Consolidated income statement
Year ended 31 January 2019

£ millions	Notes	2018/19 Before exceptional items	2018/19 Exceptional items (note 4)	2018/19 Total	2017/18 Before exceptional items	2017/18 Exceptional items (note 4)	2017/18 Total
Sales	3	**11,685**	**–**	**11,685**	11,655	–	11,655
Cost of sales		**(7,376)**	**–**	**(7,376)**	(7,352)	–	(7,352)
Gross profit		**4,309**	**–**	**4,309**	4,303	–	4,303
Selling and distribution expenses		**(2,954)**	**(160)**	**(3,114)**	(2,863)	14	(2,849)
Administrative expenses		**(804)**	**(63)**	**(867)**	(782)	(15)	(797)
Other income		**27**	**29**	**56**	24	1	25
Other expenses		**–**	**(57)**	**(57)**	–	–	–
Share of post-tax results of joint ventures and associates		**2**	**–**	**2**	3	–	3
Operating profit		**580**	**(251)**	**329**	685	–	685
Finance costs		**(20)**	**–**	**(20)**	(19)	–	(19)
Finance income		**13**	**–**	**13**	16	–	16
Net finance costs	5	**(7)**	**–**	**(7)**	(3)	–	(3)
Profit before taxation		**573**	**(251)**	**322**	682	–	682
Income tax expense	6	**(165)**	**61**	**(104)**	(197)	–	(197)
Profit for the year		**408**	**(190)**	**218**	485	–	485

	Notes	2018/19	2017/18
Earnings per share	7		
Basic		**10.3p**	22.1p
Diluted		**10.2p**	22.0p
Adjusted basic		**19.8p**	21.8p
Adjusted diluted		**19.7p**	21.7p
Underlying basic		**23.9p**	25.5p
Underlying diluted		**23.8p**	25.4p

Reconciliation of non-GAAP underlying and adjusted pre-tax profit:

	Notes	2018/19	2017/18
Underlying pre-tax profit		**693**	797
Transformation costs before exceptional items	3	**(120)**	(114)
Adjusted pre-tax profit		**573**	683
Financing fair value remeasurements		**–**	(1)
Exceptional items		**(251)**	–
Profit before taxation		**322**	682

The proposed final dividend for the year ended 31 January 2019, subject to approval by shareholders at the Annual General Meeting, is 7.49p per share.

Consolidated statement of comprehensive income
Year ended 31 January 2019

£ millions	Notes	2018/19	2017/18
Profit for the year		**218**	485
Actuarial gains/(losses) on post-employment benefits	9	**78**	(58)
Inventory cash flow hedges – fair value gains		**85**	–
Tax on items that will not be reclassified		**(53)**	16
Total items that will not be reclassified subsequently to profit or loss		**110**	(42)
Currency translation differences			
Group		**(46)**	84
Joint ventures and associates		**(2)**	(1)
Inventory cash flow hedges			
Fair value losses		**–**	(93)
Losses transferred to inventories		**–**	20
Other cash flow hedges			
Fair value losses		**(2)**	–
Losses transferred to income statement		**2**	–
Tax on items that may be reclassified		**–**	12
Total items that may be reclassified subsequently to profit or loss		**(48)**	22
Other comprehensive income/(loss) for the year		**62**	(20)
Total comprehensive income for the year		**280**	465

