**Consolidated income statement**
Year ended 31 January 2020

| £ millions | Notes | 2019/20 Before exceptional items | 2019/20 Exceptional items | 2019/20 Total | 2018/19 restated (note 13) Before exceptional items | 2018/19 restated (note 13) Exceptional items | 2018/19 restated (note 13) Total |
|---|---|---|---|---|---|---|---|
| **Sales** | 3 | **11,513** | **–** | **11,513** | 11,685 | – | 11,685 |
| Cost of sales | | **(7,258)** | **–** | **(7,258)** | (7,367) | – | (7,367) |
| **Gross profit** | | **4,255** | **–** | **4,255** | 4,318 | – | 4,318 |
| Selling and distribution expenses | | **(2,772)** | **(398)** | **(3,170)** | (2,800) | (174) | (2,974) |
| Administrative expenses | | **(790)** | **(51)** | **(841)** | (799) | (63) | (862) |
| Other income | | **21** | **15** | **36** | 27 | 27 | 54 |
| Other expenses | | **–** | **–** | **–** | – | (57) | (57) |
| Share of post-tax results of joint ventures and associates | | **3** | **–** | **3** | 1 | – | 1 |
| **Operating profit** | 3 | **717** | **(434)** | **283** | 747 | (267) | 480 |
| Finance costs | | **(191)** | **(7)** | **(198)** | (196) | – | (196) |
| Finance income | | **18** | **–** | **18** | 16 | – | 16 |
| Net finance costs | 5 | **(173)** | **(7)** | **(180)** | (180) | – | (180) |
| **Profit before taxation** | | **544** | **(441)** | **103** | 567 | (267) | 300 |
| Income tax expense | 6 | **(136)** | **41** | **(95)** | (170) | 63 | (107) |
| **Profit for the year** | | **408** | **(400)** | **8** | 397 | (204) | 193 |

| | Notes | 2019/20 | 2018/19 |
|---|---|---|---|
| **Earnings per share** | 7 | | |
| Basic | | **0.4p** | 9.1p |
| Diluted | | **0.4p** | 9.0p |
| Adjusted basic | | **19.1p** | 19.8p |
| Adjusted diluted | | **19.0p** | 19.7p |

Reconciliation of non-GAAP adjusted pre-tax profit:

| | Notes | 2019/20 | 2018/19 |
|---|---|---|---|
| **Adjusted pre-tax profit** | | **544** | 574 |
| Exchange differences on lease liabilities | | **–** | (7) |
| Exceptional items | 4 | **(441)** | (267) |
| **Profit before taxation** | | **103** | 300 |

The Directors propose no final dividend for the year ended 31 January 2020.

**Consolidated statement of comprehensive income**
Year ended 31 January 2020

| £ millions | Notes | 2019/20 | 2018/19 restated (note 13) |
|---|---|---|---|
| **Profit for the year** | | **8** | 193 |
| Actuarial gains on post-employment benefits | 9 | **42** | 78 |
| Inventory cash flow hedges – fair value gains | | **20** | 85 |
| Tax on items that will not be reclassified | | **(24)** | (53) |
| **Total items that will not be reclassified subsequently to profit or loss** | | **38** | 110 |
| Currency translation differences | | | |
| Group | | **(134)** | (46) |
| Joint ventures and associates | | **(1)** | – |
| Other cash flow hedges | | | |
| Fair value losses | | **(3)** | (2) |
| Losses transferred to income statement | | **3** | 2 |
| **Total items that may be reclassified subsequently to profit or loss** | | **(135)** | (46) |
| **Other comprehensive (loss)/income for the year** | | **(97)** | 64 |
| **Total comprehensive (loss)/income for the year** | | **(89)** | 257 |

**Consolidated statement of changes in equity**
Year ended 31 January 2020

| | | 2019/20 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| £ millions | Notes | Share capital | Share premium | Own shares held | Retained earnings | Capital redemption reserve | Other reserves | Total equity |
| **At 1 February 2019** | | **332** | **2,228** | **(25)** | **3,192** | **43** | **379** | **6,149** |
| Profit for the year | | **–** | **–** | **–** | **8** | **–** | **–** | **8** |
| Other comprehensive income/(loss) for the year | | **–** | **–** | **–** | **22** | **–** | **(119)** | **(97)** |
| **Total comprehensive income/(loss) for the year** | | **–** | **–** | **–** | **30** | **–** | **(119)** | **(89)** |
| Inventory cash flow hedges - gains transferred to inventories | | **–** | **–** | **–** | **–** | **–** | **(40)** | **(40)** |
| Share-based compensation | | **–** | **–** | **–** | **11** | **–** | **–** | **11** |
| Own shares issued under share schemes | | **–** | **–** | **12** | **(12)** | **–** | **–** | **–** |
| Purchase of own shares for ESOP trust | | **–** | **–** | **(10)** | **–** | **–** | **–** | **(10)** |
| Dividends | 8 | **–** | **–** | **–** | **(227)** | **–** | **–** | **(227)** |
| Tax on equity items | | **–** | **–** | **–** | **–** | **–** | **8** | **8** |
| **At 31 January 2020** | | **332** | **2,228** | **(23)** | **2,994** | **43** | **228** | **5,802** |

| | | 2018/19 restated (note 13) | | | | | | |
|---|---|---|---|---|---|---|---|---|
| £ millions | Notes | Share capital | Share premium | Own shares held | Retained earnings | Capital redemption reserve | Other reserves | Total equity |
| **At 1 February 2018** | | 340 | 2,228 | (29) | 3,311 | 35 | 378 | 6,263 |
| Profit for the year | | – | – | – | 193 | – | – | 193 |
| Other comprehensive income for the year | | – | – | – | 46 | – | 18 | 64 |
| **Total comprehensive income for the year** | | – | – | – | 239 | – | 18 | 257 |
| Inventory cash flow hedges - gains transferred to inventories | | – | – | – | – | – | (22) | (22) |
| Share-based compensation | | – | – | – | 15 | – | – | 15 |
| New shares issued under share schemes | | – | – | – | 2 | – | – | 2 |
| Own shares issued under share schemes | | – | – | 4 | (4) | – | – | – |
| Purchase of own shares for cancellation | | (8) | – | – | (140) | 8 | – | (140) |
| Dividends | 8 | – | – | – | (231) | – | – | (231) |
| Tax on equity items | | – | – | – | – | – | 5 | 5 |
| **At 31 January 2019** | | 332 | 2,228 | (25) | 3,192 | 43 | 379 | 6,149 |

