

Final results for year ended 31 January 2017

Financial highlights			% Total	% Total	% LFL*
	2016/17	2015/16	Change Reported	Change Constant currency	Change Constant currency
Adjusted sales*	£11,225m	£10,331m	+8.7%	+1.7%	+2.3%
Retail profit*	£847m	£746m	+13.5%	+6.1%	
Underlying* pre-tax profit	£787m	£686m	+14.7%		
Adjusted* pre-tax profit	£743m	£686m	+8.3%		
Underlying basic EPS	25.9p	22.0p	+17.7%		
Adjusted basic EPS	24.4p	22.0p	+10.9%		
Lease adjusted ROCE*	12.5%	12.3%	+20bps		
Full year dividend	10.4p	10.1p	+3.0%		
Net cash*	£641m	£546m	n/a		

Year 1:

Group results ahead on all key metrics

- Total adjusted sales in constant currencies up 1.7% (UK & Ireland* +2.4%; France* (1.4)%; Other International* +7.0%)
- Underlying pre-tax profit of £787m, up 14.7% driven by
 - UK and Poland LFL sales growth
 - £30m Goods Not for Resale* (GNFR) benefits delivering earlier than planned
 - £52m favourable FX movements on the translation of non-sterling retail profits

Returned £430m of cash to shareholders

- £230m via ordinary dividend (full year dividend up 3.0%)
- £200m via share buyback

Delivered key Year 1 ONE Kingfisher strategic milestones

Year 2 and beyond:

Well set up for Year 2 alongside preparing for Year 3

Key learnings taken on board, aware of challenges

Reaffirming 5 year financial transformation targets

- Expected to deliver £500m sustainable EBIT uplift by end of FY 20/21 over and above business as usual (BAU)*
- Total expected cash costs* of £800m (FY 16/17 £77m; FY 17/18 guiding c.£270m)
- Improved ROCE
- Capital return of c.£600m by end of FY 18/19

Statutory reporting	2016/17	2015/16	% Change
Statutory sales*	£11,225m	£10,441m	+7.5%
Statutory pre-tax profit	£759m	£512m	+48.2%
Statutory post-tax profit	£610m	£412m	+48.1%
Basic EPS	27.1p	17.8p	+52.2%

Throughout this release "" indicates first instance of a term defined and explained in the Glossary (section 5). Not all of the figures and ratios used are readily available from the unaudited preliminary results included in part 2 of the announcement. These non-GAAP measures, including constant currency and like-for-like sales growth, underlying and adjusted profit measures, management believes are both useful and necessary to better understand the Group's results. Where required, a reconciliation to statutory amounts is set out in the Financial Review (Section 4).

Véronique Laury, Chief Executive Officer, said:

“It has been a very productive and important year, a year which has again delivered sales and profit growth. I am really pleased that our performance has been achieved alongside delivering the key first year strategic milestones of our ambitious five year transformation plan, based on creating a unified company where customer needs come first. We have learned a lot and are aware of the challenges. We are well set up for next year and beyond as the level of activity increases.

“Looking forward, the EU referendum has created uncertainty for the UK economic outlook and we remain cautious on the outlook for France, especially in light of the forthcoming presidential elections. Looking longer term, supported by the expertise and energy of our colleagues, we remain confident in the size of the prize and our ability to deliver the plan - both the financial benefits the transformation will unlock and the stronger business it will create.”

Contacts

	Tel:	Email:
Investor Relations	+44 (0) 20 7644 1082	investorenquiries@kingfisher.com
Media Relations	+44 (0) 20 7644 1030	corpcomms@kingfisher.com
Teneo Blue Rubicon	+44 (0) 20 7260 2700	Kfteam@teneobluerubicon.com

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Our next announcement will be the Q1 trading update for the period ended 30 April 2017 on 24 May 2017.

The remainder of this release is broken down into six main sections:

- 1) ONE Kingfisher update
- 2) Trading review by division
- 3) FY 2017/18 Technical guidance
- 4) FY 2016/17 Financial review and, in part 2 of this announcement, the full year Financial Statements
- 5) Glossary
- 6) Forward-looking statements

Section 1: ONE Kingfisher update

The ONE Kingfisher five year plan, which started in FY 2016/17, will leverage the scale of the business by creating a unified company, where customer needs always come first.

Our intention is that this five year transformation plan will deliver a £500m sustainable annual profit uplift by the end of Year 5, over and above BAU. Furthermore, until we have unified our customer offer, we will have limited expansion, the focus of which will be Screwfix UK and Europe in the medium-term. The total expected cash cost of the transformation is £800m (P&L, exceptional and capex).

The focus of the transformation plan is on three key strategic pillars:

1. creating a unified, unique and leading home improvement offer;
2. driving our digital capability; and
3. optimising our operational efficiency.

Progress against the FY 2016/17 strategic milestones:

1. Unified, unique and leading offer

We have started unifying our offer. This will deliver significant customer benefits (newer products, higher quality, better sustainability, lower prices, simpler ranges, clearer merchandising and better packaging) alongside significant business benefits (higher sales, fewer SKUs*, fewer suppliers, cost price reduction (CPR*) and improved processes).