Consolidated statement of changes in equity
Year ended 31 January 2019

£ millions	Notes	Share capital	Share premium	Own shares held	Retained earnings	Capital redemption reserve	Other reserves	Total equity
At 1 February 2018		**340**	**2,228**	**(29)**	**3,790**	**35**	**384**	**6,748**
Profit for the year		**–**	**–**	**–**	**218**	**–**	**–**	**218**
Other comprehensive income for the year		**–**	**–**	**–**	**46**	**–**	**16**	**62**
Total comprehensive income for the year		**–**	**–**	**–**	**264**	**–**	**16**	**280**
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)**	**3,696**	**43**	**383**	**6,657**
At 1 February 2017		352	2,221	(23)	3,837	22	362	6,771
Profit for the year		–	–	–	485	–	–	485
Other comprehensive (loss)/ income for the year		–	–	–	(42)	–	22	(20)
Total comprehensive income for the year		–	–	–	443	–	22	465
Share-based compensation		–	–	–	8	–	–	8
New shares issued under share schemes		1	7	–	–	–	–	8
Own shares issued under share schemes		–	–	7	(7)	–	–	–
Purchase of own shares for cancellation		(13)	–	–	(260)	13	–	(260)
Purchase of own shares for ESOP trust		–	–	(13)	–	–	–	(13)
Dividends	8	–	–	–	(231)	–	–	(231)
At 31 January 2018		340	2,228	(29)	3,790	35	384	6,748

Consolidated balance sheet
At 31 January 2019

£ millions	Notes	2018/19	2017/18
Non-current assets			
Goodwill		**2,436**	2,437
Other intangible assets		**371**	355
Property, plant and equipment		**3,454**	3,736
Investment property		**8**	20
Investments in joint ventures and associates		**20**	25
Post-employment benefits	9	**320**	214
Deferred tax assets		**9**	30
Other receivables		**10**	8
		6,628	6,825
Current assets			
Inventories		**2,574**	2,701
Trade and other receivables		**453**	550
Derivative assets		**26**	41
Current tax assets		**1**	–
Cash and cash equivalents		**229**	230
Assets held for sale		**89**	–
		3,372	3,522
Total assets		**10,000**	10,347
Current liabilities			
Trade and other payables		**(2,444)**	(2,666)
Borrowings		**(14)**	(140)
Derivative liabilities		**(21)**	(79)
Current tax liabilities		**(118)**	(140)
Provisions		**(35)**	(25)
		(2,632)	(3,050)
Non-current liabilities			
Other payables		**(64)**	(61)
Borrowings		**(162)**	(36)
Derivative liabilities		**(2)**	–
Deferred tax liabilities		**(286)**	(264)
Provisions		**(82)**	(73)
Post-employment benefits	9	**(115)**	(115)
		(711)	(549)
Total liabilities		**(3,343)**	(3,599)
Net assets		**6,657**	6,748
Equity			
Share capital		**332**	340
Share premium		**2,228**	2,228
Own shares held in ESOP trust		**(25)**	(29)
Retained earnings		**3,696**	3,790
Capital redemption reserve		**43**	35
Other reserves		**383**	384
Total equity		**6,657**	6,748

The financial statements were approved by the Board of Directors on 19 March 2019 and signed on its behalf by:

Véronique Laury
Chief Executive Officer

Karen Witts
Chief Financial Officer

Consolidated cash flow statement

Year ended 31 January 2019

£ millions	Notes	2018/19	2017/18
Operating activities			
Cash generated by operations	10	**781**	475
Income tax paid		**(132)**	(182)
Net cash flows from operating activities		**649**	293
Investing activities			
Purchase of property, plant and equipment and intangible assets		**(339)**	(368)
Purchase of businesses, net of cash acquired	12	**–**	(12)
Disposal of property, plant and equipment, investment property and intangible assets		**45**	6
Interest received		**11**	11
Dividends received from joint ventures and associates		**5**	-
Net cash flows used in investing activities		**(278)**	(363)
Financing activities			
Interest paid		**(19)**	(10)
Interest element of finance lease rental payments		**(2)**	(2)
Repayment of bank loans		**(1)**	(7)
Repayment of fixed term debt		**(134)**	–
Issue of fixed term debt		**139**	–
Receipt on financing derivatives		**37**	–
Capital element of finance lease rental payments		**(10)**	(11)
New shares issued under share schemes		**2**	8
Purchase of own shares for ESOP trust		**–**	(13)
Purchase of own shares for cancellation		**(140)**	(260)
Ordinary dividends paid to equity shareholders of the Company		**(231)**	(231)
Net cash flows from financing activities		**(359)**	(526)
Net increase/(decrease) in cash and cash equivalents		**12**	(596)
Cash and cash equivalents at beginning of year		**230**	795
Exchange differences		**(13)**	31
Cash and cash equivalents at end of year		**229**	230

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 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.

