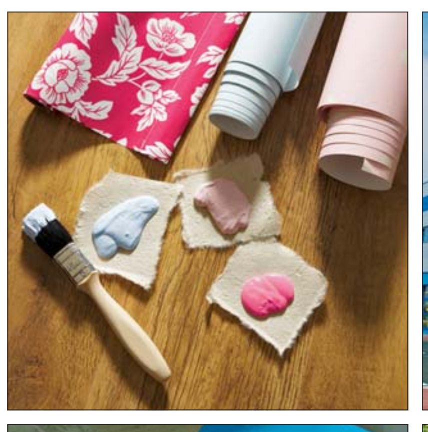
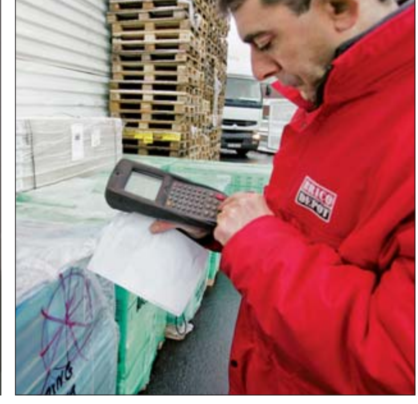
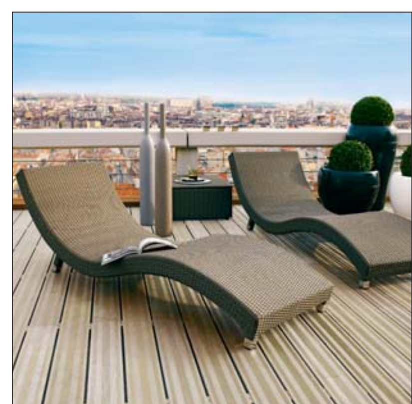


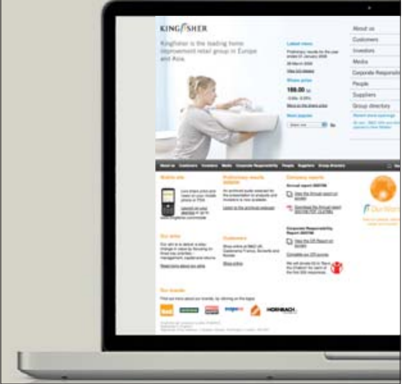
KINGFISHER

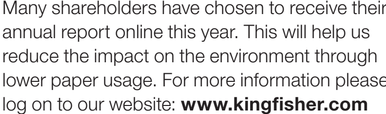
ANNUAL REPORT AND ACCOUNTS 2008/09

PROGRESS REPORT ON DELIVERING VALUE









Many shareholders have chosen to receive their annual report online this year. This will help us reduce the impact on the environment through lower paper usage. For more information please log on to our website: **www.kingfisher.com**

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Progress update from the Group Chief Executive

"When I became your Chief Executive last year, I stated my aim to deliver a step-change in value for Kingfisher shareholders. As I said in last year's Annual Report, this will be achieved by focusing on three key priorities – Management, Capital and Returns. It has been a busy and challenging year but I am pleased to report good progress with these priorities."

Ian Cheshire
Group Chief Executive
Kingfisher plc

Management
The previous decentralised management structure has been replaced by a new senior team which has collective responsibility for overall delivery of Group results in addition to their individual responsibilities.

Capital
Capital expenditure has been significantly reduced and reprioritised, targeting higher hurdle rates and faster payback. With a more vigorous focus on cash we have reduced working capital by £180 million and sold Castorama Italy for an excellent price, thereby reducing our net debt by 41% in constant currency to £1 billion.

Cash returns
Greater focus has been placed on generating higher cash returns from the retail businesses. Stretching targets for sales growth, margin improvement and cost reduction were introduced and in June we launched our seven point 'Delivering Value' plan.

See pages 2-3 for more details.

Kingfisher plc is Europe's leading home improvement retail group and the third largest in the world, with over 820 stores in eight countries in Europe and Asia. Its main retail brands are B&Q, Castorama, Brico Dépôt and Screwfix. Kingfisher also has a 21% interest in, and strategic alliance with Hornbach, Germany's leading large format DIY retailer, with over 120 stores in nine European countries.

We're on a journey, with clear milestones

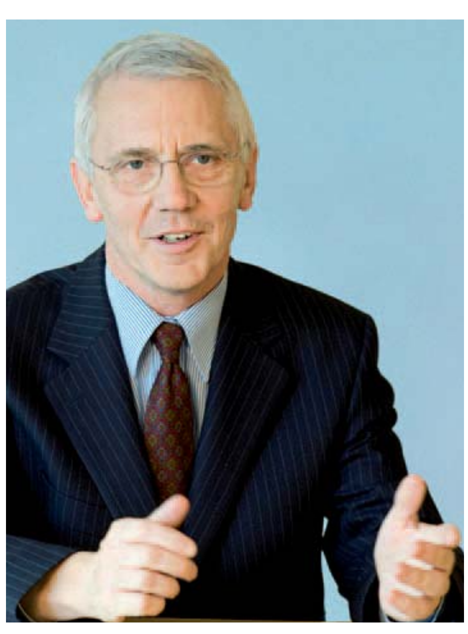
Key steps and aims

1. Driving up B&Q UK's profit
2. Exploiting our UK Trade opportunity
3. Expanding our total French business
4. Rolling out in Eastern Europe
5. Turning around B&Q China
6. Growing Group sourcing
7. Reducing working capital

2008/09 progress	2009/10 milestones
– 16 large store revamps completed in the year, 3 new stores, 16 medium store revamps – New lower-cost revamp model developed (less than £1 million per store compared with the previous £2.5 million) – More stringent store operating standards introduced, 91% stores now compliant – Over 4,500 staff received training in basic home improvement projects to improve customer service – Overall costs reduced 1% in the year despite underlying cost inflation of 3% and 1% new space	– 14 lower-cost large store revamps, 7 medium store revamps – National roll-out of self-service checkout tills – National roll-out of 'Reserve and Collect' on diy.com – Add 12,000 products for next day home delivery on diy.com utilising the Screwfix home fulfilment network – Reduce overall costs by 1% year on year
– The loss-making UK trial format, Trade Depot, was closed – B&Q launched a Trade Discount Card for the professional tradesman. 177,000 cardholders now signed up for quarterly retrospective volume-based rebates – Opened 45 more Screwfix outlets – Launched 'Plumbfix', a new specialist mail order catalogue exclusively for qualified plumbers. Operated by Screwfix	– Launch 'Electricfix', a new specialist mail order catalogue exclusively for qualified electricians. Operated by Screwfix – Open 8 new Screwfix outlets – Relaunch B&Q in-store trade offer maximising synergies with Screwfix
– Opened 10 net new stores and revamped 8 stores – Developed coordinated 3 year store opening plan – Buying optimisation now in place covering €1.1 billion of product common to Castorama and Brico Dépôt – Brico Dépôt stock shrinkage rates significantly improved – €9 million benefit	– Open 5 new stores, revamp 4 Castorama stores – Deliver benefits of buying optimisation activity – Extend buying optimisation activities to goods not for resale
– 17 new stores opened, 9 in Poland, 6 in Turkey and 2 in Russia – Total sales grew 26% (including 100% Turkey JV) to £1.4 billion*	– Open 14 new stores, 6 in Poland, 5 in Turkey and 3 in Russia – Total sales (including 100% Turkey JV) to reach £1.7 billion*
– Local management team strengthened – An extensive and deep review of the operations completed – 3 loss-making stores closed and 1 store downsized – Store revamp trial of new format now open – £33 million of excess stock cleared	– Rationalise the remaining loss-making stores – Downsize and revamp a further 17 oversized stores – Revamp around half the remaining stores into the new model – Expand the 'pick-up' ranges of soft furnishings, household goods and accessories – Roll-out of new single room make-over and single product installation services – Replace in-store supplier representatives with B&Q trained staff
– Group direct sourcing now 10% of product cost of sales – Appointment of Véronique Deroubaix as Group Commercial Director, formerly the Commercial Director for Castorama France	– Group direct sourcing target of 12% of product cost of sales
– Surpassed target to reduce working capital by £100 million – delivered £180 million reduction – B&Q UK stock reduced by £115 million – Payment terms on direct sourced product extended by 16 days	– Reduce working capital by a further £50 million (at constant currency), despite expected effects from legislative changes shortening French payment terms

* In constant currency

Chairman's statement



Peter Jackson
Chairman

We read on a daily basis about the unprecedented turbulence in the financial markets and the very real difficulties this is causing businesses. As the financial crisis has spread to the wider economy this, in turn, has caused real problems for investors and individuals who have been affected, whether as employees, borrowers or savers.

Here at Kingfisher we believe we have key strengths which should stand our Company in good stead in these difficult times. As Europe's largest home improvement retailer, and the third largest in the world, Kingfisher has a combination of the scale, good geographic balance, leading positions in major markets and strong retail brands with established value credentials that should enable us to succeed in these most difficult of markets. We also have significant property assets.

Against the tough economic background companies must look to the quality of their people and the quality of their balance sheets to make sure they are doing everything necessary to ensure their ongoing health and to make sure they are in the best possible shape to prosper as the financial situation evolves. I am pleased to say that Kingfisher has used the last year to do both of these things. Ian Cheshire took on the role as Group Chief Executive in January 2008, just before the start of the financial year. He set three initial priorities – Management, Capital and Returns – and has made some very important changes in these areas which have made a significant improvement to the strength of the business going forward.

The senior management team was strengthened during the year with the appointment of a new Group Finance Director, and new divisional heads of the UK, France and International. The senior team is working well together, running the business as a much more closely integrated retail group, which can maximise its strengths in global sourcing, as well as sharing ideas and innovation.

The target of keeping net debt flat on an underlying basis was exceeded. Capital expenditure was cut by more than 30%, Castorama Italy was sold for a good price and good progress made in the reduction of working capital. All of these actions significantly strengthened the balance sheet.

In June, the 'Delivering Value' strategy was unveiled with clear milestones over the next three to four years. I believe we have made good progress with this seven-point plan, which is covered in more depth elsewhere in this report.

Actions taken by Ian and his team have helped Kingfisher deliver a solid overall set of results in difficult circumstances. Sales in the year were up 11% to over £10 billion, with adjusted pre-tax profit up 3% to £368 million. There were good performances from our businesses in France and Poland. In the UK, where consumer spending has been hit hard by the downturn, B&Q made encouraging progress with a range of actions to improve its products and services, whilst reducing costs and levels of stock.

In China, our business has been affected by internal and external issues, such as the rapid weakening of the housing market and the consequent fall in demand for new apartment fit-outs. The very fast expansion of B&Q China in recent years probably added to the strain on the operations and our offering needs to be modified to match the changing needs of the Chinese market. However, we have grasped the nettle with plans to close a number of under-performing stores and downsize others. The management team has been strengthened as has the degree of central control. I still believe that China represents a great opportunity for Kingfisher and that our plan for the business is the right one.

The Board is recommending an unchanged final dividend of 3.4p per share, making a total dividend for the year of 5.32p, in line with the dividend statement made last year.

In March, we announced that I will be retiring as Chairman at the Annual General Meeting on 3 June. I have enjoyed my time at Kingfisher and believe the business is well placed to face the future. I am very pleased that my successor as Chairman will be Daniel Bernard. Daniel has vast experience, is a successful international retailer, and has already made a major contribution to the Board over the past three years. I am sure he will provide the continuity, the support and the challenge necessary to continue Kingfisher's progress.

The immediate future is difficult for all companies, but I believe Kingfisher is a strong business, with a good management team and a clear strategy to deliver value to shareholders. We need to focus with absolute clarity on delivering that plan. A key part of that will be down to our 81,000 staff, who have played such an important part in the progress we have made this year. I would like to thank them for their hard work and enthusiasm and wish them all the best for the coming year.

Group Financial Summary

Continuing operations excluding Italy	2008/09	2007/08	% Total Change (Reported)	% Total Change (Constant currency)
Retail sales	£10,026m	£9,050m	+10.8%	+1.2%
Retail profit	£503m	£469m	+7.2%	(4.6)%
Adjusted pre-tax profit	£368m	£357m	+3.1%	
Adjusted post-tax profit	£258m	£250m	+3.2%	
Adjusted basic EPS	11.0p	10.6p	+3.8%	
Pre-tax profit (continuing operations)	£90m	£366m	(75.4)%	
Post-tax profit (total operations)	£206m	£272m	(24.3)%	
Basic EPS (total operations)	8.9p	11.7p	(23.9)%	
Interim dividend	1.92p	3.85p	(50.0)%	
Final dividend	3.4p	3.4p	Flat	
Full year dividend	5.32p	7.25p	(26.6)%	
Like-for-like sales growth	(4.1)%			
Net debt	£1,004m	£1,559m	(35.6)%	(40.5)%

Note: Retail profit is stated before central costs, exceptional items, amortisation of acquisition intangibles and the Group's share of interest and taxation of joint ventures and associates. Adjusted measures are before exceptional items, financing fair value remeasurements, amortisation of acquisition intangibles and tax on prior year items. A reconciliation to statutory amounts is set out in the financial review.

Statutory reporting is after net exceptional charges of £88m (2007/08: gain of £6m). £231m of the total exceptional charge relating to the accounting write-down of intangible and tangible assets in China is largely offset by the £178m exceptional gain on the disposal of Castorama Italy, which is shown as a discontinued operation.

Highlights (constant currency)

- **Sales in France up 3% to £3.9 billion, retail profit of £283 million**
- **Sales in a very challenging UK market down 2.6% at £4.3 billion, retail profit of £129 million benefited from early and firm margin and cost action**
- **Sales in other international markets up 7% to £1.8 billion, retail profit of £91 million, reflecting strong Polish profits but higher China losses**
- **Comprehensive China repositioning plan underway**
- **Castorama Italy sale completed for €615 million cash, generating an exceptional pre-tax profit of £204 million**
- **Reported net debt down 36% to £1.0 billion, reflecting vigorous action on costs, cash and working capital as well as the sale of Castorama Italy**
- **Property portfolio independently valued at £3.2 billion**

Operational Review – full year by geography – year ended 31 January 2009

	Retail Sales[1] 2008/09 £m	% Total Change (Reported)	% Total Change (Constant currency)	% LFL Change	Retail Profit[2] 2008/09 £m	% Total Change (Reported)	% Total Change (Constant currency)
France [3]	3,888	20.6%	3.1%	(1.3)%	283	19.2%	1.9%
UK [4]	4,279	(2.6)%	(2.6)%	(6.5)%	129	(15.6)%	(15.6)%
Other International [5]	1,859	29.9%	7.0%	(3.7)%	91	15.1%	(6.1)%
Total Group	10,026	10.8%	1.2%	(4.1)%	503	7.2%	(4.6)%

2008/09 £1 = 1.2367 euro 2007/08 £1 = 1.4472 euro

1 Joint venture (JV) and Associate sales are not consolidated.

2 Retail profit is defined as continuing operating profit before central costs, exceptional items, amortisation of acquisition intangibles and the Group's share of interest and taxation of joint ventures and associates.

3 Castorama and Brico Dépôt.

4 B&Q, Screwfix and Trade Depot.

5 Poland, China, Spain, Ireland, Russia, Turkey JV and Hornbach. South Korea and Taiwan JV included in comparatives only. Following the Castorama Italy disposal, its results have been excluded from both years.

A conversation with the executive team

Kingfisher's executive team discusses the progress so far with the 'Delivering Value' strategy as well as the plans for the future.

Ian Cheshire – Group CEO
You're on record as saying when you became CEO last year that you aim to deliver a step-change in shareholder value. How's it going?
My first year as CEO has certainly been very busy and I'm pleased to say we're well on track. I believe Kingfisher is a very strong business with international market-leading positions and a strong balance sheet. But we can't just sit back and assume these strengths are enough to deliver more shareholder value. I said at the start of the year that we need to focus on three priorities – Management, Capital and Returns – if we are going to make more from what we already have.

I have replaced the previous decentralised management structure and created a new Retail Board of key executives with collective responsibility and incentives for Group delivery. To ensure we have the right mix of retail experience, industry knowledge and fresh thinking I recruited several new senior managers, including Euan Sutherland to head the UK, Peter Hogsted to head International and Kevin O'Byrne our new Group Finance Director.

Capital investment has been rationed, a capex diet if you will, and much tighter approval controls introduced. The whole organisation is now much more focused on cash than previously and after several years of rising net debt we have been able to stabilise it and, following the sale of our low-returning Italian business, significantly reduce it.

Much greater emphasis is now placed on generating higher cash returns from our businesses and the new Retail Board has agreed seven major steps to achieve this.

Left to right

Kevin O'Byrne
Group Finance Director
Joined in October 2008 from DSG International, the electrical retailing group where he had been Group Finance Director since 2004.
Age: 44

Euan Sutherland
Chief Executive, B&Q and Kingfisher UK
Joined in June 2008 from AS Watson UK, owner of Superdrug and Savers, where he was Chief Executive. Has 15 years' experience at companies such as Boots, Mars, Coca-Cola, Matalan and DSG.
Age: 40

Philippe Tible
Chief Executive, France
Appointed to the role in March 2008 after five years as CEO of Castorama France. Previously held senior roles at DIY retailer Leroy Merlin and furniture retailer Conforama.
Age: 57

Ian Cheshire
Group Chief Executive
Appointed Group Chief Executive in January 2008 after 10 years at Kingfisher. Previously ran B&Q UK and Kingfisher's international operations.
Age: 49

Peter Hogsted
Chief Executive, International
Joined in September 2008 after 13 years at IKEA. He was Chief Executive of IKEA UK and Chairman of its operations in Poland, the Czech Republic, Slovakia, Ireland and Hungary.
Age: 40

When you started this programme were you expecting a global credit crunch?
The early signs were there in late 2007 but it was more extreme than anyone expected. The important thing is to focus on providing good products and services at excellent value to your customers whilst squeezing as much cost as possible out of the business. That way you will maximise your short-term performance and emerge a much leaner and stronger business when markets improve.

Our overall performance in 2008/09 was solid. We grew share in our major markets and optimised our profits and cash through vigorous margin and cost control. We grew sales and underlying profits and significantly reduced our net debt at a time when some of our competitors were going bust. Admittedly, the performance in China, where the housing market is going through a severe and prolonged downturn, was worse than originally anticipated but we now have a clear plan of action underway to return this business to profitability.

How will you be prioritising your time in the year ahead?
With the new team in place and capital disciplines now well-entrenched I will be very busy making sure we deliver the 2009/10 milestones of our seven-point plan which are set out in this annual report whilst closely overseeing our trading through these tough times. I'm very keen to see a significant improvement in the underlying performance of B&Q China and so I will be visiting regularly to check on progress.

Philippe Tible – CEO, Kingfisher France

You've been at Kingfisher for six years, has much changed under Ian?
Kingfisher is very different now. For the first time we now have a single leadership structure for France, a role I am delighted to have. Castorama and Brico Dépôt are complementary in that they target different sectors of the market and for the first time we can now coordinate and optimise our activities in France. I also find the new collective responsibility for Kingfisher's performance a very positive move. For example, I am pleased to have been involved with the turnaround plan for China and contributed some of my experiences of the Castorama turnaround in France.

How is France performing?
We are less impacted by the credit crunch than other markets as French consumers are much less indebted, but having said that the market is slower now than it has been for some time. We were able to continue growing sales, market share and profit and have generated significant cash for Kingfisher.

Castorama has gone from strength to strength as we continue to improve ranges and modernise stores and Brico Dépôt has done some good work making itself more efficient, though its sales have been impacted by a slower housing market. We are working hard to optimise our buying of product and 'goods not for resale' to capitalise on our strengths in France.

Euan Sutherland – CEO, Kingfisher UK

There's been a lot of activity at B&Q, what have been your top three priorities?
When I joined earlier in the year I was impressed by the quality of the UK businesses and the enthusiasm and dedication of the employees. Visiting the stores, it was clear to me that the strategy of becoming the 'first and only' store customers use for home improvement was right and that the store modernisation and product development plan was working. But I was also struck by the variability in the way we operated our stores and the opportunities to improve efficiency.

My top priority was to raise the bar on our in-store operating standards and make them consistent right across the store estate. We now have a comprehensive best practice operating manual in place and every store is regularly judged against it. For those stores achieving and maintaining the new standard, the store manager is rewarded with Kingfisher shares. Customer feedback has been very positive and the store teams have done a fantastic job making all the changes needed.

Another key priority has been driving cost efficiencies and last year our costs actually fell year-on-year despite new space and underlying cost inflation.

Finally, we need to keep the renewal programme on track and to that end we revamped over 30 stores, refreshed 20% of our ranges and 4,500 store staff were trained in basic home improvement projects.

A conversation with the executive team

You're also responsible for UK Trade, what's the opportunity?
The UK trade market is large but served by a fragmented base of local, small outlets. When I joined we had three brands operating in this market – B&Q, Screwfix and Trade Depot – and between them we had under 5% of the market. My view was that we were under-playing our strengths at B&Q and Screwfix, whilst Trade Depot was going to take a lot of time and resources to grow into a profitable business. We decided to stop Trade Depot and invest instead in driving more trade professionals to B&Q and expand the highly successful Screwfix brand. We launched a Trade Discount Card in B&Q with great success, signing up 177,000 tradesmen. We continued to open Screwfix outlets too and launched 'Plumbfix', a specialist catalogue for qualified plumbers operated by Screwfix. We have more plans for 2009 so watch this space.

Peter Hogsted – CEO, Kingfisher International

Is Kingfisher very different to IKEA where you worked for 13 years?
Yes and no! In terms of the big picture the two companies are very similar, both operate in the home improvement and make-over market, both are mass market value retailers and both aim to build an international presence by leveraging international scale. Also, both have been very successful internationally and very few retailers can say that!

Where we differ is in the detail. Kingfisher has previously taken a very decentralised approach to international expansion and, whilst this has ensured good local knowledge, the opportunities to share experience and buying scale haven't been optimised, in my view. Ian Cheshire asked me to oversee our international growth and to inject some of the 'IKEA thinking' into the process. Over the coming years you will see more common operating standards and more common products across our international portfolio, maximising our Group synergies.

You have a big problem in China, are you the man to crack it?
What is clear is that China is going to be a very attractive growth market over the medium and longer term and it makes a lot of sense to be there. We have built a good leading position but with hindsight our expansion was too fast since 2004 and operational issues crept in. The market was booming, so the mistakes weren't obvious in the numbers but now that the market has turned down so sharply the issues have surfaced.

Before I joined, Ian had recognised that we needed to strengthen the local management team and that has been done. I have been overseeing the creation of a comprehensive plan of action to turn around the business and I am confident we now have clarity on how to return the business to profitability. Am I the man? Well, I'm sure Ian will hold me very firmly to account but the reality is it's all about the local team. It's going to be very tough but we have a talented and eager team in China who now have the clarity of vision on how to fix the business.

What changes are planned for China and how much will it all cost?
A comprehensive China repositioning is now under way, store numbers will be rationalised from 63 to 41 and all remaining stores will be revamped, of which 17 will be downsized. The product and service offer will be updated to better address the home decorative, soft furnishings and accessories market and to complement the well-developed, but more cyclical, new apartment design and fit out offer. A net exceptional accounting charge of £107 million has been booked, primarily reflecting asset impairments. Around £30 million of cash will be invested in revamping the remaining 41 stores.

Which market do you get the most excited about?
That's a tough one as I can see opportunity in many places. I guess today I am most excited about Russia as I can see that becoming the next Poland. We are slowly, but successfully building a good business in Russia. It's similar to Poland in that there is huge demand for existing home renovation after years of under-investment and the industry is served mostly by un-organised 'mom & pop' outlets with variable quality and pricing. I think a western-style retail offer will work well in Russia.

Kevin O'Byrne – Group Finance Director

You're another one of the newcomers. How have you found Kingfisher?
I am very pleased to have joined the team at Kingfisher. I have been impressed with the urgency with which people across the Group are taking on the challenges outlined in our 'Delivering Value' plans. With the strong positions and leading brands we have in our key markets, I believe we will be able to deliver improved returns for our shareholders over the next three years despite the tough market backdrop.

I am enjoying working with the Retail Board. The mix of nationalities, personalities and backgrounds is a strength. We're not afraid to hold challenging discussions, but once we've reached agreement everyone gets behind the decision.

The present economic climate must be one of the worst you've seen, what does this mean for Kingfisher?
The economic backdrop is very tough and I suspect it will remain so for another 18 to 24 months. We need to act decisively, manage our cash and look after our customers. As we manage our cash and costs and offer our customers reasons to shop with us we can grow even stronger during this downturn. Weaker players in our markets will be under great pressure, leaving us opportunities to grow market share.

How will Kingfisher deliver its promise of lower working capital?
This is very important as we work to deliver increased returns. The organisation is responding urgently to challenge around working capital levels. The key focus will be on stock management where the challenge is to reduce stock levels while maintaining or improving stock availability for customers. It's a two or three year journey but all the businesses have clear plans for delivery and we got off to a great start last year by reducing working capital by £180 million – ahead of our target.

Key Performance Indicators

"I believe we have a strong management team with collective responsibility for delivering value through the Key Performance Indicators featured below."

Ian Cheshire
Group Chief Executive
Kingfisher plc

Delivering Value

Driving up B&Q UK's profit
See p2, p7 & p20 for more details

Operating margins

Value	Year
2.8%	2008/09
3.3%	2007/08

Expanding our total French business
See p2, p7 & p20 for more details

Sales

Value	Year
£3.9bn	2008/09
£3.8bn*	2007/08

Profits

Value	Year
£283m	2008/09
£278m*	2007/08

Growing group sourcing
See p2 & p17 for more details

Direct sourcing as a % of cost of Group sales

Value	Year
10%	2008/09
9%	2007/08

Exploiting our UK trade opportunity
See p2, p8 & p21 for more details

Total trade sales

Value	Year
£747m	2008/09

Rolling out in Eastern Europe
See p2 & p21 for more details

Sales

Value	Year
£1.4bn	2008/09
£1.1bn*	2007/08

Reducing working capital
See p1, p2, & p23 for more details

Value	Year
-£180m	2008/09

Engaging our people
See p16 for more details

Gallup Q12 staff engagement survey

Value	Year
3.95	2008/09
3.75 (out of 5, 4.24 = 'top-performing')	2007/08

Turning around B&Q China
See p2, p7 & p8 for more details

Profit/(loss)

Value	Year
(£52m)	2008/09
(£17m)*	2007/08

Minimising the impact on the environment
See p18 for more details

Eco-product sales (% contribution to total retail sales)

Value	Year
7%	2008/09

Climate change CO_2 emissions (tonnes/£million retail sales)

Value	Year
54	2008/09
57	2007/08

* restated at constant currency.

France	Contribution to Group sales	Gross capital expenditure	Property (at market value)
	38.8%	26%	40.6%
	£3.9bn	£101m*	£1.3bn

UK	Contribution to Group sales	Gross capital expenditure	Property (at market value)
	42.7%	47%	25%
	£4.3bn	£185m*	£0.8bn

Other International	Contribution to Group sales	Gross capital expenditure	Property (at market value)
	18.5%	27%	34.4%
	£1.8bn**	£104m	£1.1bn
Total	£10bn	£390m	£3.2bn

* Includes Corporate Centre capital allocation.
**JV sales not consolidated.
† Source: Economist Intelligence Unit, March 2009

Country	Households (m)	Market size (£bn)	Market position	% Market share	GDP growth 2009 (%) estimated†	Market brands	Store numbers	Selling space (000s sq m)	Employees* full time
FRANCE	26	31	1	12.5	-1.8	castorama	99	992	11,826
						BRICO DEPOT	98	536	6,165

Country	Households (m)	Market size (£bn)	Market position	% Market share	GDP growth 2009 (%) estimated†	Market brands	Store numbers	Selling space (000s sq m)	Employees* full time
UK	25	26	1	16.5	-3.2	B&Q	322	2,401	23,425
						SCREWFIX	138	12	2,706

Country	Households (m)	Market size (£bn)	Market position	% Market share	GDP growth 2009 (%) estimated†	Market brands	Store numbers	Selling space (000s sq m)	Employees* full time
POLAND	14	7	1	15	1.5	castorama	46	361	8,335
						BRICO DEPOT	5	22	339
CHINA	374	29	1	2	6.0	B&Q 百安居	63	599	10,032
IRELAND	1.5	2	–	5	-4.0	B&Q	9	56	505
SPAIN	14	5	3	2	-2.9	BRICO DEPOT	15	88	784
RUSSIA	53	16	3	1	1.0	castorama	7	63	1,584
TURKEY	16	6	1	4	-1.5	Koçtaş	21	109	2,025
							823	5,239	67,726

HORNBACH HOLDING AG **Strategic alliance.** A 21% interest in Hornbach, Germany's leading large format DIY retailer, with over 120 stores in nine European countries.

Products

01

Innovation

Innovation is the lifeblood of a retailer. As modern consumers become ever more demanding, simply having a good quality product at the right price is often no longer enough. Customers want newness, style and faster, easier ways to shop. The best retailers anticipate these trends and capitalise on them. Kingfisher has a good track record of innovation and the pace is increasing, particularly in our larger businesses which trade in more developed markets. In turn, they are sharing their best ideas with our smaller businesses. The following pages give examples of our innovation in products, stores and services.

03

04

02

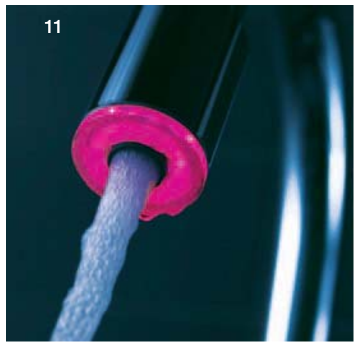
01 Lighting
The Alice Pendant chandelier at B&Q UK comes with interchangeable crystals, which enable you to coordinate it with your décor. Price: £149.

02 Paint
The Dulux Paint Pod has been one of the most popular products in the past year, with B&Q accounting for around 80% of all those sold in the UK. A labour-saving device that pumps paint into a roller, it is also self-cleaning. Price: £49.98.

03 Tiles
Sketch floor tiles at B&Q UK contain liquid that moves with every step, creating a colour-shifting effect. Available in eight colours. Price: £149.98 each.

04 Bathrooms
Aqua Sense is B&Q's most water-efficient bathroom suite. Its bath and basin have lower bowl capabilities. The toilet has been awarded the Waterwise Marque as it uses just four litres of water per flush and 2.6 litres per half flush. In an average household these measures can save 8,760 litres of water every year.

Product innovation
With significant buying strength and a long-established network of international sourcing offices, Kingfisher is able to bring innovative products to a wider market at affordable prices. As well as all the best known home improvement brands, Kingfisher's stores also stock a wide range of own-brands such as the Colours decorative products and MacAllister power tools.



05 Kitchens
The Cooke & Lewis range of stylish kitchens was launched at B&Q UK in November. With rounded cabinetry the kitchens are exclusive to B&Q, and include this High Gloss Cream Kitchen with Aubergine Accent Doors.

06 Loft insulation
In February B&Q UK launched a special offer on loft insulation, priced at just £1 per roll. A million rolls were sold in just three weeks, helping a typical homeowner to save £200 a year on energy bills.

07 Wallpaper
New ranges of designer wallpapers available at B&Q UK include this example from Sophie Conran. Prices from £24.98 per roll.

08 Woodscrews
In March 2009 Screwfix launched fischer's first ever range of woodscrews, with exclusive rights for a year. The innovative Power-Fast® screw has been specially designed for optimum strength and performance, reducing wood splitting. Prices from £2.06 for a pack of 200 3.5 x 16mm screws.

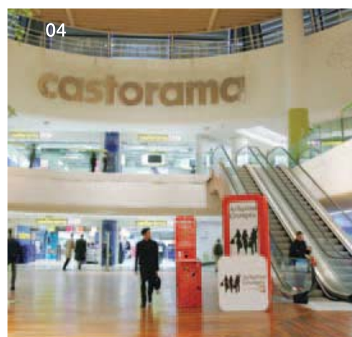
09 Energy saving multi-sockets
This eco-device at Castorama France is fitted with eight sockets including five 'intelligent' sockets which automatically switch off standby products after three minutes. The three remaining sockets can be left switched on, ideal for internet and television use.

10 Skirting boards
At Castorama Poland these NG70 skirting boards from Salag are clipped together in parts, removing the need to unscrew the boards when decorating. The deep chambers work around irregularities in floor and wall surfaces and conceal cables and wires.

11 Basin mixers
With its contemporary sleek lines and distinctive design work, the LED light-emitting basin mixer at Castorama France is a new addition to its bathroom collection.

Stores

With over 820 stores in eight countries, Kingfisher's outlets range in size from less than 100 square metres to over 10,000 square metres. The past year has seen a number of store innovations, including eco-stores and outlets located in shopping malls or city centre commercial districts.



01 B&Q UK, New Malden
In February 2009 B&Q opened its greenest-ever store in New Malden, Surrey. It includes one of the largest building-mounted wind turbines in the country, 108 underground bore holes which heat and cool the store, solar panels and rainwater harvesting. It is anticipated these measures will reduce the store's carbon emissions to half those of a similar store of its size.

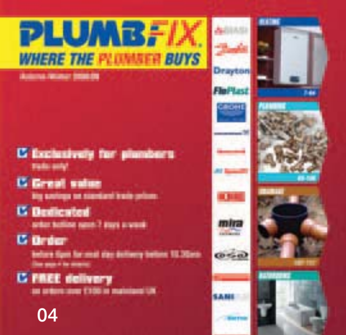
02 B&Q China, Putuo
In March 2009 the Putuo store in Shanghai was revamped as the prototype store for the rest of the China estate. It is smaller than before (6,000 sq m compared to 9,000 sq m) with a tighter range (19,000 SKUs instead of the previous 48,000) and a wider range of services.

03 Koçtaş, Istanbul
Koçtaş is targeting a broader cross-section of customers in Turkey by locating some of its stores in shopping malls. This one in Kozyatagi, Istanbul opened in November 2008 in a mall which also includes a cinema and ice skating rink.

