ONE Kingfisher

IFRS 16 Leases update

15 August 2019

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IFRS 16 Leases – Summary

- New accounting standard requiring the majority of leases to be recognised on the balance sheet (replacing previous standard IAS 17)
- IFRS 16 ‘Leases’ has no economic effect on Kingfisher’s business or cash flow, however it does impact the way assets, liabilities and the income statement are presented
- Kingfisher has decided to adopt the full retrospective transition approach from 1 February 2019, which also requires the restatement of comparative P&L, balance sheet and cashflow statements
- Kingfisher’s Half Year results announcement on 18 September 2019 will be the first under IFRS 16 and will include fully restated HY 2018/19 and FY 2018/19 comparatives
- Indicative FY 2018/19 restatements under IFRS 16 were disclosed at the FY 2018/19 results
- Today’s update provides the impact on certain HY 2018/19 and FY 2018/19 income statement line items, including retail profit by geography. The restated numbers are unaudited and subject to change
- Impact on FY 2018/19 income statement (non-cash) (unaudited):
    - Retail profit +£171m; Underlying pre-tax profit +£1m
- Lease adjusted net debt / EBITDAR under IFRS 16 at FY 2018/19 is estimated to be c. 2x (c. 2.6x under IAS 17)

IFRS 16
Restatements

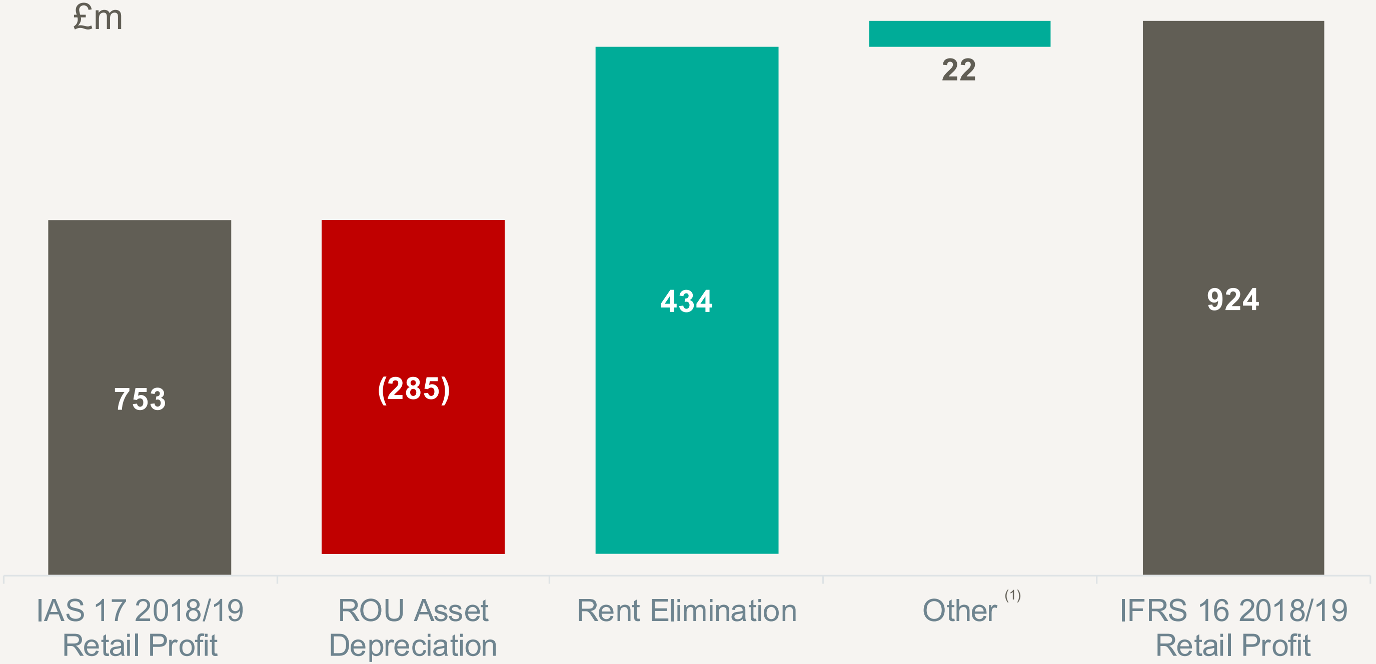
2018/19 P&L restatement impacts (unaudited)

