</b>
Basic earnings per share (pence)	24.3	17.8	27.1	22.1	<b>10.3</b>
Adjusted basic earnings per share (pence)	21.3	22.0	24.4	21.8	<b>19.8</b>
Underlying basic earnings per share (pence)	21.3	22.0	25.9	25.5	<b>23.9</b>
Ordinary dividend per share (pence)	10.0	10.1	10.4	10.82	<b>10.82</b>
Gross capital expenditure <sup>6</sup>	275	333	406	368	<b>339</b>
Number of stores <sup>7</sup>	1,153	1,156	1,194	1,280	<b>1,331</b>

1. Sales, retail profit, adjusted pre-tax profit, like-for-like sales growth and adjusted basic earnings per share restated to exclude B&Q China operating results, following the disposal of a 70% controlling stake in 2015/16.

2. 2014/15 restated for IFRIC 21, 'Levies', resulting in a restatement of balance sheet payables, deferred tax and equity shareholders' funds.

3. In 2015/16 the Group moved its year end to 31 January (previously the nearest Saturday to 31 January) resulting in a calendar year ended 31 January 2016. This only impacted the UK & Ireland business with all other businesses already reporting on a calendar basis. This change had no material impact on the Group's results.

4. Other net current assets and other net non-current liabilities reported above exclude any components of net cash.

5. 2017/18 adjusted effective tax rate (adjusted ETR) includes the impact of a one-off French tax surcharge. This increased the adjusted ETR by c.3%.

6. Excluding business acquisitions.

7. Excluding joint ventures and associates. 2017/18 excludes 3 Praktiker Romania stores that were closed in 2018/19.

# shareholder information

## Annual General Meeting (AGM)

Our 2019 AGM will be held on Tuesday, 9 July 2019 at the Royal College of Physicians, 11 St Andrews Place, London NW1 4LE, at 2pm.

## Registrar

Computershare Investor Services PLC,  
The Pavilions, Bridgwater Road, Bristol BS99 6ZZ

Telephone: +44(0) 370 702 0129  
Website: www.investorcentre.co.uk

## Shareholder enquiries

Any queries that shareholders have regarding their shareholdings, such as a change of name or address, transfer of shares, lost share certificates, or about setting up a dividend mandate, should be referred to the Registrar using the contact details above. A shareholder helpline is available on UK business days between 8.30am and 5.30pm and provides an automated self-service functionality which is available 24 hours a day.

## Share dealing facilities

Shareholders have the opportunity to buy or sell Kingfisher plc shares using a share dealing facility operated by the Registrar.

Telephone share dealing: Commission is 1%, plus £35; and stamp duty at 0.5% is payable on purchases. The service is available from 8.00am to 4.30pm Monday to Friday excluding bank holidays.

Telephone: +44(0)370 703 0084

Please note that due to the regulations in the UK, Computershare is required to check that you have read and accepted the relevant terms and conditions before being able to trade, which could delay your first telephone trade. If you wish to trade quickly, we suggest visiting their website and registering online first at [www.computershare.trade](http://www.computershare.trade).

Internet share dealing: Commission is 1%, subject to a minimum charge of £30; stamp duty at 0.5% is payable on purchases. The service is available to place orders out of market hours. Simply visit [www.computershare.com/dealing/uk](http://www.computershare.com/dealing/uk). Before you trade you will need to register for this service.

## Unauthorised brokers (boiler room scams)

Kingfisher plc is legally obliged to make its share register available to the general public. Consequently some shareholders may receive unsolicited mail, including correspondence from unauthorised investment companies. We are aware that some shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas-based brokers who target UK shareholders offering to sell what often turn out to be worthless or high-risk shares in US or UK

investments. They can be very persistent and extremely persuasive. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

Details of any share dealing facilities that the company endorses will be included in company mailings.