**Consolidated balance sheet**
At 31 January 2020

| £ millions | Notes | 2019/20 | 2018/19 restated (note 13) | 2017/18 restated (note 13) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Goodwill | | **2,416** | 2,436 | 2,437 |
| Other intangible assets | | **339** | 371 | 355 |
| Property, plant and equipment | | **2,988** | 3,302 | 3,536 |
| Right-of-use assets | | **1,916** | 2,017 | 2,218 |
| Investment property | | **8** | 8 | 20 |
| Investments in joint ventures and associates | | **16** | 15 | 19 |
| Post-employment benefits | 9 | **404** | 320 | 214 |
| Deferred tax assets | | **12** | 13 | 39 |
| Other receivables | | **27** | 41 | 55 |
| | | **8,126** | 8,523 | 8,893 |
| **Current assets** | | | | |
| Inventories | | **2,485** | 2,574 | 2,701 |
| Trade and other receivables | | **293** | 406 | 501 |
| Derivative assets | | **14** | 26 | 41 |
| Current tax assets | | **9** | 1 | – |
| Cash and cash equivalents | | **189** | 229 | 230 |
| Assets held for sale | | **196** | 89 | – |
| | | **3,186** | 3,325 | 3,473 |
| **Total assets** | | **11,312** | 11,848 | 12,366 |
| | | | | |
| **Current liabilities** | | | | |
| Trade and other payables | | **(2,210)** | (2,415) | (2,630) |
| Borrowings | | **(43)** | (1) | (127) |
| Lease liabilities | | **(306)** | (308) | (309) |
| Derivative liabilities | | **(43)** | (21) | (79) |
| Current tax liabilities | | **(78)** | (118) | (140) |
| Provisions | | **(65)** | (27) | (15) |
| Liabilities directly associated with assets held for sale | | **(88)** | – | – |
| | | **(2,833)** | (2,890) | (3,300) |
| **Non-current liabilities** | | | | |
| Other payables | | **(5)** | (6) | (2) |
| Borrowings | | **(93)** | (139) | (4) |
| Lease liabilities | | **(2,221)** | (2,318) | (2,482) |
| Derivative liabilities | | **(3)** | (2) | – |
| Deferred tax liabilities | | **(189)** | (192) | (171) |
| Provisions | | **(39)** | (37) | (29) |
| Post-employment benefits | 9 | **(127)** | (115) | (115) |
| | | **(2,677)** | (2,809) | (2,803) |
| **Total liabilities** | | **(5,510)** | (5,699) | (6,103) |
| **Net assets** | | **5,802** | 6,149 | 6,263 |
| | | | | |
| **Equity** | | | | |
| Share capital | | **332** | 332 | 340 |
| Share premium | | **2,228** | 2,228 | 2,228 |
| Own shares held in ESOP trust | | **(23)** | (25) | (29) |
| Retained earnings | | **2,994** | 3,192 | 3,311 |
| Capital redemption reserve | | **43** | 43 | 35 |
| Other reserves | | **228** | 379 | 378 |
| **Total equity** | | **5,802** | 6,149 | 6,263 |

The financial statements were approved by the Board of Directors on 16 June 2020 and signed on its behalf by:

**Thierry Garnier**
Chief Executive Officer

**Bernard Bot**
Chief Financial Officer

**Consolidated cash flow statement**

Year ended 31 January 2020

| £ millions | Notes | 2019/20 | 2018/19 restated (note 13) |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated by operations | 10 | **1,052** | 1,243 |
| Income tax paid | | **(155)** | (132) |
| **Net cash flows from operating activities** | | **897** | 1,111 |
| | | | |
| **Investing activities** | | | |
| Purchase of property, plant and equipment and intangible assets | | **(342)** | (332) |
| Disposal of property, plant and equipment, investment property, assets held for sale and intangible assets | | **188** | 45 |
| Interest received | | **12** | 11 |
| Interest element of lease rental receipts | | **1** | 3 |
| Principal element of lease rental receipts | | **5** | 6 |
| Advance payments on right-of-use assets | | **(3)** | (4) |
| Dividends received from joint ventures and associates | | **1** | 5 |
| **Net cash flows used in investing activities** | | **(138)** | (266) |
| | | | |
| **Financing activities** | | | |
| Interest paid | | **(35)** | (19) |
| Interest element of lease rental payments | | **(165)** | (174) |
| Principal element of lease rental payments | | **(319)** | (312) |
| Repayment of bank loans | | **(1)** | (1) |
| Issue of fixed term debt | | – | 139 |
| Repayment of fixed term debt | | – | (134) |
| Receipt on financing derivatives | | – | 37 |
| New shares issued under share schemes | | – | 2 |
| Purchase of own shares for ESOP trust | | **(10)** | – |
| Purchase of own shares for cancellation | | – | (140) |
| Ordinary dividends paid to equity shareholders of the Company | | **(227)** | (231) |
| **Net cash flows from financing activities** | | **(757)** | (833) |
| | | | |
| **Net increase in cash and cash equivalents** | | **2** | 12 |
| Cash and cash equivalents at beginning of year | | **229** | 230 |
| Exchange differences | | **(36)** | (13) |
| **Cash and cash equivalents at end of year** | | **195** | 229 |

Cash and cash equivalents at the end of the year include £6m of cash included within assets held for sale on the balance sheet (2018/19: £nil).

## Notes

## 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 Company is incorporated in England and Wales, United Kingdom, and is listed on the London Stock Exchange. The address of its registered office is 3 Sheldon Square, Paddington, London W2 6PX.

## 2 Basis of preparation

The consolidated financial statements of the Company, its subsidiaries, joint ventures and associates are made up to 31 January. The current financial year is the year ended 31 January 2020 ('the year' or '2019/20'). The comparative financial year is the year ended 31 January 2019 ('the prior year' or '2018/19').

The condensed financial information, which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated balance sheet, consolidated cash flow statement and related notes do not constitute statutory financial statements for the year ended 31 January 2020, but are derived from those statements. Statutory financial statements for 2018/19 have been filed with the Registrar of Companies and those for 2019/20 will be filed in due course. The Group's auditors have reported on both years' accounts; their reports were unqualified and did not contain statements under Section 498 (2) or (3) of the Companies Act 2006.

The condensed financial information has been abridged from the 2019/20 statutory financial statements, which 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 income statement and related notes represent results for continuing operations, there being no discontinued operations in the years presented. The condensed financial information has 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.

***Going concern***

Based on the Group's liquidity position and cash flow projections, including a forward looking Covid-19 scenario, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The impacts of Covid-19 have been considered as part of the Group's assessment of post balance sheet events (see note 14). The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review in part 1 of this announcement. The directors have considered these areas alongside the principal risks and how they may impact going concern, the assessment of which is considered to be a critical accounting judgement.

Further details, including the analysis performed and conclusions reached, are set out below.

*Overview*

In line with the FCA's statement on 26 March 2020 announcing temporary relief measures for corporate reporting during the Covid-19 crisis, the Directors decided to make appropriate use of the time available within regulatory deadlines to ensure accurate and carefully prepared disclosures. This allowed the Directors to assess the day-to-day changes in events within the Group's markets, gather further information on the expected duration of the measures that governments are taking to contain the crisis and review and refine planning assumptions accordingly.

In determining whether the Group's accounts can be prepared on a going concern basis, the Directors considered the Group's business activities together with factors likely to affect its performance and financial position.

These factors included governments' categorisation, under Covid-19 regulations, of the Group's activities as 'essential' in its largest markets, actual trading performance during periods in which stores were closed or not operating under normal trading conditions, expectations of the future economic environment, the impact of mitigation actions and government support measures, available liquidity as well as the other principal risks associated with the business's ongoing operations.

The key judgements in relation to this assessment are the likelihood and impact of a potential resurgence of the Covid-19 pandemic and the more durable impact of Covid-19 on the economy and household spending in the markets in which the Group operates. In informing these judgements, the Directors considered trading since the beginning of the financial year and especially during periods of lockdown restrictions, mitigation actions available, the current outlook for the business in addition to an unlikely future Covid-19 worst case scenario, and finally a 'reverse stress test' scenario which is described in further detail below.

*Operational and business impact risk assessment*

Under Covid-19 regulations, the Group's stores in the UK and France have been categorised as 'essential' and reopened after a period of trialling alternative operating models and introducing safe operating procedures. More specifically:

- In the UK, management, with the support of the Directors, took the decision to close all B&Q and Screwfix stores to customers for browsing and in-store purchasing on 23 March. This decision was made to allow the teams to establish safe store operating protocols to protect customers and colleagues. To ensure the continued supply of essential goods, from 24 March, the two entities introduced a contactless click & collect service for customers, initially for essential products only, alongside a home delivery service. The stopping of in-store trading led to a significant drop in revenue at B&Q only somewhat mitigated by higher click & collect and home delivery income. The impact at Screwfix was more limited given its already high proportion of click & collect business.

  On 17 April, B&Q trialled the reopening of 14 B&Q stores. Following the success of this trial, B&Q progressively reopened further stores, with nearly all stores reopened by the beginning of May. All stores have traded very strongly since reopening. Screwfix continued to successfully offer a contactless click & collect service until the second week of May, when it introduced new customer journeys and processes within stores. Trading at Screwfix, which was much less impacted by store closures, further improved from the end of April.

- In France, all Castorama and Brico Depot stores were closed from 15 March. A contactless click & collect service via 'drive through' was gradually introduced from 23 March, alongside a home delivery service and the opening up of stores' external building materials yard, which mitigated somewhat the significant drop in revenue. From 24 April, stores in France were gradually reopened and by 11 May all stores were again accessible to customers. As in the UK, trading since reopening has been very positive.

