TOWERS WATSON

Kingfisher Pension Scheme
Actuarial report on developments in the funding position to 31 March 2012

Purpose

Following completion of the actuarial valuation as at 31 March 2010 the Trustee is required (under Section 224 of the Pensions Act 2004) to obtain either:

- a full actuarial valuation each year; or

- an annual "actuarial report" covering factors affecting the funding position, with a full actuarial valuation every three years.

The purpose of this report is to provide an approximate update of the funding position of the Scheme at 31 March 2012. It represents the annual "actuarial report" that is required if a full actuarial valuation is not conducted and should be read in conjunction with our report on the 2010 actuarial valuation dated 6 June 2011 and the last annual actuarial report at 31 March 2011, dated 24 June 2011. This report has been prepared for the Trustee, but should be made available to the Company within seven days.

Approach taken

We have not carried out full liability calculations for this review. Instead, we have estimated how the funding position may have moved over the year to 31 March 2012, taking into account:

- Changes in investment conditions, affecting both the value of Scheme assets and the financial assumptions defined within the Statement of Funding Principles (SFP); we have not considered how any of the other assumptions might have changed had the Trustee and Company been required to agree them as at the effective date of this report

- Changes in provisions arising from benefit accrual for in-service members and benefit payments made over the year, together with the impact of applying the return that was assumed within the calculation of provisions at the beginning of the year

- Whether there is any reason to believe that membership experience items would have had a material impact on provisions (items such as unexpected salary changes, or significant events involving either early leavers or transfer payments).

In practice, between full actuarial valuations, it is often not possible to identify with a high degree of certainty whether such items are occurring, unless they are particularly significant (or very much more detailed investigations are carried out). No such material item has been identified this year, although we comment separately on the effect of Project Kendall being implemented shortly after the effective date of this update. It should be appreciated that the approach taken will not be as robust as the calculations performed as part of a full actuarial valuation, but should be sufficient, in normal circumstances, in order to obtain a reasonably good approximate indication of how the funding position might have moved.

Although the assumptions adopted within this actuarial report are not precisely the same as those in the Scheme's current SFP, as adopted by the Trustee on 31 March 2011 and underlying the actuarial valuation as at 31 March 2010, they are consistent with these principles.

The actuarial report required by legislation falls within the scope of four Technical Actuarial Standards (TASs) published by the Board for Actuarial Standards, *TAS R: Reporting Actuarial Information*, *TAS D: Data*, *TAS M: Modelling* and the *Pensions TAS*. I can confirm that this report complies with these TASs. However, this reflects the fact that the report required by legislation has a very limited purpose and is not in itself intended to lead to further decisions by the Trustee (who in the context of the TASs should be considered to be the sole users of this report).

Technical Provisions Assumptions

The principal financial assumptions adopted for this annual funding update and those used for the last valuation and annual update, are set out below ("real" rates are relative to RPI):

Assumed future rate of:	31 March 2012		31 March 2011		31 March 2010	
	Nominal rate % pa	Real rate % pa	Nominal rate % pa	Real rate % pa	Nominal rate % pa	Real rate % pa
Price inflation (RPI)	3.3%		3.7%		3.7%	
Increases to pensionable salaries[1]	4.3%	1.0%	4.7%	1.0%	4.7%	1.0%
Pension increases	3.25%	(0.05%)	3.65%	(0.05%)	3.65%	(0.05%)
Return on investments ("discount rate")						
- pre retirement	5.4%	2.0%	6.3%	2.5%	6.55%	2.75%
- future pensioners post retirement	4.3%	1.0%	5.0%	1.3%	5.0%	1.3%
- current pensioners post retirement	3.7%	0.4%	4.8%	1.1%	4.8%	1.1%

1. Full time members only

The assumptions are consistent with those used for calculating technical provisions at 31 March 2010 as set out in the SFP dated 31 March 2011, adjusted for changes in market conditions as reflected in the central Towers Watson Investment Model projection. We have chosen these assumptions to be consistent with the SFP, but they have not been discussed by or agreed with the Trustee and Company. If a formal valuation was performed, the assumptions agreed upon might be different to those detailed above.

As at 31 March 2012 our central investment model incorporated an assumption that UK gilt yields rise gradually over a 10 year period to 0.75% pa real and remain at that level, whereas current rates and implied market forward rates at that time are somewhat lower. This assumption is consistent with the return of 'normative' market conditions and economic growth over this period, and has been factored into our post-retirement discount rate for future retirees. There is a risk of adverse scenarios where this 'normalisation' does not occur, such as a prolonged period of low economic growth, which we would consider as part of a full valuation exercise.

