

Half year results for the 6 months ended 31 July 2018 (Year 3 of our 5 year transformation)

Financial highlights			% Total Change	% Total Change	% LFL* Change
	2018/19	2017/18	Reported	Constant currency*	Constant currency
Sales*	£6,080m	£6,008m	+1.2%	+0.6%	(1.1)%
Gross margin*	36.4%	36.8%	(40)bps	(40)bps	
Retail profit*	£404m	£467m	(13.5)%	(14.3)%	
Underlying pre-tax profit*	£375m	£440m	(14.8)%		
Adjusted pre-tax profit*	£323m	£394m	(18.0)%		
Underlying basic EPS*	12.8p	14.5p	(11.7)%		
Adjusted basic EPS*	11.0p	13.0p	(15.4)%		
Half year dividend	3.33p	3.33p	-		
Net cash*	£99m	£650m	n/a		

At halfway point of 5 year transformation plan - continuing to deliver on strategic milestones

- **Unified & unique offer:** unified 42% of product (cost of goods sold). H1 sales (+2.2%) and gross margin continued to grow
- **Digital:** Rollout of new unified IT platform now underway in all remaining operating companies, digital sales* now 6% of Group (5% last year)
- **Operational efficiency:** £14m of benefits in H1, (£72m to date), on track for £30m in FY18/19

H1 18/19 Group results:

- Solid performances in the UK and Poland offset by significant weakness in France*
- H1 Group gross margin -40bps impacted by logistics & stock inefficiencies mainly in France; Q2 gross margin ahead of Q1
- Balance sheet remains strong:
 - Working capital inflow of £77m with mitigation stock reducing by c.£90m
 - Returned £250m of cash to shareholders (£160m via ordinary dividend; £90m via share buyback)

FY 18/19 and beyond:

- For the third year in a row, on track to deliver strategic milestones
- Actions to support H2 performance in France underway
- Expect to grow Group gross margin after clearance in FY18/19
- Remain committed to delivering ONE Kingfisher transformation benefits

Statutory reporting	2018/19	2017/18	% Change
Statutory pre-tax profit	£281m	£402m	(30.1)%
Statutory post-tax profit	£208m	£295m	(29.5)%
Basic EPS	9.7p	13.3p	(27.1)%

*Throughout this release *** indicates first instance of a term defined and explained in the Glossary (Section 5). Not all of the figures and ratios used are readily available from the unaudited half year results included in part 2 of the announcement. These non-GAAP measures (also known as alternative performance measures), including constant currency and like-for-like sales growth, underlying and adjusted profit measures, management believes are both useful and necessary to better understand the Group's results. Where required, a reconciliation to statutory amounts is set out in the Financial Review (Section 4).

Véronique Laury, Chief Executive Officer, said:

“The extent and pace of change in the retail sector is profound. We saw these changes and acted early. We’re now halfway through our ONE Kingfisher transformation and we are well on our way to becoming a truly customer led, digital, and efficient business.

“Transformation on this scale is tough, and there are challenges that we’re working through. There is still much to do to improve our performance in France and to remove inefficiencies within the business as we continue to transform at pace. I am confident that we have the right plan and the opportunity for Kingfisher is significant.

“Our H1 results reflect a solid performance in the UK and Poland whilst France remains difficult. Looking to the full year we remain on track to deliver our strategic milestones for the third year in a row and have put actions in place to support our performance. The outlook for our main markets continues to be mixed.

“We firmly believe in the transformation plan benefits and maintain our ambition. The environment is making our task more difficult than expected and we will always take the right decisions for the company in the long-term.”

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This announcement can be downloaded from www.kingfisher.com. We can be followed on Twitter @kingfisherplc with the half year results tag #KGFHY. At 09:00 (UK time) on 19 September 2018, a webcast covering the FY 2018/19 half year results presentation and Q&A will be available at <http://www.kingfisher.com/halfyear18>. Our next announcement will be the Q3 trading update for the period ended 31 October 2018 on 21 November 2018.

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

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

- 1) ONE Kingfisher update
- 2) Trading review by division
- 3) FY 2018/19 Technical guidance
- 4) HY 2018/19 Financial review and, in part 2 of this announcement, the half year condensed Financial Statements
- 5) Glossary
- 6) Forward-looking statements

Section 1: ONE Kingfisher update

The ONE Kingfisher five year plan, which started in FY 16/17, is starting to leverage the scale of the business by creating a unified company, where customer needs always come first.