- *Achieve 4% unified cost of goods sold (COGS)*

We have unified 4% of COGS across the year with an exit rate of 8%, including air treatment, light bulbs, kitchen sinks and ladders. Sales excluding clearance on those ranges were slightly ahead of last year with cost of change and CPR delivering in line with expectations. On these ranges we have reduced the total number of SKUs across the company from c.28,000 to c.7,000, without impacting the choice on offer to customers in each country. The number of suppliers of these ranges has reduced from 840 to 130.

In addition, having undertaken in-depth studies of customer needs for outdoor and bathroom ranges, we are starting to land our first unique ranges to Kingfisher. These comprise features such as slim bathroom storage solutions which make the most of limited space; easy to store, space efficient outdoor furniture and low maintenance, easy to install modular fencing.

- *Deliver new ONE Offer & Supply Chain Organisation*

We are moving away from an organisation structure with nine buying and logistics teams, in nine operating companies which source and merchandise their own ranges independently. Instead, we are reorganising as ONE organisation, starting with our offer, with planning underway to develop an integrated supply chain network.

New unified global functions and roles started from June, mostly as a result of internal moves, leading to lower transformation exceptional costs than originally anticipated for this year. New range teams, located across the UK and France are working closely with operating companies, who retain responsibility for activities such as trading, range implementation, local pricing and customer needs.

2. Driving our digital capability

Implementation of a unified IT system is a key enabler of our ONE Kingfisher plan. It will also provide a significant opportunity, with a seamless and stronger digital offer for our customers, to substantially increase sales and digital penetration.

- *Complete unified IT platform roll out in B&Q and start Castorama France roll out*

The B&Q store roll out was completed in Q1 ahead of plan, with back office and supply chain now substantially complete. Six Castorama pilot stores were launched successfully in H2 with the wider roll out now underway.

- *Build Digital 'Brilliant Basics' platform for B&Q*

This involves investing in our core e-commerce platforms, enabled by the new unified IT platform, and leveraging our Screwfix best-in-class capability.

The UK has started to benefit from upweighted digital marketing, improved site search and new checkout at Screwfix. All these areas are being further developed for both diy.com and castorama.fr. We are also developing a new company wide mobile platform due for launch during 2017.

3. Optimising our operational efficiency

The main driver will come from unifying c.90% of the £1.2bn annual spend on GNFR. This programme is a combination of cost savings, and an opportunity to work in a simpler and more effective way across the business.

- *Complete closure of c.15% surplus space at B&Q (65 stores)*

Closure programme now completed with 35 stores closed during 2016/17, taking the total to 65. LFL sales transference benefit of 2.6% during the year has supported the business case for the closures. In Q1 B&Q outsourced the remaining lease exits to a third party via a lease liability transaction. Of the 15 exits secured in FY 2016/17, 11 were undertaken by this third party. Of the 65 stores, we have now secured exits on a total of 55.

- *Deliver £20m benefits from unified GNFR programme*

Alongside helping us to work in a simpler more effective way, we have achieved cost savings on categories reviewed so far. During the year we achieved a £30m benefit, £10m ahead of our target at the start of the year, reflecting early delivery of the plan.

Alongside these three pillars which collectively drive the £500m sustainable profit uplift by the end of Year 5, we are also working on our Retail Operations. In this area last year, we launched four Big Box best practice stores in the UK, France, Poland and Russia in a first step towards convergence and early results are encouraging. In addition, we opened 60 Screwfix outlets in the UK and ten in Germany.

FY 2017/18 and beyond:

We are well set up to deliver Year 2 alongside preparing for Year 3. We have taken on board key learnings, as outlined below, and we are aware of the challenges as the level of transformation activity increases:

- *Clearing of old ranges* - how and when we clear is now supported by group best practice to enable a consistent approach, to maximise customer availability and proposition whilst minimising the financial cost. Clearance has started and is so far on track
- *Remerchandising of new ranges* - how we physically remerchandise 25% of our company wide store space is now supported by group best practice with resourcing plans in place and;
- *Managing the volume of organisational change* - we have identified the need to approach the wider transformation as a series of sequential 'change releases' to ensure appropriate cross visibility and prioritisation.

Strategic milestones for 2017/18:

Unified & Unique Offer

- *Achieve 20% unified COGS*

Digital

- *Deliver Year 2 of 3 year unified IT platform roll out alongside Brilliant Basics*

Operational Efficiency

- *Deliver a further £20m benefits from unified GNFR programme*

Summary:

Key Year 1 strategic milestones have been delivered, we are well set up for Year 2 and key learnings have been taken on board. We are reaffirming our five year financial targets and although total transformation costs for Year 1 were lower than originally guided, reflecting lower initial reorganisation costs and phasing on spend, we are not changing our five year total transformation cost guidance of £800m. It is early days and given the nature of the plan, phasing differences are to be expected.

