**Kingfisher plc**

**2019/20 INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

**CONSOLIDATED INCOME STATEMENT**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  | Half year ended 31 July 2019 |  | Half year ended 31 July 2018 restated (note 18) |
| £ millions | Notes | Before exceptional items | Exceptional items  | Total |  | Before exceptional items | Exceptional items | Total |
| **Sales** | 4 | **5,997** | **–** | **5,997** |  | 6,080 | – | 6,080 |
| Cost of sales |  | **(3,776)** | **–** | **(3,776)** |  | (3,864) | – | (3,864) |
| **Gross profit** |   | **2,221** | **–** | **2,221** |   | 2,216 | – | 2,216 |
| Selling and distribution expenses  |  | **(1,414)** | **(94)** | **(1,508)** |  | (1,412) | 4 | (1,408) |
| Administrative expenses |  | **(396)** | **–** | **(396)** |  | (402) | (46) | (448) |
| Other income |  | **10** | **1** | **11** |  | 11 | – | 11 |
| Share of post-tax results of joint ventures and associates |  | **–** | **–** | **–** |  | (2) | – | (2) |
| **Operating profit**  | 4  | **421** | **(93)** | **328** |   | 411 | (42) | 369 |
| Finance costs |   | **(93)** | – | **(93)** |   | (97) | – | (97) |
| Finance income |  | **10** | – | **10** |  | 8 | – | 8 |
| Net finance costs | 6 | **(83)** | – | **(83)** |  | (89) |  – | (89) |
| **Profit before taxation** |  | **338** | **(93)** | **245** |  | 322 | (42) | 280 |
| Income tax expense | 7 | **(93)** | **19** | **(74)** |  | (87) | 13 | (74) |
| **Profit for the period** |  | **245** | **(74)** | **171** |  | 235 | (29) | 206 |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| **Earnings per share**  | 8 |  |  |  |  |  |  |  |
| Basic |  |  |  | **8.1p** |  |  |  | 9.6p |
| Diluted |  |  |  | **8.1p** |  |  |  | 9.6p |
| Adjusted basic |   |  |  | **11.8p** |  |  |  | 11.0p |
| Adjusted diluted |  |  |  | **11.8p** |  |  |  | 11.0p |
| Underlying basic |  |  |  | **12.3p** |  |  |  | 12.8p |
| Underlying diluted |  |  |  | **12.3p** |  |  |  | 12.7p |
|  |  |  |  |  |  |  |  |  |
| Reconciliation of non-GAAP underlying and adjusted pre-tax profit: |
| **Underlying pre-tax profit** |  |  |  | **353** |  |  |  | 377 |
| Transformation costs before exceptional items | 4 |  |  | **(16)** |  |  |  | (52) |
| **Adjusted pre-tax profit** |  |  |  | **337** |  |  |  | 325 |
| Exchange differences on lease liabilities |  |  |  | **1** |  |  |  | (3) |
| Exceptional items | 5 |  |  | **(93)** |  |  |  | (42) |
| **Profit before taxation** |  |  |  | **245** |  |  |  | 280 |

The proposed interim ordinary dividend for the period ended 31 July 2019 is 3.33p per share.

**Kingfisher plc**

**2019/20 INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

**CONSOLIDATED INCOME STATEMENT**

|  |  |  |
| --- | --- | --- |
|  |  | Year ended 31 January 2019 restated (note 18) |
| £ millions | Notes | Before exceptional items | Exceptional items  | Total |
| **Sales** | 4 | 11,685 | – | 11,685 |
| Cost of sales |  | (7,367) | – | (7,367) |
| **Gross profit** |   | 4,318 | – | 4,318 |
| Selling and distribution expenses  |  | (2,800) | (174) | (2,974) |
| Administrative expenses |  | (799) | (63) | (862) |
| Other income |  | 27 | 27 | 54 |
| Other expenses |  | – | (57) | (57) |
| Share of post-tax results of joint ventures and associates | 1 | – | 1 |
| **Operating profit**  | 4  | 747 | (267) | 480 |
| Finance costs |   | (196) | – | (196) |
| Finance income |  | 16 | – | 16 |
| Net finance costs | 6 | (180) | – | (180) |
| **Profit before taxation** |  | 567 | (267) | 300 |
| Income tax expense | 7 | (170) | 63 | (107) |
| **Profit for the year** |  | 397 | (204) | 193 |
|  |  |  |  |  |
| **Earnings per share**  | 8 |  |  |  |
| Basic |  |  |  | 9.1p |
| Diluted |   |  |  | 9.0p |
| Adjusted basic |  |  |  | 19.8p |
| Adjusted diluted |  |  |  | 19.7p |
| Underlying basic |  |  |  | 23.9p |
| Underlying diluted |  |  |  | 23.8p |
|  |  |  |  |  |
| Reconciliation of non-GAAP underlying and adjusted pre-tax profit: |
| **Underlying pre-tax profit** |  |  |  | 694 |
| Transformation costs before exceptional items | 4 |  |  | (120) |
| **Adjusted pre-tax profit** |  |  |  | 574 |
| Exchange differences on lease liabilities |  |  |  | (7) |
| Exceptional items | 5 |  |  | (267) |
| **Profit before taxation** |  |  |  | 300 |

**Kingfisher plc**

**2019/20 INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| £ millions | Notes | Half year ended31 July 2019 | Half year ended31 July 2018restated (note 18) | Year ended31 January 2019restated (note 18) |
| **Profit for the period** |  | **171** | 206 | 193 |
| Actuarial gains on post-employment benefits | 11 | **73** | 86 | 78 |
| Inventory cash flow hedges – fair value gains |  | **47** | 63 | 85 |
| Tax on items that will not be reclassified |  | **(37)** | (47) | (53) |
| **Total items that will not be reclassified****subsequently to profit or loss** |  | **83** | 102 | 110 |
| Currency translation differences  |  |  |  |  |
| Group |  | **153** | 34 | (46) |
| Other cash flow hedges |  |  |  |  |
| Fair value gains/(losses) |  | **4** | – | (2) |
| (Gains)/losses transferred to income statement |  | **(4)** | – | 2 |
| Tax on items that may be reclassified |  | – | (1) | – |
| **Total items that may be reclassified****subsequently to profit or loss** |  | **153** | 33 | (46) |
| **Other comprehensive income for the period** |  | **236** | 135 | 64 |
| **Total comprehensive income for the period** |  | **407** | 341 | 257 |