The Group's stores in Poland, Romania and Portugal remained open throughout the period during which strict confinement rules were in place. While revenue was impacted during the time that stricter social distancing rules were applicable, trading levels quickly recovered and have been very positive since the beginning of May.

Stores in Ireland, Spain and Russia were closed for browsing by the public under lockdown rules in those countries, but operated home delivery and / or click & collect services. Stores in Ireland reopened on 18 May. Normal activity started to resume on 25 May in Spain and Russia, with a gradual reopening of stores.

Currently, nearly all of the Group's stores are open for in-store purchasing.

The designation as an 'essential retailer' in the Group's largest markets, coupled with the successful operation of stores while adhering to strict social distancing and safety procedures, indicate that the Group would be able to mitigate the negative impact on sales of stricter confinement rules that could be reintroduced in the event of a resurgence of the Covid-19 pandemic.

*Financial impact risk assessment*

As a result of Covid-19, in the third week of March, Group like-for-like (LFL) sales dropped by (22.9)% compared to a similar period in the prior year, as stores closed in France and stricter social distancing rules were applied in Poland. This drop increased to (59.1)% in the next week, after the introduction of confinement measures in the UK.

April started with a weekly decline of (74.0)%, recovering to (17.5)% by the end of the month, following the expansion of click & collect and home delivery services, the gradual reopening of stores and the easing of regulations in those countries where we continued to trade throughout.

The month of May has seen consistently strong trading with year on year LFL growth of +2.7% in the first week increasing to +26.7% in the final week of the month as stores were reopened and services and opening hours expanded.

LFL sales for the full month of May are +14.3% and year to date May LFL sales are (14.0)% lower.

The Group's net cash outflow, representing the net change in cash at bank excluding physical cash in tills and cash in transit and excluding drawdown on Revolving Credit Facilities (RCFs), from 1 February up to the first week of May was c.£(250)m. This reflected reduced sales over the preceding seven weeks, along with significant payments to suppliers during this period for orders made prior to the coronavirus crisis (in anticipation of the Company's usual peak trading period). The negative cash flow was covered by drawing down our RCFs of £225m and £550m. With the turnaround in sales, the Group has more than compensated the cash outflow up to the beginning of May. The cumulative cash inflow between 1 February and 12 June 2020 was c.£730m (representing net change in cash at bank excluding physical cash in tills and cash in transit and excluding receipts or repayments of liquidity arrangements). The drawn RCFs were fully repaid in May.

While trading continues to be exceptionally strong on a year on year basis since early May, in forming their outlook on future financial performance, the Directors considered the normalisation of store traffic and average spend levels, the risk of higher business volatility and the negative impact of the general economic environment on household and trade spend. The Directors also considered that the business would continue to benefit from continued cost reduction measures, lower levels of investment and an ongoing focus on working capital.

*Forward looking Covid-19 worst case scenario*

In addition to their outlook for the financial performance of the Group, the Directors also reviewed a downside 'worst case' scenario for Covid-19. This Covid-19 worst case scenario assumes a return of stricter confinement rules following a period of easing, followed by a prolonged period to return to normal trading levels. It also assumes an ongoing negative effect on sales from economic disruption. The impact on sales, taking the Group's original budget for 2020/21 as a basis, would be as follows:

- A 25% decline in Group sales over a period of 8 weeks starting in late summer of 2020 (total impact of approximately £(450)m). While the Group has shown that its stores can remain open to the public by adhering to comprehensive social distancing measures, a return to stricter rules could reduce traffic to stores that may not be compensated by higher average spend per customer. The percentage decline is in line with the revenue drop seen in stores that remained open throughout the past period of strict confinement;

- A gradual recovery, with a Group sales decline of between (10)% and (5)% up to January 2021; and

- Ongoing pressure on sales for the remaining period to June 2021.

The Covid-19 worst case scenario would result in approximately £1bn lower sales over the 12 month going concern period compared to a similar 12 month period of the budget for 2020/21.

Given current trading and expectations for the business, the Directors believe that this scenario reflects an unlikely worst case outcome for the Group.

Further downside sensitivities were applied to the Covid-19 scenario. These sensitivities extended the length of time during which strict social distancing measures would be in place and increased the depth of the impact on sales. In particular, the Directors reviewed a reverse stress test scenario that models the decline in sales that the Group would be able to absorb before requiring additional sources of financing, over and above what is currently guaranteed.

The decline is sales would be around £4bn over a 12 month period compared to a similar 12 month period of the original budget for 2020/21. The financing sources used in this scenario would be the €600m (c.£535m) term facility with three French banks, £600m of the UK Government's Covid Corporate Financing Facility (CCFF) funds and, for a limited time, part of the Group's RCFs that contain a financial covenant. If such a scenario would occur, the Group would take additional mitigation actions, including further initiatives on cost and cash and negotiating a waiver or relaxation of the financial covenant of its RCFs and term loan. This scenario, including the events that could lead to it, was considered to be remote.

*Mitigating actions*

The mitigating actions available to the Group, either already utilised or which could be (re)implemented are as follows:

- Cost savings, including through store operating efficiencies (adjustment of store variable costs, maintenance and store opening hours), reduction in discretionary costs (marketing and advertising, consumables and other goods not for resale spend, travel) and freezing of pay and recruitment;

- Reducing inventory purchases by adjusting purchasing plans beyond the automatic reductions from lower sales;

- Limiting capital expenditure to the minimum required under contractual or legal obligations or for health and safety purposes;

- Optimising working capital by negotiating longer payment terms for rental and supplier payments, while continuing to pay all suppliers in full and according to contractual payment terms;

- Benefiting from government support programmes as far as these are maintained or reintroduced, such as business rates relief in the UK (Kingfisher's annual business rates bill for retail premises in the UK is estimated at £140m); furloughing schemes in the UK, France, Spain and Romania and government allowances for deferring direct and indirect tax and social security payments; and

- Continuing to cease dividend payments. The cash cost of the final 2018/19 dividend and the interim 2019/20 dividend was £227m in total. To date the Board has not proposed a final dividend for 2019/20 and intends to consider the appropriateness, quantum and timing of future dividend payments when it has a clearer view of the scale and duration of the impact of Covid-19 on the business.

*Financing actions*

As at 31 January 2020, the Group had cash and cash equivalents (including amounts held for sale) of £195m.

To further protect the Group against extended lockdown measures and deeper periods of disruption than anticipated, the Group secured access to additional funding arrangements.

On 18 May 2020, the Group drew on a €600m (c.£535m) term facility with three French banks. This loan is guaranteed at 80% by the French State ('Prêt garanti par l'État') and has a maturity of one year, extendable for up to five years.

The Group also confirmed its eligibility under the UK Government's CCFF and on 12 June issued 11-month Commercial Paper for £600m under this programme, the maximum amount under its allocated issuer limit. These funds will have to be repaid by 12 May 2021 at the latest. Through issuing the Commercial Paper, this source of finance is committed and can be included in the Group's going concern assessment. Due to the terms of eligibility of the CCFF programme, the Group is unable to rely on eligibility alone in its going concern assessment.

While the Directors do not believe that this additional liquidity is needed even under the worst case Covid-19 scenario, the additional liquidity could be required should the impact of the pandemic on trading conditions be significantly more prolonged or severe.

The Group has also agreed an additional RCF of £250m with a syndicate of its relationship banks. This facility is currently undrawn and expires in May 2021.

These additional funding arrangements complement the already available two RCFs totalling £775m. The RCFs expire in March 2022 (£225m) and August 2022 (£550m). The two RCFs are currently undrawn.

The Group has a number of financing facilities, including the three RCFs, that require the Group to maintain an interest cover ratio that is tested semi-annually. The terms of these financing facilities require that the ratio of Group operating profit (excluding exceptional items) to net interest payable (excluding interest on IFRS 16 lease liabilities) must be no less than 3:1 for the preceding 12 months as at the half and full year ends. At the date of this report, the Group is in compliance with its financial covenant and expects to remain compliant even under the forecast Covid-19 worst case scenario over the going concern period.

