# Travis Perkins plc
## Interim results for the six months ended 30 June 2019
## Good strategic progress underpinned by strong trading performance

| £m | *Note* | **H1 2019** | H1 2018 Restated[(1)] | H1 2018 IFRS 16[(2)] | *Change vs. illustrative comparatives* |
|---|---|---|---|---|---|
| Revenue | | **2,771** | 2,591 | 2,591 | *6.9%* |
| Like-for-like revenue growth[(3)] | | **8.0%** | 0.2% | 0.2% | *7.8ppt* |
| Adjusted operating profit[(3)] | *17a* | **195** | 156 | 170 | *14.7%* |
| Adjusted earnings per share[(3)] | *8b* | **50.1p** | 46.3p | 41.8p | *19.9%* |
| ROCE[(3)] | *17f* | **9.8%** | 10.5% | 9.0% | *0.8ppt* |
| Covenant net debt[(3)] | *13* | **(414)** | (409) | | |
| Dividend per share | *9* | **15.5p** | 15.5p | | |
| Operating profit / (loss) | | **64** | (104) | | |
| Total profit / (loss) after tax | | **12** | (148) | | |
| Basic earnings per share | *8a* | **6.9p** | (57.2)p | | |

(1) All figures except for profit after tax restated to exclude the Plumbing & Heating division, which has been presented as a discontinuing operation
(2) Figures adjusted on a non-statutory illustrative basis for IFRS 16 – Leases as previously reported in May 2019
(3) Alternative performance measures are used to provide a guide to underlying performance. Details of calculations can be found in the notes listed

## Financial highlights

- Continuing Group revenue increased by 6.9%, and by 8.0% on a like-for-like basis, primarily driven by volume growth
- Continuing Group adjusted operating profit increased by 14.7% to £195m
- Strong performance across the Group - positive trading in Merchanting demonstrating share gains, a strong recovery in Wickes and continued excellent growth in Toolstation
- Adjusting items of £127m including a £111m asset write off relating to the ERP replacement programme

## Strategic progress

- Merchant businesses benefitting from simplification and more empowered branch managers
- Process to divest the P&H business ongoing, classified as an asset held for sale
- Decision to demerge Wickes reflecting the Group's focus on advantaged trade businesses and the simplification of the Group
- Cost actions delivering improved financial performance

John Carter, Chief Executive Officer, commented:

"I am delighted with the progress the Group has made in executing the strategy set out at the capital markets event in December 2018; to focus on our advantaged trade businesses and to simplify the Group. The P&H sales process is well underway, and we are today announcing our intention to demerge Wickes as a separate business.

This strategic progress has been underpinned by a strong trading period in the first half of 2019 albeit against softer trading conditions in H1 2018. Our trade merchanting businesses have outperformed their markets, through continued focus on delivering excellent customer service, and benefitting from the leaner, lower cost organisation now in place. Toolstation continues to deliver excellent growth through proposition improvements and network expansion. Wickes has delivered a strong turnaround in volume and profit performance, with gains in both core DIY and through the Kitchen & Bathroom showroom.

Whilst our underlying markets remain subdued, the self-help initiatives underway are supporting an encouraging improvement in performance and provide a strong platform to drive sustainable growth ahead of our markets in the medium term. Despite a cautious outlook for the near-term, the Group remains confident in making progress across the year as a whole."

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## Summary

The Group has reported its H1 2019 interim results on the following basis:

- The Plumbing & Heating business has been classified as a discontinuing operation due to progress with the ongoing sale process.
- The Group is reporting its accounts under IFRS 16 – Leases for the first time, which treats all lease obligations as debt, leading to changes in the income statement and balance sheet. Illustrative comparatives have been presented as if IFRS 16 were in place in 2018.

The Group has had a good start to the year, with revenue of the continuing Group increasing by 6.9% to £2,771m, and by 8.0% on a like-for-like basis. Adjusted operating profits, excluding property profits, grew by 18.1% to £189m (H1 2018: £160m), which reflects positive trading in the merchant businesses and a strong recovery in Wickes. Toolstation continued to demonstrate excellent sales growth performance, as ongoing investment positions the business well for future profit and cash flow growth. Further progress was made towards the Group's cost reduction targets, with achieved savings broadly offsetting the inflation in the overhead cost base.

The Group continues to generate good cash flow. The Group has changed its definition of free cash flow so that it better reflects the operating cash generation of the business as it now excludes all freehold property transactions but includes both maintenance and investment capital expenditure. The Group generated £40m of free cash flow in the first half of the year, up from £21m on the same basis in the first half of 2018. This was achieved despite a significant step up in working capital in the first half as the Group increased inventory levels in anticipation of the UK's potential exit from the EU in the spring. This elevated level has been maintained given the delay to the UK's expected departure from the EU.

Adjusted earnings per share (EPS) increased by 19.9% to 50.1p (H1 2018 illustrative comparative: 41.8p), driven by the stronger adjusted operating profit generation and a lower deferred tax charge in H1 2019.

The Board has declared an interim dividend of 15.5p (2018: 15.5p).

*Merchanting ERP programme*

The Group announced a delay to its Merchant ERP replacement programme in December 2018 as this programme has continued to face significant challenges. As a result, the Group is considering whether to implement the various elements of an ERP system as separate items, after modernising the Group's core IT architecture.

A revised approach may incorporate components from the existing project, however under accounting standards the Directors have concluded that the existing assets of £111m should be written off.

*Discontinuing operations*

At the Capital Markets Event held in December 2018, the Group announced its intention to divest the Plumbing & Heating business during 2019. The Group expects that the divestment is likely to be concluded by the end of 2019, and as such the Plumbing & Heating business has been classified as an asset held for sale and accounted for as a discontinuing operation.

Sales and operating profit for discontinuing operations are excluded from reported adjusted operating profit, with profits from discontinuing operations included in total Group results after tax.

## Strategic progress

At the Capital Markets event in December 2018, the Group laid out its plans for the years ahead, with two overarching strategic aims being (i) to focus on best serving trade customers, and (ii) to simplify the business to increase agility, speed up decision making and enable a leaner cost base.

*Focus on Trade*

The Group's strategy to focus on advantaged trade businesses is built on the solid foundations already in place across the specialist and mixed merchants, with a strong culture of operational efficiency and excellent customer service. A number of key priorities have been identified to drive sustainable growth across all the Merchanting businesses in the medium term, improving market share and best positioning the businesses to compete successfully in the future:

- Removal of the divisional structure above the Merchanting businesses, to form a broader "Trade Merchanting Organisation", reducing cost and speeding up decision making
- Greater empowerment of branch managers, enabling them to make quicker, more relevant decisions on behalf of customers and the Group
- Giving greater autonomy to branches to stock the right products in the right volumes to fulfil local customer requirements
- Tailoring the trade proposition to best match specific customer groups, either through product categories in the specialist merchants, or to deliver local customer requirements in Travis Perkins
- Reducing the administrative burden on branch colleagues by simplifying processes and reducing reporting requirements

Toolstation continues to demonstrate excellent growth and, in line with the strategic pillar to focus on advantaged trade businesses, it remains a priority for the deployment of capital. The Group is accelerating the expansion of the branch network to improve convenience, and is further extending the product range including the addition of more trade-focused brands.

*Simplify the Group*

*Cost reduction activities*

The simplification of the Group, including the removal of the divisional structure over the trade merchanting businesses, is enabling the Group to reduce its overall above-branch cost base. The Group remains on plan to achieve the £20m-£30m of annualised cost reductions by mid-2020.

In 2019, the cost base has benefited from the annualisation of cost reduction activities in Wickes and Travis Perkins in 2018, with around £15m of cost savings rolling into the first half of the year. In addition, actions to achieve further annualised savings from the planned £20m-£30m of around £10m have been completed in the half, with £6m of reduction included in the H1 2019 results. These savings include operational cost savings relating to the closure of the Tilbury range centre and the restructuring and streamlining of head office support functions.

As anticipated, these savings have broadly offset inflation pressure in the overhead cost base with increases in rent and rates, and growth in salary costs, in part due to the increase in the living wage. The Group continues to invest in businesses to drive growth, including the continued expansion of Toolstation and extra investment in front line branch and sales colleagues in Travis Perkins.

*Progress on Plumbing & Heating disposal*

The separation of Plumbing & Heating from the Group's other merchanting businesses has progressed well, with successful separation of the IT system, including back office and finance systems, and separation of commercial agreements which enable the P&H business to operate autonomously from the Group. As a result, the Group has initiated a disposal process and expects to complete a transaction in 2019.

*Proposed Wickes demerger*

At the capital markets event in December 2018, the Group announced the intention to strengthen the performance of Wickes and to capitalise on its clear competitive advantages in the DIY, small trade and Kitchen and Bathroom markets. At the same time the Board committed to review the options for maximising the value of Wickes in the medium term.

Since the capital markets update, good progress has been made in strengthening Wickes's trading performance, and steps have been taken to provide Wickes with greater autonomy from the Travis Perkins group through the separation of its systems and processes. After reviewing the options, the Board has determined to demerge Wickes to shareholders as a standalone business.

The demerger of Wickes is a key component of the overall Travis Perkins strategy to focus on trade customers and to simplify the Group which the Board believes will underpin the creation of enhanced value for shareholders. It is expected to complete in H1 2020.

The Board believes that Wickes, under a management team led by David Wood, is well positioned to thrive as a stand-alone business. Wickes will have the autonomy to execute on its strategy and allocate capital to its customer proposition and growth opportunities with a clearer focus.

## Outlook

The long term fundamentals of the Group's end markets remain robust, with growing demand for housing in the UK, and the continued underinvestment in the repair, maintenance and improvement of the existing, aging housing stock.

Whilst the Group demonstrated strong performance in the first half of the year, this was against a softer trading period in H1 2018 with strengthening comparators for the remainder of 2019. In the short term, the current level of uncertainty along with mixed signals from the Group's key lead indicators make it difficult to forecast market conditions. As a result, the Group maintains a cautious outlook for the near-term, although remains confident in making progress across the year as a whole.

## Technical guidance

The Group's technical guidance for 2019 is as follows:

- Effective tax rate of 19%
- Underlying finance charges similar to 2018, with the addition of around £55m of interest on lease liabilities resulting from the implementation of IFRS 16 – Leases.
- Capital expenditure in 2019 of around £110m to £130m
- Property profits of around £20m (after the application of IFRS 16)
- Progressive dividend underpinned by strong cash generation

## Segmental performance

## Merchanting

| | **H1 2019** | H1 2018* | *Change* |
|---|---|---|---|
| Total revenue | **£1,869m** | £1,783m | *4.8%* |
| Like-for-like growth | **6.4%** | 2.4% | *4.0ppt* |
| Adjusted operating profit** | **£140m** | £133m | *5.3%* |
| Adjusted operating margin** | **7.5%** | 7.5% | - |
| ROCE | **12%** | 11% | *1ppt* |
| Branch network*** | **996** | 1001 | *(5)* |

*H1 2018 figures used are illustrative comparatives including the impact of IFRS 16 as previously disclosed
**Divisional adjusted operating profit figures are presented excluding property profits
***2018 branch network figures for comparison are taken at 31 December 2018

Total sales in the Merchanting segment grew by 4.8% to £1,869m, with growth of 6.4% on a like-for-like basis. Across the merchanting sector, strong sales growth in Q1 relative to the inclement weather in Q1 2018 was followed by moderating growth in the second quarter, driven by both significantly stronger comparatives and a slowing of underlying trade markets in June.

Travis Perkins' like-for-like sales grew by 5.2%, demonstrating outperformance of the wider merchanting market. This outperformance was driven by a number of factors, including early encouraging signs from the initiatives in place to empower branch teams, make branch ranging more tailored to specific local customers and to invest selectively in customer facing branch and sales teams to improve service levels.

The specialist merchants continued their recent trend of outperforming their markets. CCF achieved good sales growth, although this slowed towards the end of the half as supply issues on plasterboard restricted the levels of growth in the market. These constraints are expected to continue through the second half of 2019 and into 2020.

BSS expanded its reach into the air conditioning market through the recently acquired TF Solutions business, with two further branches opened in the first half of 2019, taking the total network to five. Keyline is successfully pursuing its strategy to focus on heavy civils and drainage categories for large customers, and this has driven further sales growth, primarily in the direct delivery of materials. Whilst this product and customer mix is typically lower margin, it represents a significant improvement in return on capital, as it enables the business to operate from fewer, larger, lower cost branches.