We continue to monitor our progress against our financial and strategic milestones, and we will update as we progress.

Section 2: Trading review by division

Note: all commentary below is in constant currencies

UK & IRELAND

£m	2016/17	2015/16	% Reported Change	% Constant Currency Change	% LFL Change
Sales	4,979	4,853	+2.6%	+2.4%	+5.9%
Retail profit	358	326	+9.8%	+9.9%	

Kingfisher UK & Ireland sales were up 2.4% (+5.9% LFL) to £4,979 million benefiting from a broadly supportive backdrop and continued strong Screwfix performance. Retail profit grew by 9.9% to £358 million. Gross margins were down 80 basis points reflecting mix effects from strong growth in Screwfix, clearance related to the B&Q store closures and higher digital sales. Focus on cost control continued.

B&Q total sales declined by 3.3% to £3,680 million reflecting planned store closures partly offset by sales transference. LFL sales increased by 3.5% of which 2.6% resulted from sales transference associated with the store closures. LFL sales of seasonal products were up 3.1% while sales of non-seasonal products, including showroom, were up 3.6%.

Click & collect is now available on over 31,500 products (FY 2015/16: 16,700). Total digital sales*, including home delivery, continued to make good progress with sales growing by 45%.

Screwfix grew total sales by 23.2% (+13.8% LFL) to £1,299 million, driven by strong growth from the specialist trade desks exclusive to plumbers and electricians, strong digital growth (e.g. click & collect +60%, mobile +124%) and the continued roll out of new outlets. 60 new outlets were opened, taking the total to 517. Our overall target is to have around 700 outlets in the UK, up from 600 previously.

FRANCE

£m	2016/17	2015/16	% Reported Change	% Constant Currency Change	% LFL Change
Sales	4,254	3,786	+12.4%	(1.4)%	(2.7)%

Retail profit	353	311	+13.6%	(0.3)%
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Kingfisher France **sales** declined by 1.4% (-2.7% LFL) to £4,254 million. According to Banque de France data*, sales for the home improvement market were down 0.6%. Whilst holding a strong market position in France and benefiting from a well invested store estate, both businesses have delivered weaker sales compared to the market.

Castorama total sales declined by 2.4% (-3.0% LFL) to £2,308 million. LFL sales of seasonal products were down 4.6% and sales of non-seasonal products, including showroom were down 2.5%. **Brico Dépôt** total sales were broadly flat (-2.3% LFL) at £1,946 million reflecting store openings. Across the two businesses, one net new store was opened and four were revamped, adding around 1% new space.

By the end of next year, our ONE Kingfisher plan will provide newness in our customer proposition as over half of France's offer will be unified and unique. Some of the CPR benefits will be reinvested in price as we start to move towards making home improvement more affordable for customers. In addition, this year we will complete the roll out of the unified IT platform in Castorama France, enabling us to build a stronger digital offer, starting with new mobile and site search.

Retail profit was broadly flat at £353 million, despite the weaker sales, reflecting higher gross margins (+20 basis points) benefiting from less promotional activity, and continued focus on cost control.

OTHER INTERNATIONAL

£m	2016/17	2015/16	% Reported Change	% Constant Currency Change	% LFL Change
Sales	1,992	1,692	+17.8%	+7.0%	+5.1%

Retail profit				
Other International (established)	152	126	+19.6%	+9.7%
New Country Development*	(16)	(17)	n/a	n/a
Total	136	109	+24.1%	+14.5%

Other International total sales increased by 7.0% (+5.1% LFL) to £1,992 million. Retail profit increased by 14.5% to £136 million driven by Poland.

During the year 12 net new stores were opened, including two in Poland and ten in Screwfix Germany, adding around 2% more space compared to last year.

Other International (established):

Sales in **Poland** were up 10.1% (+7.5% LFL) to £1,191 million benefiting from a supportive market and new ranges. LFL sales of seasonal products were up 9.5% with sales of non-seasonal products, including showroom up 7.3%. Gross margins were up 90 basis points driven by strong trading and sales mix benefits. Retail profit grew by 15.8% to £144 million reflecting the sales growth and higher gross margins.

In **Russia** sales declined slightly by 0.2% (+0.3% LFL) to £349 million against strong comparatives (2015/16: +7.2% LFL). The business delivered a £1 million profit (2015/16: £6 million reported retail profit) reflecting a challenging environment and adverse foreign currency exchange movements. In **Spain** sales increased by 2.1% (+0.5% LFL) to £312 million, delivering a £2 million retail profit (2015/16: breakeven). In **Turkey**, Kingfisher's 50% JV, Koçtaş, contributed retail profit of £5 million (2015/16: £7 million reported retail profit).

New Country Development:

New Country Development comprises our operations in Romania, Portugal and Germany. Sales were £140 million with losses of £16 million (2015/16: £17 million reported retail loss). Romania delivered a breakeven result (2015/16: £9 million loss) and Screwfix Germany opened ten new outlets, resulting in a £14 million loss (2015/16: £7 million loss).