Our intention is that this five year transformation plan will deliver a £500m sustainable annual profit uplift by the end of FY 20/21, over and above what the business would have delivered without the plan. Until we have unified our customer offer, we will have limited store expansion, the focus of which will be Screwfix UK in the medium-term. The total expected cash cost of the transformation is £800m (P&L, exceptional and capex).

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

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

Progress against our three key strategic pillars

1. Unified & unique offer

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

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 which is partly invested in 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 extends to our own exclusive brands alongside international and national brands.

Unique ranges relate to the development of our own product ranges that excite customers. These differentiated 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.

FY 18/19 strategic milestones:

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

42% of products have now been unified (COGS) reflecting the higher weighting of outdoor products that have been unified to date. We continue to significantly reduce the number of global suppliers and SKUs, by around 80% to date, whilst ensuring that customer needs are covered. Across our unified ranges we have established a leading price position.

In H1 18/19 we continued to implement new ranges including additional outdoor ranges, doors, indoor and outdoor lights, nails, bolts and screws and glues. Sales of our unified and unique ranges continue to outperform non-unified ranges. Sales of unified and unique ranges including clearance, were up 2.2% compared to last year and sales of non-unified ranges were down 1.8% (in constant currency including clearance, excluding Praktiker Romania, Screwfix Germany, Portugal and services).

After cost price inflation, price investment and the impact of logistics & stock inefficiencies, H1 gross margin for unified and unique ranges was up against last year. The uplift was 40bps on the 42% of COGS that have been unified and 20bps at total Group level. Clearance costs were flat year on year.

We continue to make progress towards our target to deliver £350m annual profit uplift by FY 20/21, which broadly equates to a 5% reduction in cost of goods sold.

2. Digital

Implementation of a new unified IT system is a key enabler of our ONE Kingfisher plan. It also provides a significant opportunity, with a seamless and stronger digital offer for our customers, to substantially increase sales and digital penetration. This is expected to generate £50m annual profit uplift by FY 20/21.

FY 18/19 strategic milestones:

- *Complete final year of unified IT platform roll out to OpCos*
- *Complete ecommerce roll out in France & Poland*
- *Market launch of first home improvement services in UK & France*

This involves investing in our core ecommerce 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.

Implementation of the new unified IT platform remains on track with all remaining operating companies now underway. c.50% of Group sales including B&Q, Castorama France are operating on the platform with the store rollout in Poland completed and about to commence in Brico Dépôt France.

Our ecommerce initiatives continue to make good progress. Digital sales now account for 6% of the Group, up from 5% last year. Revenues from the click & collect service at B&Q, grew by 56% versus H1 last year, mainly driven by the roll out of the one hour click & collect service which went live in Q3 2017/18. During H1 we have focused on improving in-store fulfilment ensuring faster picks and delivered efficiencies. In France, we launched the new castorama.fr website in January. We are encouraged by the increase in conversion seen to date and are working on further content development to improve the overall customer proposition.

We also continue to develop our digital home improvement services tools including the bathroom planner tool, which launched in November 2017 and is integrated into the B&Q website. Since launch it has attracted 148,000 unique users and we continue to add new features resulting in increased engagement and registrations. We are on track to roll out the bathroom planner tool service to France later this year.

3. Operational efficiency

The main driver is unifying the c.£1bn annual spend on GNFR*. This programme is a combination of cost savings and more effective and consistent ways of working across the business. This pillar is expected to generate £100m annual profit uplift by FY 20/21.

FY 18/19 strategic milestones:

- *Implement finance shared services in at least two OpCos*
- *Deliver £30m benefits (from unified GNFR programme and other efficiencies)*

In H1 we delivered a further £14m of operational efficiency benefits (taking the cumulative benefit to £72m), £8m of which resulted from our GNFR programme including categories such as building

services, professional services and billboard savings. The remaining £6m of benefits in H1 relates to restructuring activity at B&Q.

We remain on track to deliver total operational efficiency benefits of £30m in FY 18/19.

Significant progress but challenges to address

At the midway point of our five year transformation, much has been achieved. We have unified 42% of our products (COGS) with unified and unique sales and margin growing. The unified IT platform rollout is in its final year and implementation is now underway at all remaining operating companies. Our digital sales continue to grow, now reaching 6% of the Group, and our operational efficiency initiatives have delivered £72m of savings to date. For the third year in a row we are on track to deliver our strategic milestones.

However, transformation on this scale is complex. We have implemented new ways of working and systems and at present still operate partly under our new operating model and partly under the old. The ongoing high of levels of transformation activity, as expected, continue to have an impact on the business.