As a result of the strong sales since the beginning of May and the drawings under the French and UK Government facilities, at 12 June 2020 the Group had access to over £3bn in total liquidity, including cash and cash equivalents of c.£2bn and access to over £1bn of funding under the RCFs.

*Going concern basis*

Considering the above, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For these reasons, the Directors consider it appropriate for the Group to continue to adopt the going concern basis of accounting in preparing the annual financial statements. Should the impact of the pandemic be more prolonged or severe than currently forecast by the Directors under the reverse stress test scenario, the Group would need to implement additional operational or financial measures.

***Accounting policies***

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 January 2019, as described in note 2 of those financial statements, except where set out below.

*New and amended accounting standards*

The Group adopted IFRS 16 'Leases' on 1 February 2019 on a fully retrospective basis, resulting in the restatement of comparatives for the year ended 31 January 2019. The cumulative effect of initial application is recognised as an adjustment to opening equity on the date of transition (1 February 2018). Refer to note 13 for further details of the Group's initial application of IFRS 16.

Other new standards, amendments and interpretations are in issue and effective for the Group's financial year ended 31 January 2020, but they do not have a material impact on the consolidated financial statements.

***Principal rates of exchange against Sterling***

| | 2019/20 | | 2018/19 | |
|---|---|---|---|---|
| | Average rate | Year end rate | Average rate | Year end rate |
| Euro | **1.14** | **1.19** | 1.13 | 1.15 |
| US Dollar | **1.28** | **1.32** | 1.33 | 1.31 |
| Polish Zloty | **4.91** | **5.11** | 4.83 | 4.88 |
| Romanian Leu | **5.44** | **5.69** | 5.26 | 5.43 |
| Russian Rouble | **82.13** | **84.48** | 84.34 | 86.01 |

***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, adjusted pre-tax profit, adjusted effective tax rate 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 debt, are used by Kingfisher for internal performance analysis and incentive compensation arrangements for employees. The terms 'retail profit', 'exceptional items', 'adjusted', 'adjusted effective tax rate' and 'net debt' 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, and exceptional items. Central costs principally comprise the costs of the Group's head office before exceptional items.

Exceptional items, which are presented as exceptional within their relevant income statement category, include items which by virtue of their size and/or nature, do not reflect the Group's ongoing trading 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, exit or impairment of subsidiaries, joint ventures, associates and investments which do not form part of the Group's ongoing trading activities;
- profits and losses on the disposal of properties and significant write-downs of goodwill and other assets;
- 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; and
- significant one-off tax settlements and provision charges/releases and the tax effects of other exceptional items.

The term 'adjusted' refers to the relevant measure being reported for continuing operations excluding exceptional items, exchange differences on lease liabilities, financing fair value remeasurements, related tax items and prior year tax items (including the impact of changes in tax rates on deferred tax). Exchange differences on lease liabilities represent the income statement impact of translating lease liabilities denominated in non-functional currencies (e.g. a dollar-denominated lease in Russia) which are not able to be designated as net investment hedges. 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 adjusted effective tax rate is calculated as continuing income tax expense excluding tax 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 debt comprises lease liabilities, borrowings and financing derivatives (excluding accrued interest) less cash and cash equivalents and short-term deposits, including such balances classified as held for sale.

The Group no longer reports profits on an 'underlying' basis, with the single 'adjusted' measure now judged by management to be a better and simpler reflection of business performance. The term 'underlying' previously referred to the relevant adjusted measure being reported before non-exceptional transformation costs ('transformation P&L costs'). Non-exceptional transformation costs previously represented the additional costs that arose 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 were incurred were not considered as exceptional items. As a result, 2018/19 'Retail profit' and 'Central costs' comparatives have been restated to include their respective share of costs previously reported as non-exceptional transformation costs (see note 3). Note that the 'adjusted' performance measures are unaffected by this change.

A further restatement of 2018/19 comparatives has been performed for the reallocation of certain central support costs between operating segments, which has also impacted their reported retail profits (see note 3).

## 3 Segmental analysis

### Income statement

| | | | | | 2019/20 |
|---|---|---|---|---|---|
| | | | Other International | | |
| £ millions | UK & Ireland | France | Poland | Other | Total |
| **Sales** | **5,112** | **4,082** | **1,461** | **858** | **11,513** |
| **Retail profit** | **499** | **164** | **151** | **(28)** | **786** |
| Central costs | | | | | **(62)** |
| Share of interest and tax of joint ventures and associates | | | | | **(7)** |
| Exceptional items | | | | | **(434)** |
| **Operating profit** | | | | | **283** |
| Net finance costs | | | | | **(180)** |
| **Profit before taxation** | | | | | **103** |

| £ millions | UK & Ireland | France | Other International: Poland | Other International: Other | Total |
|---|---|---|---|---|---|
| | 2018/19 restated (see below) | | | | |
| **Sales** | 5,061 | 4,272 | 1,431 | 921 | 11,685 |
| **Retail profit** | 498 | 183 | 167 | (24) | 824 |
| Central costs | | | | | (69) |
| Share of interest and tax of joint ventures and associates before exchange differences on lease liabilities | | | | | (5) |
| Exchange differences on lease liabilities of joint ventures and associates | | | | | (3) |
| Exceptional items | | | | | (267) |
| **Operating profit** | | | | | 480 |
| Net finance costs | | | | | (180) |
| **Profit before taxation** | | | | | 300 |

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 'Other International' segment consists of Poland, Romania, Spain, Portugal, Germany, Russia 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 exceptional items.

*Reallocation of central support costs and transformation P&L costs*

In recent years the Group has developed its offer, sourcing and supply chain organisations. The services and benefits provided to each of Kingfisher's retail banners have evolved over time. Consequently, management has updated its assessment of how the Group's centrally-incurred costs are most appropriately allocated across the businesses.

Although neutral at a Group Retail profit level, this has resulted in a change to Retail profit by geography for 2019/20, with the principal effect of more costs being allocated to Poland and less to the UK & Ireland. The 2018/19 comparatives have been restated on a consistent basis.

As set out in note 2, 2018/19 comparatives have also been restated for the reallocation of Transformation P&L costs to Retail profit and Central costs. This has reduced the reported segment Retail profits and increased reported Central costs.

The impacts of IFRS 16 'Leases' and the reallocation of central support costs and Transformation P&L costs on the 2018/19 segmental analysis income statement comparatives are set out below:

| £ millions | As previously reported (IAS 17) | Impact of IFRS 16 (note 13) | As previously reported (IFRS 16) | Impact of central support cost reallocation | Impact of transformation P&L cost reallocation | Restated |
|---|---|---|---|---|---|---|
| | 2018/19 | | | | | |
| **Sales** | **11,685** | **–** | **11,685** | **–** | **–** | **11,685** |
| UK & Ireland | 399 | 131 | 530 | 13 | (45) | **498** |
| France | 209 | 12 | 221 | – | (38) | **183** |
| Poland | 181 | 4 | 185 | (10) | (8) | **167** |
| Other | (36) | 24 | (12) | (3) | (9) | **(24)** |
| **Retail Profit** | **753** | **171** | **924** | **–** | **(100)** | **824** |
| Central costs | (49) | – | (49) | – | (20) | **(69)** |
| Share of interest and tax of joint ventures and associates | (4) | (1) | (5) | – | – | **(5)** |
| Exchange differences on lease liabilities of joint ventures and associates | – | (3) | (3) | – | – | **(3)** |
| Exceptional items | (251) | (16) | (267) | – | – | **(267)** |
| Transformation costs before exceptional items | (120) | – | (120) | – | 120 | – |
| **Operating profit** | **329** | **151** | **480** | – | – | **480** |
| Net finance costs | (7) | (173) | (180) | – | – | **(180)** |
| **Profit before taxation** | **322** | **(22)** | **300** | – | – | **300** |