**Kingfisher plc**

**2019/20 INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

|  |  |
| --- | --- |
|  |  |
|  |  |  |  |  | Half year ended 31 July 2019 |
| £ millions | Share capital | Sharepremium | Own shares held | Retained earnings | Capitalredemptionreserve | Otherreserves(note 13) | Total equity |
| **At 1 February 2019** | **332** | **2,228** | **(25)** | **3,192** | **43** | **379** | **6,149** |
| Profit for the period | **–** | **–** | **–** | **171** | **–** | **–** | **171** |
| Other comprehensive income for the period | **–** | **–** | **–** | **45** | **–** | **191** | **236** |
| **Total comprehensive income for the period** | **–** | **–** | **–** | **216** | **–** | **191** | **407** |
| Inventory cash flow hedges - gains transferred to inventories | **–** | **–** | **–** | **–** | **–** | **(24)** | **(24)** |
| Share-based compensation | **–** | **–** | **–** | **8** | **–** | **–** | **8** |
| Own shares issued under share schemes | **–** | **–** | **9** | **(9)** | **–** | **–** | **–** |
| Purchase of own shares for ESOP trust | **–** | **–** | **(10)** | **–** | **–** | **–** | **(10)** |
| Dividends (note 9) | **–** | **–** | **–** | **(157)** | **–** | **–** | **(157)** |
| Tax on equity items | **–** | **–** | **–** | **–** | **–** | **5** | **5** |
| **At 31 July 2019** | **332** | **2,228** | **(26)** | **3,250** | **43** | **551** | **6,378** |
|  |  |  |  |  |  |  |  |
|  |  | Half year ended 31 July 2018 restated (note 18) |
| £ millions | Share capital | Sharepremium | Own shares held | Retained earnings | Capitalredemptionreserve | Otherreserves(note 13) | Total equity |
| **At 1 February 2018** | 340 | 2,228 | (29) | 3,311 | 35 | 378 | 6,263 |
| Profit for the period | – | – | – | 206 | – | – | 206 |
| Other comprehensive income for the period | – | – | – | 54 | – | 81 | 135 |
| **Total comprehensive income for the period** | – | – | – | 260 | – | 81 | 341 |
| Inventory cash flow hedges - losses transferred to inventories | – | – | – | – | – | 15 | 15 |
| Share-based compensation | – | – | – | 10 | – | – | 10 |
| New shares issued under share schemes | – | – | – | 2 | – | – | 2 |
| Own shares issued under share schemes | – | – | 3 | (3) | – | – | – |
| Purchase of own shares for cancellation | (5) | – | – | (90) | 5 | – | (90) |
| Dividends (note 9) | – | – | – | (160) | – | – | (160) |
| Tax on equity items | – | – | – | – | – | (4) | (4) |
| **At 31 July 2018** | 335 | 2,228 | (26) | 3,330 | 40 | 470 | 6,377 |
|  |  |  |  |  |  |  |  |
|  |  | Year ended 31 January 2019 restated (note 18) |
| £ millions | Share capital | Sharepremium | Own shares held | Retained earnings | Capitalredemptionreserve | Otherreserves(note 13) | 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 (note 9) | – | – | – | (231) | – | – | (231) |
| Tax on equity items | – | – | – | – | – | 5 | 5 |
| **At 31 January 2019** | 332 | 2,228 | (25) | 3,192 | 43 | 379 | 6,149 |

**Kingfisher plc**

**2019/20 INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

**CONSOLIDATED BALANCE SHEET**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| £ millions | Notes | At 31 July 2019 | At 31 July 2018restated (note 18)  | At 31 January 2019restated (note 18) |
| **Non-current assets** |  |  |  |  |
| Goodwill |  | **2,439** | 2,438 | 2,436 |
| Other intangible assets | 10 | **374** | 375 | 371 |
| Property, plant and equipment | 10 | **3,356** | 3,567 | 3,302 |
| Right-of-use assets |  | **2,030** | 2,221 | 2,017 |
| Investment property | 10 | **8** | 21 | 8 |
| Investments in joint ventures and associates  |  | **13** | 12 | 15 |
| Post-employment benefits | 11 | **413** | 318 | 320 |
| Deferred tax assets |  | **13** | 40 | 13 |
| Derivative assets | 12 | **2** | – | – |
| Other receivables  |  | **40** | 53 | 41 |
|  |  | **8,688** | 9,045 | 8,523 |
| **Current assets** |  |  |  |  |
| Inventories |  | **2,765** | 2,718 | 2,574 |
| Trade and other receivables |  | **415** | 472 | 406 |
| Derivative assets | 12 | **62** | 47 | 26 |
| Current tax assets |  | **3** | 1 | 1 |
| Cash and cash equivalents |  | **385** | 181 | 229 |
| Assets held for sale |  | **58** | – | 89 |
|   |  | **3,688** | 3,419 | 3,325 |
| **Total assets** |  | **12,376** | 12,464 | 11,848 |
| **Current liabilities** |  |  |  |  |
| Trade and other payables |  | **(2,554)** | (2,657) | (2,415) |
| Borrowings | 12 | **(47)** | (2) | (1) |
| Lease liabilities |  | **(318)** | (363) | (308) |
| Derivative liabilities | 12 | **(19)** | (16) | (21) |
| Current tax liabilities |  | **(148)** | (145) | (118) |
| Provisions |  | **(84)** | (38) | (27) |
|   |  | **(3,170)** | (3,221) | (2,890) |
| **Non-current liabilities** |  |  |  |  |
| Other payables |  | **(4)** | (6) | (6) |
| Borrowings | 12 | **(97)** | (47) | (139) |
| Lease liabilities |  | **(2,320)** | (2,437) | (2,318) |
| Derivative liabilities | 12 | **-** | - | (2) |
| Deferred tax liabilities |  | **(242)** | (220) | (192) |
| Provisions |  | **(39)** | (34) | (37) |
| Post-employment benefits | 11 | **(126)** | (122) | (115) |
|   |  | **(2,828)** | (2,866) | (2,809) |
| **Total liabilities** |  | **(5,998)** | (6,087) | (5,699) |
| **Net assets** |  | **6,378** | 6,377 | 6,149 |
| **Equity** |  |  |  |
| Share capital |  | **332** | 335 | 332 |
| Share premium |  | **2,228** | 2,228 | 2,228 |
| Own shares held in ESOP trust |  | **(26)** | (26) | (25) |
| Retained earnings |  | **3,250** | 3,330 | 3,192 |
| Capital redemption reserve |  | **43** | 40 | 43 |
| Other reserves | 13 | **551** | 470 | 379 |
| **Total equity** |  | **6,378** | 6,377 | 6,149 |

The interim financial report was approved by the Board of Directors on 17 September 2019 and signed on its behalf by:

|  |  |
| --- | --- |
| **Veronique Laury**, Chief Executive Officer | **Andy Cosslett**, Chairman |

**Kingfisher plc**

**2019/20 INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

**CONSOLIDATED CASH FLOW STATEMENT**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| £ millions | Notes | Half year ended31 July 2019 | Half year ended31 July 2018restated (note 18) | Year ended31 January 2019restated (note 18) |
| **Operating activities** |  |  |  |  |
| Cash generated by operations | 14 | **613** | 716 | 1,243 |
| Income tax paid |  | **(34)** | (77) | (132) |
| **Net cash flows from operating activities** |  | **579** | 639 | 1,111 |
|  |  |  |  |  |
| **Investing activities** |  |  |  |  |
| Purchase of property, plant and equipment and intangible assets |  | **(163)** | (164) | (332) |
| Disposal of property, plant and equipment, investment property, assets held for sale and intangible assets  |  | **125** | 4 | 45 |
| Interest received |  | **6** | 4 | 11 |
| Interest element of lease rental receipts |  | **1** | 2 | 3 |
| Principal element of lease rental receipts |  | **2** | 3 | 6 |
| Advance payments on right-of-use assets |  | – | (1) | (4) |
| Dividends received from joint ventures and associates |  | **2** | 5 | 5 |
| **Net cash flows used in investing activities** |  | **(27)** | (147) | (266) |
|  |  |  |  |  |
| **Financing activities** |  |  |  |  |
| Interest paid |  | **(13)** | (7) | (19) |
| Interest element of lease rental payments |  | **(82)** | (87) | (174) |
| Principal element of lease rental payments  |  | **(158)** | (137) | (312) |
| Repayment of bank loans |  | **(1)** | (1) | (1) |
| Issue of fixed term debt |  | – | 44 | 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 ESOP trust |  | **(10)** | – | – |
| Purchase of own shares for cancellation |  | – | (90) | (140) |
| Ordinary dividends paid to equity shareholders of the Company | 9 | **(157)** | (160) | (231) |
| **Net cash flows from financing activities** |  | **(421)** | (533) | (833) |
|  |  |  |  |  |
| **Net increase/(decrease) in cash and cash equivalents** |  | **131** | (41) | 12 |
| Cash and cash equivalents at beginning of period |  | **229** | 230 | 230 |
| Exchange differences  |  | **25** | (8) | (13) |
| **Cash and cash equivalents at end of period** |  | **385** | 181 | 229 |

**Kingfisher plc**

**2019/20 INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. General information**

Kingfisher plc (‘the Company’), its subsidiaries, joint ventures and associates (together ‘the Group’) supply home improvement products and services through a network of retail stores and other channels, located mainly in the United Kingdom and continental Europe.