There are three key areas where we are addressing challenges:

- **Castorama France:** In France, whilst our overall underperformance versus the market has narrowed in H1, as Brico Dépôt's sales have improved, Castorama's performance remains weak. Some of Castorama's weakness relates to transformation activity and overall customer perception is not where it needs to be. We remain convinced that the ONE Kingfisher plan is tackling the root causes of our underperformance (price, proposition and digital) and will deliver a sustainably improved performance. In addition, we have put actions in place to support H2 performance (see France Trading Review on page 8 for more detail).
- **Margin:** Buying as one is delivering margin benefits after cost inflation and price investment. Unified and unique gross margin after clearance costs grew in H1, however the Group gross margin was down 40bps. Despite good progress in reducing mitigation stock in H1, elevated stock levels and the weak start to the year created a need for additional distribution space (mainly France) resulting in logistics & stock inefficiencies which impacted Group gross margin. In addition, as new ranges were implemented some of the local pricing architecture required adjustment, which is now being addressed. We have actions underway to support H2 margin performance including price optimisation and reducing logistics & stock inefficiencies. Combined with unified & unique cost price reduction benefits in H2 we expect to grow Group gross margin after clearance in FY 18/19.
- **Working capital:** In FY 17/18 stock increased significantly, in part due to changes to our operating model as we start to control more of our end to end supply chain and properly leverage our buying scale. We also held on to more stock to protect the customer experience during a time of disruption. Stock reduction plans that were put in place have been effective and at H1 18/19 mitigation stock had reduced by c.£90m. We continue to work on further reductions.

Making the right decisions for the business long-term

At the end of the half, for the third year in a row we are on track to achieve our strategic milestones. We are operating in a challenging market backdrop and we are adapting as we progress. We have made management changes, we are committed to stopping the losses within the business and making the business more efficient. More details on these initiatives will follow in March 2019.

Summary & outlook

Our transformation is complex but necessary, and our opportunity remains significant. We face challenges that we are confident the plan is addressing. We continue to build the ONE Kingfisher 'engine' to create a sustainable platform for growth. In 2019/20, year 4 of our plan, more of our business will have transitioned to our new operating model than the old, we expect to have unified around half of our product (COGS) and our unified IT platform will have been completed.

The outlook by country is mixed. We firmly believe in the transformation plan benefits and maintain our ambition. The environment is making our task more difficult than expected and we will always take the right decisions for the company in the long-term.

Section 2: 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
Sales	2,635	2,602	+1.3%	+1.3%	(0.5)%
Retail profit	218	215	+1.2%	+1.2%	

Kingfisher UK & Ireland sales increased 1.3% (-0.5% LFL) to £2,635 million within the context of a continuing weak consumer backdrop. Retail profit grew by 1.2% to £218 million. Gross margin was down 30 basis points mainly reflecting operating company mix and increased logistics costs at Screwfix due to the opening of a new distribution centre. This was largely offset by continued cost control.

B&Q total sales declined by 2.3% to £1,833 million. LFL sales declined by 2.5%. LFL sales of weather-related categories increased by 4.9% while sales of non-weather-related categories, including showroom, were down 5.4%.

B&Q's total online sales, continued to make good progress with sales growing by 8% (including growth in click & collect sales of 56% and growth in mobile sales of 41%) and represent 4% of total sales.

Screwfix grew total sales by 10.4% (+4.5% LFL) to £802 million, driven by specialist trade desks exclusive to plumbers and electricians, strong digital growth of 18% (e.g. mobile + 43%; click & collect +21%); and the continued roll out of new outlets. 21 new outlets were opened in H1, taking the total to 598. Our overall target is to have around 700 outlets in the UK.

FRANCE

£m	2018/19	2017/18	% Reported Change	% Constant Currency Change	% LFL Change
Sales	2,267	2,273	(0.3)%	(2.1)%	(2.4)%

Retail profit	122	174	(29.8)%	(31.1)%
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Kingfisher France sales decreased by 2.1% (-2.4% LFL) to £2,267 million reflecting continuing weaker performance of Castorama partly offset by an improving sales performance at Brico Dépôt. According to Banque de France* data, sales for the home improvement market were flat and continue to be volatile from month to month.

Castorama total sales declined by 6.0% (-5.8% LFL) to £1,202 million reflecting weaker footfall and the impact of transformation-related activity. LFL sales of weather-related categories were down 6.9% while sales of non-weather-related categories, including showroom, were down 5.6%.