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 2019 ('the year' or '2018/19'). The comparative financial year is the year ended 31 January 2018 ('the prior year' or '2017/18').

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

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 2019, but are derived from those statements. Statutory financial statements for 2017/18 have been filed with the Registrar of Companies and those for 2018/19 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 2018/19 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.

Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 January 2018, as described in note 2 of those financial statements, except where set out below.

Changes to accounting policies as a result of new standards issued and effective

The Group has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' from 1 February 2018. The new standards have been adopted prospectively with no retrospective adjustments required. The effect of adopting these standards is outlined below.

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and addresses the classification, measurement and recognition of financial assets and liabilities, and introduces a new impairment model for financial assets as well as new hedge accounting rules. A detailed assessment of the new standard was undertaken and concluded that there are no material impacts on the consolidated financial statements, except for additional disclosure requirements relating to hedge accounting. The standard has also resulted in changes to the presentation of inventory cash flow hedge gains and losses within the consolidated statements of other comprehensive income and changes in equity.

IFRS 9 introduces the following new requirements:

- The classification and measurement of financial assets is now based on the entity's business model for managing the financial asset and its contractual cash flow characteristics. Given the nature of the Group's financial assets, comprising principally derivatives, trade and other receivables and cash, this has had no material impact.
- The new impairment model requires the recognition of expected credit losses, in contrast to the requirement to recognise incurred credit losses under IAS 39. The Group does not hold financial assets for which application of the new impairment model is significant. The Group's trade and other receivables mainly relate to trade receivables and rebates which comprise low individual balances with short maturity spread across a large number of unrelated customers and suppliers, resulting in low credit risk levels.

All Group hedging relationships designated under IAS 39 at 31 January 2018 met the criteria for hedge accounting under IFRS 9 at 1 February 2018, and are therefore regarded as continuing hedging relationships.

IFRS 15 replaces IAS 18 'Revenue' and establishes a principles-based approach to revenue recognition and measurement based on the concept of recognising revenue when performance obligations are satisfied.

The adoption of IFRS 15 has not had a material effect on the financial statements or the amount, timing or nature of revenue recognised by the Group. All revenue from the Group relates to contracts with customers and the Group does not apply significant judgement in determining the timing of satisfaction of its performance obligations or the transaction price allocated to those performance obligations, as the vast majority of the Group's revenue derives from in-store purchases of products by customers, where revenue is generally recognised at the point of cash receipt. Revenue arising from performance obligations satisfied over a period of time or at a future point in time (delivered products and services) typically have contract lengths of less than one year and represent only a small component of the Group's sales.

The Group's accounting policies for financial instruments and revenue recognition have been updated to reflect the above changes in requirements.

No retrospective adjustments, restatements or changes to opening retained earnings have been made to the financial statements as a result of adopting IFRS 9 and IFRS 15.

Other new standards, amendments and interpretations are in issue and effective for the Group's financial year ended 31 January 2019, but they do not have a material impact on the consolidated financial statements.

Standards issued but not yet effective

The following new standard will be effective for the Group's 2019/20 financial year:

IFRS 16 'Leases' was issued by the IASB in January 2016 and has been endorsed by the European Union. The standard supersedes IAS 17 'Leases' and is effective for periods beginning on or after 1 January 2019. The adoption of IFRS 16 will have a material impact on the Group's primary financial statements, including impacts on operating profit, profit before tax, total assets and total liabilities lines. The project is being led by Group Finance and has a steering committee in place to provide appropriate oversight and governance.