## Share price history

Financial year	Price per ordinary share (£)*		Price per ADR (\$) **	
	High	Low	High	Low
2018/19	3.63	2.05	10.33	5.16
2017/18	3.68	2.88	10.21	7.60
2016/17	3.86	3.07	10.97	7.97
2015/16	3.83	3.17	11.92	9.23
2014/15	4.44	2.85	14.71	9.07
2013/14	4.20	2.71	9.34	8.40
2012/13	3.14	2.54	9.98	7.81
2011/12	2.87	2.17	9.34	6.91

\* Based on the daily closing price of Kingfisher plc shares on the London Stock Exchange.

\*\* Based on the daily closing price of Kingfisher plc ADRs on the Over-the-Counter (OTC) market.

## Analysis of shareholders and shareholdings as at 31 January 2019

Classification of holder	Holdings	%	Shares	%
Individuals	18,045	91.98	28,992,383	1.37
Banks or nominees	1,438	7.33	2,069,861,582	98.09
Investment trusts	18	0.09	116,253	0.01
Insurance companies	1	0.01	17,763	0.00
Other companies	97	0.49	8,134,326	0.39
Pension trusts	1	0.01	20	0.00
Other corporate bodies	17	0.09	2,990,961	0.14
<b>Total</b>	<b>19,617</b>	<b>100.00</b>	<b>2,110,113,288</b>	<b>100.00</b>

Size of holding (shares)	Shareholders	%	Shares	%
1-1,000	12,988	66.21	4,296,860	0.20
1,001-5,000	4,726	24.09	10,330,981	0.49
5,001-10,000	734	3.74	5,219,401	0.25
10,001-100,000	651	3.32	19,594,652	0.93
100,001-500,000	275	1.40	63,986,322	3.03
500,001 and above	243	1.24	2,006,685,072	95.10
<b>Total</b>	<b>19,617</b>	<b>100.00</b>	<b>2,110,113,288</b>	<b>100.00</b>

## shareholder information continued

### Dividend

The interim dividend for the financial year ended 31 January 2019 of 3.33 pence per share was paid on 9 November 2018.

The table below provides the payment information for the final dividend of 7.49 pence per share, subject to shareholder approval at our 2019 AGM:

Ex-dividend date	6 June 2019
Record date	7 June 2019
Final date for return of DRIP mandate forms/currency elections	24 June 2019
Euro exchange rate notification	25 June 2019
Payment date and DRIP purchase	15 July 2019

### Payment methods

In November 2018, Kingfisher simplified how dividends are paid to our shareholders. Dividends are no longer paid by cheque and shareholders can instead elect to receive their dividend by either

- BACS: Dividends can be paid by mandate directly to a UK bank or building society account through the BACS system. Shareholders wishing to receive their dividends in this way can update their mandate instructions at [www.investorcentre.co.uk](http://www.investorcentre.co.uk) or complete a dividend mandate form and return it to the Registrar;
- Dividend Reinvestment Plan (DRIP): The company also offers shareholders a DRIP, whereby their cash dividend can be used to buy additional shares in the company. Shareholders can apply online at [www.investorcentre.co.uk](http://www.investorcentre.co.uk) or complete a mandate form and return it to the address shown above; or
- Global Payments Service: This service, provided by the Registrar, enables shareholders to have dividend payments paid directly into their bank account in their chosen local currency. To view the terms and to register, please visit [www.computershare.com/uk/investor/GPS](http://www.computershare.com/uk/investor/GPS).

### American depositary receipts (ADR)

The company has a Sponsored Level 1 ADR programme in the US, which trades on the OTCQX Platform. Each ADR represents two Kingfisher ordinary shares. The company's ADR programme is administered by Citibank, N.A., who were appointed on 1 October 2015.

ADR investor contact:  
Telephone: +1 877 248 4237  
E-mail: [citibank@shareholders-online.com](mailto:citibank@shareholders-online.com)

ADR broker contact:  
Telephone: +1 212 723 5435 / +44(0) 20 7500 2030  
E-mail: [citiadr@citi.com](mailto:citiadr@citi.com)

### Electronic communication

Shareholders who have not yet elected to receive shareholder documentation in electronic form can sign up by visiting [www.investorcentre.co.uk/ecomms](http://www.investorcentre.co.uk/ecomms) and registering their details. Once registered for electronic communications, shareholders will be sent an email each time the company publishes statutory documents, providing a link to the information.