Brico Dépôt total sales grew by 2.7% (+1.7% LFL) to £1,065 million reflecting a good performance of the new unified ranges and supported by investment in marketing.

Across the two businesses space remained broadly flat.

Retail profit decreased by 31.1% to £122 million. This reflected weaker sales, a decrease in gross margin and higher costs, including phasing of marketing investment at Brico Dépôt. Gross margin declined by 60 basis points reflecting a weak performance at Castorama France, including logistics & stock inefficiencies.

In March 2017 we outlined the key areas of focus to address our underperformance in France, namely pricing, proposition and digital. Whilst we have made progress against each of these there is still more work ahead to improve the overall performance.

At Castorama, price positioning continues to improve as we invest in unified offer but remains slightly higher than the market. The unified offer has been well received in categories such as bathroom and storage, and has started to re-energise Brico Dépôt's sales supported by marketing investment. There is however scope to improve implementation of the new ranges and to communicate with customers more effectively.

The new Castorama website was launched at the end of January 2018 and is starting to show some encouraging conversion results. However, the digital customer experience needs further development and overall digital sales penetration remains low. The rollout of our unified IT platform continues at pace with Castorama nearing completion and the store rollout about to commence in Brico Dépôt.

We remain convinced that the ONE Kingfisher plan is tackling the root causes of our underperformance in France and will deliver a sustainably improved performance. In addition, we have put actions in place to support H2 performance. These include accelerating the move towards EDLP* pricing, improving price architecture on new ranges, more effective customer communication, reduction of logistics & stock inefficiencies and reduction in variable costs.

OTHER INTERNATIONAL*

£m	2018/19	2017/18	% Reported Change	% Constant Currency Change	% LFL Change
Sales	1,178	1,133	+4.0%	+4.5%	+0.5%
Poland	726	694	+4.6%	+2.8%	+1.5%
Other	452	439	+2.9%	+7.3%	(1.2)%

Retail profit	64	78	(17.8)%	(19.0)%
Poland	88	84	+3.7%	+1.9%
Other	(24)	(6)	n/a	n/a

Other International total sales increased by 4.5% (+0.5 % LFL) to £1,178 million reflecting growth in Poland and the acquisition of Praktiker Romania in November 2017. Retail profit decreased by 19.0% to £64 million, with growth in Poland offset by losses in Russia, Romania and Screwfix Germany.

Sales in **Poland** were up 2.8% (+1.5 % LFL) to £726 million despite the introduction of new laws on Sunday trading. LFL sales of weather-related categories were up 1.6% while sales of non-weather-related categories, including showroom, were up 1.4%. Gross margin was up by 120 basis points reflecting improved product mix including unified and unique ranges. Retail profit grew by 1.9% to £88 million after higher staff costs.

In **Iberia*** sales decreased by 2.7% (-2.7% LFL) to £184 million, delivering a £1 million retail profit (2017/18: £4 million reported retail profit). In **Russia** sales declined by 4.6% (-1.6% LFL) to £167 million. The business delivered a retail loss of £9 million (2017/18: £3 million reported retail loss) reflecting a challenging environment and store pre-opening and refurbishment costs. In **Romania** sales increased by 82.3% (+3.5% LFL) to £95m driven by the acquisition of Praktiker Romania and made a retail loss of £9 million (2017/18: £1 million reported retail loss) reflecting customer uncertainty following the change of ownership of Praktiker Romania. **Screwfix Germany** sales increased by 19.2% (+19.6% LFL) and made an £8 million retail loss (2017/18: £9 million reported retail loss).

Turkey, Kingfisher's 50% JV, Koçtaş, contributed retail profit of £1 million (2017/18: £3 million reported retail profit).

Section 3: FY 2018/19 Technical guidance

Employee, new stores and space growth:

	Employees (FTE) at 31 Jul 2018	Store Numbers at 31 Jul 2018	Sales area ⁽¹⁾ (000s m ²) at 31 Jul 2018	Net new stores FY 2018/19	Space % change FY 2018/19
B&Q UK & Ireland	16,717	296	2,210	-	-
Screwfix	7,938	598	38	50	+8%
UK & Ireland	24,655	894	2,248	50	-
Castorama	12,433	101	1,250	(1)	(1)%
Brico Dépôt	7,808	123	850	2	+2%
France	20,241	224	2,100	1	-
Poland	11,094	76	650	-	-
Russia	3,280	20	204	-	+4%
Romania	2,477	38	273	-	-
Iberia	1,995	31	195	-	-
Screwfix Germany	175	19	1	-	-
Other International	19,021	184	1,323	-	-
Total	63,917	1,302	5,671	51	-