04 Castorama France, La Défense
Castorama France opened a new-format store in April 2008 in the La Défense commercial district of Paris. Located in a shopping mall it includes new services to cater for its city centre customer base such as the home delivery of items bought in-store and a facility where customers can order online and collect the goods from the store.

05 Castorama, Cormeilles-en-Parisis
In July 2008 Castorama France opened its first eco-store, in Cormeilles-en-Parisis, near Paris. Features include a geo-thermal heating and cooling system, solar panels, low-energy neon lighting and a high-performance insulation system. Castorama plans to incorporate the new insulation and lighting system into its existing store portfolio.

Services



A strong range of services is becoming an increasingly important part of retailing, particularly in more developed economies. Services offered by Kingfisher businesses include product installation, design help and a wide range of ways to shop.

01 Self-service check-outs, B&Q UK
Self-service check-outs have been introduced in 15 B&Q stores, enabling customers to speed up their shopping trip. These now account for around 30% of transactions in participating stores.

02 Reserve & Collect, B&Q UK
Using this new service, which is being rolled out to all B&Q stores, customers can reserve their purchases online at diy.com and collect them at their local store the next day. The average transaction value using this service is three times higher than the store average, at over £80. More than a third of customers then make extra purchases in the store when they come to collect their order.

03 Design coaching, Castorama France
A new feature of the La Défense store, which opened in Paris last year, is the new coaching service. Customers can hire a decoration coach to help them coordinate a room, or seek advice on an entire project. An online ‘Cybercoach’ service which customers can use to test different designs has also been launched. It has been receiving 20,000 hits a month.

04 Plumbfix
Screwfix launched the ‘Plumbfix’ catalogue in the UK in summer 2008 to cater exclusively for Corgi registered plumbers and other registered professionals. Plumbfix offers a wide range of plumbing products, offering big savings on well-known brands. A store trial is also under way.

05 Queue-busting, Castorama France
To speed up check-out times Castorama France has started using handheld PDA devices to scan products in a customer’s shopping trolley while they are in the queue. The customer then simply hands a bar code to the cashier in order to pay. The service is being rolled out to the larger Castorama stores.

06 Next day delivery
In March 2009 B&Q UK began offering next day delivery on 12,000 items that are ordered on its website, diy.com. The fulfilment of the orders, including picking and delivery, is handled by the Screwfix network, an example of the growing synergies between Kingfisher’s UK businesses.

Kingfisher recognises the positive impact an engaged, motivated and well-trained workforce can have on business performance. We believe this is especially true in retailing, where the relationship and interaction between store staff and customers is a crucial foundation of success.

In 2008/09 we embarked upon a series of new initiatives aimed at developing the knowledge, skills and engagement of our employees, whilst also building on others launched in recent years.

A genuine incentive for our store managers

Coinciding with the roll-out of a series of international store operating standards, we have implemented a new incentive programme for store managers (and selected area managers) in our largest operating companies – including B&Q UK, Castorama France and Brico Dépôt France. The standards cover key operating basics such as the presentation of stores, stock and point of sale materials. Managers whose stores achieve the standards receive Kingfisher shares equivalent to approximately six months' salary, but the shares only vest if the standards are then maintained for an unbroken period of three years.

Developing talent and sharing knowledge

The Kingfisher Executive Group (KEG) and Kingfisher Talent Group (KTG) continued to be the focus of our efforts towards identifying, developing and retaining the next generation of Kingfisher business leaders. Members of each group benefited from a number of development opportunities throughout the year, including a dedicated learning event for KTG members at the Group's annual Management Forum.

During the year we also looked to exploit the unique advantages that come from being the most internationally-diversified home improvement retailing group, not least the ability to add value through sharing knowledge, experience and customer insight between our established and younger businesses.

The plan to turn around B&Q China is one example of this process in action. A number of senior B&Q UK employees are now working in China, including Matt Tyson, who brings 24 years' retailing experience to the role of Chief Executive of B&Q Asia, and Joe Riordon, who was previously Services Director at B&Q UK and is now leading the project to transform the Chinese customer proposition.

Also part of that project are Robin Wilson and David Brown, who between them have amassed 37 years' retailing experience at B&Q UK, including a number of store openings and revamps. Robin and David arrived in China in January 2009 to begin a six-month assignment to help the local management teams achieve a change programme that touches every part of the business.

Practical training to deliver expert service

Our businesses continued to break new ground with learning and development programmes for their employees. In the UK, B&Q launched two qualifications accredited by City & Guilds, the UK's leading vocational awarding body.

B&Q will be supporting up to 10,000 of its Customer Advisors as they work towards a new NVQ Level 2 in Retailing Skills. City & Guilds has also worked closely with B&Q on the development of the UK's first nationally recognised Home Improvement Knowledge qualification, which was launched in October 2008 with up to 5,000 B&Q staff set to undertake it in 2009.

Meanwhile, as part of the Group's corporate responsibility agenda, Castorama France has developed a number of e-learning modules for store employees focused on eco-products. The training is designed to help them guide customers on how to make their homes more sustainable, covering areas including garden, decoration and building. B&Q UK launched a similar e-learning module for staff. B&Q has also appointed an Environmental Champion in every store to help promote awareness of environmental issues among their colleagues.

Employee engagement: measuring to manage

Measuring employee engagement allows us to quantify how well we are maximising the talent within our organisation. In 2008/09 we extended the Gallup Q12 survey – which has been used successfully by B&Q UK since 2000 – to more than 1,300 leaders across the Group. The Q12 survey generates one of the world's most comprehensive databases on employee engagement, with some 5.4 million people from 500 businesses completing it each year.

The two Q12 surveys conducted by Kingfisher during the year tracked a rise in overall levels of engagement from 3.75 to 3.95 (from a maximum 5), described as a "significant increase" by Gallup Consulting and approaching the 4.24 mean score benchmarked as "top performing". Group businesses with notably strong or improving engagement among their leadership teams include Castorama France, which demonstrates world-class engagement levels, Castorama Russia, Brico Dépôt and B&Q China.

In recognition of the continued improvements in its employee engagement, B&Q UK has, for the third year running, been awarded the Gallup Great Workplace Award. B&Q remains the only UK business and only multi-site retailer to have received this award.

B&Q continues to be recognised for its commitment to promoting age diversity. Around a quarter of its employees are aged over 50 with a similar percentage under the age of 25.

01 City & Guilds training at B&Q UK
Georgina Wilson is one of 420 employees who volunteered for a pilot running of B&Q UK's new NVQ Level 2 in Retailing Skills course.

Group buying programmes

Doubling Group sourcing

With a direct sourcing network that covers South East Asia, India, Latin America and Eastern Europe, the Kingfisher Sourcing Organisation (KSO) offers the Group's retail businesses access to innovative, quality products and competitive pricing.

Last year KSO shipped products with a total value of US$696 million (at factory prices), compared with US$821 million the year before, with the decrease mostly due to lower seasonal buys and stock reduction programmes in our stores. Direct sourcing now represents 10% of total Group purchases. Strong performances were recorded in hardware, hand tools and garden power tools. The total number of product lines developed by KSO rose from 17,000 to 18,000 in the year.

As part of the 'Delivering Value' strategy, Kingfisher is committed to increasing the proportion of purchases made through its direct sourcing network, to 18% of the cost of goods sold in 2011/12. This will be achieved by further strengthening the sourcing network, as well as developing greater synergies with suppliers, in order to leverage the Group's purchasing scale.

Several key initiatives were put in place during the year to help deliver this plan.

Consolidating shipments

This project was set up to improve the efficiency of product delivery from factories to our businesses. In early 2008 a new process started where, instead of each manufacturer shipping products to us individually, Kingfisher's orders from multiple manufacturers are consolidated at the port and shipped together in mixed containers. This is now happening at three key ports, Shanghai, Ningbo and Shenzhen. Between them, these ports handle 70% of Kingfisher's direct sourced shipments.

This new approach to handling imports ensures that container space is much more fully utilised. By extending this trial, we anticipate that Kingfisher will be able to reduce its overall freight costs, cut ongoing inventory requirements and, by shipping fewer containers, lower its carbon footprint.

Own-brand development

Work continued on Kingfisher's portfolio of own brands, which includes the Colours range of decorative products and MacAllister power tools. The newly revamped range of Kingfisher's own-brand Performance Power tools went on sale in September 2008. Around 70% of products are common between the businesses that stock this new range (B&Q UK, Castorama France and Koçtaş), while packaging has been consolidated to just two multilingual variations, giving scope for Performance Power to be rolled out to other countries.

02 Showrooms
The Kingfisher Sourcing Organisation showroom in Hong Kong displays an array of recent products selected by Kingfisher operating companies.

03 Consolidating shipments
Rationalising the fulfilment of containers shipped from Asia helps to reduce freight costs.

Working with our strategic suppliers

In 2008 we signed a number of international contracts with 18 key strategic suppliers who together represent a significant proportion of Group purchases. These strategic supplier partnerships help to improve buying terms and enable us to secure exclusive products across all Group businesses. The international contracts team also supports our newer, fast-growing businesses in their negotiations with international suppliers.

In January 2009, the commercial teams of Castorama France, Brico Dépôt, Screwfix and B&Q UK visited KSO offices in Hong Kong to share strategies and agree development plans for key direct import suppliers. Around 45 KSO suppliers attended the event and key categories such as hardware, hand tools, electrical, lighting and showroom were identified as strong potential candidates for cross-OpCo synergies.

Targeting savings in goods not for resale

Detailed analysis completed in 2008 revealed that Kingfisher's major operating companies spend £1.1 billion each year on goods not for resale (GNFR) – the term used for the products and services needed to run their businesses rather than those sold to customers. Some 15 projects are currently under way, each one aimed at exploiting our global purchasing scale to extract further value from indirect purchases. Areas covered include mechanical lifting equipment, trolleys and waste management services.

Ethical sourcing

Kingfisher continued to work with suppliers to improve labour and environmental conditions in the supply chain through factory assessments, training and partnership projects. Our overseas sourcing offices audit all new factories against the Kingfisher Code of Conduct for Factory Working Conditions. Factories are also audited on a regular basis. A total of 411 factory assessments were carried out in 2008/09. Factory manager programmes, such as the one held in India in March 2008, also provide further guidance and support.

Future Homes is Kingfisher's business-wide strategy to create sustainable homes of the future. As a home improvement retailer, one of Kingfisher's key priorities is to help customers live in homes that have a lower impact on the environment and are efficient in their use of energy and other resources. We believe that embedding sustainability in our business, including the products we sell and our own operations, will help deliver value to our customers, our shareholders and other key stakeholders.

Research has shown that there is growing consumer demand for eco-products which help customers reduce their carbon footprint and save money. Increasing sales in this area is therefore part of Kingfisher's core business strategy to enhance shareholder returns. With the global economic downturn, a key focus is to use our buying and marketing experience to bring affordable eco-products to the mass market. A number of Kingfisher operating companies have already launched extensive eco-ranges, including B&Q UK's One Planet Home range and Castorama France's La Maison Éco products. Kingfisher is committed to driving innovation in order to realise its vision of a sustainable future.

Future Homes isn't just about eco-products. It also aims to ensure that sustainability is integrated into all aspects of Kingfisher's operations. The initiative seeks to assure stakeholders that Kingfisher is effectively managing key non-financial risks, such as supply chain standards, timber sourcing and chemicals.

How we identify the issues

Kingfisher is committed to engaging with stakeholders to identify key issues. For example, Kingfisher's Corporate Responsibility Report is reviewed by a Stakeholder Panel, roadshows are held for socially responsible investment analysts and the Company is involved in a range of Corporate Responsibility (CR) networks and forums.

This work has enabled us to develop seven sustainability goals which set out our long-term vision for a sustainable business. These goals are:

- Enabling sustainability in all our product and services categories
- Ensuring our stores and operations are efficient and sustainable
- Making it easy for our customers to create their homes in a sustainable way
- Engaging employees to be champions of sustainability across our business
- Being a good neighbour in all the communities we serve
- Working with our suppliers, governments and other stakeholders to make sustainability easy and to find solutions to common sustainability problems
- Using our sustainability strategy to create value for the benefit of our business and shareholders.

Kingfisher also has a Corporate Responsibility Policy and a range of CR policy standards which set out our position on the key issues that relate to each of the goals.

Kingfisher is working to implement its sustainability goals and policy standards through its Steps programme. This is designed to ensure that all of Kingfisher businesses achieve consistent standards within specific timeframes.

Targets and measurement

Kingfisher sets CR targets for each of the sustainability goals, which are reviewed on an annual basis. Specific CR objectives have been set for the Group Chief Executive and the Chief Executives of the three divisions (UK, France and International). Success against the objectives is reviewed in annual performance appraisals and linked to bonuses.

In addition, Kingfisher's Steps programme sets out specific criteria to be achieved by the Kingfisher operating companies. These criteria cover 14 key issues and are grouped into three levels – 'minimum action', 'policy target' and 'leadership position'. Progress against the criteria is measured twice a year.

Eight of the nine Kingfisher operating companies have achieved at least the 'minimum action' level of progress across all issues. The next step is for Kingfisher operating companies to meet the 'policy target' level on all issues by the end of January 2011. Some operating companies have already achieved the higher level on some issues. The only operating company that has not yet reached the target to achieve 'minimum action' across all issues is Castorama Russia (one of Kingfisher's newest businesses with seven stores). Kingfisher will be working with Castorama Russia over the coming year to ensure it achieves the required standard.

The Steps criteria were updated at the end of 2008 following the introduction of Kingfisher's sustainability goals the previous year. Kingfisher's operating companies are required to meet the new 'minimum action' criteria within six months (by July 2009).

The Company also measures progress against a range of CR Key Performance Indicators which are subject to an annual review by the audit firm Ernst & Young LLP.

Corporate Responsibility awards and recognition

In 2008/09, Kingfisher achieved the following recognition:

- Leader of the general retail sector in the Dow Jones Sustainability Index 2008/09 and awarded SAM 'Gold Class' status
- Ranked second in The Observer Good Companies Guide 2008 (highest scoring retailer)
- Awarded a 'Big Tick' in the 2008 Business in the Community (BITC) Impact on Society awards category. Also achieved 'Platinum' status (the highest ranking) in the BITC 2008 CR Index.

B&Q UK has over 3,000 products in its "One Planet Home" range. At Castorama France, eco-ranges account for 11% of sales.

A full list of our CR KPIs and our CR strategy are available on our website at www.kingfisher.com/cr

Financial review

Kevin O'Byrne
Group Finance Director

Financial summary

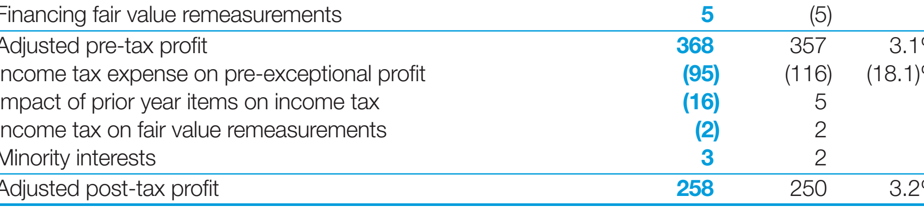
Profit and EPS including all exceptional items for the year ended 31 January 2009 are set out below.

	2008/09	2007/08	Increase/ (decrease)
Profit for the year	**£206m**	£272m	(24.3)%
Basic EPS – total operations	**8.9p**	11.7p	(23.9)%

A summary of the continuing reported financial results for the year ended 31 January 2009 is set out below.

	2008/09 £m	2007/08 £m	Increase/ (decrease)
Revenue	**10,026**	9,050	10.8%
Operating profit before exceptional items	**446**	424	5.2%
Operating profit	**173**	428	(59.6)%
Adjusted pre-tax profit	**368**	357	3.1%
Profit before taxation after exceptional items	**90**	366	(75.4)%
Adjusted basic earnings per share	**11.0p**	10.6p	3.8%
Basic earnings per share	**0.2p**	10.9p	(98.2)%
Dividends	**5.325p**	7.25p	(26.6)%

A reconciliation of statutory profit to adjusted profit is set out below.



	2008/09 £m	2007/08 £m	Increase/ (decrease)
Profit before taxation	**90**	366	(75.4)%
Exceptional items	**273**	(4)	
Profit before exceptional items and taxation	**363**	362	0.3%
Financing fair value remeasurements	**5**	(5)	
Adjusted pre-tax profit	**368**	357	3.1%
Income tax expense on pre-exceptional profit	**(95)**	(116)	(18.1)%
Impact of prior year items on income tax	**(16)**	5	
Income tax on fair value remeasurements	**(2)**	2	
Minority interests	**3**	2	
Adjusted post-tax profit	**258**	250	3.2%

Comparatives

On 30 January 2009 the Group finalised the sale of Castorama Italy. As a result of the sale, Castorama Italy's results, including a £178 million post-tax profit on the sale of the business, are disclosed within discontinued operations. Comparatives have been restated to reflect this.

Overview

Total reported **sales** on continuing businesses grew 10.8% to £10.0 billion on a reported rate basis, and 1.2% on a constant currency basis. During the year, an additional 70 net new stores, including 45 trade counters, were added, taking the store network to 807 (excluding Turkey JV). On a like-for-like (LFL) basis, Group sales were down 4.1%. The fall in sales was driven mainly by the UK and France, which fell 6.5% and 1.3% respectively on a LFL basis during the year.

Operating profit before exceptional items grew by 5.2% to £446 million and fell by 59.6% to £173 million after exceptional items. Profit for the year, including all exceptional items, fell by 24% to £206 million.

The net **interest** charge for the year was £83 million, up £21 million on the prior year largely as a result of movements in exchange rates.

Adjusted pre-tax profit increased by 3.1% to £368 million.

FRANCE – OPERATING REVIEW

Retail sales £m	2008/09	2007/08	% Change (Reported)	% Change (Constant)	% LFL Change
France	**3,888**	3,224	20.6%	3.1%	(1.3)%

Retail profit £m	2008/09	2007/08	% Change (Reported)	% Change (Constant)	% LFL Change
France	**283**	237	19.2%	1.9%	

France includes Castorama and Brico Dépôt.
All trading commentary below is in constant currency.

Kingfisher France

Banque de France data shows that comparable DIY store sales* declined by around 1.1%, and on this basis Kingfisher's businesses outperformed the market by delivering broadly flat comparable sales, despite disruption from store revamps. Across the two businesses, 10 new stores were opened, two relocated and eight revamped, adding around 5% new space. In 2009/10, around 3% new space is planned.

Total sales grew 3.1% to £3.9 billion (-1.3% LFL) with retail profit up 1.9% to £283 million, reflecting the weaker sales environment. Gross margins were up 120 basis points due to higher own-brand sales penetration and sales mix benefits at Castorama, and improved stock management at Brico Dépôt.

Castorama total reported sales grew 2.7% to £2.1 billion (+0.6% LFL, +1.7% on a comparable store basis) supported by its new ranges and store modernisation programme. Stores trading in the new format, representing 49% of total selling space, continue to outperform.

Brico Dépôt total reported sales grew 3.5% to £1.8 billion (-3.6% LFL), reflecting growth in store numbers offset by weaker trade demand from a slowdown in housing starts (down 16%) and big project planning consents (down 17%).

* Banque de France data including relocated and extended stores.

UK – OPERATING REVIEW

Retail sales £m	2008/09	2007/08	% Change (Reported)	% LFL Change
UK	**4,279**	4,395	(2.6)%	(6.5)%

Retail profit £m	2008/09	2007/08	% Change (Reported)	% LFL Change
UK	**129**	153	(15.6)%	

UK includes B&Q in the UK, Screwfix and Trade Depot.

Kingfisher UK

Total sales declined by 2.6% to £4.3 billion (-6.5% LFL) reflecting a weakening economic environment which impacted both the trade market and consumer spending, particularly in higher ticket project areas. Retail profit was £129 million, down £24 million on the prior year, with margin and cost initiatives helping to offset the impact of lower sales.

UK Market

The total UK home improvement market* declined by around 4% over the year as the UK economic environment worsened, impacting consumer spending. Kingfisher's UK businesses in aggregate outperformed the market.

B&Q's total reported sales were £3.8 billion, down 4.5% (-6.1% LFL). Good sales growth from revamped large stores and new ranges helped offset a weak outdoor season (down 10%) and reduced consumer expenditure, especially in higher ticket sales, including kitchen and bathroom ranges (down 8%). Sales of core DIY and room makeover products were more resilient (down 3%).

Retail profit was £106 million, down £25 million on the prior year, with margin and cost initiatives helping to offset the impact of lower sales. Gross margins were up 60 basis points across the year, reflecting lower mark-down activity and sales of higher margin products offset by increased promotional activity during the last quarter.

Decisive management action on costs across the year to shield against slower sales resulted in an overall cost reduction of 1% compared to last year despite underlying cost inflation of 3% and around 1% from new store space.

Renewal programme update

In the medium-term, B&Q aims to grow its share of home improvement expenditure by strengthening its appeal to both the Do-it-Yourself (DIY) and Do-it-For-Me (DFM) customer. During 2008/09, B&Q continued with its renewal programme, which includes updating product ranges, introducing more services and improving its store environments to ensure B&Q is the first and only store for a greater proportion of customers' home improvement spend.

Sixteen large store revamps (including two lower-cost trial revamps), which encompass more clearly defined shop-within-shop sections, room-set displays and more space allocated to kitchens, bathrooms, tiling and flooring areas were completed. The new format large stores continued to significantly outperform the older format. B&Q now has 119 large stores (56 in the modern format) and 203 medium stores (of which 168 have been modernised). Overall net space increased 1% during the year, with a similar increase expected during 2009/10.

UK Trade

Screwfix total sales grew 13.0% to £492 million, driven by the continued roll-out of trade counters, which provide customers with immediate product availability. An additional 45 outlets opened during the year, taking the total to 138. Trade counters now represent over 50% of total sales.

In a tough trade market retail profit increased 7.6% to £30 million compared to last year due to strong sales growth and focus on cost management.

* Market data from GfK for the leading retailers of home improvement products and services (including new space). However, this data is not exhaustive and excludes retailers such as IKEA, Topps Tiles and smaller independents.

OTHER INTERNATIONAL – OPERATING REVIEW

Retail sales £m	2008/09	2007/08	% Change (Reported)	% Change (Constant)	% LFL Change
Other International	**1,859**	1,431	29.9%	7.0%	(3.7)%
Retail profit £m					
Other International	**91**	79	15.1%	(6.1)%	

Other International includes Poland, China, Spain, Ireland, Russia, Turkey JV and Hornbach in Germany. South Korea and Taiwan JV included in comparatives only. Following the Castorama Italy disposal its results have been excluded from both years.
Joint Venture and Associate sales are not consolidated.
All trading commentary below is in constant currency.

Other International total sales increased 7.0% to £1.9 billion. LFL sales were down 3.7% reflecting high LFL declines in China. Retail profit was down 6.1% to £91 million, reflecting strong growth in Poland and Hornbach (21% economic interest), offset by increased losses in China.

During the year, 26 stores opened comprising nine in Poland (three Brico Dépôts), six in Turkey, four each in China and Spain, two in Russia and one in Ireland, adding around 13% net new selling space. A further 15 stores are planned for 2009/10, including six in Poland, one in Spain, five in Turkey and three in Russia.

In **Eastern Europe** sales in Poland were up 19.1% (up 47.2% in reported rates) to just over £1 billion (+9.8% LFL despite a tough comparative of +22.5%) and retail profits were up 15.4% to £124 million. Strong consumer spending in housing and construction, new bathroom and garden catalogues and new decorative ranges all boosted sales and profits.

In Russia, sales almost doubled compared to the prior year to £150 million (+24.6% LFL). In Turkey, Kingfisher's 50% JV, Koçtaş continued to grow sales (+10.3% LFL) and retail profit was slightly up, despite the impact of six store openings compared to five in the prior year. Koçtaş continues to benefit from Kingfisher sourcing buying power and own-brand sales penetration.

Hornbach, in which Kingfisher has a 21% economic interest, contributed £29 million to retail profit.

B&Q China sales declined 23.7% to £431 million (-27.9% LFL) with losses of £52 million reflecting the sharp fall in sales and the margin impact of stock clearance activity which began towards the end of Q3.

Taxation

The effective rate of tax, calculated on continuing profit before exceptional items and prior year tax adjustments is 31% (2007/08: 31%). The overall rate is distorted by the £273 million exceptional charge on which only £7 million of tax relief (3%) is assumed.

The effective tax rate is calculated as follows:

Effective tax rate calculation 2008/09	Profit £m	Tax £m
Profit before tax and tax thereon	90	88
Add: exceptional charge and tax thereon	273	7
Add: prior year items	–	16
Total	363	111
Effective rate		31%

The effective rate of tax is sensitive to the blend of tax rates and profits in the various jurisdictions. The tax rates for this financial year and the expected rates for next year are as follows:

Jurisdiction	Statutory tax rate 2008/09	Statutory tax rate 2009/10
UK	30% – 28%	28%
France	34%	34%
Poland	19%	19%
China	25%	25%
Rest of World	0% – 34%	0% – 34%

Taxation risk management

Kingfisher seeks to organise its tax affairs efficiently and in a way which enhances shareholder value whilst balancing the tax risk it faces. Tax risks can arise from changes in law, differences in interpretation of law, changes in tax rates and the failure to comply with the tax law and associated procedures. The Group manages and controls these risks with local management, its Group tax department and advice from reputable professional firms. Where disputes arise with tax authorities the Group addresses the areas of dispute promptly in a professional, open and constructive manner.

Exceptional items

	2008/09 £m (Charge)/gain
China restructuring	**(107)**
UK restructuring	**(19)**
Carrying value impairment of Hornbach	**(36)**
Impairment of goodwill	**(124)**
Profit on disposal of Italy	**204**
Profit on disposal of properties	**13**
	(69)
Tax on exceptionals	**(19)**
Net exceptional items	**(88)**

The Group recorded a total post-tax exceptional charge of £88 million in the year including a post-tax £178 million profit on the sale of Castorama Italy which has been treated as a discontinued item.

An exceptional loss of £107 million has been recorded in 2008/09 relating to the B&Q China turnaround plan. The plan involves rationalising the store portfolio from 63 to 41 and then revamping the remaining stores, 17 of which will also be downsized. The exceptional loss comprises store asset impairments, lease exits, inventory write-down and employee redundancy costs. The cash cost of the exceptional loss will be broadly offset by two freehold property disposals.

The Group has recorded an exceptional loss of £19 million following the announcement in November 2008 that Trade Depot in the UK would be closed. The closure will be completed during the first half of 2009/10.

Accounting standards require us to perform impairment tests on goodwill each year or when there is an event which may lead to goodwill being impaired. As a result of the challenging retail environment we have reviewed the carrying value of the assets held on our balance sheet. The models used to value these assets include a number of assumptions including market growth and operating profit percentage. Due to the uncertainty within the market, growth assumptions for the short term have been based on prudent estimates. This has led to the recording of an impairment of £36 million in relation to our investment in Hornbach and £124 million in relation to goodwill allocated against B&Q China. Both these write-downs are treated as exceptional.

The Group has recorded an exceptional profit of £13 million on disposal of properties (2007/08: £39 million profit).

The tax charge on exceptionals of £19 million includes the tax charge on the disposal of Italy of £26 million, less the £7 million relief assumed on other restructuring costs.

Earnings per share

As a result of the high level of exceptional items, we have recorded basic earnings of 0.2p per share in the year (2007/08: 10.9p). On an adjusted basis earnings per share have increased by 3.8% to 11.0p. Total earnings per share have reduced by 24% to 8.9p (2007/08: 11.7p).

	2008/09	2007/08
Basic earnings per share	**0.2p**	10.9p
Exceptional items	**11.7p**	(0.2)p
Financing fair value remeasurements (net of tax)	**0.1p**	(0.1)p
Impact of prior year items and exceptionals on income tax	**(1.0)p**	–
Adjusted earnings per share	**11.0p**	10.6p

Dividends

The Board has proposed a final dividend of 3.4p per share, making the total dividend for the year 5.32p per share, down 26.6% on the prior year. This is in line with the Board's announcement in March 2008. This dividend is covered 2.1 times by adjusted earnings (2007/08: 1.5 times).

The final dividend for the year ended 31 January 2009 will be paid on 19 June 2009 to shareholders on the register at close of business on 8 May 2009, subject to approval of shareholders at the Company's Annual General Meeting, to be held on 3 June 2009. A dividend reinvestment plan (DRIP) is available to all shareholders who would prefer to invest their dividends in the shares of the Company.

The shares will go ex-dividend on 6 May 2009. For those shareholders electing to receive the DRIP the last date for receipt of election is 29 May 2009.

Return on Capital (ROC)

As part of our focus on increasing returns across the Group, we are adopting two new Return on Capital (ROC) measures that have simpler definitions and focus on operational metrics.

The first measure, Standard Return on Capital is primarily a Group measure. It is stated on a non-lease adjusted basis, although we also quote a lease adjusted number. The second measure, Lease Adjusted ROC excluding Goodwill is used to monitor performance at a business unit level.

Standard Return on Capital

	2008/09	2007/08	Increase/ (decrease)
Return on Capital (ROC)	**6.0%**	5.9%	0.1pps

For Standard ROC, Return is calculated as post tax Retail Profit less central costs and excluding exceptional items, other than realised property profit. Return also includes the operating results for Castorama Italy. Return is then divided by a two-point average of Invested Capital (calculated as Net Assets excluding Net Debt and Pension-related items including related Deferred Tax).

In this new approach, the ROC has increased from 5.9% (restated 2007/08) to 6.0% in 2008/09 compared to the Group's weighted average cost of capital (WACC) 8.3%.

Lease adjusted ROC is based on the same definition except it excludes property lease costs, and Invested Capital is adjusted for lease costs capitalised at the long-term property yield. Lease adjusted ROC has increased from 5.3% (restated 2007/08) to 5.7% in 2008/09.

Lease adjusted ROC excluding goodwill and property profit

Kingfisher's underlying ROC by geographic division is set out below. Return is stated adjusted for property lease costs and before property profits. Invested capital excludes goodwill but includes capitalised leases. These numbers exclude the results of Castorama Italy:

	Retail sales £bn	Proportion of Group sales %	Invested capital (IC) £bn [1]	Proportion of Group IC %	Returns % (ROC) [1] 2008/09	2007/08
UK	4.3	43%	5.6	63%	**5.4%**	5.1%
France	3.9	39%	1.8	20%	**11.9%**	11.3%
Other International	1.8	18%	1.5	17%	**8.1%**	7.5%

[1] Excluding goodwill of £2.5 billion.

Cashflow

The Group exceeded its flat net debt target for the year reporting year end net debt of £1,004 million (2007/08: £1,559 million). On a constant currency basis net debt has decreased by £0.8 billion from £1.8 billion including a £0.5 billion benefit on the sale of Castorama Italy.

The Group generated £867 million of cash from operating activities in the year, up £354 million on the prior year. The year on year change is mainly as a result of our increased focus on working capital. In particular, despite an increase in the number of stores, we have recorded a reduction in the level of stock held of £169 million, whereas in 2007/08 an increase of £216 million was reported. A significant amount of this reduction was driven by our mature businesses.

Net cashflows from investing activities in our continuing operations totalled £320 million in line with 2007/08 which benefited from a high level of asset disposals and the sale of B&Q Taiwan. As detailed below, gross capital expenditure decreased by 31% in 2008/09 to £390 million.

Cash will continue to be a key focus for the Group with our businesses working to reduce working capital and manage capital investment tightly.

Working capital

	£m
Decrease in inventories (note 32)	169
Decrease in trade and other receivables (note 32)	69
Decrease in trade and other payables (note 32)	(23)
Decrease in working capital including impact of exceptional items	215
Less: Exceptional items impact on working capital	(35)
Decrease in working capital	180

Capital expenditure

As detailed last year the Group's Capital Investment process has changed to prioritise its capital investment into projects and businesses that offer the potential for the most attractive returns. This is supported by a rigorous capital allocation process:

- An annual strategic planning process (which leads into the budget process for the following year) based on detailed plans for all businesses for the next three years. This process drives the key strategic capital allocation decisions and the output is reviewed by the Board, twice a year.
- A capital approval process through a Capital Expenditure committee, chaired by the Group Chief Executive including the Group Finance Director and Group Property Director. The committee is delegated to review all projects between £0.75 million and £15.0 million (including the capitalised value of lease commitments).
- Projects above this level are approved by the Board although all projects above £0.75 million are notified to the Board.
- Investment criteria and challenging hurdle rates for IRR (Internal Rate of Return) and payback with a target for year three returns versus initial cash investment.
- An annual post-investment review process to undertake a full review of all projects above £0.75 million which were completed in the last four years, together with a review of recent performance on all other existing stores. The findings of this exercise are considered by both the Retail Board and the Board and directly influence the divisional and Group development strategy and the assumptions for similar project proposals going forward.

Gross capital expenditure on continuing operations decreased by 31% in the year to £390 million in line with our annual capital target. £174 million was spent on property (2007/08: £220 million) and £216 million on fixtures, fittings and intangibles (2007/08: £293 million). A total of £62 million of proceeds from disposals was received during the year. This is lower than 2007/08 when we generated £117 million including £73 million on the sale and leaseback of Worksop, B&Q UK's central distribution centre.

Payments to acquire businesses in the year amounted to £7 million (2007/08: £1 million) which related to the purchase of minorities in China.

Management of liquidity risk and financing

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

At the year end, Kingfisher had undrawn committed bank facilities available to it totalling £775 million. Of this, £275 million matures in March 2010 and £500 million in August 2012. Kingfisher's policy has been to arrange committed bank facilities and then to refinance these with longer-term debt in the bond and US Private Placement markets.

Kingfisher deposits surplus cash with a number of banks with strong credit ratings and with money market funds which have the strongest, AAA, credit rating. A credit limit for each bank

or fund is agreed by the Board covering the full value of deposits and a proportion of the value of derivative contracts. The credit risk is reduced further by spreading the investments and derivative contracts across several counterparties. At the year end, Kingfisher had a total of £915 million of cash deposited with banks and in money market funds and the highest cash deposit with a single bank or money market fund was £89 million.