£m	HY 2018/19			FY 2018/19		
	IAS 17	Adjustment	IFRS 16	IAS 17	Adjustment	IFRS 16
UK & Ireland	218	64	282	399	131	530
France	122	9	131	209	12	221
Poland	*88*	*2*	*90*	*181*	*4*	*185*
Romania	*(9)*	*2*	*(7)*	*(15)*	*6*	*(9)*
Screwfix Germany	*(8)*	*1*	*(7)*	*(16)*	*2*	*(14)*
Turkey JV	*1*	*1*	*2*	*6*	*3*	*9*
Russia	*(9)*	*4*	*(5)*	*(12)*	*8*	*(4)*
Iberia	*1*	*3*	*4*	*1*	*5*	*6*
Other International	64	13	77	145	28	173
Group Retail Profit	**404**	**86**	**490**	**753**	**171**	**924**
Central Costs & JV Interest[1]/Tax	(26)	-	(26)	(53)	(1)	(54)
Interest [1]	(3)	(84)	(87)	(7)	(169)	(176)
Underlying PBT	**375**	**2**	**377**	**693**	**1**	**694**
Transformation P&L Costs	(52)	-	(52)	(120)	-	(120)
Adjusted PBT	**323**	**2**	**325**	**573**	**1**	**574**

- Sales/LFL are unaffected
- Retail profit impacts:
  - Majority of the impact is on store costs (minimal impact on gross margin)
  - Rent charge removed from the P&L, offset by depreciation of lease right-of-use assets
  - Main impact is from the UK due to high proportion of leasehold stores in this geography
- Lease interest expense largely offsets the improved retail profit for a small net overall Underlying and Adjusted PBT impact

All figures presented at reported rates
[1] Excludes FX relating to translation of leases denominated in non-functional currencies, e.g. USD leases in Russia

Summary of key retail profit impacts – FY 2018/19 (unaudited)



- On transition to IFRS 16, retail profit is mainly impacted by the elimination of rent expense (for in-scope leases[2]) and the introduction of depreciation of lease right-of-use (ROU) assets

(1) Other is primarily elimination of depreciation on upfront lease payments and finance lease assets, both previously capitalised under IAS 17, and JV profit uplift
(2) Out-of-scope leases mainly comprise short-term and low value leases
All figures presented at reported rates

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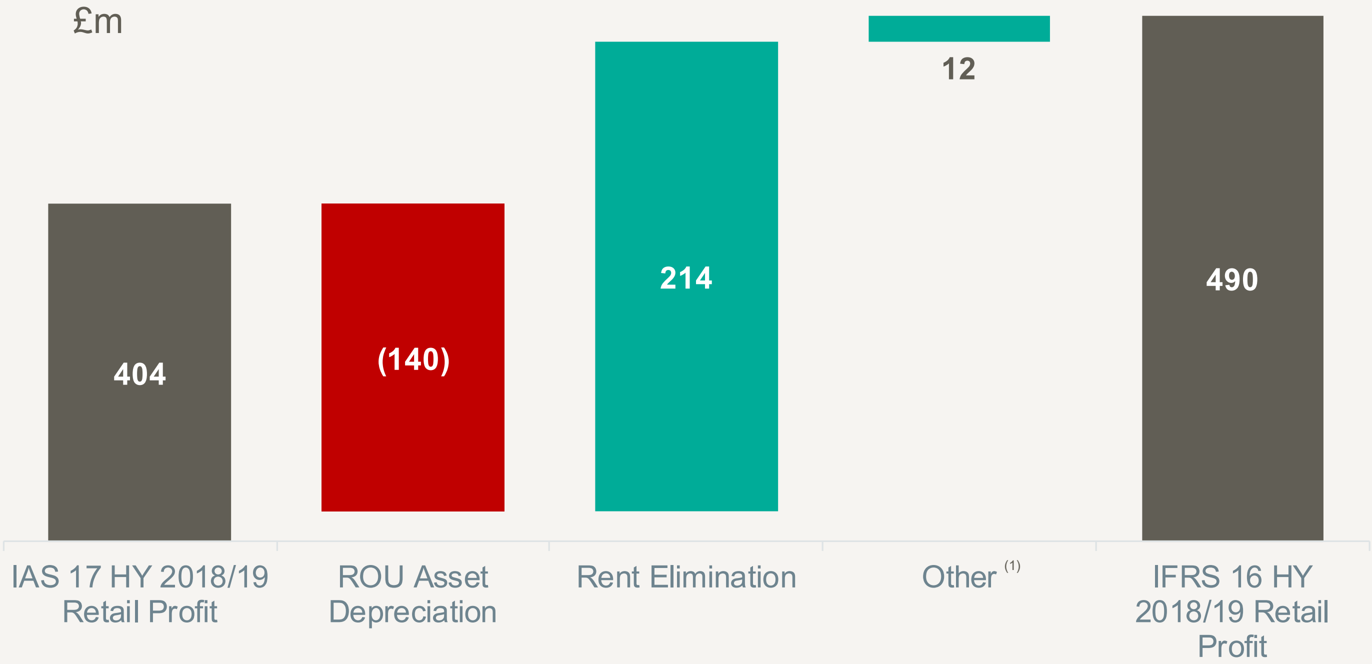