Section 3: FY 2017/18 Technical guidance

Employees, new stores and space growth:

	Employees (FTE) at 31 Jan 2017	Store Numbers at 31 Jan 2017	Sales area ⁽¹⁾ (000s m ²) at 31 Jan 2017	Net new stores FY 2017/18	Space % change FY 2017/18
B&Q UK & Ireland	18,883	295	2,221	1	-
Screwfix	7,130	517	31	50	+7%
UK & Ireland	26,013	812	2,252	51	-
Castorama	11,480	102	1,248	-	+1%
Brico Dépôt	7,242	119	831	2	+1%
France	18,722	221	2,079	2	+1%
Poland	11,404	75	635	1	+2%
Portugal	155	3	20	-	-
Romania	816	15	114	-	-
Russia	3,177	21	209	-	-
Spain	1,555	28	175	-	-
Screwfix Germany	170	19	1	-	-
Other International	17,277	161	1,154	1	+1%
Total	62,012	1,194	5,485	54	+1%

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

Income statement:

- Broadly flat gross margin assuming Unified & Unique Offer CPR benefits are offset by some price reinvestment and clearance
- Underlying profit expected to include up to a further £20m operational efficiency benefits
- Total 5 year transformation costs £800m
 - Transformation P&L costs of c.£310m (previously £220m) over 5 years to FY 2020/21, to be mostly incurred over first 3 years. FY 2017/18 expected to be c.£150m
 - Transformation exceptional costs of c.£170m (previously £270m) over 5 years to FY 2020/21, to be incurred over first 4 years (previously 3 years). FY 2017/18 transformation exceptional costs expected to be c.£30m
- c.1% LFL sales transference benefit from B&Q store closures
- Retail losses from new country development activity expected to be c.£15m driven by Screwfix Europe*
- Group interest charge expected to be c.£5m (excluding FFVR* and exceptionals)
- Effective tax rate expected to be around 26%, subject to the blend of profit within the companies' various jurisdictions

Cash flow:

- Total capex including transformation of c.£450m for FY 2017/18
- Capital return of c.£600m by the end of FY 2018/19 expected to be via share buyback (£200m completed in FY 2016/17)

Section 4: FY 2016/17 Financial review

A summary of the reported financial results for the year ended 31 January 2017 is set out below:

	2016/17	2015/16	% Reported Change	% Constant Currency Change
Adjusted sales	£11,225m	£10,331m	+8.7%	+1.7%
Statutory sales ⁽¹⁾	£11,225m	£10,441m	+7.5%	+0.7%
Retail profit	£847m	£746m	+13.5%	+6.1%
Underlying pre-tax profit	£787m	£686m	+14.7%	
Transformation P&L costs ⁽²⁾	£(44)m	-	n/a	
Adjusted pre-tax profit	£743m	£686m	+8.3%	
Statutory pre-tax profit ⁽¹⁾	£759m	£512m	+48.2%	
Effective tax rate	26%	26%		
Exceptional items (post-tax) ⁽²⁾	£11m	£(99)m	n/a	
Underlying basic earnings per share	25.9p	22.0p	+17.7%	
Adjusted basic earnings per share	24.4p	22.0p	+10.9%	
Basic earnings per share ⁽¹⁾	27.1p	17.8p	+52.2%	
Full year ordinary dividend	10.4p	10.1p	+3.0%	
Capital return - share buyback	£200m	£200m		
Net cash	£641m	£546m		

⁽¹⁾ Statutory results include B&Q China up to the date of disposal of controlling 70% stake (30 April 2015)

⁽²⁾ Kingfisher separately reports exceptional items and transformation costs in order to calculate adjusted and underlying results, as it believes these measures provide additional useful information on underlying performance and trends

Reported **retail profit** grew by 13.5% including £52 million of favourable foreign exchange movement on translating foreign currency results into sterling. In constant currencies retail profit grew by 6.1%, reflecting strong LFL performance in the UK and Poland, flat profits in France and including £16 million of new country development losses. Our ongoing focus on cash and tight capital discipline enabled continued investment in the business and the transformation, the payment of £230 million in cash dividends and a return of a further £200 million to shareholders via share buyback, while maintaining a strong balance sheet.

Total **adjusted sales** grew to £11.2 billion, up 1.7% on a constant currency basis, with LFL sales up 2.3%. On a reported rate basis, which includes the impact of exchange rates, adjusted sales increased by 8.7%. During the year, sales growth benefited from 38 net new stores, driven by 60 Screwfix outlet openings in the UK, offset by the B&Q store closures (65 over two years; 35 in FY 2016/17).

As previously announced, Kingfisher disposed of a controlling 70% stake in B&Q China on 30 April 2015. On 23 March 2016 Kingfisher exercised its option to dispose of the remaining 30% economic interest, with the agreement of Wumei Holdings Inc. ("Wumei"). Following regulatory approval, Kingfisher received net proceeds of £63 million in July 2016, completing the transaction.