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

The interim financial report does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Audited statutory accounts for the year ended 31 January 2019 were approved by the Board of Directors on 19 March 2019 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under sections 498(2) or (3) of the Companies Act 2006. The interim financial report has been reviewed, not audited, and was approved by the Board of Directors on 17 September 2019.

**2. Basis of preparation**

The interim financial report for the six months ended 31 July 2019 (‘the half year’) has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, ‘Interim Financial Reporting’, as adopted by the European Union. It should be read in conjunction with the annual financial statements for the year ended 31 January 2019, which have been prepared in accordance with International Financial Reporting Standards (‘IFRS’) as adopted by the European Union. The consolidated income statement and related notes represent results for continuing operations, there being no discontinued operations in the periods presented. Where comparatives are given, ‘2018/19’ refers to the six months ended 31 July 2018.

*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 six months ended 31 July 2018 and 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 18 for further details of the Group’s initial application of IFRS 16.

The statement of comprehensive income and statement of changes in equity for the half year ended 31 July 2018 have been adjusted to reflect changes to presentation required under IFRS 9 ‘Financial Instruments’.

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.

*Going concern*

The Directors of Kingfisher plc, having made appropriate enquiries, consider that adequate resources exist for the Group to continue in operational existence and that, therefore, it is appropriate to adopt the going concern basis in preparing the condensed consolidated financial statements for the half year ended 31 July 2019.

*Principal rates of exchange against Sterling*

|  |  |  |  |
| --- | --- | --- | --- |
|  | Half year ended 31 July 2019 | Half year ended 31 July 2018 | Year ended 31 January 2019 |
|  | Averagerate | Period endrate | Averagerate | Period endrate | Averagerate | Year endrate |
| Euro | **1.14** | **1.10** | 1.14 | 1.12 | 1.13 | 1.15 |
| US Dollar | **1.29** | **1.22** | 1.37 | 1.31 | 1.33 | 1.31 |
| Polish Zloty | **4.90** | **4.70** | 4.83 | 4.79 | 4.83 | 4.88 |
| Russian Rouble | **83.14** | **77.46** | 82.55 | 81.81 | 84.34 | 86.01 |

*Risks and uncertainties*

The principal risks and uncertainties to which the Group is exposed are set out on pages 44-51 of the Kingfisher plc Annual Report and Accounts for the year ended 31 January 2019. These have been reviewed as part of the Group’s half year procedures and are listed in the Financial Review.

*Use of non-GAAP measures*

In the reporting of financial information, the Group uses certain measures that are not required under IFRS, the generally accepted accounting principles (‘GAAP’) under which the Group reports. Kingfisher believes that retail profit, underlying pre-tax profit, adjusted pre-tax profit, adjusted effective tax rate, underlying earnings per share and adjusted earnings per share provide additional useful information on performance and trends to shareholders. These and other non-GAAP measures (also known as ‘Alternative Performance Measures’), such as net debt, are used by Kingfisher for internal performance analysis and incentive compensation arrangements for employees. The terms ‘retail profit’, ‘exceptional items’, ‘transformation costs’, ‘underlying’, ‘adjusted’, ‘adjusted effective tax rate’ and ‘net 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, transformation costs and exceptional items. It includes the sustainable benefits of the transformation plan. Central costs principally comprise the costs of the Group’s head office before transformation costs.

The separate reporting of exceptional items, which are presented as exceptional within their relevant income statement category, helps provide an indication of the Group’s ongoing business performance. The principal items which are included as exceptional items are:

* non-trading items included in operating profit such as profits and losses on the disposal, closure, 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 impairment losses on non-operational assets; and
* the costs of significant restructuring, including certain restructuring costs of the Group’s five-year transformation plan launched in 2016/17, and incremental acquisition integration costs.

The term ‘adjusted’ refers to the relevant measure being reported for continuing operations excluding exceptional items, 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 term ‘underlying’ refers to the relevant adjusted measure being reported before non-exceptional transformation costs. Non-exceptional transformation costs represent the additional costs that arise only as a result of the transformation plan launched in 2016/17, which either because of their nature or the length of the period over which they are incurred are not considered as exceptional items. These costs principally relate to the unified and unique offer range implementation and the digital strategic initiative. The separate reporting of such costs (in addition to exceptional items) helps provide an indication of the Group’s underlying business performance, which includes the sustainable benefits of the transformation plan.

The adjusted effective tax rate is calculated as continuing income tax expense excluding tax on exceptional items and adjustments in respect of prior years and the impact of changes in tax rates on deferred tax, divided by continuing profit before taxation excluding exceptional items. The exclusion of items relating to prior years, and those not in the ordinary course of business, helps provide a better indication of the Group’s ongoing rate of tax.

Net debt comprises lease liabilities, borrowings and financing derivatives (excluding accrued interest) less cash and cash equivalents and short-term deposits.

|  |
| --- |
|  |

 **3. 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. The critical accounting estimates and judgements are set out in note 3 of the annual financial statements for the year ended 31 January 2019 and remain unchanged, with the exception of those relating to IFRS 16 ‘Leases’ as described in note 18.

Taxes on income for interim periods are accrued using the best estimate of the effective tax rate that would be applicable to expected total annual earnings.

IFRS 16 was issued by the IASB in January 2016 and has been endorsed by the European Union. The standard supersedes IAS 17 ‘Leases’ and is effective for periods beginning on or after 1 January 2019. The adoption of IFRS 16 has had a material impact on the Group’s primary financial statements, including impacts on the operating profit, profit before taxation, total assets and total liabilities lines. Further details of the Group’s initial application of IFRS 16 are included in note 18, including details on the effect of initial application on the Group’s financial results and the critical accounting estimates and judgements arising from application of the standard.

**4. Segmental analysis**

**Income statement**

|  |  |
| --- | --- |
|  | Half year ended 31 July 2019 |
| £ millions | UK & Ireland  | France | Other International  | Total |
| Poland | Other |
| **Sales** | **2,655** | **2,158** | **753** | **431** | **5,997** |
| **Retail profit**  | **277** | **114** | **88** | **(13)** | **466** |
| Central costs |  |  |  |  | **(25)** |
| 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 |  |  |  |  | **1** |
| Transformation costs before exceptional items |  |  |  |  | **(16)** |
| Exceptional items |  |  |  |  | **(93)** |
| **Operating profit** |  |  |  |  | **328** |
| Net finance costs |  |  |  |  | **(83)** |
| **Profit before taxation** |  |  |  |  | **245** |

|  |  |
| --- | --- |
|  | Half year ended 31 July 2018 restated (note18) |
| £ millions | UK & Ireland | France | Other International  | Total |
| Poland | Other |
| **Sales** | 2,635 | 2,267 | 726 | 452 | 6,080 |
| **Retail profit** | 282 | 131 | 90 | (13) | 490 |
| Central costs |  |  |  |  | (23) |
| Share of interest and tax of joint ventures and associates before exchange differences on lease liabilities |  |  |  |  | (3) |
| Exchange differences on lease liabilities of joint ventures and associates |  |  |  |  | (1) |
| Transformation costs before exceptional items |  |  |  |  | (52) |
| Exceptional items |  |  |  |  | (42) |
| **Operating profit** |  |  |  |  | 369 |
| Net finance costs |  |  |  |  | (89) |
| **Profit before taxation** |  |  |  |  | 280 |

|  |  |
| --- | --- |
|  | Year ended 31 January 2019 restated (note 18) |
| £ millions | UK & Ireland | France | Other International  | Total |
| Poland | Other |
| **Sales** | 5,061 | 4,272 | 1,431 | 921 | 11,685 |
| **Retail profit** | 530 | 221 | 185 | (12) | 924 |
| Central costs |  |  |  |  | (49) |
| 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) |
| Transformation costs before exceptional items |  |  |  |  | (120) |
| Exceptional items |  |  |  |  | (267) |
| **Operating profit** |  |  |  |  | 480 |
| Net finance costs |  |  |  |  | (180) |
| **Profit before taxation** |  |  |  |  | 300 |

