Kingfisher Pension Scheme

Report on the actuarial valuation as at 31 March 2010

6 June 2011

TOWERS WATSON

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To the Trustee of the Kingfisher Pension Scheme and Kingfisher plc

I have been instructed by the Trustee, in accordance with Clause 3 of the Trust Deed of the Kingfisher Pension Scheme (the “Scheme”), to carry out an *actuarial valuation* of the Scheme as at 31 March 2010. I now have pleasure in presenting my report.

This report is addressed to the Trustee and Kingfisher plc, the Principal Employer and representative for the other employers participating in the Scheme.

This report is subject to the limitations set out in Appendix G.

Terms in *italics* are defined in the Glossary in Appendix K.

TOWERS WATSON

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Section 1: Summary of results

1.1 The main purpose of the *actuarial valuation* is to examine the financial position of the Scheme relative to its *funding objectives*, as required under the Pensions Act 2004, and to determine the appropriate level of contributions to be paid in the future.

The principal conclusions of the current valuation are that:

1.2 The accumulated assets of the Scheme as at the valuation date were 90% of the Scheme's *technical provisions* in respect of past service benefits, as defined in the *Statement of Funding Principles* dated 31 March 2011; this represents a funding deficit of £170 million.

1.3 On the basis of the method and assumptions described in the *Statement of Funding Principles* for *technical provisions*, the employer contributions required to cover the balance of the cost of the accrual of future service benefits (excluding expenses, life cover costs for members not in the final salary section and levy payments to the *Pension Protection Fund*) were calculated to be 19.4% of salaries, equivalent to £23 million a year currently.

1.4 On the basis of the *Secondary Funding Objective* described in the *Statement of Funding Principles*, and employer contributions paid since the valuation date, the employer contributions required from April 2011 to cover the balance of the cost of benefits to be accrued by April 2030 are £48.5 million a year increasing in line with inflation measured by RPI every three years

1.5 If the Scheme had been discontinued at 31 March 2010 and had then been wound up, there would have been insufficient assets to buy out the accrued benefits through the purchase of insured annuity policies. An approximate estimate of the proportion of the buy-out liabilities covered by the assets, ie the discontinuance funding level (or solvency position), for the Scheme as at the valuation date, on the assumptions described in Appendix E, is 64% (see Section 8). The assets would have been sufficient to cover 95% of benefits within the priority class of PPF compensation for all members.

1.6 In accordance with the *Statement of Funding Principles* dated 31 March 2011 the Trustee and Kingfisher have agreed that the employers should pay contributions to the final salary section as set out below:

- £45 million in 12 equal monthly instalments from 1 April 2010. This rises to £48.5 million a year in equal monthly instalments from 1 April 2011, increasing every three years in line with the increase in RPI with the first increase due from 1 April 2014
- These contributions will be offset by income from the Special Purpose Vehicle, the interest in which is purchase by lump sum contributions (£78 million in January 2011)
- additional contributions equal to the PPF levies payable for levy years 2011/12 onwards
- the contribution schedule has been derived with reference to the *Secondary funding objective*, and is expected to improve the coverage of *technical provisions* beyond the recovery period for the current deficit. The schedule includes all expenses and life insurance costs but excludes levies for the *Pension Protection Fund*.

1.7 Contributions to the money purchase section will be paid in accordance with the Trust Deed and Rules of the Scheme

1.8 The financial position of the Scheme will be reviewed at the next *actuarial valuation*, which under the Scheme's *Statement of Funding Principles* is expected to be carried out as at 31 March 2013. The level of contributions required is expected to be reviewed with effect from 31 March 2014.

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Section 2: Background to the valuation

2.1 This is my report on the *actuarial valuation* of the Kingfisher Pension Scheme as at 31 March 2010. It is addressed to the Trustee and to the Company.

2.2 The *actuarial valuation* is required under the terms of Clause 3 of the Trust Deed and Rules dated 28 April 2006 (as amended) and Part 3 of the Pensions Act 2004. Both the Trustee and Company have an interest in the valuation process and, as required by law, a copy of this report must be provided to the Company within 7 days of its receipt by the Trustee.

2.3 This report is subject to the limitations set out in Appendix G.

2.4 This report falls within the scope of several Technical Actuarial Standards (TASs) published by the Board for Actuarial Standards, namely:

- Pensions TAS
- TAS R: Reporting Actuarial Information
- TAS D: Data, and
- TAS M: Modelling.

2.5 I confirm that this report complies with these TASs. In particular it complies with the requirements for a Scheme Funding report set out in section E.3 of the Pensions TAS.

Purposes of the valuation

2.6 The main purpose of the *actuarial valuation* is to examine the financial position of the Scheme relative to the *funding objectives* under its Statement of Funding Principles (including its *Statutory funding objective* as required by Section 224 of the Pensions Act 2004) and so to determine the appropriate level of contributions to be paid. Other purposes are:

- to provide the certificates required under UK pensions legislation, including the Scheme Actuary's certification that the *technical provisions* shown in this report have been calculated in accordance with legislative requirements
- to examine whether the Scheme would have adequate resources to meet its accrued liabilities if it were discontinued (the Scheme's solvency position)
- to provide projections of the funding position at the expected date of the next valuation
- to describe the approach adopted for managing the risks to which the Scheme is exposed.

Previous valuation

2.7 The previous valuation of the Scheme was carried out by me with an effective date of 31 March 2007. That valuation showed that the value of the assets in the Scheme amounted to 102% of the value of the benefits earned in respect of service up to that date and measured in accordance with the Scheme's statutory funding objective; this represented a funding surplus of £22 million.

2.8 The employers' ongoing contribution requirement to finance the balance of the cost of accruing benefits for KPS-FS members was found to be 14.4% of salaries expenses, life insurance costs for non KPS-FS members and PPF levies.

2.9 The Trustee and Kingfisher also agreed a *Secondary funding objective*, which together with a 17-year plan for risk reduction within the Scheme's investment strategy, was designed to improve the funding level over a 17-year period to April 2024. On this basis it was agreed that employer contributions of £45 million a year from April 2008 would be paid, increasing with RPI every three years, subject to review at the 2010 valuation. In the year to April 2008 employer contributions were paid at the rate of £40 million a year in accordance with the existing *Schedule of Contributions*.

Scheme benefits valued

2.10 I have valued the benefits defined in the Scheme's legal documents as at the valuation date. A summary of the main benefit and contribution provisions is shown in Appendix A.

2.11 The treatment of discretionary benefits is described in the *Statement of Funding Principles*. An allowance is made in the valuation for Kingfisher to direct that no reduction for early payment beyond age 60 applies for future retirements from active status of members whose Normal Retirement Age has recently increased to age 65.

Inter-valuation period and significant post valuation date events

2.12 **Special Purpose Vehicle**. As part of the funding agreement, Kingfisher plc paid a special contribution of £78m to the Scheme during January 2011, which the Trustee invested in a *Special Purpose Vehicle* (SPV). This investment gives the Trustee the right to an income stream for 20 years from the SPV. Kingfisher is also expected to make an additional lump sum contribution no later than 31 December 2012, currently expected to be of £106.4m. If the Trustee invests this contribution to extend its partnership interest in the SPV then there will be a corresponding increase in the level of income and insolvency protection the Scheme receives from the SPV.

2.13 **Trade Depot cessation**. During May 2009, the Trade Depot business was closed down and the active members were transferred to B&Q. A S75 debt of £674,000 was paid which represents the portion of the solvency deficit attributable to Trade Depot.

2.14 **Annuity market changes**. Over the three years since the last valuation, there have been a number of new companies willing to take on pension liabilities particularly those in relation to pensioners. This increased competition, and to a certain extent the new entrants' need to build market share, has led to an improvement in the terms available for insured annuities.

Legislative changes

2.15 **RPI/CPI**. On 8 July 2010, the Minister for Pensions made a written statement announcing that statutory revaluation and minimum pension increases would switch from being based on RPI to being based on CPI. No overriding legislation is being introduced which would allow schemes to switch the increases awarded, if their rules currently base revaluation and increases on RPI. Since the Scheme rules specifically refer to RPI, this change has had no effect on increases in payment, other than for GMPs. For revaluation, the Scheme applies the same increases as in payment, subject to the statutory minimum. As the scheme increases are still based on RPI but the statutory minimum is now based on CPI, the statutory underpin is now less likely to bite.

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Section 3: Membership and financial data

Membership data

3.1 The changes to the numbers of KPS-FS members, based on the data provided for the respective valuations, over the period since the last valuation date are illustrated in the following table.

KPS-FS membership	31 March 2010	31 March 2007
Active members*	5,898	8,545
Deferred pensioners	18,998	19,566
Pensioners and Dependants	15,367	14,202
Total	**40,263**	**42,313**

* includes active members who elected to join KPS-MP in 2004

3.2 The overall membership headcount and the active member headcount have both declined since the last valuation, because of:

- members leaving service are not being replaced by new joiners
- commutations, transfers out and deaths causing a decline in overall numbers

3.3 Further membership details used to project the future benefits payable from the Scheme are included in Appendix B. Data was provided by extract from the computerised record-keeping system operated by the Kingfisher Group Pensions Department. Overall checks were applied for consistency with previous valuation data and for general reasonableness and any queries raised were satisfactorily resolved. I have otherwise relied on the accuracy of the information provided to me.

Assets

3.4 I have been provided with a copy of the Scheme's audited financial statements for each of the three years to 31 March 2010. The market value of the Scheme's assets at 31 March 2010 was £1,607 million; excluding Additional Voluntary Contributions ("AVCs") and KPS-MP assets the value was £1,571 million. The corresponding market value of assets at the previous valuation was £1,391 million (excluding AVCs and KPS-MP assets).

3.5 At the valuation date, the Scheme's investments were managed by a number of investment managers with mandates covering specific asset classes. The allocation of funds across these asset classes has been made in accordance with the Trustee's strategic benchmark, which includes global equities, government fixed and index-linked securities, property, corporate bonds. This benchmark has, since 2008, been gradually changing according to an agreed plan to increase the Scheme's bond allocation and reduce its equity exposure.

3.6 The Trustee has also invested in derivative contracts as part of these changes in the strategic benchmark. The purpose of these investments is to better align the inflation and duration characteristics of the Scheme's bond portfolio with those of the Scheme's liabilities.

3.7 Details of the Scheme's investments at the valuation date together with a consolidated revenue account for the intervaluation period are shown in Appendices B and C.

Section 4: The nature of the Scheme

4.1 In a final salary pension scheme such as the KPS-FS section of the Scheme, the main retirement benefit provided is expressed as a pension, commencing at the member's retirement age, linked to the pensionable salary earned shortly before leaving service and the length of the member's pensionable service.

4.2 A member of a final salary scheme can therefore in principle calculate, in current terms, what benefit he or she might expect at retirement. This is usually a deliberate part of the design of the scheme. It is intended, in the normal course, to give the member a chance to plan for retirement, based on an assessment of the amount of income that he or she will receive.