Merchanting adjusted operating profits grew by 5.3%, in line with the growth in revenue. Savings from cost reduction activities in Travis Perkins in the second half of 2018 of around £10m were annualised in the first half of 2019, in addition to further annualised savings generated as part of the targeted £20m-£30m cost saving programme. Overall, these savings were broadly offset by inflation in the overhead cost base, as well as through cost investment in front line branch and sales colleagues which have helped to drive revenue growth ahead of the market in the first half of the year.

Merchanting operating margin was broadly stable, as operating leverage of the cost base through volume growth offset modest pressure on gross margin. This gross margin pressure was primarily due to shifts in product mix in Travis Perkins with higher growth in heavyside products, and generally stronger growth in larger customers and deliveries direct from suppliers to the customer across the merchanting businesses.

Merchanting return on capital increased by 1ppt compared to the first half of 2018, primarily driven by the increase in adjusted operating profit through improved trading and the positive impact of cost reduction activities, combined with a modest reduction in capital employed.

## Toolstation

| | **H1 2019** | H1 2018* | *Change* |
|---|---|---|---|
| Total revenue | **£208m** | £169m | *23.1%* |
| Like-for-like growth | **17.3%** | 10.7% | *6.6ppt* |
| Adjusted operating profit** | **£13m** | £10m | *30.0%* |
| Adjusted operating margin** | **6.3%** | 5.9% | *40bps* |
| ROCE | **10%** | 10% | - |
| Branch network (UK)*** | **356** | 335 | *21* |
| Branch network (Europe)*** | **53** | 40 | 13 |

*H1 2018 figures used are illustrative comparatives including the impact of IFRS 16 as previously disclosed
**Divisional adjusted operating profit figures are presented excluding property profits
***2018 branch network figures for comparison are taken at 31 December 2018

Toolstation demonstrated outstanding revenue growth of 23.1%, and 17.3% on a like-for-like basis. This growth was primarily driven by the continued extension of the branch network, the continued attraction of the low value, high convenience proposition and the further extension of ranges available online.

Adjusted operating profit grew by £3m, with higher earnings from growing sales volumes partially offset by continued investment in the business to drive future growth. Return on capital was flat year-on-year as the growth in adjusted operating profit was offset by the continuing growth in the branch network. A further 21 Toolstation branches were opened in the half, with new branches performing ahead of expectations, including further trials of new formats including smaller footprint branches. There are over 60 branch openings planned in total for 2019, with all of the remaining sites for the year already identified.

The range of products available online and through the catalogue was extended by an additional 1,500 products, with added ranges being primarily trade focused brands. Toolstation's net promoter score increased by five points to 86, reflecting the strong proposition and the high quality of service in branch. The new website, launched in December 2018, is driving strong growth in click & collect transactions, and continues to demonstrate very high conversion rates of site visitors.

The development of the Toolstation business in Europe continued, with a further 13 branches opened, bringing the total to 53. Branches opened in the Netherlands continue to perform strongly, with further network expansion planned in the second half of the year. The branch trial in France continues to perform well, and a first trial branch was opened in Belgium.

## Retail

| | **H1 2019** | H1 2018* | *Change* |
|---|---|---|---|
| Total revenue | **£695m** | £638m | *8.9%* |
| Like-for-like growth | **9.7%** | *(7.4)%* | *17.1ppt* |
| Adjusted operating profit** | **£52m** | £35m | *48.6%* |
| Adjusted operating margin** | **7.5%** | 5.5% | *200bps* |
| ROCE | **7%** | 5% | *2ppt* |
| Store network - Wickes*** | **241** | 241 | - |
| Store network - Tile Giant*** | **95** | 96 | *(1)* |

*H1 2018 figures used are illustrative comparatives including the impact of IFRS 16 as previously disclosed

**Divisional adjusted operating profit figures are presented excluding property profits

***2018 store network figures for comparison are taken at 31 December 2018

Wickes revenue has recovered strongly in the first half of 2019 after a difficult period in 2018, with like-for-like sales growth of 9.7%. Around 2% of the like-for-like growth is estimated to be attributable to the milder weather in March and April in 2019 compared with the same period in 2018.

Core DIY sales performance benefited from a strong, clear and well balanced trading plan combined with the addition of new ranges, particularly in decorating and landscaping, and improvements made in the supply chain to increase product availability in store.

Kitchen & Bathroom showroom (K&B) deliveries remained strong through the half, benefitting from the order book carried into the year from the improved Q4 2018 order intake, along with continued good order placement so far in 2019. The order book at the end of the half is encouraging, although the wider market for consumer big-ticket purchases remains subdued and the benefit of competitor withdrawal from the market is cycled in the second half of the year.

Wickes adjusted operating profit showed a significant improvement over 2018, with growth of 49% to £52m. Gross margins, which were under pressure in 2018 from competitor pricing activity, have remained broadly stable in 2019. Adjusted operating profit margin increased by 200bps to 7.5%, with this improvement reflecting the volume growth in both Core DIY and K&B, a mix shift to higher margin sales as K&B recovered strongly, and the benefits of the intensive overhead cost reduction activity carried out in the first half of 2018. The improvement in adjusted operating profit drove a 2ppt increase in return on capital employed.

Three additional Wickes refits were completed in the half, which, along with one new store opened, brings the total number of new store formats up to 125 from an overall network of 241 stores. Continuing development of digital capability and customer service channels includes online-in-store capability, allowing colleagues to sell the full online range of products to customers in store, either for in store collection or home delivery. This enables colleagues to provide full-project service to all customers, whilst maintaining a tight SKU range in store.

Improved stock accuracy, reductions in wastage and better product supply forecasting have increased product availability in store. Better availability has supported targeted promotional campaigns to drive footfall and sales. TradePro continues to be an attractive proposition for our trade customers, with improvements in specific customer marketing.

As noted in the Summary section of this release, the Board intends to demerge Wickes to shareholders as a standalone business in H1 2020.

## Discontinuing operations - Plumbing & Heating

The Group announced at its Capital Markets event in December 2018 that it intended to divest the Plumbing & Heating business during the course of 2019. The Group expects this process to be completed by the end of 2019, and the P&H segment has been classified as a discontinuing operation at 30 June 2019, with the asset held for sale.

| | **H1 2019** | H1 2018* | *Change* |
|---|---|---|---|
| Total revenue | **£713m** | £774m | *(7.9)%* |
| Like-for-like growth | **(3.9)%** | 19.8% | *(23.7)ppt* |
| Adjusted operating profit** | **£24m** | £22m | *9.1%* |
| Adjusted operating margin** | **3.4%** | 2.8% | *60bps* |
| ROCE | **12%** | 10% | *2ppt* |
| Branch network*** | **377** | 377 | - |

*H1 2018 figures used are illustrative comparatives including the impact of IFRS 16 as previously disclosed
**Divisional adjusted operating profit figures are presented excluding property profits
***2018 branch network figures for comparison are taken at 31 December 2018

The separation of the Plumbing & Heating business has progressed according to plan during the first half of 2019. A significant milestone was achieved with the successful separation of the IT system in May, enabling the business to operate autonomously from the Group. The disposal process is underway.

Plumbing & Heating revenue fell by 7.9% in the first half of 2019, and by 3.9% on a like-for-like basis. This reduction was primarily down to a fall in sales through the wholesale and contract businesses combined with milder weather in Q1 2019 when compared to the same period in 2018. The merchant branches and online channels continued to demonstrate encouraging growth.

Adjusted operating profit increased by £2m to £24m. A change to business mix saw reduced sales in the lower margin wholesale business, but this was more than offset by growth of higher margin sales in branches and online businesses, combined with ongoing actions to tightly manage the overhead cost base.

## Central costs

Unallocated central costs reduced by £2m to £16m (H1 2018: £18m when adjusted for IFRS 16). The reduction was primarily driven by cost reduction actions taken to rightsize the central function in line with the Group's simplification plans, whilst also focusing on delivering an efficient support service to branches. Cost reductions were partially offset by inflation, mainly in salaries.

## Property transactions

The Group continues to recycle its freehold property portfolio to provide the best trading locations for its businesses, whilst managing the level of capital allocated to owning and developing freehold sites.

The Group received a net £9m of cash from property transactions in the first half of 2019 (H1 2018: £10m received). One new freehold site was purchased at a cash cost of £7m, more than offset by the disposal of three freehold sites which were excess to requirements generating proceeds of £18m. The Group continues to develop new sites, with branches completed and opened in Worthing, Sevenoaks and Loughborough, with total construction costs of £2m.

The recycling of capital generated property profits of £6m in the first half of 2019. The application of IFRS 16 defers an element of the property profits recognised on sale and leaseback transactions. For the equivalent half year period in 2018, the comparative property profit figure would have been £11m when adjusted for IFRS 16 (H1 2018 as reported: £17m). The Group expects to recognise around £20m of property profits in 2019, after the application of IFRS 16.

## Financial Performance

### Revenue analysis

Revenue from the continuing Group grew by 6.9% in total, and by 8.0% on a like-for-like basis. There was good growth in all continuing segments, with a strong recovery in Wickes, continuation of excellent growth in Toolstation, and good growth across the Merchanting businesses.

### Volume, price and mix analysis

| **Total revenue** | **Merchanting** | **Toolstation** | **Retail** | **Continuing Group** |
|---|---|---|---|---|
| Volume | 4.6% | 15.4% | 10.0% | 6.8% |
| Price and mix | 1.8% | 1.9% | (0.3%) | 1.2% |
| Like-for-like revenue growth | 6.4% | 17.3% | 9.7% | 8.0% |
| Network expansion and acquisitions | (0.8)% | 5.8% | (0.8)% | (0.5)% |
| Trading days | (0.8)% | - | - | (0.6)% |
| **Total revenue growth** | **4.8%** | **23.1%** | **8.9%** | **6.9%** |

### Quarterly like-for-like revenue analysis

| Like-for-like revenue growth | **Merchanting** | **Toolstation** | **Retail** | **Continuing Group** |
|---|---|---|---|---|
| Q1 2019 | 10.6% | 19.1% | 10.0% | **11.0%** |
| Q2 2019 | 2.7% | 15.7% | 9.4% | **5.2%** |
| H1 2019 | 6.4% | 17.3% | 9.7% | **8.0%** |

Levels of inflation were lower in the first half of 2019 than in recent periods, with sales price inflation in the trade businesses at around 2%, and broadly flat pricing in Wickes. There was one fewer trading day in the Merchanting businesses in the first half of the year. There will be one extra trading day in the second half to even out the year as a whole.

The main area of network expansion in the Group continues to be within the Toolstation business, with an additional 21 branches opened, and the trading growth of these branches being particularly strong. This was partially offset by modest reductions in the network in the Merchant businesses, particularly in Keyline as the business focuses on operating from fewer, more efficient branches, and in Travis Perkins where some smaller branches have been consolidated, resulting in a net reduction of 5 branches.

## Operating profit and margin

| £m | H1 2019 | H1 2018 As reported (pre-IFRS 16) Restated to exclude P&H | H1 2018 illustrative IFRS 16 adjustment | H1 2018 IFRS 16 illustrative comparatives | Change* |
|---|---|---|---|---|---|
| Merchanting | 140 | 129 | 4 | 133 | *5.3%* |
| Toolstation | 13 | 9 | 1 | 10 | *30.0%* |
| Retail | 52 | 20 | 15 | 35 | *48.6%* |
| Property | 6 | 14 | (4) | 10 | *(40.0)%* |
| Unallocated costs | (16) | (16) | (2) | (18) | *(11.1)%* |
| **Adjusted operating profit** | **195** | **156** | **14** | **170** | ***14.7%*** |
| *Amortisation of acquired intangible assets* | *(4)* | | | | |
| *Impairment* | *(127)* | | | | |
| **Operating profit from continuing operations** | **64** | | | | |

*Changes calculated versus H1 2018 illustrative comparatives including the impact of IFRS 16 as previously disclosed

Adjusting items in the period included:

- An adjusting item of £111m relating to the impairment of assets relating to the ERP project
- Adjusting items totalling £13m relating to the closure of the Built business in April 2019
- Adjusting items of £4m relating to increasing the autonomy of the Wickes business

## Finance charge

Net finance charges, shown in note 5, were £41m (2018: £10m). Of this £31m year-on-year difference, around £28m was due to the interest charge on leased assets recognised as part of the implementation of IFRS 16 – Leases.