**Balance sheet**

|  |  |
| --- | --- |
|  | At 31 July 2019 |
| £ millions | UK & Ireland  | France | Other International  | Total |
| Poland | Other |
| **Segment assets**  | **3,083** | **1,858** | **867** | **677** | **6,485** |
| Central liabilities |  |  |  |  | **(162)** |
| Goodwill |  |  |  |  | **2,439** |
| Net debt |  |  |  |  | **(2,384)** |
| **Net assets** |  |  |  |  | **6,378** |

|  |  |
| --- | --- |
|  | At 31 July 2018 restated (note 18) |
| £ millions | UK & Ireland  | France | Other International  | Total |
| Poland | Other |
| **Segment assets**  | 3,174 | 2,045 | 781 | 759 | 6,759 |
| Central liabilities |  |  |  |  | (159) |
| Goodwill |  |  |  |  | 2,438 |
| Net debt |  |  |  |  | (2,661) |
| **Net assets** |  |  |  |  | 6,377 |

|  |  |
| --- | --- |
|  | At 31 January 2019 restated (note 18) |
| £ millions | UK & Ireland  | France | Other International  | Total |
| Poland | Other |
| **Segment assets**  | 3,062 | 1,865 | 791 | 697 | 6,415 |
| Central liabilities |  |  |  |  | (160) |
| Goodwill |  |  |  |  | 2,436 |
| Net debt |  |  |  |  | (2,542) |
| **Net assets** |  |  |  |  | 6,149 |

The operating segments disclosed above are based on the information reported internally to the Board of Directors and Group Executive, representing the geographical areas in which the Group operates. The Group only has one business segment being the supply of home improvement products and services. The majority of the sales in each geographical area are derived from in-store sales of products.

The ‘Other International’ segment consists of Poland, Iberia, Germany, Russia, Romania and the joint venture Koçtaş in Turkey. Poland has been shown separately due to its significance.

Central costs principally comprise the costs of the Group’s head office before transformation costs. Central liabilities comprise unallocated head office and other central items including central assets, pensions, insurance, interest and tax.

Transformation costs before exceptional items principally relate to the unified and unique offer range implementation and the digital strategic pillar, with £1m (2018/19: £21m) included within selling and distribution expenses and £15m (2018/19: £31m) included within administrative expenses.

The Group’s sales, although generally not highly seasonal on a half-yearly basis, do increase over the Easter period and during the summer months leading to slightly higher sales usually being recognised in the first half of the year.**5. Exceptional items**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Half year ended | Year ended |
| £ millions | Half year ended 31 July 2019 | 31 July 2018restated (note 18) | 31 January 2019restated (note 18) |
| **Included within selling and distribution expenses** |  |  |  |
| UK & Ireland and continental Europe restructuring | **(68)** | 4 | (124) |
| Impairments of Russia and Iberia assets | **(26)** | – | (16) |
| B&Q store replenishment | **–** | – | (12) |
| Romania acquisition integration | **–** | – | (16) |
| France exceptional employee bonus | **–** | – | (6) |
|  | **(94)** | 4 | (174) |
| **Included within administrative expenses** |  |  |  |
| Transformation exceptional costs | **–** | (46) | (58) |
| UK guaranteed minimum pension charge | **–** | – | (5) |
|  | **–** | (46) | (63) |
| **Included within other income** |  |  |  |
| Profit on disposal of properties | **1** | – | 27 |
|   | **1** | – | 27 |
| **Included within other expenses** |  |  |  |
| Impairments of properties held for sale | **–** | – | (57) |
|  | **–** | – | (57) |
| **Exceptional items before tax** | **(93)** | (42) | (267) |
| Tax on exceptional items | **19** | 13 | 63 |
| **Exceptional items** | **(74)** | (29) | (204) |

Current period exceptional items include a £68m 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.

Additional impairments of £26m have been recorded in the period primarily relating to store assets in Russia following a deterioration in trading. The Group announced the decision to exit Russia and Iberia in November 2018 and recorded impairments of £16m to store and non-operational assets in the prior year.

A profit of £1m has been recorded in the period on the disposal of properties in the UK.

**6. Net finance costs**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Half year ended  | Year ended  |
| £ millions | Half year ended 31 July 2019 | 31 July 2018restated (note 18) | 31 January 2019restated (note 18) |
| Bank overdrafts and bank loans | **(10)** | (7) | (15) |
| Fixed term debt | **(2)** | (1) | (3) |
| Lease liabilities | **(82)** | (87) | (174) |
| Exchange differences on lease liabilities | **–** | (2) | (4) |
| Unwinding of discount on provisions | **–** | – | (2) |
| Capitalised interest | **1** | 2 | 2 |
| Other interest payable | **–** | (2) | – |
| **Finance costs** | **(93)** | (97) | (196) |
|  |  |  |  |
| Cash and cash equivalents and short-term deposits | **6** | 4 | 9 |
| Net interest income on defined benefit pension schemes | **3** | 2 | 4 |
| Finance lease income | **1** | 2 | 3 |
| **Finance income**  | **10** | 8 | 16 |
|  |  |  |  |
| **Net finance costs** | **(83)** | (89) | (180) |

**7. Income tax expense**

|  |  |  |  |
| --- | --- | --- | --- |
| £ millions | Half year ended31 July 2019 | Half year ended31 July 2018restated (note 18) | Year ended31 January 2019restated (note 18) |
| **UK corporation tax** |  |  |  |
| Current tax on profits for the period | **(30)** | (49) | (52) |
| Adjustments in respect of prior years | – | – | (1) |
|  | **(30)** | (49) | (53) |
| **Overseas tax** |  |  |  |
| Current tax on profits for the period | **(29)** | (31) | (66) |
| Adjustments in respect of prior years | **(2)** | – | 7 |
|  | **(31)** | (31) | (59) |
| **Deferred tax** |  |  |  |
| Current period | **(11)** | 6 | 30 |
| Adjustments in respect of prior years | **(2)** | – | (25) |
|  | **(13)** | 6 | 5 |
|  |  |  |  |
| **Income tax expense** | **(74)** | (74) | (107) |

The adjusted effective tax rate 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%), representing the best estimate of the effective rate for the full financial year. The adjusted effective tax rate on the same basis for the year ended 31 January 2019 was 27%. Exceptional tax items for the current period amount to a credit of £19m, none of which relates to prior year items (2018/19: £13m credit, none of which related to prior year items). Exceptional tax items for the year ended 31 January 2019 amounted to a credit of £63m, none of which related to prior year items.

**8. Earnings per share**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Half year ended  | Year ended  |
| Pence | Half year ended 31 July 2019 |  31 July 2018restated (note 18) | 31 January 2019restated (note 18) |
| **Basic earnings per share** | **8.1** | 9.6 | 9.1 |
| Effect of dilutive share options | – | – | (0.1) |
| **Diluted earnings per share** | **8.1** | 9.6 | 9.0 |
|  |  |  |  |
| **Basic earnings per share** | **8.1** | 9.6 | 9.1 |
| Exceptional items before tax | **4.4** | 1.9 | 12.6 |
| Tax on exceptional and prior year items | **(0.7)** | (0.6) | (2.1) |
| Exchange differences on lease liabilities | – | 0.1 | 0.3 |
| Tax on exchange differences on lease liabilities | – | – | (0.1) |
| **Adjusted basic earnings per share** | **11.8** | 11.0 | 19.8 |
| Transformation costs before exceptional items | **0.7** | 2.5 | 5.6 |
| Tax on transformation costs before exceptional items | **(0.2)** | (0.7) | (1.5) |
| **Underlying basic earnings per share** | **12.3** | 12.8 | 23.9 |
|  |  |  |  |
| **Diluted earnings per share** | **8.1** | 9.6 | 9.0 |
| Exceptional items before tax | **4.4** | 1.9 | 12.6 |
| Tax on exceptional and prior year items | **(0.7)** | (0.6) | (2.1) |
| Exchange differences on lease liabilities | – | 0.1 | 0.3 |
| Tax on exchange differences on lease liabilities | – | – | (0.1) |
| **Adjusted diluted earnings per share** | **11.8** | 11.0 | 19.7 |
| Transformation costs before exceptional items | **0.7** | 2.4 | 5.6 |
| Tax on transformation costs before exceptional items | **(0.2)** | (0.7) | (1.5) |
| **Underlying diluted earnings per share** | **12.3** | 12.7 | 23.8 |