## 4 Exceptional items

| £ millions | 2019/20 | 2018/19 restated (note 13) |
|---|---|---|
| **Included within selling and distribution expenses** | | |
| UK & Ireland and continental Europe restructuring | **(67)** | (124) |
| Impairments of Russia assets and other exit costs | **(130)** | (15) |
| Impairments of Romania assets | **(39)** | – |
| Store asset write-downs | **(118)** | – |
| IT asset write-downs and related costs | **(44)** | (1) |
| Romania acquisition integration | – | (16) |
| B&Q store replenishment | – | (12) |
| France exceptional employee bonus | – | (6) |
| | **(398)** | (174) |
| **Included within administrative expenses** | | |
| Transformation exceptional costs | **(8)** | (58) |
| Penalties on French Tax Authority settlement | **(17)** | – |
| France business tax | **(26)** | – |
| UK guaranteed minimum pension charge | – | (5) |
| | **(51)** | (63) |
| **Included within other income/expenses** | | |
| Profit on disposal of properties | **15** | 27 |
| Impairments of properties held for sale | – | (57) |
| | **15** | (30) |
| **Included within net finance costs** | | |
| Interest on French Tax Authority settlement | **(7)** | – |
| | **(7)** | – |
| **Exceptional items before tax** | **(441)** | (267) |
| French Tax Authority settlement | **(51)** | – |
| Other exceptional tax items | **92** | 63 |
| **Exceptional items** | **(400)** | (204) |

Current year exceptional items include a £67m net restructuring charge principally relating to redundancy costs following formal consultation with employee representatives regarding the Group's plans to close 11 stores in France and 19 Screwfix Germany outlets.

The Group announced the decision to exit Russia in November 2018 and has recorded exceptional costs of £130m in the current year relating to this business, representing both underlying store asset write-downs and additional impairments recorded on classification of the business as held for sale that reflect anticipated net proceeds under the planned sale, and other exit costs.

Impairments of £39m have been recorded on goodwill and certain store assets relating to the Romania business. This has arisen due to a revision in future projections for the business following continued trading losses.

As a result of 2019/20 performance, we have revised future projections for a number of stores across the Group's portfolio. This, combined with reduced freehold property valuations, has resulted in the recognition of £118m of asset write-downs in the year (excluding Russia and Romania), principally relating to impairments of freehold and leasehold properties. These impairments have been recorded principally in Castorama France, but also include B&Q in the UK and Iberia.

Refer to note 14 for further information on the estimated impacts of Covid-19 on impairments to goodwill, property, plant & equipment and right-of-use assets after the balance sheet date.

IT asset write-downs and related costs of £44m relate principally to impairments of IT intangible assets under development, mainly reflecting modules of the unified IT platform and digital tools for which no further development is currently planned.

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. Additional transformation exceptional costs of £8m have been recorded in the current year relating to the restructuring plan.

During the year, the Group concluded a final settlement with the French Tax Authority (FTA) regarding the treatment of interest paid since 2009/10. A contingent liability for €101m (£92m) had been disclosed in the 2019/20 interim condensed financial statements with respect to this matter related to the periods 2009/10 to 2011/12. At the end of the third quarter of 2019/20, Kingfisher was given the opportunity by the FTA to settle for all periods under review (2009/10 to 2018/19), and subsequent discussions held with the FTA resulted in a comprehensive settlement. A cash payment of £75m was made in the final quarter of 2019/20 and recorded as an exceptional charge, comprising £51m of tax, £7m of interest and

£17m of penalties (with the latter recognised in operating profit). A provision of £26m has also been recognised in operating profit for an uncertain position in relation to a multi-year business tax in France.

A profit of £15m has been recorded on the disposal of properties in the UK and France.

Other exceptional tax items include a £35m non-cash release of a provision on settlement of a case in Hong Kong.

## 5 Net finance costs

| £ millions | 2019/20 | 2018/19 restated (note 13) |
|---|---|---|
| Bank overdrafts and bank loans | **(22)** | (15) |
| Fixed term debt | **(4)** | (3) |
| Lease liabilities | **(165)** | (174) |
| Exchange differences on lease liabilities | **–** | (4) |
| Unwinding of discount on provisions | **–** | (2) |
| Capitalised interest | **3** | 2 |
| Other interest payable | **(3)** | – |
| Exceptional interest on French Tax Authority settlement | **(7)** | – |
| **Finance costs** | **(198)** | (196) |
| | | |
| Cash and cash equivalents and short term deposits | **10** | 9 |
| Net interest income on defined benefit pension schemes | **7** | 4 |
| Finance lease income | **1** | 3 |
| **Finance income** | **18** | 16 |
| | | |
| **Net finance costs** | **(180)** | (180) |

## 6 Income tax expense

| £ millions | 2019/20 | 2018/19 restated (note 13) |
|---|---|---|
| **UK corporation tax** | | |
| Current tax on profits for the year | **(57)** | (52) |
| Adjustments in respect of prior years | **(5)** | (1) |
| | **(62)** | (53) |
| **Overseas tax** | | |
| Current tax on profits for the year | **(46)** | (66) |
| Adjustments in respect of prior years | **(6)** | 7 |
| | **(52)** | (59) |
| **Deferred tax** | | |
| Current year | **20** | 30 |
| Adjustments in respect of prior years | **–** | (25) |
| Adjustments in respect of changes in tax rates | **(1)** | – |
| | **19** | 5 |
| | | |
| **Income tax expense** | **(95)** | (107) |

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 26% (2018/19: 27%). Exceptional tax items for the year amount to a net credit of £41m, with a £20m charge relating to prior year items (2018/19: £63m credit, none of which related to prior year items).

## 7 Earnings per share

| | 2019/20 | | | 2018/19 restated (note 13) | | |
|---|---|---|---|---|---|---|
| | Earnings £ millions | Weighted average number of shares millions | Earnings per share pence | Earnings £ millions | Weighted average number of shares millions | Earnings per share pence |
| **Basic earnings per share** | **8** | **2,101** | **0.4** | 193 | 2,129 | 9.1 |
| Effect of dilutive share options | – | **13** | – | – | 11 | (0.1) |
| **Diluted earnings per share** | **8** | **2,114** | **0.4** | 193 | 2,140 | 9.0 |
| | | | | | | |
| **Basic earnings per share** | **8** | **2,101** | **0.4** | 193 | 2,129 | 9.1 |
| Exceptional items before tax | **441** | | **21.0** | 267 | | 12.6 |
| Exceptional tax and prior year items | **(49)** | | **(2.3)** | (44) | | (2.1) |
| Exchange differences on lease liabilities | – | | – | 7 | | 0.3 |
| Tax on exchange differences on lease liabilities | – | | – | (2) | | (0.1) |
| **Adjusted basic earnings per share** | **400** | **2,101** | **19.1** | 421 | 2,129 | 19.8 |
| | | | | | | |
| **Diluted earnings per share** | **8** | **2,114** | **0.4** | 193 | 2,140 | 9.0 |
| Exceptional items before tax | **441** | | **20.9** | 267 | | 12.6 |
| Tax on exceptional and prior year items | **(49)** | | **(2.3)** | (44) | | (2.1) |
| Exchange differences on lease liabilities | – | | – | 7 | | 0.3 |
| Tax on exchange differences on lease liabilities | – | | – | (2) | | (0.1) |
| **Adjusted diluted earnings per share** | **400** | **2,114** | **19.0** | 421 | 2,140 | 19.7 |

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.

## 8 Dividends

| £ millions | 2019/20 | 2018/19 |
|---|---|---|
| **Dividends paid to equity shareholders of the Company** | | |
| Ordinary interim dividend for the year ended 31 January 2020 of 3.33p per share (year ended 31 January 2019: 3.33p per share) | **70** | 71 |
| Ordinary final dividend for the year ended 31 January 2019 of 7.49p per share (year ended 31 January 2018: 7.49p per share) | **157** | 160 |
| | **227** | 231 |

The Directors propose no final dividend for the year ended 31 January 2020.