Interest costs on borrowings were broadly unchanged from 2018 at £10m, although there was an additional charge of £1.5m relating to the early refinancing of the Group's revolving credit facility, which was completed in January 2019. The mark-to-market of foreign exchange contracts at the half year was not material.

## Taxation

The tax charge for continuing activities for the period to 30 June 2019, including the effect of adjusting items, is £2.7m (2018: £25.8m). This represents an effective tax rate (ETR) of 13.0% (2018: negative 22.3%).

The tax charge for continuing activities before adjusting items is £25.8m (2018: £27.8m) giving an adjusted ETR of 17.4% (standard rate 19.0%, 2018 actual: 19.7%). The adjusted ETR is lower than the standard rate due to the effect of non-taxable property profits exceeding the effect of costs which are not deductible for tax purposes.

## Earnings per share

The Group reported profit after tax for continuing operations of £17m (H1 2018: £(142)m loss). Basic earnings per share (EPS) from continuing operations were 6.9p per share (H1 2018: (57.2)p per share). The 2019 statutory reported profit after tax figure was impacted by the write off of assets related to the Group's ERP programme, whilst the 2018 figure was impacted by the impairment of goodwill and intangible assets in Wickes.

Adjusted earnings per share increased by 19.9% to 50.1p per share (H1 2018: 41.8p per share). This increase was driven by the growth in adjusted operating profit, and a lower deferred tax charge in H1 2019.

## Reconciliation of reported to adjusted earnings

| £m | **Six months ended 30 June 2019** | Six months ended 30 June 2018 (restated) |
|---|---|---|
| Profit / (loss) attributable to the owners of the parent from continuing operations | **17.0** | (142.4) |
| Adjusting items | **127.3** | 256.6 |
| Tax on adjusting items | **(23.1)** | (2.0) |
| Amortisation of acquired intangible assets | **4.1** | 4.0 |
| Tax on amortisation of acquired intangible assets | **(0.9)** | (0.8) |
| Earnings for adjusted earnings per share | **124.4** | 115.4 |

## Cash flow and balance sheet

### Free cash flow

The Group has redefined its basis for measuring free cash flow (FCF) to better reflect the cash generation of the business. Under the new definition, FCF excludes all freehold property transactions, both investments and disposals, and includes all base capex: the sum of maintenance and investment capital expenditure.

The FCF statement includes all cash flows from continuing and discontinuing operations.

| £m | H1 2019 | H1 2018 |
|---|---|---|
| **Group adjusted EBITA excluding property profits** | **214** | **162** |
| Depreciation of PPE and other non-cash movements | 70 | 69 |
| Change in working capital | (134) | (104) |
| Net interest paid (excluding lease interest) | (4) | (1) |
| Interest on lease liabilities | (30) | - |
| Tax paid | (30) | (28) |
| **Adjusted operating cash flow** | **86** | **98** |
| ***Capital investments*** | | |
| Capex excluding freehold transactions | (51) | (83) |
| Proceeds from disposals excluding freehold transactions | 5 | 6 |
| **Free cash flow before freehold transactions** | **40** | **21** |

Under the new definition, FCF of £40m was generated in the first half of the year (H1 2018: £21m). The increase was primarily driven by the higher operating profits generated by the Group and lower base capital expenditure.

As expected, the increase in working capital was higher in the first half of 2019. Inventories, which have been held flat in recent years, increased by over £50m in the half, relating to the Group building up inventory in anticipation of the UK's potential exit from the EU in the spring. This elevated level has been maintained given the delay in the UK's expected departure from the EU, and the Group will make decisions on the optimal level of inventory to protect customers' access to materials. Trade receivables grew in line with the growth in sales, with around two thirds of Group sales being conducted through a customer credit account.

### Capital investment

In line with the Group's guidance at the beginning of 2019, capital investment was lower, with £51m of base capital expenditure (H1 2018: £83m).

| £m | H1 2019 | H1 2018 |
|---|---|---|
| Maintenance | (22) | (25) |
| IT | (12) | (24) |
| Growth capex | (17) | (34) |
| **Base capital expenditure** | **(51)** | **(83)** |
| Freehold property | (9) | (41) |
| **Gross capital expenditure** | **(60)** | **(124)** |
| Disposals | 29 | 51 |
| **Net capital expenditure** | **(31)** | **(73)** |

Maintenance capital expenditure was broadly similar year-on-year, and continues to be primarily driven by the required maintenance and replacement of the Group's vehicle fleet.

Growth capex investment reduced significantly in the half, at £17m (2018: £34m), primarily due to fewer store refits completed in the period. The main focus of investment in H1 2019 concentrated on the continued expansion of the Toolstation branch network.

## Uses of free cash flow

| £m | **H1 2019** |
|---|---:|
| **Free cash flow** | **40** |
| Investments in freehold property | (9) |
| Disposal proceeds from freehold transactions | 24 |
| Acquisitions / disposals | (20) |
| Dividends | (78) |
| Pensions payments | (10) |
| Purchase of own shares | (14) |
| Cash payments on adjusting items | (33) |
| Other | (16) |
| **Change in cash/cash equivalents** | **(116)** |

Additional cash contributions to the defined benefit pension schemes above the income statement charge, including the annual payment against the pension SPV, were £10m (2018: £8m). The cash cost of 2019 adjusting items, and utilisation of prior year provisions for adjusting items was £33m, with costs incurred in the removal of the divisional structure above the Merchanting businesses, separation of the P&H businesses, and increasing autonomy of Wickes.

Under the new policy initiated in 2018 for the Group to purchase shares in the market for employee share schemes; £14m of shares were purchased in the period.

There was a payment of £18m made on the acquisition of a further 35% of the Underfloor Heating Store business, taking the total Group holding to 90%.

## Net debt and funding

The move to accounting under IFRS 16 has changed the balance sheet metrics around debt. The Group has defined new debt measures as follows:

- **Covenant net debt** - a new KPI which matches the definition of net debt in the Group's banking and bond covenants. H1 2018 covenant net debt has been calculated as a direct comparative figure.
- **Net debt** - The Group has stopped reporting lease adjusted net debt as the implementation of IFRS 16 – Leases means that the effect of leases is already reflected in net debt. 2018 results have not been restated.

Covenant net debt was broadly flat year on year. Fixed charge cover improved to 3.0x, primarily driven by the increase in adjusted EBITDA. The net debt to adjusted EBITDA metric under IFRS 16, with net debt including all lease obligations, reduced to 2.8x, moving towards the Group's medium term leverage target of 2.5x.

| | Medium Term Guidance | H1 2019 | H1 2018 | |
|---|---|---|---|---|
| Covenant net debt | | **£414m** | £409m | £5m |
| IFRS 16 Net debt | | **£1,739m** | | |
| Lease adjusted net debt | | | £2,001m | |
| Gearing | | **40.9%** | 47.6% | *n/a* |
| Fixed charge cover | 3.5x | **3.0x** | 2.7x | 0.3x |
| Net debt : Adjusted EBITDA* | 2.5x | **2.8x** | 3.0x | |

*H1 2018 comparative figure is calculated as Lease Adjusted Net Debt to EBITDAR with a lease adjustment based on 8x the annual net rent charge. Whilst not directly comparable, the two methods are broadly consistent.

*Funding*

As at 30 June 2019, the Group's committed funding of £950m comprised:

- £250m guaranteed notes due September 2021, listed on the London Stock Exchange
- £300m guaranteed notes due September 2023, listed on the London Stock Exchange
- A revolving credit facility of £400m, refinanced in January 2019, which runs until 2024, advanced by a syndicate of 8 banks.

As at 30 June 2019, the Group had undrawn committed facilities of £400m (2018: £550m) and deposited cash of £52m (2018: £80m).

The Group's credit rating, issued by Standard and Poor's, was maintained at BB+ stable following its review in April 2019.

The Group has a policy of funding through floating interest rate facilities owing to the significant implicit fixed interest charges within its leases. However, owing to the uncertainty surrounding the UK's decision to leave the EU and historically low fixed interest rates achieved on its bonds, it took a decision in 2016 to fix all of its interest rate costs other than through drawings on its revolving credit facility, which were nil as at 30 June 2019.

## Dividend

The interim dividend will be unchanged at 15.50 pence (H1 2018: 15.50 pence) and will be paid on 08 November 2019, at a cash cost of approximately £37m.

## Principal risks and uncertainties

The risk environment in which the Group operates does not remain static. Whilst risk trends may have evolved, the Directors consider that the principal risks and uncertainties faced by the Group have been, and are expected to remain, consistent with those described on pages 34 to 41 of the 2018 Annual Report and Accounts. Details are provided for inherent risks relating to the changing customer and competitor landscape, colleague recruitment, retention and succession, supplier dependency and disintermediation, unsafe practices resulting in harm to stakeholders, the efficient allocation of capital, business transformation and improvement projects, Brexit, market conditions, execution of planned disposals and potential acquisitions, data security and the changing regulatory framework.

## Condensed consolidated income statement

| £m | **Six months ended 30 June 2019 (unaudited)** | Six months ended 30 June 2018 (unaudited) (restated*) | Year ended 31 December 2018 (audited) (restated*) |
|---|---|---|---|
| Revenue | **2,771.4** | 2,590.7 | 5,212.8 |
| Adjusted operating profit (note 17) | **195.4** | 156.3 | 332.8 |
| Adjusting items (note 2) | **(127.3)** | (256.6) | (340.4) |
| Amortisation of acquired intangible assets | **(4.1)** | (4.0) | (8.7) |
| Operating profit / (loss) | **64.0** | (104.3) | (16.3) |
| Share of associates' results | **(2.5)** | (1.1) | (4.0) |
| Net finance costs (note 5) | **(40.7)** | (10.2) | (23.7) |
| Profit / (loss) before tax | **20.8** | (115.6) | (44.0) |
| Tax before adjusting items | **(25.8)** | (27.8) | (55.5) |
| Tax on adjusting items | **23.1** | 2.0 | 15.4 |
| Tax (note 6) | **(2.7)** | (25.8) | (40.1) |
| Profit / (loss) for the period from continuing operations | **18.1** | (141.4) | (84.1) |
| (Loss) / profit from the period from discontinued operations (note 12) | **(6.5)** | (6.5) | 0.6 |
| Profit / (loss) for the period | **11.6** | (147.9) | (83.5) |
| Attributable to: | | | |
| Owners of the Company | **10.5** | (148.9) | (85.6) |
| Non-controlling interests | **1.1** | 1.0 | 2.1 |
| | **11.6** | (147.9) | (83.5) |
| **Earnings per ordinary share (note 8)** | | | |
| Basic | **6.9p** | (57.2)p | (34.7)p |
| Diluted | **6.7p** | (57.1)p | (34.6)p |
| Total dividend declared per share (note 9) | **15.5p** | 15.5p | 47.0p |

*Comparative figures have been restated to exclude the results of the Plumbing & Heating division, which has been presented as a discontinuing operation (note 12).