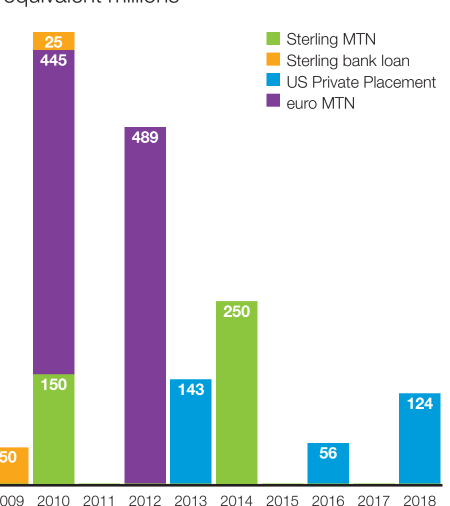
There are no significant debt maturities until 2010, when £620 million of debt is due, comprising two bonds and a bank term loan, of which £175 million is due in March and £445 million in October.

The maturity profile of Kingfisher's debt is illustrated at: www.kingfisher.com/investors/debtinvestors/debtmaturity

The terms of the US Private Placement note agreement and the committed bank facilities require only that the ratio of Group operating profit, excluding exceptional items, to net interest payable must be no less than 3:1. The Group is in compliance with this covenant, with the ratio at the year end being 5.3:1.

The Group has entered into interest rate derivative contracts to convert the fixed rate payable on its bond and US Private Placement notes to floating rate, except for €300 million of debt which remains at fixed rate. The floating rate interest rates paid by the Group under its financing arrangements are based on LIBOR plus a margin. The margins were not changed during the year. Under the terms of the financing agreements, the margins are fixed and are not subject to change in line with credit ratings or financial ratios.

Debt and facility maturity profile 08/09
£ equivalent millions



Financial risk management

Kingfisher's treasury function has primary responsibility for managing certain financial risks to which the Group is exposed, details of which are provided in note 25 of the accounts.

Capital risk management

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for its shareholders and benefits for its other stakeholders; and
- To maintain a balance between the higher returns that may arise from a higher level of borrowings and the advantages of a strong credit profile.

The Group manages its capital by:

- Making an assessment of the return on invested capital;
- Monitoring the impact on the Group's net debt; and
- Reviewing the level of dividends.

The Group is subject to certain externally imposed capital requirements as follows:

- Kingfisher Insurance Limited and Kingfisher Reinsurance Limited, wholly owned subsidiaries, are subject to minimum capital requirements as a consequence of their insurance activities.
- Certain direct and indirect subsidiaries of B&Q (China) B.V., a wholly owned subsidiary, are subject to minimum capital requirements under Chinese statute.

The Group complied with the externally imposed capital requirements during the year.

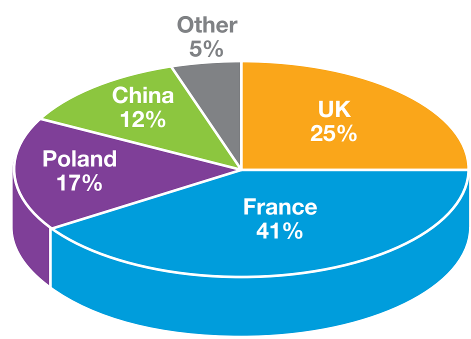
Property

The Group owns a significant property portfolio, most of which is used for trading purposes. If the Group had continued to revalue this it would have had a market value of £3.2 billion at year end (2007/08: £3.6 billion), compared to the net book value of £2.7 billion recorded in the financial statements. The value of our property portfolio has decreased due to rising yields (£0.5 billion decrease) and the sale of Castorama Italy (£0.3 billion decrease) only being partly offset by currency gains (£0.4 billion increase).

The values are based on valuations performed by external qualified valuers where the key assumption is the estimated yields.

The valuation exercise was performed in October 2008 with approximately one-third of the portfolio valued by external professional valuers.

Property market value by segment



Pensions

At the year end, the Group had a deficit of £74 million in relation to defined benefit pension arrangements of which £40 million is in relation to its UK scheme. In 2007/08 the Group had a surplus of £77 million. The decrease was predominantly due to a fall in the fair value of the pension scheme assets, reflecting market movements.

The approach used to prepare the pension valuation is in line with current market practice and international accounting standards, and has been applied consistently. This uses a number of assumptions which are likely to fluctuate in the future and so may have a significant effect on the accounting valuation of the scheme's assets and liabilities.

A key assumption in valuing the pension obligation is the discount rate. Accounting standards require this to be set based on market yields on high-quality bonds at the balance sheet date. Due to the current volatility of the bond market, there can be significant variances in the yield rate from day to day. During January 2009 there was a 0.7% difference between the highest annual yield percentage and the lowest annual yield percentage on the index on which we base our discount rate assumptions.

To aid understanding of the impact that changes to the assumptions could have on the pension obligation we have included sensitivity analysis as part of the pension disclosure in note 28 of the consolidated financial statements. Further details of all the key assumptions are also contained within the note.

Risks

Given the scale and diversity of our businesses, the Board of Directors recognises that the nature, scope and potential impact of our key business and strategic risks is subject to constant change. As such, the Board has implemented the necessary framework to ensure that it has sufficient visibility of the Group's key risks and the opportunity to regularly review the adequacy and effectiveness of our mitigating controls and strategies.

The Corporate governance report on pages 34 to 38 describes the systems and processes through which the directors manage and mitigate risks.

The Board considers that the principal risks to achieving its objectives are set out below.

Risk	Description	Action
China fails to deliver the desired return	Although the Company has established a significant market share and brand presence in our key Chinese consumer markets the business has not delivered the desired return on invested capital. This has been exacerbated by the slowdown in China's economic growth and the impact this has had on the domestic property market, both of which have significantly affected trading.	We have completed an in-depth strategic review of our operations in China and implemented a number of key actions including: measures to strengthen the management team, a stock clearance plan to release working capital and a store re-organisation plan to ensure that our store formats are suitably positioned to meet a challenging trading outlook. The new management team is supported by Peter Hogsted, CEO, International and his colleagues on Kingfisher's executive team. Peter and the team have finalised, and are in the process of implementing, a comprehensive repositioning plan to ensure that the B&Q China proposition is more aligned with our customers' needs in order to provide a sustainable and long-term return. See pages 2, 8 and 21 for more information.
Contracting consumer markets, exacerbated by worsening economic conditions, will impact sales	The ongoing global economic crisis will continue to present a difficult trading outlook across the retail sector. Our ability to deliver the desired return in contracting consumer markets will be particularly challenging if the downturn is exacerbated by the stagnation of the housing and construction sectors and the inability of both the retail and commercial banking industry to offer affordable loan facilities to both customers and suppliers.	We have implemented appropriate actions to release value, drive increased sales densities, improve our profit margin and reduce our investment and working capital requirements across the Group. Similarly, we have completed the necessary scenario and contingency planning initiatives to mitigate the impact of a continued worsening of the economic climate. We are committed to continued enhancement of our customer offer, through product innovation, improved customer service and store environment, combined with an aggressive commitment to driving cost efficiencies and reducing cost to sales ratio. This will ensure that we continue to consolidate our market share, whilst maintaining a robust balance sheet and healthy cash flows, should we enter a period of potentially prolonged economic recession.

Risk	Description	Action
Our systems and supply chain infrastructures lack the flexibility and capability to support the delivery of our strategic plans	Our ability to deliver the targets set by our seven steps to 'Delivering Value' strategy will undoubtedly place increasing demands on our existing supply chain and systems infrastructure and technologies. There is a risk that our infrastructure will lack the necessary scalability, flexibility and resilience to support its successful execution.	We have embarked on a programme to ensure that we focus our information technology resources on a combination of making the necessary investment to maintain or extend the useful lives of our existing technologies and developing solutions that directly support revenue generative opportunities. Where possible, we are also seeking to eliminate complex or heavily bespoke technologies that may hold back new and innovative customer offers. As we consolidate our divisional management structures we are looking to identify and implement efficiencies and opportunities to leverage our capabilities across our supply chain. For example, we are currently integrating fulfilment efficiencies across our home delivery operations in the UK, and investing in direct import logistics solutions for our Eastern European businesses.
We do not implement the measures and disciplines to effectively assess the shareholder value delivered through the Delivering Value programme	The successful execution of the Delivering Value programme is the basis on which we will assess our progress in delivering our key priorities of managing working capital, cash, costs, investment capital and returns to our shareholders. There is a risk that we do not implement effective criteria against which to monitor, manage and report our progress in achieving the programme's aims and objectives.	The new divisional management structure is collectively responsible for delivering the Group's results and implementing Group-wide initiatives. Appropriate corporate planning processes are in place to ensure that our operating company and divisional strategies are aligned and contribute to the Delivering Value programme. Individual operating companies are responsible for implementing the necessary processes and procedures to monitor the efficiency, economy and effectiveness of the delivery of its strategic plans.
We fail to take advantage of our combined buying power synergies and economies of scale	There is a risk that we fail to 'unlock' the potential to generate real shareholder value through the optimisation of combined purchasing and commercial synergies.	We have introduced challenging targets across our major operating companies to ensure we have identified those categories that will benefit most, in terms of optimising cash margin gains, from a more collective approach to both international contract negotiations and own-brand opportunities. Increased alignment of products, sourcing, and packaging strategies for our major own-brand products continue to drive cost price reduction opportunities, particularly across our MacAllister and Performance Power ranges. The Kingfisher Sourcing Organisation has been structured to offer significantly improved direct sourcing opportunities for our operating companies located in emerging markets. See the Group buying programmes section on page 17 for more information.

Risk	Description	Action
We are unable to secure external financing at a commercially viable rate	The ongoing scarcity of investment capital, due to the breakdown in the international wholesale money markets, is likely to impact the willingness and ability of the banking sector to offer debt financing facilities at a commercially viable rate. This may impact and restrict our options with regards to investment decisions and funding market entry opportunities in new or emerging markets.	The Board, assisted by the Group's treasury department and the Treasury Committee, is responsible for the ongoing review and monitoring of our capital structure to ensure that the Group can meet its financing requirements and is compliant with banking covenants. We have introduced robust measures to ensure the most efficient use of resources. These include higher hurdle rates and enhanced payback periods for capital, a working capital reduction strategy and an increased emphasis on ensuring we optimise and leverage our assets and property portfolio across the Group. We are also committed to maintaining our debt at, or below, current levels and have committed to use the proceeds from the sale of our Italian business to further reduce debt.
We do not make the necessary investment in our people to ensure that we have the appropriate calibre of staff, skills and experiences across the Group	Retail is fundamentally a people business and there is a risk that, given the economic pressures we are currently facing, we fail to maintain the necessary investment in our people to ensure that we have the appropriate calibre of staff for specific roles and that skills and experiences are deployed in the best interests of the individual, the operating company and the Group.	We continue to invest in our people through an ongoing commitment to maintaining our store standards via effective staff training programmes. For example, in the UK, we have partnered with City & Guilds to deliver nationally accredited and recognised qualifications and apprenticeship schemes. We remain committed to the ongoing assessment and measurement of our people's engagement with the business. Engagement surveys are completed bi-annually across the Group. We have also introduced new elements to our share-based long-term incentive plans across our business, to ensure that senior management rewards are aligned with our targeted performance and earnings growth. See the People section on page 16 for more information.

Risks

Risk	Description	Action
The potential impact to Kingfisher's reputation, arising from a major environmental or ethical failure	As our customers become more knowledgeable about the environmental and social impact of our businesses, we are increasingly being asked to provide both products and product information that support our intent to operate an environmentally sustainable and ethically responsible business. As a result, the risks to our reputation, arising from a major environmental or ethical failure, increase exponentially.	Kingfisher is committed to a long-term investment in promoting ethics, social responsibility and environmental sustainability. Kingfisher's Future Homes strategy sets out a policy and framework for integrating sustainability into the business, and includes specific standards and targets for all operating companies. A CR risk assessment tool has been developed to help our operating companies identify and manage CR risks and opportunities. We also engage with key non-governmental organisations and industry forums (e.g. Forum for the Future, FTSE4Good and Business in the Community) to ensure that we are at the forefront of the environmental debate and assume a leadership position amongst our peers. For more details see the Corporate responsibility section on page 18.
The risk of penalties or punitive damages arising from failure to comply with new legislative or regulatory requirements	The geographic, political and cultural diversity of the markets in which we operate exposes us to wide ranging and complex legal and regulatory frameworks. There is a danger that we do not understand the risks associated with either existing or proposed changes to legislative requirements across the jurisdictions in which we operate.	Individual operating companies, supported where necessary by the corporate affairs department, are responsible for ensuring that they have access to sufficient legal and governance resource. Operational management are also responsible for liaising with either local legal resources or the corporate affairs department to resolve any potential issues arising from new legislation or any suspected breaches of existing legislation or Group policies. Where new operating companies are either acquired or created, formal Group defined governance structures are established from the outset. At a minimum, these provide guidance regarding Board, and Audit Committee processes and procedures, the implementation of which are subject to a review by the Director of Corporate Affairs and the internal audit department.
Impact of a major health and safety failure affects our reputation and results in harm to our employees, penalties or prosecution	There is a risk that repeated health and safety failures could result in a major incident or fatality that is directly attributable to either a systematic or institutionalised failure in our health and safety management systems. This would result in damage to our reputation through adverse publicity, prosecution and censure.	With over 80,000 employees and six million customers visiting our stores each week, robust health and safety systems are a priority. While regulatory requirements vary from country to country, each operating company is required to designate a director with specific responsibility for health and safety. This person is then responsible for ensuring that a written health and safety policy is communicated to all staff, that appropriate health and safety arrangements are in place to protect our employees and that we comply with local regulatory requirements. The ultimate responsibility within each operating company remains with the local Managing Director. Kingfisher's Corporate Centre is responsible for facilitating the sharing of best practice and the development of minimum Group standards, which in some cases will be stricter than local regulatory requirements. Progress this year has been validated by an independent third party.

Board of Directors

Peter Jackson
Chairman ▲ ■
Peter Jackson joined the Board as a Non-Executive Director with effect from 3 January 2006 and took on the role of Chairman on 24 May 2006. He retired as Chief Executive of international food and retail group Associated British Foods plc (ABF) in April 2005, after six years in that role. He joined the Board of ABF in 1992 following its acquisition of British Sugar plc. He is also Senior Independent Director of Smiths Group, the international engineering group and chair of the Disabilities Trust. Peter Jackson will retire as Chairman at the conclusion of the Company's AGM on 3 June 2009. Age 62.

Ian Cheshire
Group Chief Executive
Appointed to the Board in June 2000 and as Group Chief Executive in January 2008. He was previously Chief Executive, B&Q UK from June 2005. He was appointed Chief Executive International and Development in September 2002, Chief Executive of e-Kingfisher in May 2000 and was Group Director of Strategy & Development. Before joining Kingfisher he worked for a number of retail businesses including Sears plc where he was Group Commercial Director. He is also a member of the Corporate Leaders Group on Climate Change and a Member of the Employers' Forum on Disability President's Group. Age 49.

Kevin O'Byrne
Group Finance Director
Appointed to the Board as Group Finance Director in October 2008. He was previously Group Finance Director of DSG International for four years and prior to that its Retail Finance Director. From 2000 to 2002 he was Chief Financial Officer of Hemscott and between 1995 and 2000 he was European Finance Director at Quaker Oats Limited. He started his career at Arthur Andersen. He is also a Non-Executive Director and Chairman of the Audit Committee of Land Securities Group plc. Age 44.

Daniel Bernard
Deputy Chairman and Non-Executive Director ● ■
Appointed to the Board as Deputy Chairman on 24 May 2006. He was Chairman and Chief Executive of Carrefour, the Paris-based retail group and world's second largest retailer, from 1992 to 2005. Prior to Carrefour, he was Chief Operating Officer of METRO, Germany's leading international retailer. He is President of Provestis, his own investment company and a Non-Executive Director of Alcatel Lucent and Capgemini. He is also President of the HEC Foundation in Paris. He was previously a Non-Executive Director of Compagnie de St Gobain until June 2006. Daniel Bernard will succeed Peter Jackson as Chairman of the Company at the conclusion of the Company's AGM on 3 June 2009. Age 63.

John Nelson
Senior Independent Director ● ▲ ■
Appointed to the Board in January 2002 and is the Senior Independent Director. He is Chairman of European real estate group, Hammerson plc, Senior Advisor to Charterhouse Capital Partners LLP and Director of Cazenove Group Limited and JP Morgan Cazenove Holdings Limited. He retired as Chairman of Credit Suisse First Boston (Europe) in 2002 and was formerly Vice Chairman of Lazard Brothers, Non-Executive Director of BT Group plc and Non-Executive Director of Woolwich plc. He will succeed Daniel Bernard as Deputy Chairman and also retain his role as Senior Independent Director at the conclusion of the Company's AGM on 3 June 2009. Age 61.

Phil Bentley
Non-Executive Director ● ■
Appointed to the Board in October 2002. He is also Managing Director of British Gas, and has been on the Board of Centrica plc since 2000, when he joined as Group Finance Director. He previously spent five years at Diageo plc and 15 years in international finance roles at BP plc. Age 50.

Michael Hepher
Non-Executive Director ● ▲ ■
Appointed to the Board in September 1997. He is Non-Executive Director of Catlin Group Ltd, Canada Life (U.K.) Ltd and Great West Life Assurance Company. His former roles include Non-Executive Chairman of Lane, Clark and Peacock, Non-Executive Chairman of TeleCity plc, Chairman and Chief Executive of Charterhouse plc, Group Managing Director of BT plc and Non-Executive Director of Diageo plc and Lloyds Bank plc. Age 65.

Janis Kong
Non-Executive Director ▲ ■
Appointed to the Board in December 2006. She is a Non-Executive Director of Portmeirion Group PLC and VisitBritain, and Chairman of the Board of Trustees of Forum for the Future. She was previously a Non-Executive Director of The Royal Bank of Scotland Group Plc and, until her retirement in March 2006, was a director of BAA plc and Chairman of Heathrow Airport Ltd for five years as well as being Chairman of Heathrow Express. Prior to that she was Managing Director of Gatwick Airport and has held a number of operational roles within BAA during her 33-year career with the company. Age 58.

Hartmut Krämer
Non-Executive Director ■
Appointed to the Board in November 2002, having been CEO of the retail clothing group Peek & Cloppenburg, and subsequently of Groupe Redcats, the home shopping division of Pinault-Printemps-Redoute. He is also a Non-Executive Director of GSE SAS, Toupargel Groupe S.A. and Alfesca Ltd. Age 62.

● Audit Committee, ▲ Remuneration Committee, ■ Nomination Committee
See pages 35 to 36 for further details

Directors' report

The directors present their report and accounts for the Company together with the consolidated accounts of the Kingfisher group of companies for the financial year ended 31 January 2009. The Corporate Governance, Audit Committee and Directors' remuneration reports are set out on pages 34 to 48. The Business review set out on pages 1 to 28 is incorporated by reference, as is all other information in the 2008/09 Annual Report to which this Directors' report makes specific cross-reference.

Principal activities

Kingfisher plc is the holding company of the Kingfisher group of companies. The Company through its wholly-owned subsidiaries, joint venture and associates, delivers the full range of products and services of an international home improvement business operating in markets that fit strategic criteria of attractive scale, structure and economics.

Review of operations, current position and future prospects

Details of the Group's operations for the year ended 31 January 2009, its current position and future prospects are contained in the Business review set out on pages 1 to 28. These include a balanced and comprehensive analysis of the main trends and factors likely to affect the development, performance and position of the business, including environmental, employee and social and community issues, the Group's Key Performance Indicators (KPIs) and a description of the principal risks and uncertainties facing the business.

Results and dividends

The Group results are shown in the consolidated income statement on page 49. The profit before taxation of the Group amounted to £90m (2007/08: £366m) with a profit after taxation of £206m (2007/08: £272m).

The directors recommend a final dividend of 3.4p (2007/08: 3.4p) per ordinary share amounting to £80m (2007/08: £80m) to be paid on 19 June 2009 to members appearing on the Register at the close of business on 8 May 2009. Together with the interim dividend of 1.925p (2007/08: 3.85p) per ordinary share, amounting to £45m (2007/08: £90m), paid on 14 November 2008, the total dividend for the year will be 5.32p (2007/08: 7.25p) per ordinary share, amounting to £125m (2007/08: £170m).

Directors

The current directors who served during the 2008/09 financial year are listed on page 29. Of those directors, Kevin O'Byrne was appointed to the Board on 1 October 2008. Duncan Tatton-Brown also served on the Board in 2008 from 2 February 2008 to 1 October 2008.

Appointment and replacement of directors

The rules governing the appointment and replacement of directors are contained in the Company's Articles of Association. The powers of the directors are determined by UK legislation and the Memorandum and Articles of Association of the Company in force from time to time. In accordance with the requirements of the Company's Articles, Peter Jackson, Phil Bentley and John Nelson retire by rotation at this year's Annual General Meeting (AGM) and, with the exception of Peter Jackson who will not offer himself for re-election, are offering themselves for re-election. Having served for over 11 years as a non-executive director, and in accordance with the Combined Code, Michael Hepher is also retiring and offers himself for re-election. He has taken this step to provide continuity of Board membership as Daniel Bernard takes up his new role as Chairman of the Board. Mr Hepher's independence is assured through his continued application of his breadth of experience in a manner that provides challenge within a supportive context. He maintains strong principles, acting as the conscience of shareholders as well as an ambassador for the business. Following his appointment as Group Finance Director during the year, Kevin O'Byrne is required under the Articles of Association to submit himself for election by the shareholders at the first AGM following appointment and, being eligible, he will do so at the AGM on 3 June 2009.

Directors' interests and indemnity arrangements

Qualifying third-party indemnity provisions (as defined in section 234 of the Companies Act 2006) are in force for the benefit of the directors and former directors who held office during the 2008/09 financial year.

No director had a material interest at any time during the year in any derivative or financial instrument relating to the Company's shares. Details of directors' remuneration, service contracts and interests in shares of the Company are set out in the Directors' remuneration report on pages 39 to 47.

Risk identification, assessment and management

A summary of the Group's position regarding risk identification, assessment and management is contained in the Risks section on pages 25 to 28.

Employees

The Board continues to emphasise high standards of customer care and service in each operating company and the commitment of employees to this principle is vital. The Group has developed channels of communication including engagement surveys, briefing groups, internal magazines and newsletters that report on business performance and objectives, community involvement and other issues to help people expand their knowledge of, and involvement with, the Group. Directors and senior management regularly visit stores and discuss matters of current interest and concern with employees.

The Group's statement on employee development is set out in the People section on page 16 and details of employee involvement through share participation are contained in the Directors' remuneration report on pages 39 to 47.

The Company is committed to treating its employees and customers with dignity and respect, and to valuing diversity. It is Group policy to:

- ensure there is no discrimination in employment on the grounds of race, gender, age, disability, marital status, sexual orientation or religious belief;
- implement measures in stores to ensure a level of customer service for disabled people equivalent to that offered to non-disabled people; and
- maintain a mechanism which customers and employees can use to give feedback on our performance and ensure that all customer comments are analysed, responded to and acted upon.

Corporate responsibility

Details of the Group's corporate responsibility policy and operations are set out on page 18.

Charitable donations

The Group made contributions to charity/community projects worth an estimated £1.4m in the financial year ended 31 January 2009 – equivalent to 0.4% of pre-tax profits. This included cash donations (£0.6m) and gifts-in-kind (£0.6m – retail cost). Support was also given through the donation of time by employees (£0.2m).

Political donations

The Board annually seeks and obtains shareholders' approval to enable the Group to make donations to or incur expenditure in relation to EU political parties, other political organisations or independent election candidates under section 366 of the Companies Act 2006. The approval given in 2008 restricted such expenditure to an aggregate limit of £75,000 in the period of 12 months following the date of the AGM.

The Group has made no political donations during the year. As with previous annual approvals, the Group has no intention of changing its current policy and practice of not making political donations and will not do so without the specific endorsement of shareholders. The Board obtains the approval on a precautionary basis to avoid any possibility of unintentionally breaching the relevant provisions.

Supplier payment policy

The Company does not impose standard payment terms on its suppliers but agrees specific terms with each of them, and then pays in accordance with those terms. The Company is a holding company and therefore has no trade creditors. On average, the Group's suppliers are paid in 45 days.

Takeover directive

The Company is required to make certain additional disclosures under section 992 of the Companies Act 2006 which implements the EU Takeovers Directive. Such disclosures, not covered elsewhere in this Annual Report, include:

Significant agreements – change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid, such as bank loan agreements, Medium Term Note (MTN) documentation, private placement debt and employee share plans. None of these are deemed to be significant in terms of their potential impact on the business of the Group as a whole except for:

- the £500 million credit facility dated 15 March 2005 between, the Company, HSBC Bank plc (as the facility agent) and the banks named therein as lenders, which contains a provision such that in the event of a change of control, any lender may, if they so require, notify the agent that they wish to cancel their commitment whereupon the commitment of that lender will be cancelled and all their outstanding loans, together with accrued interest, will become immediately due and payable;
- the $466.5 million US Private Placement notes, issued pursuant to a note purchase agreement dated 24 May 2006 by the Company to various institutions, which contains a provision such that in the event of a change of control, the Company is required to make an offer to the holders of the US Private Placement notes to prepay the principal amount of the notes together with interest accrued;
- the €550 million MTNs, issued on 23 November 2005 under the Group's €2,500 million MTN programme by the Company to various institutions, which contains an option such that in the event of a change of control and, as a result of the change of control, the Company's credit rating is downgraded below investment grade (BBB- or equivalent) any holder of the MTNs may require the Company to prepay the principal amount of that note together with interest accrued.

The Company does not have agreements with any director or officer that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share plans may cause options and awards granted under such plans to vest on a takeover.

There is no information that the Company would be required to disclose about persons with whom it has contractual or other arrangements which are essential to the business of the Company.

Share capital and control

Details of the Company's issued share capital are set out in note 29 of the consolidated financial statements. All of the Company's issued ordinary shares are fully paid up and rank equally in all respects.

Information on the Company's stock exchange listings is set out under Compliance with the Combined Code on page 34.

During the year ended 31 January 2009, options were exercised pursuant to the Company's share option schemes, resulting in the allotment of 27,555 new ordinary shares. No new ordinary shares have been allotted under these schemes since the end of the financial year to the date of this report. As at 31 January 2009 Barclays Wealth, as trustee of the Employee Share Ownership Plan Trust, held 14,913,743 shares to satisfy future exercises of options and awards under the Group's share plans. Barclays Wealth exercises all of the voting rights attached to these shares at its discretion.

Rights attaching to shares

The rights and obligations attaching to the Company's ordinary shares, in addition to those conferred on their holders by law, are set out in the Company's Articles of Association, copies of which can be obtained from Companies House in the UK or from the Company's website or by writing to the Company Secretary. The holders of ordinary shares are entitled to receive the Company's reports and accounts, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights.

Transfers of shares

There are no restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them, except (i) where the Company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission of their holder or any person interested in them to provide the Company with information requested by it in accordance with Part 22 of the Companies Act 2006 or (ii) where their holder is precluded from exercising voting rights by the FSA's listing rules or the City Code on Takeovers and Mergers.

Authority to purchase own shares

At the AGM on 5 June 2008, shareholders approved a resolution for the Company to make purchases of its own shares to a maximum number of 236,081,072 ordinary shares. This resolution remains valid until the conclusion of this year's AGM. As at 1 February 2009, the directors had not used this authority. It is Kingfisher's present intention to cancel any shares acquired under such authority, unless purchased to satisfy outstanding awards under employee share incentive plans. A resolution will be proposed at this year's AGM to renew this authority.

Issue of shares

At the 2008 AGM, shareholders approved a resolution to give the directors authority to allot shares up to an aggregate nominal value of £104,015,458. In addition, shareholders approved a resolution giving the directors a limited power to allot shares for cash other than pro rata to existing shareholders. These resolutions remain valid until the conclusion of this year's AGM. Resolutions will be proposed at this year's AGM to renew these authorities. Additionally, following the report of the Rights Issues Review Group and guidance from the ABI, the Company intends to ask shareholders to grant it authority to allot additional shares up to an aggregate nominal value of £123,662,752 for use in a rights issue only. If this additional allotment authority is used, the ABI guidance will be followed and, if appropriate, all the directors of the Company will retire at the next AGM and submit themselves for re-election. The directors have no present intention to issue ordinary shares, other than pursuant to employee share schemes and pursuant to the dividend re-investment plan.

Further explanation on the proposed resolutions is included with the notice of the meeting circulated to shareholders with this report.

Major shareholders

As at 25 March 2009, the Company had been notified in accordance with the Disclosure and Transparency Rules of the UK Financial Services Authority of the following interests in the Company's shares:

Company	Number of shares held	% of issued share capital held
Templeton Group	289,351,589	12.26%
Fidelity Investment Services Ltd (Europe)	122,916,013	5.21%
Legal & General Investment Management Ltd	107,459,913	4.55%
Brandes Investment Partners LP	106,447,846	4.51%
A D R Facility	90,745,362	3.84%
AGF Management Ltd	87,547,133	3.71%
Capital Research & Management (Americas)	71,253,215	3.02%

Memorandum and Articles of Association

The Company's Memorandum and Articles of Association may only be amended by special resolution at a general meeting of the shareholders. The final tranche of the Companies Act 2006 will be implemented on 1 October 2009 and, from that date, the nature of the Company's constitutional documents will change so that the Memorandum of Association becomes a snapshot historical document. Relevant provisions in an existing company's Memorandum of Association such as the objects clause and the share capital provisions will, automatically, be imported into the Articles of Association. Under the Companies Act 2006, a company's objects will be unrestricted unless its articles specifically restrict them. The importation of the Company's objects clause into the Articles of Association from 1 October 2009 will likely act as such a restriction. In order to avoid this, a special resolution will be put to shareholders to delete the objects clause from the Memorandum of Association with effect from 1 October 2009.

Annual General Meeting

The 2009 Annual General Meeting of the Company will be held on 3 June 2009 at the Hilton London Paddington Hotel, Paddington at 11:00am. A separate document accompanying this report contains the notice of meeting and description of the business to be conducted at the meeting.

By order of the Board

Nick Folland
Company Secretary
25 March 2009

Directors' statement of responsibility

Going concern

The directors confirm that, after reviewing expenditure commitments, expected cash flows and borrowing facilities, they have a reasonable expectation that the Company and the Kingfisher Group have adequate resources to continue in operational existence for the next financial year and the foreseeable future. For this reason they continue to adopt the going concern basis in preparing these financial statements. Further details of the Group's liquidity are detailed in the financial review on page 23.

Disclosure of information to auditors

Each person who is a director at the date of approval of this report confirms that: so far as he or she is aware, there is no relevant audit information (as defined by section 234ZA of the Companies Act 1985) of which the Company's auditors are unaware; and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Responsibility for preparing financial statements

The directors are required by company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit for the year to that date. Under that same law, the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and the Company financial statements and the Directors' remuneration report in accordance with applicable law and United Kingdom Accounting Standards (UK GAAP). In preparing the financial statements the directors are required to:

– ensure that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation; and that the parent company financial statements and the Directors' remuneration report comply with the Companies Act 1985
– take such steps as are reasonably open to them to safeguard the assets of the Company and Group and to prevent and detect fraud and other irregularities;
– apply suitable accounting policies in a consistent manner and supported by reasonable and prudent judgements and estimates where necessary;
– comply with applicable accounting standards (except where any departures from this requirement are explained in the notes to the financial statements); and
– ensure the maintenance and integrity of the Company's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

The directors confirm that, to the best of each person's knowledge:

– the Group financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
– the Company's financial statements in the report, prepared in accordance with United Kingdom Accounting Standards (UK GAAP) and applicable law give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
– the Business review contained in this report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Nick Folland
Company Secretary
25 March 2009

Corporate governance

The Board is committed to high standards of corporate governance, which it considers as fundamental to business integrity and maintaining investors' trust and to producing a sustained delivery of value to the Company's shareholders. The Board expects all its directors, officers and employees to act with honesty, integrity and fairness and in accordance with all relevant laws and customs.

Compliance with the Combined Code

The Company's ordinary shares are listed in the UK on the London Stock Exchange and on the Paris Bourse in France. In addition, the Company has entered into a sponsored level one American Depositary Receipt programme with the Bank of New York Mellon, under which the Company's shares are traded on the over-the-counter market in the form of American Depositary Receipts.

In accordance with the Listing Rules of the UK Listing Authority, the Company confirms that throughout the year ended 31 January 2009 and as at the date of this Annual Report, it was compliant with the provisions of, and applied the principles of Section 1 of the 2006 FRC Combined Code on Corporate Governance (the Combined Code). The following section together with the Directors' report on pages 30 to 32, and the Directors' remuneration report on pages 39 to 47, provide details of how the Company applies the principles and complies with the provisions of the Combined Code.

Board organisation

The role of the Board

The Board is responsible for the overall conduct of the Group's business and has the powers, authorities and duties vested in it by the Company's Articles of Association and the relevant laws and regulations governing its operations. The Board:

- has final responsibility for the management, direction and performance of the Group;
- exercises objective judgement on all corporate matters, independent from executive management;
- is accountable to shareholders for the proper conduct of the business; and
- is responsible for the Group's overall Corporate Governance arrangements including: independence of directors, review of the Board and its committees' performance and approval of Group policies.

The Board has a formal schedule of matters reserved to it for its decision. The schedule is reviewed periodically and includes:

- Group strategy, three-year plans and annual budgets;
- major acquisitions or divestments of companies and business;
- major changes to the capital structure including tax and treasury management;
- changes to accounting policies or practices;
- approval of all financial announcements, the annual report and accounts and shareholder communications;
- the system of internal control and risk management policy; and
- review of management development strategy.

Other specific responsibilities are delegated to Board Committees which operate within clearly defined terms of reference. Additional information on the responsibilities of the Board Committees are given on pages 35 to 36.