Lessee accounting

For operating leases in which the Group is a lessee, the Group will recognise a new right-of-use asset and a new lease liability for its leases of properties and equipment assets. Existing finance leases and onerous lease provisions for rental charges will be derecognised under IFRS 16.

Under IFRS 16 the income statement expense comprises a straight-line depreciation charge on the right-of-use asset and a front-loaded interest charge on the lease liability, both over the term of the lease. For an individual lease, this provides an overall front-loaded expense profile compared with the straight-line rental charge recognised under IAS 17.

The historical discount rates applied have been based on the incremental borrowing rate where the implicit rate in the lease is not readily determinable. The lease term comprises the non-cancellable lease term, in addition to optional periods when the Group is reasonably certain to exercise an option to extend (or not to terminate) a lease.

Lessor accounting

No significant impact is expected for leases in which the Group is a lessor. Where the Group subleases assets, it is determined whether the sublease should be classified as an operating lease or a finance lease, with reference to the right-of-use asset (not the underlying asset as per IAS 17).

Transition

The Group plans to apply IFRS 16 from 1 February 2019 using the full retrospective method and will thereby restate the comparatives for the year ended 31 January 2019. The Group plans to apply the practical expedient available for low-value items and short-term leases, recognising rental payments for these leases on a straight-line basis but not recognising a right-of-use asset or lease liability.

Impact of the new standard

The Group has assessed the impact that the application of IFRS 16 has on its income statement for the year ended 31 January 2019 and on its balance sheet as at that date. The standard is not expected to result in a material impact on restated underlying profit before tax. It is expected that the right-of-use asset recognised on the restated balance sheet as at 31 January 2019 will be c.£2.0bn, whilst the lease liability will be c.£2.6bn.

IFRS 16 indicative impact on FY 2018/19 income statement

£m	IAS 17	Adjustment [1]	IFRS 16
Sales	**11,685**	**-**	**11,685**
Retail profit	**753**	**160**	**913**
Central costs, joint venture/associate interest and tax	(53)	-	(53)
Finance costs (excl. lease FX) [2]	(7)	(170)	(177)
Underlying pre-tax profit	**693**	**(10)**	**683**

Rent elimination	430
Right-of-use asset depreciation	(270)
Retail profit adjustment	***160***

(1) Numbers are rounded to the nearest £10m
(2) Excludes foreign exchange differences relating to translation of leases denominated in non-functional currencies

IFRS 16 indicative impact on 31 January 2019 balance sheet

£bn	IAS 17	Adjustment	IFRS 16
Right-of-use assets	-	2.0	2.0
Other fixed assets [(1)]	6.3	(0.2)	6.1
Inventory, trade and other receivables/payables	0.5	0.1	0.6
Provisions	(0.1)	0.1	-
Current and deferred tax	(0.4)	0.1	(0.3)
Lease debt	-	*(2.6)*	*(2.6)*
Financial net cash	*0.1*	-	*0.1*
Net cash/(debt) [(2)]	0.1	(2.6)	(2.5)
Other	0.3	-	0.3
Net assets	**6.7**	**(0.5)**	**6.2**

(1) Includes goodwill, other intangible assets, property, plant and equipment, investment property and investments in joint ventures and associates
(2) Net debt under IFRS 16 comprises lease liabilities and financial net cash ('net cash' under IAS 17 excluding finance leases)

Other new standards, amendments and interpretations which are in issue but not yet effective are not expected to have a material impact on the consolidated financial statements.