## Condensed consolidated statement of comprehensive income

| £m | **Six months ended 30 June 2019 (unaudited)** | Six months ended 30 June 2018 (unaudited restated) | Year ended 31 December 2018 (audited restated) |
|---|---|---|---|
| Profit / (loss) for the period | **11.6** | (147.9) | (83.5) |
| Items that will not be reclassified subsequently to profit and loss: | | | |
| Actuarial (losses) / gains on defined benefit pension schemes (note 7) | **(39.9)** | 73.7 | 102.0 |
| Income taxes relating to items not reclassified | **15.5** | (14.0) | (19.3) |
| Other comprehensive (loss) / income for the period | **(24.4)** | 59.7 | 82.7 |
| Total comprehensive loss for the period | **(12.8)** | (88.2) | (0.8) |

| | | | |
|---|---|---|---|
| Attributable to: | | | |
| Owners of the Company | **(13.9)** | (89.2) | (2.9) |
| Non-controlling interests | **1.1** | 1.0 | 2.1 |
| | **(12.8)** | (88.2) | (0.8) |

| | | | |
|---|---|---|---|
| Total comprehensive (loss) / income for the period attributable to the owners of the Company arises from: | | | |
| Continuing operations | **(7.4)** | (79.9) | (3.5) |
| Discontinued operations | **(6.5)** | (9.3) | 0.6 |
| | **(13.9)** | (89.2) | (2.9) |

## Condensed consolidated balance sheet

| £m | **As at 30 June 2019 (unaudited)** | As at 30 June 2018 (unaudited) | As at 31 December 2018 (audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Goodwill | **1,222.7** | 1,292.8 | 1,289.2 |
| Other intangible assets | **318.5** | 396.9 | 385.4 |
| Property, plant and equipment | **835.8** | 962.9 | 913.2 |
| Right-of-use assets | **1,146.5** | - | - |
| Interest in associates | **46.6** | 25.1 | 34.2 |
| Investments | **5.8** | 11.3 | 6.6 |
| Retirement benefit asset (note 7) | **48.5** | 54.9 | 81.2 |
| Other receivables | **-** | 37.4 | 43.3 |
| Total non-current assets | **3,624.4** | 2,781.3 | 2,753.1 |
| **Current assets** | | | |
| Inventories | **687.3** | 809.4 | 855.3 |
| Trade and other receivables | **1,024.0** | 1,268.3 | 1,253.8 |
| Derivative financial instruments | **-** | 2.0 | - |
| Cash and cash equivalents | **139.3** | 151.5 | 255.4 |
| Total current assets | **1,850.6** | 2,231.2 | 2,364.5 |
| Assets classified as held for sale (note 12) | **762.3** | - | - |
| Total assets | **6,237.3** | 5,012.5 | 5,117.6 |

## Condensed consolidated balance sheet (continued)

| £m | **As at 30 June 2019 (unaudited)** | As at 30 June 2018 (unaudited) | As at 31 December 2018 (audited) |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Issued share capital | **25.2** | 25.2 | 25.2 |
| Share premium account | **545.5** | 545.5 | 545.4 |
| Merger reserve | **326.5** | 326.5 | 326.5 |
| Revaluation reserve | **14.7** | 15.7 | 14.7 |
| Own shares | **(55.7)** | (53.0) | (47.8) |
| Other reserve | **(4.5)** | (4.9) | (5.6) |
| Retained earnings | **1,655.4** | 1,793.3 | 1,847.5 |
| Equity attributable to the owners of the Company | **2,507.1** | 2,648.3 | 2.705.9 |
| Non-controlling interests | **5.1** | 12.7 | 11.8 |
| Total equity | **2,512.2** | 2,661.0 | 2,717.7 |
| **Non-current liabilities** | | | |
| Interest bearing loans and borrowings | **583.2** | 606.7 | 605.2 |
| Lease liabilities | **1,155.6** | - | - |
| Derivative financial instruments | **4.7** | 4.9 | 0.9 |
| Long-term provisions | **-** | 17.8 | 18.4 |
| Deferred tax liabilities | **31.2** | 75.9 | 77.8 |
| Total non-current liabilities | **1,774.7** | 705.3 | 702.3 |
| **Current liabilities** | | | |
| Interest bearing loans and borrowings | **-** | 5.6 | 3.8 |
| Lease liabilities | **139.8** | | |
| Derivative financial instruments | **-** | - | 4.7 |
| Trade and other payables | **1,230.5** | 1,549.5 | 1,603.2 |
| Tax liabilities | **68.5** | 40.6 | 25.9 |
| Short-term provisions | **55.9** | 50.5 | 60.0 |
| Total current liabilities | **1,494.7** | 1,646.2 | 1,697.6 |
| Liabilities classified as held for sale (note 12) | **455.7** | - | - |
| Total liabilities | **3,725.1** | 2,351.5 | 2,399.9 |
| Total equity and liabilities | **6,237.3** | 5,012.5 | 5,117.6 |

The interim condensed financial statements of Travis Perkins plc, registered number 824821, were approved by the Board of Directors on 30 July 2019 and signed on its behalf by:

John Carter — Alan Williams

Chief Executive Officer — Chief Financial Officer

## Condensed consolidated statement of changes in equity

| £m | Issued share capital | Share premium account | Merger reserve | Revaluation reserve | Own shares | Other | Retained earnings | Total equity before non-controlling interest | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| At 31 December 2018 (audited) | 25.2 | 545.4 | 326.5 | 14.7 | (47.8) | (5.6) | 1,847.5 | 2,705.9 | 11.8 | 2,717.7 |
| IFRS 16 – Leases adoption (note 18) | - | - | - | - | - | - | (95.9) | (95.9) | - | (95.9) |
| At 1 January 2019 (restated) | **25.2** | **545.4** | **326.5** | **14.7** | **(47.8)** | **(5.6)** | **1,751.6** | **2,610.0** | **11.8** | **2,621.8** |
| Profit for the period | - | - | - | - | - | - | 10.5 | **10.5** | 1.1 | **11.6** |
| Other comprehensive loss for the period net of tax | - | - | - | - | - | - | (24.4) | **(24.4)** | - | **(24.4)** |
| Total comprehensive (loss) / income for the period | - | - | - | - | - | - | **(13.9)** | **(13.9)** | **1.1** | **(12.8)** |
| Dividends | - | - | - | - | - | - | (78.4) | **(78.4)** | - | **(78.4)** |
| Dividend equivalent payments | - | - | - | - | - | - | (0.1) | **(0.1)** | - | **(0.1)** |
| Issue of share capital | - | 0.1 | - | - | - | - | - | **0.1** | - | **0.1** |
| Purchase of own shares | - | - | - | - | (14.0) | - | - | **(14.0)** | - | **(14.0)** |
| Option on non-controlling interest | - | - | - | - | - | 0.8 | - | **0.8** | - | **0.8** |
| Acquisition of non-controlling interest | - | - | - | - | - | - | (12.0) | **(12.0)** | (7.8) | **(19.8)** |
| Tax on share based payments | - | - | - | - | - | - | 0.1 | **0.1** | - | **0.1** |
| Foreign exchange | - | - | - | - | - | 0.3 | - | **0.3** | - | **0.3** |
| Own shares movement | - | - | - | - | 6.1 | - | (6.1) | **-** | - | **-** |
| Credit to equity for equity-settled share based payments | - | - | - | - | - | - | 14.2 | **14.2** | - | **14.2** |
| At 30 June 2019 (unaudited) | **25.2** | **545.5** | **326.5** | **14.7** | **(55.7)** | **(4.5)** | **1,655.4** | **2,507.1** | **5.1** | **2,512.2** |

| £m | Issued share capital | Share premium account | Merger reserve | Revaluation reserve | Own shares | Other | Retained earnings | Total equity before non-controlling interest | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2018 (audited) | 25.2 | 543.4 | 326.5 | 15.7 | (15.3) | (4.9) | 1,958.0 | 2,848.6 | 11.7 | 2,860.3 |
| IFRS 9 adoption | - | | - | - | - | - | (2.4) | (2.4) | - | (2.4) |
| At 1 January 2018 (restated) | 25.2 | 543.4 | 326.5 | 15.7 | (15.3) | (4.9) | 1,955.6 | 2,846.2 | 11.7 | 2,857.9 |
| Loss for the period | - | - | - | - | - | - | (148.9) | (148.9) | 1.0 | (147.9) |
| Other comprehensive income for the period net of tax | - | - | - | - | - | - | 59.7 | 59.7 | - | 59.7 |
| Total comprehensive income for the period | - | - | - | - | - | - | (89.2) | (89.2) | 1.0 | (88.2) |
| Dividends | - | - | - | - | - | - | (75.6) | (75.6) | - | (75.6) |
| Dividend equivalent payments | - | - | - | - | - | - | (0.5) | (0.5) | - | (0.5) |
| Issue of share capital | - | 2.0 | - | - | - | - | - | 2.0 | - | 2.0 |
| Purchase of own shares | - | - | - | - | (43.5) | - | - | (43.5) | - | (43.5) |
| Tax on share based payments | - | - | - | - | - | - | (0.1) | (0.1) | - | (0.1) |
| Own shares movement | - | - | - | - | 5.9 | - | (5.9) | - | - | - |
| Credit to equity for equity-settled share based payments | - | - | - | - | - | - | 9.0 | 9.0 | - | 9.0 |
| At 30 June 2018 (unaudited) | 25.2 | 545.4 | 326.5 | 15.7 | (52.9) | (4.9) | 1,793.3 | 2,648.3 | 12.7 | 2,661.0 |

## Condensed consolidated statement of changes in equity (continued)

| £m | Issued share capital | Share premium account | Merger reserve | Revaluation reserve | Own shares | Other | Retained earnings | Total equity before non-controlling interest | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2018 (audited) | 25.2 | 543.4 | 326.5 | 15.7 | (15.3) | (4.9) | 1,955.6 | 2,846.2 | 11.7 | 2,857.9 |
| Loss for the year | - | - | - | - | - | - | (85.6) | (85.6) | 2.1 | (83.5) |
| Other comprehensive income for the year net of tax | - | - | - | - | - | - | 82.7 | 82.7 | - | 82.7 |
| Total comprehensive (loss) / income for the year | - | - | - | - | - | - | (2.9) | (2.9) | 2.1 | (0.8) |
| Dividends | - | - | - | - | - | - | (114.1) | (114.1) | (2.0) | (116.1) |
| Dividend equivalent payments | - | - | - | - | - | - | (0.8) | (0.8) | - | (0.8) |
| Issue of share capital | - | 2.0 | - | - | - | - | - | 2.0 | - | 2.0 |
| Purchase of own shares | - | - | - | - | (43.4) | - | - | (43.4) | - | (43.4) |
| Adjustments in respect of revalued fixed assets | - | - | - | (1.0) | - | - | 1.0 | - | - | - |
| Equity-settled share-based payments, net of tax | - | - | - | - | - | - | 19.7 | 19.7 | - | 19.7 |
| Option on non-controlling interest | - | - | - | - | - | (0.7) | - | (0.7) | - | (0.7) |
| Foreign exchange | - | - | - | - | - | - | (0.1) | (0.1) | - | (0.1) |
| Own shares movement | - | - | - | - | 10.9 | - | (10.9) | - | - | - |
| At 31 December 2018 (audited) | 25.2 | 545.4 | 326.5 | 14.7 | (47.8) | (5.6) | 1,847.5 | 2,705.9 | 11.8 | 2,717.7 |

## Condensed consolidated cash flow statement

| £m | **Six months ended 30 June 2019 (unaudited)** | Six months ended 30 June 2018 (unaudited) | Year ended 31 December 2018 (audited) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Adjusted operating profit** | **219.8** | 178.7 | 374.5 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 48.0 | 51.5 | 101.0 |
| Depreciation of right-of-use assets | 84.0 | - | - |
| Amortisation of internally-generated intangibles | 8.5 | 8.4 | 15.5 |
| Share-based payments | 14.2 | 9.0 | 19.6 |
| Other non-cash movements | 0.1 | (2.5) | 2.1 |
| Gains on disposal of property, plant and equipment | (6.0) | (17.0) | (26.8) |
| **Adjusted operating cash flows** | **368.6** | 228.1 | 485.9 |
| (Increase) / decrease in inventories | (50.7) | 6.9 | (49.5) |
| Increase in receivables | (105.0) | (146.4) | (141.4) |
| Increase in payables | 21.5 | 35.1 | 83.8 |
| Payments in respect of adjusting items | (32.5) | (12.3) | (40.6) |
| Pension payments in excess of charge | (6.3) | (4.6) | (7.2) |
| **Cash generated from operations** | **195.6** | 106.8 | 331.0 |
| Other interest | (4.6) | (1.1) | (26.2) |
| Interest on lease liabilities | (30.1) | - | - |
| Income taxes paid | (30.1) | (27.8) | (55.1) |
| **Net cash inflow from operating activities** | **130.8** | 77.9 | 249.7 |
| **Cash flows from investing activities** | | | |
| Interest received | 0.4 | 0.2 | 0.7 |
| Proceeds on disposal of property, plant and equipment | 28.8 | 51.1 | 98.4 |
| Development of software | (12.2) | (23.1) | (44.4) |
| Purchases of property, plant and equipment | (48.2) | (101.1) | (146.9) |
| Interests in associates | (14.9) | (7.5) | (17.6) |
| Dividends received | - | 0.5 | - |
| Acquisition of businesses (note 16) | (19.8) | - | (3.0) |
| Disposal of business | - | - | 9.0 |
| **Net cash outflow from investing activities** | **(65.9)** | (79.9) | (103.8) |
| **Cash flows from financing activities** | | | |
| Proceeds from the issue of share capital | 0.1 | 2.0 | 2.0 |
| Repayment of lease liabilities / finance lease liabilities | (85.3) | (2.9) | (6.5) |
| Shares purchased | (14.0) | (43.5) | (43.4) |
| Decrease in loans and liabilities to pension scheme | (3.4) | (3.3) | (3.3) |
| Dividends paid (note 9) | (78.4) | (75.6) | (116.1) |
| **Net cash outflow from financing activities** | **(181.0)** | **(123.3)** | **(167.3)** |
| **Net decrease in cash and cash equivalents** | **(116.1)** | **(125.3)** | **(21.4)** |
| Cash and cash equivalents at the beginning of the period | 255.4 | 276.8 | 276.8 |
| Cash and cash equivalents at the end of the period | 139.3 | 151.5 | 255.4 |

Cash flows from discontinuing operations are presented in note 12(b).