Board meetings

The Board meets at least 10 times a year and the meetings are structured to allow open discussion. All directors participate in discussing the strategy, trading and financial performance and risk management of the Company. All substantive agenda items have comprehensive briefing papers which are circulated approximately one week before the meeting.

The following table shows the number of years directors have been on the Board as at 1 February 2009 and their attendance at the principal Board meetings they were eligible to attend during the 2008/09 financial year:

	Years on Board	Meetings attended
Peter Jackson [1]	3	10/10
Ian Cheshire	8	10/10
Kevin O'Byrne (from 01/10/08)	0	4/4
Daniel Bernard [2]	2	10/10
John Nelson [3]	7	10/10
Phil Bentley	6	8/10
Michael Hepher	11	9/10
Janis Kong	2	10/10
Hartmut Krämer	6	10/10
Duncan Tatton-Brown (until 01/10/08)	n/a	6/6

1 Peter Jackson will retire at the conclusion of the Company's AGM on 3 June 2009.
2 Daniel Bernard will become Chairman at the conclusion of the Company's AGM on 3 June 2009.
3 In addition to his role as Senior Independent Director, John Nelson will also become Deputy Chairman at the conclusion of the Company's AGM on 3 June 2009.

In addition to the principal Board meetings, a number of other meetings are convened to deal with specific matters. Directors unable to attend a Board meeting because of another engagement are nevertheless provided with all the papers and information relevant for such meetings and are able to discuss issues arising in the meeting with the Chairman or the Group Chief Executive.

Division of responsibilities

To ensure that no one person has unfettered powers of decision, the roles of the Chairman and Group Chief Executive are separate and there is a clear and established division of responsibilities agreed by the Board. The Chairman is responsible for the operation, leadership and governance of the Board; ensuring its effectiveness and setting its agenda. He also meets separately with the non-executive directors during the year. The Group Chief Executive is responsible for the management of the Group's business and the implementation of Board strategy and policy.

Board balance and independence

The Company's Board consists of nine directors, eight of whom served throughout the 2008/09 financial year. In addition to the Chairman, Peter Jackson, there were two executive directors and six non-executive directors as at 31 January 2009. The executive directors are Ian Cheshire (Group Chief Executive) and Kevin O'Byrne (Group Finance Director).

On 17 March 2009, the Company announced that upon conclusion of the AGM to be held on 3 June 2009, Peter Jackson will retire as Chairman of the Board and that Daniel Bernard will succeed him in this role. At the same time, John Nelson will assume the role of Deputy Chairman in addition to retaining his responsibilities as Senior Independent Non-Executive Director and Chairman of the Remuneration Committee. Upon his appointment as Chairman, it is expected that Daniel M Bernard will relinquish his membership of the Audit Committee and become a member of the Remuneration Committee whilst also assuming the role of Chairman of the Nomination Committee.

John Nelson is the nominated Senior Independent Director and his role includes being available for approach or representation from significant shareholders who may feel inhibited from raising issues with the Chairman. He is also responsible for conducting an annual review of the performance of the

Chairman and, in the event it should be necessary, convening a meeting of the non-executive directors.

The Company considers all of its present non-executive directors to be fully independent, including Michael Hepher, notwithstanding the fact that he has served more than 11 years as a director. Michael Hepher has offered himself for re-election at the AGM this year to provide continuity of Board membership as Daniel Bernard takes on his new role as Chairman of the Board. The Board sets out its reasons for determining his continued independence on page 30.

The executive and non-executive directors are equal members of the Board and have overall collective responsibility for the direction of the Company. The names and biographical details of the current directors are given on page 29.

Conflicts of interest
The Company has procedures in place to deal with conflicts of interest and these procedures have operated effectively. The Board is aware of the other commitments of its directors and changes to these commitments are reported to the Board.

Board effectiveness

Appointments to the Board
There is a formal, rigorous and transparent procedure for the appointment of new directors to the Board. This is described in the section on the Nomination Committee set out on page 36. Individual non-executive directors are able to serve up to three three-year terms. At the end of each three-year term, an analysis is undertaken to ensure that the relevant directors continue to make an effective and valuable contribution to the Board and demonstrate an appropriate commitment to the role. The terms and conditions of appointment of the non-executive directors are available for inspection at the Company's registered office and will be available for inspection at the AGM from 15 minutes before the meeting until it ends.

Information and professional development
Each member of the Board receives monthly information including financial results. The Board pack for meetings includes reports from the executive directors in respect of their areas of responsibility. The Group Chief Executive's report deals, amongst other things, with trading, management, capital, returns and the Company's 'Delivering Value' objectives. These matters are discussed at each Board meeting. Financial plans, including budgets and forecasts, are also regularly discussed at Board meetings. From time to time, the Board receives detailed presentations from non-Board members on matters of significance or on new opportunities for the Group. The non-executive directors periodically visit different Group companies and are provided with briefings and information to assist them in performing their duties.

The Board receives reports concerning meetings with institutional shareholders and addressing their issues and concerns. This process and reporting allows the directors to develop the necessary understanding of the views of the shareholders and also enables the Board to judge whether investors have a sufficient understanding of the Company's objectives.

The Chairman is responsible for ensuring that induction and training programmes are provided. Individual directors are also expected to take responsibility for identifying their individual needs and to take steps to ensure that they are adequately informed about the Group and their responsibilities as a director. The Board is confident that all its members have the knowledge, ability and experience to perform the functions required of a director of a listed company.

On appointment, each director receives a tailored induction programme that includes:
- individual time with the Chairman, the Group Chief Executive, the Group Finance Director and other senior corporate executives;
- visits to the Company's stores and those of competitors;
- meetings with operating company management; and
- external training courses at the Company's expense, if required.

The Company Secretary provides a programme of ongoing briefings for the directors that cover a number of legal and regulatory changes and developments relevant to directors' areas of responsibility. Throughout their period in office, the directors are continually updated on the Group's businesses and the regulatory and industry-specific environments in which they operate. These updates are by way of written briefings and meetings with senior executives and, where appropriate, external sources.

Performance evaluation
Performance evaluation of the Board, its committees and individual directors takes place on an annual basis and is conducted within the terms of reference of the Nomination Committee with the aim of improving individual contributions, the effectiveness of the Board and its committees and the Group's performance. In recent years, the evaluation has been internally facilitated.

The Board undertook a formal self-evaluation of its own performance during the 2008/09 financial year. The process was led by the Chairman and facilitated by the Company Secretary and involved the use of an online questionnaire with Company-specific questions. The same process was used to evaluate the performance of each of the Board committees. The Board will continue to review its procedures, effectiveness and development in the year ahead and the new Chairman will use the output of the most recent evaluation as the basis of his initial individual meetings with directors.

The Chairman leads the assessment of the Group Chief Executive and the non-executive directors, the Group Chief Executive undertakes the performance reviews for executive directors and the Senior Independent Director conducts the review of the performance of the Chairman.

The evaluations found the performance of each director to be effective and concluded that the Board provides the effective leadership and control required for a listed company. The Board confirmed that the contributions made by the directors offering themselves for re-election at the AGM on 3 June 2009 continued to be effective and that the Company should support their re-election.

Independent advice
There is an agreed procedure to enable individual directors to take independent legal and financial advice at the Company's expense, as and when necessary, to support the performance of their duties as directors of the Company.

Board Committees

The Board has established Nomination, Remuneration and Audit Committees and provides sufficient resources to enable them to undertake their duties. Executive directors are not members of these Board committees, although they may be invited to attend meetings. The Board is satisfied that the terms

of reference for each of these committees satisfy the requirements of the Combined Code and are reviewed on an ongoing basis. The terms of reference for all Board committees can be found on the Company's website at www.kingfisher.com or a copy can be obtained by application to the Company Secretary at the Company's registered office.

Each committee has access to such information and advice as it deems necessary at the cost of the Company. Each committee is responsible for reviewing the effectiveness of its terms of reference, as appropriate, and for making recommendations to the Board for changes where necessary. The minutes of committee meetings are circulated to all directors.

Audit Committee
The members of the Audit Committee and the record of their attendance at the meetings they were eligible to attend during the year are set out below:

	Meetings attended
Phil Bentley, Chairman	4/4
Daniel Bernard	4/4
Michael Hepher	3/4
John Nelson	4/4

The Audit Committee is comprised of members having the necessary ability and experience to understand financial statements. Solely for the purpose of fulfilling the requirements of the Combined Code, the Board has designated Phil Bentley as the committee member with recent and relevant financial experience. Further details on Phil Bentley can be found in Board of Directors on page 29.

Under its terms of reference, the Audit Committee is required, amongst other things:
– to monitor the integrity of the financial statements of the Company;
– to review, understand and evaluate the Company's internal financial, risk, and other internal controls and their associated systems;
– to monitor and review the effectiveness of the Company's internal audit function on an annual basis;
– to oversee the relationship with the external auditors, making recommendations to the Board in relation to the appointment, remuneration and terms of engagement; and
– to monitor and review the external auditor's independence, objectivity and effectiveness and to approve the policy on the engagement of the external auditor to supply non-audit services.

At each of its meetings, the Audit Committee meets separately with the external auditors and the Group Audit & Risk Management Director without management being present. Further details on the work of the Audit Committee can be found under Auditors and the Audit Committee report on pages 37 and 48 respectively.

Nomination Committee
The members of the Nomination Committee and the record of their attendance at the meetings they were eligible to attend during the year are set out below:

	Meetings attended
Peter Jackson, Chairman	2/2
Phil Bentley	1/2
Daniel Bernard	2/2
Michael Hepher	1/2
Janis Kong	1/2
Hartmut Krämer	1/2
John Nelson	2/2

The primary purpose of the Nomination Committee is to lead the process for Board appointments and to make recommendations for maintaining an appropriate balance of skills on the Board. The Nomination Committee:
– reviews the structure, size and composition of the Board and makes recommendations to the Board, as appropriate;
– identifies the balance of skills, knowledge and experience on the Board and nominates candidates to fill Board vacancies;
– reviews the time required from a non-executive director;
– considers succession planning, taking into account the challenges and opportunities facing the Group and the future skills and expertise needed on the Board; and
– reviews the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace.

The Nomination Committee meets periodically when required and external advisers may be invited to attend. Following the termination of Duncan Tatton-Brown's service agreement, the Nomination Committee conducted a rigorous search and selection process with the assistance of specialist recruitment consultants, which identified Kevin O'Byrne as the most suitable candidate for the role of Group Finance Director. In addition, and with the support of specialist recruitment consultants, Committee members were also involved in the assessment and interview of potential successors to the Chairman, a process which identified Daniel Bernard as successor to Peter Jackson. The Committee's activities during the year also included considering the appointments of Euan Sutherland and Peter Hogsted as CEO UK and CEO International respectively.

Remuneration Committee
The members of the Remuneration Committee and the record of their attendance at the meetings they were eligible to attend during the year are set out below:

	Meetings attended
John Nelson, Chairman	4/4
Michael Hepher	3/4
Peter Jackson	4/4
Janis Kong	4/4

The responsibilities of the Remuneration Committee include:
– determining, on behalf of the Board, the Company's policy on the remuneration of the Chairman, the executive directors and the senior management team of the Company;
– determining the total remuneration packages for these individuals, including any compensation on termination of office; and
– appointing consultants in respect of executive directors' remuneration.

The Group Chief Executive may attend the Remuneration Committee's meetings by invitation. He does not attend when his individual remuneration is discussed and no director is involved in deciding his own remuneration.

Further information on the Remuneration Committee's activities is contained in the Directors' remuneration report on pages 39 to 47.

Retail Board
The executive directors, together with the divisional chief executives and certain other Group functional heads meet 12 times a year as the Retail Board under the chairmanship of the Group Chief Executive. The Retail Board is responsible for the day-to-day management of the Group's businesses and the overall financial performance of the Group in fulfilment of strategy, plans and budgets. It is also responsible for making recommendations on:
– monthly Group trading performance;
– the Group's capital structure and funding;
– capital expenditure proposals, major acquisitions or disposals of businesses;

- the Group's key risks;
- management development and senior executive succession plans;
- the Group's corporate responsibility programme; and
- the individual progress of operating companies.

The Group Chief Executive reports to the Board on issues, progress and recommendations for change. Details of the executive team forming part of the Retail Board and their biographical details are set out on pages 6 to 7.

Company Secretary

The Company Secretary acts as Secretary to the Board and its committees and, with the consent of the Board, may delegate responsibility for the administration of the committees to other suitably qualified staff. He:
- assists the Chairman in ensuring that all directors have full and timely access to all relevant information;
- is responsible for ensuring that the correct Board procedures are followed and advises the Board on corporate governance matters; and
- administers the procedure under which directors can, where appropriate, obtain independent professional advice at the Company's expense.

The appointment or removal of the Company Secretary is a matter for the Board as a whole.

Accountability, risk management and internal control

The Board considers risk assessment, identification of mitigating actions and internal control to be fundamental to achieving the Company's strategic corporate objectives. This system of internal control is:
- the Board's overall responsibility;
- regularly reviewed for its effectiveness by both the Board and the Audit Committee; and
- in compliance with the Turnbull Guidance 2005.

However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board has approved a set of policies, procedures and frameworks for effective internal control that implement the Turnbull Guidance, 'Internal Control: Revised Guidance for Directors on the Combined Code', for the year under review and to the date of approval of this Annual Report. These procedures are subject to regular review and provide an ongoing process for identifying, evaluating and managing the significant risks faced by the Group.

The internal audit function:
- works with the operating companies to develop, improve and embed risk management tools and processes into their business operations;
- oversees the operation of the individual operating businesses' audit committees;
- ensures that business risks are identified, managed and regularly reviewed by management at all levels of the Group and that directors are periodically appraised of the key risks in accordance with the Turnbull Guidance 2005;
- provides the Audit Committee and the Board with objective assurance on the control environment across the Group; and
- monitors adherence to the Group's key policies and principles.

Management at each operating company has responsibility for the identification and evaluation of the significant risks applicable to their business and any mitigating actions to be taken through the Retail Board, which reviews, identifies and evaluates the risks that are significant at a Group level as well as the mitigating actions against those risks. These are then considered by the Board. The type of risks identified include strategic risk, external factors (such as competition, environment and regulation), change management programmes, health and safety, retention of key management and macro market risks.

Monitoring and review activities

There are clear processes for monitoring the system of internal control and reporting any significant control failings or weaknesses together with details of corrective action. These include:
- a formal biannual confirmation provided by the finance director of each operating company certifying the operation of their control systems and highlighting any weaknesses, the results of which are reviewed by regional management, the Audit Committee and the Board;
- periodic examination of business processes on a risk basis including reports on controls throughout the Group undertaken by the internal audit function which reports directly to the Audit Committee; and
- reports on certain internal controls and relevant financial reporting matters from the external auditors, PricewaterhouseCoopers, to the Audit Committee and management.

Any controls and procedures, no matter how well-designed and operated, can provide only reasonable and not absolute assurance of achieving the desired control objectives. Management is required to apply judgement in evaluating the risks facing the Group in achieving its objectives, in determining the risks that are considered acceptable to bear, in assessing the likelihood of the risks concerned materialising, in identifying the Company's ability to reduce the incidence and impact on the business of risks that do materialise and in ensuring the costs of operating particular controls are proportionate to the benefit.

The Board confirms that it has reviewed the effectiveness of the internal control system, including financial, operational and compliance controls and risk management in accordance with the Combined Code for the period from 3 February 2008 to the date of approval of this Annual Report. Following a review of its operating model, the Group is restructuring its business in China. The directors consider that, with hindsight, B&Q China expanded too quickly following the acquisition of OBI in 2005 and became too reliant on local vendors with the result that controls over inventory and supply chain management, including product proliferation, proved inadequate. The Group has deployed additional experienced management and enhanced controls to remedy this significant weakness. Further controls training will be undertaken in 2009/10.

Auditors

Following a recommendation by the Audit Committee a resolution proposing the re-appointment of PricewaterhouseCoopers LLP as Auditors to the Company will be put to the 2009 AGM.

The Company's policy on the use of its Auditors for non-audit work was reviewed and updated in 2008. The Auditors are precluded from engaging in non-audit services that would compromise their independence or violate any laws or regulations affecting their appointment as Auditors. The approval of the Chairman of the Audit Committee is required prior to awarding contracts for non-audit services to the external auditors in excess of specified amounts. The external auditors report to the Audit Committee annually on their independence from the Company. Periodic rotation of key audit partners is also required.

Each of the Group's businesses is consulted on the effectiveness and independence of the Auditors annually. In addition, the Auditors provide the Audit Committee with a schedule of each matter on which there was an initial difference between them and management in relation to the accounting treatment, with the advice (if needed) of the firm's technical committee, and with the final decisions on these issues. The Audit Committee considers whether the audit should go out to tender but has taken the view that partner rotation at both the Group and operating business level has been sufficient to maintain the necessary independence.

In addition to their statutory duties, PricewaterhouseCoopers LLP is also employed where, as a result of its position as auditor, it either must, or is best placed to, perform the work in question. This is primarily work in relation to matters such as shareholder circulars, Group borrowings, tax advice, regulatory filings and certain business acquisitions and disposals. Other work is awarded on the basis of competitive tendering.

During the year, PricewaterhouseCoopers LLP charged the Group £2.3m (2007/08: £1.9m) for audit and audit-related services and a further £0.9m (2007/08: £1.1m) for non-audit services.

Relations with shareholders

The Company is committed to communicating its strategy and activities clearly to its shareholders and, to that end, maintains an active dialogue with investors through a planned programme of investor relations activities. The investor relations programme includes:

- formal presentations of full-year and interim results;
- conference calls to discuss quarterly trading statements;
- regular meetings between institutional investors and senior management to ensure that the investor community receives a balanced and complete view of the Group's performance and the issues faced by the Group;
- hosting investors' and analysts' sessions at which senior management from relevant operating companies deliver presentations which provide an overview of individual businesses;
- responding to enquiries from shareholders through the Company's investor relations team;
- regular meetings with institutional investors and analysts by the Group Chief Executive to discuss business performance; and
- a section dedicated to shareholders on the Company's website, www.kingfisher.com.

The Chairman, the Senior Independent Director and the chairmen of the Board committees are available to meet major investors on request. The Senior Independent Director has a specific responsibility to be available to shareholders who have concerns, and for whom contact with the Chairman, Group Chief Executive or Group Finance Director has either failed to resolve their concerns, or for whom such contact is inappropriate.

At the 2008 AGM, shareholders approved amendments to the Articles which enabled the Company to take advantage of the provision of the Companies Act 2006 to communicate with its shareholders electronically. Following that approval, unless a shareholder has specifically asked to receive a hard copy, shareholders will be notified of the availability of the Annual Report on the Company's website, www.kingfisher.com. For the 2009 reporting season, shareholders will receive a notice of availability and form of proxy in paper through the post. Shareholders continue to have the option to appoint proxies and give voting instructions electronically.

The principal means of communication with private investors is by electronic communications and through the AGM, an occasion attended by all the Company's directors and at which all shareholders present are given the opportunity to question the Chairman and the Board as well as the chairmen of the Board committees. After the AGM, shareholders can meet informally with directors.

A summary business presentation is given at the AGM before the Chairman deals with the formal business of the meeting. At the AGM on 3 June 2009, the Chairman will use his discretion to call for a poll on all substantive resolutions. This will bring the Company in line with best practice and the recommendation in the 2005 Myners Report, 'Review of the impediments to voting UK shares'. The Board considers that the use of polls for voting on substantive resolutions will usually be appropriate since it produces a more transparent method of voting and an exact and definitive result. The results of the votes in relation to all resolutions will be disclosed to those in attendance at the meeting, published on the Company's website and announced via the regulatory news service shortly after the conclusion of the AGM.

Directors' remuneration report

I am pleased to present the Remuneration report for 2008/09. The report is made by the Board on the recommendation of the Remuneration Committee and sets out the policy and disclosures on directors' remuneration as required by schedule 7A of the Companies Act 1985. In addition to these requirements, the Remuneration Committee has followed the principles of good governance set out in the Combined Code and complied with the Listing Rules.

During the year the Remuneration Committee undertook a wider review of the remuneration policy that resulted in it adopting, for executive directors, similar long-term incentive plans to that used for Ian Cheshire and which are detailed later in this report. The long-term incentive plans for the members of the Retail Board were also similarly aligned.

We welcomed Kevin O'Byrne to the Board on 1 October 2008. Details of Kevin's remuneration can be found later in this report.

A resolution will be put to the shareholders at the Annual General Meeting on 3 June 2009 asking them to approve this report.

John Nelson
Chairman of the Remuneration Committee
25 March 2009

Information subject to audit

The following sections, on pages 40 to 46, of the Remuneration report are audited:

- Components of executive directors' remuneration – Annual bonus and long-term incentives under the PSP – the summary of performance criteria upon which the vesting of performance shares are conditional;
- Executive directors' remuneration overview;
- Kingfisher Incentive Scheme (KIS) Share Awards;
- Performance Share Awards;
- ShareSave Option Scheme;
- Closed incentive plans – except for compliance with guidelines on dilution limits;
- Directors' pension benefits; and
- Non-executive directors' remuneration table and notes.

The Remuneration Committee

Chairman	John Nelson
Committee members	Michael Hepher Peter Jackson Janis Kong

Management attendees	
Chief Executive	Ian Cheshire
Group HR Director	Tony Williams
Head of Group Reward	Kevin Blake

No member or attendee is present when his or her own arrangements are considered.

The Remuneration Committee has authority to obtain the advice of external independent remuneration consultants and is solely responsible for their appointment, retention and termination, and for approval of the basis of their fees and other terms.

In the year to 31 January 2009, the following external advisers provided services to the Remuneration Committee:

- Hewitt New Bridge Street (HNBS) advises on the ongoing operation of employee and executive share plans and executive remuneration generally;
- Allen & Overy LLP provides legal advice on service and employment contracts and for other employment and remuneration issues in relation to executive directors. They also provide advice to the Company on other legal matters; and
- Watson Wyatt advised on the wider review of remuneration policy and provides advice and benchmarking on the market competitiveness of remuneration for executives in the UK and overseas. They also provide advice to the Company on pensions and related matters

Remuneration policy for executive directors

The aim of the Company's policy on executive directors' remuneration is to ensure that senior executives are rewarded for their contribution to Kingfisher and are motivated to enhance returns to shareholders. Executive director remuneration should be competitive by reference to the experience of the executive concerned, the role fulfilled, internal relativities and the markets in which the Company competes, and is designed to promote business success through the recruitment, retention and motivation of the highest quality executives.

The Remuneration Committee consults with shareholders to ensure their views are understood and taken into account in its deliberations, particularly in relation to changes in Kingfisher employee share scheme arrangements and wider trends in executive remuneration.

The remuneration strategy for executive directors and other senior executives is tailored to emphasise the delivery of strong earnings growth as well as sustained performance in the longer term. Long-term performance is rewarded through the delivery of shares (the Performance Share Plan (PSP)) and short-term performance through a combination of cash and an element of compulsory deferred shares (the KIS Cash and KIS Share schemes). The Remuneration Committee believes that this structure is weighted towards the achievement of stretching, individually targeted annual bonus measures but also aligns the interests of executives with those of shareholders through a continued emphasis on strong annual performance combined with long-term executive share ownership, providing a strong link between the incentives received and shareholder value delivered. The Remuneration Committee intends to continue this policy and is satisfied that there is an appropriate balance between the different elements of pay (including the split between fixed and variable pay).

Following the extensive review of the Group Chief Executive's remuneration with the assistance of HNBS, which had received a favourable response in discussions with shareholders and was reported in the 2007/08 remuneration report, the Company undertook a wider review of senior executive remuneration during the year. As a result of this review, the Remuneration Committee determined that it was appropriate to provide the Retail Board members with long-term goals aligned to those of the executive directors and therefore awarded PSP grants with performance conditions to 2012, aligned with those of the executive directors', in respect of the specific regions or functions. Kevin O'Byrne's long-term remuneration is based on the same criteria and performance conditions used for Ian Cheshire.

Executive directors' service contracts

All executive directors have service contracts terminable by no more than 12 months' notice by either side. The contracts for all executive directors provide that termination payments would be paid on a phased basis at a monthly rate of 15% of annual salary for a maximum of

12 months from the termination date. Lower amounts are payable if the director commences lower-paid employment during the 12-month period, and payments cease immediately when employment providing the same or higher value remuneration is started. Details of the executive directors' contracts are summarised below:

Executive director	Date of last contract	Notice period (months)
Ian Cheshire	28/01/2008	12
Kevin O'Byrne	01/10/2008	12
Duncan Tatton-Brown	01/02/2004	Terminated on on 14/10/2008 [1]

[1] Duncan Tatton-Brown resigned as a director of Kingfisher plc on 01/10/2008.

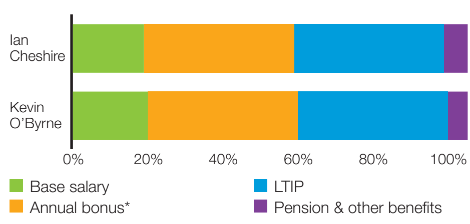
Executive directors' remuneration

Kevin O'Byrne received a recruitment award under the PSP of shares worth 300% of salary with 50% subject to the same TSR conditions as those used for the award to Ian Cheshire and the other 50% subject to the same EPS conditions in respect of the special award to Ian Cheshire on his recruitment as Group Chief Executive (for details of these performance conditions see page 41). Kevin O'Byrne also received a cash award of £250,000 to compensate him for his losses from leaving DSG International and to further encourage him to join the Company at the earliest opportunity. He used the net proceeds of the £250,000 he received to purchase the Company's shares in the open market. He subsequently placed the shares in the Group SIPP and has committed to purchasing and placing further shares in the Group SIPP when he receives the tax refund from the earlier purchase.

Components of executive directors' remuneration

Remuneration packages for executive directors consist of the following elements: salary, annual bonus including the deferred KIS Share award with a maximum potential of 200% of salary, long-term incentive under the PSP at 200% face value of salary at maximum vesting, the ShareSave Option Scheme for all employees, pension contributions; and non-cash benefits.

Relative proportions of each executive director's remuneration (%): 2008/09



* Annual bonus figure assumes maximum payment and LTIP figure assumes maximum vesting.

A summary of the remuneration package and the applicable performance measures for executive directors for the 2008/09 financial year is set out in the table at the bottom of this page.

Base salary

Salaries are reviewed annually in August, taking into account market conditions, affordability, the level of increases awarded to staff generally and the individual's contribution. Ian Cheshire did not receive an increase in his base salary other than the increase he received on his appointment as Group Chief Executive.

Annual bonus

Future annual bonus objectives for the executive directors and the Retail Board will continue to focus on key strategic goals, rather than solely on the annual budget, and indicative targets pre-set for four years during 2007/08 will be confirmed annually. In particular, in the current climate and with the focus on debt financing, the Committee intends to continue to incentivise the executive directors to ensure that the business is focused on good cash management and minimising its requirement for external credit facilities.

Annual bonuses are awarded under the KIS. The KIS comprises the Kingfisher Cash Incentive Scheme 2003 (KIS Cash scheme) and the Kingfisher Incentive Share Scheme 2003 (KIS Shares scheme). Under these arrangements senior executives may receive a performance-related cash bonus under the KIS Cash scheme and a contingent share award under the KIS Shares scheme equal to half the value (at the time of award) of the cash bonus. The contingent share award must normally be held for three years before it vests, with the shares being normally subject to forfeiture should the executive leave Kingfisher during the three-year deferral period as a result of voluntary resignation or dismissal for cause. In line with ABI best practice, contingent share awards from April 2007 receive a dividend roll-up on vesting calculated on the basis of a notional purchase of shares on each relevant ex-dividend date using that day's closing mid-market price.

Substantial awards under the KIS Cash scheme and the KIS Shares scheme are only payable to executives on achievement of the performance targets agreed by the Remuneration Committee at the beginning of each year, based on Kingfisher's strategic and financial planning process, and the economic and competitive environment in which the Company and its principal businesses operate.

Maximum vesting under the KIS and PSP result in up to approximately 75% of total remuneration being performance-related, an approach the Remuneration Committee believes is appropriate for Kingfisher as a dynamic international retailer.

Element	Performance measures	Purpose
Base salary (set annually on 1 August)	Role, individual contribution to business and market forces	To attract and retain talented people
Annual Bonus KIS Award (Up to 133% of salary in cash and 67% in deferred forfeitable shares)	Objectives relating to: Group net debt Group profit after tax personal performance Corporate key performance indicators	Ensures a commitment to delivering on Group recovery and meeting debt targets, delivering on strategic objectives and ensures alignment with shareholder interests
Long-term incentive Performance Share Plan (Up to 200% of salary vesting 3 years from award date)	Delivering value on: TSR EPS	Ensures a focus on long-term business success and shareholder returns

Long-term incentive
The PSP remains the primary long-term incentive for the top senior executives. Following the wider review of remuneration policy undertaken after Ian Cheshire's appointment and as disclosed last year, the Remuneration Committee decided to increase the annual limit to 200% of salary, with the performance measures made correspondingly more demanding, in order to bring long-term incentive provision into line with median practice in other FTSE100 companies and other retailers of a similar size.

The review by the Remuneration Committee concluded that all future PSP awards should be subject to performance targets that are based equally on EPS and TSR. The combination of TSR and EPS measures was selected as the most appropriate combined performance measure for the PSP. This combination is robust and simple to understand, provides an effective measure of management performance, aligns executives' interests with those of shareholders and is generally favoured by the Company's major shareholders. The FTSE100 was chosen as the comparator group because there is a general lack of directly quoted home improvement businesses against which to compare the Company's TSR specifically. HNBS independently carries out the relevant TSR calculations for the Remuneration Committee.

The Remuneration Committee may, in its absolute discretion:
- amend the range of EPS targets set out in the table below to take account of any material change in the retail prices index over the performance period or any change to, or event that affects, the structure or business of the Kingfisher Group or any other material change in circumstances; and
- vary the performance condition if an event has occurred which causes it to consider that it would be appropriate, provided the varied condition is considered fair and reasonable and not materially less challenging than the original condition would have been but for the event in question.

Any such amendments will be disclosed in the relevant Directors' remuneration report.

The TSR and EPS performance targets for all PSP awards are:

50% TSR at the end of the Performance Period	Percentage of this part of the award of performance shares that will vest	50% EPS at the end of the Performance Period	Percentage of this part of the award of performance shares that will vest
Less than median plus 1 percentage point	Nil	Less than 15.9p	Nil
Median plus 1 percentage point	15.625%	15.9p	15.625%
Between median plus 1 percentage point and upper quintile plus 1 percentage point	Straight-line vesting between 15.625% and 100%	Between 15.9p and 17.0p	Straight-line vesting between 15.625% – 50%
Upper quintile plus 1 percentage point	100%	17.0p	50%
		Between 17.0p and 19.6p	Straight-line vesting between 50% – 100%
		19.6p	100%

Performance Shares receive a dividend roll-up calculated on the basis of a notional purchase of shares on each relevant ex-dividend date using that day's closing mid-market price. Shares used to satisfy awards under a plan are normally purchased in the market through an employee benefit trust.

Under the PSP, provisional awards of Performance Shares have been granted to selected senior executives following the publication of the annual results. Awards were made on 21 April 2008.

As part of the terms of his recruitment, awards were made to Ian Cheshire on 1 February 2008 in respect of his 2008/2009 allocations under the plan using the TSR performance target only and therefore no further awards were made to him during the financial year. Awards were also made to Kevin O'Byrne as part of his recruitment on 1 October 2008 in respect of his 2008/2009 allocations under the plan. Kevin O'Byrne's awards are subject to the TSR (50%) and EPS (50%) performance targets. Although the EPS performance condition was over a four-year period in respect of the above awards, the Committee intends to revert to the normal three-year period going forward.

Other long-term incentive plans
Apart from the ShareSave Option Scheme, all other option and incentive arrangements have been discontinued, but awards made under these schemes in previous years will vest over time in accordance with the rules governing the various plans. The details are shown in the section entitled Closed Incentive Plans on page 44.

Pension provision
Ian Cheshire is a member of the main defined benefit funded arrangement, the Kingfisher Pension Scheme and subject to the scheme cap, which was closed to new employees of the Group on 1 April 2004. Following his appointment as Group Chief Executive, Ian Cheshire also receives a 30% Company contribution, on his salary above the pension cap, into defined contribution arrangements. Kevin O'Byrne receives a 20% Company contribution into his defined contribution arrangements. Duncan Tatton-Brown was also a member of the defined benefit arrangement, subject to the scheme cap and received a 15% Company contribution to defined contribution arrangements and a cash supplement of 5% on his salary above the pension cap. Details of individual arrangements for the executive directors are set out on page 45.

Non-cash benefits

The Company provides a range of additional benefits, including medical insurance, a subsidised staff canteen, a staff discount card, 30 working days' holiday per year and a company car or cash allowance.

Share ownership guidelines

The formal share ownership guidelines prohibit executive directors selling shares obtained through the KIS Shares scheme and long-term incentive plans including the PSP (except to meet tax obligations) until they hold shares costing or worth at least two times base salary for the Group Chief Executive and at least one times base salary for the Group Finance Director. The Remuneration Committee believes that this will provide a longer-term retention mechanism and means that, over time, executives will have a significant personal interest in Kingfisher shares. The Remuneration Committee believes these arrangements align executives' and shareholders' interests effectively and encourage a long-term view of performance.

Executive directors' remuneration overview

The current annual base salaries of the executive directors as at 25 March 2009 are £800,000 for Ian Cheshire and £575,000 for Kevin O'Byrne.

The internally set profit targets for the 2008/09 annual bonus awards have been partially achieved. Group net debt has significantly reduced beyond our stated objective of maintaining it at the 2007/08 year-end level (excluding proceeds from the sale of Castorama Italy). Further progress has also been made in other strategic areas aligned to our seven steps to 'Delivering Value' and therefore bonuses will be paid against those targets that have been achieved.