The demographic assumptions used for the purposes of this update are consistent with those adopted for the actuarial valuation as at 31 March 2010, as set out in the SFP dated 31 March 2011. If the Trustees and Company consider all the assumptions in detail as part of a formal valuation it is possible that some would change. We have made no allowance for such changes in preparing this report without undertaking a full valuation process, including reaching agreement with the Company.

Technical Provisions Results

Based on the assumptions above, our calculations indicate that the technical provisions at 31 March 2012, including those relating to AVCs and KPS-MP, were £2,190m compared to the market value of assets shown in the draft accounts of £2,161m. This shows a funding level of 99% with a technical provisions deficit of £29m. The improvement in the position since the 31 March 2011 actuarial report, when the funding level was 94% with a technical provisions deficit of £107m, is primarily a result of the special company contribution made in June 2011 of £106m, partly offset by increases in the liabilities due to lower bond yields.

Whilst Project Kendall had not been implemented at the effective date of this update, we expect it to lead to a small reduction in the technical provisions as a result of the loss of salary link for current active members, offset to some extent by lower savings due to reduced expected levels of commutation from the FS section. There may also be a small cost due to an increase in the number of early retirements on discretionary terms.

Secondary funding objective

In the SFP dated 31 March 2011, the Trustee set out a further objective to reach a point where it can provide accrued benefits with a high degree of security. For this purpose, the Trustee calculated the value of the liabilities having regard to returns available from low risk assets such as gilts of appropriate duration. At the 31 March 2010 valuation, allowing for expected outperformance on the Scheme's assets following the chosen investment strategy, company contributions from 31 March 2011 of £48.5m per annum (increasing in line with RPI at successive triennial valuations and inclusive of income received from the Special Purpose Vehicle) were required in order to meet this objective by 31 March 2030.

We have considered the company contributions which would be required from 31 March 2012 if the Secondary Funding Objective was to be calculated allowing for market conditions and current gilt pricing as at 31 March 2012 in a purely algorithmic manner. In order to meet the objective by 31 March 2030 with the same degree of confidence, a mechanical update would indicate required contributions of £61.3m per annum, inclusive of SPV income and increasing with RPI at April 2014 and every three years thereafter.

The cessation of future accrual under Project Kendall is likely to reduce this update to £44.2m, and we expect a small further reduction for the net effect of other changes, including the break in the salary link and lower commutation savings for current employees. The substantial increase in indicative contributions shown by this mechanical update is mainly a result of current low gilt yields; if these persist at the next valuation we will consider the potential effect of future 'normalisation' of gilt yields. As an indication, based on our central model reversion of real yields to 0.75%pa over 10 years, indicative contributions shown above could be £5m lower, but there would then be an increased risk of not reaching the funding target, if yields did not rise far enough or quickly enough within the timeframe of the Secondary Funding Objective.

I would be happy to discuss this actuarial report in further detail with the Trustee.

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26 June 2012

I have written this report for the Trustee of the Kingfisher Pension Scheme (which is referred to in this report as the Scheme). I have prepared it to provide an approximate update as to the financial position of the Scheme and to satisfy the statutory requirements referred to in this report. 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 accepts any responsibility for any consequences arising from any third party relying on this report.

This report is based on data available to me as at the effective date of the update, ie 31 March 2012, and takes no account of developments after that date except where explicitly stated otherwise. The Trustee is responsible for the data on which this report is based. I have no reason to doubt its appropriateness for this purpose, but neither is it possible for me to confirm that it is correct.

Appendix

Scheme membership data

The roll forward has been prepared by reference to cashflow information from the draft report and accounts, including benefit payments over the year to 31 March 2012 of £62m, and salary roll over the year to 31 March 2012 of £110m.

Asset data

The market value of the assets on a bid basis as at 31 March 2011 was £2,161m as set out in the draft 2012 accounts. This includes KPS-MP section and AVC investments which have an aggregate value of £48m.

The asset information includes the value of the Trustee's interest in the Special Purpose Vehicle (SPV), as calculated for the purposes of inclusion within the Scheme accounts. We understand that this has been calculated by reference to the discounted value of the projected income from the SPV allowing for the possibility of a default event, at which point the Trustee would gain the vacant possession value of the underlying properties. We are satisfied that the value shown in the accounts is reasonable for the purposes of this actuarial report, on the basis that in most future default scenarios the value to the Trustee of the income received and subsequent vacant possession value will be higher than the current valuation of the interest. It is only defaults occurring in the immediate future where the current valuation is higher, but the likelihood of these scenarios is very small, given the most recent assessment of the employer covenant.