Underlying pre-tax profit, which excludes the impact of transformation P&L costs, exceptional items and FFVR, increased by 14.7%, to £787 million, in line with reported retail profit.

Adjusted pre-tax profit, which excludes the impact of exceptional items and FFVR, increased by 8.3% to £743 million, reflecting £44 million of transformation P&L costs.

Statutory pre-tax profit, which includes the impact of transformation costs, exceptional items and FFVR, increased by 48.2% to £759 million, reflecting an exceptional gain compared to a charge last year (see below).

A reconciliation from the underlying basis to the statutory basis for pre-tax profit is set out below:

	2016/17 £m	2015/16 £m	Increase
Retail profit	847	746	+13.5%
Central costs	(48)	(45)	
Share of interest and tax of joint ventures & associates	(5)	(5)	
Finance costs before exceptional items & financing fair value remeasurements (FFVR)	(7)	(10)	
Underlying pre-tax profit	787	686	+14.7%
Transformation P&L costs	(44)	-	
Adjusted pre-tax profit	743	686	+8.3%
B&Q China operating loss	-	(4) ⁽¹⁾	
FFVR	(1)	(4)	
Profit before exceptional items and tax	742	678	+9.4%
Exceptional items before tax	17	(166)	
Statutory pre-tax profit	759	512	+48.2%

⁽¹⁾ Up to the date of disposal (30 April 2015)

Transformation P&L costs of £44 million principally relate to the unified and unique offer range implementation and the digital strategic pillar.

Exceptional items (post tax) were a gain of £11 million (2015/16: £99 million charge) as detailed below:

	2016/17 £m Gain/(charge)	2015/16 £m Gain/(charge)
Transformation exceptional costs	(5)	-
UK & Ireland and Europe restructuring	15	(305)
Profit on disposal of B&Q China	3	143
Impairment of Brico Dépôt Romania	-	(18)
Property and other disposals ⁽¹⁾	4	14
Exceptional items before tax	17	(166)
Exceptional tax items	(6)	67
Net exceptional items	11	(99)

⁽¹⁾ Disposal of properties includes the disposal of a property company in the prior year which held 3 non-operational properties

Transformation exceptional costs of £5 million principally relate to the setup of the new Offer and Supply Chain organisation.

UK & Ireland and Europe restructuring

B&Q completed the closure of 65 stores (c.15% of space) in the two years ending 31 January 2017 (35 closures in FY 2016/17; 30 closures in FY 2015/16). In Q1 B&Q entered into a lease liability transaction with a third party to dispose of the remaining leases. As previously announced, there will also be a small number of closures of loss making stores across Europe. In FY 2016/17 two stores were closed, one in Russia and one in Spain, with an update on further closures to be made in due course. The total store rationalisation programme was originally expected to give rise to an exceptional charge of around £350 million, relating principally to onerous lease provisions. An exceptional charge of £305 million was reported in FY 2015/16. An overall exceptional gain of £15 million was reported in FY 2016/17 reflecting lower than expected B&Q store exit costs resulting from the lease liability transaction, and the decision to keep one B&Q store open that was originally planned for closure, partly offset by the forced closure of one other store.

The disposal of the remaining 30% stake in B&Q China for a net consideration of £63 million resulted in a gain of £3 million.

Underlying basic earnings per share grew by 17.7% to 25.9p, which excludes the impact of transformation costs, exceptional items, FFVR and the effect of prior year tax items. **Adjusted basic earnings per share** grew by 10.9% to 24.4p, which excludes the impact of exceptional items, FFVR and prior year tax items. **Basic earnings per share** increased by 52.2% to 27.1p as set out below:

	Earnings £m	2016/17 EPS pence	Earnings £m	2015/16 EPS pence
Underlying basic earnings per share	584	25.9	509	22.0
Transformation P&L costs (net of tax)	(33)	(1.5)	-	-
Adjusted basic earnings per share	551	24.4	509	22.0
B&Q China operating loss	-	-	(4)	(0.2)
Net exceptional items	11	0.6	(99)	(4.3)
Prior year tax items	49	2.2	9	0.4
FFVR (net of tax)	(1)	(0.1)	(3)	(0.1)
Basic earnings per share	610	27.1	412	17.8

Dividends and capital returns

The Board has proposed a final dividend of 7.15p which results in a full year dividend of 10.4p, an increase of 3.0% (2015/16: 10.1p). The full year dividend is covered 2.3 times by adjusted earnings (2015/16: 2.2 times). We continue to be comfortable with medium term dividend cover in the range of 2.0 to 2.5 times based on adjusted basic earnings per share, a level the Board believes is consistent with the capital needs of the business.

The final dividend will be paid on 19 June 2017 to shareholders on the register at close of business on 5 May 2017. A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. The shares will go ex-dividend on 4 May 2017. For those shareholders electing to receive the DRIP the last date for receipt of election is 26 May 2017.