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

Income statement:

- Group gross margin to grow after clearance costs
- Underlying profit to include up to a further £30m operational efficiency benefits
- Total 5 year transformation costs* £800m over 5 years to FY 20/21
 - Transformation P&L costs* expected to be c.£135m in FY 18/19
 - Transformation exceptional costs expected to be c.£55m in FY 18/19
- B&Q discontinuation of showroom installation expected to impact H2 LFL by c1-2% with a broadly neutral impact on retail profit
- Central costs expected to be c.£50m
- Adjusted effective tax rate* expected to be around 27-28%, subject to the blend of profit within the companies' various jurisdictions

Cash flow:

- Capital return of c.£600m by the end of FY 18/19 via share buyback (£550m completed to date)
- Total capex including transformation of up to £350m (was £425m)

Section 4: HY 2018/19 Financial review

A summary of the reported financial results for the half year ended 31 July 2018 is set out below:

	2018/19	2017/18	% Reported Change	% Constant Currency Change
Sales	£6,080m	£6,008m	+1.2%	+0.6%
Gross margin	36.4%	36.8%	(40)bps	(40)bps
Retail profit	£404m	£467m	(13.5)%	(14.3)%
Underlying pre-tax profit	£375m	£440m	(14.8)%	
Transformation P&L costs ⁽¹⁾	£(52)m	£(46)m	n/a	
Adjusted pre-tax profit	£323m	£394m	(18.0)%	
Statutory pre-tax profit	£281m	£402m	(30.1)%	
Exceptional items* (post-tax) ⁽¹⁾	£(29)m	£7m	n/a	
Adjusted effective tax rate	27%	27%	n/a	
Underlying basic earnings per share	12.8p	14.5p	(11.7)%	
Adjusted basic earnings per share	11.0p	13.0p	(15.4)%	
Basic earnings per share	9.7p	13.3p	(27.1)%	
Dividends - half year ordinary	3.33p	3.33p	-	
Net cash	£99m	£650m		
Capital return - share buyback	£90m	£149m		

⁽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

Total **sales** increased by 0.6%, on a constant currency basis, to £6.1 billion, with LFL sales down 1.1%. On a reported rate basis, which includes the impact of exchange rates, sales increased by 1.2%. During H1, sales growth benefited from 22 net new stores, including 21 Screwfix outlet openings in the UK and one net new store opening in France. In November 2017 a net 23 stores were added through the acquisition of Praktiker Romania.

Gross margin declined by 40 basis points as the benefits from unified and unique product were offset by a weaker performance in France and logistics & stock inefficiencies.

Reported **retail profit** decreased by 13.5% including £4 million of favourable foreign exchange movement on translating foreign currency results into sterling. In constant currencies, retail profit decreased by 14.3%, with growth in the UK and Poland offset by significant weakness in France.

Underlying pre-tax profit, which excludes the impact of transformation P&L costs and exceptional items, declined by 14.8%, to £375 million.

Adjusted pre-tax profit, which excludes the impact of exceptional items, decreased by 18.0% to £323 million, reflecting £52 million of transformation P&L costs.

Statutory pre-tax profit, which includes the impact of transformation P&L costs and exceptional items, decreased by 30.1% to £281 million.

We continued to invest in the business and the transformation, we paid £160 million in cash dividends and repurchased a further £90 million of shares while maintaining a strong balance sheet.

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

	2018/19	2017/18	
	£m	£m	Change
Retail profit	404	467	(13.5)%
Central costs	(24)	(25)	
Share of interest and tax of joint ventures & associates	(2)	(3)	
Net finance (costs)/income	(3)	1	
Underlying pre-tax profit	375	440	(14.8)%
Transformation P&L costs	(52)	(46)	
Adjusted pre-tax profit	323	394	(18.0)%
Exceptional items before tax	(42)	8	
Statutory pre-tax profit	281	402	(30.1)%

Transformation P&L costs of £52 million principally relate to the unified and unique offer range implementation and the digital strategic pillar. Range implementation activities principally comprise remerchandising work associated with introducing the unified and 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.