4.3 However, there is a drawback to such schemes – the benefits might only be provided if the scheme continues to operate normally. If the scheme discontinues, the member does not have a guarantee that the expected benefits will be paid – it depends on how much money is in the scheme.

4.4 Therefore, even though the fact that the Scheme is funded provides members with greater security for their pensions, there is still a risk that benefits would not be paid if the Scheme were to be discontinued. Security is one of the main reasons, but not the only reason, for funding pension schemes in the UK. The level of risk involved, from the members' viewpoint, depends on a number of factors, including:

- the difference between the value of the Scheme's discontinuance liabilities (its solvency liabilities) and the agreed *funding target*
- the current level of assets held by the Scheme
- the Scheme's investment policy
- the strength of the *employers' covenants*.

4.5 Part of the purpose of a regular *actuarial valuation* is to provide the Trustee with an indication of the potential consequences if the Scheme were to be discontinued. In these circumstances, the Trustee would normally consider *winding up* the Scheme and securing the benefits, to the extent possible, by the purchase of annuities and deferred annuities from an insurance company. Some information about what might happen in these circumstances is included in Section 8 of this report.

4.6 In the normal course of events, however, pension schemes are not discontinued and members' benefits continue to be paid in full. The principal purpose of an actuarial investigation is therefore normally to help to determine the contributions that it is reasonable to put into the pension scheme on the assumption that the scheme continues, with the ongoing support of the employer.

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Section 5: Funding objective and valuation approach

Funding objective

5.1 In common with most UK occupational pension schemes, the Scheme is subject to the legislative requirement (referred to in the Pensions Act 2004 as the *statutory funding objective*) that it must have sufficient and appropriate assets to cover its *technical provisions* – these being the amount required (on the basis of certain assumptions) to be set aside in order to pay benefits accrued under the Scheme as and when they become due. The *technical provisions* are not the same as the cost of securing the benefits on a wind-up, which is covered in Section 8.

5.2 In addition the Trustee and Kingfisher have agreed a *Secondary Funding Objective* which is to aim to reach a point where it can provide accrued benefits with a high level of security, thereby limiting its reliance on Kingfisher for further financial support.

5.3 In order to meet these requirements the Trustee has agreed a long-term funding strategy with Kingfisher. The contributions agreed as part of the valuation are expected to ensure that the Scheme will meet the above objectives over the relevant period. As required by legislation, regular *actuarial valuation*s will be obtained to check how the Scheme's financial position compares with its *statutory funding objective* and its *secondary funding objective,* the results of which will then form the basis for decisions concerning the level of contributions to be paid into the Scheme.

Valuation approach

5.4 In carrying out an *actuarial valuation*, an estimate is made of the benefits payable in the future to members and their dependants under the Rules of the Scheme. Benefits are payable on retirement, death or leaving service. The amount of the benefit payable depends on the length of pensionable service, on the level of salary when service ends, and on the pension increases subsequently given. In estimating these payments, assumptions are made about the likelihood of a benefit becoming payable at any future date, as well as about financial matters such as increases in earnings and pensions.

5.5 In essence, the Scheme's liabilities represent a series of future cash payments from the Scheme. It follows that, in the scenario where the Scheme continues and benefits are paid as and when they fall due, an appropriate *funding target* can be determined by reference to the capitalised value of these expected benefit payments, which is the value of these payments discounted back to the valuation date at an appropriately defined interest rate (the "*discount rate*"). It is this calculation that determines the amount of the Scheme's *technical provisions* at the valuation date, as defined under the Pensions Act 2004, and the amount of the *secondary funding objective* in the future.

5.6 The valuation method agreed by the Trustee and Kingfisher for the *statutory funding objective* (the "projected unit credit method") is described in Appendix D. This is the same method as that used for the 2007 valuation.

5.7 Full details of the Trustee's funding policy that has been agreed with Kingfisher are set out in the *Statement of Funding Principles* (Appendix H) that has been prepared for the Scheme, as required by Section 223 of the Pensions Act 2004.

5.8 A number of assumptions need to be made about future events in carrying out the actuarial calculations. These are described in the *Statement of Funding Principles*.

Section 6: 2010 assumptions compared with those used in 2007

Financial assumptions

6.1 The key financial assumptions adopted for determining the *technical provisions* for this valuation, together with the corresponding assumptions at the previous valuation, are summarised as follows:

Assumptions	31 March 2010 Nominal % pa	31 March 2010 Real % pa	31 March 2007 Nominal % pa	31 March 2007 Real %
Discount rate for non-pensioners				
- pre retirement	6.55	2.75	6.3	3.2
- post retirement	5.0	1.3	5.4	2.3
Discount rate for pensioners	4.8	1.1	5.4	2.3
Retail price inflation (RPI)	3.7	-	3.0	-
Salary increases (full-time members)	4.7	1.0	4.0	1.0
Pension increases				
- Excess over GMP	3.65	(0.05)	3.0	-
- GMP accrued after 5 April 1988	2.9	(0.8)	2.75	(0.25)
- GMP accrued before 6 April 1988	0.0	(3.7)	0.0	(3.0)

6.2 There are two fundamental changes to the financial assumptions since the 2007 valuation:

- In overall terms discount rates reflect the continued derisking which has occurred since the last valuation, with the post retirement rate reflecting further derisking planned over the long term. In addition the discount rate for current pensioners reflects the yields on swaps which at the valuation date were lower than gilt yields. This has led to a difference in the post retirement discount rates for current and future pensioners.

- Having regard to the market price of swap contracts at the valuation date, pension increases each year at the rate of RPI capped at 5% (with a minimum of zero) has been assumed to be 0.05% below RPI. This has also been applied to the increases before retirement, as the CPI based statutory minimum increases are assumed to be less likely to bite.

6.3 Both the pre-retirement and post-retirement discount rates have changed in line with market conditions and expectations of future returns.

6.4 For the 2007 valuation the financial assumptions in the table above were also used for the purpose of determining the ongoing contribution requirement for future accruing benefits. This also applies for the current valuation, so that the contribution requirements for future accruing benefits have been assessed on the same assumptions as chosen for the *technical provisions*.

Demographic assumptions

6.5 The demographic assumptions concern the likelihood of events (for instance, death, retirement or leaving service) taking place at different ages. They also cover family statistics, such as the proportion of deaths giving rise to dependants' benefits and the ages of those dependants.

6.6 Assumptions can be based on the experience of the Scheme and other similar pension schemes. The number of members of the Scheme is sufficient to provide, to some degree, a statistically significant set of data on which assumptions can be based.

Post-retirement mortality

6.7 At the time of the 2007 valuation it was observed that the pensioner mortality experience was such that – when weighted by pension amount – there were fewer pensioner deaths than would have been expected by reference to the 2002 mortality assumptions. A published set of standard mortality tables, the PA92 tables, was adopted for the 2007 valuation. These tables were adjusted to 2007 in line with medium cohort projections for males and base table improvement projections and a two year upward age rating for females so as to provide a reasonable fit with the Scheme's actual mortality experience over the period to 2007. The mortality rates in this adjusted standard table were regarded as reasonable assumptions for the post-retirement mortality being experienced by the membership at the time of the 2007 valuation, ie without allowance for future mortality improvements.

6.8 For retirements on grounds of ill health, a further five-year upward age rating was applied for the member (ie the member was assumed to be a further five years older than their actual age).

6.9 An allowance was then made for expected future improvements in longevity. Male mortality was assumed to improve in line with long cohort projections subject to a minimum annual improvement of 1%. For females, mortality was assumed to improve in line with the 1992 base table projections subject to a minimum annual improvement of 0.5%.

6.10 The experience for pensioners over the latest inter-valuation period was such that, overall, there were more pensioner deaths than expected. In addition, analysis of the member's postcodes suggests that future male pensioners could experience higher mortality than current male pensioners. For the 2010 valuation the following mortality assumptions have been agreed:

- Males: The published CMI SAPS male pensioner mortality table has been used, projected to calendar year 2010 in line with the medium cohort projection. Multipliers of 95% and 105% have been used for current pensioners and future pensioners respectively.
- Females: The published CMI SAPS female pensioner "heavy" mortality table has been used, projected to calendar year 2010 in line with the base table projection.
- An allowance for improvements in future mortality in line with the CMI 2010 projections has been included with a long term rate of 1.5% for males and 1.0% for females.

In-service members

6.11 Since the closure of KPS-FS to new entrants, the number of active members has fallen. Although we expect this trend to continue, there is still a large number of active members within KPS-FS, so the demographic assumptions used for in-service members will still have a material effect on our calculations of *technical provisions* and other *funding objectives*.

6.12 For this valuation no changes have been made to the existing demographic assumptions. Particular points to note about the assumptions are:

- Early retirements – allowance is made for the minimum pension age of 55, the previous normal retirement age of 60 and the current normal retirement age of 65
- Ill-health early retirements – some allowance from age 40 onwards
- Withdrawals – age/hours related scale based on observed experience
- Salary increases – merit scale for full-time members up to age 40, equivalent to increases above general salary inflation as follows:

Age band	% increase per annum
25 – 30	5.0
30 – 35	3.2
35 – 40	2.0

6.13 Following HMRC changes to lump sum commutation rules in 2006, the valuation includes an allowance for members to exchange pension for cash to the maximum extent available, which is estimated to be commutation of 20% of benefits on average. The financial terms for these commutations are assumed to be consistent with current terms.

6.14 Further details of the demographic assumptions for in-service members are set out in the *Statement of Funding Principles*.

Deferred members

6.15 All deferred pensioners who survive to Normal Retirement Age, or such earlier date as they are able to retire with an unreduced pension, are assumed to draw their retirement benefits at that age, including an allowance for commutation as for in-service members at retirement.

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Section 7: Ongoing funding position

Statutory funding objective

7.1 As noted in paragraph 2.3, one of the main purposes of the current actuarial investigation is to review the financial position of the Scheme relative to its *statutory funding objective*.

Stage One – Past service

7.2 Using the actuarial method and assumptions set out in the *Statement of Funding Principles* (Appendix H), the following statement compares the market value of the Scheme's assets with its *technical provisions* (which are based on accrued benefits and include allowance for future salary increases) as at the valuation date.

Technical provisions statement as at 31 March 2010

	£ million
Value of benefits accrued to 31 March 2010	
- Retired members and dependants	706
- Deferred pensioners	626
- Contributing members	409
- AVCs and other money purchase benefits	36
Total Technical Provisions	1,777
Market value of assets (including AVCs)	1,607
Surplus/ (deficit)	(170)
Funding level	90.4%

My certificate to the effect that the *technical provisions* have been calculated in accordance with the *Statement of Funding Principles* is in Appendix F.

7.3 Based on the above figures, the Scheme's funding deficit relative to its *statutory funding objective* as at the valuation date was £170 million, which is equivalent to a funding level of 90.4%. At the previous valuation the Scheme had a funding surplus of £22 million and a funding level of 101.6%.