The actual remuneration for the executive directors for the 2008/09 financial year is set out in the table below:

Executive directors

£000	Base salary	Total benefits [1]	Cash bonus [2]	Total remuneration 2008/09	Total remuneration 2007/08 [4]
Ian Cheshire	800.0	35.3	801.6	**1,636.9**	550.1
Kevin O'Byrne	206.9	259.9	204.8	**671.6**	n/a
Duncan Tatton-Brown [3]	321.8	33.2	449.5	**804.5**	612.5
Gerry Murphy	n/a	n/a	n/a	**n/a**	1,634.6
Total	1,328.7	328.4	1,455.9	**3,113.0**	2,797.2

[1] Total benefits include cash payments representing Scheme Cap supplements of £16,655 for Duncan Tatton-Brown. Ian Cheshire no longer receives a pension cash supplement but a contribution to defined contribution arrangements. Non-cash benefits comprise medical and life insurances. Ian Cheshire receives a company car and a cash payment as he has not taken the full entitlement of his allowance for his car. Kevin O'Byrne receives a cash payment in lieu of a company car and received a payment of £250,000 on joining which he used to purchase the Company's shares in the open market.
[2] The contingent shares award under the KIS Shares scheme in relation to the financial year ended 31 January 2009 are set out in the table under KIS Share awards.
[3] Under the terms of his service agreement, which was terminated on 14 October 2008, Duncan Tatton-Brown received staged payments subject to a requirement for him to mitigate in respect of his future earnings. The maximum sum due in respect of Duncan Tatton-Brown's basic salary compensation will be £844,312 paid monthly. He was also entitled to a pro-rata bonus for 2008/09 to his leaving date.
[4] The total for 2007/08 includes payments made to Gerry Murphy in that year.

Outside appointments for executive directors

Subject to the rules governing conflicts of interest, the Company encourages its executive directors to hold one non-executive role outside the Group as it recognises that such roles can broaden experience and knowledge which can benefit the Group. Non-executive directorships and fees retained by the relevant individual during 2008/09 are set out below:

Director	Company in which non-executive role is held	Fee retained by director in 2008/09
Ian Cheshire	Bradford & Bingley plc	£36,000 [1]
Kevin O'Byrne	Land Securities Group plc	£55,000 [2]
Duncan Tatton-Brown	Rentokil Initial plc	£54,999

[1] This is the fee paid to Ian Cheshire from February 2008 until he resigned as a director of Bradford & Bingley plc in November 2008.
[2] This is the annual fee. Kevin O'Byrne joined the Board of Land Securities in April 2008. He became chairman of their audit committee from 1 January 2009 and will be paid an additional fee of £17,500 for this additional responsibility.

KIS Share awards

Awards of contingent shares, in respect of the financial year ended 31 January 2009, are due to be made on 21 April 2009, vesting in April 2012, to Ian Cheshire and Kevin O'Byrne under the KIS Shares scheme to the value of £400,800 and £102,414, respectively, at the average mid-market price over the three dealing days, 16, 17 and 20 April 2009. As the awards will be made after publication of the accounts for the financial year ended 31 January 2009, the detail will be disclosed fully in next year's Annual Report.

Once the contingent share award is made in respect of the bonus earned, the only qualifying condition for the award normally to vest is to be in the employment of the Company at the vesting date. In respect of bonuses paid in 2004, 2005 and 2006, an additional Multiplier Award of shares was potentially receivable by certain executive directors – details of these are shown under Closed Incentive Plans on page 44. Following the introduction of the PSP, no further Multiplier Awards have been granted.

Name	Number of contingent shares at start of year	Number of contingent shares awarded in year	Price per share	Dividend roll-up shares [1]	Number of contingent shares exercised in year [2]	Number of contingent shares at end of year	Vesting date	Lapse date
Ian Cheshire	39,685		286.92p		39,685	0	6/04/2008	6/10/2008
	60,471		233.83p			60,471	10/04/2009	10/10/2009
	49,795		277.75p	3,116		52,911	11/04/2010	11/10/2010
		21,115 [3]	126.63p	312		21,427	21/04/2011	21/10/2011
Total	149,951	21,115		3,428		134,809		
Kevin O'Byrne	–	–	–	–		–	–	–
Total								
Duncan Tatton-Brown [4]	44,913		286.92p		44,913	0	14/10/2008	14/04/2009
	10,777		233.83p			10,777	14/10/2008	14/04/2009
	39,867		277.75p	1,876		41,743	14/10/2008	14/04/2009
		44,617 [3]	126.63p			44,617	14/10/2008	14/04/2009
Total	95,557	44,617		1,876		97,137		
Totals	245,508	65,732		5,304	84,958	231,946		

[1] The prices used to calculate the dividend roll-up shares were 127.3p, being the market price on 16 April 2008, and 130p, being the market price on 8 October 2008.
[2] The market price on exercise was 134.3p on 7 April 2008 and 134.1p on 29 September 2008 for Ian Cheshire and Duncan Tatton-Brown respectively.
[3] As disclosed in last year's remuneration report the awards under the KIS Shares scheme were made on 21 April 2008, in respect of the financial year ended 2 February 2008. These awards are structured as nominal cost options (on payment in aggregate of a maximum of £1). They will normally vest in April 2011 and will be exercisable within the period of six months starting from the vesting date.
[4] Duncan Tatton-Brown's awards vested on 14 October 2008, his termination date, and are capable of exercise during the six-month period following 14 October 2008.

Performance Share awards

Performance Shares will normally vest subject to the Company's TSR performance relative to the constituents of the FTSE100 over a fixed three-year performance period. The awards for Kevin O'Byrne are subject to the TSR (50%) and EPS (50%) performance targets. Further details of the performance targets are outlined on page 40.

Name	Number of Performance Shares at start of year	Number of Performance Shares awarded in year	Date of grant	Price per share	Dividend roll-up shares [1]	Number of Performance Shares at end of year	Vesting date	Lapse date
Ian Cheshire	117,663		28/06/2006	225.75p	12,463	130,126	28/06/2009	28/12/2009
	107,632		24/10/2006	255.50p	9,537	117,169	24/10/2009	24/04/2010
	99,277		11/04/2007	277.00p	6,213	105,490	11/04/2010	11/10/2010
	159,039		01/10/2007	178.10p	9,952	168,991	01/10/2010	01/04/2011
	1,114,206		01/02/2008	143.60p	–	1,114,206	01/02/2011	01/08/2011
Total	1,597,817				38,165	1,635,982		
Kevin O'Byrne	–	656,392	01/10/2008	131.4p	–	656,392	01/10/2011	01/04/2012
		656,392	01/10/2008	131.4p	–	656,392	01/02/2012	01/08/2012
Total	–	1,312,784				1,312,784		
Duncan Tatton-Brown*	110,741		28/06/2006	225.75p	9,943	120,684	28/06/2009	28/12/2009
	107,632		24/10/2006	255.50p	9,537	117,169	24/10/2009	24/04/2010
	99,277		11/04/2007	277.00p	6,213	105,490	11/04/2010	11/10/2010
	159,039		01/10/2007	178.10p	9,952	168,991	01/10/2010	01/04/2011
		715,786	01/04/2008	126.63p	10,599	726,385	01/04/2011	01/07/2011
Total	476,689	715,786			46,244	1,238,719		
Totals	2,074,506	2,028,570			84,409	4,187,485		

* In accordance with the KIS scheme rules, Duncan Tatton-Brown has the right to exercise his KIS options over the shares that had already been earned in relation to past bonuses for six months from termination until 14 April 2009. The Remuneration Committee also exercised its discretion and allowed the pro-rata vesting of Duncan Tatton-Brown's PSP awards and his outstanding 2003 ESOS award.
[1] The price used to calculate the dividend roll-up shares was 127.3p, being the market price on 16 April 2008, and 130p, being the market price on 8 October 2008.
[2] As the awards are structured as nominal cost options (on payment in aggregate of a maximum of £1) they can be exercised within a six-month period starting from the vesting date.

Award of Matching Shares to Ian Cheshire on 1 February 2008

Type of award [1,2]	At start of year	Awarded during year	Vested during the year	Lapsed during the year	At end of year	Market price of shares when award made	Qualifying conditions	Vesting date [3,4]	Lapse date
Matching shares granted pursuant to Listing Rule 9.4.2	1,114,206	–	–	–	1,114,206	143.6p	EPS	1 February 2012	1 August 2012

[1] In accordance with the terms of his appointment, the Committee offered Ian Cheshire the opportunity to purchase 266,667 shares in the Company and in return receive a matching award of 200% of salary (i.e. broadly a 4:1 match, he bought 268,924 shares at 148p) subject to performance conditions and his continuing to hold the purchased shares. The value of the matching award was £1,600,000 as of the date of appointment.

[2] No Matching Shares vest unless EPS at the end of the four-year performance period is greater than 15.9p, at which level of performance 15.625% of the award will vest. The percentage vesting increases on a pro-rata basis so that 50% of the Matching Shares vest if EPS is 17.0p. Full vesting occurs if EPS is 19.6p at the end of the performance period with pro-rata vesting between 17.0p and 19.6p.

[3] If Ian Cheshire's employment terminates before any vesting date by reason of death, injury, ill health, early termination by the Company (other than for cause) or resignation for "good reason" (as defined in his service contract), then subject to the discretion of the Remuneration Committee in certain limited circumstances, such of the Matching Shares as can be treated as vested will vest, taking into account EPS performance up to the date of cessation of his employment, but reduced on a time pro-rated basis.

[4] As the awards are structured as nominal cost options (on payment in aggregate of a maximum of £1) they can be exercised within a six-month period starting from the vesting date.

ShareSave Option Scheme

A UK ShareSave Option Scheme is open to all eligible employees, including executive directors. As is the case with all savings-related share option schemes open to all employees, there are no performance criteria.

	Number of options							
	At start of year	Granted during year	Exercised during year	Lapsed during year	At end of year	Option price	Date from which exercisable	Lapse date
Ian Cheshire	4,805	–	–	4,805	–	196.67p	01/12/2009	01/06/2010
		8,807	–	–	8,807	109.00p	01/12/2011	01/06/2012
Duncan Tatton-Brown*	5,324	–	–	5,324	–	175.60p	01/12/2008	01/06/2009
Totals	10,129	8,807	–	10,129	8,807			

* Duncan Tatton-Brown's awards lapsed on 1 October 2008, his termination date.

Closed incentive plans

There are outstanding awards under the Executive Share Option Scheme, as well as Multiplier Awards made in previous years under the KIS Shares scheme that may become exercisable or vest at the end of their respective deferral periods. These are plans that are now closed and under which no further awards will be made. The full details of each can be found in previous annual reports. The outstanding awards are as follows:

Executive share options

The last grants under the Executive Share Option Scheme were made on 17 April 2003. The options vest from three to 10 years of the grant date subject to the satisfaction of a performance condition which generally requires the growth in the Company's EPS over a three-year period to have exceeded that of the Retail Price Index (RPI) plus 6%. The criteria were set and approved by shareholders when the scheme was established in 1993 and were judged at the time to be appropriate criteria.

	Number of options						
	At start of year	Exercised during year	Lapsed during year	At end of year	Option price	Date from which exercisable	Lapse date
Ian Cheshire	45,489	–	45,489	–	395.69p	26/10/2004	26/10/2008
	30,520	–	–	30,520	589.76p	01/04/2004	01/04/2009
	74,346	–	–	74,346	393.43p	17/04/2004	17/04/2010
	69,991	–	–	69,991	357.18p	25/09/2004	25/09/2010
	126,231	–	–	126,231	209.93p	26/09/2004	26/09/2011
	91,350 [1]	–	–	91,350	290.08p	09/04/2005	09/04/2012
	164,144	–	–	164,144	194.95p	08/10/2005	08/10/2012
	134,538	–	–	134,538	237.85p	17/04/2006 [2]	17/04/2013
	736,609	–	45,489	691,120			
Duncan Tatton-Brown	72,272	10 [3]	–	72,262	209.93p	26/09/2004	26/09/2011
	26,151	–	–	26,151	290.08p	09/04/2005	09/04/2012
	43,600	–	–	43,600	194.95p	08/10/2005	08/10/2012
	35,736	–	–	35,736	237.85p	17/04/2006 [2]	17/04/2013
	177,759	10	–	177,749			

[1] Phantom Options over 91,350 shares were granted to Ian Cheshire in addition to these options at the same price, with the same performance conditions and over the same maturity periods. On exercise, only the cash equivalent to any gain will be paid and disclosed as remuneration at that time.

[2] The performance conditions for all options have been met with the exception of the final grant made on 17 April 2003.

[3] The market price on 26 September 2008, the day Duncan Tatton-Brown undertook his partial exercise, was 134.1p.

In the period 3 February 2008 to 31 January 2009, the highest and lowest market price for Kingfisher shares was 153.6p and 91.8p respectively. The market price at close of business on 31 January 2009 was 139.1p.

Multiplier awards relating to prior year KIS Share awards

Bonuses paid under the KIS Shares scheme in April 2005 and 2006 were matched at a ratio of 0.4:1 by a conditional Multiplier award of shares. Vesting of these awards is subject to the TSR performance of the Company against the constituents of the FTSE100 over the three-year period following the year for which the bonus was earned. No vesting will occur at or below median performance. 25% of these shares will vest at above median performance, increasing on a straight-line basis to 100% at above upper quartile performance. In addition, the Remuneration Committee must also be satisfied that the TSR performance is reflective of underlying Company performance for such awards to vest.

Name	Multiplier awards at start of year	Multiplier awards granted in year	Price per share	Market price per share on date awarded	Multiplier awards lapsed during the year	Multiplier awards at end of year	Vesting date [1]	Lapse date
Ian Cheshire	15,874 [1]	–	286.92p	285.50p	15,874	–	06/04/2008	06/10/2008
	24,188	–	233.83p	231.25p	–	24,188	10/04/2009	10/10/2009
Total	40,062	–			15,874	24,188		
Duncan Tatton-Brown	17,965 [1]	–	286.92p	285.50p	17,965	–	06/04/2008	06/10/2008
	4,310	–	233.83p	231.25p	–	4,310	10/04/2009	10/10/2009
Total	22,275	–			17,965	4,310		
Totals	62,337	–			33,839	28,498		

1 Since the end of the financial year ended 2 February 2008 the TSR performance has been calculated in respect of the potential Multiplier award vesting in April 2008 and median performance was not achieved. Accordingly, this Multiplier award did not vest and therefore lapsed.

Dilution limits

Kingfisher share plans comply with recommended guidelines on dilution limits and the Company has always operated within these limits. Assuming none of the extant options lapse and will be exercised and having included all exercised options, the Company has utilised 2.5% of the 10% in 10 years and 1% of the 5% in 10 years in accordance with the Association of British Insurers (ABI) guidance on dilution limits.

Directors' pension benefits

Ian Cheshire and Duncan Tatton-Brown have entitlement to part of their pension benefits through the Kingfisher defined benefit pension scheme (subject to the scheme cap) and partly through defined contribution schemes. Kevin O'Byrne only has entitlement to a defined contribution pension.

The following table shows details required under both schedule 7A to the Companies Act 1985 and the Listing Rules as they apply to Kingfisher for the year ended 31 January 2009. In respect of the Companies Act, the details shown represent for the defined benefit section:

- accrued pension benefits at the relevant dates;
- the increase in the amount of accrued pension during this year;
- the transfer value amounts as at 2 February 2008 and 31 January 2009;
- the increase in transfer value between those dates, net of member contributions paid.

			Directors' remuneration report regulations 2002						Additional listing rules		
			Accrued pension			Transfer value			Pension cost		
As at the year-end	Age	Years of service	Increase in accrued pension £000 pa	2009 £000 pa	2008 £000 pa	Increase in transfer value £000 (net of director's contributions)	2009 £000	2008 £000	Increase in accrued pension £000 pa (net of inflation)	2009 £000	2008 £000
Ian Cheshire [1]	49	10	3	**23**	20	62	**277**	207	2	**10**	5
Duncan Tatton-Brown [2,3]	44	8	2	**29**	27	65	**265**	193	1	**3**	29

1 Accrued pensions and transfer values include employer contributions (by way of bonus surrender) made in March 2004 of £15,000.
2 Accrued pensions and transfer values include employer contributions (by way of bonus surrender) made in March 2004 of £20,000, in March 2005 of £30,000 and in March 2007 of £30,000.
3 Ceased serving as a director on 14 October 2008.
4 The above relates only to benefits accrued in the defined benefit section, and so excludes any defined contribution section or AVC benefits.
5 A new Transfer Value basis was introduced with effect from 1 October 2008. The figures above have been calculated by reference to the basis in force at the appropriate date.

The following table shows the employer contributions made to the defined contribution schemes:

	Employer contributions
Ian Cheshire	£204,960
Kevin O'Byrne	£31,037 [1]
Duncan Tatton-Brown	£19,492

[1] This figure represents 15% of Kevin O'Byrne's salary earned in 2008/09 whereas he is entitled to a 20% contribution. 5% is only payable as a lump sum, upon completion of one year's service, into the Kingfisher Pension Scheme defined contribution section in accordance with the scheme rules. Therefore a further £10,346 relating to his 2008/09 service will be paid in September 2009.

Remuneration policy for non-executive directors

The Board determines the fees paid to non-executive directors under a policy which seeks to recognise the time commitment, responsibility and technical skills required to make a valuable contribution to an effective Board. During 2008 the basic non-executive director's fee was increased from £51,500 to £53,300 per annum with effect from 1 August 2008 in line with the 3.5% inflationary increase that was granted to all UK employees. No additional fees are paid for membership of committees. The fee paid for chairing the Audit Committee is £15,000, and the fee paid for chairing the Remuneration Committee is £10,000, each per annum. The fee for the Senior Independent Director is £13,000 per annum.

The fee paid to Daniel Bernard as Deputy Chairman was increased from €206,000 to €213,200 per annum (£142,344 to £172,394) with effect from 1 August 2008 in line with the 3.5% inflationary increase that was granted to all UK employees. The increase in the pound sterling figure for 2008/09 is driven by the change in average exchange rates and reflects that Daniel Bernard is paid in Euros.

The Chairman's fees are set by reference to his time commitment and relevant benchmark data. The fee paid to Peter Jackson was increased from £284,000 to £294,000 per annum with effect from 1 August 2008.

Daniel Bernard will be appointed as Chairman and John Nelson as Deputy Chairman with effect from 3 June 2009 whereupon their fees will increase to €450,000 and to £110,000 respectively, which have been set with due regard to their time commitments and relevant benchmark data.

Non-executive remuneration

Non-executive director	Total remuneration [1] 2008/09 £000	2007/08 £000
Peter Jackson	**289.0**	279.5
Daniel Bernard [2]	**169.4**	140.3
John Nelson	**73.9**	73.0
Phil Bentley	**67.4**	65.8
Michael Hepher	**52.4**	50.8
Hartmut Krämer	**52.4**	50.8
Janis Kong	**52.4**	50.8
Total	**756.9**	711.0

[1] Non-executive directors are only paid fees.
[2] Daniel Bernard is paid in Euros.

Non-executive directors have letters of engagement and not service contracts. The Chairman's letter of engagement allows for six months' notice up to the age of 65 when the appointment ends without the need for notice. Other non-executive directors are appointed for an initial period of three years. Their position can be revoked without compensation at any time at the discretion of the Company.

	Date of last letter	Unexpired term	Total length of service
Peter Jackson	12/02/2009	35 months	3 years and 3 months
Daniel Bernard	17/03/2009	36 months	2 years and 10 months
John Nelson	20/03/2008	22 months	7 years and 3 months
Phil Bentley	12/02/2009	35 months	6 years and 6 months
Hartmut Krämer	12/02/2009	35 months	6 years and 5 months
Michael Hepher	19/03/2007	5 months	11 years and 7 months
Janis Kong	17/10/2006	8 months	2 years and 4 months

Directors' interests

The directors who held office at 31 January 2009 had the following interests in the shares of the Company:

Shares	Ordinary shares 31 January 2009	Ordinary shares 2 February 2008 or, if later, on appointment
Phil Bentley	18,097	18,097
Daniel Bernard	10,835	10,651
Ian Cheshire	375,177	342,506
Michael Hepher	1,599	1,599
Peter Jackson	60,000	60,000
Janis Kong	24,000	24,000
John Nelson	43,750	43,750
Kevin O'Byrne	112,994	n/a

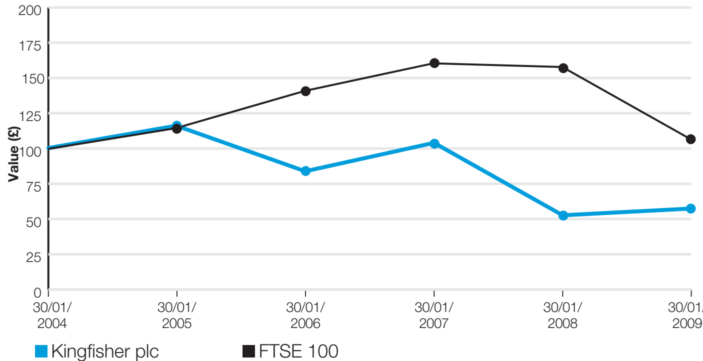
Between 31 January 2009 and 25 March 2009 there was no change in the relevant interests of the directors.

Shareholder return

The Company's TSR (share price growth plus dividends paid) for the five years to 31 January 2009 is shown in the graph below, which plots the value of £100 invested in Kingfisher over the last five financial years, assuming shares awarded in Kesa, when demerged, were sold and the proceeds re-invested in Kingfisher shares. The other line on the graph shows the performance of the FTSE100 Index over the same period.

The Company chose the FTSE100 Index as an appropriate comparator for this graph because the Company has been a constituent of that index throughout the period and its constituents are used as the comparator group for the PSP.

Total shareholder return



By order of the Board

John Nelson
Chairman of the Remuneration Committee
25 March 2009

Audit Committee report

The Audit Committee consists of four independent non-executive directors. It is chaired by Phil Bentley, who is a qualified accountant and was, until his promotion to Managing Director of British Gas, the Group Finance Director of Centrica plc and as such is considered to be suitably qualified to be the Audit Committee Chairman. He, Daniel Bernard, John Nelson and Michael Hepher served for the whole year.

At the invitation of the Committee, the Chairman of the Board and the Group Chief Executive regularly attended meetings, as did the Group Finance Director, Group Audit and Risk Management Director and the external auditors. Private meetings were also held with the external and internal auditors at which management were not present.

The Committee provides an independent overview of the effectiveness of the Group's internal control systems and financial reporting processes. The principal responsibilities include monitoring the integrity of the financial statements, including a review of the significant financial reporting judgements contained in them, and overseeing the work of both the internal and the external auditors. The Committee's terms of reference are available at www.kingfisher.com.

The principal activities of the Audit Committee during the year ended 31 January 2009 were:

Financial statements

The Committee considered reports from the Group Finance Director on the interim and annual financial statements. It reviewed the reports from the external auditors, PricewaterhouseCoopers LLP (PwC), on the scope and outcome of their interim review and annual audit. The financial statements were reviewed in light of these reports and the results of these reviews reported to the Board.

Risk management and internal control

The Committee reviewed the process by which the Group evaluated its control environment, its risk assessment process and the way in which significant business risks were managed. These included:

- monitoring the work of the internal audit function and progress in implementing the actions committed to as a result of the previous year's independent review by an external consultant – an update review will be undertaken by the same external consultant during 2009;
- considering the internal audit function's reports on the effectiveness of internal controls, significant frauds and any fraud that involved management or employees with a significant role in internal controls; and
- reviewing the policy and process enabling employees within the Group to make confidential disclosures about suspected financial and operational improprieties. The Committee received reports on the results of investigations and any corrective actions.

As reported on page 37, the review of the effectiveness of the internal control systems resulted in the identification of significant control weaknesses in B&Q China. Corrective action has been taken and regular progress reports to the Committee have and will continue to be made.

Historically Kingfisher has followed a decentralised management model. Under the new CEO, with the formation of the new Retail Board, the Group is being managed on a more integrated basis. Under this new approach a programme has been initiated to standardise and improve control processes in a number of areas including IT systems, which the Committee believes will act to enhance the control environment within Kingfisher.

External auditors

During the year, the Committee reviewed the assurances from PwC confirming the external auditors' independence and objectivity. It also reviewed and approved the scope of non-audit services provided by the Auditors to ensure that there was no impairment of independence.

The Committee approved the scope and fees for audit services provided by PwC and confirmed the wording of the recommendations put by the Board to the shareholders on the appointment and retention of the external auditors.

The Committee has reviewed the effectiveness of the external audit and the external auditors' performance and have recommended their reappointment as Auditors to the Board.

Effectiveness of the Audit Committee

As part of the Board effectiveness evaluation, the Audit Committee's work was assessed and no significant issues or concerns were highlighted.

Phil Bentley
Chairman of the Audit Committee
25 March 2009

Consolidated income statement

For the financial year ended 31 January 2009

£ millions	Notes	2008/09 Before exceptional items	2008/09 Exceptional items (note 5)	2008/09 Total	2007/08 Restated Before exceptional items	2007/08 Restated Exceptional items (note 5)	2007/08 Restated Total
Revenue	4	10,026	–	10,026	9,050	–	9,050
Cost of sales		(6,504)	(21)	(6,525)	(5,905)	–	(5,905)
Gross profit		3,522	(21)	3,501	3,145	–	3,145
Selling and distribution expenses		(2,624)	(105)	(2,729)	(2,313)	(35)	(2,348)
Administrative expenses		(496)	(124)	(620)	(449)	–	(449)
Other income		22	13	35	22	44	66
Share of post-tax results of joint ventures and associates	4	22	(36)	(14)	19	(5)	14
Operating profit		446	(273)	173	424	4	428
Analysed as:							
Retail profit	4	503	(113)	390	469	(1)	468
Impairment of goodwill and investment in associate		–	(160)	(160)	–	–	–
Central costs		(41)	–	(41)	(40)	5	(35)
Share of interest and tax of joint ventures and associates		(16)	–	(16)	(5)	–	(5)
Finance costs		(119)	–	(119)	(95)	–	(95)
Finance income		36	–	36	33	–	33
Net finance costs	6	(83)	–	(83)	(62)	–	(62)
Profit before taxation	7	363	(273)	90	362	4	366
Income tax expense	9	(95)	7	(88)	(116)	2	(114)
Profit from continuing operations		268	(266)	2	246	6	252
Profit from discontinued operations	35	26	178	204	20	–	20
Profit for the year		294	(88)	206	266	6	272
Attributable to:							
Equity shareholders of the Company				209			274
Minority interests				(3)			(2)
				206			272
Earnings per share	10						
Total operations:							
Basic				8.9p			11.7p
Diluted				8.9p			11.7p
Continuing operations:							
Basic				0.2p			10.9p
Diluted				0.2p			10.9p
Adjusted basic				11.0p			10.6p

The proposed final dividend for the financial year ended 31 January 2009, subject to approval by shareholders at the Annual General Meeting, is 3.4p per share.

Consolidated statement of recognised income and expense

For the financial year ended 31 January 2009

£ millions	Notes	2008/09	2007/08
Actuarial (losses)/gains on post employment benefits		**(191)**	47
Currency translation differences			
Group		**159**	206
Joint ventures and associates		**32**	26
(Gains)/losses transferred to income statement		**(80)**	3
Cash flow hedges			
Fair value gains/(losses)		**33**	(6)
(Gains)/losses transferred to inventories		**(10)**	8
Tax on items recognised directly in equity		**35**	(19)
Net (expense)/income recognised directly in equity		**(22)**	265
Profit for the year		**206**	272
Total recognised income for the year		**184**	537
Attributable to:			
Equity shareholders of the Company	30	**180**	537
Minority interests		**4**	–
		184	537

Consolidated balance sheet

As at 31 January 2009

£ millions	Notes	2008/09	2007/08
Non-current assets			
Goodwill	12	**2,396**	2,532
Other intangible assets	13	**73**	85
Property, plant and equipment	14	**3,699**	3,698
Investment property	15	**24**	29
Investments in joint ventures and associates	17	**219**	204
Post employment benefits	28	**–**	110
Deferred tax assets	26	**26**	25
Derivatives	24	**180**	66
Other receivables	19	**17**	13
		6,634	6,762
Current assets			
Inventories	18	**1,792**	1,873
Trade and other receivables	19	**508**	533
Derivatives	24	**107**	5
Current tax assets		**33**	1
Other investments	20	**–**	11
Cash and cash equivalents	21	**1,157**	218
		3,597	2,641
Total assets	4	**10,231**	9,403
Current liabilities			
Trade and other payables	22	**(2,362)**	(2,238)
Borrowings	23	**(389)**	(191)
Derivatives	24	**(38)**	(10)
Current tax liabilities		**(206)**	(89)
Provisions	27	**(69)**	(47)
		(3,064)	(2,575)
Non-current liabilities			
Other payables	22	**(33)**	(32)
Borrowings	23	**(1,907)**	(1,620)
Derivatives	24	**(76)**	(52)
Deferred tax liabilities	26	**(226)**	(318)
Provisions	27	**(53)**	(49)
Post employment benefits	28	**(74)**	(33)
		(2,369)	(2,104)
Total liabilities	4	**(5,433)**	(4,679)
Net assets		**4,798**	4,724
Equity			
Share capital	29	**371**	371
Share premium	29	**2,188**	2,188
Own shares held	29	**(57)**	(66)
Reserves	30	**2,281**	2,220
Minority interests		**15**	11
Total equity		**4,798**	4,724

The financial statements were approved by the Board of Directors on 25 March 2009 and signed on its behalf by:

Ian Cheshire
Group Chief Executive

Kevin O'Byrne
Group Finance Director

Consolidated cash flow statement

For the financial year ended 31 January 2009

£ millions	Notes	2008/09	2007/08
Operating activities			
Cash generated by operations	32	**867**	513
Income tax paid		**(77)**	(69)
Net cash flows from operating activities		**790**	444
Investing activities			
Purchase of minority interests		**(7)**	(1)
Purchase of property, plant and equipment, investment property and intangible assets		**(390)**	(513)
Disposal of property, plant and equipment, investment property and intangible assets		**62**	117
Disposal of investment in joint venture		**–**	50
Disposal of other investments		**12**	21
Dividends received from joint ventures and associates		**3**	6
Net cash flows from investing activities		**(320)**	(320)
Financing activities			
Interest received		**22**	22
Interest paid		**(111)**	(89)
Interest element of finance lease rental payments		**(5)**	(6)
Net (payment)/receipt on forward foreign exchange contracts		**(5)**	6
Net (payment)/receipt of bank loans		**(37)**	136
Capital element of finance lease rental payments		**(12)**	(11)
Issue of share capital to equity shareholders of the Company		**–**	3
Issue of share capital to minority interests		**1**	3
Disposal of own shares held		**–**	2
Dividends paid to equity shareholders of the Company		**(125)**	(249)
Dividends paid to minority interests		**(1)**	(4)
Net cash flows from financing activities		**(273)**	(187)
Net increase/(decrease) in cash and cash equivalents and bank overdrafts from continuing operations		**197**	(63)
Net cash flows from operating activities		**23**	21
Net cash flows from investing activities		**522**	(15)
Net cash flows from financing activities		**1**	1
Net increase in cash and cash equivalents and bank overdrafts from discontinued operations	35	**546**	7
Net increase/(decrease) in cash and cash equivalents and bank overdrafts		**743**	(56)
Cash and cash equivalents and bank overdrafts at beginning of year		**195**	245
Exchange differences		**56**	6
Cash and cash equivalents and bank overdrafts at end of year	33	**994**	195

Notes to the consolidated financial statements

1 General information

Kingfisher plc (the Company) and its subsidiaries (together the Group) retail home improvement products through a network of retail sites, located mainly in the United Kingdom, continental Europe and China.

Kingfisher plc is a Company incorporated in the United Kingdom. The nature of the Group's operations and its principal activities are set out in the Business review on pages 1 to 28.

The address of its registered office is 3 Sheldon Square, Paddington, London W2 6PX.

The company has a primary listing on the London Stock Exchange and a secondary listing on the Paris Bourse.

These consolidated financial statements have been approved for issue by the Board of Directors on 25 March 2009.

2 Principal accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

a. Basis of preparation

The consolidated financial statements of the Company and its subsidiaries are made up to the nearest Saturday to 31 January each year, except as disclosed in note 4 of the Company's separate financial statements. The current financial year is the 52 weeks ended 31 January 2009. The comparative financial year is the 52 weeks ended 2 February 2008.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, IFRIC interpretations and those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

No new standards, amendments or interpretations that became effective in these financial statements had an impact on the Group's results.

The following interpretation became effective in these financial statements but had no impact on the Group's results:

IFRIC 11 (amendment)	IFRS 2 – Group and treasury share transactions (effective from 1 March 2007)	Clarifies how to account for share-based payment arrangements where an entity receives goods or services as consideration for its own equity instruments, and how to account in a subsidiary for share-based payment arrangements involving equity instruments of the parent.

At the date of authorisation of these financial statements, the following new standards, amendments and interpretations, which are expected to be relevant to the Group's results, were issued but not yet effective:

IAS 1 (amendment)	Presentation of financial statements (effective from 1 January 2009)	Requires non-owner changes in equity to be shown in either one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Owner changes in equity will be shown in a statement of changes in equity. Restatements or reclassifications of comparative information will require an additional restated balance sheet as at the beginning of the comparative period. This will be applied in the Group's 2009/10 financial statements.
IAS 23 (amendment)	Borrowing costs (effective from 1 January 2009)	Requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. This is currently applied by the Group.
IAS 38 (amendment)	Intangible assets – Catalogue costs (effective from 1 January 2009)	Expenses incurred in printing mail order catalogues are recognised once the catalogues are printed and not when they are distributed to customers. This will be applied in the Group's 2009/10 financial statements. The impact of this is not expected to be significant at the year end, due to timings of catalogues, but may result in some small changes to quarterly phasing of profits.
IFRS 2 (amendment)	Share-based payments – Vesting conditions and cancellations (effective from 1 January 2009)	Clarifies that vesting conditions are service conditions and performance conditions only. Other features that are not vesting conditions will need to be included in the grant date fair value. All cancellations, whether by the Group or by other parties, will receive the same accounting treatment. This will be applied in the Group's 2009/10 financial statements. The impact of this is not expected to be significant.