# Notes to the interim financial statements

## 1. General information and accounting policies

The interim financial statements have been prepared on the historical cost basis, except that derivative financial instruments, available for sale investments and contingent consideration arising from business combinations are stated at their fair value. The condensed interim financial statements include the accounts of the Company and all its subsidiaries (“the Group”).

### Basis of preparation

The financial information for the six months ended 30 June 2019 and 30 June 2018 is unaudited. The June 2019 information has been reviewed by KPMG LLP, the Group's auditor, and a copy of their review report appears on pages 47 and 48 of this interim report. The June 2018 information was also reviewed by KPMG LLP. The financial information for the year ended 31 December 2018 does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. A copy of the statutory accounts for the year ended 31 December 2018 as prepared under International Financial Reporting Standards as adopted by the EU (“IFRS”) has been delivered to the Registrar of Companies. The auditor’s report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The unaudited interim financial statements for the six months ended 30 June 2019 have been prepared in accordance with IAS 34 – Interim Financial Reporting and have been prepared on the basis of IFRS.

The annual financial statements of the Group are prepared in accordance with IFRS. As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2018, except for the adoption of new and amended standards as set out in note 18. The 2018 full year financial statements are available on the Travis Perkins website (www.travisperkinsplc.co.uk).

The Directors are currently of the opinion that the Group’s forecasts and projections show that the Group should be able to operate within its current facilities and comply with its banking covenants. The Group is however exposed to a number of significant risks and uncertainties, which could affect the Group’s ability to meet management’s projections.

The Directors believe that the Group has the flexibility to react to changing market conditions and is adequately placed to manage its business risks successfully. After making enquiries, the Directors have formed a judgement that there is a reasonable expectation that the Group has the resources to continue in operational existence for twelve months from the date of signing these interim financial statements. For this reason the interim financial statements have been prepared on a going concern basis.

### New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make transition adjustments as a result of adopting the following standards:

- IFRS 16 – Leases
- Annual Improvements to IFRS 2015 – 2017 Cycle

The new standards other than IFRS 16 – Leases, did not have a material impact on the Group and have been adopted without restating comparatives. The impact of the adoption of IFRS 16 – Leases and the new accounting policies are disclosed in note 18.

# Notes to the interim financial statements

## 2. Adjusting items

To enable a reader of the interim financial statements to obtain a clear understanding of the underlying trading, the Directors have presented the items below separately in the income statement.

| £m | **Six months ended 30 June 2019** | Six months ended 30 June 2018 | Year ended 31 December 2018 |
|---|---|---|---|
| IT-related impairment charge | **111.2** | - | 15.7 |
| Built closure costs | **12.6** | - | - |
| Wickes separation | **3.5** | - | - |
| Impairment of goodwill | **-** | 246.3 | 252.1 |
| Restructuring costs | **-** | 15.0 | 57.4 |
| Pension-related items | **-** | (4.7) | 4.9 |
| Loss on disposal of Birchwood Price Tools | **-** | - | 10.3 |
| | **127.3** | 256.6 | 340.4 |

**IT-related impairment charge**

The Group announced a delay to its ERP project in December 2018 and this project has continued to face significant challenges. As a result, and in the context of the simplification of the Group, the Group is considering whether to implement the various elements of an ERP system as separate items, after modernising the Group's core IT architecture.

A revised approach may incorporate components from the existing project; however under the accounting rules the Directors have concluded that the existing capitalised spend should be written off. The charge consists of the write-off of £64.1m of capitalised development spend and £44.5m of prepaid licence fees, as well as £2.6m of associated costs incurred in 2019.

A change in approach will necessitate a renegotiation of the Group's relationship with the software provider. The relevant contracts include break clauses limiting any possible contractual exposure. No provision has been made in respect of these contracts. The Group has not made all disclosures in paragraphs 84–89 of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets as this would seriously prejudice the Group's position.

**Closure of the Built business**

The closure of the Built business in April 2019 resulted in the recognition of £8.6m of property-related charges and redundancy, stock write-off and other closure costs of £4.0m.

**Wickes separation**

The Group has announced an intention to demerge the Wickes business as part of its strategy of simplifying the Group and focussing on the trade. Advisory fees and IT separation costs of £3.5m incurred in relation to this have been disclosed as adjusting.

**2018**

During 2018 the Group recognised an impairment charge in respect of goodwill in the Wickes and Tile Giant CGUs, due to these CGUs underperforming against their forecasts.

The IT-related impairment charge in 2018 related to certain IT projects in the Wickes business (£6.5m) and the central IT function (£2.5m) and two specific components of the Group's ERP project (£6.7m).

Restructuring costs of £57.4m related to the cost-reduction programmes announced in 2018 and included £16.0m for merchanting supply chain rationalisation, £16.3m for the closure of 27 branches, £12.7m of redundancy and reorganisation costs in the Wickes business and £12.4m of Group costs.

The pension-related items consist of a £4.7m pension curtailment gain, recognised as a result of the closure of the Group's primary defined benefit pension schemes to future accrual, and a £9.6m charge arising from the equalisation of guaranteed minimum pension ("GMP") benefits between men and women.

## Notes to the interim financial statements

## 3. Business segments

The operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker ("CODM"), which is considered to be the Board, to assess performance and allocate capital. From 1 January 2019 the Group has changed its internal reporting structure and as a result has identified four operating segments:

- Merchanting
- Retail
- Toolstation
- Plumbing & Heating

All operating segments sell building materials to a wide range of customers, none of which are dominant, and operate almost exclusively in the United Kingdom. The information previously reported under the business segments note has been restated to reflect the new operating segments. The Plumbing & Heating segment is classified as held for sale and information about this segment is provided in note 12.

Segment result represents the result of each segment without allocation of certain central costs, finance income and costs and tax. Unallocated segment assets and liabilities comprise financial instruments, current and deferred tax, cash and borrowings and pension scheme assets and liabilities.

### a) Segment results

**Six months ended 30 June 2019**

| £m | Merchanting | Retail | Toolstation | Unallocated | **Consolidated** |
|---|---|---|---|---|---|
| Revenue | 1,869.1 | 694.8 | 207.5 | - | **2,771.4** |
| Adjusted segment result before property profits | 140.0 | 52.3 | 12.6 | (15.4) | **189.5** |
| Property profits | 7.0 | (1.1) | - | - | **5.9** |
| Adjusted segment result | 147.0 | 51.2 | 12.6 | (15.4) | **195.4** |
| Adjusting items | - | (3.5) | - | (123.8) | **(127.3)** |
| Amortisation of acquired intangible assets | (3.0) | - | (1.1) | - | **(4.1)** |
| Segment result | 144.0 | 47.7 | 11.5 | (139.2) | **64.0** |
| Adjusted segment margin excluding property profits | 7.5% | 7.5% | 6.1% | - | **6.8%** |
| Adjusted segment margin | 7.9% | 7.4% | 6.1% | - | **7.1%** |

**Six months ended 30 June 2018 (restated)**

| £m | Merchanting | Retail | Toolstation | Unallocated | Consolidated |
|---|---|---|---|---|---|
| Revenue | 1,783.4 | 638.5 | 168.8 | - | 2,590.7 |
| Adjusted segment result before property profits | 129.5 | 19.7 | 8.8 | (16.0) | 142.0 |
| Property profits | 5.3 | 9.0 | - | - | 14.3 |
| Adjusted segment result | 134.8 | 28.7 | 8.8 | (16.0) | 156.3 |
| Adjusting charges | (4.7) | (256.6) | - | - | (261.3) |
| Adjusting gains | 4.7 | - | - | - | 4.7 |
| Amortisation of acquired intangible assets | (3.4) | (0.6) | - | - | (4.0) |
| Segment result | 131.4 | (228.5) | 8.8 | (16.0) | (104.3) |
| Adjusted segment margin excluding property profits | 7.3% | 3.1% | 5.2% | - | 5.5% |
| Adjusted segment margin | 7.6% | 4.5% | 5.2% | - | 6.0% |

# Notes to the interim financial statements

## 3. Business segments (continued)

### Year ended 31 December 2018 (restated)

| £m | Merchanting | Retail | Toolstation | Unallocated | Consolidated |
|---|---|---|---|---|---|
| Revenue | 3,608.8 | 1,249.6 | 354.4 | - | 5,212.8 |
| Adjusted segment result before property profits | 272.1 | 47.3 | 21.9 | (32.5) | 308.8 |
| Property profits | 6.3 | 17.7 | - | - | 24.0 |
| Adjusted segment result | 278.4 | 65.0 | 21.9 | (32.5) | 332.8 |
| Adjusting items | (34.4) | (272.3) | - | (33.7) | (340.4) |
| Amortisation of acquired intangible assets | (6.3) | (1.5) | (0.9) | - | (8.7) |
| Segment result | 237.7 | (208.8) | 21.0 | (66.2) | (16.3) |
| Adjusted segment margin excluding property profits | 7.5% | 3.8% | 6.2% | - | 5.9% |
| Adjusted segment margin | 7.7% | 5.2% | 6.2% | - | 6.4% |

### b) Segment assets and liabilities

| £m | **30 June 2019** |
|---|---|
| **Segment assets** | |
| Merchanting | **3,080.9** |
| Retail | **1,790.9** |
| Toolstation | **367.7** |
| Unallocated | **235.5** |
| | **5,475.0** |
| Assets of a disposal group classified as held for sale (note 12) | **762.3** |
| Total assets | **6,237.3** |
| **Segment liabilities** | |
| Merchanting | **(1,229.8)** |
| Retail | **(1,275.0)** |
| Toolstation | **(170.9)** |
| Unallocated | **(593.7)** |
| | **(3,269.4)** |
| Liabilities of a disposal group classified as held for sale (note 12) | **(455.7)** |
| Total liabilities | **(3,725.1)** |

## 4. Seasonality

The Group’s trading operations when assessed on a half yearly basis are mainly unaffected by seasonal factors. In 2018 the period to 30 June accounted for 49.7% of the Group’s annual revenue (2017: 50.4%).

## Notes to the interim financial statements

## 5. Finance costs

### a) Net finance costs

| £m | **Six months ended 30 June 2019** | Six months ended 30 June 2018 | Year ended 31 December 2018 |
|---|---|---|---|
| **Finance income** | | | |
| Fair value gains on derivatives | **-** | 3.2 | 1.8 |
| Net gains on remeasurement of foreign exchange | **0.5** | - | 0.7 |
| Interest receivable | **1.3** | 1.0 | 1.7 |
| Other finance income – pension scheme | **1.2** | - | - |
| | **3.0** | 4.2 | 4.2 |
| **Finance costs** | | | |
| Interest on lease liabilities | **(27.5)** | - | - |
| Interest on bank loans and overdrafts | **(2.1)** | (1.2) | (1.2) |
| Interest on sterling bonds | **(10.4)** | (10.4) | (21.0) |
| Amortisation of issue costs of bank loans* | **(2.2)** | (0.7) | (1.5) |
| Other interest | **(0.2)** | (0.1) | (0.7) |
| Interest on obligations under finance leases | **-** | (0.2) | (0.4) |
| Unwinding of discounts – liability to pension scheme | **(1.1)** | (1.2) | (2.1) |
| Unwinding of discounts – property provisions | **-** | (0.3) | (0.2) |
| Other finance costs – pension scheme | **-** | (0.3) | (0.8) |
| Fair value losses on derivatives | **(0.2)** | - | - |
| | **(43.7)** | (14.4) | (27.9) |
| Net finance costs | **(40.7)** | (10.2) | (23.7) |

*Includes a £1.5m accelerated charge recognised as the result of the replacement of the Group's previous banking agreement with a new £400m agreement in January 2019.