Exceptional items (post-tax) were a net charge of £29 million (2017/18: £7 million gain) as detailed below:

	2018/19	2017/18
	£m	£m
Transformation exceptional costs	(46)	(5)
UK & Ireland and Europe restructuring	4	13
Exceptional items before tax	(42)	8
Exceptional tax items	13	(1)
Net exceptional items	(29)	7

Transformation exceptional costs of £46m have been recorded in the year primarily 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.

In H1 2018/19 UK & Ireland and Europe restructuring was a £4 million gain (H1 2017/18: £13 million gain) principally arising due to savings on B&Q store exit costs as compared with the original restructuring provisions recognised.

Taxation

The adjusted effective tax rate, calculated on the best estimate of full year profit before exceptional items, prior year tax adjustments and the impact of future rate changes is 27% (2017/18: 27%). The overall tax rate includes the impact of exceptional items and prior year tax adjustments.

	Pre-tax profit £m	Tax £m	2018/19 %	Pre-tax profit £m	Tax £m	2017/18 %
Adjusted effective tax rate	323	(87)	27%	394	(106)	27%
Exceptional items	(42)	13		8	(1)	
Prior year tax adjustments		1			-	
Overall tax rate	281	(73)	26%	402	(107)	27%

The statutory rates for the Group's main operating companies during FY 2018/19 are:

- UK: 19%
- France: 34.43%
- Poland: 19%

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

Underlying basic earnings per share decreased by 11.7% to 12.8p (2017/18: 14.5p), which excludes the impact of transformation P&L costs and exceptional items and the effect of prior year tax items. **Adjusted basic earnings per share** decreased by 15.4% to 11.0p (2017/18: 13.0p), which excludes the impact of exceptional items and prior year tax items. **Basic earnings per share** decreased by 27.1% to 9.7p (2017/18: 13.3p) as set out below:

	Earnings £m	2018/19 EPS Pence	Earnings £m	2017/18 EPS Pence
Underlying basic earnings per share	274	12.8	322	14.5
Transformation P&L costs (net of tax)	(38)	(1.8)	(34)	(1.5)
Adjusted basic earnings per share	236	11.0	288	13.0
Net exceptional items	(29)	(1.3)	7	0.3
Prior year tax items	1	-	-	-
Basic earnings per share	208	9.7	295	13.3

Dividends and capital returns

The Board has declared an interim dividend of 3.33p, flat on last year (2017/18: 3.33p). We continue to be comfortable with medium term dividend cover in the range of 2.0 to 2.5 times based on adjusted basic earnings per share, a level the Board believes is prudent and consistent with the capital needs of the business.

The interim dividend will be paid on 9 November 2018 to shareholders on the register at close of business on 5 October 2018. 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 4 October 2018. For those shareholders electing to receive the DRIP the last date for receipt of election is 19 October 2018.

On 25 January 2016 Kingfisher announced its intention to return around £600 million of surplus capital to shareholders in the following three financial years. During H1 2018/19 £90 million of shares (30 million shares) were repurchased via share buyback. Cumulatively therefore, £550 million of shares (170 million shares) have now been repurchased.

Free cash flow*

A reconciliation of free cash flow is set out below:

	2018/19 £m	2017/18 £m
Operating profit	284	401
Exceptional items	42	(8)
Operating profit (before exceptional items)	326	393
Other non-cash items ⁽¹⁾	151	143
Change in working capital	77	39
Pensions and provisions	(23)	(19)
Operating cash flow	531	556
Net interest paid	(4)	(1)
Tax paid	(77)	(99)
Gross capital expenditure	(165)	(129)
Free cash flow	285	327
Ordinary dividends paid	(160)	(159)
Share buyback	(90)	(149)
Disposal of assets and other ⁽²⁾	(17)	(56)
Net cash flow*	18	(37)
Opening net cash	68	641
Other movement including foreign exchange	13	46
Closing net cash	99	650

⁽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 (excluding property disposals), principally relating to B&Q closures

Net cash at the end of the period was £99 million (2017/18: £650 million).

Operating profit before exceptional items was £67 million lower than last year reflecting lower profits in France and Other International. The working capital inflow of £77 million includes a c.£90m reduction in mitigation stock, as planned, and a decrease in receivables.

Gross capital expenditure for H1 was £165 million (2017/18: £129 million). Of this 32% was invested in refreshing and maintaining existing stores, 21% on new stores, 31% on IT and digital development, 13% on the transformation and 3% on other areas including supply chain investment.

This resulted in free cash flow of £285 million (2017/18: £327 million). £250 million was returned to shareholders in the form of the ordinary dividend and share buybacks.