7.4 The main factors contributing to this change in the funding deficit over the period since the last valuation date have been estimated and are summarised in the following table. These figures should be regarded as approximate and are intended only to provide an indication of the relative magnitude of the impact that each item has had on the funding position.

	£ million
Surplus/(deficit) at 31 March 2007	**22**
a. Interest on surplus/(deficit)	4
b. Investment performance compared to 2007 assumptions	(112)
c. Change to financial assumptions to reflect 2010 market conditions	(258)
d. Actual contributions compared to cost of accrual	135
e. Salary increases compared to assumed rates	3
f. Pensioner deaths compared to assumed rates	5
g. Miscellaneous items	2
h. Changes to mortality assumptions	39
i. Changes to financial assumptions	(10)
Surplus/(deficit) at 31 March 2010	**(170)**

The main reasons for the deterioration in the funding position are the performance of the investments and changes in market conditions, offset by the contributions paid over the inter-valuation period.

Stage Two – Normal contribution rate for future benefits

7.5 Using the valuation method and assumptions set out in the Statement of Funding Principles (Appendix H), the normal employer contribution rate required to cover the balance of the cost of next year's accrual of future service benefits (excluding life insurance costs for non KPS-FS members, expenses and levy payments to the Pension Protection Fund) is calculated to be 19.4% of salaries. The corresponding rate from the 2007 valuation was 14.4%.

7.6 An approximate indication of the reasons for the change in normal employer contribution rate is shown below:

	% of salaries
Normal employer contribution rate at 31 March 2007	**14.4**
a. Change in active membership profile and average accrual rate	1.0
b. Change in financial assumptions	4.3
c. Change in demographic assumptions	(0.3)
Normal employer contribution rate at 31 March 2010	**19.4**

7.7 As the Scheme is closed to new entrants, the average age of its active membership is expected to rise in future. When this happens the contribution rate required to cover accruing benefits is very likely to rise as there will then be a shorter period over which investment returns can be earned on the contributions. By contrast, the cash amount required to meet this cost may eventually fall because the number of members to whom the rate applies will fall as active members leave service, retire or die.

Stage Three – Adjustment to the normal contribution rate

7.8 Under legislative requirements, if the assets of the Scheme are less than the *technical provisions* at the effective date of any *actuarial valuation*, the Trustee must agree a *Recovery plan* with Kingfisher under which steps are taken to make good the funding deficit, including by additional employer contributions payable for an agreed period (the "recovery period").

7.9 The Trustee has therefore agreed a recovery plan with the Company which is expected to eliminate the technical provisions funding shortfall by 31 March 2016 or such earlier date prior to 31 December 2012 as Kingfisher pays the second tranche of the Special Purpose Vehicle described in paragraph 2.12. The recovery plan is set out in Appendix I of this report.

Secondary funding objective

7.10 Using the actuarial method and assumptions set out in the *Statement of Funding Principles* (Appendix H), the following table as at the valuation date compares the discounted value of liabilities relating to benefits and expenses to be accrued up to April 2030 (including allowance for future salary increases), with the market value of the Scheme's assets and future contributions and investment returns.

7.11 The choice of expected investment returns is based on our assessment relative to a 2-in-3 likelihood of these returns being achieved with the intended investment strategy. The strategy involves gradually increasing the Scheme's bond allocation to 100%, so the expected investment return in excess of gilts ranges from approximately 1.2% per annum initially, down to approximately 0.5% per annum in March 2030.

For the period to 31 March 2030

	£ million
Value of benefits expected to be accrued	2,666
Value of expenses and life insurance costs	70
Total liabilities*	**2,736**
Market value of assets as at 31 March 2010*	(1,571)
Value of future member contributions	(68)
Value of employer contributions to April 2011	(44)
Value of expected investment returns in excess of gilts	(211)
Value of employer contributions required from April 2011 – April 2030	**842**

* excluding AVCs, other money purchase benefits and SPV interests

7.12 Based on the above figures, the balance of £842m could be provided through employer contributions after April 2011 of £48.5 million a year, increasing with RPI after each three-year period.

7.13 Having regard to the above calculations, it has been agreed that employer contributions of £48.5 million a year will be paid from April 2011 increasing with RPI after each three-year period, in accordance with the rate projected to satisfy the *secondary funding objective* by 2030. This rate includes allowance for expenses and life insurance costs payable to 2030 and excludes PPF levies. The Company will reimburse the Scheme for PPF levies for years 2011/12 onwards.

7.14 The employer contributions required will be met by monthly contributions and reduced by the income the Scheme receives from its interest in the SPV, as set out in the *Schedule of Contributions* (Appendix J).

7.15 The financial position of the Scheme and the level of contributions required will be reviewed at the next *actuarial valuation*, which under the Scheme's *Statement of Funding Principles* is expected to be carried out as at 31 March 2013.

Section 8: The position of the Scheme on discontinuance

8.1 One purpose of having a substantial, funded, pension scheme is that it provides some measure of security if the participating employers are unable to finance the benefits. This section of the report concentrates on what would happen if the discontinuance provisions of the Trust Deed and Rules were invoked.

What would happen if the Scheme were discontinued?

8.2 In this scenario, active members would become entitled to deferred benefits based on their pensionable service up to, and final salary (as defined in the relevant documentation) at, the discontinuance date, together with statutory revaluation in line with that applied to early leavers.

8.3 Under the discontinuance provisions of the Scheme the Trustee must secure the members' accrued benefits (as far as possible, given the assets available) by

- continuing the Scheme as a closed fund, or
- purchasing annuities from an insurance company, or
- transferring liabilities to another pension scheme.

8.4 The Scheme’s assets are there to cover liabilities for service up to the date of discontinuance, but not beyond; members’ expectations in relation to future service would therefore be lost. The Scheme's assets at the date of discontinuance would be available to provide benefits but the level of any further financial support for the Scheme from the employers would depend on whether or not the employers were solvent at the time of discontinuance.

Debt on employer

8.5 If the Scheme were discontinued, legislation would impose a “debt” on the employers equal to the additional funding required to meet the full cost of securing all accrued benefits with an insurance company. Depending on the circumstances, the employers might not be able to meet this debt. If the debt is met, it seems likely that the Trustee would choose to buy out the benefits with an insurance company, rather than to bear the risks of running the Scheme as a closed fund (see paragraph 8.7).

Winding-up priority order

8.6 The coverage for particular benefits depends on where they fall in the *statutory priority order* below. (Money purchase liabilities are excluded from the *statutory priority order*. Their treatment is determined by the scheme's own rules and would normally be that they are secured in full before any other benefits.)

- category 1 – benefits relating to certain pension annuities secured by the Scheme before 6 April 1997 (of which there are none for the Scheme);
- category 2 – the cost to the Scheme of securing the liabilities for the compensation benefits that would be payable by the PPF if the Company became insolvent;
- category 3 – benefits in respect of defined benefit AVCs not dealt with above (of which there are none for the Scheme);
- category 4 – all other pensions and benefits due under the Scheme, including pension increases (where these exceed those under the PPF).

Operating as a closed fund

8.7 The Trustee could decide to run the Scheme as a closed fund. In this case, unless the Scheme's assets were sufficient to cover the cost of buying out the full benefits with an insurance company, recent legislation would require members' benefits to be cut back, starting first with those in the lowest priority classes (see paragraph 8.6). Furthermore, various risks would remain, particularly as regards movements in asset values relative to liabilities. The Trustee would have to consider the degree of risk that it would be reasonable to take, although such decisions would not be straightforward. A low-risk investment policy, for example, might mean that future investment returns were lower than they might be otherwise, and that benefits would have to be reduced further, with benefits in the lowest priority classes being affected first.

8.8 In terms of reducing risk, if running the Scheme on as a closed fund, the Trustee may choose to buy gilts and other investments to reduce investment uncertainties. This cannot however eliminate all of the investment risk, and the Scheme would still be left with longevity and other risks.

Introduction of the PPF

8.9 As part of the changes introduced under the Pensions Act 2004, the Government introduced the *Pension Protection Fund (PPF)* with effect from 6 April 2005. Based on the current arrangements, for schemes admitted to the PPF on discontinuance and employer insolvency, their members' benefits are at least partially protected and provided through the PPF. Members of at least normal pension age at an 'assessment date' would receive their benefits in full while younger members' benefits are restricted to the lower of 90% and a compensation cap (equal to £31,936.32 per annum as at 31 March 2010 for members with a normal pension age of 65). Further restrictions apply to all benefits in relation to pension increases and contingent dependants' benefits.

8.10 The PPF is funded through a combination of the assets of "failed" schemes that enter it and levies on UK occupational defined benefit pension schemes, although in the event of it having insufficient funds to meet its liabilities the compensation payments it makes can be reduced. As noted in paragraph 7.13 the Company has agreed to reimburse the Scheme for these levies for years 2011/12 onwards.

8.11 To facilitate the assessment of the PPF levy, pension scheme trustees are required under Section 179 of the Pensions Act 2004 routinely to submit an assessment of their scheme's discontinuance positions, based on assumptions specified by the PPF and accrued benefit entitlements similar in form to the compensation payments that could be provided by the PPF. The results of the Section 179 valuation for the Scheme as at 31 March 2010 are summarised below.

PPF Section 179 statement as at 31 March 2010

	Excluding AVCs and other money purchase benefits £ million
Protected Liabilities	1,494
Market value of assets	1,571
Section 179 valuation surplus/(shortfall)	**77**
Protected Liabilities coverage	105%

8.12 Since its assets exceeded Protected Liabilities as at 31 March 2010, if the Scheme had been wound up at the valuation date with no financial support available from the employers, it is possible that it would <u>not</u> have been allowed admission to the PPF. The subsequent special contribution that Kingfisher made in January 2011 noted in paragraph 2.12 will have reinforced this position.

Approximate overall cover on buy out

8.13 The scheme funding regulations require me to provide a statutory estimate of solvency, which is an estimate of the extent to which the Scheme's assets at the valuation date would have been sufficient to secure the accrued benefits by purchasing annuities from an insurance company. For this purpose I have used the assumptions set out in Appendix E.

8.14 The result of my calculations, based on the position at 31 March 2010, is to suggest that the ***overall*** level of cover for accrued benefits (the statutory estimate of solvency) would have been approximately 64.4%. The solvency position is summarised.

Solvency statement as at 31 March 2010

	Including AVCs and other money purchase benefits £ million
Liabilities	2,497
Market value of assets	1,607
Solvency surplus/(deficit)	**(890)**
Solvency level	64.4%

8.15 This overall *solvency* level of 64.4% can be compared with the previous estimate of approximately 66.6% in the valuation as at 31 March 2007, which represented a solvency deficit of approximately £710 million. The 31 March 2007 estimate was on the assumption that the liabilities would have been secured on the buyout market on terms equivalent to using a discount rate equal to the yield on index-linked gilts less 0.5% per annum. Since 2007 the buyout market prices for pensioners have improved so that the 31 March 2010 estimate uses terms for pensioners equal to the yield on index-linked gilts plus 0.1% per annum. Although buyout terms have improved relative to gilts, the decline in gilt yields and asset returns over the period have more than offset this, leading to a reduction in the solvency level.