On 25 January 2016 Kingfisher announced its intention to return around a further £600 million of surplus capital to shareholders during 2016/17 and the following two years. This is expected to be via share buyback. During 2016/17 £200 million (58 million shares) was returned to shareholders via share buyback.

Taxation

Kingfisher's effective tax rate is sensitive to the blend of tax rates and profits in the Group's various jurisdictions. It is higher than the UK statutory rate because of the amount of Group profit that is earned in higher tax territories. The effective tax rate, calculated on profit before exceptional items, prior year tax adjustments and the impact of rate changes on deferred tax, was 26% (2015/16: 26%). The effective rate of tax is in line with the prior year, a result of tax rate reductions in the year having been broadly offset by changes to profit mix in reported currencies.

The overall rate of tax includes the impact of exceptional items and prior year adjustments. The effect of such items reduced the rate from 26% to 20%. This predominately reflects enacted rate reductions in both the UK and France, due to have full effect in 2020/21, which have resulted in deferred tax credits in the year, as well as the release of prior year provisions which have either been agreed with tax authorities, reassessed, or time expired.

Effective tax rate calculation	Profit £m	Tax £m	2016/17 %	2015/16 %
Profit before tax and exceptional items	742	(192)	26%	26%
Exceptional items	17	(6)		
Prior year items		49		
Total – overall	759	(149)	20%	20%

The tax rates for this financial year and the expected rates for next year in our main jurisdictions are as follows:

	Statutory tax rate 2017/18	Statutory tax rate 2016/17
UK	19%	20%
France	34%	34%
Poland	19%	19%

Sustainability

We are committed to being a truly sustainable company and to help customers create sustainable homes. We want to have a positive impact on our people, customers and the environment, and to improve life in the communities in which we operate. We are integrating sustainability throughout our business and at every stage of the value chain (for example product innovation and design, supply chain and logistics), and this includes integrating sustainability considerations into our capital expenditure processes.

Lease adjusted return on capital employed (ROCE*)

Our key returns metric, leased adjusted ROCE grew by 20 basis points from 12.3% to 12.5% this year, reflecting our underlying profit performance and favourable foreign exchange movements offset by transformation costs. ROCE by geographic division is analysed below:

	Sales £bn	Proportion of Group sales	Capital Employed (CE) £bn	Proportion of Group CE %	ROCE 2016/17	ROCE 2015/16
UK & Ireland	5.0	44%	3.8	55%	13.3%	13.1%
France	4.2	38%	1.9	27%	14.8%	14.1%
Other International	2.0	18%	1.2	18%	11.1%	10.2%
Total	11.2		6.9		12.5%	12.3%

Free cash flow*

A reconciliation of free cash flow is set out below:

	2016/17 £m	2015/16 £m
Operating profit	773	526
Exceptional items	(23)	166
Operating profit (before exceptional items)	750	692
Other non-cash items ⁽¹⁾	295	265
Change in working capital	17	31
Pensions and provisions	(46)	(42)
Operating cash flow	1,016	946
Net interest paid	(7)	(12)
Tax paid	(144)	(118)
Gross capital expenditure	(406)	(333)
Free cash flow	459	483
Ordinary dividends paid	(230)	(232)
Share buyback	(200)	(200)
Share purchase for employee incentive schemes	(6)	(16)
Disposal of B&Q China (net of disposal costs)	63	134
Disposal of assets ⁽²⁾ and other ⁽³⁾	(67)	38
Net cash flow	19	207
Opening net cash	546	329
Other movement including foreign exchange	76	10
Closing net cash	641	546

⁽¹⁾ Other non-cash items include depreciation and amortisation, share-based compensation charge, share of post-tax results of JVs and associates, pension operating cost and profit/loss on non-property disposals

⁽²⁾ Disposal of assets includes the disposal of an overseas property company in FY 2015/16

⁽³⁾ Includes exceptional cash flow items (excluding property disposals), principally relating to B&Q closures, dividends received from JVs and associates and issue of shares

Net cash at the end of the period was £641 million (2015/16: £546 million).

Free cash flow of £459 million was generated in the year, a decrease of £24 million against the prior period, reflecting an increase in capital expenditure.

Gross capital expenditure for the year was £406 million (2015/16: £333 million). Of this around 44% was invested on refreshing and maintaining existing stores, 14% on new stores, 24% on IT, 7% on the transformation and 11% on other which includes supply chain.

Of free cash flow, £430 million was returned to shareholders in the form of the ordinary dividend and share buybacks.

Management of balance sheet and liquidity risk and financing

The Group finished the year with £641 million of net cash on the balance sheet. However, the Group's overall leverage is more significant when including capitalised lease debt that in accordance with accounting standards does not appear on the balance sheet. The ratio of the Group's lease adjusted net debt (capitalising leases at 8 times annual rent) to EBITDAR* is 1.8 times as at 31 January 2017 (2.0x at January 2016). At this level the Group has financial flexibility whilst retaining an efficient cost of capital.