## 9 Post-employment benefits

| £ millions | UK | Overseas | 2019/20 Total | UK | Overseas | 2018/19 Total |
|---|---|---|---|---|---|---|
| **Net surplus/(deficit) in schemes at beginning of year** | **320** | **(115)** | **205** | 214 | (115) | 99 |
| Current service cost | **(2)** | **(8)** | **(10)** | (2) | (9) | (11) |
| Past service cost | – | – | – | (5) | 3 | (2) |
| Administration costs | **(3)** | – | **(3)** | (4) | – | (4) |
| Net interest income/(expense) | **8** | **(1)** | **7** | 6 | (2) | 4 |
| Net actuarial gains/(losses) | **51** | **(9)** | **42** | 74 | 4 | 78 |
| Contributions paid by employer | **30** | **2** | **32** | 37 | 3 | 40 |
| Exchange differences | – | **4** | **4** | – | 1 | 1 |
| **Net surplus/(deficit) in schemes at end of year** | **404** | **(127)** | **277** | 320 | (115) | 205 |
| | | | | | | |
| Present value of defined benefit obligations | **(3,114)** | **(147)** | **(3,261)** | (2,842) | (135) | (2,977) |
| Fair value of scheme assets | **3,518** | **20** | **3,538** | 3,162 | 20 | 3,182 |
| **Net surplus/(deficit) in schemes** | **404** | **(127)** | **277** | 320 | (115) | 205 |

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.

A key assumption in valuing the pension obligations is the discount rate. Accounting standards require this to be set based on market yields on high quality corporate bonds at the balance sheet date. 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.

The principal financial assumptions for the UK scheme are as follows:

| Annual % rate | 2019/20 | 2018/19 |
|---|---|---|
| Discount rate | **1.6** | 2.5 |
| Price inflation | **2.9** | 3.3 |

For the UK scheme, the mortality assumptions used 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 assumptions for life expectancy of UK scheme members are as follows:

| Years | 2019/20 | 2018/19 |
|---|---|---|
| Age to which current pensioners are expected to live (60 now) | | |
| - Male | **86.4** | 87.3 |
| - Female | **87.2** | 89.0 |
| Age to which future pensioners are expected to live (60 in 15 years' time) | | |
| - Male | **87.5** | 88.5 |
| - Female | **90.1** | 90.9 |

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 £330m |
| Price inflation | Increase/decrease by 0.5% | Increase/decrease by £263m |
| Mortality | Increase in life expectancy by one year | Increase by £110m |

Refer to note 14 for further information on the estimated impacts of Covid-19 on the Group's defined benefit pension schemes after the balance sheet date.

## 10 Cash generated by operations

| £ millions | 2019/20 | 2018/19 restated (note 13) |
|---|---|---|
| **Operating profit** | **283** | 480 |
| Share of post-tax results of joint ventures and associates | **(3)** | (1) |
| Depreciation and amortisation | **545** | 535 |
| Net impairment losses | **315** | 201 |
| Gain on disposal of property, plant and equipment, investment property, assets held for sale and intangible assets | **(15)** | (25) |
| Lease (gains)/losses | **(5)** | 2 |
| Share-based compensation charge | **11** | 15 |
| (Increase)/decrease in inventories | **(65)** | 95 |
| Decrease in trade and other receivables | **53** | 142 |
| Decrease in trade and other payables | **(91)** | (197) |
| Movement in provisions | **43** | 19 |
| Movement in post-employment benefits | **(19)** | (23) |
| **Cash generated by operations** | **1,052** | 1,243 |

## 11 Net debt

| £ millions | 2019/20 | 2018/19 restated (note 13) |
|---|---|---|
| Cash and cash equivalents | **189** | 229 |
| Cash and cash equivalents held for sale | **6** | – |
| **Cash and cash equivalents including amounts held for sale** | **195** | 229 |
| Bank loans | **(3)** | (4) |
| Fixed term debt | **(133)** | (136) |
| Net financing derivatives | **(22)** | (5) |
| Lease liabilities | **(2,527)** | (2,626) |
| Lease liabilities held for sale | **(36)** | – |
| **Net debt** | **(2,526)** | (2,542) |

| £ millions | 2019/20 | 2018/19 restated (note 13) |
|---|---|---|
| **Net debt at beginning of year** | **(2,542)** | (2,678) |
| Net increase in cash and cash equivalents | **2** | 12 |
| Repayment of bank loans | **1** | 1 |
| Issue of fixed term debt | – | (139) |
| Repayment of fixed term debt | – | 134 |
| Receipt on financing derivatives | – | (37) |
| **Net cash flow** | **3** | (29) |
| Movement in lease liabilities including amounts held for sale | **40** | 157 |
| Exchange differences and other non-cash movements | **(27)** | 8 |
| **Net debt at end of year** | **(2,526)** | (2,542) |

## 12 Contingent liabilities

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.

In October 2017, the European Commission opened a state aid investigation into the Group Financing Exemption section of the UK controlled foreign company rules. While the Group has complied with the requirements of UK tax law in force at the time, in April 2019 the European Commission concluded that aspects of the UK controlled foreign company regime partially constitute state aid. The UK Government and the Group, along with other UK-based international companies, have appealed the European Commission decision to the European Courts.

At present it is not possible to determine the final amount that will be payable as discussions are ongoing with HM Revenue & Customs as to how the decision should be applied to the Group’s facts. The Group has calculated its maximum potential liability (including compound interest) to be £63m in the event that all appeals against the position are unsuccessful. The final impact on the Group remains uncertain but based upon advice taken, the Group considers that no provision is required at this time.

As set out in note 4, the Group’s dispute with the French Tax Authority regarding the treatment of interest paid since the 2010 year end, previously disclosed as a contingent liability, was settled during the year.

## 13 Impact of the adoption of IFRS 16 'Leases'

### Initial adoption of IFRS 16 'Leases'

The Group has adopted IFRS 16 from 1 February 2019 using the fully retrospective method. Comparatives for the year ended 31 January 2019 have been restated.

The Group applied the practical expedient available for low-value items and short-term leases, recognising rental payments for these leases on a straight-line basis in the income statement and not recognising a right-of-use asset or lease liability. This presentation of these expenses remains consistent with the annual financial statements for the year ended 31 January 2019.

Following the adoption of IFRS 16, the Group's accounting policy in respect of leases is as follows:

### Lessee accounting

The Group assesses whether a contract is or contains a lease at inception of the contract. Typically, lease contracts relate to properties such as stores and distribution centres, and equipment leases such as mechanical handling equipment and vehicles. For leases in which the Group is a lessee, the Group recognises a right-of-use asset and a lease liability.

The liability is initially measured as the present value of the lease payments not yet paid at the commencement date, discounted at an appropriate discount rate. Where the implicit rate in the lease is not readily determinable, an incremental borrowing rate is calculated and applied. The calculation methodology is based upon applying a financing spread to a risk-free rate, with the resulting rate including the effect of the credit worthiness of the operating company in which the lease is contracted, as well as the underlying term, currency and start date of the lease agreement.

Lease payments used in the measurement of the lease liability principally comprise fixed lease payments (subject to indexation/rent reviews) less any incentives. The lease liability is subsequently measured using an effective interest method whereby the carrying amount of the lease liability is measured on an amortised cost basis, and the interest expense is allocated over the lease term. 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.

The Group remeasures the lease liability and makes a corresponding adjustment to the related right-of-use asset whenever an event occurs that changes the term or payment profile of a lease, such as the renewal of an existing lease, the exercise of lease term options, market rent reviews and indexation. A lease liability which is denominated in a currency that is not the functional currency of the relevant Group entity (e.g. a dollar-denominated lease in Castorama Russia) is translated into that entity's functional currency with foreign exchange gains and losses recorded in the income statement, unless the lease liability is able to be designated as a net investment hedge with foreign exchange gains and losses recorded in other comprehensive income.

The right-of-use assets are initially measured at the amount equal to the lease liability, adjusted by any upfront lease payments or incentives and any initial direct costs incurred. Subsequently, the assets are measured at cost less accumulated depreciation and impairment losses.