2 Principal accounting policies continued

IFRS 8	Operating segments (effective from 1 January 2009)	IFRS 8 will replace IAS 14 and will align segment reporting with the requirements of the US standard SFAS 131 'Disclosures about segments of an enterprise and related information'. The new standard requires 'a management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This will be applied in the Group's 2009/10 financial statements. This is a disclosure standard.
IFRIC 13	Customer loyalty programmes (effective from 1 January 2009)	Clarifies that where goods or services are sold together with a customer loyalty incentive (for example loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. This is currently applied by the Group.
IFRS 3 (amendment)	Business combinations (effective from 1 July 2009)	Harmonises business combination accounting with US GAAP. The standard will continue to apply the acquisition method to business combinations, but with certain significant changes. All payments to purchase a business will be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through income. Goodwill and non-controlling (minority) interests may be calculated on a gross or net basis. All transaction costs will be expensed. This is still subject to endorsement by the European Union, but is expected to be applied in the Group's 2010/11 financial statements.
IAS 27 (amendment)	Consolidated and separate financial statements – Non-controlling interests (effective from 1 July 2009)	Requires the effects of all transactions with non-controlling (minority) interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. This is still subject to endorsement by the European Union, but is expected to be applied in the Group's 2010/11 financial statements.

The comparatives have been restated for the discontinuance of the Castorama Italy business (note 35).

The consolidated financial statements have been prepared under the historical cost convention, as modified by the use of valuations for certain financial instruments, share-based payments and post employment benefits. A summary of the principal Group accounting policies is set out below.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

Use of adjusted measures

Kingfisher believes that retail profit, adjusted pre-tax profit, adjusted post-tax profit and adjusted earnings per share provide additional useful information on underlying trends to shareholders. These measures are used by Kingfisher for internal performance analysis and incentive compensation arrangements for employees. The terms 'retail profit', 'exceptional items' and 'adjusted' are not defined terms under IFRS and may therefore not be comparable with similarly titled profit measures reported by other companies. It is not intended to be a substitute for, or superior to, GAAP measurements of profit. The term 'adjusted' refers to the relevant measure being reported for continuing operations excluding exceptional items, financing fair value remeasurements, amortisation of acquisition intangibles, related tax items and prior year tax items. Retail profit is defined as continuing operating profit before central costs (principally the costs of the Group's head office), exceptional items, amortisation of acquisition intangibles and the Group's share of interest and tax of joint ventures and associates.

The separate reporting of non-recurring exceptional items, which are presented as exceptional within their relevant income statement category, helps provide an indication of the Group's underlying business performance. The principal items which will be included as exceptional items are:

- non trading items included in operating profit such as profits and losses on the disposal, closure or impairment of subsidiaries, associates and investments which do not form part of the Group's trading activities;
- profits and losses on the disposal of properties; and
- the costs of significant restructuring and incremental acquisition integration costs.

b. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company, its subsidiaries, joint ventures and associates.

(i) Subsidiaries

Subsidiary undertakings are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiary undertakings acquired during the period are recorded under the acquisition method of accounting and their results included from the date of acquisition. The results of subsidiaries which have been disposed of during the period are included up to the effective date of disposal.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net

assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Joint ventures and associates

Joint ventures are entities over which the Group has equal joint control, with a third party, to govern the financial and operating activities of that entity. The equity method is used to account for the Group's investments in joint ventures.

Associates are entities over which the Group has the ability to exercise significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The equity method is used to account for the Group's investments in associates.

Under the equity method investments are initially recognised at cost. The Group's investments in joint ventures and associates include goodwill (net of any accumulated impairment losses) identified on acquisition.

The Group's share of post-acquisition profits or losses is recognised in the income statement within operating profit, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses equals or exceeds its interest, including any other long term receivables, the Group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the joint venture or associate.

Unrealised gains on transactions between the Group and its joint ventures and associates are eliminated to the extent of the Group's interest. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures and associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

c. Foreign currencies

(i) Functional and presentation currency

The consolidated financial statements are presented in Sterling, which is the Group's presentation currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

(ii) Transactions and balances

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the date of the transaction or, for practical reasons, at average monthly rates where exchange rates do not fluctuate significantly.

Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange at the balance sheet date. Exchange differences on monetary items are taken to the income statement. Exceptions to this are where the monetary items form part of the net investment in a foreign operation or are designated and effective net investment or cash flow hedges. Such exchange differences are initially deferred in equity.

(iii) Group companies

The balance sheets of overseas subsidiary undertakings are expressed in Sterling at the rates of exchange at the balance sheet date. Profits and losses of overseas subsidiary undertakings are expressed in Sterling at average exchange rates for the period. Exchange differences arising on the retranslation of foreign operations are recognised in a separate component of equity.

On consolidation, exchange differences arising from the retranslation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rates of exchange at the balance sheet date.

Principal rates of exchange:

	2008/09		2007/08	
	Year end rate	Average rate	Year end rate	Average rate
Euro/£	**1.12**	**1.24**	1.33	1.45
US Dollar/£	**1.44**	**1.81**	1.97	2.00
Polish Zloty/£	**5.02**	**4.39**	4.77	5.43
Chinese Renminbi/£	**9.86**	**12.51**	14.64	15.21

d. Revenue recognition

Revenue comprises retail sales and services supplied. Revenue excludes transactions made between companies within the Group, Value Added Tax, other sales-related taxes and is net of returns, staff and trade discounts.

Revenue relating to the sale of in-store product is generally earned at the point of cash receipt. Where award credits such as vouchers or loyalty points are provided as part of the sales transaction, revenue allocated to the credits is deferred and recognised when the credits are redeemed and the Group fulfils its obligations to supply the awards.

All other revenue is recognised when the product has been delivered or, for installation income, when the service has been performed. Delivered products and service income represent only a small component of the Group's revenue as a majority of the Group's sales relate to in-store purchase of product.

e. Dividends

Interim dividends are recognised when they are paid to the Company's shareholders. Final dividends are recognised when they are approved by the Company's shareholders.

f. Intangible assets

(i) Goodwill

Goodwill is carried at cost less accumulated impairment losses. Goodwill is not amortised and is tested annually for impairment by assessing the recoverable amount of each cash generating unit or groups of cash generating units to which the goodwill relates. The recoverable amount is assessed by reference to the net present value of expected future pre-tax cash flows ('value-in-use') or fair value less costs to sell if higher. The discount rate applied is based upon the Group's weighted average cost of capital with appropriate adjustments for the risks associated with the relevant cash generating unit or groups of cash generating units. When the recoverable amount of the goodwill is less than its carrying amount, an impairment loss is recognised immediately in the income statement which cannot subsequently be reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of two to five years.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, which are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development, employee and consultancy costs and an appropriate portion of relevant overheads. Costs associated with identifying, sourcing, evaluating or maintaining computer software are recognised as an expense as incurred.

g. Property, plant and equipment

(i) Cost

Land and buildings held for use in the business are carried at cost less accumulated depreciation and any provisions for impairment. Fixtures, fittings and equipment are carried at cost less accumulated depreciation and any provisions for impairment.

2 Principal accounting policies continued

(ii) Depreciation

Depreciation of property, plant and equipment is provided to reflect a reduction from cost to estimated residual value over the estimated useful life of the asset to the Group. Depreciation of property, plant and equipment is calculated using the straight line method and the annual rates applicable to the principal categories are:

Freehold and long leasehold buildings	–	between 2% and 5%
Short leasehold land and buildings	–	over remaining period of the lease
Fixtures and fittings	–	between 5% and 25%
Computers and electronic equipment	–	between 25% and 50%
Motor cars	–	25%
Commercial vehicles	–	between 10% and 33%

Freehold land is not depreciated. Asset lives and residual values are reviewed at each balance sheet date.

(iii) Impairment

Property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future pre-tax cash flows ('value-in-use') of the relevant cash generating unit or fair value less costs to sell if higher. The discount rate applied is based upon the Group's weighted average cost of capital with appropriate adjustments for the risks associated with the relevant cash generating unit. Any impairment in value is charged to the income statement in the period in which it occurs.

(iv) Disposal

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement. Sales of land and buildings are accounted for when there is an unconditional exchange of contracts.

(v) Subsequent costs

Subsequent costs are included in the related asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement in the period in which they are incurred.

h. Leased assets

Where assets are financed by leasing agreements which give rights approximating to ownership, the assets are treated as if they have been purchased outright. The amount capitalised is the lower of the fair value or the present value of the minimum lease payments during the lease term at the inception of the lease. The assets are depreciated over the shorter of the lease term or their useful life. Obligations relating to finance leases, net of finance charges in respect of future periods, are included, as appropriate, under borrowings due within or after one year. The finance charge element of rentals is charged to finance costs in the income statement over the lease term.

All other leases are operating leases and the rental payments are generally charged to the income statement in the period to which the payments relate, except for those leases which incorporate fixed minimum rental uplift clauses. Leases which contain fixed minimum rental uplifts are charged to the income statement on a straight line basis over the lease term.

Where a lease is taken out for land and buildings combined, the buildings element of the lease may be capitalised as a finance lease if it meets the criteria for a finance lease, but the land element will always be classed as an operating lease. If the contracted lease payments are not split between land and buildings in the lease contract, the split is made based on the market values of the land and buildings at the inception of the lease.

Incentives received or paid to enter into lease agreements are released to the income statement on a straight line basis over the lease term.

i. Investment property

Investment property is property held by the Group to earn rental income or for capital appreciation. The Group's investment properties are carried at cost less depreciation and provision for impairment.

j. Capitalisation of borrowing costs

Interest on borrowings to finance the construction of properties held as non-current assets is capitalised from the date work starts on the property to the date when substantially all the activities which are necessary to get the property ready for use are complete. Where construction is completed in parts, each part is considered separately when capitalising interest. Interest is capitalised before any allowance for tax relief.

k. Inventories

Inventories are stated at the lower of cost and net realisable value, on a weighted average cost basis. Cost includes appropriate attributable overheads and direct expenditure incurred in the normal course of business in bringing goods to their present location and condition.

Rebates receivable from suppliers are credited to the carrying value of inventory in the period in which they are earned.

Costs of inventories include the transfer from equity of any gains or losses on qualifying cash flow hedges relating to purchases.

l. Employee benefits

(i) Post employment benefits

The Group operates various defined benefit and defined contribution pension schemes for its employees, some of which are required by local legislation. A defined benefit scheme is a pension scheme which defines an amount of pension benefit which an employee will receive on retirement. A defined contribution scheme is a pension scheme under which the Group usually pays fixed contributions into a separate entity. In all cases other than some of the legally required schemes, a separate fund is being accumulated to meet the accruing liabilities. The assets of each of these funds are either held under trusts or managed by insurance companies and are entirely separate from the Group's assets.

The asset or liability recognised in the balance sheet in respect of defined benefit pension schemes is the fair value of scheme assets less the present value of the defined benefit obligation at the balance sheet date, together with an adjustment for any past service costs not yet recognised. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds which are denominated in the currency in which the benefits will be paid and which have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited or charged to the statement of recognised income and expense as they arise.

Past service costs are recognised immediately in the income statement, unless the changes to the pension scheme are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight line basis over the vesting period.

For defined contribution schemes, the Group pays contributions to privately administered pension schemes on a contractual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

(ii) Share-based compensation

The Group operates several equity-settled, share-based compensation schemes. The fair value of the employee services received in exchange for the grant of options or deferred shares is recognised as an expense and is calculated using Black-Scholes and stochastic models. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or deferred shares granted,

excluding the impact of any non-market vesting conditions. The value of the charge is adjusted to reflect expected and actual levels of options vesting due to non-market vesting conditions.

m. Taxation

The income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the income statement because it excludes items of income or expense which are taxable or deductible in other years or which are never taxable or deductible. The Group's liability for current tax is calculated using tax rates which have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences or unused tax losses can be utilised. Deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill in a business combination. Deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply in the period when the liability is settled or the asset is realised.

Deferred tax assets and liabilities are offset against each other when they relate to income taxes levied by the same tax jurisdiction and when the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the current or deferred tax is also recognised directly in equity.

n. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate which reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

o. Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or the Group has substantially transferred the risks and rewards of ownership. Financial liabilities (or a part of a financial liability) are derecognised when the obligation specified in the contract is discharged or cancelled or expires.

(i) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks and other short term highly liquid investments with original maturities of three months or less.

(ii) Borrowings

Interest bearing borrowings are recorded at the proceeds received, net of direct issue costs and subsequently measured at amortised cost. Where borrowings are in designated and effective fair value hedge relationships, adjustments are made to their carrying amounts to reflect the hedged risks. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are amortised to the income statement using the effective interest method.

(iii) Other investments

Other investments are measured at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement for the period.

(iv) Trade receivables

Trade receivables are initially recognised at fair value and are subsequently measured at amortised cost less any provision for bad and doubtful debts.

(v) Trade payables

Trade payables are initially recognised at fair value and are subsequently measured at amortised cost.

(vi) Derivatives and hedge accounting

Where hedge accounting is not applied, or to the extent to which it is not effective, changes in the fair value of derivatives are recognised in the income statement as they arise. Changes in the fair value of derivatives transacted as hedges of operating items and financing items are recognised in operating profit and net finance costs respectively. 'Financing fair value remeasurements' represent changes in the fair value of financing derivatives, excluding interest accruals, offset by fair value adjustments to the carrying amount of borrowings and other hedged items under fair value hedge relationships. Financing derivatives are those that relate to underlying items of a financing nature.

Derivatives are initially recorded at fair value on the date a derivative contract is entered into and are subsequently carried at fair value. The accounting treatment of derivatives classified as hedges depends on their designation, which occurs on the date that the derivative contract is committed to. The Group designates certain derivatives as:

- a hedge of the fair value of an asset or liability or unrecognised firm commitment ('fair value hedge');
- a hedge of a highly probable forecast transaction or firm commitment ('cash flow hedge'); or
- a hedge of a net investment in a foreign operation ('net investment hedge').

Fair value hedges

For an effective hedge of an exposure to changes in fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry being recorded in the income statement. Gains or losses from remeasuring the corresponding hedging instrument are recognised in the same line of the income statement.

Cash flow hedges

Changes in the effective portion of the fair value of derivatives that are designated as hedges of future cash flows are recognised directly in equity, and the ineffective portion is recognised immediately in the income statement where relevant. If the cash flow hedge of a firm commitment or forecast transaction results in the recognition of a non-financial asset or liability, then, at the time it is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the non-financial asset or liability. For hedges that result in the recognition of a financial asset or liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Notes to the consolidated financial statements

2 Principal accounting policies continued

Net investment hedges

Where the Group hedges net investments in foreign operations through currency borrowings, the gains or losses on the retranslation of the borrowings are recognised in equity. If the Group uses derivatives as the hedging instrument, the effective portion of the hedge is recognised in equity, with any ineffective portion being recognised in the income statement. Gains and losses accumulated in equity are recycled through the income statement on disposal of the foreign operation.

In order to qualify for hedge accounting, the Group documents in advance the relationship between the item being hedged and the hedging instrument. The Group also documents and demonstrates an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge has been and will be highly effective on an ongoing basis. The effectiveness testing is re-performed at each period end to ensure that the hedge remains highly effective.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the highly probable forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts, and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

3 Critical accounting estimates and judgements

The preparation of consolidated financial statements under IFRS requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill and other assets

As required, the Group applies procedures to ensure that its assets are carried at no more than their recoverable amount. The procedures, by their nature, require estimates and assumptions to be made. The most significant are as follows:

The Group is required, on at least an annual basis, to test whether goodwill has suffered any impairment. As part of this testing the recoverable amounts of cash generating units have been determined based on value-in-use calculations. The use of this method requires the estimation of future cash flows expected to arise from the continuing operation of the cash generating unit and the choice of a suitable discount rate in order to calculate the present value of the forecast cash flows. Actual outcomes could vary significantly from these estimates. At 31 January 2009 the net carrying amount of goodwill was £2,396m, including a provision for impairment of £124m. Refer to note 12 for further information.

Property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount of an asset or a cash generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates.

At each reporting date the Group is required to assess whether there is objective evidence that its investments in associates and joint ventures may be impaired. As a result of the current challenging trading environment the Group recognised a write down of £36m against the Group's investment in its Hornbach associate. Details of the principal assumptions are shown in note 17.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income taxes in each territory. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts which were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. See notes 9 and 26 for further information.

Post employment benefits

The present value of the defined benefit liabilities recognised on the balance sheet is dependent on a number of assumptions including interest rates of high quality corporate bonds, inflation and mortality rates. The net interest charge or return is dependent on both the interest rates of high quality corporate bonds and the assumed investment returns on scheme assets. The assumptions are based on the conditions at the time and changes in these assumptions can lead to significant movements in the estimated obligations. The key assumptions including sensitivity analysis are detailed in note 28.

Restructuring provisions

The Group carries a number of provisions in relation to historical and ongoing restructuring programmes. At the year end the provisions totalled £105m (2007/08: £88m). The most significant part of the provisions is the cost to exit stores and property contracts. The ultimate costs and timing of cash flows are dependent on exiting the property lease contracts on the closed stores and subletting surplus space. Refer to note 27 for further information.

An exceptional loss of £107m has been recorded relating to the B&Q China turnaround plan. The plan involves rationalising the store portfolio and revamping the remaining stores. The exceptional loss comprises store asset impairments, lease exits, inventory write downs and employee redundancy costs. The ultimate costs and timing of cash flows include judgements on the cost of exit of the stores and the net realisable value of inventories. Refer to note 5 for further information.

4 Segmental analysis

Income statement

£ millions	United Kingdom	France	Other International Poland	Other International Other	Total
					Year ended 31 January 2009
External revenue	**4,279**	**3,888**	**1,036**	**823**	**10,026**
Retail profit	**129**	**283**	**124**	**(33)**	**503**
Exceptional items	**(18)**	**13**	**–**	**(268)**	**(273)**
Less: Share of operating profit of joint ventures and associates	**–**	**(1)**	**–**	**(1)**	**(2)**
Segment result before joint ventures and associates	**111**	**295**	**124**	**(302)**	**228**
Share of post-tax results of joint ventures and associates	**–**	**1**	**–**	**(15)**	**(14)**
Segment result	**111**	**296**	**124**	**(317)**	**214**
Central costs					**(41)**
Operating profit					**173**
Net finance costs					**(83)**
Profit before taxation					**90**
Income tax expense					**(88)**
Profit from continuing operations					**2**
Profit from discontinued operations					**204**
Profit for the year					**206**

£ millions	United Kingdom	France	Other International Poland	Other International Other	Total
					Year ended 2 February 2008 Restated
External revenue	4,395	3,224	703	728	9,050
Retail profit	153	237	87	(8)	469
Exceptional items before central costs	38	1	–	(40)	(1)
Less: Share of operating profit of joint ventures and associates	–	–	–	(19)	(19)
Segment result before joint ventures and associates	191	238	87	(67)	449
Share of post-tax results of joint ventures and associates	–	–	–	14	14
Segment result	191	238	87	(53)	463
Central costs					(35)
Operating profit					428
Net finance costs					(62)
Profit before taxation					366
Income tax expense					(114)
Profit from continuing operations					252
Profit from discontinued operations					20
Profit for the year					272

The Group's primary reporting segments are geographic, with the Group operating in three main geographical areas, being the UK, France and Other International. The Group only has one business segment, being retail, therefore no secondary segmental disclosure is given.

The Other International segment consists of Poland, China, Ireland, Spain, Russia, the joint venture Koçtaş in Turkey and the associate Hornbach which has operations in Germany and other European countries. Taiwan, South Korea and the former Asia head office were sold or closed in the prior year and so are included in comparatives only. The 'Rest of Europe' and 'Asia' segments previously reported have been combined into the 'Other International' segment in order to align external reporting with internal management reporting. Poland has been shown separately as it meets the reportable segment criteria as prescribed by IAS 14 'Segment Reporting'.

Central costs have not been allocated. These principally comprise the costs of the Group's head office.

4 Segmental analysis continued

Balance sheet

£ millions	United Kingdom	France	Other International Poland	Other International Other	Unallocated	Total
At 31 January 2009						
Segment assets excluding joint ventures and associates	**4,146**	**3,043**	**624**	**680**	**1,519**	**10,012**
Investments in joint ventures and associates	**–**	**9**	**–**	**210**	**–**	**219**
Segment assets	**4,146**	**3,052**	**624**	**890**	**1,519**	**10,231**
Segment liabilities	**(1,049)**	**(977)**	**(118)**	**(304)**	**(2,985)**	**(5,433)**
At 2 February 2008						
Segment assets excluding joint ventures and associates	4,409	2,699	613	1,181	297	9,199
Investments in joint ventures and associates	–	8	–	196	–	204
Segment assets	4,409	2,707	613	1,377	297	9,403
Segment liabilities	(1,125)	(790)	(92)	(347)	(2,325)	(4,679)

Unallocated assets and liabilities include those assets and liabilities pertaining to the Head Office function, including Group net debt and the Group's tax related balances. The proceeds on disposal of Castorama Italy are included within unallocated assets.

Other segmental information

£ millions	United Kingdom	France	Other International Poland	Other International Other	Unallocated	Total
Year ended 31 January 2009						
Capital expenditure						
Other intangible assets	**12**	**3**	**1**	**–**	**–**	**16**
Property, plant and equipment	**171**	**107**	**45**	**60**	**2**	**385**
Amortisation and depreciation	**150**	**71**	**12**	**30**	**2**	**265**
Impairment losses	**6**	**–**	**–**	**179**	**–**	**185**
Write down of investment in associate	**–**	**–**	**–**	**36**	**–**	**36**
Year ended 2 February 2008						
Restated						
Capital expenditure						
Goodwill	–	–	–	4	–	4
Other intangible assets	22	4	–	1	2	29
Property, plant and equipment	245	121	47	76	2	491
Amortisation and depreciation	127	59	11	24	5	226
Impairment losses	–	–	–	19	–	19

Other segmental information is reported on a continuing operations basis, with capital expenditure reported on an accruals basis.

5 Exceptional items

£ millions	2008/09	2007/08
Included within cost of sales		
China restructuring	**(21)**	–
	(21)	–
Included within selling and distribution expenses		
China restructuring	**(86)**	(22)
UK restructuring	**(19)**	–
Loss on closure of B&Q Home in South Korea and Asia head office	**–**	(13)
	(105)	(35)
Included within administrative expenses		
Impairment of goodwill (note 12)	**(124)**	–
	(124)	–
Included within other income		
Profit on disposal of properties	**13**	39
Recovery of loan receivable previously written off	**–**	5
	13	44
Included within share of post-tax results of joint ventures and associates		
Impairment of investment in Hornbach (note 17)	**(36)**	–
Gross profit on disposal of B&Q Taiwan joint venture before goodwill	**–**	27
Goodwill attributed to B&Q Taiwan joint venture	**–**	(32)
	(36)	(5)
Exceptional items before tax	**(273)**	4
Tax on exceptional items (note 9)	**7**	2
Exceptional items – continuing operations	**(266)**	6
Exceptional items – discontinued operations (note 35)	**178**	–
Exceptional items	**(88)**	6

An exceptional loss of £107m has been recorded relating to the B&Q China turnaround plan. The plan involves rationalising the store portfolio from 63 to 41 and then revamping the remaining stores, 17 of which will also be downsized. The exceptional loss comprises store asset impairments, lease exits, inventory write downs and employee redundancy costs. The total charge included £19m related to the termination of leases, which is included within restructuring provisions, £55m related to the impairment of property, plant and equipment and £21m related to the write down of inventories.

The Group has recorded an exceptional loss of £19m following the announcement that Trade Depot in the UK would be closed, which includes a loss on disposal of properties of £6m.

An exceptional loss of £124m has been recorded on the impairment of goodwill in China based on a review of its recoverable amount performed at the year end. The goodwill balance, whose cost increased from £84m at the beginning of the year to £124m at the year end due to foreign exchange differences, has now been fully written down.

The Group has recorded an exceptional profit of £13m on disposal of properties (2007/08: £39m profit).

An exceptional loss of £36m has been recorded on the write down of the Group's investment in Hornbach.

6 Net finance costs

£ millions	2008/09	2007/08
Bank overdrafts and bank loans	**(23)**	(15)
Medium Term Notes and other fixed term debt	**(86)**	(79)
Financing fair value remeasurements	**(5)**	5
Finance leases	**(5)**	(6)
Unwinding of discount on provisions	**(3)**	(3)
Capitalised interest	**3**	3
Finance costs	**(119)**	(95)
Cash and cash equivalents and other investments	**23**	21
Expected net interest return on defined benefit pension schemes	**13**	12
Finance income	**36**	33
Net finance costs – continuing operations	**(83)**	(62)

6 Net finance costs continued

Medium Term Notes and other fixed term debt interest includes net interest expense accrued on derivatives of £8m (2007/08: £7m income) and amortisation of issue costs of borrowings of £1m (2007/08: £1m).

Capitalised interest relates to the centrally held borrowing pool and is calculated by applying a capitalisation rate of 6.7% (2007/08: 6.6%) to expenditure on qualifying assets.

Financing fair value remeasurements comprise a net gain on derivatives, excluding accrued interest, of £174m (2007/08: £66m gain), offset by a net loss from fair value adjustments to the carrying value of borrowings of £179m (2007/08: £61m loss). The net gain on derivatives includes ineffectiveness gains on net investment hedges of £nil (2007/08: £3m gains).

7 Profit before taxation

The following items have been charged/(credited) in arriving at profit before taxation for continuing operations:

£ millions	2008/09	2007/08 Restated
Operating lease rentals [1]		
Minimum lease payments	**405**	363
Sublease income	**(17)**	(18)
	388	345
Rental income received on investment property	**(4)**	(4)
Repairs and maintenance	**94**	87
Amortisation of other intangible assets [2]	**34**	36
Depreciation of property, plant and equipment and investment property		
Owned assets	**225**	181
Under finance leases	**6**	9
Impairment of goodwill	**124**	–
Impairment of other intangible assets [2]	**–**	2
Impairment of property, plant and equipment and investment property	**61**	17
Write down of investment in associate	**36**	–
(Profit)/loss on disposal		
Land and buildings and investment property	**(7)**	(39)
Fixtures, fittings and equipment	**18**	10
Investment in joint venture	**–**	5
Inventories: write down to net realisable value [3]	**63**	39
Trade receivables: write down of bad and doubtful debts	**7**	2
Currency translation differences [4]	**(28)**	(5)
Staff costs (note 8)	**1,359**	1,218
Auditors' remuneration (see below)	**3**	3

[1] Of the operating lease rental charge for continuing operations, £30m related to plant and equipment (2007/08 restated: £28m).
[2] Of the amortisation and impairment of other intangible assets charge for continuing operations, £4m (2007/08: £6m) and £30m (2007/08: £32m) were included in selling and distribution expenses and administrative expenses respectively.
[3] There were no reversals of write downs of inventories in the year (2007/08: £nil). The write down includes £21m as a result of the China restructuring programme.
[4] Excludes currency translation differences arising on derivatives, which substantially offset the amounts recorded above.

Auditors' remuneration

£ millions	2008/09	2007/08
Fees payable to the Company's auditor for the audit of the Company and consolidated financial statements	**0.5**	0.6
Fees payable to the Company's auditor for the audit of the Company's subsidiaries pursuant to legislation	**1.8**	1.3
Audit fees	**2.3**	1.9
Other services supplied pursuant to legislation	**0.1**	0.2
Tax advisory services	**0.7**	0.5
All other services	**0.1**	0.4
Auditors' remuneration	**3.2**	3.0

All of the auditors' remuneration was paid to PricewaterhouseCoopers firms and its associates.

8 Employees and directors

£ millions	2008/09	2007/08 Restated
Wages and salaries	**1,101**	1,001
Social security costs	**214**	178
Post employment benefits		
Defined contribution	**6**	5
Defined benefit	**23**	28
Share-based payments	**15**	6
Employee benefit expenses – continuing operations	**1,359**	1,218
Wages and salaries	**46**	40
Social security costs	**15**	12
Employee benefit expenses – discontinued operations	**61**	52
Employee benefit expenses	**1,420**	1,270

Number thousands	2008/09	2007/08 Restated
Stores	**79**	79
Administration	**4**	4
Average number of persons employed – continuing operations	**83**	83
Stores	**2**	2
Average number of persons employed – discontinued operations	**2**	2
Average number of persons employed	**85**	85

The average number of persons employed excludes employees in the Group's joint ventures and associates.

Remuneration of key management personnel

£ millions	2008/09	2007/08
Short term employee benefits	**6.9**	8.7
Post employment benefits	**0.4**	0.8
Termination benefits	**1.0**	2.8
Share-based payments	**2.4**	1.9
	10.7	14.2

Key management consists of the Kingfisher plc Board and the Chief Executives of Kingfisher UK, Kingfisher France and Kingfisher Other International. In the prior year key management consisted of the Kingfisher plc Board, the Executive Committee and the Chief Executives of certain of our operating businesses.

Further detail with respect to the Directors' remuneration is set out in the Remuneration report on pages 39 to 47.

There were no transactions with key management during the year (2007/08: £nil).

9 Income tax expense

£ millions	2008/09	2007/08 Restated
UK corporation tax		
Current tax on profits for the year	**34**	19
Adjustments in respect of prior years	**(14)**	(29)
	20	(10)
Double taxation relief	**–**	(1)
	20	(11)
Overseas tax		
Current tax on profits for the year	**111**	88
Adjustments in respect of prior years	**6**	–
	117	88
Deferred tax		
Current year	**(41)**	19
Adjustments in respect of prior years	**(8)**	21
Adjustments in respect of changes in tax rates	**–**	(3)
	(49)	37
Income tax expense – continuing operations	**88**	114

Factors affecting tax charge for the year

The tax charge for the year differs from the standard rate of corporation tax in the UK of 28%. The differences are explained below:

£ millions	2008/09	2007/08 Restated
Profit before taxation – continuing operations	**90**	366
Profit multiplied by the standard rate of corporation tax in the UK of 28% (2007/08: 30%)	**25**	110
Share of post-tax results of associates and joint ventures	**4**	(4)
Expenses not deductible for tax purposes	**11**	12
Temporary differences:		
– Net gains on property	**(4)**	(5)
– Losses not recognised	**62**	14
Foreign tax rate differences	**6**	(2)
Adjustments in respect of prior years or changes in tax rates	**(16)**	(11)
Income tax expense – continuing operations	**88**	114

The effective rate of tax on profit from continuing operations before exceptional items and excluding tax adjustments in respect of prior years and changes in tax rates is 31% (2007/08 restated: 31%). Tax on exceptional items is a credit of £7m, all of which relates to current year items. In 2007/08 tax on exceptional items was a credit of £2m, of which a £14m charge related to current year items and a £16m credit related to prior year items. Excluding exceptional items the prior year adjustment in 2007/08 was a charge of £5m.

In addition to the amounts charged to the income statement, tax of £35m was credited directly to equity (2007/08: £19m charge), of which a £37m credit (2007/08: £13m charge) results from deferred tax and a £2m charge (2007/08: £6m charge) results from current tax.

Kingfisher paid €138m tax to the French tax authorities in the year ended 31 January 2004 as a consequence of the Kesa Electricals demerger and recorded this as an exceptional tax charge. Proceedings for the recovery of this tax have been initiated and although this may take several years to be resolved, Kingfisher believes that the risk of ultimately being liable for this amount is low. No asset has been recognised in these financial statements.

In certain circumstances, it is possible that the conditions of the UK and French tax clearances for the demerger of Kesa Electricals in the year ended 31 January 2004 could be breached. Whilst the consequences of such a breach could be significant, the Group actively monitors compliance with these conditions and believes that the likelihood of any breach is remote.

10 Earnings per share

	2008/09			2007/08 Restated		
	Earnings £ millions	Weighted average number of shares millions	Earnings per share pence	Earnings £ millions	Weighted average number of shares millions	Earnings per share pence
Total operations:						
Basic earnings per share	**209**	**2,345**	**8.9**	274	2,342	11.7
Dilutive share options		**9**	**–**		9	–
Diluted earnings per share	**209**	**2,354**	**8.9**	274	2,351	11.7
Continuing operations:						
Basic earnings per share	**5**	**2,345**	**0.2**	254	2,342	10.9
Dilutive share options		**9**	**–**		9	–
Diluted earnings per share	**5**	**2,354**	**0.2**	254	2,351	10.9
Basic earnings per share	**5**	**2,345**	**0.2**	254	2,342	10.9
Exceptional items	**273**		**11.7**	(4)		(0.2)
Tax on exceptional and prior year items	**(23)**		**(1.0)**	3		0.1
Financing fair value remeasurements	**5**		**0.2**	(5)		(0.2)
Tax on financing fair value remeasurements	**(2)**		**(0.1)**	2		–
Adjusted basic earnings per share	**258**	**2,345**	**11.0**	250	2,342	10.6
Diluted earnings per share	**5**	**2,354**	**0.2**	254	2,351	10.9
Exceptional items	**273**		**11.7**	(4)		(0.2)
Tax on exceptional and prior year items	**(23)**		**(1.0)**	3		0.1
Financing fair value remeasurements	**5**		**0.2**	(5)		(0.2)
Tax on financing fair value remeasurements	**(2)**		**(0.1)**	2		–
Adjusted diluted earnings per share	**258**	**2,354**	**11.0**	250	2,351	10.6

Basic earnings per share is calculated by dividing the profit for the year attributable to equity shareholders of the Company by the weighted average number of shares in issue during the year, excluding those held in the Employee Share Ownership Plan Trust (ESOP) which for the purpose of this calculation are treated as cancelled.

For diluted earnings per share, the weighted average number of shares is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's shares during the year.