### b) Interest for non-statutory measures

| £m | **Year ended 30 June 2019** | Year ended 30 June 2018 (restated) | Year ended 31 December 2018 (restated) |
|---|---|---|---|
| Interest on bank loans and overdrafts | **2.1** | 2.8 | 1.2 |
| Interest on sterling bonds | **21.0** | 21.0 | 21.0 |
| Amortisation of issue costs of bank loans | **3.0** | 1.5 | 1.5 |
| Unwinding of discount – liability to pension scheme | **2.0** | 2.4 | 2.1 |
| Interest for fixed charge ratio purposes | **28.1** | 27.7 | 25.8 |

## Notes to the interim financial statements

## 6. Tax

| £m | **Six months ended 30 June 2019** | Six months ended 30 June 2018 (restated) | Year ended 31 December 2018 (restated) |
|---|---|---|---|
| **Current tax** | | | |
| - current year | **10.3** | 26.8 | 49.1 |
| - prior year | **-** | - | (6.5) |
| Total current tax | **10.3** | 26.8 | 42.6 |
| **Deferred tax** | | | |
| - current year | **(7.6)** | (1.0) | (4.4) |
| - prior year | **-** | - | 1.9 |
| Total deferred tax | **(7.6)** | (1.0) | (2.5) |
| Total tax charge | **2.7** | 25.8 | 40.1 |

Tax for the interim period is charged on profit before tax, based on the best estimate of the corporate tax rate for the full financial year.

## 7. Retirement benefit obligations

### (a) Pension scheme asset movement

**Six months ended 30 June 2019**

| £m | TP Schemes | BSS Schemes | **Group** |
|---|---|---|---|
| Gross pension asset / (liability) at 1 January | 82.3 | (1.1) | **81.2** |
| Administration expenses | (0.5) | (0.2) | **(0.7)** |
| Current service charge | (0.2) | - | **(0.2)** |
| Net interest income / (expense) | 1.2 | (0.1) | **1.1** |
| Contributions from sponsoring companies | 1.0 | 6.0 | **7.0** |
| Return on plan assets (excluding amounts included in net interest) | 103.1 | 30.8 | **133.9** |
| Actuarial losses arising from changes in demographic assumptions | (0.9) | (0.3) | **(1.2)** |
| Actuarial losses arising from changes in financial assumptions | (130.5) | (42.1) | **(172.6)** |
| **Gross pension asset / (liability) at 30 June** | **55.5** | **(7.0)** | **48.5** |
| Deferred tax | | | **(10.6)** |
| Net pension asset | | | **37.9** |

## Notes to the interim financial statements

## 7. Retirement benefit obligations (continued)

### (a) Pension scheme asset movement (continued)

**Six months ended 30 June 2018**

| £m | TP Schemes | BSS Schemes | **Group** |
|---|---|---|---|
| Gross pension asset / (liability) at 1 January | 6.6 | (25.7) | (19.1) |
| Restriction of asset recognised | - | (9.2) | (9.2) |
| Gross asset / (liability) at 1 January | 6.6 | (34.9) | (28.3) |
| Current and past service costs | (3.7) | (1.4) | (5.1) |
| Curtailment gain | 3.6 | 1.6 | 5.2 |
| Net interest income / (expense) | 0.1 | (0.3) | (0.2) |
| Contributions from sponsoring companies | 2.9 | 6.7 | 9.6 |
| Return on plan assets (excluding amounts included in net interest) | (5.3) | (0.8) | (6.1) |
| Actuarial gains arising from changes in demographic assumptions | 6.8 | 2.1 | 8.9 |
| Actuarial gains arising from changes in financial assumptions | 63.4 | 20.2 | 83.6 |
| Actuarial gains arising from experience adjustments | 10.6 | 9.9 | 20.5 |
| Increase arising from IFRIC 14 restriction | - | (33.2) | (33.2) |
| Gross pension asset / (liability) at 30 June | 85.0 | (30.1) | 54.9 |
| | | | |
| Gross actuarial asset | 85.0 | 3.1 | 88.1 |
| Additional liability recognised for minimum funding requirements | - | (33.2) | (33.2) |
| Gross pension asset / (liability) at 30 June | 85.0 | (30.1) | 54.9 |
| Deferred tax | | | (10.4) |
| Net pension asset | | | 44.5 |

## Notes to the interim financial statements

## 7. Retirement benefit obligations (continued)

### (a) Pension scheme asset movement (continued)

**Year ended 31 December 2018**

| £m | TP Schemes | BSS Schemes | **Group** |
|---|---|---|---|
| Gross pension asset / (liability) at 1 January | 6.6 | (25.7) | (19.1) |
| Additional liability recognised for minimum funding requirements | - | (9.2) | (9.2) |
| | 6.6 | (34.9) | (28.3) |
| Current service costs | (4.4) | (2.1) | (6.5) |
| Past service costs | (4.4) | (0.5) | (4.9) |
| Net interest income / (expense) | 1.2 | (0.8) | 0.4 |
| Contributions from sponsoring companies | 5.1 | 13.4 | 18.5 |
| Return on plan assets (excluding amounts included in net interest) | (15.7) | (10.1) | (25.8) |
| Actuarial gain / (loss) arising from changes in demographic assumptions | 3.3 | (7.3) | (4.0) |
| Actuarial gain arising from changes in financial assumptions | 74.5 | 25.0 | 99.5 |
| Actuarial losses arising from experience adjustments | 16.1 | 7.0 | 23.1 |
| Reduction in minimum funding requirement liability | - | 9.2 | 9.2 |
| Gross pension asset / (liability) at 31 December | 82.3 | (1.1) | 81.2 |
| Deferred tax | | | (15.4) |
| Net pension asset | | | 65.8 |

### (b) Amounts recognised in the statement of comprehensive income

**Six months ended 30 June 2019**

| £m | TP Schemes | BSS Schemes | **Group** |
|---|---|---|---|
| Return on plan assets (excluding amounts included in net interest) | 103.1 | 30.8 | **133.9** |
| Actuarial gains arising from changes in demographic assumptions | (0.9) | (0.3) | **(1.2)** |
| Actuarial gains arising from changes in financial assumptions | (130.5) | (42.1) | **(172.6)** |
| Actuarial losses on defined benefit pension schemes | (28.3) | (11.6) | **(39.9)** |

# Notes to the interim financial statements

## 7. Retirement benefit obligations (continued)

### (b) Amounts recognised in the statement of comprehensive income (continued)

**Six months ended 30 June 2018**

| £m | TP Schemes | BSS Schemes | Group |
|---|---|---|---|
| Return on plan assets (excluding amounts included in net interest) | (5.3) | (0.8) | (6.1) |
| Actuarial gains arising from changes in demographic assumptions | 6.8 | 2.1 | 8.9 |
| Actuarial gains arising from changes in financial assumptions | 63.4 | 20.2 | 83.6 |
| Actuarial gains arising from experience adjustments | 10.6 | 9.9 | 20.5 |
| Increase arising from IFRIC 14 restriction | - | (33.2) | (33.2) |
| Actuarial gains / (losses) on defined benefit pension schemes | 75.5 | (1.8) | 73.7 |

**Year ended 31 December 2018**

| £m | TP Schemes | BSS Schemes | Group |
|---|---|---|---|
| Return on plan assets (excluding amounts included in net interest) | (15.7) | (10.1) | (25.8) |
| Actuarial gains / (losses) arising from changes in demographic assumptions | 3.3 | (7.3) | (4.0) |
| Actuarial gains arising from changes in financial assumptions | 74.5 | 25.0 | 99.5 |
| Actuarial gains arising from experience adjustments | 16.1 | 7.0 | 23.1 |
| Decrease in minimum funding requirement liability | - | 9.2 | 9.2 |
| Actuarial gains on defined benefit pension schemes | 78.2 | 23.8 | 102.0 |

# Notes to the interim financial statements

## 8. Earnings per share

### a) Basic and diluted earnings per share

| £m | **Six months ended 30 June 2019** | Six months ended 30 June 2018 (restated) | Year ended 31 December 2018 (restated) |
|---|---|---|---|
| Profit / (loss) attributable to the owners of the parent | | | |
| - from continuing operations | **17.0** | (142.4) | (86.2) |
| - from discontinuing operations | **(6.5)** | (6.5) | 0.6 |
| | **10.5** | (148.9) | (85.6) |
| No. | | | |
| Weighted average number of shares in issue | **248,121,892** | 249,131,207 | 248,681,183 |
| Dilutive effect of share options | **4,348,093** | 182,869 | 345,820 |
| Weighted average number of shares for diluted earnings per share | **252,469,985** | 249,314,076 | 249,027,003 |
| Earnings per share | | | |
| - from continuing operations | **6.9p** | (57.2)p | (34.7)p |
| - from discontinuing operations | **(2.6)p** | (2.6)p | 0.2p |
| Diluted earnings per share | | | |
| - from continuing operations | **6.7p** | (57.1)p | (34.6)p |
| - from discontinuing operations | **(2.6)p** | (2.6)p | 0.2p |

### b) Adjusted earnings per share

Adjusted earnings per share are calculated by excluding the effects of the amortisation of acquired intangible assets, adjusting items and discontinuing operations from earnings.

| £m | **Six months ended 30 June 2019** | Six months ended 30 June 2018 (restated) | Year ended 31 December 2018 (restated) |
|---|---|---|---|
| Profit / (loss) attributable to the owners of the parent from continuing operations | **17.0** | (142.4) | (86.2) |
| Adjusting items | **127.3** | 256.6 | 340.4 |
| Tax on adjusting items | **(23.1)** | (2.0) | (15.4) |
| Amortisation of acquired intangible assets | **4.1** | 4.0 | 8.7 |
| Tax on amortisation of acquired intangible assets | **(0.9)** | (0.8) | (1.7) |
| Earnings for adjusted earnings per share | **124.4** | 115.4 | 245.8 |
| Adjusted earnings per share | **50.1p** | 46.3p | 98.8p |
| Adjusted diluted earnings per share | **49.3p** | 46.3p | 98.7p |

## Notes to the interim financial statements

## 9. Dividends

Amounts were recognised in the financial statements as distributions to equity shareholders in the following periods:

| £m | **Six months ended 30 June 2019** | Six months ended 30 June 2018 | Year ended 31 December 2018 |
|---|---|---|---|
| Final dividend for the year ended 31 December 2018 of 31.5 pence (2017: 30.5 pence) per share | **78.4** | 75.6 | 75.6 |
| Interim dividend for the year ended 31 December 2018 of 15.50 pence per share | **-** | - | 38.5 |

The proposed interim dividend of 15.5p per share in respect of the year ending 31 December 2019 was approved by the Board on 30 July 2019 and has not been included as a liability as at 30 June 2019. It will be paid on 8 November 2019 to shareholders on the register at the close of business on 4 October 2019. The shares will be quoted ex-dividend on 3 October 2019.

## 10. Borrowings

At the period end, the Group had the following borrowing facilities available:

| £m | **As at 30 June 2019** | As at 30 June 2018 | As at 31 December 2018 |
|---|---|---|---|
| **Drawn facilities:** | | | |
| Sterling bond 2014 (due 2021) | **257.5** | 260.9 | 259.2 |
| Sterling bond 2017 (due 2023) | **300.0** | 300.0 | 300.0 |
| | **557.5** | 560.9 | 559.2 |
| **Undrawn facilities:** | | | |
| 5 year committed revolving credit facility (expires January 2024) | **400.0** | 550.0 | 550.0 |
| Bank overdraft | **30.0** | 30.0 | 30.0 |
| | **430.0** | 580.0 | 580.0 |

The Group’s previous £550m banking agreement with a syndicate of banks was replaced in January 2019 with a new £400m agreement that runs until January 2024.