The calculation of basic and diluted earnings per share is based on the profit for the period attributable to equity shareholders of the Company. A reconciliation of statutory earnings to adjusted and underlying earnings is set out below:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Half year ended  | Year ended  |
| £ millions | Half year ended 31 July 2019 | 31 July 2018restated (note 18) | 31 January 2019restated (note 18) |
| **Earnings** | **171** | 206 | 193 |
| Exceptional items before tax | **93** | 42 | 267 |
| Tax on exceptional and prior year items | **(15)** | (13) | (44) |
| Exchange differences on lease liabilities | **(1)** | 3 | 7 |
| Tax on exchange differences on lease liabilities | **–** | (1) | (2) |
| **Adjusted earnings** | **248** | 237 | 421 |
| Transformation costs before exceptional items  | **16** | 52 | 120 |
| Tax on transformation costs before exceptional items | **(4)** | (14) | (32) |
| **Underlying earnings** | **260** | 275 | 509 |

The weighted average number of shares in issue during the period, excluding those held in the Employee Share Ownership Plan Trust (‘ESOP trust’), is 2,101m (2018/19: 2,141m). The diluted weighted average number of shares in issue during the period is 2,112m (2018/19: 2,151m). For the year ended 31 January 2019, the weighted average number of shares in issue was 2,129m and the diluted weighted average number of shares in issue was 2,140m.

**9. Dividends**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Half year ended  | Half year ended  | Year ended  |
| £ millions | 31 July 2019 | 31 July 2018 | 31 January 2019 |
| **Dividends to equity shareholders of the Company** |  |  |  |
| Ordinary final dividend for the year ended 31 January 2019 of 7.49p per share | **157** | – | – |
| Ordinary interim dividend for the year ended 31 January 2019 of 3.33p per share | **–** | – | 71 |
| Ordinary final dividend for the year ended 31 January 2018 of 7.49p per share | **–** | 160 | 160 |
|  | **157** | 160 | 231 |

The proposed ordinary interim dividend for the period ended 31 July 2019 is 3.33p per share.

**10. Property, plant and equipment, investment property and other intangible assets**

Additions to the cost of property, plant and equipment, investment property and other intangible assets are £144m (2018/19: £152m) and for the year ended 31 January 2019 were £334m. Disposals in net book value of property, plant and equipment, investment property, property assets held for sale and other intangible assets are £77m (2018/19: £6m) and for the year ended 31 January 2019 were £68m.

Capital commitments contracted but not provided for at the end of the period are £161m (2018/19: £90m) and at 31 January 2019 were £40m.

**11. Post-employment benefits**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Half year ended | Half year ended  | Year ended  |
| £ millions | 31 July 2019 | 31 July 2018 | 31 January 2019 |
| **Net surplus in schemes at beginning of period** | **205** | 99 | 99 |
| Current service cost | **(5)** | (6) | (11) |
| Past service cost | **-** | - | (2) |
| Administration costs | **(2)** | (2) | (4) |
| Net interest income | **3** | 2 | 4 |
| Net actuarial gains | **73** | 86 | 78 |
| Contributions paid by employer | **19** | 19 | 40 |
| Exchange differences | **(6)** | (2) | 1 |
| **Net surplus in schemes at end of period** | **287** | 196 | 205 |

|  |  |  |  |
| --- | --- | --- | --- |
| UK | **413** | 318 | 320 |
| Overseas | **(126)** | (122) | (115) |
| **Net surplus in schemes at end of period** | **287** | 196 | 205 |

|  |  |  |  |
| --- | --- | --- | --- |
| Present value of defined benefit obligations | **(3,249)** | (3,036) | (2,977) |
| Fair value of scheme assets | **3,536** | 3,232 | 3,182 |
| **Net surplus in schemes at end of period** | **287** | 196 | 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 provided in note 26 of the annual financial statements for the year ended 31 January 2019.

A key assumption in valuing the pension obligation 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, being the Group’s principal defined benefit scheme, are set out below:

|  |  |  |  |
| --- | --- | --- | --- |
|  | At  | At  | At  |
| Annual % rate | 31 July 2019 | 31 July 2018 | 31 January 2019 |
| Discount rate | **2.1** | 2.5 | 2.5 |
| Price inflation | **3.4** | 3.3 | 3.3 |

1. **Financial instruments**

The Group holds the following derivative financial instruments at fair value:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | At  | At  | At  |  |  |
| £ millions | 31 July 2019 | 31 July 2018 | 31 January 2019 |  |  |
| Cross currency interest rate swaps | **1** | – | – |  |  |
| Foreign exchange contracts | **63** | 47 | 26 |  |  |
| **Derivative assets** | **64** | 47 | 26 |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | At  | At  | At  |  |  |
| £ millions | 31 July 2019 | 31 July 2018 | 31 January 2019 |  |  |
| Cross currency interest rate swaps | – | – | (2) |  |  |
| Foreign exchange contracts | **(19)** | (16) | (21) |  |  |
| **Derivative liabilities** | **(19)** | (16) | (23) |  |  |

The fair values are calculated by discounting future cash flows arising from the instruments and adjusted for credit risk. These fair value measurements are all made using observable market rates of interest, foreign exchange and credit risk. All the derivatives held by the Group at fair value are considered to have fair values determined by level 2 inputs as defined by the fair value hierarchy of IFRS 13, ‘Fair value measurement’, representing significant observable inputs other than quoted prices in active markets for identical assets or liabilities. There are no non-recurring fair value measurements nor have there been any transfers of assets or liabilities between levels of the fair value hierarchy.

Except as detailed in the following table of borrowings, the carrying amounts of financial instruments (excluding lease liabilities) recorded at amortised cost in the financial statements are approximately equal to their fair values. Where available, market values have been used to determine the fair values of borrowings. Where market values are not available or are not reliable, fair values have been calculated by discounting cash flows at prevailing interest and foreign exchange rates. This has resulted in level 2 inputs for borrowings as defined by the IFRS 13 fair value hierarchy.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  | Carrying amount |  |  |
|  |  | At  | At  |  |  |
| £ millions | At 31 July 2019 | 31 July 2018restated (note 18) | 31 January 2019restated (note 18) |  |  |
| Bank loans | **4** | 5 | 4 |  |  |
| Fixed term debt | **140** | 44 | 136 |  |  |
| **Borrowings** | **144** | 49 | 140 |  |  |
|  |  |  | Fair value |  |  |
|  |  | At  | At  |  |  |
| £ millions | At 31 July 2019 | 31 July 2018restated (note 18) | 31 January 2019restated (note 18) |  |  |
| Bank loans | **4** | 5 | 5 |  |  |
| Fixed term debt | **143** | 44 | 138 |  |  |
| **Borrowings** | **147** | 49 | 143 |  |  |

At 31 July 2019, the Group had undrawn revolving credit facilities of £550 million due to expire in August 2021 and £225 million due to expire in March 2022. In August 2019, the Group completed an extension of the £550 million revolving credit facility, taking the term to August 2022.