11 Dividends

£ millions	2008/09	2007/08
Dividends to equity shareholders of the Company		
Final dividend for the year ended 2 February 2008 of 3.4p per share (3 February 2007: 6.8p per share)	**80**	159
Interim dividend for the year ended 31 January 2009 of 1.925p per share (2 February 2008: 3.85p per share)	**45**	90
	125	249

The proposed final dividend for the year ended 31 January 2009 of 3.4p per share is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

12 Goodwill

£ millions	
Cost	
At 3 February 2008	**2,532**
Disposals	**(55)**
Exchange differences	**43**
At 31 January 2009	**2,520**
Impairment	
At 3 February 2008	**–**
Charge for the year	**(124)**
At 31 January 2009	**(124)**
Net carrying amount	
At 31 January 2009	**2,396**
Cost and net carrying amount	
At 4 February 2007	2,552
Additions	4
Disposals	(32)
Exchange differences	8
At 2 February 2008	2,532

Impairment tests for goodwill

Goodwill has been allocated for impairment testing purposes to groups of cash generating units (CGUs) as follows:

£ millions	United Kingdom	France	Poland	Italy	China	Total
At 31 January 2009						
Cost	**1,796**	**519**	**81**	**–**	**124**	**2,520**
Impairment	**–**	**–**	**–**	**–**	**(124)**	**(124)**
Net carrying amount	**1,796**	**519**	**81**	**–**	**–**	**2,396**
At 2 February 2008						
Cost and net carrying amount	1,796	516	81	55	84	2,532

The recoverable amounts of these groups of CGUs have been determined based on value-in-use calculations. The groups of CGUs for which the carrying amount of goodwill is deemed significant are the UK and France. The key assumptions used for value-in-use calculations are set out below:

Assumptions

- The cash flow projections are based on financial budgets and strategic plans approved by the Board covering a five year period. These are based on both past performance and expectations for future market development.
- Key drivers in the plans are like-for-like (LFL) sales, margin and operating profit percentage. LFL sales are based on the Group's market expectations and the CGUs' market shares.
- Cash flows beyond this five year period are calculated using a growth rate of 1.9% (2007/08: 1.8% in France, 2.25% elsewhere in the Group) which does not exceed the long term average growth rate for retail businesses operating in the same countries as the CGUs.
- Working capital movements are included in the model, building in anticipated movement due to the level of trading and including reductions across the group as part of the Delivering Value programme over the first three years.
- The weighted average cost of capital, used to discount future cash flows, is calculated using a combination of the cost of debt and the cost of equity balanced according to the Group's level of financial gearing. A risk adjustment is then made for the country in which the CGU operates.

United Kingdom

- Operating profits and operating margin percentages in the strategic plan do not exceed levels previously achieved.
- As part of the Delivering Value programme, the B&Q management team plans to grow operating margin from 3.3% in 2007/08 to 7% through a combination of sales density improvements, improved gross margins and lower operating cost ratios.
- The risk-adjusted discount rate of 12.0% (2007/08: 10.1%) is pre-tax and reflects the specific risks inherent in the UK market.

Based on the value-in-use calculation, the recoverable amount of goodwill exceeds its carrying amount by £700m. The Board do not consider that a reasonably possible change would lead to the recoverable amount being below the carrying amount of goodwill based on this level of headroom. Due to the level of the goodwill allocated to the UK, a sensitivity analysis has been performed with the following results:

- A decrease in cash flows of 18% would result in the value-in-use of goodwill being equal to its carrying amount.
- Five year projections are sensitive to the level and timing of cost reduction initiatives built into the plan. If operating margins were grown to 7% two years later than in the management plan, the value-in-use of goodwill would equal its carrying amount.
- An increase in the discount rate of 1.6% would result in the value-in-use of goodwill being equal to its carrying amount.
- A reduction in the growth rate applied beyond year five to a zero growth assumption would still result in the value-in-use of goodwill being significantly higher than its carrying amount.

France

- The risk-adjusted discount rate of 13.4% (2007/08: 10.4%) is pre-tax and reflects the specific risks inherent in the French market. A decrease in cash flows of 26% would result in the value-in-use of goodwill being equal to its carrying amount. The Board do not consider that a reasonably possible change would lead to the recoverable amount being below the carrying amount of goodwill based on this level of headroom.

Poland

- The risk-adjusted discount rate of 13.7% (2007/08: 10.8%) is pre-tax and reflects the specific risks inherent in the Polish market. A decrease in cash flows of 54% would result in the value-in-use of goodwill being equal to its carrying amount. The Board do not consider that a reasonably possible change would lead to the recoverable amount being below the carrying amount of goodwill based on this level of headroom.

Italy

- During the year the Group disposed of Castorama Italy (see note 35).

China

- The risk-adjusted discount rate of 15.9% (2007/08: 13.3%) is pre-tax and reflects the specific risks inherent in the Chinese market.
- Under IFRS it is not permitted to include the benefits created by future enhancement capital expenditure. Due to China undergoing a significant restructuring programme in 2009 it was not possible to include a significant level of cash flows in the value-in-use calculation.
- An impairment loss of £124m has been recognised at the year end relating to all of the goodwill in the China business, which forms part of the 'Other International' reporting segment. In 2008/09 LFLs fell by 27.9%. This has arisen due to a weak housing market following a rapid property market slow down, the dependence of the business on new apartment fit outs and increasing local competition.

13 Other intangible assets

£ millions	Computer software	Other	Total
Cost			
At 3 February 2008	**253**	**8**	**261**
Additions	**13**	**3**	**16**
Disposals	**(50)**	**–**	**(50)**
Disposal of subsidiaries	**(1)**	**–**	**(1)**
Exchange differences	**10**	**3**	**13**
At 31 January 2009	**225**	**14**	**239**
Amortisation			
At 3 February 2008	**(173)**	**(3)**	**(176)**
Charge for the year	**(34)**	**–**	**(34)**
Disposals	**50**	**–**	**50**
Disposal of subsidiaries	**1**	**–**	**1**
Exchange differences	**(6)**	**(1)**	**(7)**
At 31 January 2009	**(162)**	**(4)**	**(166)**
Net carrying amount			
At 31 January 2009	**63**	**10**	**73**
Cost			
At 4 February 2007	215	8	223
Additions	29	–	29
Disposals	–	(1)	(1)
Exchange differences	9	1	10
At 2 February 2008	253	8	261
Amortisation			
At 4 February 2007	(133)	(1)	(134)
Charge for the year	(35)	(1)	(36)
Impairment losses	(1)	(1)	(2)
Exchange differences	(4)	–	(4)
At 2 February 2008	(173)	(3)	(176)
Net carrying amount			
At 2 February 2008	80	5	85

None of the Group's other intangible assets have indefinite useful lives.

14 Property, plant and equipment

£ millions	Land and buildings	Fixtures, fittings and equipment	Total
Cost			
At 3 February 2008	**2,838**	**1,876**	**4,714**
Additions	**184**	**215**	**399**
Disposals	**(49)**	**(49)**	**(98)**
Disposal of subsidiaries	**(326)**	**(112)**	**(438)**
Transfers to investment property	**(2)**	**–**	**(2)**
Exchange differences	**257**	**187**	**444**
At 31 January 2009	**2,902**	**2,117**	**5,019**
Depreciation			
At 3 February 2008	**(178)**	**(838)**	**(1,016)**
Charge for the year	**(39)**	**(196)**	**(235)**
Impairment losses	**–**	**(61)**	**(61)**
Disposals	**1**	**30**	**31**
Disposal of subsidiaries	**10**	**42**	**52**
Exchange differences	**(20)**	**(71)**	**(91)**
At 31 January 2009	**(226)**	**(1,094)**	**(1,320)**
Net carrying amount			
At 31 January 2009	**2,676**	**1,023**	**3,699**
Cost			
At 4 February 2007	2,428	1,604	4,032
Additions	229	278	507
Disposals	(72)	(71)	(143)
Reclassifications	17	(17)	–
Exchange differences	236	82	318
At 2 February 2008	2,838	1,876	4,714
Depreciation			
At 4 February 2007	(142)	(679)	(821)
Charge for the year	(28)	(170)	(198)
Impairment losses	–	(17)	(17)
Disposals	3	59	62
Exchange differences	(11)	(31)	(42)
At 2 February 2008	(178)	(838)	(1,016)
Net carrying amount			
At 2 February 2008	2,660	1,038	3,698
Assets in the course of construction included above at net carrying amount			
At 31 January 2009	**124**	**37**	**161**
At 2 February 2008	217	52	269
Assets held under finance lease included above at net carrying amount			
At 31 January 2009	**28**	**20**	**48**
At 2 February 2008	27	19	46

The Group has recognised impairment losses of £61m, including £55m in relation to certain loss making stores in China. The China impairment losses are included in the 'Other International' reporting segment. The Group reviews property, plant and equipment if events or changes in circumstances indicate that the carrying amount may not be recoverable. This is based on value-in-use calculations with the key assumptions being the stores' long term plans and the risk-adjusted pre-tax discount rate.

The amount of borrowing costs capitalised in property, plant and equipment in the year was £3m (2007/08: £3m). The cumulative total of borrowing costs included at the balance sheet date, net of depreciation, was £21m (2007/08: £20m).

14 Property, plant and equipment continued

Land and buildings are analysed as follows:

£ millions	Freehold	Long leasehold	Short leasehold	2008/09 Total	2007/08 Total
Cost	**2,224**	**117**	**561**	**2,902**	2,838
Depreciation	**(73)**	**(3)**	**(150)**	**(226)**	(178)
Net carrying amount	**2,151**	**114**	**411**	**2,676**	2,660

Properties that were held at 1 February 2004 are at deemed cost, being the fair value of land and buildings as at the transition date to IFRS. Fair value is taken to be the open market value at the date of valuation. All property acquired after 1 February 2004 is carried at cost.

Included in land and buildings is leasehold land that is in effect a prepayment for the use of land and is accordingly being amortised on a straight line basis over the estimated useful life of the assets. The cost and depreciation of leasehold land included in land and buildings at 31 January 2009 were £344m and £57m (2007/08: £273m and £50m) respectively.

The Group does not revalue properties within its financial statements. A valuation exercise is performed for internal purposes annually in October by independent external valuers covering over one third of the property portfolio with the remaining portfolio valued internally. Based on this exercise the value of property is £3.2 billion (2007/08: £3.5bn). The key assumption used in calculating this is the estimated yields.

15 Investment property

£ millions	
Cost	
At 3 February 2008	**37**
Disposals	**(7)**
Transfers from property, plant and equipment	**2**
Exchange differences	**1**
At 31 January 2009	**33**
Depreciation	
At 3 February 2008	**(8)**
Exchange differences	**(1)**
At 31 January 2009	**(9)**
Net carrying amount	
At 31 January 2009	**24**
Cost	
At 4 February 2007	36
Disposals	(2)
Exchange differences	3
At 2 February 2008	37
Depreciation	
At 4 February 2007	(7)
Exchange differences	(1)
At 2 February 2008	(8)
Net carrying amount	
At 2 February 2008	29

A property valuation exercise is performed for internal purposes annually as described in note 14. Based on this exercise the value of investment property is £49m (2007/08: £44m).

16 Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in note 4 of the Company's separate financial statements.

17 Investments in joint ventures and associates

£ millions	
At 3 February 2008	**204**
Share of post-tax results	**(14)**
Dividends	**(3)**
Exchange differences	**32**
At 31 January 2009	**219**
At 4 February 2007	185
Share of post-tax results	19
Dividends	(6)
Disposals	(20)
Exchange differences	26
At 2 February 2008	204
Analysed as:	
Net assets excluding goodwill	191
Goodwill	13
	204

As a result of the current challenging trading environment the Board has taken the decision to record a write down of £36m against the Group's investment in Hornbach. The exceptional charge has been allocated to the 'Other International' reporting segment and is included within the Group's share of post-tax results. The charge results from the Group's estimate of the investment's recoverable amount, based on the present value of the Group's share of Hornbach's future cash flows. The Board considers the revised carrying amount of the Hornbach investment to represent its fair value. The principal assumptions applied are set out below:

- Cash flow projections are based on the five year strategic plan of Hornbach approved by the Hornbach Board;
- Key drivers in the plans are sales growth, gross margin and operating profit margin percentages;
- Cash flows beyond year five are based on a growth rate of 1.5%;
- The weighted average cost of capital was based on a pre-tax discount rate of 12.8%; and
- It is assumed the investment is held in perpetuity.

No goodwill is included in the current year carrying amount of investments in joint ventures and associates.

In the prior year the Group disposed of its 50% interest in B&Q Taiwan resulting in a disposal of investments in joint ventures of £20m. The prior year share of post-tax results of £19m excludes the £5m loss on disposal.

Details of the significant joint ventures and associates are shown below:

	Country of incorporation	% interest held	Class of shares owned	Main activity
Principal joint ventures				
Koçtaş Yapi Marketleri Ticaret A.S. [1]	Turkey	50%	Ordinary	Retailing
Principal associates				
Hornbach Holding A.G. [2]	Germany	21%	Ordinary & preference	Retailing
Crealfi S.A.	France	49%	Ordinary	Finance

[1] Owing to local conditions and to avoid undue delay in the presentation of the Group financial statements, this company prepares its financial statements to 31 December.
[2] This company prepares its financial statements to 28 February (or 29 February in a leap year). In order to avoid undue delay in the presentation of the Group financial statements, the Group records its share of post-tax results for the year ended 30 November.

17 Investments in joint ventures and associates continued

Aggregate amounts relating to joint ventures and associates:

£ millions	2008/09 Joint ventures	2008/09 Associates	2008/09 Total	2007/08 Joint ventures	2007/08 Associates	2007/08 Total
Non-current assets	**24**	**243**	**267**	18	239	257
Current assets	**40**	**289**	**329**	33	222	255
Current liabilities	**(38)**	**(195)**	**(233)**	(34)	(89)	(123)
Non-current liabilities	**(6)**	**(138)**	**(144)**	–	(185)	(185)
Net assets	**20**	**199**	**219**	17	187	204
Revenue	**113**	**504**	**617**	151	441	592
Operating expenses	**(105)**	**(510)**	**(615)**	(141)	(427)	(568)
Operating profit/(loss)	**8**	**(6)**	**2**	10	14	24
Interest	**(3)**	**(6)**	**(9)**	–	(5)	(5)
Profit/(loss) before taxation	**5**	**(12)**	**(7)**	10	9	19
Tax	**(1)**	**(6)**	**(7)**	(2)	2	–
Share of post-tax results	**4**	**(18)**	**(14)**	8	11	19

18 Inventories

£ millions	2008/09	2007/08
Finished goods for resale	**1,792**	1,873

The cost of inventories recognised as an expense and included in cost of sales for the year ended 31 January 2009 amounted to £6,226m (2007/08: £5,607m).

19 Trade and other receivables

£ millions	2008/09	2007/08
Non-current		
Prepayments	**15**	10
Other receivables	**2**	3
	17	13
Current		
Trade receivables	**60**	49
Provision for bad and doubtful debts	**(9)**	(3)
Net trade receivables	**51**	46
Property receivables	**–**	1
Prepayments	**158**	161
Other receivables	**299**	325
	508	533
Trade and other receivables	**525**	546

Other receivables principally comprise rebates due from suppliers.

The fair values of trade and other receivables approximate to their carrying amounts.

20 Other investments

£ millions	2008/09	2007/08
Current		
Short term investments	**–**	11

In the prior year short term investments comprised cash deposits and government bonds, attracting interest rates based on LIBOR or equivalent market rates, with a maturity between three months and 12 months. The fair values of other investments approximated to their carrying amounts.

21 Cash and cash equivalents

£ millions	2008/09	2007/08
Cash at bank and in hand	**234**	174
Short term deposits	**923**	44
	1,157	218

Short term deposits comprise money market deposits and investments in money market funds, attracting interest rates based on LIBOR or equivalent market rates, fixed for periods of up to three months. The fair values of cash and cash equivalents approximate to their carrying amounts.

22 Trade and other payables

£ millions	2008/09	2007/08
Current		
Trade payables	**1,415**	1,306
Other taxation and social security	**213**	185
Accruals	**284**	272
Deferred income	**108**	107
Other payables	**342**	368
	2,362	2,238
Non-current		
Accruals and other payables	**33**	32
Trade and other payables	**2,395**	2,270

Accruals include allowance for customer returns, representing the estimate of future sales returns at the year end.

The fair values of trade and other payables approximate to their carrying amounts.

23 Borrowings

£ millions	2008/09	2007/08
Current		
Bank overdrafts	**163**	23
Bank loans	**213**	158
Finance leases	**13**	10
	389	191
Non-current		
Bank loans	**94**	125
Medium Term Notes and other fixed term debt	**1,757**	1,436
Finance leases	**56**	59
	1,907	1,620
Borrowings	**2,296**	1,811

Bank loans and overdrafts
Current bank loans mature within the next 12 months and bank overdrafts are repayable on demand. Current bank loans and overdrafts are arranged at floating rates of interest.

Non-current bank loans include a £25m term loan maturing in March 2010, which bears interest based on LIBOR fixed for periods of up to six months, together with a Chinese Renminbi loan maturing in July 2010, which bears interest based on the People's Bank of China reference rate and is fixed for periods of up to three months. The remaining non-current bank loans are arranged at fixed rates of interest which have an average maturity of two years and an effective interest rate of 5.5% (2007/08: 4.6%).

The Group values its Medium Term Notes and other fixed term debt on an amortised cost basis, adjusted for gains and losses attributable to the risk being hedged in designated and effective fair value hedge relationships. No new Medium Term Notes or other fixed term debt were issued during the year. The carrying amount has increased due to exchange rate movements and fair value adjustments for interest rate risk. At 31 January 2009, the cumulative effect of interest rate fair value adjustments was to increase the Group's Medium Term Notes and other fixed term debt by £106m (2007/08: £15m).

None of the Group's borrowings are secured (2007/08: £nil).

23 Borrowings continued

Medium Term Notes and other fixed term debt

Medium Term Notes (MTNs) have been issued under the Group's €2,500m MTN programme and further notes issued as a US Private Placement (USPP).

£ millions	Maturity date	Coupon	Effective interest rate	2008/09 Carrying amount	2007/08 Carrying amount
£150m MTN	23/03/10 [1]	6.88%	7.0%	**157**	154
€500m MTN	21/10/10 [2]	4.50%	4.6%	**448**	373
€550m MTN	23/11/12 [3]	4.13%	4.3%	**498**	400
$207m USPP	24/05/13 [5]	6.14%	6.1%	**162**	116
£250m MTN	15/12/14 [4]	5.63%	5.8%	**272**	248
$81m USPP	24/05/16 [5]	6.30%	6.3%	**69**	45
$179m USPP	24/05/18 [5]	6.40%	6.4%	**151**	100
				1,757	1,436

[1] Swapped to floating rate Sterling based on 3 month LIBOR plus a margin using an interest rate swap.
[2] €200m swapped to floating rate Euro based on 3 month EURIBOR plus a margin using an interest rate swap. €500m of the debt is designated as a net investment hedge of currency exposures of overseas investments.
[3] Swapped to floating rate Euro based on 3 month EURIBOR plus a margin using an interest rate swap. €330m was subsequently swapped to floating rate Sterling based on 3 month LIBOR plus a margin using a cross-currency swap until February 2009. €220m of the debt is designated as a net investment hedge of currency exposures of overseas investments.
[4] Swapped to floating rate Euro based on 3 month EURIBOR plus a margin using a cross-currency interest rate swap.
[5] $467m swapped to floating rate Sterling based on 6 month LIBOR plus a margin using a cross-currency interest rate swap.

No MTNs or other fixed term debt were repaid during the year.

The US Private Placement contains a covenant requiring that, as at the end of each semi-annual and annual financial reporting period, the ratio of operating profit to net finance costs, excluding exceptional items, should not be less than 3 to 1 for the preceding 12 month period. The Group complied with this covenant for the year ended 31 January 2009 and prior years.

Finance lease commitments

The Group leases certain of its buildings and fixtures and equipment under finance leases. The average lease term maturity for buildings is seven years (2007/08: eight years) and for fixtures and equipment is two years (2007/08: two years). Certain building leases include a clause to enable upward revision of the rental charge to prevailing market conditions.

Future minimum lease payments under finance leases, together with the present value of minimum lease payments, are as follows:

£ millions	2008/09 Present value of payments	2008/09 Minimum payments	2007/08 Present value of payments	2007/08 Minimum payments
Less than one year	**13**	**18**	10	15
One to five years	**23**	**37**	23	38
More than five years	**33**	**51**	36	57
Total	**69**	**106**	69	110
Less amounts representing finance charges		**(37)**		(41)
Present value of minimum lease payments		**69**		69

The interest rates inherent in the finance leases are fixed at the contract date for the lease term. The weighted average effective interest rate on the Group's finance leases is 8.4% (2007/08: 9.1%).

Fair value of borrowings

The fair values of current borrowings approximate to their carrying amounts.

Where available, market values have been used to determine the fair value of non-current borrowings. Where market values are not available or are not reliable, fair values have been calculated by discounting cash flows at prevailing interest and exchange rates. The carrying amounts and fair values of non-current borrowings are as follows:

£ millions	2008/09 Carrying amount	2008/09 Fair value	2007/08 Carrying amount	2007/08 Fair value
Bank loans	**94**	**98**	125	131
Medium Term Notes and other fixed term debt	**1,757**	**1,521**	1,436	1,376
Finance leases	**56**	**70**	59	66
	1,907	**1,689**	1,620	1,573

24 Derivatives

The net fair value of derivatives by hedge designation at the balance sheet date is:

£ millions	2008/09	2007/08
Fair value hedges	**180**	13
Cash flow hedges	**20**	(3)
Net investment hedges	**(75)**	(23)
Non-designated hedges	**48**	22
	173	9
Non-current assets	**180**	66
Current assets	**107**	5
Current liabilities	**(38)**	(10)
Non-current liabilities	**(76)**	(52)
	173	9

The fair values are calculated by discounting future cash flows arising from the instruments using market rates and adjusting for credit risk. At 31 January 2009 net derivative assets included in net debt amounted to £135m (2007/08: £23m).

Fair value hedges

Interest rate swap contracts convert fixed rate debt issued under the Group's MTN programme and the US Private Placement to floating rate liabilities. At 31 January 2009 the Sterling equivalent amount of such contracts was £1,391m (2007/08: £1,202m).

At 2 February 2008 the Group held inflation swaps to hedge inflation rate exposures in certain property lease contracts, which have been settled during the year. At 31 January 2009 the Sterling equivalent amount of such contracts was £nil (2007/08: £10m).

Cash flow hedges

Forward foreign exchange contracts hedge currency exposures of forecast inventory purchases. At 31 January 2009 the Sterling equivalent amount of such contracts was £181m (2007/08: £172m). The associated fair value gains and losses will be transferred to inventories when the purchases occur during the next 12 months. Gains of £10m (2007/08: £8m losses) have been transferred to inventories for contracts which matured during the year.

Swap contracts to hedge the cost of diesel oil for use in the business have been entered into during the year. At 31 January 2009 the Sterling equivalent amount of such contracts was £4m (2007/08: £nil). The gains and losses on these contracts will be transferred to the income statement over the next 12 months.

Net investment hedges

Forward foreign exchange contracts and cross-currency interest rate swaps hedge currency exposures of overseas investments. At 31 January 2009 the Sterling equivalent amount of such contracts was £373m (2007/08: £343m).

Non-designated hedges

The Group has entered into certain derivatives to provide a hedge against fluctuations in the income statement arising from balance sheet positions. At 31 January 2009 the Sterling equivalent amount of such contracts was £830m (2007/08: £609m). These have not been accounted for as hedges, since the fair value movements of the derivatives in the income statement offset the retranslation of the balance sheet positions. These include forward foreign exchange instruments hedging part of the funding of the Group's overseas operations, a cross-currency swap converting a Euro-denominated debt into a Sterling liability, an interest rate swap converting floating rate debt to fixed rates, and short term foreign exchange and interest rate contracts.

The Group has reviewed all significant contracts for embedded derivatives. None of these contracts has any embedded derivatives which are not closely related to the host contract and therefore the Group is not required to account for these separately.

25 Financial risk management

Kingfisher's Treasury function has primary responsibility for managing certain financial risks to which the Group is exposed. The Board reviews the levels of exposure regularly and approves Treasury policies covering the use of financial instruments required to manage these risks. Kingfisher Treasury is not run as a profit centre and it does not enter into any transactions for speculative purposes.

In the normal course of business the Group uses financial instruments including derivatives. The main types of financial instruments used are Medium Term Notes and other fixed term debt, bank loans and deposits, money market funds, interest rate swaps, commodity swaps and foreign exchange contracts.

Interest rate risk

Borrowings arranged at floating rates of interest expose the Group to cash flow interest rate risk, whereas those arranged at fixed rates of interest expose the Group to fair value interest rate risk. The Group manages its interest rate risk by entering into certain interest rate derivative contracts which modify the interest rate payable on the Group's underlying debt instruments, principally the Medium Term Notes and other fixed term debt.

Kingfisher's policy is to manage the currency and interest rate profile of its issued debt using derivative contracts. The effect of these contracts on the Group's net debt was as follows:

£ millions	Sterling Fixed	Sterling Floating	Euro Fixed	Euro Floating	US Dollar Fixed	US Dollar Floating	Other Fixed	Other Floating	Total
At 31 January 2009									
Net debt before fair value adjustments and financing derivatives	**(438)**	**313**	**(977)**	**472**	**(321)**	**42**	**(137)**	**13**	**(1,033)**
Fair value adjustments to net debt	**–**	**(7)**	**–**	**(42)**	**–**	**(57)**	**–**	**–**	**(106)**
Financing derivatives	**400**	**(1,053)**	**667**	**(469)**	**324**	**121**	**–**	**145**	**135**
Net debt	**(38)**	**(747)**	**(310)**	**(39)**	**3**	**106**	**(137)**	**158**	**(1,004)**
At 2 February 2008									
Net debt before fair value adjustments and financing derivatives	(443)	(92)	(820)	14	(262)	47	(83)	72	(1,567)
Fair value adjustments to net debt	–	(3)	–	14	–	(26)	–	–	(15)
Financing derivatives	401	(626)	547	(561)	262	–	–	–	23
Net debt	(42)	(721)	(273)	(533)	–	21	(83)	72	(1,559)

Currency risk

The Group's principal currency exposures are to the Euro, US Dollar, Polish Zloty and Chinese Renminbi. The Euro and Zloty exposures are operational and arise through the ownership of retail businesses in France, Spain, Ireland and Poland. Balance sheet Euro translation exposure is substantially hedged by maintaining a proportion of the Group's debt in Euro. In Chinese Renminbi, balance sheet translation exposure is partly hedged by local debt in China and partly by forward foreign exchange contracts entered into to hedge this exposure. However, it is the Group's policy not to hedge the translation of overseas earnings (primarily Euro) into Sterling. In addition, the Group has significant transaction exposure arising on the purchase of inventories denominated in US Dollars, which it hedges using forward foreign exchange contracts. Under Group policies, the Group companies are required to hedge committed inventory purchases and a proportion of forecast inventory purchases arising in the next 12 months, and this is monitored on an ongoing basis.

Financial instruments principally affected by interest rate and currency risks, being the significant market risks impacting Kingfisher, are borrowings, deposits and derivatives. The following analysis illustrates the sensitivity of net finance costs, net debt and derivative cash flow hedges to changes in interest rates and foreign exchange rates.

£ millions	2008/09 Net finance costs Income/(costs)	2007/08 Net finance costs Income/(costs)
Effect of 1% rise in interest rates on net finance costs		
Sterling	**(7)**	(7)
Euro	**–**	(5)
US Dollar	**1**	1
Polish Zloty	**(1)**	(1)
Chinese Renminbi	**(1)**	(1)

£ millions	2008/09 Net debt (Increase)/ decrease	2007/08 Net debt (Increase)/ decrease
Effect of 10% appreciation in exchange rates on net debt		
Euro against Sterling	**(35)**	(81)
US Dollar against Sterling	**11**	2
Polish Zloty against Sterling	**15**	8
Chinese Renminbi against Sterling	**(14)**	(9)

The impact of changes in exchange rates on net debt results principally from the retranslation of foreign currency borrowings and derivatives designated as hedges of net investments in foreign operations. Such changes in net debt result in gains and losses being reported in equity and will be offset by the retranslation of the hedged net investments. Where US Dollars are purchased on receipt of inventories in order to match the settlement of US Dollar payables, gains and losses on retranslation of the US Dollars are reported in the income statement and offset the losses and gains on retranslation of the payables.

£ millions	2008/09 Derivative cash flow hedges Increase/ (decrease)	2007/08 Derivative cash flow hedges Increase/ (decrease)
Effect of 10% appreciation in exchange rates on derivative cash flow hedges		
US Dollar against Sterling	**12**	12
US Dollar against Euro	**6**	6

The impact of changes in exchange rates on cash flow hedges results from retranslation of forward purchases of US Dollars used to hedge forecast US Dollar purchases of inventories. The associated fair value gains and losses are deferred in equity until the purchases occur. At 31 January 2009 the Sterling equivalent amount of such contracts was £181m (2007/08: £172m). See note 24 for further details.

The sensitivity analysis excludes the impact of movements in market variables on the carrying amount of trade and other payables and receivables, due to the low associated sensitivity, and are before the effect of tax. It has been prepared on the basis that the Group's debt, hedging activities, hedge accounting designations, and foreign currency proportion of debt and derivative contracts remain constant, reflecting the positions at 31 January 2009 and 2 February 2008 respectively. As a consequence, the analysis relates to the position at those dates and is not necessarily representative of the years then ended. In preparing the sensitivity analysis it is assumed that all hedges are fully effective.

The effects shown above would be reversed in the event of an equal and opposite change in interest rates and exchange rates.

Liquidity risk

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

The following table analyses the Group's non-derivative financial liabilities and derivative assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. It excludes trade and other payables due to the low associated liquidity risk. The amounts disclosed in the table are the contractual undiscounted cash flows and as such may differ from the amounts disclosed on the balance sheet.

£ millions	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
At 31 January 2009							
Bank overdrafts	**(163)**	**–**	**–**	**–**	**–**	**–**	**(163)**
Bank loans	**(213)**	**(83)**	**(4)**	**(3)**	**(8)**	**–**	**(311)**
Medium Term Notes and other fixed term debt	**(85)**	**(680)**	**(55)**	**(544)**	**(178)**	**(495)**	**(2,037)**
Finance leases	**(18)**	**(15)**	**(9)**	**(7)**	**(6)**	**(51)**	**(106)**
Derivatives – receipts	**1,034**	**74**	**56**	**55**	**171**	**321**	**1,711**
Derivatives – payments	**(927)**	**(25)**	**(23)**	**(25)**	**(124)**	**(280)**	**(1,404)**
At 2 February 2008							
Bank overdrafts	(23)	–	–	–	–	–	(23)
Bank loans	(167)	(58)	(66)	(5)	(4)	–	(300)
Medium Term Notes and other fixed term debt	(73)	(73)	(573)	(46)	(443)	(525)	(1,733)
Finance leases	(15)	(14)	(10)	(8)	(6)	(57)	(110)
Derivatives – receipts	563	341	192	61	99	510	1,766
Derivatives – payments	(570)	(314)	(188)	(61)	(103)	(512)	(1,748)

25 Financial risk management continued

At 31 January 2009 the Group had the following committed borrowing facilities:

£ millions	Maturity date	Facility total	Undrawn facilities
Term bank loan	February 2009	**50**	–
Term bank loan	March 2010	**25**	–
Bilateral bank revolving credit facilities	March 2010	**275**	**275**
Syndicated bank revolving credit facility	August 2012	**500**	**500**
		850	**775**

Credit risk

The Group deposits surplus cash with a number of banks with strong credit ratings and with money market funds which have the strongest, AAA, credit rating. A credit limit for each counterparty is agreed by the Board covering the full value of deposits and a proportion of the value of derivative contracts. The credit risk is reduced further by spreading the investments and derivative contracts across several counterparties. At 31 January 2009, the highest cash deposit with a single bank or money market fund was £89m.

The Group's exposure to credit risk at the reporting date is the carrying value of cash at bank and short term deposits and the fair value of derivative assets.

No further credit risk provision is required in excess of the normal provision for bad and doubtful debts as the Group has a low concentration of credit risk in respect of trade receivables. Concentration of risk is limited as a result of low individual balances with short maturity spread across a large number of unrelated customers.

At 31 January 2009, trade and other receivables that were past due but not provided against amounted to £20m (2007/08: £19m), of which £1m (2007/08: £3m) were over 120 days past due.

Capital risk

Capital risk management disclosures are provided in the Financial Review on page 24.

26 Deferred tax

£ millions	2008/09	2007/08
Deferred tax assets	**26**	25
Deferred tax liabilities	**(226)**	(318)
	(200)	(293)

Deferred tax assets and liabilities are offset against each other when they relate to income taxes levied by the same tax jurisdiction and when the Group intends to settle its current tax assets and liabilities on a net basis.

£ millions	Accelerated tax depreciation	Gains on property	Provisions	Tax losses	Post employment benefits	Other	Total
At 3 February 2008	**(122)**	**(183)**	**23**	**7**	**(23)**	**5**	**(293)**
Credit/(charge) to income statement	**33**	**11**	**2**	**(2)**	**–**	**–**	**44**
Credit/(charge) to equity	**–**	**–**	**–**	**–**	**43**	**(6)**	**37**
Disposal of subsidiaries	**37**	**9**	**(2)**	**–**	**1**	**–**	**45**
Exchange differences	**(14)**	**(24)**	**3**	**–**	**2**	**–**	**(33)**
At 31 January 2009	**(66)**	**(187)**	**26**	**5**	**23**	**(1)**	**(200)**
At 4 February 2007	(98)	(186)	24	8	15	4	(233)
(Charge)/credit to income statement	(16)	13	(4)	(1)	(26)	1	(33)
Charge to equity	–	–	–	–	(13)	–	(13)
Exchange differences	(8)	(10)	3	–	1	–	(14)
At 2 February 2008	(122)	(183)	23	7	(23)	5	(293)

At the balance sheet date, the Group has unused tax losses of £228m (2007/08: £180m) available for offset against future profits. A deferred tax asset has been recognised in respect of £14m (2007/08: £21m) of such losses. No deferred tax asset has been recognised in respect of the remaining £214m (2007/08: £159m) due to the unpredictability of future profit streams. Included in unrecognised tax losses are tax losses arising in China of £170m (2007/08: £73m) which can only be carried forward in the next one to five years and tax losses arising in Spain of £36m (2007/08: £24m) which can only be carried forward for up to 15 years. Other losses may be carried forward indefinitely.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries and joint ventures. As the earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future. Earnings which could be remitted on which there would be tax to pay total £193m (2007/08: £191m).