## 11. Share capital

| | Allotted | |
|---|---|---|
| | No. | £m |
| Ordinary shares of 10p: | | |
| At 1 January 2019 | **252,143,923** | **25.2** |
| Allotted under share option schemes | **-** | **-** |
| **At 30 June 2019** | **252,143,923** | **25.2** |

## 12. Non-current assets held for sale and discontinuing operations

The Plumbing & Heating division is available for immediate sale in its present condition and the Directors consider that its sale is highly probable. The assets and liabilities of the Plumbing & Heating division have been presented as held for sale and its results have been reported as a discontinuing operation.

### a) Results of discontinuing operations

| £m | **Six months ended 30 June 2019 (unaudited)** | Six months ended 30 June 2018 (unaudited) | Year ended 31 December 2018 (audited) |
|---|---|---|---|
| Revenue | **712.9** | 773.8 | 1,527.7 |
| Adjusted operating profit | **24.4** | 22.4 | 41.7 |
| Adjusting items | **(26.6)** | (29.7) | (46.3) |
| Amortisation of acquired intangible assets | **(0.2)** | (0.5) | (0.8) |
| Operating loss | **(2.4)** | (7.8) | (5.4) |
| Net finance costs | **(2.6)** | - | - |
| Loss before tax | **(5.0)** | (7.8) | (5.4) |
| Tax before adjusting items | **(6.0)** | (4.3) | (2.8) |
| Tax on adjusting items | **4.5** | 5.6 | 8.8 |
| Tax | **(1.5)** | 1.3 | 6.0 |
| (Loss) / profit for the period | **(6.5)** | (6.5) | 0.6 |

### b) Cash flows of discontinuing operations

| £m | **Six months ended 30 June 2019 (unaudited)** | Six months ended 30 June 2018 (unaudited) | Year ended 31 December 2018 (unaudited) |
|---|---|---|---|
| Operating cash flows | **(44.9)** | 61.9 | 13.8 |
| Investing cash flows | **(22.6)** | 3.7 | 10.2 |
| Financing cash flows | **67.5** | (65.6) | (24.0) |
| Net movement in cash and cash equivalents | **-** | - | - |

The Plumbing & Heating division, which constitutes the discontinuing operation, has nil net cash flow for all periods due to the operation of the Group's cash pooling arrangements.

### c) Assets and liabilities of disposal group classified as held for sale

| £m | **30 June 2019 (unaudited)** |
|---|---|
| **Assets** | |
| Property, plant and equipment | **46.8** |
| Right-of-use assets | **110.0** |
| Intangible fixed assets | **68.9** |
| Inventory | **218.7** |
| Trade and other current receivables | **317.9** |
| Total assets | **762.3** |

## 12. Non-current assets held for sale and discontinuing operations (continued)

### c) Assets and liabilities of disposal group classified as held for sale (continued)

| £m | 30 June 2019 (unaudited) |
|---|---|
| **Liabilities** | |
| Trade and other payables | **(302.7)** |
| Tax liabilities | **(31.3)** |
| Lease liabilities | **(113.0)** |
| Provisions | **(8.7)** |
| Total liabilities | **(455.7)** |
| Net assets | **306.6** |

## 13. Net debt reconciliation

Following the implementation of IFRS 16 – Leases, the Group has started reporting covenant net debt, a new KPI that matches the definition of net debt in the Group's banking and bond covenants.

The Group has stopped reporting lease adjusted net debt as the implementation of IFRS 16 – Leases means that the effect of leases is already reflected in net debt.

| £m | **Six months ended 30 June 2019** | Six months ended 30 June 2018 | Year ended 31 December 2018 |
|---|---|---|---|
| Net debt at 1 January | **(353.6)** | (341.5) | (341.5) |
| Recognition of lease liability | **(1,350.0)** | - | - |
| Net debt at 1 January (restated) | **(1,703.6)** | (341.5) | (341.5) |
| Decrease in cash and cash equivalents | **(116.1)** | (125.3) | (21.4) |
| Cash flows from debt | **2.9** | 6.2 | 6.5 |
| Cash flows from repayment of lease liabilities | **103.1** | - | - |
| Cash flows from pension liability | **3.4** | - | (3.3) |
| Finance charges movement | **(2.2)** | (0.7) | (1.5) |
| Amortisation of swap cancellation receipt | **1.7** | 1.7 | 3.4 |
| Discount unwind on liability to pension scheme | **(1.1)** | (1.2) | 4.2 |
| Discount unwind on lease liability | **(27.5)** | - | - |
| Net debt at 30 June / 31 December | **(1,739.4)** | (460.8) | (353.6) |
| Less: pension SPV liability | **30.4** | 34.0 | 32.8 |
| Less: lease liability / finance lease creditor | **1,295.4** | 18.0 | 21.0 |
| Covenant net debt at 30 June / 31 December | **(413.6)** | (408.8) | (299.8) |

## 14. Financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- Foreign currency forward contracts are measured using quoted forward exchange rates
- Deferred consideration liabilities are calculated using forecasts of future performance of acquisitions discounted to present value

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

There were no transfers between levels during the year. There are no non-recurring fair value measurements.

| £m | **As at 30 June 2019** | As at 30 June 2018 | As at 31 December 2018 |
|---|---|---|---|
| **Included in assets** | | | |
| Level 2 – Foreign currency forward contracts at fair value through profit and loss | **0.5** | 2.0 | 0.6 |
| | **0.5** | 2.0 | 0.6 |
| Current assets | **0.5** | 2.0 | 0.6 |
| Non-current assets | **-** | - | - |
| | **0.5** | 2.0 | 0.6 |
| **Included in liabilities** | | | |
| Level 3 – Deferred consideration at fair value through equity | **4.7** | 4.9 | 5.6 |
| | **4.7** | 4.9 | 5.6 |
| Current liabilities | **-** | - | - |
| Non-current liabilities | **4.7** | 4.9 | 5.6 |
| | **4.7** | 4.9 | 5.6 |

## 15. Related party transactions

The Group has related party relationships with its subsidiaries and with its directors. Transactions between group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note. There have been no related party transactions with directors other than in respect of remuneration. In the first half of 2019 the Group made loans to associates of £13.6m (2018 H1: £7.5m). Operating transactions with the associates were not significant during the period.

## 16. Acquisition of businesses

On 2 January 2019 the Group acquired the remaining 25% of the issued share capital of National Shower Spares Limited for total cash consideration of £1.3m. National Shower Spares Limited is now a wholly owned subsidiary.

On 17 May 2019 the Group acquired an additional 35% of the issued share capital of the Underfloor Heating Store Limited for total cash consideration of £18.5m. The Group now owns 90% of the issued share capital of this subsidiary.

On 15 January 2019 the Group acquired trade and assets of Ambient Electrical Limited for total cash consideration of £1.0m.

# Notes to the interim financial statements

## 17. Non-statutory information

### a) Adjusted operating profit

Adjusted operating profit is calculated by excluding the effects of amortisation of acquired intangible assets and adjusting items from operating profit.

| £m | **Six months ended 30 June 2019** | Six months ended 30 June 2018 (restated) | Year ended 31 December 2018 (restated) |
|---|---|---|---|
| Operating profit / (loss) | **64.0** | (104.3) | (16.3) |
| Adjusting items (note 2) | **127.3** | 256.6 | 340.4 |
| Amortisation of acquired intangible assets | **4.1** | 4.0 | 8.7 |
| Adjusted operating profit | **195.4** | 156.3 | 332.8 |

### b) Adjusted profit before tax

Adjusted profit before tax is calculated by excluding the effects of amortisation of acquired intangible assets and adjusting items from profit before tax.

| £m | **Six months ended 30 June 2019** | Six months ended 30 June 2018 (restated) | Year ended 31 December 2018 (restated) |
|---|---|---|---|
| Profit / (loss) before tax | **20.8** | (115.6) | (44.0) |
| Adjusting items (note 2) | **127.3** | 256.6 | 340.4 |
| Amortisation of acquired intangible assets | **4.1** | 4.0 | 8.7 |
| Adjusted profit before tax | **152.2** | 145.0 | 305.1 |

### c) Ratio of net debt to adjusted EBITDA (rolling 12 months)

Due to the impact of the adoption of IFRS 16 – Leases on 1 January 2019, net debt and adjusted EBITDA are not prepared on a consistent basis to previous periods. In future periods period-sensitive figures will be calculated on a rolling 12 month basis, however due to the adoption of IFRS 16 – Leases ratios for the period ended 30 June 2019 has been calculated using two times the result for the six month period.

The Group previously presented lease adjusted net debt to adjusted earnings before interest, tax, depreciation, amortisation and operating lease rentals (“EBITDAR”). This is shown below for the comparative periods.

| £m | **30 June 2019 (6 months)** | 30 June 2018 (rolling 12 months) | 31 December 2018 (rolling 12 months) |
|---|---|---|---|
| Operating profit | **64.0** | 23.3 | (16.3) |
| Depreciation and amortisation | **123.7** | 111.7 | 116.4 |
| EBITDA | **187.7** | 135.0 | 100.1 |
| Adjusting items (note 2) | **127.3** | 256.6 | 340.4 |
| Share of associates’ results | **(2.5)** | (1.1) | (4.0) |
| Adjusted EBITDA | **312.5** | 390.5 | 436.5 |
| Adjusted EBITDA (annualised / rolling 12 months) | **625.0** | 390.5 | 436.5 |
| Net debt (note 13) | **1,739.4** | 460.8 | 353.6 |
| Net debt to adjusted EBITDA | **2.8x** | 1.2x | 0.8x |
| *Lease adjusted net debt to adjusted EBITDAR* | ***n/a*** | *3.0x* | *2.7x* |

## Notes to the interim financial statements

## 17. Non-statutory information (continued)

### d) Fixed charge cover (rolling 12 months)

| £m | **30 June 2019 (6 months)** | 30 June 2018 (rolling 12 months) | 31 December 2018 (rolling 12 months) |
|---|---|---|---|
| Adjusted EBITDA | **312.5** | 390.5 | 436.5 |
| Adjusted EBITDA (annualised 6 months / rolling 12 months) | **625.0** | 390.5 | 436.5 |
| Adjusted EBITDAR | **n/a** | 571.7 | 613.9 |
| Property operating lease rentals | **n/a** | 181.2 | 177.4 |
| Depreciation of property right-of-use assets (annualised 6 months / rolling 12 months) | **128.4** | n/a | n/a |
| Interest for fixed charge cover (rolling 12 months) (note 5) | **28.1** | 27.7 | 25.8 |
| Interest on lease liabilities / finance leases (annualised 6 months / rolling 12 months) | **54.9** | 0.7 | 0.4 |
| Fixed charge (annualised 6 months / rolling 12 months) | **211.4** | 209.6 | 203.6 |
| Fixed charge cover | **3.0x** | 2.7x | 3.0x |

### e) Free cash flow

| £m | **Six months ended 30 June 2019** | Six months ended 30 June 2018 (restated*) | Year ended 31 December 2018 (restated*) |
|---|---|---|---|
| Adjusted operating profit | **219.8** | 178.7 | 374.5 |
| Less: Profit on disposal of properties | **(6.0)** | (17.0) | (26.8) |
| Adjusted operating profit excluding property profit | **213.8** | 161.7 | 347.7 |
| Depreciation of property, plant and equipment | **48.0** | 51.5 | 101.0 |
| Amortisation of internally generated intangibles | **8.5** | 8.4 | 15.5 |
| Share-based payments | **14.2** | 9.0 | 19.6 |
| Movement on working capital | **(134.2)** | (104.4) | (107.1) |
| Other net interest paid | **(4.2)** | (0.9) | (25.5) |
| Interest on lease liabilities | **(30.1)** | - | - |
| Income tax paid | **(30.1)** | (27.8) | (55.1) |
| Capital expenditure excluding freehold purchase | **(51.1)** | (82.9) | (143.1) |
| Disposal of plant and equipment | **5.0** | 6.0 | 13.8 |
| Free cash flow | **39.8** | 20.6 | 166.8 |

*The Group's definition of free cash flow has been revised and is now defined as net cash flow before dividends, capital expenditure and disposal proceeds on freehold property, pension deficit repair contributions, adjusting cash flows and financing cash flows. Compared to the previous definition, free cash flow now excludes all freehold property related cash flows and includes growth capital expenditure. In the Directors' view this revised metric better reflects the cash the Group needs in order to invest and expand its operations, pay dividends to shareholders and access the best property locations.