8.16 If the assets of the Scheme exactly matched the *technical provisions* then the statutory estimate of solvency would be 71.2%.

Approximate priority cover on buy out

8.17 If the Scheme had been discontinued at the valuation date, the table in paragraph 8.15 shows that there would have been insufficient assets to secure accrued benefits in full with an insurance company. As described in paragraph 8.6 above, this would have meant securing benefits in line with the priority order outlined there. In this case members would have received on average 95% of the benefits in category 2 set out in paragraph 8.6.

8.18 The level of benefits that can be provided to individual members on *winding up* is particularly sensitive to fluctuations in the value of investments relative to bonds and changes in future expected mortality. The particular structure of the payments that might be provided through the PPF (and hence the benefits that fall under category 1 above) also means that the level of benefits can be impacted by changes in the membership profile.

8.19 As explained in paragraph 8.5, if the Scheme were discontinued, legislation would impose a “debt” on the employers equal to the additional funding required to meet the full cost of securing all accrued benefits with an insurance company. If this debt is settled, all of the benefits under categories 1 to 4 above could, in theory, be met providing there was sufficient capacity in the insurance market for the non-pensioner liabilities to be secured.

Section 9: Projections and risks

Uncertainty concerning future events

9.1 It should be noted that the funding assumptions used to derive the above results represent only one view of likely future events. How the Scheme's funding position will actually develop in practice cannot be known in advance. There is always a risk that contributions calculated in accordance with the funding policy will prove insufficient to meet the *funding target*.

9.2 The results of the valuation are particularly sensitive to the assumed level of future returns that will be earned on the Scheme's investments (which are merely assumptions, albeit that the Trustee believes them to be prudent). The swap contracts in the bond hedging portfolio reduce the future volatility of the Scheme's funding level by improving the duration and inflation matching characteristics of the bond portfolio relative to the Scheme's liabilities. However, there is still the possibility of considerable variation in outcomes for the residual Scheme assets and liabilities given the substantial proportion of the assets invested in volatile assets such as equities, which may not move in line with the assessment of the liabilities. The Trustee should therefore be aware of the sensitivity of the results to future investment conditions.

9.3 If investment returns vary from the assumptions made in the valuation, then the funding position of the Scheme will not be as projected, leading to a change in the long-term cost of providing the benefits. The following projection shows the potential variation in the secondary funding objective assessment at 2030 on the basis of the employers paying contributions according to the agreed schedule over the whole period (ie an initial rate from April 2011 of £48.5 million, increasing every 3 years with RPI) and the portfolio reaching a 100% bond allocation by 2030.

Investment performance outcome	Funding level in 2030 relative to secondary funding objective %
Upper quartile	131
Median	108
Lower quartile	96
99th percentile	69

Note that in practice the employer contribution rate would be adjusted at future triennial valuations as a result of investment experience.

9.4 The following tables illustrate the sensitivity of the *technical provisions*, *secondary funding objective* and *solvency* results to variations of individual key assumptions. If more than one assumption is varied, the effect may be greater than the sum of the changes from varying individual assumptions. These figures should be regarded as approximate and are intended only to provide an indication of the relative magnitude of the impact that each item has had on the funding position

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Technical Provisions

Assumption	Adopted for the technical provisions % pa	Alternative for Illustration % pa	Revised funding level %
Pre-retirement discount rate	6.55	6.45	89.7
Post-retirement discount rate	5.0, 4.8	4.9, 4.7	89.4
Pension increases	3.65	3.7	89.7
Long term rate of future improvements in mortality	1.5, 1.0	1.75, 1.25	89.1

Secondary Funding Objective

Assumption	Adopted for the secondary funding objective % pa	Alternative for Illustration % pa	Revised contributions required* £m pa
Asset outperformance over gilts	2.2, 0.5	2.1, 0.4	50.4
Buyout rate available in 2030	Gilts	Gilts-0.1	49.8
Level of gilt yield curve	Market	Market -0.1	51.8
Future improvements in mortality	1.5, 1.0	1.75, 1.25	51.0

* includes SPV income

Solvency

Assumption	Adopted for the solvency estimate % pa	Alternative for Illustration % pa	Revised solvency level %
Pensioner discount rate	4.50	4.40	64.1
Non-pensioner discount rate	3.84	3.74	63.1
Pension increases	3.65	3.7	63.6
Future improvements in mortality	1,5, 1.0	1.75, 1.25	63.4

9.5 The table below summarises the key risks to the financial position of the Scheme and the actions taken to manage them:

Risk	Approach taken to risk
Company unable to pay contributions or make good deficits in the future	At each valuation the Trustee takes advice from an independent specialist on the ability of the Company to pay contributions to the Scheme and, in particular, to make good any shortfall that may arise if the experience of the Scheme is adverse. This advice is taken into account when determining the level of *technical provisions* and in considering the appropriateness of any *recovery plan* to remove a deficit relative to the technical provisions. This advice is also considered in agreeing the contributions payable and the investment strategy to follow under the secondary funding objective. Between valuations the Trustee monitors the Company's financial strength regularly. In the event that the Company is unable to pay further contributions, such as on insolvency, the Special Purpose Vehicle that the Trustee has invested in will provide the Scheme with additional property assets.
Future investment returns could be insufficient to meet the Trustee's funding objectives	The Trustee takes advice from the Scheme Actuary on possible assumptions for future investment. For the calculation of the Scheme's *technical provisions* and contributions required to meet the *Secondary Funding Objective*, the Trustee has adopted discount rates that are lower than the expected returns on the Scheme assets. The Trustee is able to agree further contributions with the Company at subsequent valuations if future returns prove insufficient.
Investment returns on future income could be lower than the returns available at the valuation date	The Trustee takes this risk into account when determining the Scheme's *technical provisions*.
Price inflation could be different from that assumed resulting in higher liabilities	The Trustee invests in assets that are expected to be correlated to future inflation in the longer term (sometimes referred to as "real" assets). This means that, over the longer term, such assets are expected to keep pace with inflation. Such assets include equities, property and index-linked bonds. The Scheme has also purchased derivatives in order to better match a significant proportion of the assets to the inflation profile of the Scheme's liabilities.

Risk	Approach taken to risk
Falls in asset values may not be matched by similar falls in the value of the Scheme's liabilities	The Trustee considers this risk when determining the Scheme's investment strategy. It consults with the Company in order to understand the Company's appetite for bearing this risk and takes advice on the Company's ability to make good any shortfall that may arise. To the extent that such falls in asset values result in a deficit against *technical provisions* at future valuations, the Company would be required to agree a *recovery plan* with the Trustee to restore full funding over a period of time.
Scheme members live longer than assumed	For the calculation of the *technical provisions*, the Trustee has adopted mortality assumptions that it expects will overstate the life expectancy of members so that higher reserves are targeted in respect of the risk than are expected to be necessary.
Options exercised by members could lead to increases in the Scheme's liabilities	The Trustee sets the terms for converting benefits in respect of member options on the basis of actuarial advice with the view to avoiding strains on the Scheme's finances as far as is reasonably possible without disadvantaging member. The terms are kept under regular review, generally following each actuarial valuation
Legislative changes could lead to increases in the Scheme's liabilities	The Trustee take legal and actuarial advice on changes in legislation and consult with the Company, where relevant

9.6 If the assumptions in the *Statement of Funding Principles* are borne out in practice, the *technical provisions* funding level shown in section 7 will increase as time passes, assuming no changes to the funding approach shown in the *Statement of Funding Principles*. I estimate that, under this scenario, the *technical* provisions funding level might increase to around 98% by the time of the next valuation, or around 103% if the second special contribution referred to in paragraph 2.12 has been made by then.

9.7 If the assumptions in the *Statement of Funding Principles* are borne out in practice, the overall solvency level shown in section 8 will increase as time passes, assuming no changes in the buy-out terms offered by insurance companies. I estimate that, under this scenario, the overall solvency level might increase to around 74% by the time of the next valuation.

Appendix A: Scheme provisions

The Scheme is contracted out of the State Second Pension and is registered under Chapter 2 of Part 4 of the Finance Act 2004. The main provisions of the Scheme are summarised as follows:

Normal Retirement Date (NRD):	Age 65 for men and women, for benefits accrued after 30 Nov 2006. Age 60 for all other benefits
Salary:	Basic earnings plus any other contractual payments as the employer determines, but excluding overtime
Final Salary:	The highest average Salary over any one of the final five years of membership, or the average of the best three out of the last ten years if greater
Pensionable Service:	Service as a contributing member of the Scheme plus Pensionable Service inherited from a previous scheme within the Group
Retirement at NRD:	A pension of one-sixtieth of Final Salary for each year (and part thereof) of Pensionable Service. For service from 1 April 2004, there is an option to accrue pension at one-eightieth of Final Salary
Retirement before NRD, not on the grounds of ill-health:	An immediate pension calculated as for retirement at NRD (by reference to completed service), but reduced for each year that retirement precedes NRD. Currently, no reduction is applied for early retirement after age 60
Retirement before NRD, on the grounds of ill-health:	An immediate pension calculated as for retirement at NRD, without reduction for early payment. In some cases the calculation will take account of uncompleted service to NRD, according to loss of future earning capacity.
Lump Sum at Retirement:	On retirement part of the pension may be exchanged for a lump sum according to an age-related scale.
Death after Retirement:	A dependant's pension equal to one-half of the pension which would have been in payment at the date of death assuming no pension was commuted or surrendered at retirement. Children's allowances are also paid.

Death in Service:	A lump sum of a multiple of Salary, plus a refund of the member's contributions accumulated with interest at 5% per annum (or the change in RPI if less). A dependant's pension equal to one-half of the pension which the member would have received on retirement on grounds of severe ill-health at the date of death. Children's allowances are also paid.
Leaving Service:	If under two years' Pensionable Service has been completed, the member has a choice between a refund of contributions, a deferred pension calculated as on retirement at NRD (by reference to completed service) or a transfer value. A refund is not available if more than two years' Pensionable Service has been completed. A dependant's pension of one-half of the member's deferred pension is paid on death before or after NRD. A deferred pensioner may request the Trustee to commence the pension before NRD, in which case it will be reduced to reflect early payment.
Pension Increases:	Pensions in excess of GMP in payment are guaranteed to be increased each year by 5% (or the change in the RPI if less). The GMP arising from service after 5 April 1988 is increased each year by 3% (or RPI if less). The GMP part of a deferred pension will be increased up to State pension age by 4% a year (for leavers after 5 April 2007). The balance will be increased up to NRD, or earlier starting date of the pension, by 5% a year overall (or RPI if less).
Contributions:	Members who accrue the sixtieths scale pay 7% of Salary. Members who elect to accrue pension on the eightieths scale pay 5% of Salary. Members may also pay additional voluntary contributions to increase their benefits. Employers make up any balance of cost of meeting the Scheme's benefits, including expenses.
Other employees:	KPS-FS provides salary-related risk benefits on death for most Kingfisher group employees, and also on incapacity for members of KPS-MP.
Special Provisions:	Variations to the above provisions apply to executives and senior managers and to honour no-worse-off guarantees in respect of former scheme benefits, as advised to the members concerned.