1. **Other reserves**

|  |  |
| --- | --- |
|  | Half year ended 31 July 2019 |
| £ millions | Translation reserve | Cash flowhedge reserve | Other | Total |
| **At 1 February 2019** | **210** | **10** | **159** | **379** |
| Inventory cash flow hedges - fair value gains | **–** | **47** | **–** | **47** |
| Tax on items that will not be reclassified subsequently to profit or loss | **–** | **(9)** | **–** | **(9)** |
| Currency translation differencesGroup | **153** | **–** | **–** | **153** |
| Other cash flow hedgesFair value gains | **–** | **4** | **–** | **4** |
| Gains transferred to income statement | **–** | **(4)** | **–** | **(4)** |
| **Other comprehensive income for the period** | **153** | **38** | **–** | **191** |
| Inventory cash flow hedges - gains transferred to inventories | **–** | **(24)** | **–** | **(24)** |
| Tax on equity items | **–** | **5** | **–** | **5** |
| **At 31 July 2019** | **363** | **29** | **159** | **551** |
|  |  |  |  |  |
|  |  |
|  | Half year ended 31 July 2018 restated (note 18) |
| £ millions | Translation reserve | Cash flowhedge reserve | Other | Total |
| **At 1 February 2018** | 256 | (37) | 159 | 378 |
| Inventory cash flow hedges - fair value gains | – | 63 | – | 63 |
| Tax on items that will not be reclassified subsequently to profit or loss | – | (15) | – | (15) |
| Currency translation differences |  |  |  |  |
| Group | 34 | – | – | 34 |
| Tax on items that may be reclassified | (1) | – | – | (1) |
| **Other comprehensive income for the period** | 33 | 48 | – | 81 |
| Inventory cash flow hedges - losses transferred to inventories | – | 15 | – | 15 |
| Tax on equity items | – | (4) | – | (4) |
| **At 31 July 2018** | 289 | 22 | 159 | 470 |
|  |  |  |  |  |
|  |  |  |  |  |
|  | Year ended 31 January 2019 restated (note 18) |
|  | Translation reserve | Cash flow hedge reserve | Other | Total |
| **At 1 February 2018** | 256 | (37) | 159 | 378 |
| Inventory cash flow hedges - fair value gains | – | 85 | – | 85 |
| Tax on items that will not be reclassified subsequently to profit or loss | – | (21) | – | (21) |
| Currency translation differencesGroup | (46) | – | – | (46) |
| Other cash flow hedgesFair value losses | – | (2) | – | (2) |
| Losses transferred to income statement | – | 2 | – | 2 |
| **Other comprehensive income for the year** | (46) | 64 | – | 18 |
| Inventory cash flow hedges - gains transferred to inventories | – | (22) | – | (22) |
| Tax on equity items | – | 5 | – | 5 |
| **At 31 January 2019** | 210 | 10 | 159 | 379 |

**14. Cash generated by operations**

|  |  |  |  |
| --- | --- | --- | --- |
| £ millions | Half year ended31 July 2019 | Half year ended31 July 2018restated (note 18) | Year ended31 January 2019restated (note 18) |
| **Operating profit** | **328** | 369 | 480 |
| Share of post-tax results of joint ventures and associates  | – | 2 | (1) |
| Depreciation and amortisation  | **270** | 261 | 535 |
| Net impairment losses | **24** | – | 201 |
| (Gain)/loss on disposal of property, plant and equipment, investment property, assets held for sale and intangible assets | **(2)** | 2 | (25) |
| Lease losses | **2** | – | 2 |
| Share-based compensation charge  | **8** | 10 | 15 |
| (Increase)/decrease in inventories | **(111)** | 3 | 95 |
| (Increase)/decrease in trade and other receivables | **(43)** | 41 | 142 |
| Increase/(decrease) in trade and other payables | **94** | 12 | (197) |
| Movement in provisions | **55** | 27 | 19 |
| Movement in post-employment benefits | **(12)** | (11) | (23) |
| **Cash generated by operations** | **613** | 716 | 1,243 |

**15. Net debt**

|  |  |  |  |
| --- | --- | --- | --- |
|  |   | At  | At  |
| £ millions | At 31 July 2019 | 31 July 2018restated (note 18) | 31 January 2019restated (note 18) |
| Cash and cash equivalents | **385** | 181 | 229 |
| Bank loans | **(4)** | (5) | (4) |
| Fixed term debt | **(140)** | (44) | (136) |
| Lease liabilities | **(2,638)** | (2,800) | (2,626) |
| Financing derivatives  | **13** | 7 | (5) |
| **Net debt** | **(2,384)** | (2,661) | (2,542) |

|  |  |  |  |
| --- | --- | --- | --- |
|  |   | At  | At  |
| £ millions | At 31 July 2019 | 31 July 2018restated (note 18) | 31 January 2019restated (note 18) |
| **Net debt at beginning of period** | **(2,542)** | (2,678) | (2,678) |
| Net increase/(decrease) in cash and cash equivalents | **131** | (41) | 12 |
| Repayment of bank loans | **1** | 1 | 1 |
| Issue of fixed term debt | – | (44) | (139) |
| Repayment of fixed term debt | – | 134 | 134 |
| Receipt on financing derivatives | – | (37) | (37) |
| **Net cash flow** | **132** | 13 | (29) |
| Movement in lease liabilities | **18** | 1 | 157 |
| Exchange differences and other non-cash movements | **8** | 3 | 8 |
| **Net debt at end of period** | **(2,384)** | (2,661) | (2,542) |

**16. Contingent liabilities**

The Group has arranged for certain guarantees to be provided to third parties in the ordinary course of business. Of these guarantees, £45m (2018/19: £44m) would crystallise due to possible future events not wholly within the Group's control. At 31 January 2019, the amount was £43m.

The Group is subject to claims and litigation arising in the ordinary course of business and provision is made where liabilities are considered likely to arise on the basis of current information and legal advice.

The Group files tax returns in many jurisdictions around the world and at any one time, is subject to periodic tax audits in the ordinary course of its business. Applicable tax laws and regulations are subject to differing interpretations and the resolution of a final tax position can take several years to complete. Where it is considered that future tax liabilities are more likely than not to arise, an appropriate provision is recognised in the financial statements.

Included within these audits is a dispute with the French Tax Authority regarding the treatment of interest paid since the 2010 year end, where additional French tax of €49m (£45m) has been assessed and for which a bank guarantee is now in place. At the balance sheet date, interest and penalties of €52m (£47m) would be due on this assessment if not challenged successfully. Having taken external professional advice, the Group disagrees with the assessment and intends to defend its position through the courts. The Group does not consider it necessary to make provision for the amounts assessed at the current time, nor for any potential further amounts which may be assessed for subsequent years.

In October 2017, the European Commission opened a state aid investigation into the Group Financing Exemption section of the UK controlled foreign company rules. 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 constitutes state aid. Along with many other UK-based international companies, the Group may be affected by the Commission’s decision.

In June 2019, the UK government submitted an appeal to the European Courts against the decision. The Group has calculated its maximum potential liability (including compound interest) to be £62m 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. The Group will continue to monitor the position as it develops.

Whilst the procedures that must be followed to resolve these types of tax issues make it likely that it will be some years before the eventual outcome is known, the Group does not currently expect the outcome of these contingent liabilities to have a material effect on the Group’s financial position.

**17. Related party transactions**

The Group’s significant related parties are its joint venture, associate and pension schemes as disclosed in note 36 of the annual financial statements for the year ended 31 January 2019. There have been no significant changes in related parties or related party transactions in the period.

**18. 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 full retrospective method. Comparatives for the half year ended 31 July 2018 and 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 estimates and judgements**

For IFRS 16, judgement and estimates are 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 and estimate appropriate adjustments to available risk-free rates. Additionally, the application of financing spreads which are specific to operating companies requires an estimation of the credit quality of those companies. Given that the Group has applied the full retrospective approach to IFRS 16, these judgements and estimates have been applied in the calculation of historical discount rates.