Management of balance sheet and liquidity risk and financing

The Group finished the period with £99 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 current accounting standards does not appear on the balance sheet. The ratio of the Group's lease adjusted net debt* (capitalising leases at 8 times annual rent) to EBITDAR* on a moving annual total basis is 2.5 times as at 31 July 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	2017/18
	Moving annual total	Year end
	£m	£m
Retail profit	786	849
Central costs	(45)	(46)
Transformation P&L costs	(120)	(114)
Depreciation and amortisation	264	254
EBITDA*	885	943
Property operating lease rentals	418	408
EBITDAR	1,303	1,351
Net cash	(99)	(68)
Property operating lease rentals (8x) ⁽¹⁾	3,344	3,264
Lease adjusted net debt	3,245	3,196
Lease adjusted net debt to EBITDAR	2.5	2.4

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

Kingfisher holds a BBB credit rating with all three rating agencies. Kingfisher aims to maintain its solid investment grade credit rating whilst investing in the business where economic returns are attractive and paying a healthy annual dividend to shareholders. After satisfying these key aims and taking into account the economic and trading outlook, any surplus capital would be returned to shareholders. On 25 January 2016, Kingfisher announced its intention to return around £600 million of surplus capital to shareholders during the three years to FY 2018/19, of which £550 million has now been returned.

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 July 2018 the Group had two undrawn committed facilities: £400 million that was due to expire in November 2019 and £225 million that expires in March 2022. In August 2018 the Group completed an amendment and extension of the £400m revolving credit facility, increasing the size to £550m and the term to August 2021.

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

The maturity profile of Kingfisher's debt is illustrated at: www.kingfisher.com/index.asp?pageid=74

Pensions

At the period end, the Group had a net surplus of £196 million (£99 million net surplus at 31 January 2018) in relation to defined benefit pension arrangements, of which a £318 million surplus (£214 million surplus at 31 January 2018) was in relation to the UK scheme. This accounting valuation is sensitive to a number of assumptions and market rates which are likely to fluctuate in the future.

Risks

The principal risks and uncertainties have been reviewed as part of our half year procedures and are listed below:

Unifying our offer and processes: We aim to offer customers a product range which is differentiated from that of our competitors through innovation and exclusivity. 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 delivering the projected benefits.

Technology Delivery: 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.

EU Referendum: Following the decision to leave the EU we have seen increased economic uncertainty, exchange rate volatility and an impact on consumer confidence in the UK market. This is likely to continue until EU exit negotiations are complete. These negotiations may result in further changes to regulation and operational frameworks which may impact our ability to operate across our European businesses as we do today.

Macro-economic factors: With continuing geopolitical uncertainty and market volatility across all the economies in which we operate, we are exposed to potential risks which may impact both consumer confidence and the long-term sustainability and capabilities of our supplier base.

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.

Channel Development: As consumer preferences continue to change we must ensure we create a culture of innovation in our offer, format and digital channels that keeps pace with changing consumer behaviours and our competitors, to be able to stimulate spend and deliver the desired sales growth.

Investing in our People Capability: Our colleagues are critical to the successful delivery of our strategy and business. We must make the necessary investment in our people to ensure that we have the appropriate capacity, skills and experience.

Cyber and Data Security: 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.

Legal and Regulatory: The Group's operations are subject to a broad 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.

Further details of the Group risks and risk management process can be found on pages 40 to 47 of the 2017/18 Annual Report and Accounts.

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

Alternative Performance Measures (APMs)

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

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
Adjusted basic earnings per share	Basic earnings per share	A reconciliation of adjusted basic earnings per share is included in the Financial Review (Section 4) and note 8 of the condensed financial statements	Adjusted basic earnings per share represents profit after tax attributable to the owners of the parent, before the impact of exceptional 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	Effective tax rate	A reconciliation to the overall tax rate is set out in the Financial Review (Section 4)	Adjusted effective tax rate is calculated as continuing income tax expense excluding tax on exceptional items and adjustments in respect of prior years and the impact of changes in tax rates on deferred tax, divided by continuing profit before taxation excluding exceptional items. The exclusion of items relating to prior years and those not in the ordinary course of business helps provide a better indication of the Group's ongoing tax rate.
Adjusted pre-tax profit	Profit before taxation	A reconciliation of adjusted pre-tax profit is set out in the Financial Review (Section 4) and the consolidated income statement of the condensed financial statements	Adjusted pre-tax profit is used to report the performance of the business at a Group level 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.
Constant currency	No direct equivalent	Not applicable	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

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
			exchange rate fluctuations on the reported results.
EBITDA	Profit before taxation	A reconciliation of EBITDA is set out in the Financial Review (Section 4)	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	Profit before taxation	A reconciliation of EBITDAR is set out in the Financial Review (Section 4)	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.
Exceptional items	No direct equivalent	Not applicable	<p>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.</p> <p>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.</p>
FFVR	No direct equivalent	Included within net finance costs in note 6 of the condensed financial statements	FFVR (financing fair value remeasurements) represent fair value fluctuations from financial instruments.