Appendix B: Membership data

The information supplied to us for the purposes of the valuation is summarised below; the corresponding 2004 figures are shown for comparative purposes.

Membership data for KPS-FS

Employed members	31 March 2010 Number	Pensionable earnings £m pa	Average Salary £ pa	31 March 2007 Number	Pensionable earnings £m pa	Average Salary £ pa
60ths section						
Males	2,333	65.5	28,075	3,239	82.7	25,533
Females	2,170	33.7	15,530	3,206	44.7	13,943
80ths section						
Males	559	11.1	19,857	820	14.1	17,195
Females	702	8.7	12,393	1,063	11.6	10,913
Total	**5,764**	**119.0**	**20,645**	**8,328**	**153.1**	**18,384**

Deferred pensioners	31 March 2010 Number	Deferred pension revalued to valuation date £m pa	Average pension £ pa	31 March 2007 Number	Deferred pension revalued to valuation date £m pa	Average pension £ pa
Males	8,638	23.0	2,663	8,619	19.7	2,286
Females	10,360	14.1	1,361	10,947	12.7	1,160
Total	**18,998**	**37.1**	**1,953**	**19,566**	**32.4**	**1,656**

Pensioners (including dependants)	31 March 2007 Number	Pension £m pa	Average pension £ pa	31 March 2007 Number	Pension £m pa	Average pension £ pa
Males	4,305	21.9	5,087	3,643	19.5	5,353
Females	10,979	20.6	1,876	10,465	18.0	1,720
Children	83	0.1	1,747	94	0.1	1,476
Total	**15,367**	**42.6**	**2,772**	**14,202**	**37.6**	**2,648**

Notes:

1. In addition to the employed members listed above there are 134 members of the Scheme who are employed by the Company with a past service liability linked to salary but are no longer accruing a retirement benefit. The majority of these elected to join the Money Purchase section from 1 April 2004.

Assets

According to the audited accounts supplied as at 31 March 2010, the market value of the Scheme's assets was £1,607 million. This includes Additional Voluntary Contributions (AVCs) which amounted to £17 million and money purchase section assets amounting to £19 million.

The assets, excluding AVCs and money purchase section assets, were invested as follows:

	Market value as at 31 March 2010		Market value as at 31 March 2007	
	£m	%	£m	%
Overseas equities	352.6	22.4	352.8	25.4
UK equities	176.3	11.2	368.6	26.5
Fixed interest securities	582.5	37.1	370.7	26.6
Index linked securities	297.9	19.0	216.4	15.6
Property	76.7	4.9	125.5	9.0
Derivatives including swaps	52.8	3.4	-	-
Cash and net current assets	31.7	2.0	-42.8	-3.1
Total	**1,570.5**	**100.0**	**1391.2**	**100.0**

Since the valuation in 2007 the Trustee has followed a strategy of slowly derisking the asset portfolio over time. This has meant a gradual shift from return seeking assets such as equities into assets which are assumed to be similar to the Scheme's liabilities, such as gilts and corporate bonds. As part of the 2010 valuation discussions between the Trustee and the Company it has been agreed that this derisking will proceed at a slower rate in future.

Although the Scheme's bond assets are assumed to be a better match for the liabilities, the Scheme holds certain derivatives to improve the fit. In particular the Scheme holds swap contracts which alter the duration and inflation characteristics of the bond portfolio. The net derivative position of £52.8m shown above comprises assets of £94.9m and liabilities of £42.1m. This liability hedging portfolio has a nominal exposure of £1.1bn.

Appendix C: Financial data

Consolidated revenue account for inter-valuation period

	£m	£m
Assets at 31 March 2007 (including AVCs)		1,415.4
Income		
Contributions:		
Employers	199.6	
Members	35.5	
Transfers in from other pension schemes	4.1	
Investment income	103.8	
Total income		**343.0**
Expenditure		
Benefits paid:		
Members leaving and benefits payable	10.4	
Pensions (net of annuities received)	118.8	
Lump sums on retirement	38.6	
Lump sums on death	5.3	
Investment management charges	7.0	
Expenses	11.3	
Total expenditure		**191.4**
Change in market value of investments		39.7
Assets at 31 March 2010 (including AVCs)		**1,606.7**
Represented by:		
Assets (per table above)		1570.5
AVCs and money purchase benefits		36.2
Assets at 31 March 2010 (including AVCs)		**1,606.7**

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Appendix D: Description of the valuation method

Valuation method – statutory funding objective

1. The actuarial method used to calculate the *technical provisions* is the Projected Unit Credit Method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by retirement, death or withdrawal from service. This is the same method as was used for the last *actuarial valuation* of the Scheme, as at 31 March 2004. This valuation method separates benefits earned to date (and the assets so far accumulated to cover those benefits) from benefits arising in respect of future service. Following this approach, the valuation process can be considered in three stages as described below.

2. It is important that the value of the assets used in the actuarial calculations is consistent with that placed on the projected future benefit outgo. In the current valuation, the accumulated assets have been taken at their mid-market value. It is primarily for this reason that the *discount rates* used in the assessment of the liabilities have been set by reference to investment market yields at the valuation date.

Stage One - Past service

3. The purpose of this stage in the process is to check the extent to which the accumulated assets as at the valuation date are likely to be sufficient to cover the accrued benefits, ie those earned for service before the valuation date. For pensioners and deferred pensioners, accrued benefits are their total benefits, because all of their pensionable service was completed before the valuation date. For current employed members, accrued benefits are the prospective benefits that are deemed to relate to service up to the valuation date, allowing for future earnings increases.

4. Based on the assumptions outlined in the *Statement of Funding Principles*, estimates are made of the projected future cashflows that may be paid from the Scheme in future, using the information available as at the valuation date. The projected future payments of accrued benefit are then discounted, at the selected *discount rates* (as set out in the *Statement of Funding Principles*). (In practice, actuarial techniques are used to avoid the need to derive the projected cashflows for individual years.)

5. This places a market-related value on the associated liabilities which can then be compared directly with the market value of the accumulated assets. This figure corresponds to the Scheme's *technical provisions* at the valuation date under the Pensions Act 2004. If the value of the assets is lower than the assessed liability figure then the difference is referred to as a past service deficit (and as a past service surplus if the reverse is true).

Stage Two – normal contribution rate

6. The second stage in the process is to calculate the normal contribution rate. Under the Scheme's *statutory funding objective* this is the contribution rate that is needed to build up the required reserve for the benefits that are earned in the one year following the valuation date, based on the selected assumptions. (See also 8 below.) In calculating this contribution rate, it is assumed that the investment return secured on contributions will be in line with the *discount rates* used to determine the *technical provisions*. An addition is made to allow for expenses and the levies payable to the *Pension Protection Fund*.

Stage Three - Adjustments to the contribution rate

7. The final stage is to adjust the normal contribution rate. This adjustment is designed to remove any imbalance (positive or negative) between the assessed value of the accrued benefits (or *technical provisions*) and the accumulated assets, as revealed by Stage One, over an agreed period of time. Due to the small excess of assets over *technical provisions* at the valuation date, and the impact of the *secondary funding objective*, this stage has been unnecessary for this valuation.

Stability of contributions

8. Under the Projected Unit Credit Method the normal contribution rate will be relatively stable if the active membership profile remains broadly similar in terms of age, sex, pensionable service, earnings and benefit category. Since the Scheme is closed to new entrants, it might be expected that the active membership age profile will rise over time, hence leading to a gradual increase in the normal contribution rate.

9. In addition, the Scheme's investment strategy at the valuation date included 38.5% of investments held in return-seeking assets such as equities and property. It is therefore possible that the assessed difference between the value of the assets and the Scheme's accrued liabilities could vary significantly from time to time, depending on relative investment market movements. The results in this report should not, therefore, be taken as an indication of the Scheme's financial position on any date other than 31 March 2010.

Valuation method – secondary funding objective

10. In contrast to *technical provisions*, the valuation method used for the secondary funding objective defines a *funding target* at some point in the future, for which a market-related value of liabilities is calculated using the assumptions outlined in the *Statement of Funding Principles*, taking into account benefits expected to be earned to that point.

11. This value, together with the discounted value of expected life insurance costs and expenses over the period, is then compared with the value of current and future assets over the same period, comprising:

- the market value of the Scheme's assets at the valuation date
- expected future member contributions
- expected investment returns in excess of the gilts-based discount rate over the period (see Appendix E), based on the likelihood of those returns being achieved from the Scheme's intended investment strategy, and
- future employer contributions and expected investment returns thereon, as the balance of cost item.

12. Currently the balance of cost item is calculated as a monetary amount of contribution payable over the period to April 2030, increasing in line with RPI at three-yearly intervals.

Appendix E: Assumptions adopted for discontinuance valuation

1. Section 8 shows that the estimate of the Section's discontinuance liabilities suggests an overall level of cover of some 64.4% at 31 March 2010.

2. The starting point for this calculation is an assumption that the Scheme's assets would be invested in a portfolio of fixed interest gilts and index-linked gilts, matched as far as possible with the liabilities. It is, however, appreciated that life assurance companies are exposed to significant investment and longevity risks at the longer duration.

3. Details of the assumptions adopted are as follows:

   - A discount rate of 4.50% per annum on average for current pensioners and 3.84% per annum on average for future pensioners, based on index-linked gilt yields with an adjustment of +0.1% for pensioners and 0.5% for non-pensioners

   - An assumed rate of price inflation of 3.7% pa

   - Assumed future mortality rates in deferment and payment are in line with those adopted for the calculation of *technical provisions*, as outlined in the *Statement of Funding Principles*.

   - An allowance has been made for expenses by increasing the calculated solvency liabilities by 3%.

4. The discount rate is term-dependent and is adjusted from the following gilt market yields at the valuation date:

1	1.71%	15	4.64%	30	4.43%	45	4.23%
5	3.54%	20	4.58%	35	4.31%	50	4.25%
10	4.52%	25	4.50%	40	4.26%		

   These yields are also used for the purposes of the discount rate under the Secondary Funding Objective.

5. It should be noted that I have not carried out a detailed analysis of the risk margins that would be included in an accurate buy-out quotation from an insurance company. Therefore the estimated solvency figures in Section 8 are intended to provide only an indication of the potential position on actual discontinuance of the Scheme. In addition, market changes, whether in interest rates, in asset values or in the supply of and demand for this type of insurance business, mean that such an estimate cannot be relied upon. The true position can be established only by completing an annuity purchase in respect of those liabilities.

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Appendix F: Statutory certificate

The Actuary’s statutory certificate dated 31 March 2011 forms this Appendix.

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Actuarial certification for the purposes of regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: Kingfisher Pension Scheme

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme's *technical provisions* as at 31 March 2010 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the *Statement of Funding Principles* dated 31 March 2011.