The Group expects to continue to apply judgement and estimates 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 six months ended 31 July 2018 and 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 statements, balance sheets and cash flow statements are as follows:

**Consolidated income statements – IFRS 16 restatements**

|  |  |  |
| --- | --- | --- |
|  | Half year ended 31 July 2018 | Year ended 31 January 2019 |
| £ millions | As previously reported | Impact of IFRS 16  | Restated | As previously reported | Impact of IFRS 16  | Restated |
| **Sales** | 6,080 | – | **6,080** | 11,685 | – | **11,685** |
| Cost of sales | (3,868) | 4 | **(3,864)** | (7,376) | 9 | **(7,367)** |
| **Gross profit** | 2,212 | 4 | **2,216** | 4,309 | 9 | **4,318** |
| Selling and distribution expenses  | (1,486) | 78 | **(1,408)** | (3,114) | 140 | **(2,974)** |
| Administrative expenses | (452) | 4 | **(448)** | (867) | 5 | **(862)** |
| Other income | 11 | – | **11** | 56 | (2) | **54** |
| Other expenses | – | – | **–** | (57) | – | **(57)** |
| Share of post-tax results of joint ventures and associates | (1) | (1) | **(2)** | 2 | (1) | **1** |
| **Operating profit**  | 284 | 85 | **369** | 329 | 151 | **480** |
| Finance costs | (9) | (88) | **(97)** | (20) | (176) | **(196)** |
| Finance income | 6 | 2 | **8** | 13 | 3 | **16** |
| Net finance costs | (3) | (86)  | **(89)** | (7) |  (173) | **(180)** |
| **Profit before taxation** | 281 | (1) | **280** | 322 | (22) | **300** |
| Income tax expense | (73) | (1) | **(74)** | (104) | (3) | **(107)** |
| **Profit for the period** | 208 | (2) | **206** | 218 | (25) | **193** |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| **Earnings per share**  |  |  |  |  |  |  |
| Basic | 9.7p | (0.1)p | **9.6p** | 10.3p | (1.2)p | **9.1p** |
| Diluted | 9.7p | (0.1)p | **9.6p** | 10.2p | (1.2)p | **9.0p** |
| Adjusted basic | 11.0p | – | **11.0p** | 19.8p | – | **19.8p** |
| Adjusted diluted | 11.0p | – | **11.0p** | 19.7p | – | **19.7p** |
| Underlying basic | 12.8p | – | **12.8p** | 23.9p | – | **23.9p** |
| Underlying diluted | 12.7p | – | **12.7p** | 23.8p | – | **23.8p** |
|  |  |  |  |  |  |  |
| **Underlying pre-tax profit** | 375 | 2 | **377** | 693 | 1 | **694** |
| Transformation costs before exceptional items | (52) | – | **(52)** | (120) | – | **(120)** |
| **Adjusted pre-tax profit** | 323 | 2 | **325** | 573 | 1 | **574** |
| Exchange differences on lease liabilities  | – | (3) | **(3)** | – | (7) | **(7)** |
| Exceptional items | (42) | – | **(42)** | (251) | (16) | **(267)** |
| **Profit before taxation** | 281 | (1) | **280** | 322 | (22) | **300** |
|  |  |  |  |  |  |  |
| **Segmental analysis** |  |  |  |  |  |  |
| UK & Ireland | 218 | 64 | **282** | 399 | 131 | **530** |
| France | 122 | 9 | **131** | 209 | 12 | **221** |
| Poland | 88 | 2 | **90** | 181 | 4 | **185** |
| Other  | (24) | 11 | **(13)** | (36) | 24 | **(12)** |
| **Retail profit** | 404 | 86 | **490** | 753 | 171 | **924** |
| Central costs | (24) | 1 | **(23)** | (49) | – | **(49)** |
| Share of interest and tax of joint ventures and associates before exchange differences on lease liabilities | (2) | (1) | **(3)** | (4) | (1) | **(5)** |
| Exchange differences on lease liabilities of joint ventures and associates | – | (1) | **(1)** | – | (3) | **(3)** |
| Transformation costs before exceptional items | (52) | – | **(52)** | (120) | – | **(120)** |
| Exceptional items | (42) | – | **(42)** | (251) | (16) | **(267)** |
| **Operating profit** | 284 | 85 | **369** | 329 | 151 | **480** |
|  |  |  |  |  |  |  |

**Consolidated balance sheets – IFRS 16 restatements**

|  |  |  |  |
| --- | --- | --- | --- |
|  | At 31 July 2018 | At 31 January 2019 | At 31 January 2018 |
| £ millions | As previously reported | Impact of IFRS 16  | Restated | As previously reported | Impact of IFRS 16  | Restated | As previously reported | Impact of IFRS 16  | Restated |
| **Non-current assets** |  |  |  |  |  |  |  |  |  |
| Goodwill | 2,438 | – | **2,438** | 2,436 | – | **2,436** | 2,437 | – | **2,437** |
| Other intangible assets | 375 | – | **375** | 371 | – | **371** | 355 | – | **355** |
| Property, plant and equipment | 3,757 | (190) | **3,567** | 3,454 | (152) | **3,302** | 3,736 | (200) | **3,536** |
| Right-of-use assets | – | 2,221 | **2,221** | – |  2,017 | **2,017** | – |  2,218 | **2,218** |
| Investment property | 21 | – | **21** | 8 | – | **8** | 20 | – | **20** |
| Investments in joint ventures and associates  | 18 | (6) | **12** | 20 | (5) | **15** | 25 | (6) | **19** |
| Post-employment benefits | 318 | – | **318** | 320 | – | **320** | 214 | – | **214** |
| Deferred tax assets | 31 | 9 | **40** | 9 | 4 | **13** | 30 | 9 | **39** |
| Derivative assets | – | –  | **–** | – | –  | **–** | – | –  | **–** |
| Other receivables  | 8 | 45 | **53** | 10 | 31 | **41** | 8 | 47 | **55** |
|  | 6,966 | 2,079 | **9,045** | 6,628 | 1,895 | **8,523** | 6,825 | 2,068 | **8,893** |
| **Current assets** |  |  |  |  |  |  |  |  |  |
| Inventories | 2,718 | – | **2,718** | 2,574 | – | **2,574** | 2,701 | – | **2,701** |
| Trade and other receivables | 521 | (49) | **472** | 453 | (47) | **406** | 550 | (49) | **501** |
| Derivative assets | 47 | – | **47** | 26 | – | **26** | 41 | – | **41** |
| Current tax assets | 1 | – | **1** | 1 | – | **1** | – |  – | – |
| Cash and cash equivalents | 181 | – | **181** | 229 | – | **229** | 230 | – | **230** |
| Assets held for sale |  – |  – | **–** | 89 | – | **89** | – |  – | – |
|   | 3,468 | (49) | **3,419** | 3,372 | (47) | **3,325** | 3,522 | (49) | **3,473** |
| **Total assets** | 10,434 | 2,030 | **12,464** | 10,000 | 1,848 | **11,848** | 10,347 | 2,019 | **12,366** |
|  |  |  |  |  |  |  |  |  |  |
| **Current liabilities** |  |  |  |  |  |  |  |  |  |
| Trade and other payables | (2,701) | 44 | **(2,657)** | (2,444) | 29 | **(2,415)** | (2,666) | 36 | **(2,630)** |
| Borrowings | (17) | 15 | **(2)** | (14) | 13 | **(1)** | (140) | 13 | **(127)** |
| Lease liabilities | – |  (363) | **(363)** | – |  (308) | **(308)** | – | (309) | **(309)** |
| Derivative liabilities | (16) | – | **(16)** | (21) | – | **(21)** | (79) | – | **(79)** |
| Current tax liabilities | (145) | – | **(145)** | (118) | – | **(118)** | (140) | – | **(140)** |
| Provisions | (44) | 6 | **(38)** | (35) | 8 | **(27)** | (25) | 10 | **(15)** |
|   | (2,923) | (298) | **(3,221)** | (2,632) | (258) | **(2,890)** | (3,050) | (250) | **(3,300)** |
| **Non-current liabilities** |  |  |  |  |  |  |  |  |  |
| Other payables | (64) | 58 | **(6)** | (64) | 58 | **(6)** | (61) | 59 | **(2)** |
| Borrowings | (72) | 25 | **(47)** | (162) | 23 | **(139)** | (36) | 32 | **(4)** |
| Lease liabilities | – |  (2,437) | **(2,437)** | – | (2,318) | **(2,318)** | – |  (2,482) | **(2,482)** |
| Derivative liabilities | – |  – | **–** | (2) | – | **(2)** | – |  – | – |
| Deferred tax liabilities | (313) | 93 | **(220)** | (286) | 94 | **(192)** | (264) | 93 | **(171)** |
| Provisions | (77) | 43 | **(34)** | (82) | 45 | **(37)** | (73) | 44 | **(29)** |
| Post-employment benefits | (122) | – | **(122)** | (115) | – | **(115)** | (115) | – | **(115)** |
|   | (648) | (2,218) | **(2,866)** | (711) | (2,098) | **(2,809)** | (549) | (2,254) | **(2,803)** |
| **Total liabilities** | (3,571) | (2,516) | **(6,087)** | (3,343) | (2,356) | **(5,699)** | (3,599) | (2,504) | **(6,103)** |
| **Net assets** | 6,863 | (486) | **6,377** | 6,657 | (508) | **6,149** | 6,748 | (485) | **6,263** |
|  |  |  |  |  |  |  |  |  |  |
| **Equity** |  |  |  |  |  |  |  |  |  |
| Share capital | 335 | – | **335** | 332 | – | **332** | 340 | – | **340** |
| Share premium | 2,228 | – | **2,228** | 2,228 | – | **2,228** | 2,228 | – | **2,228** |
| Own shares held in ESOP trust | (26) | – | **(26)** | (25) | – | **(25)** | (29) | – | **(29)** |
| Retained earnings | 3,811 | (481) | **3,330** | 3,696 | (504) | **3,192** | 3,790 | (479) | **3,311** |
| Capital redemption reserve | 40 | – | **40** | 43 | – | **43** | 35 | – | **35** |
| Other reserves | 475 | (5) | **470** | 383 | (4) | **379** | 384 | (6) | **378** |
| **Total equity** | 6,863 | (486) | **6,377** | 6,657 | (508) | **6,149** | 6,748 | (485) | **6,263** |