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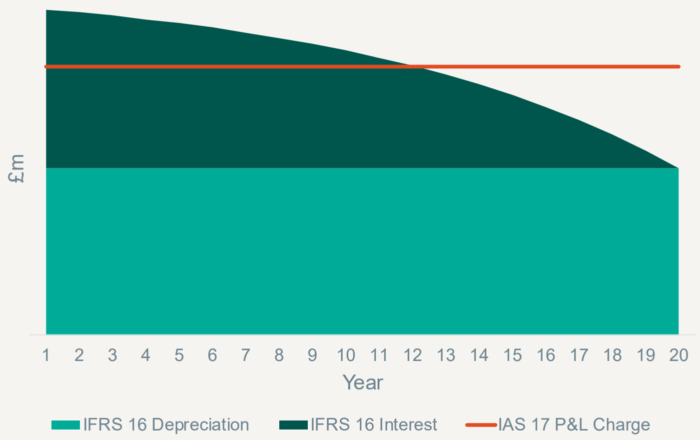
Appendix

P&L impacts

- P&L rent charge has been removed for in-scope leases
- Depreciation on right-of-use assets and interest on lease liabilities have replaced the charge
- Retail profit is boosted by the change as it is reported prior to interest charges and depreciation is lower than the previous rent charge

- Impacts for an individual lease are shown in example 1:
  - Over the life of the lease the same value is charged to the P&L under IFRS 16 and IAS 17
  - At the commencement of the lease, total P&L charges are higher than under IAS 17 as interest is charged on the outstanding lease liability, which reduces over the term
  - Toward the end of the life of the lease, total charges fall below IAS 17
  - Right-of-use assets are depreciated on a straight-line basis
  - Note, the P&L profile is more nuanced for a portfolio of leases with differing start dates, terms and clauses

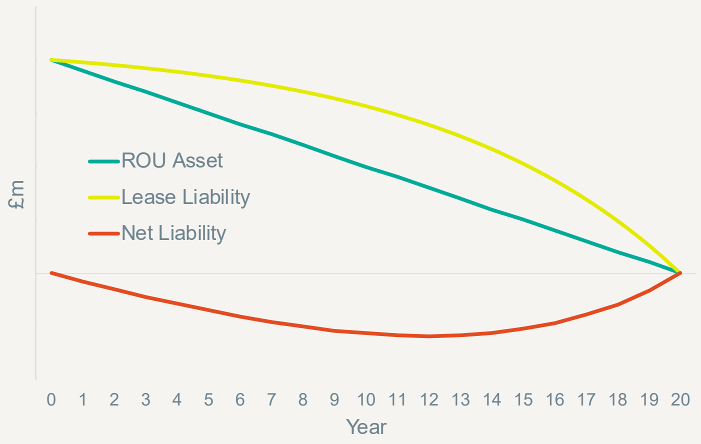
Illustrative example 1: 20 year lease with fixed annual rentals



Note: This is a simplified illustrative example and not intended to represent Kingfisher's lease portfolio

Balance sheet impacts

Illustrative example 2: 20 year lease with fixed annual rentals



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- The new standard will more closely align presentation of leased assets to owned assets
- Right-of-use (ROU) asset and lease liability created to reflect lessee's right to use leased item and obligation to pay rentals
- The asset is subject to impairment testing with onerous lease rental provisions no longer recorded
- Asset and liability remeasurements include market rent reviews/indexation and changes in assessed term
- Rent prepayments and accruals removed from working capital receivables and payables

- Impacts for an individual lease are shown in example 2:
  - At the start of the lease, the ROU asset and lease liability are generally broadly equal, but differ in value over the lease term:
    - ROU asset depreciates on a straight-line basis over the life of the lease
    - Lease liability decreases more slowly, reducing by cash rental payments offset by the interest charge

Indicative impact of IFRS 16 on balance sheet – previously shared in March

Indicative impact of IFRS 16 on 31 January 2019 balance sheet

£bn	Pre-IFRS 16	Adjustment	Post-IFRS 16
Right-of-use assets	-	2.0	2.0
Other fixed assets[(1)]	6.3	(0.2)	6.1
Working capital	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)[(2)]	0.1	(2.6)	(2.5)
Other	0.3	-	0.3
Net assets	**6.7**	**(0.5)**	**6.2**

- Discounted future lease payments recognised as lease liability of c. £2.6bn
- Corresponding right-of-use asset recognised of c. £2.0bn

IFRS 16 adjustments rounded to the nearest £100m
(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)

Overview of Kingfisher property estate as at 31 January 2019

	Store numbers	Sales area[1] (000s m²)
B&Q UK & Ireland	296	2,210
Screwfix	627	40
UK & Ireland	**923**	**2,250**
Castorama	101	1,250
Brico Dépôt	123	850
France	**224**	**2,100**
Iberia	31	195
Poland	76	652
Romania	38	273
Russia	20	208
Screwfix Germany	19	1
Other International	**184**	**1,329**
Total	**1,331**	**5,679**

c. 45% of Group space owned

UK 12%

France 75%

Poland 80%

Weighted average unexpired lease term of 8 years

UK 8 years

France 4 years

Poland 6 years

c. 50% of Group leases by value have earliest exit within 5 years

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