Electing for electronic communications does not mean that shareholders cannot obtain hard copy documents. Should shareholders require a paper copy of any of the company's shareholder documentation, they should contact the Registrar at the address stated on page 181.

### Corporate website

Shareholders are encouraged to visit Kingfisher's corporate website ([kingfisher.com](http://kingfisher.com)). The website includes information about the company, its strategy and business performance, its latest news and press releases and its approach to corporate governance. The Investor Relations section is a key tool for shareholders, with information about Kingfisher's share price, financial results, shareholder meetings and dividends. This section also contains answers to frequently asked questions, copies of the current and past annual reports and other presentations and results.

### Document viewing

Shareholders will have the opportunity to view certain documentation, as outlined in the Notice of AGM, from at least 15 minutes prior to the meeting, until its conclusion. The rules of the Kingfisher Incentive Share Plan (KISP), the Kingfisher Alignment Shares and Transformation Incentive Plan (KASTIP), the Articles of Association and other documentation referred to in this Annual Report and Accounts can be viewed at the registered office during normal business hours.

### Company Secretary and registered office

The Group Company Secretary is Paul Moore.

Registered office:  
Kingfisher plc  
3 Sheldon Square,  
Paddington, London, W2 6PX.

Telephone: +44 (0)20 7372 8008  
Fax: +44 (0)20 7644 1001  
Website: [www.kingfisher.com](http://www.kingfisher.com)

Registered in England and Wales  
Registered Number 01664812

## Forward-looking statements

All statements in this Annual Report and Accounts, other than historical facts, may be forward-looking statements. Such statements are therefore subject to risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed or implied, because they relate to future events.

Forward-looking statements can be identified by the use of relevant terminology including the words: 'believes', 'estimates', 'anticipates', 'expects', 'intends', 'plans', 'goal', 'target', 'aim', 'may', 'will', 'would', 'could' or 'should' or, in each case, their negative or other variations or comparable terminology and include all matters that are not historical facts. They appear in a number of places throughout this Annual Report and Accounts and include statements regarding our intentions, beliefs or current expectations and those of our officers, Directors and employees concerning, amongst other things, our results of operations, financial condition, changes in tax rates, liquidity, prospects, growth strategies and the businesses we operate.

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements include, but are not limited to, global economic business conditions, global and regional trade conditions, monetary and interest rate policies, foreign currency exchange rates, equity and property prices, the impact of competition, inflation and deflation, changes to regulations, taxes and legislation, changes to consumer saving and spending habits, and our success in managing these factors.

Consequently, our actual future financial condition, performance and results could differ materially from the plans, goals and expectations set out in our forward-looking statements. Reliance should not be placed on any forward-looking statement. Nothing in this Annual Report and Accounts or on the Kingfisher website should be construed as a profit forecast or an invitation to deal in the securities of Kingfisher.

The forward-looking statements contained herein speak only as of the date of this Annual Report and Accounts and the company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise, other than in accordance with its legal or regulatory obligations (including under the UK Listing Rules and the Disclosure and Transparency Rules of the Financial Conduct Authority).

# 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. Throughout the glossary, alternative performance measures are denoted by the symbol †.

**Adjusted basic earnings per share**† represents profit after tax attributable to the owners of the parent, before the impact of exceptional items, FFVR, related tax items and tax on prior year items, divided by the weighted average number of shares in issue during the period.

**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**† 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. The exclusion of exceptional items and FFVR helps provide an indication of the Group's ongoing business performance.

**Banque de France** data includes relocated and extended stores. <http://webstat.banque-france.fr/en/browse.do?node=5384326>

**CPR** (cost price reduction) refers to the savings made on cost of goods sold.

**Central costs**† principally comprise the costs of the Group's head office before transformation costs and exceptional items. This is a measure of the underlying head office costs.