Principal rates of exchange against Sterling

	2018/19		2017/18	
	Average rate	Year end rate	Average rate	Year end rate
Euro	**1.13**	**1.15**	1.14	1.14
US Dollar	**1.33**	**1.31**	1.30	1.42
Polish Zloty	**4.83**	**4.88**	4.83	4.75
Russian Rouble	**84.34**	**86.01**	75.53	79.74

Use of non-GAAP measures

In the reporting of financial information, the Group uses certain measures that are not required under IFRS, the generally accepted accounting principles ('GAAP') under which the Group reports. Kingfisher believes that retail profit, underlying pre-tax profit, adjusted pre-tax profit, adjusted effective tax rate, underlying earnings per share and adjusted earnings per share provide additional useful information on performance and trends to shareholders. These and other non-GAAP measures (also known as 'Alternative Performance Measures'), such as net cash, are used by Kingfisher for internal performance analysis and incentive compensation arrangements for employees. The terms 'retail profit', 'exceptional items', 'transformation costs', 'underlying', 'adjusted', 'adjusted effective tax rate' and 'net cash' are not defined terms under IFRS and may therefore not be comparable with similarly titled measures reported by other companies. They are not intended to be a substitute for, or superior to, GAAP measures.

Retail profit is defined as continuing operating profit before central costs, the Group's share of interest and tax of joint ventures and associates, transformation costs and exceptional items. It includes the sustainable benefits of the transformation plan. Central costs principally comprise the costs of the Group's head office before transformation costs and exceptional items.

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

- non-trading items included in operating profit such as profits and losses on the disposal, closure or impairment of subsidiaries, joint ventures, associates and investments which do not form part of the Group's trading activities;
- profits and losses on the disposal of properties and impairment losses on non-operational assets; and
- the costs of significant restructuring, including certain restructuring costs of the Group's five-year transformation plan launched in 2016/17, and incremental acquisition integration costs.

The term 'adjusted' refers to the relevant measure being reported for continuing operations excluding exceptional items, financing fair value remeasurements, related tax items and prior year tax items (including the impact of changes in tax rates on deferred tax). Financing fair value remeasurements represent changes in the fair value of financing derivatives, excluding interest accruals, offset by fair value adjustments to the carrying amount of borrowings and other hedged items under fair value hedge relationships. Financing derivatives are those that relate to hedged items of a financing nature.

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

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

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

3 Segmental analysis

Income statement

£ millions	UK & Ireland	France	Other International: Poland	Other International: Other	Total
					2018/19
Sales	**5,061**	**4,272**	**1,431**	**921**	**11,685**
Retail profit	**399**	**209**	**181**	**(36)**	**753**
Central costs					**(49)**
Share of interest and tax of joint ventures and associates					**(4)**
Transformation costs before exceptional items					**(120)**
Exceptional items					**(251)**
Operating profit					**329**
Net finance costs					**(7)**
Profit before taxation					**322**

£ millions	UK & Ireland	France	Other International: Poland	Other International: Other	Total
					2017/18
Sales	5,003	4,387	1,384	881	11,655
Retail profit	375	320	170	(16)	849
Central costs					(46)
Share of interest and tax of joint ventures and associates					(4)
Transformation costs before exceptional items					(114)
Operating profit					685
Net finance costs					(3)
Profit before taxation					682

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, Spain, Portugal, Germany, Russia, Romania and the joint venture Koçtaş in Turkey. Poland has been shown separately due to its significance.

Central costs principally comprise the costs of the Group’s head office before transformation costs and exceptional items.

Transformation costs before exceptional items principally relate to the unified and unique offer range implementation and the digital strategic pillar, with £47m (2017/18: £42m) included within selling and distribution expenses and £73m (2017/18: £72m) included within administrative expenses.