A reconciliation of lease adjusted net debt to EBITDAR is set out below:

	2016/17	2015/16 ⁽¹⁾
	£m	£m
EBITDA*	1,008	941
Property operating lease rentals	399	402
EBITDAR	1,407	1,343
Net cash	(641)	(546)
Property operating lease rentals (8x) ⁽²⁾	3,192	3,216
Lease adjusted net debt	2,551	2,670
Lease adjusted net debt to EBITDAR	1.8	2.0

⁽¹⁾ Excludes contribution from China following disposal of controlling 70% stake in April 2015

⁽²⁾ Kingfisher believes 8x is a reasonable industry standard for estimating the economic value of its leased assets

Kingfisher holds a BBB credit rating with all three rating agencies. Kingfisher aims to maintain its solid investment grade credit rating whilst investing in the business where economic returns are attractive and paying a healthy annual dividend to shareholders. After satisfying these key aims and taking the economic and trading outlook into account, any surplus capital would be returned to shareholders.

Kingfisher regularly reviews the level of cash and debt facilities required to fund its activities. This involves preparing a prudent cash flow forecast for the medium term, determining the level of debt facilities required to fund the business, planning for repayments of debt at its maturity and identifying an appropriate amount of headroom to provide a reserve against unexpected outflows.

The Group has a £225 million committed facility that expires in 2021 and was undrawn at 31 January 2017. In addition, the Group entered into a new £400 million committed facility in the financial year, which expires in November 2018. This facility was also undrawn as at 31 January 2017. The next significant debt maturity is in May 2018 when the Group is required to repay US Private Placement debt with a notional value of \$179 million.

The maturity profile of Kingfisher's debt is illustrated at: www.kingfisher.com/index.asp?pageid=74

Disposals

On 22 December 2014, Kingfisher announced a binding agreement for Wumei to acquire a controlling 70% stake in its B&Q China business. Gross cash proceeds of £140 million were received in April 2015 following MOFCOM (Chinese Ministry of Commerce) approval. Kingfisher, with the agreement of Wumei, exercised its option to dispose of the remaining 30% economic interest on 23 March 2016. Following regulatory approval, Kingfisher received £63 million of net proceeds in July 2016, completing the transaction.

Pensions

At the year end, the Group had a net surplus of £131 million (2015/16: £159 million net surplus) in relation to defined benefit pension arrangements, of which a £239 million surplus (2015/16: £246 million surplus) was in relation to the UK scheme. The adverse movement is driven by higher inflation assumptions and a reduction in the discount rate applied to the scheme liabilities over the year, offset by gains on the scheme's assets. This accounting valuation is sensitive to various assumptions and market rates which are likely to fluctuate in the future.

Property

Kingfisher owns a significant property portfolio, most of which is used for trading purposes. A valuation was performed for internal purposes in October 2016 with the portfolio valued by external professional valuers. Based on this exercise, on a sale and leaseback basis with Kingfisher in occupancy, the value of property is £3.4 billion at year end (2015/16: £2.9 billion).

	2016/17 £bn	2016/17 Yields	2015/16 £bn	2015/16 Yields
France	1.7	7.6%	1.4	7.7%
UK	0.8	5.9%	0.8	6.1%
Poland	0.6	7.7%	0.5	7.8%
Other	0.3	-	0.2	-
Total	3.4		2.9	

This is compared to the net book value of £2.7 billion (2015/16: £2.4 billion) recorded in the financial statements (including investment property and property assets held for sale). Balance sheet values were frozen at 1 February 2004 on the transition to IFRS.

Retail profit on a fully rented basis

The Group currently operates out of a mix of freehold and leasehold property, with the mix varying significantly between our geographic markets. In order to more easily compare divisional performance, a summary of the retail profit margins on a fully rented basis are set out below:

	UK & Ireland	France	Poland
Retail Profit %	7.2%	8.3%	12.1%
Adjustment to Leasehold Basis	(0.9)%	(2.7)%	(3.4)%
Retail Profit % on Leasehold Basis	6.3%	5.6%	8.7%

Section 5: Glossary (terms are listed in alphabetical order)

Adjusted measures are before exceptional items, FFVR, amortisation of acquisition intangibles, related tax items and tax on prior year items including the impact of rate changes on deferred tax. Full year 2015/16 comparatives exclude B&Q China's results.

Adjusted pre-tax profit is used to report the performance of the business at a Group level including both the benefits of our transformation programme and the associated costs. This is stated before exceptional items and FFVR.

Adjusted sales represents statutory sales excluding B&Q China sales.

Banque de France data includes relocated and extended stores.

<http://webstat.banque-france.fr/en/browse.do?node=5384326>

BAU (business as usual) refers to activity without the transformation. When referring to our performance, we would expect this to be broadly in line with the macroeconomic backdrop in our respective markets.

CPR (cost price reduction) refers to the savings made on cost of goods sold.

Digital sales are sales derived from online transactions, including click & collect. This includes sales transacted on any device, however not sales through a call centre.