**Constant currency**† changes in total sales, LFL sales, 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.

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

**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. It is a measure of operating performance.

**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. This measure is used in calculating the ratio of lease adjusted net debt to EBITDAR, to reflect the Group's leverage including capitalised leases which in accordance with current accounting standards do not appear on the balance sheet.

**EDLP** refers to everyday low price.

**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 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 or impairment of subsidiaries, joint ventures, associates and investments which do not form part of the Group's trading activities; profits and losses on the disposal of properties and impairment losses on non-operational assets; and the costs of significant restructuring, including certain restructuring costs of the Group's five year transformation plan launched in 2016/17 ('transformation exceptional costs'), and incremental acquisition integration costs.

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

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

**Free cash flow**<sup>†</sup> 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).

This provides a measure of how much cash the business generates that can be used for expansion, capital returns and other purposes.

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

**Gross margin**<sup>†</sup> represents sales from the supply of home improvement products and services (excluding VAT), less the associated cost of those sales. It is a measure of profit margin.

**Iberia** consists of Brico Dépôt Spain and Brico Dépôt Portugal.

**Lease adjusted net debt**<sup>†</sup> represents net cash plus capitalised property operating lease rentals. The measure is used in calculating the ratio of lease adjusted net debt to EBITDAR to provide an indication of the Group's overall leverage.

**Lease adjusted ROCE**<sup>†</sup> – Post-tax retail profit less central costs and transformation costs, excluding exceptional items and property lease costs, divided by lease adjusted capital employed excluding historic goodwill, net cash and exceptional restructuring provision. The measure provides an indication of the ongoing returns from the capital invested in the business including capitalised leases. Capital employed is adjusted to include capitalised property leases. Kingfisher believes 8x property operating lease rent is a reasonable industry standard for estimating the economic value of its leased assets. Capital employed except for capitalised leases, is calculated as a two point average.

**LFL**<sup>†</sup> (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. It is a measure to reflect the Group's performance on a comparable basis.

**Net cash**<sup>†</sup> comprises cash and cash equivalents and short term deposits, less borrowings and financing derivatives (excluding accrued interest).

**Net cash flow**<sup>†</sup> represents the total movement in the net cash balance during the year excluding foreign exchange and other non-cash movements.

**Other International** consists of Poland, Iberia, Romania, Russia, Screwfix Germany and Turkey (Koçtaş JV).

**Retail profit**<sup>†</sup> is stated before central costs, transformation P&L 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 underlying performance of our retail businesses including the sustainable benefits of our transformation plan.

**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.

**Transformation costs**<sup>†</sup> 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).

**Transformation P&L costs**<sup>†</sup> represent the additional costs that arise only as a result of the transformation plan launched in 2016/17. These costs principally relate to the unified and unique offer range implementation and the digital strategic initiative.

**Underlying pre-tax profit**<sup>†</sup> is stated before transformation P&L costs, exceptional items and FFVR. The exclusion of transformation P&L costs (in addition to exceptional items and FFVR) helps provide an indication of the Group's underlying business performance, which includes the sustainable benefits of the transformation plan.

**Underlying basic earnings per share**<sup>†</sup> represents profit after tax attributable to the owners of the parent, before the impact of transformation P&L costs, exceptional items, FFVR, related tax items and tax on prior year items, divided by the weighted average number of shares in issue during the period.

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



**At Kingfisher we believe a good home is a sustainable home. We want to make sustainability the easy choice for our customers and to become a truly sustainable company.**

**Wherever possible we aim to act upon this commitment, which is why we have printed this annual report using sustainable techniques.**

**Discover overleaf the environmental savings of printing this annual report on recycled Nomad, Revive and Woodstock paper stocks.**



Read more about our Sustainable Growth Plan on pages 34–35

**Kingfisher plc**

3 Sheldon Square  
Paddington  
London W2 6PX  
+44 (0)20 7372 8008  
[www.kingfisher.com](http://www.kingfisher.com)



castorama -



SCREWFIX