4 Exceptional items

£ millions	2018/19	2017/18
Included within selling and distribution expenses		
UK & Ireland and continental Europe restructuring	**(111)**	12
Impairments of Russia and Iberia assets	**(16)**	–
B&Q store replenishment	**(12)**	–
Romania acquisition integration	**(15)**	2
France exceptional employee bonus	**(6)**	–
	(160)	14
Included within administrative expenses		
Transformation exceptional costs	**(58)**	(15)
UK guaranteed minimum pension charge	**(5)**	–
	(63)	(15)
Included within other income/expenses		
Profit on disposal of properties	**29**	1
Impairments of properties held for sale	**(57)**	–
	(28)	1
Exceptional items before tax	**(251)**	–
Tax on exceptional items	**61**	–
Exceptional items	**(190)**	–

Current year exceptional items include a £111m net restructuring charge principally relating to impairments for underperforming stores. This includes 15 stores across our business that we are considering closing in the next two years and 19 Screwfix Germany outlets. In the prior year, a £12m credit was recognised, principally due to savings on B&Q store exit costs as compared with the original restructuring provisions recognised.

Impairments of £16m have been recorded relating to assets, including stores and non-operational assets, in Russia and Iberia. We announced in November 2018 the decision to exit these markets.

Costs of £12m have been recognised relating to B&Q redundancies associated with the local transfer of store replenishment routines from the night-time into the daytime.

Romania acquisition integration costs of £15m principally comprise the costs of closure of certain Praktiker stores acquired in November 2017.

Our businesses in France have experienced significant disruption from national demonstrations. In line with a number of other large corporates, we have committed to paying our staff an exceptional end-of-year bonus, resulting in a charge of £6m in the year.

In February 2018, the Group commenced formal consultation with employee representatives regarding its plans in France to restructure the business as part of the Group's transformation plan. Transformation exceptional costs of £58m have been recorded in the year, principally representing restructuring costs in France of £39m and other costs of people change in the UK.

In the UK we have incurred a £5m charge for the equalisation of guaranteed minimum pension benefits between men and women. This increases the liabilities of our UK defined benefit scheme, which was closed to future accrual in 2012.

A profit of £29m has been recorded on the disposal of properties in the UK and France. In addition, impairment losses of £57m have been recognised in advance of planned disposals for properties classified as held for sale in the UK and Poland.

5 Net finance costs

£ millions	2018/19	2017/18
Bank overdrafts and bank loans	**(15)**	(10)
Fixed term debt	**(3)**	(2)
Finance leases	**(2)**	(2)
Financing fair value remeasurements	**–**	(1)
Unwinding of discount on provisions	**(2)**	(1)
Capitalised interest	**2**	2
Other interest payable	**–**	(5)
Finance costs	**(20)**	(19)
Cash and cash equivalents and short term deposits	**9**	8
Net interest income on defined benefit pension schemes	**4**	5
Other interest income	**–**	3
Finance income	**13**	16
Net finance costs	**(7)**	(3)

6 Income tax expense

£ millions	2018/19	2017/18
UK corporation tax		
Current tax on profits for the year	**(52)**	(32)
Adjustments in respect of prior years	**(1)**	(8)
	(53)	(40)
Overseas tax		
Current tax on profits for the year	**(66)**	(152)
Adjustments in respect of prior years	**7**	(2)
	(59)	(154)
Deferred tax		
Current year	**27**	(20)
Adjustments in respect of prior years	**(19)**	1
Adjustments in respect of changes in tax rates	**–**	16
	8	(3)
Income tax expense	**(104)**	(197)

The adjusted effective tax rate, based on profit before exceptional items and excluding prior year tax adjustments and the impact of changes in tax rates on deferred tax, is 27% (2017/18: 30%). The reduction in the adjusted effective tax rate is largely due to the one-off French tax surcharge that was applicable in 2017/18. Tax on exceptional items for the year amount to a credit of £61m (2017/18: £nil).