Neil Mobbs

N G Mobbs
Fellow of the Institute of Actuaries

Towers Watson Limited
Watson House
London Road
Reigate
Surrey RH2 9PQ

31 March 2011

Appendix G: The limitations of the investigation

There are three important limitations to the work that underlies this report.

The first is that I have provided this report for the Trustee and Kingfisher plc and others should not rely on it or take action based on it without seeking their own independent advice. The second is that I have relied on the Trustee and its advisers to provide accurate information. The third is that the assumptions made about future economic and demographic conditions are precisely that; they are assumptions, and not predictions or guarantees.

Third parties

I have written this report for the Trustee of the Kingfisher Pension Scheme (which is referred to in this report as the Scheme) and Kingfisher plc, as provided for under the Scheme Rules. I have prepared it to satisfy the requirements of the Trust Deed and the Rules and the various statutory requirements referred to in it. It has not been prepared for any other purpose. As such, it should not be used or relied upon by any other person for any other purpose, including, without limitation, by individual members of the Scheme for individual investment or other financial decisions, and those persons should take their own professional advice on such investment or financial decisions. Neither I nor Towers Watson Limited accept any responsibility for any consequences arising from any third party relying on this report.

Except with the prior written consent of Towers Watson Limited, the recipient may not reproduce, distribute or communicate (in whole or in part) this report to any other person.

Data supplied

This report was based on data available to me as at the effective date of the valuation and takes no account of developments after that date except where explicitly stated otherwise.

The Trustee bears the primary responsibility for the accuracy of the information provided, but will, in turn, have relied on others for the maintenance of accurate data, including Kingfisher who must provide and update the membership information. Nevertheless it is the Trustee's responsibility to ensure the adequacy of these arrangements. I have taken reasonable steps to satisfy myself that the data provided is of adequate quality for the purposes of the investigation, including carrying out basic tests to detect obvious inconsistencies. As stated in the report, these checks have given me no reason to doubt the correctness of the information supplied. It is not possible, however, for me to confirm that the detailed information provided in respect of individual members is correct.

Assumptions

The assumptions used for the valuation are specified in the Scheme's *Statement of Funding Principles* which has been agreed by the Trustee and Kingfisher. These form one view only and others may have different opinions. They inevitably contain elements of subjective judgement. These assumptions and the analysis in this report are intended to be reflective of the likely behaviour of the finances of the Scheme over the long term.

There is no guarantee that the assumptions made will be borne out in practice and the expectation is that the Scheme's experience will, from time to time, be better or worse than that assumed.

Appendix H: Statement of Funding Principles

The Scheme's *Statement of Funding Principles* dated 31 March 2011 forms this Appendix.

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Kingfisher Pension Scheme
Statement of Funding Principles

Status of this document

1 This Statement of Funding Principles updates the written statement of the policy of the Trustee of the Kingfisher Pension Scheme ("the Scheme") in relation to scheme funding and other related matters. It has been prepared by the Trustee of the Scheme to satisfy the requirements of section 223 of the Pensions Act 2004, after obtaining the advice of Mr N G Mobbs, the Scheme Actuary appointed by the Trustee. The Statement has been agreed by Kingfisher plc ("the Company"), the Principal Employer of the Scheme.

Statutory Funding Objective

2 The statutory funding objective is that the Scheme should have sufficient and appropriate assets to cover its technical provisions, and this Statement sets out the Trustee's policy for securing that this objective is met.

Secondary funding objective

3 In addition to the statutory funding objective, the Trustee has a secondary funding objective, which is to reach a point where it can provide accrued benefits in accordance with the Scheme rules with a high level of security, thereby limiting its reliance on the Company for further support. For this purpose the Trustee will calculate the value of the liabilities having regard to returns available from low risk assets such as gilts of appropriate duration.

4 At each valuation the Trustee will review the funding position relative to this secondary objective. It will consider a suitable target date and target funding level on this basis, taking account of such matters as

- the maturity of the Scheme;
- the covenant of the participating employers, including any operating policies agreed between the Trustee and the Company;
- expected investment returns and risk management relative to the Scheme's liabilities from the Scheme's current and future investment policy for managed assets, and expected future income from any partnership interest in a Special Purpose Vehicle;
- the expected value of future member contributions and accruals of benefit under the Scheme, including all Scheme expenses and life cover costs but excluding PPF levies; and
- the terms on which the accrued benefits could be secured through insurance policies and the likelihood of these terms changing over the period to the target date.

5 For the valuation at 31 March 2010, having considered relevant matters such as the above, the Trustee and the Company have agreed that regard would be had to a target funding level of 100% valuing liabilities using a gilts-based discount rate which averages 4.4% per annum, and the likelihood of achieving this by 2030 on the basis of expected returns from an investment policy for managed assets (excluding any partnership interest in a Special Purpose Vehicle) that will gradually switch from 60% bonds to 100% bonds (including swaps) over the 20 year period to April 2030, and employer contributions of level monetary amounts in real terms from April 2011 to the target date (with adjustments for inflation measured by RPI applied every three years, the first being applied at April 2014).

The Trustee and the Company agreed this Secondary Funding Objective framework at the 2010 valuation on the basis that it will provide a high level of security, with a funding target in 2030 expected to meet the cost of securing insured annuities for members' benefits, with additional security provided over the next 20 years through a Special Purpose Vehicle, and with investment risk within the Scheme decreasing steadily over the period. The Company contributions, including those expected to be invested in a Special Purpose Vehicle, are expected to redress the deficit against technical provisions within 3 years of the valuation date. There is no intention to extend the 2030 target date any further.

Method and assumptions used in calculating the technical provisions

6 The Trustee and the Company have agreed that the technical provisions for the Scheme at any given date are to be calculated as the capital value of the prospective benefits arising from service completed before that date, including allowance for prospective increases in pensionable salary for those members in active service at that date. This method of calculating technical provisions is known as the projected unit method, and shall include the audited value of defined contribution assets held within the Scheme, either as AVCs or within KPS-MP.

7 The Trustee and the Company have agreed that:

- The assumed rate of return on investments for funding purposes will reflect the Scheme's liability profile and the different categories of beneficiaries by allowing for different investment returns before and after retirement.
- The assumed returns post-retirement will be derived having regard to the Scheme's expected investment strategy in respect of its pensioner liabilities.;
- The assumed investment return prior to retirement will be derived having regard to the Scheme's expected investment strategy in respect of its longer-term liabilities.
- Where the Scheme's investments include a partnership interest in a Special Purpose Vehicle then the Trustee shall have regard to both the ongoing market value of the interest and the likely value in the event of the Company's insolvency when determining the allowance to be made for this interest for statutory funding purposes.
- Demographic assumptions will have regard to an analysis of the experience of the Scheme membership as well as relevant statistics applicable to similar pension schemes, and the Trustee's and the Company's views about how these may change.
- Allowance will be made for projected increases to pensionable salary over the period between the effective valuation date and an active member's anticipated date of retirement, death or earlier date of leaving service. The assumption will typically be set having regard to historic experience of the Scheme and information provided by the Company in relation to future expected policy.
- Future price inflation will be assessed having regard to the redemption yields available at the valuation date on index-linked and fixed-interest UK Government bonds of appropriate duration, and other relevant information including data published by the Bank of England and rates available within the swaps market.

8 The assumptions will be chosen such that, when taken together, the Trustee has an appropriate level of confidence that the resultant funding target will prove adequate to pay benefits as they fall due. In making this assessment, the Trustee will take account of the strength of the participating employers' covenant to the Scheme, and the period over which the funding target will remain in force. The Trustee will also consider the results of asset/liability modelling studies and/or other longer-term measures of risk in making the assessment.

9 Details of the principal assumptions to be used in the calculation of the technical provisions as at 31 March 2010 are set out in the Appendix to this Statement.

Discretionary benefits and funding principles

10 There are a number of areas where the benefits payable are subject to some exercise of discretion on the part of the Trustee and/or the Company or participating employers:

- With the Company's consent, or at its direction, and upon payment to the Scheme of any contributions required by the Trustee having consulted the Actuary, the Trustee may augment or provide additional benefits under the Scheme. The Trustee and the Company have agreed that such augmentations will not be taken into account in the calculation of technical provisions before they are granted.
- There are a number of options that enable Members to convert the benefits from one form into another subject to the Trustee's consent, such as on early or ill-health retirement, or the commutation of pension into cash at retirement. Where the terms of such options are not expected to be cost neutral on the technical provisions basis, the Trustee and the Company will consider making an allowance for the exercise of these options in the determination of technical provisions.

Eliminating a shortfall

11 The Trustee and the Company have agreed that any statutory funding shortfalls identified at an actuarial valuation should be eliminated as quickly as the participating employers can reasonably afford by the payment of additional contributions over the recovery period. In agreeing the recovery period at any particular valuation the Trustee and the Company will take into account relevant factors such as:

- the provisions of the Trust Deed & Rules;
- the size of the funding shortfall and the degree of prudence in the technical provisions;
- the risk that the Scheme's financial position may deteriorate against the statutory and secondary funding objectives;
- the projected financial position of the Company, including its net assets and projected free cash-flow, and the risk of significant deterioration in this position;
- whether the additional contributions are expected to be invested in a partnership interest in a Special Purpose Vehicle; and
- any contingent assets or letters of credit provided by the Company (to the extent that these are not already being used to support the assets or the level of technical provisions).

Future contributions if the Statutory Funding Objective is met

12 If the assets of the Scheme are more than the technical provisions at the effective date of any actuarial valuation, the Trustee with the Company's agreement may carry forward the excess unutilised as a reserve, or apply it wholly or in part to reduce the contributions due in respect of future benefit accruals. In either case the Trustee shall have regard to the matters listed in paragraph 4 and the future contributions required for the Scheme to satisfy the secondary funding objective, as reviewed from time to time.

13 For the valuation as at 31 March 2007 the assets of the Scheme were more than the technical provisions at the effective date, but employer contributions were agreed on the basis of the

Scheme aiming to satisfy the secondary funding objective. For the valuation as at 31 March 2010 the assets of the Scheme are lower than technical provisions at the effective date. The Trustee and the Company have agreed additional contributions over 3 years to redress this shortfall, together with additional contributions over the following 17 years aiming to satisfy the secondary funding objective.

Arrangements for other parties to make payments to the Scheme

14 There are no arrangements for parties other than Members or participating employers to make payments to the Scheme.

Frequency of valuations and circumstances for extra valuations

15 The Scheme's actuarial valuation as at 31 March 2007 was the first such valuation under the requirements of the Pensions Act 2004 with the 31 March 2010 valuation being the second. Subsequent valuations will, in normal circumstances, be carried out every three years. An actuarial report on developments affecting the Scheme's technical provisions and funding level will be obtained annually.

16 The Trustee may request an actuarial valuation at any time should it so wish. In particular, it may wish to consider doing so:

- following a request from the Company;
- if there is a significant fall in the value of the assets, or other change in market conditions which could have a significant adverse impact upon the financial position of the Scheme;
- if there is any event which might have a significant effect upon the employer covenant; or
- if there is a significant change in the membership for any reason.