### Lessor accounting

Lessor accounting is broadly consistent with the annual financial statements for the year ended 31 January 2019. However, 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).

### Critical accounting judgements

For IFRS 16, judgement is applied to the calculation of incremental borrowing rates for lease contracts.

Given that risk-free rates such as government bonds are based on specified terms, the range of lease terms in the Group's portfolio has required the Group to apply judgement in selecting appropriate risk-free rates to apply. Additionally, the application of financing spreads, which are specific to operating companies, requires a judgement over the credit quality of those companies. Given that the Group has applied the full retrospective approach to IFRS 16, these judgements have been applied in the calculation of historical discount rates.

The Group expects to continue to apply judgement to the calculation of incremental borrowing rates.

### Impact on the financial statements on transition

The Group adopted IFRS 16 on 1 February 2019 on a fully retrospective basis, resulting in the restatement of comparatives for the year ended 31 January 2019. The cumulative effect of initial application is recognised as an adjustment to opening equity on the date of transition (1 February 2018).

The effect of the changes made to the Group's comparative consolidated income statement, balance sheets and cash flow statement are as follows:

**Consolidated income statement – IFRS 16 restatement**

| £ millions | As previously reported | Impact of IFRS 16 | Restated |
|---|---|---|---|
| | | | 2018/19 |
| **Sales** | 11,685 | – | **11,685** |
| Cost of sales | (7,376) | 9 | **(7,367)** |
| **Gross profit** | 4,309 | 9 | **4,318** |
| Selling and distribution expenses | (3,114) | 140 | **(2,974)** |
| Administrative expenses | (867) | 5 | **(862)** |
| Other income | 56 | (2) | **54** |
| Other expenses | (57) | – | **(57)** |
| Share of post-tax results of joint ventures and associates | 2 | (1) | **1** |
| **Operating profit** | 329 | 151 | **480** |
| Finance costs | (20) | (176) | **(196)** |
| Finance income | 13 | 3 | **16** |
| Net finance costs | (7) | (173) | **(180)** |
| **Profit before taxation** | 322 | (22) | **300** |
| Income tax expense | (104) | (3) | **(107)** |
| **Profit for the year** | 218 | (25) | **193** |
| | | | |
| **Earnings per share** | | | |
| Basic | 10.3p | (1.2)p | **9.1p** |
| Diluted | 10.2p | (1.2)p | **9.0p** |
| Adjusted basic | 19.8p | – | **19.8p** |
| Adjusted diluted | 19.7p | – | **19.7p** |

| | | | |
|---|---|---|---|
| **Adjusted pre-tax profit** | 573 | 1 | **574** |
| Exchange differences on lease liabilities | – | (7) | **(7)** |
| Exceptional items | (251) | (16) | **(267)** |
| **Profit before taxation** | 322 | (22) | **300** |

**Consolidated balance sheets – IFRS 16 restatements**

| | 2018/19 | | | 2017/18 | | |
|---|---|---|---|---|---|---|
| £ millions | As previously reported | Impact of IFRS 16 | Restated | As previously reported | Impact of IFRS 16 | Restated |
| **Non-current assets** | | | | | | |
| Goodwill | 2,436 | – | **2,436** | 2,437 | – | **2,437** |
| Other intangible assets | 371 | – | **371** | 355 | – | **355** |
| Property, plant and equipment | 3,454 | (152) | **3,302** | 3,736 | (200) | **3,536** |
| Right-of-use assets | – | 2,017 | **2,017** | – | 2,218 | **2,218** |
| Investment property | 8 | – | **8** | 20 | – | **20** |
| Investments in joint ventures and associates | 20 | (5) | **15** | 25 | (6) | **19** |
| Post-employment benefits | 320 | – | **320** | 214 | – | **214** |
| Deferred tax assets | 9 | 4 | **13** | 30 | 9 | **39** |
| Other receivables | 10 | 31 | **41** | 8 | 47 | **55** |
| | 6,628 | 1,895 | **8,523** | 6,825 | 2,068 | **8,893** |
| **Current assets** | | | | | | |
| Inventories | 2,574 | – | **2,574** | 2,701 | – | **2,701** |
| Trade and other receivables | 453 | (47) | **406** | 550 | (49) | **501** |
| Derivative assets | 26 | – | **26** | 41 | – | **41** |
| Current tax assets | 1 | – | **1** | – | – | – |
| Cash and cash equivalents | 229 | – | **229** | 230 | – | **230** |
| Assets held for sale | 89 | – | **89** | – | – | – |
| | 3,372 | (47) | **3,325** | 3,522 | (49) | **3,473** |
| **Total assets** | 10,000 | 1,848 | **11,848** | 10,347 | 2,019 | **12,366** |
| | | | | | | |
| **Current liabilities** | | | | | | |
| Trade and other payables | (2,444) | 29 | **(2,415)** | (2,666) | 36 | **(2,630)** |
| Borrowings | (14) | 13 | **(1)** | (140) | 13 | **(127)** |
| Lease liabilities | – | (308) | **(308)** | – | (309) | **(309)** |
| Derivative liabilities | (21) | – | **(21)** | (79) | – | **(79)** |
| Current tax liabilities | (118) | – | **(118)** | (140) | – | **(140)** |
| Provisions | (35) | 8 | **(27)** | (25) | 10 | **(15)** |
| | (2,632) | (258) | **(2,890)** | (3,050) | (250) | **(3,300)** |
| **Non-current liabilities** | | | | | | |
| Other payables | (64) | 58 | **(6)** | (61) | 59 | **(2)** |
| Borrowings | (162) | 23 | **(139)** | (36) | 32 | **(4)** |
| Lease liabilities | – | (2,318) | **(2,318)** | – | (2,482) | **(2,482)** |
| Derivative liabilities | (2) | – | **(2)** | – | – | – |
| Deferred tax liabilities | (286) | 94 | **(192)** | (264) | 93 | **(171)** |
| Provisions | (82) | 45 | **(37)** | (73) | 44 | **(29)** |
| Post-employment benefits | (115) | – | **(115)** | (115) | – | **(115)** |
| | (711) | (2,098) | **(2,809)** | (549) | (2,254) | **(2,803)** |
| **Total liabilities** | (3,343) | (2,356) | **(5,699)** | (3,599) | (2,504) | **(6,103)** |
| **Net assets** | 6,657 | (508) | **6,149** | 6,748 | (485) | **6,263** |
| | | | | | | |
| **Equity** | | | | | | |
| Share capital | 332 | – | **332** | 340 | – | **340** |
| Share premium | 2,228 | – | **2,228** | 2,228 | – | **2,228** |
| Own shares held in ESOP trust | (25) | – | **(25)** | (29) | – | **(29)** |
| Retained earnings | 3,696 | (504) | **3,192** | 3,790 | (479) | **3,311** |
| Capital redemption reserve | 43 | – | **43** | 35 | – | **35** |
| Other reserves | 383 | (4) | **379** | 384 | (6) | **378** |
| **Total equity** | 6,657 | (508) | **6,149** | 6,748 | (485) | **6,263** |

