

2010 valuation update

Final Salary section
(‘the Scheme’)

June 2011

You may remember reading in your December 2010 edition of *‘Talking Pensions’* that the formal 3 yearly valuation of the Kingfisher Pension Scheme – Final Salary (KPS-FS) section which looks at the Scheme’s finances as at 31 March 2010 was under way.

Recently, the valuation has been finalised and agreed and the results are now available.

This newsletter provides a brief update for you on the agreement reached between Kingfisher Pension Trustee Limited (the Trustee) and Kingfisher plc (the Company) and sets out what decisions and plans of action have now been agreed.



Tony Stanworth, Chairman
Kingfisher Pension Trustee Limited



How is the Scheme funded?

The Trustee's objective is to have enough money in the Scheme to pay pensions now and in the future for all its membership, i.e. to ensure that there are sufficient funds to cover the future of the Scheme in providing benefits to members.

The Scheme is funded through contribution payments paid by the participating UK employers (i.e. B&Q plc, Kingfisher, KITS and Screwfix) within the Company, regular employee pension contributions paid from the pensionable pay of members employed within the Company and dividend and investment returns on the Scheme's £1.65bn worth of investments. These monies are held in a common fund and invested appropriately.

The Trustee, and in particular the Investment Committee, monitors the investments of the Scheme regularly. Our focus is on strategic issues, performance of the investment managers and the financial health and funding level of the Scheme.

Funding position following the last 3 yearly valuation on 31 March 2010

The previous Scheme pension valuation in March 2007 presented a small actuarial surplus of £22m i.e. there was **no** financial shortfall between the Scheme's 'assets' (its investments) and its 'liabilities' (the cost of the benefits for the membership). However, falling investment yields, the 2008/2009 credit crunch, increasing UK pension regulation and improving life expectancies have all conspired to potentially increase the cost and risk of most UK defined benefit (or final salary) pension schemes. For the Scheme, this has caused the latest 3 yearly valuation as at 31 March 2010 to be more complex than previous valuations and has resulted in a financial shortfall of £170m.

However, to offset this financial shortfall a number of key funding features have been agreed and included in what is referred to as the **recovery plan** (see Note 1 on page 3). They are:

- (a) **'Secondary Funding Objective' or '2FO'** (see Note 2 on page 3) contributions.

These will amount to £48.5m a year. This is in line with the previously agreed 2007 valuation contributions of £45m plus the increase in the Retail Prices Index;

- (b) a **'Special Property Vehicle' (SPV)** has been set up.

The introduction of property security into a partnership: Kingfisher Scottish Limited Partnership (KSLP) gives recourse and security for the Trustee to property assets in the event of the Company's insolvency. These property assets with a market value of £200m include 2 B&Q Warehouses and the new B&Q Support Services Centre at Chandlers Ford and a distribution centre at Swindon.

From these property assets and on a regular rental basis, the Scheme receives an income stream of around £12m a year from the partnership that forms part of the annual cash contribution from the Company to the Scheme under the Schedule of Contributions (see Note 3 on page 3).

The Company retains control over these properties including the flexibility to substitute alternative properties. The Trustee's partnership interest in KSLP entitles it to the majority of the income of the partnership over the next 20 years. At the end of this term, the Company has the option to acquire the Trustee's partnership interest in KSLP for a token payment.



Statements about the SPV have been made from:

Ian Cheshire, Group Chief Executive on behalf of Kingfisher plc who said “the establishment of this special property vehicle as part of the valuation gives greater financial security to the Kingfisher Pension Scheme and its membership”.

Tony Stanworth, Chairman of the Board on behalf of the Trustee, who said “this valuation result is excellent news for the Pension Scheme and its members because it gives the Trustee additional security plus a guaranteed income for the next 20 years”.

- (c) a revised **investment strategy** has been agreed.

The Trustee will continue with its policy of ‘de-risking’, i.e. reducing the Scheme’s investment risk by reducing exposure to equity markets (high risk) and increasing bond holdings (lower risk). The Trustee’s current target is to increase its holdings in bonds from 60% to 100% gradually over the 20 years from 2010 to 2030;

- (d) a new **target funding level and term**.

This will make sure we have sufficient funds to buy all members’ benefits with an insurance company, if we need to, in 2030.

The Trustee would like to thank everybody involved in the valuation process for their hard work in delivering this package of measures.

If you have any questions on any of the information provided in this announcement, please contact the Trustee.

A copy of the 3 yearly valuation report as at 31 March 2010 is available on written request to the Group Pensions Department. A copy of this document will be placed on the Trustee web site: www.kingfisherpensions.com.

Notes:

1. **Recovery plan** – the Pensions Regulator formally requires the Trustee and the Company to agree a plan to make up the shortfall of £170m.
2. **Secondary Funding Objective (2FO)** – this is the long-term funding objective to reduce risk to the Scheme by 2030 i.e. the assets of the Scheme should match all the membership liabilities by 2030.
3. **Schedule of Contributions** – this sets out the contributions that will be paid into the Scheme by the Company and represents £48.5m a year.