EBITDA (earnings before interest, tax, depreciation and amortisation) is calculated as retail profit less central and transformation P&L costs and before depreciation and amortisation.

EBITDAR (earnings before interest, tax, depreciation, amortisation and property operating lease rentals) is calculated as retail profit less central and transformation P&L costs, before depreciation and amortisation and property operating lease rentals.

FFVR (financing fair value remeasurements) represents fair value fluctuations from financial instruments.

France consists of Castorama France and Brico Dépôt France.

Free cash flow represents cash generated from operations (excluding exceptional items) less the amount spent on interest, tax and capital expenditure during the year (excluding business acquisitions and disposals and asset disposals). A reconciliation from operating profit is set out in the Financial Review (Section 4).

GNFR (Goods Not For Resale) covers the procurement of all goods and services a retailer consumes (including media buying, mechanical handling equipment, printing & paper).

Lease adjusted ROCE - Post-tax retail profit less central costs and transformation costs, excluding exceptional items and property lease costs, divided by lease adjusted capital employed excluding historic goodwill, net cash and exceptional restructuring provision. Capital employed is adjusted to include capitalised property leases. Kingfisher believes 8x property operating lease rent is a reasonable industry standard for estimating the economic value of its leased assets. Capital employed except for capitalised leases, is calculated as a two point average. The calculation excludes disposed businesses e.g. China.

LFL stands for like-for-like sales growth representing the constant currency, year on year sales growth for stores that have been open for more than a year.

Net cash comprises cash and cash equivalents and short term deposits, less borrowings and financing derivatives (excluding accrued interest). It excludes balances classified as held for sale.



New Country Development consists of Screwfix Europe, Portugal and Romania.

Other International consists of Poland, Portugal, Romania, Russia, Screwfix Europe, Spain and Turkey (Koçtaş JV).

Retail profit is our operating profit measure used to report the performance of the underlying retail businesses including the sustainable benefits of our transformation programme. This is stated before central costs, transformation costs, exceptional items and the Group's share of interest and tax of JVs and associates. Full year 2015/16 comparatives exclude B&Q China's operating loss.

Screwfix Europe refers to Screwfix outside of UK in continental Europe.

Statutory sales refer to Group sales excluding Joint Venture (Koçtaş JV) sales.

SKU (Stock Keeping Unit) is defined as the number of individual variants of products sold or remaining in stock. It is a distinct type of item for sale, such as a product and all attributes associated with the item type that distinguish it from others. These attributes could include, but are not limited to, manufacturer, description, material, size, colour, packaging and warranty terms.

Transformation costs represent the additional costs of the ONE Kingfisher transformation programme launched in 2016/17. They comprise 'transformation exceptional costs', 'transformation P&L costs' (i.e. non-exceptional items) and 'transformation capex' (capital expenditure).

Underlying pre-tax profit is used to report the performance of the underlying business at a Group level, including the sustainable benefits of our transformation programme. This is stated before the short-term costs associated with our transformation programme, exceptional items and FFVR.

UK & Ireland consists of B&Q in the UK & Ireland and Screwfix UK.

Section 6: Forward-looking statements

You are not to construe the content of this announcement as investment, legal or tax advice and you should make your own evaluation of the Company and the market. If you are in any doubt about the contents of this announcement or the action you should take, you should consult a person authorised under the Financial Services and Markets Act 2000 (as amended) (or if you are a person outside the UK, otherwise duly qualified in your jurisdiction).

This announcement has been prepared in relation to the financial results for the full year ended 31 January 2017. The financial information referenced in this announcement is not audited and does not contain sufficient detail to allow a full understanding of the results of the group. Nothing in this announcement should be construed as either an offer or invitation to sell or any offering of securities or any invitation or inducement to any person to underwrite, subscribe for or otherwise acquire securities in any company within the group or an invitation or inducement to engage in investment activity under section 21 of the Financial Services and Markets Act 2000 (as amended). Certain information contained in this announcement may constitute “forward-looking statements” (including within the meaning of the safe harbour provisions of the United States Private Securities Litigation Reform Act of 1995), which can be identified by the use of terms such as “may”, “will”, “would”, “could”, “should”, “expect”, “anticipate”, “project”, “estimate”, “intend”, “continue”, “target”, “plan”, “goal”, “aim” or “believe” (or the negatives thereof) or other variations thereon or comparable terminology. These forward-looking statements include all matters that are not historical facts and include statements regarding the Company’s intentions, beliefs or current expectations concerning, among other things, the Company’s results of operations, financial condition, changes in tax rates, liquidity, prospects, growth and strategies. By their nature, forward-looking statements involve risks, assumptions and uncertainties that could cause actual events or results or actual performance of the Company to differ materially from those reflected or contemplated in such forward-looking statements. No representation or warranty is made as to the achievement or reasonableness of and no reliance should be placed on such forward-looking statements.

The Company does not undertake any obligation to update or revise any forward-looking statement to reflect any change in circumstances or in the Company’s expectations.