Payments to the Employers

17 Clause 3.3 of the Scheme's Trust Deed includes a provision allowing in certain circumstances for a payment to be made to the participating employers if a surplus is revealed at the time of an actuarial valuation.

Policy concerning payment of cash equivalent transfer values

18 The Trustee will ask the Actuary to advise it at each valuation of the extent to which the assets of the Scheme are sufficient to provide full cash equivalent transfer values for all members (ignoring for this purpose that only deferred pensioners have the right to take a transfer). The Trustee's current policy is not to reduce cash equivalent transfer values. This policy is reviewed from time to time in the light of the Scheme's financial position and the amount and volume of cash equivalent payments made from the Scheme. The policy will also be reviewed whenever the cash equivalent transfer value calculation basis changes.

Dates of review of this Statement

19 This Statement will be reviewed, and if necessary revised, by the Trustee (subject to agreement from the Company) either:

- within 15 months after the effective date of each actuarial valuation; or
- within a reasonable period after any occasion on which the Regulator has used its powers to modify future accrual of the Scheme, directed as to the manner in which technical provisions are to be calculated or the period over which failure to meet the

statutory funding objective is to be remedied, or imposed a schedule of contributions.

20 The Trustee may also elect to review, and if necessary revise (subject to agreement from the Company), the Statement at other times.

This Statement of Funding Principles has been agreed by the Company and the Scheme Trustee.

Signed on behalf of Kingfisher plc

K O'Byrne

Name: KEVIN O'BYRNE
Position: GROUP FINANCE DIRECTOR

Date: 31 MARCH 2011

Signed on behalf of Kingfisher Pension Trustee Limited

Tony Stanworth

Name TONY STANWORTH
Position CHAIRMAN OF TRUSTEES

Date: 31 MARCH 2011

Appendix – technical provisions assumptions

1 Details of the principal assumptions used in the calculation of the technical provisions in the valuation **as at 31 March 2010** are set out below.

Financial assumptions

Discount rate

Pre-retirement: The pre-retirement discount rate is the expected return, net of investment management expenses, from a portfolio consisting on average of 60% equities, 40% bonds, having regard to market conditions at the valuation date. The assumption adopted as at 31 March 2010 is a nominal return of 6.55% per annum, or 2.75% per annum in real terms relative to RPI.

Post-retirement: The post-retirement discount rate is the expected return, net of investment management expenses, from a portfolio consisting of 100% bonds, having regard to market conditions at the valuation date. The assumption adopted as at 31 March 2010 is a nominal return of 5.0% per annum, or 1.3% per annum in real terms relative to RPI. A further reduction of 0.2% per annum is applied for current pensioners having regard to yields on the Scheme's swap portfolio at the valuation date.

Salary increases: This assumption will typically be set having regard to historic experience and information provided by the Company in respect of future expected policy. This will comprise two elements, general increases and an allowance for promotional salary increases. The general assumption adopted as at 31 March 2010 is that salaries for full-time members will increase at a rate 1.0% per annum higher than assumed price inflation, and that hourly pay rates for part-time members will increase in line with assumed price inflation.

Inflation: This has been assessed having regard to the yield curve reflecting the inflation expectations implicit in UK Government bond prices as published by the Bank of England, the average weighted duration of the Scheme's accrued liabilities, and rates available in the swaps market. The Trustee also has regard to the inflation target given to the MPC of the Bank of England by the government. The assumption adopted is 3.7% as at 31 March 2010.

Pension increases: The Scheme Rules include provision for increases in line with RPI price inflation up to a maximum of 5% each year, to pensions in excess of GMP. For the actuarial valuation as at 31 March 2010 these increases are assumed to follow the assumed rate of price inflation less 0.05%.

Kingfisher Pension Scheme
Statement of Funding Principles

Statistical/demographic assumptions

2 The demographic assumptions concern the likelihood of events (for example, death, retirement or leaving service) taking place at different ages. They also cover family statistics, such as the proportion of deaths giving rise to dependants' benefits and the ages of those dependants.

3 To ensure that the assumptions adopted remain appropriate, an analysis of the Scheme's experience will typically be carried out at each actuarial valuation. It is expected that the next analysis will be carried out as part of the 31 March 2013 valuation.

4 The various demographic assumptions used to calculate the technical provisions as at 31 March 2010 are summarised below.

Mortality:	Based on the Scheme's pensioner experience over the 12 years from 1998-2010 and an analysis of postcode data held for all members: Current mortality rates in line with: For current male pensioners – 95% of standard table "SAPS All Pensioners Males Amounts" with medium cohort improvements to 2010, rated up 5 years of age for ill-health pensioners. For future male pensioners – 105% of standard table "SAPS All Pensioners Males Amounts" with medium cohort improvements to 2010, rated up 5 years of age for future ill-health pensioners. For current and future female pensioners – 100% of standard table "SAPS All Pensioners Females Amounts Heavy" with 1992 base table improvements to 2010, rated up 5 years of age for ill-health pensioners. Future improvements in mortality rates in line with CMI 2010 projections using a long-term annual trend improvement rate of 1.5% for males and 1.0% for females.
Withdrawals:	Allowance has been made for withdrawals from service as shown in the Appendix.
Retirements:	An allowance is made for early retirements from service as shown in the Appendix, assuming Company direction such that no reduction for early payment applies beyond age 60. Deferred members' benefits are assumed to be drawn at Normal Retirement Date, or such earlier date at which no reduction for early payment applies.
Commutation:	Allowance is made for members to commute 20% of their pension for a lump sum cash payment at retirement, on terms for future commutations that are consistent with the current commutation rates under the Scheme.

Family details It is assumed that males are three years older than their spouse and that the proportion of members who die with an eligible dependant is 90% for males and 60% for females at all ages up to retirement.

Salary Scale In addition to a general level of pay increases, allowance has also been made for promotional increases to salaries for full-time members below the age of 40.

New entrants No allowance is made for new entrants

5 The tables below illustrate the allowances made for withdrawals, deaths, ill-health retirements and other early retirements at various ages for active members.

	Rates per 1,000 members at each age							
	Withdrawal		Death		Ill-health Retirements		Early Retirements (other than ill-health)	
Age	Full time	Part time	Men	Women	Men	Women	Men	Women
20	180	275	-	-	-	-	-	-
25	135	110	-	-	-	-	-	-
30	90	110	-	-	-	-	-	-
35	72	110	-	-	-	-	-	-
40	72	77	1	1	1	1	-	-
45	72	66	1	1	2	2	-	-
50	45	66	2	2	4	4	-	-
55	45	66	3	3	8	10	148	148
60	-	-	5	4	17	-	564	564

Expenses

6 Expenses incurred by the Trustee in running the Scheme (including the cost of the Scheme administration and professional fees but excluding PPF levies which will be met by the Company as and when they arise) will be paid out of the Scheme's assets. Allowance is made for these expenses by including a reserve in the calculation of the cost of future benefit accrual (or Secondary Funding Objective contributions as the case may be). The treatment of these expenses will be reviewed if any of these amounts were to increase significantly, as it has been for the treatment of PPF levies since the 2007 valuation.

Appendix I: Recovery Plan

The Scheme’s Recovery Plan dated 31 March 2011 forms this Appendix.

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TOWERS WATSON

Kingfisher Pension Scheme

Recovery Plan

This Recovery Plan relates to the Kingfisher Pension Scheme (the "Scheme"). It has been prepared by the Trustee of the Scheme on 31 March 2011 after obtaining the advice of Neil Mobbs, the Scheme Actuary.

Funding shortfall

The actuarial valuation of the Scheme as at 31 March 2010 revealed a funding shortfall (technical provisions minus value of assets) of £170 million.

Steps to be taken to ensure that the statutory funding objective is met

To eliminate this funding shortfall, the Trustee and Kingfisher plc (the "Principal Company") have agreed that the following employer contributions shall be paid into the Scheme:

- £45 million, payable under the contribution schedule drawn up following the 31 March 2007 valuation, for the year from 1 April 2010.
- £77.6 million, paid on 28 January 2011, which the Trustee has invested in a Special Purpose Vehicle (SPV)
- £48.5 million per annum plus PPF levies less expected income from the Trustee's SPV partnership interest, as detailed in the Schedule of Contributions in place for the period from 1 April 2011.

Kingfisher is also expected to make an additional lump sum contribution no later than 31 December 2012, currently expected to be of £106.4m. If the Trustee invests this contribution to extend its partnership interest in the SPV then the annual employer contributions above shall be adjusted as set out in the Schedule of Contributions in place for the period from 1 April 2011.

Period within which the statutory funding objective is expected be met

The funding shortfall is expected to be eliminated by 31 March 2016 or such earlier date prior to 31 December 2012 as Kingfisher pays the additional lump sum contribution detailed above.

This expectation is based on the following assumptions:

- technical provisions calculated according to the method and assumptions set out in the Statement of Funding Principles dated 31 March 2011;
- the investment return on existing assets and the annual return on new contributions during the period being in line with the assumed investment return set out in the Statement of Funding Principles dated 31 March 2011 for the calculation of technical provisions.

TOWERS WATSON

Progress towards meeting the Statutory Funding Objective

50% of the above additional contributions were made by 28 January 2011.

This recovery plan has been agreed by the Trustee and the Company.

Date of recovery plan (for reference purposes): 31 March 2011

Signed on behalf of Kingfisher Pension Trustee Limited	
Signed ...Tony Stanworth...	Signed ...[signature]...
Name TONY STANWORTH	Name C M GILCHRIST
Position CHAIRMAN OF TRUSTEES	Position INDEPENDENT TRUSTEE
Date 31 MARCH 2011	Date 31 MARCH 2011

The Company confirms its agreement to the provisions of this Recovery Plan.

Signed on behalf of Kingfisher plc
Signed ...K O'Byrne...
Name KEVIN O'BYRNE
Position GROUP FINANCE DIRECTOR
Date 31 MARCH 2011

Appendix J: Schedule of Contributions

The Scheme's *Schedule of Contributions* certified on 31 March 2011 forms this Appendix.

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Kingfisher Pension Scheme ("KPS")
Schedule of Contributions
For period between 1 April 2011 to 31 March 2016

Final Salary Section

Year	Employer	Member rate of contribution % of Salary as defined in the Scheme Rules		Annual employer contribution of £33m for past service accruals	Annual employer contribution of £15.5m for ongoing accruals for members	Due dates of payment	
01/04/2011 onwards		60th accrual	80th accrual	% for each employer	% for each employer	Member Contributions in the month after that in which they were deducted from earnings	Employer contributions. Due date of each month.
	B&Q plc	7	5	88.75%	88.75%	19th	19th
	Kingfisher plc	7	5	2.94%	2.94%	19th	19th
	Screwfix Direct Ltd	7	5	3.02%	3.02%	19th	19th
	KITS (UK) Ltd	7	5	5.29%	5.29%	19th	19th
	Total			100%	100%		
	Castorama Russia LLC	7	5	Nil	25% of salary (standard)	19th	19th

Notes (Final Salary Section)

1. Each employer will remit its contribution during the scheme year by way of regular monthly payments plus additional contributions as necessary to ensure the minimum amount is paid in the scheme year. The amount payable by each employer to make up the £48.5m total may be varied during the schedule period by the Company.