Free cash flow has been calculated based on cash flows from continuing and discontinuing operations.

## Notes to the interim financial statements

## 17. Non-statutory information (continued)

### f) Capital ratios

### *(i) Average capital employed*

| £m | **30 June 2019 (6 months)** | 30 June 2018 (rolling 12 months) (restated*) | 31 December 2018 (rolling 12 months) (restated*) |
|---|---|---|---|
| Opening net assets | **2,717.7** | 2,781.4 | 2,655.6 |
| Net pension (asset) / deficit | **(65.8)** | 37.9 | 22.9 |
| Net borrowings | **1,703.6** | 377.0 | 341.5 |
| Less: net assets classified as held for sale | **(253.0)** | (308.3) | (274.5) |
| Impairment of goodwill and other intangibles | **-** | (252.1) | (252.1) |
| Opening capital employed | **4,102.5** | 2,635.9 | 2,493.4 |
| Closing net assets | **2,512.2** | 2,661.0 | 2,717.7 |
| Net pension asset | **(37.9)** | (44.5) | (65.8) |
| Net borrowings | **1,739.4** | 460.8 | 353.6 |
| Less: net assets classified as held for sale | **(321.8)** | (260.4) | (253.0) |
| Closing capital employed | **3,891.9** | 2,816.9 | 2,752.5 |
| Average capital employed | **3,997.2** | 2,726.4 | 2,623.0 |

### *(ii) Return on capital employed*

| £m | **30 June 2019 (6 months)** | 30 June 2018 (rolling 12 months) (restated*) | 31 December 2018 (rolling 12 months) (restated*) |
|---|---|---|---|
| Adjusted operating profit | **195.4** | 287.3 | 332.8 |
| Adjusted operating profit (annualised 6 months / rolling 12 months) | **390.8** | 287.3 | 332.8 |
| Average capital employed | **3,997.2** | 2,726.4 | 2,623.0 |
| Return on capital employed | **9.8%** | 10.5% | 12.7% |

*Comparative figures have been restated to exclude the adjusted operating profit and segment assets and liabilities of the Plumbing & Heating division, which has been presented as a non-current asset for sale at 30 June 2019.

## Notes to the interim financial statements

## 17. Non-statutory information (continued)

### g) Gearing

| £m | As at 30 June 2019 | As at 30 June 2018 (restated) | As at 31 December 2018 (restated) |
|---|---|---|---|
| Net debt | **1,739.4** | 460.8 | 353.6 |
| Equity | **2,512.2** | 2,661.0 | 2,717.7 |
| Equity plus net debt | **4,251.6** | 3,121.8 | 3,071.3 |
| Gearing | **40.9%** | 14.8% | 11.5% |

Following the implementation of IFRS 16 – Leases, the Group has stopped reporting its previous "lease adjusted gearing" KPI, which was calculated by adjusting net debt and net assets by eight times property operating lease rentals.

### h) Like-for-like sales

| £m | Merchanting | Retail | Toolstation | Total |
|---|---|---|---|---|
| 2018 H1 revenue (restated) | 1,783.4 | 638.5 | 168.8 | **2,590.7** |
| Branch closures | (23.4) | (11.0) | (0.5) | **(34.9)** |
| Trading days | (14.0) | - | - | **(14.0)** |
| 2018 H1 like-for-like revenue (restated) | 1,746.0 | 627.5 | 168.3 | **2,541.8** |
| Like-for-like revenue change | 112.6 | 61.0 | 29.1 | **202.7** |
| Branch opening | 10.5 | 6.3 | 10.1 | **26.9** |
| **2019 H1 revenue** | **1,869.1** | **694.8** | **207.5** | **2,771.4** |

Like-for-like sales are a measure of underlying sales performance for two successive periods. Branches contribute to like-for-like sales once they have been trading for more than twelve months. Revenue included in like-for-like sales is for the equivalent times in both years being compared. When branches close, revenue is excluded from the prior year figures for the months that are equivalent to the post closure period in the current year.

## 18. Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 – Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019.

The Group has adopted IFRS 16 – Leases using the modified retrospective approach as described in paragraph C5(b) of the standard. Therefore the cumulative effect of adopting IFRS 16 – Leases was recognised as an adjustment to the opening balance of retained earnings at 1 January 2019 with no restatement of comparative information. Comparative information continues to be reported under IAS 17 – Leases and IFRIC 4 – Determining Whether an Arrangement Contains a Lease.

## 18. Changes in accounting policies (continued)

### a) Adjustments recognised on adoption of IFRS 16 – Leases

**Lease liabilities**

On adoption of IFRS 16 – Leases, the group recognised liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 – Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the property leases on 1 January 2019 was 4.4% and for fleet and other leases was 1.8%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and the lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at 1 January 2019.

| £m | |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | 1,797.7 |
| Additional lease commitments not included in the 2018 Annual Report & Accounts | 60.2 |
| Restated operating lease commitments | 1,857.9 |
| Discounted using the lessee's incremental borrowing rate as 1 January 2019 | (393.4) |
| Finance lease liabilities as at 31 December 2018 | 21.0 |
| Adjustments as a result of a different treatment of extension and termination options | 8.1 |
| **Lease liability recognised as at 1 January 2019** | 1,493.6 |
| Comprising: | |
| Current lease liabilities | 169.6 |
| Non-current lease liabilities | 1,324.0 |
| | 1,493.6 |

**Right-of-use assets**

The associated right-of-use assets for the Group's 330 most material property leases and the majority of fleet and other leases were measured on a retrospective basis as if the new rules had always been applied using the lessees' incremental borrowing rate as at 1 January 2019. Other right-of use assets were measured at amounts equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. An impairment adjustment to the right-of-use assets of £11.3m in relation to previous onerous lease provisions was recognised at the date of initial application. The recognised right-of-use assets relate to the following types of assets:

| £m | 1 January 2019 |
|---|---|
| Properties | 1,268.9 |
| Plant and equipment | 75.2 |
| Total right-of-use assets | 1,344.1 |

## 18. Changes in accounting policies (continued)

### Adjustments to balance sheet items

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

| £m | 1 January 2019 |
|---|---|
| Property, plant and equipment | (16.4) |
| Right-of-use assets | 1,344.1 |
| Deferred tax asset | 23.9 |
| Onerous lease and rent review provisions | 17.0 |
| Finance lease creditor | 21.0 |
| Lease liabilities | (1,485.5) |
| Net impact on retained earnings | (95.9) |

### Impact on segment disclosures

Segment assets and segment liabilities for June 2019 increased as a result of the adoption of IFRS 16 – Leases. Lease liabilities are now included in segment liabilities, whereas finance lease liabilities were previously excluded from segment liabilities. Segment assets and liabilities as at 1 January 2019 were affected as follows:

| £m | Segment assets | Segment liabilities |
|---|---|---|
| Merchanting | 389.9 | 399.0 |
| Retail | 740.1 | 846.9 |
| Toolstation | 80.4 | 82.9 |
| Unallocated | 27.8 | 4.0 |
| Total | 1,238.2 | 1,332.8 |

### Practical expedients applied

In applying IFRS 16 – Leases for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate for portfolios of leases with reasonably similar characteristics
- reliance on previous assessments of whether leases are onerous
- accounting for low value operating leases and operating leases with a remaining lease term of less than 12 months as at 1 January 2019 on straight line basis as an expense without recognising a right-of-use asset or a lease liability
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 – Leases and IFRIC 4 – Determining whether an Arrangement contains a Lease.

## 18. Changes in accounting policies (continued)

### b) The Group's leasing activities and how these are accounted for

The Group leases various properties, motor vehicles and equipment. Rental contracts are typically made for fixed periods but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019 leases are recognised as a right-of-use asset with a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease if the lease term reflects the lessee exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs
- restoration costs

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise mainly IT equipment, vending machines and paint mixing machines.

**Extension and termination options**

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that includes renewal options and break clauses. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which can significantly affect the amount of lease liabilities and right-of-use assets recognised.

## 18. Changes in accounting policies (continued)

### c) Significant accounting policy applicable from 1 January 2019

IFRS 16 – Leases establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

**Identifying a lease**

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the Group has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for fleet leases in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

For each lease or lease component, the Group follows the lease accounting model as per IFRS 16 – Leases, unless the recognition exceptions can be used.

**Recognition exceptions**

The Group has elected to account for lease payments as an expense on a straight-line basis over the lease term or another systematic basis for the following two types of leases:

i) leases with a lease term of 12 months or less and containing no purchase options – this election is made by class of underlying asset
ii) leases where the underlying asset has a low value when new – this election can be made on a lease-by-lease basis,

For leases where the Group has taken short-term lease recognition exemption and there are any changes to the lease term or the lease is modified, the Group accounts for the lease as a new lease.

**Lessee accounting**

Upon lease commencement the Group recognises a right-of-use asset and a lease liability.

*Initial measurement*

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or to restore the underlying asset or the site on which is located, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the Group uses the incremental borrowing rate.

Variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability and are initially measured using the index or rate as at the commencement date. Amounts expected to be payable by the lessee under residual value guarantees are also included.

Variable lease payments that are not included in the measurement of the lease liability are recognised in profit or loss in the period in which the event or condition that triggers payment occurs, unless the costs are included in the carrying amount of another asset under another accounting standard.

*Subsequent measurement*

After lease commencement, the Group measures right-of-use assets using a cost model. Under the cost model a right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment.

## 18. Changes in accounting policies (continued)

### c) Significant accounting policy applicable from 1 January 2019 (continued)

The lease liability is subsequently remeasured to reflect changes in:

- the lease term (using a revised discount rate)
- the assessment of a purchase option (using a revised discount rate)
- the amounts expected to be payable under residual value guarantees (using an unchanged discount rate)
- future lease payments resulting from a change in an index or a rate used to determine those payments (using an unchanged discount rate)

The remeasurements are matched by adjustments to the right-of-use asset.

Lease modifications may also prompt remeasurement of the lease liability unless they are determined to be separate leases.

*Depreciation*

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition the right-of-use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

**Lessor Accounting**

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of an underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short term lease to which the Group applies the recognition exemption, then it classifies the sub-lease as an operating lease.

If an arrangement contains a lease and non-lease components, the Group applies IFRS 15 – Revenue from Contracts with Customers to allocate the consideration in the contract.

The Group recognises operating lease payments as income on a straight-line basis over the lease term as part of ‘other income’. The Group recognises finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment.

Upon lease commencement, the Group recognises assets held under a finance lease as a receivable at an amount equal to the net investment in the lease.

***Sale and leaseback transactions***

To determine whether the transfer of an asset is accounted for as a sale an entity applies the requirements of IFRS 15 – Revenue from Contracts with Customers for determining when a performance obligation is satisfied.

If an asset transfer satisfies the requirements to be accounted for as a sale the seller measures the right-of-use asset at the proportion of the previous carrying amount that relates to the right of use retained. Accordingly, the seller only recognises the amount of gain or loss that relates to the rights transferred to the buyer.

If the fair value of the sale consideration does not equal the asset’s fair value, or if the lease payments are not market rates, the sales proceeds are adjusted to fair value, either by accounting for prepayments or additional financing.

## RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- The condensed set of financial statements has been prepared in accordance with IAS 34 – Interim Financial Reporting, as adopted by the EU;
- The Interim Management Report includes a fair review of the information required by:
  (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board

| | |
|---|---|
| John Carter | Alan Williams |
| Chief Executive Officer | Chief Financial Officer |
| 30 July 2019 | 30 July 2019 |

# INDEPENDENT REVIEW REPORT TO TRAVIS PERKINS PLC

## Conclusion

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 30 June 2019 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and the related explanatory notes.

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 30 June 2019 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

## 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 Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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.

### *The impact of uncertainties due to the UK exiting the European Union on our review*

Uncertainties related to the effects of Brexit are relevant to understanding our review of the condensed financial statements. Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. An interim review cannot be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

## 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 DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

## 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.

## INDEPENDENT REVIEW REPORT TO TRAVIS PERKINS PLC *(continued)*

**The purpose of our review work and to whom we owe our responsibilities**

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 reached.

**Anthony Sykes**
**Senior Partner**
**for and on behalf of KPMG LLP**
*Chartered Accountants*
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

30 July 2019