7 Earnings per share

	2018/19			2017/18		
	Earnings £ millions	Weighted average number of shares millions	Earnings per share Pence	Earnings £ millions	Weighted average number of shares millions	Earnings per share pence
Basic earnings per share	**218**	**2,129**	**10.3**	485	2,192	22.1
Effect of dilutive share options	**–**	**11**	**(0.1)**	–	9	(0.1)
Diluted earnings per share	**218**	**2,140**	**10.2**	485	2,201	22.0
Basic earnings per share	**218**	**2,129**	**10.3**	485	2,192	22.1
Exceptional items before tax	**251**		**11.8**	–		–
Tax on exceptional and prior year items	**(48)**		**(2.3)**	(7)		(0.3)
Financing fair value remeasurements	**–**		**–**	1		–
Adjusted basic earnings per share	**421**	**2,129**	**19.8**	479	2,192	21.8
Transformation costs before exceptional items	**120**		**5.6**	114		5.2
Tax on transformation costs before exceptional items	**(32)**		**(1.5)**	(35)		(1.5)
Underlying basic earnings per share	**509**	**2,129**	**23.9**	558	2,192	25.5
Diluted earnings per share	**218**	**2,140**	**10.2**	485	2,201	22.0
Exceptional items before tax	**251**		**11.8**	–		–
Tax on exceptional and prior year items	**(48)**		**(2.3)**	(7)		(0.3)
Financing fair value remeasurements	**–**		**–**	1		–
Adjusted diluted earnings per share	**421**	**2,140**	**19.7**	479	2,201	21.7
Transformation costs before exceptional items	**120**		**5.6**	114		5.2
Tax on transformation costs before exceptional items	**(32)**		**(1.5)**	(35)		(1.5)
Underlying diluted earnings per share	**509**	**2,140**	**23.8**	558	2,201	25.4

Basic earnings per share is calculated by dividing the profit for the year attributable to equity shareholders of the Company by the weighted average number of shares in issue during the year, excluding those held in the Employee Share Ownership Plan trust ('ESOP trust') which for the purpose of this calculation are treated as cancelled.

For diluted earnings per share, the weighted average number of shares is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where both the exercise price is less than the average market price of the Company's shares during the year and any related performance conditions have been met.

8 Dividends

£ millions	2018/19	2017/18
Dividends to equity shareholders of the Company		
Ordinary interim dividend for the year ended 31 January 2019 of 3.33p per share (year ended 31 January 2018: 3.33p per share)	**71**	72
Ordinary final dividend for the year ended 31 January 2018 of 7.49p per share (year ended 31 January 2017: 7.15p per share)	**160**	159
	231	231

The proposed final dividend for the year ended 31 January 2019 of 7.49p per ordinary share (amounting to £158m, based on the issued share capital at the year end) is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these condensed financial statements.

9 Post-employment benefits

£ millions	2018/19 UK	2018/19 Overseas	2018/19 Total	2017/18 UK	2017/18 Overseas	2017/18 Total
Net surplus/(deficit) in schemes at beginning of year	**214**	**(115)**	**99**	239	(108)	131
Current service cost	**(2)**	**(9)**	**(11)**	(2)	(9)	(11)
Past service cost	**(5)**	**3**	**(2)**	–	–	–
Administration costs	**(4)**	**–**	**(4)**	(4)	–	(4)
Net interest income/(expense)	**6**	**(2)**	**4**	7	(2)	5
Net actuarial gains/(losses)	**74**	**4**	**78**	(62)	4	(58)
Contributions paid by employer	**37**	**3**	**40**	36	2	38
Exchange differences	**–**	**1**	**1**	–	(2)	(2)
Net surplus/(deficit) in schemes at end of year	**320**	**(115)**	**205**	214	(115)	99
Present value of defined benefit obligations	**(2,842)**	**(135)**	**(2,977)**	(3,002)	(134)	(3,136)
Fair value of scheme assets	**3,162**	**20**	**3,182**	3,216	19	3,235
Net surplus/(deficit) in schemes	**320**	**(115)**	**205**	214	(115)	99

For the UK scheme, a £5m exceptional past service cost has been recognised in the year relating to the equalisation of guaranteed minimum pension benefits between men and women.