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
Free cash flow	No direct equivalent	A reconciliation of free cash flow is set out in the Financial Review (Section 4)	Free cash flow represents cash generated from operations (excluding exceptional items) less the amount spent on interest, tax and capital expenditure during the year (excluding business acquisitions and disposals and asset disposals). This provides a measure of how much cash the business generates that can be used for expansion, capital returns and other purposes.
Gross margin	Profit before taxation	Refer to definition	Gross margin 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.
Lease adjusted net debt	No direct equivalent	A reconciliation of lease adjusted net debt is set out in the Financial Review (Section 4)	Lease adjusted net debt 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.
LFL	Sales	Refer to definition	LFL (like-for-like) sales growth represents the constant currency, year on year sales growth for stores that have been open for more than one year. It is a measure to reflect the Group's performance on a comparable basis.
Net cash	No direct equivalent	A reconciliation of this measure is provided in note 15 of the condensed financial statements	Net cash comprises cash and cash equivalents and short term deposits, less borrowings and financing derivatives (excluding accrued interest).
Net cash flow	No direct equivalent	A reconciliation of net cash flow is set out in the Financial Review (Section 4)	Net cash flow represents the total movement in the net cash balance during the year excluding foreign exchange and other non-cash movements.
Retail profit	Profit before taxation	A reconciliation to profit before taxation is set out in the Financial Review (Section 4) and note 4 of the condensed financial statements	Retail profit 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.

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
Transformation costs	No direct equivalent	Not applicable	Transformation costs represent the additional costs of the ONE Kingfisher transformation programme launched in 2016/17. They comprise 'transformation exceptional costs', 'transformation P&L costs' (i.e. non-exceptional items) and 'transformation capex' (capital expenditure).
Transformation P&L costs	No direct equivalent	Not applicable	Transformation P&L costs 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	Profit before taxation	A reconciliation to statutory pre-tax profit is set out in the Financial Review (Section 4) and the consolidated income statement of the condensed financial statements	Underlying pre-tax profit 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	Basic earnings per share	A reconciliation of underlying earnings per share is included in the Financial Review (Section 4) and note 8 of the condensed financial statements	Underlying basic earnings per share 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.

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.

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.

EDLP refers to everyday low prices.

France consists of Castorama France and Brico Dépôt France.

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

Iberia consists of Brico Dépôt Spain and Brico Dépôt Portugal.

Other International consists of Poland, Iberia, Romania, Russia, Screwfix Germany and Turkey (Koçtaş JV).

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

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

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

Section 6: Forward-looking statements

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

This announcement has been prepared in relation to the financial results for the Half Year ended 31 July 2018. The financial information referenced in this announcement is not audited and does not contain sufficient detail to allow a full understanding of the results of the Group. Nothing in this announcement should be construed as either an offer or invitation to sell or any offering of securities or any invitation or inducement to any person to underwrite, subscribe for or otherwise acquire securities in any company within the Group or an invitation or inducement to engage in investment activity under section 21 of the Financial Services and Markets Act 2000 (as amended).

Certain information contained in this announcement may constitute "forward-looking statements" (including within the meaning of the safe harbour provisions of the United States Private Securities Litigation Reform Act of 1995), which can be identified by the use of terms such as "may", "will", "would", "could", "should", "expect", "anticipate", "project", "estimate", "intend", "continue", "target", "plan", "goal", "aim" or "believe" (or the negatives thereof) or other variations thereon or comparable terminology. These forward-looking statements include all matters that are not historical facts and include statements regarding the Company's intentions, beliefs or current expectations concerning, among other things, the Company's results of operations, financial condition, changes in global or regional trade conditions, changes in tax rates, liquidity, prospects, growth and strategies. By their nature, forward-looking statements involve risks, assumptions and uncertainties that could cause actual events or results or actual performance of the Company to differ materially from those reflected or contemplated in such forward-looking statements. No representation or warranty is made as to the achievement or reasonableness of and no reliance should be placed on such forward-looking statements.

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