**Consolidated cash flow statement – IFRS 16 restatement**

| £ millions | As previously reported | Impact of IFRS 16 | Restated |
|---|---|---|---|
| | | | 2018/19 |
| **Operating activities** | | | |
| Cash generated by operations | 781 | 462 | **1,243** |
| Income tax paid | (132) | – | **(132)** |
| **Net cash flows from operating activities** | 649 | 462 | **1,111** |
| | | | |
| **Investing activities** | | | |
| Purchase of property, plant and equipment and intangible assets | (339) | 7 | **(332)** |
| Disposal of property, plant and equipment, investment property, assets held for sale and intangible assets | 45 | – | **45** |
| Interest received | 11 | – | **11** |
| Interest element of lease rental receipts | – | 3 | **3** |
| Principal element of lease rental receipts | – | 6 | **6** |
| Advance payments on right-of-use assets | – | (4) | **(4)** |
| Dividends received from joint ventures and associates | 5 | – | **5** |
| **Net cash flows used in investing activities** | (278) | 12 | **(266)** |
| | | | |
| **Financing activities** | | | |
| Interest paid | (19) | – | **(19)** |
| Interest element of lease rental payments | (2) | (172) | **(174)** |
| Principal element of lease rental payments | (10) | (302) | **(312)** |
| Repayment of bank loans | (1) | – | **(1)** |
| Issue of fixed term debt | 139 | – | **139** |
| Repayment of fixed term debt | (134) | – | **(134)** |
| Receipt on financing derivatives | 37 | – | **37** |
| New shares issued under share schemes | 2 | – | **2** |
| Purchase of own shares for cancellation | (140) | – | **(140)** |
| Ordinary dividends paid to equity shareholders of the Company | (231) | – | **(231)** |
| **Net cash flows from financing activities** | (359) | (474) | **(833)** |
| **Net increase in cash and cash equivalents** | 12 | – | **12** |
| Cash and cash equivalents at beginning of year | 230 | – | **230** |
| Exchange differences | (13) | – | **(13)** |
| **Cash and cash equivalents at end of year** | 229 | – | **229** |
| | | | |
| **Operating profit** | 329 | 151 | **480** |
| Share of post-tax results of joint ventures and associates | (2) | 1 | **(1)** |
| Depreciation and amortisation | 272 | 263 | **535** |
| Net impairment losses | 160 | 41 | **201** |
| Gain on disposal of property, plant and equipment, investment property, assets held for sale and intangible assets | (25) | – | **(25)** |
| Lease losses | – | 2 | **2** |
| Share-based compensation charge | 15 | – | **15** |
| Decrease in inventories | 95 | – | **95** |
| Decrease in trade and other receivables | 144 | (2) | **142** |
| Decrease in trade and other payables | (203) | 6 | **(197)** |
| Movement in provisions | 19 | – | **19** |
| Movement in post-employment benefits | (23) | – | **(23)** |
| **Cash generated by operations** | 781 | 462 | **1,243** |

**Notes to the restatement tables**

*Income statement*

- There is no impact on sales.
- The reduction in cost of sales, selling and distribution expenses and administrative expenses is due to the removal of the IAS 17 operating lease rental expense, partially offset by the IFRS 16 depreciation charge on in-scope property and equipment lease right-of-use assets. The leased properties principally comprise stores, hence the significant impact on selling and distribution expenses, but also include certain distribution centres and offices. The majority of the impact on operating profit (and the Group's alternative measure of retail profit) arises in the UK, due to the high proportion of leasehold stores.
- The increase in net finance costs is driven by the IFRS 16 interest expense on lease liabilities. Other impacts include a small increase in finance income from IFRS 16 interest income on sublease assets, the removal of IAS 17 finance lease interest expense and the recognition of IFRS 16 exchange differences on lease liabilities ('lease FX').
- Lease FX represents the impact of translating leases denominated in non-functional currencies (e.g. a dollar-denominated lease in Russia) which are not able to be designated as net investment hedges and has been excluded from the Group's adjusted measures due to its fluctuating nature.
- The movement in exceptional items mainly reflects the recognition of IFRS 16 impairments to right-of-use assets, partially offset by the derecognition of IAS 17 charges to onerous lease rental provisions.
- The impact on deferred tax of the above adjustments has been recorded. Note that the Group's alternative measure of adjusted effective tax rate remains broadly unchanged.
- Earnings per share reflects the net impact of the above adjustments on post-tax results. The Group's alternative measure of adjusted earnings per share remains unchanged, reflecting the broadly neutral impact on adjusted pre-tax profit and adjusted effective tax rate.

*Balance sheet*

- IFRS 16 right-of-use assets and lease liabilities have been recognised for in-scope property and equipment lease contracts.
- IAS 17 finance lease assets, upfront lease premiums and capitalised costs incurred to secure leases have been derecognised from property, plant and equipment.
- IAS 17 finance lease liabilities have been derecognised from borrowings.
- IAS 17 rental prepayments and accruals have been derecognised from other receivables and payables respectively, the former partially offset by recognition of sublease assets.
- IAS 17 onerous lease rental provisions have been derecognised.
- The impact on deferred tax of the above adjustments has been recorded.
- Retained earnings have reduced, reflecting the higher cumulative expenses under IFRS 16.

*Cash flow statement*

- No change in reported cash and cash equivalent balances and net movement in these.
- The presentational changes to the cash flow statement principally comprise the reclassification of lease rental payments from net cash flows from operating activities to net cash flows from financing activities, with payments split between interest and principal elements.
- Other presentational changes include the increased add-back to operating profit for IFRS 16 right-of-use asset depreciation and impairment losses.
- Note that the Group's alternative measure of net debt increases significantly with the inclusion of lease liabilities under IFRS 16. The ratio of net debt to EBITDA, previously 'lease adjusted net debt to EBITDAR', reduces due to a lower lease liability than the previous '8x' rent assumption.
- Note that the Group's alternative measure of free cash flow reduces slightly under IFRS 16 to reflect the inclusion of the principal element of rental payments related to IAS 17 finance leases.

Note that the impacts on the statement of comprehensive income and statement of changes in equity are limited to the restatement of profits and adjustments for exchange differences.

## 14 Post balance sheet events

The effects of the Covid-19 pandemic and the related financial statement impacts could not have been reasonably anticipated at 31 January 2020 and are therefore deemed to be non-adjusting post balance sheet events.

*Impact on trading*

In March 2020, following the outbreak of Covid-19, despite being categorised as a retailer of ‘essential’ goods and eligible to remain open, the Group took the decision to close all UK and France stores to customers for browsing and in-store purchasing while safe store operating protocols were established. Government lockdown restrictions resulted in temporary store closures in the Republic of Ireland, Spain and Russia. The impact of these store closures, and potential further impacts of Covid-19, on the Group’s assessment of Going Concern is outlined in Note 2. Nearly all of the Group’s stores have since reopened for browsing and in-store purchasing following a phased reopening of stores from mid-April.

*Asset balances*

The Group has performed an assessment of the estimated impacts of Covid-19 on impairments to goodwill, property, plant and equipment and right-of-use assets, which concluded that these impacts were not material for the Group given the relatively short-term and temporary nature of the adverse effects of Covid-19 on the Group’s projected cash flows.

*Defined benefit pension scheme*

A review of the key financial assumptions relating to the Group’s defined benefit pension schemes subsequent to the balance sheet date indicate a decline in the obligations that falls within the range of sensitivities described in note 9, driving an overall increase in the net surplus since 31 January 2020. The fair value of plan assets is expected to be volatile in the short term due to uncertain market conditions.

*Government support*

The Group received government business support measures in the territories in which it operates, including the UK Government’s Coronavirus Job Retention Scheme, the French Government’s ‘activité partielle’ relief measures, and similar schemes in Spain and Romania. This led to c.50% of the Group’s employees being furloughed in April, reducing to c.10% by the end of May.

The UK Government announced in March 2020 that retail premises in England will be granted a ‘holiday’ from paying business rates in the 2020/21 tax year, effective from April 2020, with similar measures (a combination of payment deferrals and ‘holidays’) announced by the local governments and assemblies of Scotland, Wales and Northern Ireland.

*Financing*

As announced on 12 May 2020, the Group arranged a €600m (c.£535m) term facility with three French banks. The loan is guaranteed at 80% by the French State (‘Prêt garanti par l’État’) and has a maturity of one year, extendable for up to five years. As required under the terms of the loan, the full amount was drawn down on 18 May 2020.

On 9 May 2020, the Group entered into a new committed Revolving Credit Facility (RCF) with a syndicate of its relationship banks, comprising £250m, due to expire in May 2021, bringing the total value of RCFs available to the Group to £1,025m.

The Group’s eligibility to access funding under the Bank of England’s Covid Corporate Financing Facility (CCFF) was confirmed in May 2020. On 12 June 2020, the Group issued £600m of 11-month Commercial Paper under the CCFF.