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	2018/19	2017/18
Discount rate	**2.5**	2.5
Price inflation	**3.3**	3.4
Rate of pension increases	**3.0**	3.1

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	2018/19	2017/18
Age to which current pensioners are expected to live (60 now)		
- Male	**87.3**	87.2
- Female	**89.0**	88.9
Age to which future pensioners are expected to live (60 in 15 years' time)		
- Male	**88.5**	88.4
- Female	**90.9**	90.8

The following sensitivity analysis for the UK scheme shows the estimated impact on the obligation resulting from changes to key actuarial assumptions, whilst holding all other assumptions constant.

Assumption	Change in assumption	Impact on defined benefit obligation
Discount rate	Increase/decrease by 0.5%	Decrease/increase by £315m
Price inflation	Increase/decrease by 0.5%	Increase/decrease by £252m
Rate of pension increases	Increase/decrease by 0.5%	Increase/decrease by £260m
Mortality	Increase in life expectancy by one year	Increase by £94m

10 Cash generated by operations

£ millions	2018/19	2017/18
Operating profit	**329**	685
Share of post-tax results of joint ventures and associates	**(2)**	(3)
Depreciation and amortisation	**272**	254
Net impairment losses	**160**	1
(Profit)/loss on disposal of property, plant and equipment and investment property	**(25)**	2
Share-based compensation charge	**15**	8
Decrease/(increase) in inventories	**95**	(473)
Decrease in trade and other receivables	**144**	12
(Decrease)/increase in trade and other payables	**(203)**	87
Movement in provisions	**19**	(75)
Movement in post-employment benefits	**(23)**	(23)
Cash generated by operations	**781**	475

11 Net cash

£ millions	2018/19	2017/18
Cash and cash equivalents	**229**	230
Bank loans	**(4)**	(6)
Fixed term debt	**(136)**	(125)
Financing derivatives	**(5)**	14
Finance leases	**(36)**	(45)
Net cash	**48**	68

£ millions	2018/19	2017/18
Net cash at beginning of year	**68**	641
Net increase/(decrease) in cash and cash equivalents	**12**	(596)
Repayment of bank loans	**1**	7
Repayment of fixed term debt	**134**	–
Issue of fixed term debt	**(139)**	–
Receipt on financing derivatives	**(37)**	–
Capital element of finance lease rental payments	**10**	11
Cash flow movement in net cash	**(19)**	(578)
Borrowings acquired	**–**	(7)
Exchange differences and other non-cash movements	**(1)**	12
Net cash at end of year	**48**	68

12 Acquisitions

In the prior year on 30 November 2017, the Group obtained control of Praktiker Romania S.A. ("Praktiker") by acquiring 100% of its share capital for a cash consideration of £14m (excluding cash acquired of £2m). Praktiker is a home improvement retailer and was acquired to strengthen the Group's position in Romania.

Goodwill of £36m was recognised on net liabilities acquired of £22m, representing a strategic premium to strengthen the Group's position in Romania and anticipated synergies that will arise from the acquisition.

13 Contingent liabilities

The Group has arranged for certain guarantees to be provided to third parties in the ordinary course of business. Of these guarantees, £43m (2017/18: £43m) would crystallise due to possible future events not wholly within the Group's control.

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

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

Included within these audits is a dispute with the French Tax Authority regarding the treatment of interest paid since the 2010 year end, where additional French tax of €49m (£43m) has been assessed and for which a bank guarantee is now in place. At the balance sheet date, interest and penalties of €51m (£44m) would be due on this assessment if not challenged successfully. Having taken external professional advice, the Group disagrees with the assessment and intends to defend its position through the courts. The Group does not consider it necessary to make provision for the amounts assessed at the current time, nor for any potential further amounts which may be assessed for subsequent years.

In October 2017, the European Commission opened a state aid investigation into the Group Financing Exemption section of the UK controlled foreign company rules. Along with many other UK-based international companies, the Group may be affected by the outcome of this investigation and is therefore monitoring developments. The Group does not currently consider any provision is required in relation to EU State Aid.

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