2. For the purpose of the above table, "member" means an employee who has joined and continues to be in the KPS final salary section for the provision of pension benefits.

3. The above table is varied to the extent that members of the KPS money purchase section elect to divert a portion of their normal contributions to purchase additional benefits in the event of death in service and/or early retirement on grounds of incapacity; each member so electing will pay 0.25% of pensionable earnings in respect of either benefit option.

4. Castorama Russia LLC will pay an employer contribution of 25% of salary as defined in the Scheme Rules in addition to the £48.5 million employer contribution paid in total by the other participating employers.

5. The following adjustments shall be made to the annual employer contribution for past service accruals in the table above:

i) With effect from 1 April 2014, contributions for all participating employers (except Castorama Russia LLC) shall be increased in line with the increase in inflation between March 2011 and March 2014

ii) For each year commencing 1 April, an amount called "SPVI" shall be deducted from the contribution payable by B&Q plc. SPVI shall be the expected amount of income to be received from the Trustee's partnership interest in the SPV in that year based on the interest held at the start of the year, adjusted up or down to allow for a reconciliation of actual SPV income from prior years against those previously recognised in "SPVI" in prior years. "SPVI" shall be calculated by the Trustee and agreed with the Company ahead of the April payroll runs each year, and shall be adjusted during the year if either the Trustee extends its partnership interest through Phase 2, or if the Trustee receives a partnership income distribution that is materially lower than expected.

6. The Trustees and Kingfisher plc will review the total employer rate of contribution and replace this schedule of contributions following the next actuarial valuation of the Scheme, due no later than 31 March 2013, or may do so before this date if there was a material alteration to a participating employer's membership or the terms of the Scheme.

Money Purchase Section

Employer	Rate of matched core contribution		Alternative contribution rates (former (KRT terms)		Due dates of payment	
	Member % of salary (as defined in the Scheme rules)	Employer % of salary (as defined in the Scheme rules)	Member % of salary (as defined in the Scheme rules)	Employer % of salary (as defined in the Scheme rules)	Member contributions in the month after than in which they were deducted from earnings	Employer contributions. Due date of each month.
B&Q plc	3	3	0	1	19^{th}	19^{th}
Kingfisher plc	3	3	0	1	19^{th}	19^{th}
Screwfix Direct Ltd	3	3	0	1	19^{th}	19^{th}
KITS Ltd	3	3	0	1	19^{th}	19^{th}
Castorama Russia LLC	3	3	0	1	19^{th}	19^{th}

Notes (Money Purchase Section)

The above table shall be varied to the extent that the following circumstances apply:

1. In the case of an employee whom his employing Company has designated as a manager (or equivalent grade), and who joins the money purchase section:

   (i) If the member elects to pay additional core contributions, the member will pay the elected percentage of salary and the employer may pay matching contributions of up to 20% of such member's salary without the need for the 5 year pensionable service qualification;

   (ii) If the member has completed five years' pensionable service, and elects to pay additional core contributions, the member will pay the elected percentage of salary and the employer may pay matching additional contributions of up to 5% of such member's salary;

2. In the case of any other employee who joins the Money Purchase section, if the member has completed five years' pensionable service, and elects to pay additional contributions, the member will pay the elected percentage of salary and the employer will pay matching additional contributions of up to 2% of such member's salary.

3. If a member of the Money Purchase section elects to divert a portion of his/her normal contributions to purchase additional benefits in the event of death in service and/or early retirement on grounds of incapacity; the contribution rate payable by such member to the Money Purchase section will be reduced by 0.25% of salary in respect of either option and an equivalent rate will be payable instead to the Final Salary section.

4. Enhanced levels of employer contribution will apply to the Executive directors and members of the Kingfisher Leadership Group to a maximum of 30% of salary at the employers' discretion. There is no requirement for a matching additional corresponding contribution from the employee; this will remain at 3% of salary.

General Notes (Final Salary and Money Purchase sections)

1. The Trustees and Kingfisher plc will review the contribution rates during the schedule period and may apply retrospective adjustments to the rates. In this case, the replacement schedule of contributions will also detail the amounts and due dates of any variation to the contributions required as a result of any backdated changes.

2. Special (Company additional) contributions may be paid as agreed between the employer and the trustees (and as approved by the actuary) and will be paid within 60 days of the agreement. PPF levies in respect of levy years 2011/12 onwards shall be met by the Trustee as and when they arise, but such payments will then be reimbursed to the Trustee through Company contributions in addition to those detailed in the above Schedule.

3. Expenses, the cost of providing automatic benefits following a death in service for all members of the Scheme and the balance of the cost of providing additional benefits following death in service and/or early retirement on grounds of incapacity for members of the Money Purchase section who elect such cover will be met from the Final Salary section of the Scheme. The employers' contribution rate includes an element to cover such expenses and costs. For the purpose of this note, 'all members' include members of the KPS Final Salary and Money Purchase section for pension benefits and all employees of the employers who have not joined either section of the Scheme for pension benefits.

4. The legal due dates for payment of contributions due under this schedule shall be as described in the tables above. Contributions can be paid in advance of these due dates. Contributions received from the employer under this schedule shall be applied firstly to meet employee contributions due and the balance applied to employer contributions due.

5. If existing members move to a different participating employer (either existing or new) responsibility for funding both future and past service will transfer to the new employer.

6. With effect from the 6th April 2011 the maximum annual allowance is £50k per annual of total combined contributions (employer and employee). Individuals may be able to make contributions above this level subject to the new HMRC 3 year carry back period. Any other contribution payments above these levels may give rise to a tax charge.

Agreed on behalf of Trustees:

Tony Stewart

Agreed on behalf of Kingfisher plc

Kingfisher Pension Scheme
Schedule of Contributions
For period between 1 April 2011 to 31 March 2016

Name of Section: Kingfisher Pension Scheme

Adequacy of rates of contributions

1 I certify that, in my opinion, the rates of contributions shown in the schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2010 to be met by the end of the period for which the schedule is to be in force.

Adherence to statement of funding principles

2 I hereby certify that, in my opinion, the schedule of contributions is consistent with the Statement of Funding Principles dated 31 March 2011.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

Neil Mobbs

N G Mobbs
Fellow of the Institute of Actuaries

31 March 2011

Towers Watson Limited
Watson House
London Road
Reigate
Surrey
RH2 9PQ

Appendix K: Glossary

This glossary describes briefly the terminology of the regime for funding defined benefit pension schemes as introduced by the Pensions Act 2004 and some terms used in this report specific to the Kingfisher Pension Scheme. Defined terms are in *italics*.

Actuarial report: this is a financial check carried out by the Scheme Actuary in between *actuarial valuations* to estimate the level of coverage of the *technical provisions*. This financial check is carried out using more approximate methods than for an *actuarial valuation*. The estimates are based upon the assumptions set out in the *Statement of Funding Principles.*

Actuarial valuation: this is a financial check carried out by the Scheme Actuary that assesses whether the assets are sufficient to meet the *funding target*. It also determines the contributions required to meet the target both in respect of benefits built up to date for all members and the benefits that are building up for employed members. The calculations are based upon a number of assumptions.

Discount rate: this is the investment return expected to be achieved on the scheme's assets in the future. The lower the investment return assumed the more cautious the assumption.

Employer covenant: this is the ability and willingness of the sponsoring Employer to support the scheme; under the new funding regime the Trustee is required to take this into consideration in making funding decisions.

Funding target/objective: this is a policy to achieve, at a specified point in time, the amount of assets expected to be sufficient to pay benefits earned as they fall due over the lifetime of the scheme. It is usually based on a scenario that requires assumptions to be made about the future.

Pension Protection Fund (PPF): established by the Pensions Act 2004, this provides compensation to members of an occupational scheme in the event that the scheme is wound up with insufficient assets and the Employer has gone insolvent.

Recovery plan: this will be drawn up where an *actuarial valuation* discloses that the assets held are less than the *technical provisions*. It is a formal agreement between the Trustee and the Employer that sets out the steps to be taken in order to ensure there are sufficient assets to cover the *technical provisions* at the end of an agreed period.

Schedule of contributions: this is a document that sets out the agreed contributions payable into a scheme by members and the Employer and the dates by which such contributions are to be paid.

Secondary funding objective: is to aim to reach a point in the future when the Scheme can provide the benefits earned up to that date with a high level of security, thereby limiting its reliance on the Employer for further financial support.

Special Purpose Vehicle (SPV): is a limited partnership set up by Kingfisher plc which has purchased some property from B&Q on a sale and leaseback agreement. The Scheme has invested in the SPV and so will receive the rental income from these properties, less an allowance for expenses. On the insolvency of Kingfisher plc, the Trustee will gain control of the properties, subject to a maximum value of the solvency deficit.

Statement of Funding Principles: the Trustee is responsible for preparing and maintaining this document (after seeking agreement of the Employer and taking into account the advice of the Actuary). It sets out the Trustee's policy for ensuring that the s*tatutory funding objective* is met and in particular the way in which the assumptions for calculating the t*echnical provisions* are determined. It also sets out the principles of the *Secondary funding objective.*

Statement of Investment Principles: the Trustee is responsible for preparing and maintaining this document. It sets out the policy for investing the scheme's assets.

Statutory funding objective: every pension scheme is subject to the *statutory funding objective*, which is to have sufficient and appropriate assets to cover its *technical provisions*. The Trustee may establish other funding objectives in addition to the *statutory funding objective*.

Statutory Priority Order: this sets out the order in which the assets of a scheme should be applied in securing the benefits of different members in the event of a winding-up. In broad terms it requires that, after allowing for expenses, a scheme first secures benefits that are in line with those that would be provided by the *Pension Protection Fund* with any remaining assets then being used to secure any other benefits.

Summary funding statement: the Trustee must issue a statement to members following each *actuarial valuation* and each *actuarial report* to disclose the scheme's funding position and certain other information.

Technical provisions: this is the amount of assets required to make provision for the accrued liabilities of the scheme. Over the lifetime of the scheme, this amount is expected to be sufficient to pay all of the benefits built up to date as they fall due, based upon the method and assumptions set out in the *Statement of Funding Principles*.

The Pensions Regulator: the statutory body established with the aim of ensuring the security of members' benefits and reducing the claims for compensation from the *Pension Protection Fund*. As part of this role it monitors the funding plans of all occupational defined benefit schemes and has wide ranging powers to ensure these are adequate.

Winding-up*:* a particular method of discharging a scheme's liability to pay benefits. It typically arises where the Employer no longer provides financial support to the scheme (for example if it becomes insolvent) and would usually involve using the scheme's assets to buy a policy with an insurance company that pays as much of the scheme's benefits as possible in accordance with the s*tatutory priority order*.