**Consolidated cash flow statements – IFRS 16 restatements**

|  |  |  |
| --- | --- | --- |
|  | Half year ended 31 July 2018 | Year ended 31 January 2019 |
| £ millions | As previously reported | Impact of IFRS 16  | Restated | As previously reported | Impact of IFRS 16  | Restated |
| **Operating activities** |  |  |  |  |  |  |
| Cash generated by operations | 503 | 213 | **716** | 781 | 462 | **1,243** |
| Income tax paid | (77) | – | **(77)** | (132) | – | **(132)** |
| **Net cash flows from operating activities** | 426 | 213 | **639** | 649 | 462 | **1,111** |
|  |  |  |  |  |  |  |
| **Investing activities** |  |  |  |  |  |  |
| Purchase of property, plant and equipment and intangible assets | (165) | 1 | **(164)** | (339) | 7 | **(332)** |
| Disposal of property, plant and equipment, investment property, assets held for sale and intangible assets  | 4 | – | **4** | 45 | – | **45** |
| Interest received | 4 | – | **4** | 11 | – | **11** |
| Interest element of lease rental receipts | – | 2 | **2** | – | 3 | **3** |
| Principal element of lease rental receipts | – | 3 | **3** | – | 6 | **6** |
| Advance payments on right-of-use assets | – | (1) | **(1)** | – | (4) | **(4)** |
| Dividends received from joint ventures and associates | 5 | – | **5** | 5 | – | **5** |
| **Net cash flows used in investing activities** | (152) | 5 | **(147)** | (278) | 12 | **(266)** |
|  |  |  |  |  |  |  |
| **Financing activities** |  |  |  |  |  |  |
| Interest paid | (7) | – | **(7)** | (19) | – | **(19)** |
| Interest element of lease rental payments | (1) | (86) | **(87)** | (2) | (172) | **(174)** |
| Principal element of lease rental payments  | (5) | (132) | **(137)** | (10) | (302) | **(312)** |
| Repayment of bank loans | (1) | – | **(1)** | (1) | – | **(1)** |
| Issue of fixed term debt | 44 | – | **44** | 139 | – | **139** |
| Repayment of fixed term debt | (134) | – | **(134)** | (134) | – | **(134)** |
| Receipt on financing derivatives | 37 | – | **37** | 37 | – | **37** |
| New shares issued under share schemes | 2 | – | **2** | 2 | – | **2** |
| Purchase of own shares for cancellation | (90) | – | **(90)** | (140) | – | **(140)** |
| Ordinary dividends paid to equity shareholders of the Company | (160) | – | **(160)** | (231) | – | **(231)** |
| **Net cash flows from financing activities** | (315) | (218) | **(533)** | (359) | (474) | **(833)** |
| **Net (decrease)/increase in cash and cash equivalents** | (41) | – | **(41)** | 12 | – | **12** |
| Cash and cash equivalents at beginning of period | 230 | – | **230** | 230 | – | **230** |
| Exchange differences  | (8) | – | **(8)** | (13) | – | **(13)** |
| **Cash and cash equivalents at end of period** | 181 | – | **181** | 229 | – | **229** |
|  |  |  |  |  |  |  |
| **Operating profit** | 284 | 85 | **369** | 329 | 151 | **480** |
| Share of post-tax results of joint ventures and associates  | 1 | 1 | **2** | (2) | 1 | **(1)** |
| Depreciation and amortisation  | 132 | 129 | **261** | 272 | 263 | **535** |
| Net impairment losses | – | – | **–** | 160 | 41 | **201** |
| Loss/(gain) on disposal of property, plant and equipment, investment property, assets held for sale and intangible assets | 2 | – | **2** | (25) | – | **(25)** |
| Lease losses | – | – | **–** | – | 2 | **2** |
| Share-based compensation charge  | 10 | – | **10** | 15 | – | **15** |
| Decrease in inventories | 3 | – | **3** | 95 | – | **95** |
| Decrease in trade and other receivables | 41 | – | **41** | 144 | (2) | **142** |
| Increase/(decrease) in trade and other payables | 20 | (8) | **12** | (203) | 6 | **(197)** |
| Movement in provisions | 21 | 6 | **27** | 19 | – | **19** |
| Movement in post-employment benefits | (11) | – | **(11)** | (23) | – | **(23)** |
| **Cash generated by operations** | 503 | 213 | **716** | 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 and underlying performance 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 measures of underlying and adjusted earnings per share remain unchanged, reflecting the broadly neutral impacts on underlying and adjusted pre-tax profits 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 IFRS 16 lease liabilities. 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.

**STATEMENT OF DIRECTORS’ RESPONSIBILITIES**

The Directors confirm that to the best of their knowledge this set of interim condensed financial statements has been prepared in accordance with IAS 34, ‘Interim Financial Reporting’, as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

* an indication of important events that have occurred during the period and their impact on the interim condensed financial statements, and a description of the principal risks and uncertainties for the remainder of the financial year; and
* material related party transactions in the period and any material changes in the related party transactions described in the last annual report.

The Directors of Kingfisher plc were listed in the Kingfisher plc Annual Report for the year ended 31 January 2019. Karen Witts resigned as Chief Financial Officer on 21 March 2019 and Anders Dahlvig resigned as a non-Executive Director on 12 June 2019.

By order of the Board

Veronique Laury Andy Cosslett

Chief Executive Officer Chairman

17 September 2019 17 September 2019

**INDEPENDENT REVIEW REPORT TO KINGFISHER PLC**

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 July 2019 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated balance sheet, the condensed consolidated cash flow statement and related notes 1 to 18. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

**Directors’ responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as adopted by the European Union.

**Our responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

**Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 July 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

Deloitte LLP

Statutory Auditor

London, United Kingdom

17 September 2019