Included within the credit to the income statement for the year is a £49m credit (2007/08: £37m charge) relating to continuing operations and a £5m charge (2007/08: £4m credit) relating to discontinued operations.

27 Provisions

£ millions	Onerous property contracts	Restructuring	Total
At 3 February 2008	**8**	**88**	**96**
Charge to income statement	**11**	**26**	**37**
Utilised in the year	**(2)**	**(21)**	**(23)**
Unwinding of discount	**–**	**3**	**3**
Exchange differences	**–**	**9**	**9**
At 31 January 2009	**17**	**105**	**122**
Current liabilities	**5**	**64**	**69**
Non-current liabilities	**12**	**41**	**53**
	17	**105**	**122**

Within the onerous property contracts provisions, Kingfisher has provided against future liabilities for all properties sublet at a shortfall and long term idle properties, except those related to restructuring programmes which are included in the restructuring provisions. The provisions are based on the present value of future cash outflows relating to rent, rates and service charges.

Restructuring provisions include the estimated costs of the UK and China restructuring programmes. The charge to the income statement includes £19m related to the termination of leases in China. The provisions have been discounted to reflect the time value of money and the risks associated with the specific liabilities. The ultimate costs and timing of cash flows are dependent on exiting the property lease contracts on the closed stores and subletting surplus space.

28 Post employment benefits

The Group operates a variety of post employment benefit arrangements covering both funded and unfunded defined benefit schemes and funded defined contribution schemes. The most significant are the funded, final salary defined benefit and defined contribution schemes for the Group's UK employees. Various defined benefit and defined contribution schemes are operated in France and Poland, where they are retirement indemnity in nature, and in China. The overseas schemes are not material in relation to the Group as a whole.

Defined contribution schemes

Pension costs for defined contribution schemes, at rates specified in the individual schemes' rules, are as follows:

£ millions	2008/09	2007/08
Charge to operating profit	**6**	5

Defined benefit schemes

The Group's principal defined benefit pension scheme is in the UK. The assets of this scheme are held separately from the Group in trustee-administered funds. The Trustees are required to act in the best interests of the scheme's beneficiaries.

The UK scheme was closed to new entrants in 2004. A full actuarial valuation of the scheme is carried out every three years by an independent actuary for the scheme Trustee and the last full valuation was carried out as at 31 March 2007. The Company monitors the scheme funding level on a regular basis and will review with the scheme Trustee at future valuations the continued appropriateness of the repayment schedule currently in place.

Income statement

£ millions	2008/09 UK	2008/09 Other	2008/09 Total	2007/08 UK	2007/08 Other	2007/08 Total
Amounts charged/(credited) to operating profit						
Current service cost	**20**	**3**	**23**	26	3	29
Settlements, curtailments and termination benefits	**–**	**–**	**–**	–	(1)	(1)
Total charged to operating profit	**20**	**3**	**23**	26	2	28
Amounts charged/(credited) to net finance costs						
Interest on defined benefit obligations	**82**	**2**	**84**	74	2	76
Expected return on pension scheme assets	**(97)**	**–**	**(97)**	(88)	–	(88)
Net interest (return)/charge	**(15)**	**2**	**(13)**	(14)	2	(12)
Total charged to income statement	**5**	**5**	**10**	12	4	16

Of the charge to operating profit, £20m (2007/08: £23m) and £3m (2007/08: £5m) were included in selling and distribution expenses and administrative expenses respectively. Actuarial gains and losses have been reported in the statement of recognised income and expense.

28 Post employment benefits continued

Balance sheet

£ millions	2008/09 UK	2008/09 Other	2008/09 Total	2007/08 UK	2007/08 Other	2007/08 Total
Present value of defined benefit obligations	**(1,388)**	**(49)**	**(1,437)**	(1,350)	(45)	(1,395)
Fair value of scheme assets	**1,348**	**15**	**1,363**	1,460	12	1,472
(Deficit)/surplus in scheme	**(40)**	**(34)**	**(74)**	110	(33)	77

The amount of the defined benefit obligation at 31 January 2009 which relates to funded defined benefit schemes is £1,437m (2007/08: £1,387m).

Movements in the surplus or deficit are as follows:

£ millions	2008/09 UK	2008/09 Other	2008/09 Total	2007/08 UK	2007/08 Other	2007/08 Total
Surplus/(deficit) in scheme at beginning of year	**110**	**(33)**	**77**	(28)	(27)	(55)
Current service cost	**(20)**	**(3)**	**(23)**	(26)	(3)	(29)
Settlements, curtailments and termination benefits	**–**	**–**	**–**	–	1	1
Interest on defined benefit obligations	**(82)**	**(2)**	**(84)**	(74)	(2)	(76)
Expected return on pension scheme assets	**97**	**–**	**97**	88	–	88
Actuarial (losses)/gains	**(186)**	**(5)**	**(191)**	49	(2)	47
Contributions paid by employer	**41**	**7**	**48**	101	2	103
Disposal of subsidiaries	**–**	**7**	**7**	–	–	–
Exchange differences	**–**	**(5)**	**(5)**	–	(2)	(2)
(Deficit)/surplus in scheme at end of year	**(40)**	**(34)**	**(74)**	110	(33)	77

Movements in the present value of defined benefit obligations are as follows:

£ millions	2008/09 UK	2008/09 Other	2008/09 Total	2007/08 UK	2007/08 Other	2007/08 Total
Present value of defined benefit obligations at beginning of year	**(1,350)**	**(45)**	**(1,395)**	(1,395)	(37)	(1,432)
Current service cost	**(20)**	**(3)**	**(23)**	(26)	(3)	(29)
Settlements, curtailments and termination benefits	**–**	**–**	**–**	–	1	1
Interest on defined benefit obligations	**(82)**	**(2)**	**(84)**	(74)	(2)	(76)
Actuarial gains/(losses)	**25**	**(5)**	**20**	106	(2)	104
Contributions paid by employees	**(10)**	**–**	**(10)**	(10)	–	(10)
Benefits paid	**49**	**6**	**55**	49	2	51
Disposal of subsidiaries	**–**	**7**	**7**	–	–	–
Exchange differences	**–**	**(7)**	**(7)**	–	(4)	(4)
Present value of defined benefit obligations at end of year	**(1,388)**	**(49)**	**(1,437)**	(1,350)	(45)	(1,395)

Movements in the fair value of scheme assets are as follows:

£ millions	2008/09 UK	2008/09 Other	2008/09 Total	2007/08 UK	2007/08 Other	2007/08 Total
Fair value of scheme assets at beginning of year	**1,460**	**12**	**1,472**	1,367	10	1,377
Expected return on pension scheme assets	**97**	**–**	**97**	88	–	88
Actuarial losses on pension scheme assets	**(211)**	**–**	**(211)**	(57)	–	(57)
Contributions paid by employer	**41**	**7**	**48**	101	2	103
Contributions paid by employees	**10**	**–**	**10**	10	–	10
Benefits paid	**(49)**	**(6)**	**(55)**	(49)	(2)	(51)
Exchange differences	**–**	**2**	**2**	–	2	2
Fair value of scheme assets at end of year	**1,348**	**15**	**1,363**	1,460	12	1,472

The fair value of scheme assets is analysed as follows:

£ millions	2008/09 UK	2008/09 Other	2008/09 Total	2008/09 % of total	2007/08 UK	2007/08 Other	2007/08 Total	2007/08 % of total
Equities	**424**	**–**	**424**	**31%**	743	–	743	50%
Bonds	**827**	**–**	**827**	**61%**	580	–	580	39%
Property	**74**	**–**	**74**	**5%**	111	–	111	8%
Other	**23**	**15**	**38**	**3%**	26	12	38	3%
Total fair value of scheme assets	**1,348**	**15**	**1,363**	**100%**	1,460	12	1,472	100%

The pension schemes do not hold any assets other than those disclosed above.

Actual returns and history of actuarial gains and losses

The actual returns on pension scheme assets are as follows:

£ millions	UK	Other	2008/09 Total	UK	Other	2007/08 Total
Actual (loss)/return on pension scheme assets	**(114)**	**–**	**(114)**	31	–	31

The history of actuarial gains and losses is as follows:

£ millions	2008/09	2007/08	2006/07	2005/06	2004/05
Present value of defined benefit obligations	**(1,437)**	(1,395)	(1,432)	(1,459)	(1,219)
Fair value of scheme assets	**1,363**	1,472	1,377	1,220	893
(Deficit)/surplus in scheme	**(74)**	77	(55)	(239)	(326)
Changes in assumptions underlying present value of defined benefit obligations	**21**	116	91	(173)	(100)
Percentage of defined benefit obligations	***(1%)***	*(8%)*	*(6%)*	*12%*	*8%*
Experience losses arising on defined benefit obligations	**(1)**	(12)	–	–	(12)
Percentage of defined benefit obligations	**–**	*1%*	–	–	*1%*
Actual (loss)/return less expected return on pension scheme assets	**(211)**	(57)	4	127	33
Percentage of scheme assets	***(15%)***	*(4%)*	–	*10%*	*4%*
Total (losses)/gains recognised in the statement of recognised income and expense in the year	**(191)**	47	95	(46)	(79)
Cumulative (losses)/gains recognised in the statement of recognised income and expense	**(174)**	17	(30)	(125)	(79)

The estimated amount of total contributions expected to be paid to the UK, France and other pension schemes by the Group during the next financial year is £50m.

Principal actuarial valuation assumptions

The assumptions used in calculating the costs and obligations of the Group's defined benefit pension schemes are set by the Directors after consultation with independent professionally qualified actuaries. The assumptions are based on the conditions at the time and changes in these assumptions can lead to significant movements in the estimated obligations, as illustrated in the sensitivity analysis.

The UK scheme discount rate is based on the yield on the iBoxx over 15 year AA-rated Sterling corporate bond index adjusted for the difference in term between iBoxx and scheme liabilities. The overall expected rate of return on scheme assets reflects market expectations at the valuation date of long term asset returns and the mix of assets in the schemes.

Annual % rate	2008/09 UK	2008/09 Other	2007/08 UK	2007/08 Other
Discount rate	**6.5**	**5.3 to 5.5**	6.2	5.3 to 5.5
Salary escalation	**4.3**	**2.0 to 6.6**	4.1	2.0 to 6.6
Rate of pension increases	**3.5**	**–**	3.3	–
Price inflation	**3.5**	**2.0 to 2.5**	3.3	2.0 to 2.5

% rate of return	2008/09 UK	2008/09 Other	2007/08 UK	2007/08 Other
Equities	**8.7**	**–**	8.1	–
Bonds	**5.6**	**–**	5.3	–
Property	**7.1**	**–**	6.7	–
Other	**4.3**	**3.5**	4.3	4.0
Overall expected rate of return	**6.7**	**3.5**	6.8	4.0

28 Post employment benefits continued

For the UK scheme, the mortality assumptions used in the actuarial valuations have been selected with regard to the characteristics and experience of the membership of the scheme from 2004 to 2007. The base mortality assumptions have been derived by adjusting standard mortality tables (PA 92 tables) projected forward to 2007 with the medium cohort improvement factors for males and with the standard improvement factors for females. In addition, allowance has been made for future increases in life expectancy. For males, the allowance is in line with medium cohort improvements subject to a minimum rate of improvement of 1% pa, and for females, the allowance is in line with the standard improvements, subject to a minimum of 0.5% pa. These improvements have been set with regard to trends observed within the scheme over the past decade.

The assumptions for life expectancy of UK scheme members are as follows:

Years	2008/09	2007/08
Age to which current pensioners are expected to live (60 now)		
– Male	**87.2**	87.2
– Female	**85.9**	85.9
Age to which future pensioners are expected to live (60 in 15 years time)		
– Male	**88.8**	88.8
– Female	**87.1**	87.1

The following sensitivity analysis for the UK scheme shows the estimated impact on obligations resulting from changes to key actuarial assumptions, whilst holding all other assumptions constant.

Assumption	Change in assumption	Impact on defined benefit obligation
Discount rate	Increase/decrease by 0.1%	Decrease/increase by £26m
Salary escalation	Increase/decrease by 0.1%	Increase/decrease by £2m
Rate of pension increases	Increase/decrease by 0.1%	Increase/decrease by £14m
Price inflation	Increase/decrease by 0.1%	Increase/decrease by £24m
Mortality	Increase in life expectancy by one year	Increase by £40m

29 Share capital, share premium and own shares held

	Number of ordinary shares millions	Ordinary share capital £ millions	Share premium £ millions	Own shares held £ millions
At 3 February 2008	**2,361**	**371**	**2,188**	**(66)**
Own shares disposed	**–**	**–**	**–**	**9**
At 31 January 2009	**2,361**	**371**	**2,188**	**(57)**
At 4 February 2007	2,359	371	2,185	(81)
Shares issued under share schemes	2	–	3	–
Own shares disposed	–	–	–	15
At 2 February 2008	2,361	371	2,188	(66)

The total number of authorised ordinary shares is 3,023m shares (2007/08: 3,023m shares) with a par value of $15^{5}/_{7}$p per share. All issued shares are fully paid.

Own shares held represent Kingfisher plc shares held by the Kingfisher Employee Share Ownership Plan Trust (ESOP).

30 Reserves

£ millions	Retained earnings	Translation reserve	Cash flow hedge reserve	Other reserves	Reserves
At 3 February 2008	1,815	248	(2)	159	2,220
Actuarial losses on post employment benefits	(191)	–	–	–	(191)
Currency translation differences – Group excluding minority interests	–	152	–	–	152
Currency translation differences – joint ventures and associates	–	32	–	–	32
Currency translation differences – gains transferred to income statement	–	(80)	–	–	(80)
Cash flow hedges – fair value gains	–	–	33	–	33
Cash flow hedges – gains transferred to inventories	–	–	(10)	–	(10)
Tax on items recognised directly in equity	54	(12)	(7)	–	35
Net (expense)/income recognised directly in equity	(137)	92	16	–	(29)
Profit for the year	209	–	–	–	209
Total recognised income for the year	72	92	16	–	180
Share-based compensation	15	–	–	–	15
Own shares disposed	(9)	–	–	–	(9)
Dividends	(125)	–	–	–	(125)
At 31 January 2009	1,768	340	14	159	2,281
At 4 February 2007	1,763	20	(3)	159	1,939
Actuarial gains on post employment benefits	47	–	–	–	47
Currency translation differences – Group excluding minority interests	–	204	–	–	204
Currency translation differences – joint ventures and associates	–	26	–	–	26
Currency translation differences – losses transferred to income statement	–	3	–	–	3
Cash flow hedges – fair value losses	–	–	(6)	–	(6)
Cash flow hedges – losses transferred to inventories	–	–	8	–	8
Tax on items recognised directly in equity	(13)	(5)	(1)	–	(19)
Net income recognised directly in equity	34	228	1	–	263
Profit for the year	274	–	–	–	274
Total recognised income for the year	308	228	1	–	537
Share-based compensation	6	–	–	–	6
Own shares disposed	(13)	–	–	–	(13)
Dividends	(249)	–	–	–	(249)
At 2 February 2008	1,815	248	(2)	159	2,220

Other reserves represent the premium on the issue of convertible loan stock in 1993 and the merger reserve relating to the acquisition of Darty.

31 Share-based payments

	2008/09		2007/08	
	Options Number	Weighted average exercise price £	Options Number	Weighted average exercise price £
Outstanding at beginning of year	35,056,105	1.14	28,375,635	1.39
Granted during the year [1, 2]	36,997,595	0.31	15,576,198	0.77
Forfeited during the year	(7,782,056)	1.42	(5,705,671)	1.93
Exercised during the year	(2,287,970)	–	(3,157,466)	0.14
Expired during the year	(2,026,889)	1.66	(32,591)	0.04
Outstanding at end of year	59,956,785	0.62	35,056,105	1.14
Exercisable at end of year	4,274,222	2.38	5,572,104	2.38

1 The charge to the income statement for the years ended 31 January 2009 and 2 February 2008 in respect of share-based payments includes the first year's charge of the 2009 and 2008 Kingfisher Incentive Share Scheme (KISS) grants respectively, based on the cash bonus for the year. Since grants under the KISS are made following the year end to which the first year of charge relates, it is not possible to give the number of options granted until after the year end. This also applies to grants that will be made following the year end relating to store manager incentive schemes.
2 The weighted average exercise price for options granted during the period represents a blend of nil price KISS, Performance Share Plan and Retention Plan options and discounted ShareSave options (see below).

Options were exercised on a regular basis throughout the period. On that basis, the weighted average share price during the year, rather than at the date of exercise, was £1.27 (2007/08: £2.11). The options outstanding at the end of the year have exercise prices ranging from nil to £2.45 and a weighted average remaining contractual life of 3.0 years (2007/08: 2.2 years).

The Group recognised a total expense of £15m in the year (2007/08: £6m) relating to equity-settled share-based payment transactions.

Under IFRS 2 'Share-based Payment' the Group recognises a charge for share options granted after 7 November 2002. Option numbers and other disclosures above are for those options granted after this date. A full list of outstanding options is given in note 13 of the Company's separate financial statements.

31 Share-based payments continued

The fair value of share options and deferred shares is obtained using the Black-Scholes and stochastic option pricing models. The inputs into these models are as follows:

	Date of grant	Share price at grant £	Exercise price £	Expected life years	Expected volatility %	Dividend yield %	Risk free rate %	Fair value £
Executive Share Scheme	17/04/03	2.44	2.38	6.0	35.0%	4.0%	4.2%	0.64
Kingfisher Incentive Share Scheme	05/04/04	2.91	–	3.5	–	3.7%	–	2.58
	05/04/04	2.91	–	3.5	35.0%	3.7%	–	1.61
	28/04/04	2.86	–	3.5	–	3.7%	–	2.54
	28/04/04	2.86	–	3.5	35.0%	3.7%	–	1.58
	06/04/05	2.86	–	3.5	–	3.7%	–	2.55
	06/04/05	2.86	–	3.5	35.0%	3.7%	–	1.62
	10/04/06	2.31	–	3.5	–	4.6%	–	2.01
	10/04/06	2.31	–	3.5	19.8%	4.6%	–	0.77
	11/04/07	2.77	–	3.5	–	–	–	2.77
	21/04/08	1.28	–	3.5	–	–	–	1.28
Performance Share Plan	28/06/06	2.29	–	3.5	19.8%	–	4.9%	1.04
	24/10/06	2.65	–	3.5	19.6%	–	5.0%	1.36
	11/04/07	2.77	–	3.5	20.2%	–	–	1.68
	01/10/07	1.83	–	3.5	22.4%	–	–	0.26
	01/02/08	1.51	–	3.5	28.2%	–	–	0.92
	01/02/08	1.51	–	4.5	–	–	–	1.51
	21/04/08	1.28	–	3.5	29.8%	–	4.4%	0.64
	21/04/08	1.28	–	4.5	–	–	–	1.28
	24/07/08	1.24	–	4.5	–	–	–	1.24
	01/10/08	1.35	–	3.5	35.9%	–	–	0.79
	01/10/08	1.35	–	4.0	–	–	–	1.35
	09/10/08	1.30	–	4.5	–	–	–	1.30
Kingfisher Retention Plan	16/03/06	2.48	–	1.5	21.9%	4.3%	4.4%	2.38
	16/03/06	2.48	–	2.5	18.9%	4.3%	4.4%	2.28
	28/06/06	2.29	–	2.5	18.9%	4.3%	4.4%	2.11
	21/04/08	1.28	–	1.5 to 4.5	–	–	–	1.28
UK and International ShareSave	01/05/03	2.41	2.28	4.5	35.0%	4.0%	3.7%	0.68
	01/05/03	2.41	1.87	5.5	35.0%	4.0%	3.8%	0.76
	22/10/04	3.08	2.45	3.5	35.0%	3.3%	4.5%	0.98
	22/10/04	3.08	2.45	5.5	35.0%	3.3%	4.6%	1.08
	27/10/05	2.01	1.76	3.5	35.0%	5.3%	4.3%	0.49
	27/10/05	2.01	1.76	5.5	35.0%	5.3%	4.4%	0.52
	26/10/06	2.65	1.97	3.5	19.9%	4.0%	4.0%	0.75
	26/10/06	2.65	1.97	5.5	28.1%	4.0%	4.0%	0.86
	01/11/07	1.90	1.55	3.5	23.6%	5.6%	5.0%	0.42
	01/11/07	1.90	1.55	5.5	25.5%	5.6%	5.0%	0.44
	29/10/08	1.09	1.09	3.5	36.3%	4.9%	3.4%	0.23
	29/10/08	1.09	1.09	5.5	30.8%	4.9%	3.8%	0.22

Expected volatility was determined for each individual award, by calculating the historical volatility of the Group's share price (plus reinvested dividends) immediately prior to the grant of the award, over the same period as the vesting period of each award, adjusted by expectations of future volatility. The expected life used in the model has been adjusted for estimated effects of non-transferability, exercise restrictions and behavioural considerations.

32 Cash generated by operations

£ millions	2008/09	2007/08 Restated
Operating profit	**173**	428
Share of post-tax results of joint ventures and associates	**14**	(14)
Amortisation and depreciation	**265**	226
Impairment losses	**185**	19
Loss/(profit) on disposal of property, plant and equipment, investment property and intangible assets	**11**	(29)
Share-based compensation charge	**15**	6
Decrease/(increase) in inventories	**169**	(216)
Decrease in trade and other receivables	**69**	4
(Decrease)/increase in trade and other payables	**(23)**	178
Increase/(decrease) in provisions	**14**	(16)
Movement in post employment benefits	**(25)**	(73)
Cash generated by operations – continuing operations	**867**	513

33 Net debt

Net debt comprises borrowings and financing derivatives (excluding accrued interest), less cash and cash equivalents and current other investments. Financing derivatives are those that relate to underlying items of a financing nature.

£ millions	2008/09	2007/08
Cash and cash equivalents	**1,157**	218
Bank overdrafts	**(163)**	(23)
Cash and cash equivalents and bank overdrafts	**994**	195
Current other investments	**–**	11
Bank loans	**(307)**	(283)
Medium Term Notes and other fixed term debt	**(1,757)**	(1,436)
Financing derivatives	**135**	23
Finance leases	**(69)**	(69)
Net debt	**(1,004)**	(1,559)

£ millions	2008/09	2007/08
Net debt at beginning of year	**(1,559)**	(1,294)
Net increase/(decrease) in cash and cash equivalents and bank overdrafts	**743**	(56)
Disposal of current other investments	**(12)**	(21)
Net payment/(receipt) on forward foreign exchange contracts	**5**	(6)
Net payment/(receipt) of bank loans	**37**	(136)
Capital element of finance lease rental payments	**12**	11
Cash flow movement in net debt	**785**	(208)
Exchange differences and other non-cash movements	**(230)**	(57)
Net debt at end of year	**(1,004)**	(1,559)

34 Acquisitions

During the year the Group acquired the remaining minority interests in three of its B&Q China subsidiaries for a cash consideration of £2m. In addition, £5m of cash consideration relating to a prior year acquisition was paid.

In the prior year the Group acquired the remaining minority interests in four of its B&Q China subsidiaries for a consideration of £6m, consisting of cash of £1m and deferred consideration of £5m, generating goodwill of £4m.

35 Discontinued operations

On 30 January 2009 Kingfisher completed the sale of its Castorama Italy business to Groupe Adeo S.A. The disposed business has been classified as a discontinued operation in these financial statements. A summary of the results, earnings per share and cash flows of the Castorama Italy business is set out below:

£ millions	2008/09	2007/08
Revenue	368	314
Operating expenses	(334)	(285)
Operating profit	34	29
Net finance income	1	–
Profit before taxation	35	29
Income tax expense	(9)	(9)
Profit from discontinued operations before exceptional profit on disposal	26	20
Exceptional profit on disposal (see below)	178	–
Profit from discontinued operations	**204**	20

Pence	2008/09	2007/08
Basic earnings per share	8.7	0.8
Diluted earnings per share	8.7	0.8

£ millions	2008/09	2007/08
Net cash flows from operating activities before tax paid on disposal	29	21
Net cash flows from investing activities before proceeds received on disposal	(12)	(15)
Net cash flows from financing activities	1	1
Net increase in cash and cash equivalents and bank overdrafts from discontinued operations before proceeds received and tax paid on disposal	18	7
Proceeds received on disposal (see below)	534	–
Tax paid on disposal	(6)	–
Net increase in cash and cash equivalents and bank overdrafts from discontinued operations	**546**	7

The Castorama Italy business was classified as a disposal group held for sale from 1 August 2008 (the date of announcement of the agreement to sell) up to 30 January 2009 (the date the sale was completed). Accordingly, depreciation and amortisation of £6m were not charged with respect to Castorama Italy during this period. If depreciation and amortisation had been charged, operating profit and retail profit for the year would have been £28m.

The profit on disposal is analysed as follows:

£ millions	2008/09
Proceeds (net of cash disposal costs of £4m) before cash and cash equivalents disposed	548
Cash and cash equivalents disposed	(14)
Proceeds received on disposal	**534**
Other disposal costs	(6)
Net proceeds on disposal	528
Net assets disposed excluding cash and cash equivalents (see below)	(404)
Currency translation gains transferred from translation reserve	80
Exceptional profit on disposal before tax	204
Exceptional tax on profit on disposal	(26)
Exceptional profit on disposal	**178**

£ millions	2008/09
Goodwill	55
Property, plant and equipment	386
Inventories, trade and other receivables/(payables)	13
Deferred tax liabilities	(45)
Post employment benefits	(7)
Other net assets	2
Net assets disposed excluding cash and cash equivalents	**404**

36 Commitments

Operating lease commitments

The Group leases various retail outlets, offices, warehouses and plant and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

Undiscounted total future minimum rentals payable under non-cancellable operating leases are as follows:

£ millions	2008/09 Land and buildings	2008/09 Plant and equipment	2007/08 Land and buildings	2007/08 Plant and equipment
Less than one year	**388**	**20**	346	21
One to five years	**1,481**	**39**	1,352	40
More than five years	**3,202**	**1**	3,460	4
	5,071	**60**	5,158	65

The total of future minimum operating sublease receipts expected to be received is £106m (2007/08: £89m).

Capital commitments

Capital commitments contracted but not provided for by the Group amounted to £71m (2007/08: £32m).

37 Contingent liabilities

Kingfisher plc has an obligation to provide a bank guarantee for £50m (2007/08: £50m) to the liquidators of Kingfisher International France Limited in the event that Kingfisher plc's credit rating falls below 'BBB'. The obligation arises from an indemnity provided in June 2003 as a result of the demerger of Kesa Electricals.

The Group has arranged for certain bank guarantees to be provided to third parties in the ordinary course of business. The total amount outstanding at the year end was £35m (2007/08: £34m).

The Group is subject to claims and litigation arising in the ordinary course of business and provision is made where liabilities are considered likely to arise on the basis of current information and legal advice.

38 Related party transactions

During the year, the Company and its subsidiaries carried out a number of transactions with related parties in the normal course of business and on an arm's length basis. The names of the related parties, the nature of these transactions and their total value is shown below:

£ millions	2008/09 Income/ (expense)	2008/09 Receivable/ (payable)	2007/08 Income/ (expense)	2007/08 Receivable/ (payable)
Transactions with Crealfi S.A. in which the Group holds a 49% interest				
Provision of employee services	**0.2**	**–**	–	–
Commission and other income	**4.2**	**0.3**	0.1	–
Transactions with Koçtaş Yapi Marketleri Ticaret A.S. in which the Group holds a 50% interest				
Provision of employee services	**–**	**–**	(0.1)	–
Commission and other income	**0.6**	**0.3**	0.3	0.1
Transactions with Hornbach Holding A.G. in which the Group holds a 21% interest				
Provision of employee services	**0.1**	**–**	–	–
Commission and other income	**0.6**	**0.2**	0.4	0.1
Other expenses	**(0.3)**	**–**	(0.3)	(0.3)
Transactions with Kingfisher Pension Scheme				
Provision of administrative services	**1.6**	**0.1**	2.1	0.2

Services are usually negotiated with related parties on a cost-plus basis. Goods are sold or bought on the basis of the price lists in force with non-related parties.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for bad and doubtful debts in respect of the amounts owed by related parties.

Independent auditors' report to the members of Kingfisher plc

We have audited the Group financial statements of Kingfisher plc for the year ended 31 January 2009 which comprise the Consolidated income statement, the Consolidated statement of recognised income and expense, the Consolidated balance sheet, the Consolidated cash flow statement and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Parent Company financial statements of Kingfisher plc for the year ended 31 January 2009 and on the information in the Directors' Remuneration report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Directors' Statement of Responsibility.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the Group financial statements. The information given in the Directors' report includes that specific information presented in the Financial review, "Risks", "Our business and our markets" and Key Performance Indicators that is cross referred from the business review section of the Directors' report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Chairman's statement, the Financial review, "Our business and our markets", the unaudited part of the Directors' Remuneration report and all the other information listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 January 2009 and of its profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Group financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
25 March 2009

Company balance sheet

As at 31 January 2009

£ millions	Notes	2008/09	2007/08
Fixed assets			
Tangible fixed assets	3	**1**	1
Investments	4	**5,585**	5,575
		5,586	5,576
Current assets			
Debtors due within one year	5	**2,719**	4,284
Debtors due after more than one year	5	**187**	67
Cash at bank and in hand		**901**	25
		3,807	4,376
Current liabilities			
Creditors: amounts falling due within one year	6	**(3,232)**	(2,019)
Net current assets		**575**	2,357
Total assets less current liabilities		**6,161**	7,933
Non-current liabilities			
Creditors: amounts falling due after more than one year	7	**(1,856)**	(1,564)
Provisions for liabilities and charges	8	**(4)**	(2)
		(1,860)	(1,566)
Net assets excluding net pension (liability)/asset		**4,301**	6,367
Net pension (liability)/asset	9	**(1)**	2
Net assets		**4,300**	6,369
Capital and reserves			
Called up share capital	10	**371**	371
Share premium account	11	**2,188**	2,188
Non-distributable reserves	11	**711**	2,934
Profit and loss account	11	**1,030**	876
Equity shareholders' funds	12	**4,300**	6,369

The financial statements were approved by the Board of Directors on 25 March 2009 and signed on its behalf by:

Ian Cheshire
Group Chief Executive

Kevin O'Byrne
Group Finance Director

Notes to the Company financial statements

1 Principal accounting policies

The financial statements of Kingfisher plc (the Company) are made up to the nearest Saturday to 31 January each year. The financial statements have been prepared under the historical cost convention, as modified by the use of valuations for certain financial instruments, share-based payments and pensions, and are prepared in accordance with applicable accounting standards in the United Kingdom and the Companies Act 1985.

The Company's financial statements are included in the consolidated financial statements of Kingfisher plc. As permitted by section 230 of the Companies Act 1985, the profit and loss account and statement of total recognised gains and losses are not presented. The Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 'Cash Flow Statements'. The Company is exempt under the terms of FRS 8 'Related Party Disclosures' from disclosing related party transactions with subsidiaries of Kingfisher plc. The Company has taken advantage of the exemption to provide financial instrument disclosures under the terms of FRS 29 'Financial Instruments: Disclosures'.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

No new standards, amendments or interpretations that became effective in these financial statements had an impact on the Company's results.

The following amendments became effective in these financial statements but had no impact on the Company's results:

FRS 17 (amendment)	Retirement Benefits – Disclosures	Replaces the existing disclosure requirements of FRS 17 with those of IAS 19 'Employee Benefits'.
FRS 26 (IAS 39) (amendment), FRS 29 (IFRS 7) (amendment)	Financial instruments: Recognition and measurement, Financial instruments: Disclosures – Reclassification of financial assets	Permits the reclassification of some financial assets.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange at the balance sheet date. Exchange differences on monetary items are taken to the profit and loss account.

Principal rate of exchange:

Euro/£	2008/09	2007/08
Year end rate	**1.12**	1.33

Tangible fixed assets

Tangible fixed assets are carried in the balance sheet at cost less accumulated depreciation and any provisions for impairment. Depreciation of tangible fixed assets is provided to reflect a reduction from cost to estimated residual value over the estimated useful life of the asset to the Company. Depreciation of tangible fixed assets is calculated using the straight line method and the annual rates applicable to the principal categories are:

Fixtures and fittings	–	between 10% and 25%
Computers and electronic equipment	–	between 25% and 50%
Motor cars	–	25%

Tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of value-in-use and net realisable value. Any impairment in value is charged to the profit and loss account in the period in which it occurs.

Investments

Investments in subsidiaries and associates are included in the balance sheet at cost, less any provisions for impairment.

Operating leases

Rentals under operating leases are charged to the profit and loss account in the period to which the payments relate. Incentives received or paid to enter into lease agreements are released to the profit and loss account on a straight line basis over the lease term or, if shorter, the period to the date on which the rent is first expected to be adjusted to the prevailing market rate.

Pensions
The Company operates defined benefit and defined contribution pension schemes for its employees. A defined benefit scheme is a pension scheme that defines an amount of pension benefit that an employee will receive on retirement. A defined contribution scheme is a pension scheme under which the Company usually pays fixed contributions into a separate entity. In all cases a separate fund is being accumulated to meet the accruing liabilities. The assets of each of these funds are either held under trusts or managed by insurance companies and are held entirely separate from the Company's assets.

The asset or liability recognised in the balance sheet in respect of defined benefit pension schemes is the fair value of scheme assets less the present value of the defined benefit obligation at the balance sheet date, together with an adjustment for any past service costs not yet recognised. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds which are denominated in the currency in which the benefits will be paid and which have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited directly to the profit and loss reserve as they arise.

Past service costs are recognised immediately in the profit and loss account, unless the changes to the pension scheme are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight line basis over the vesting period.

For defined contribution schemes, the Company pays contributions to privately administered pension schemes on a contractual basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Share-based compensation
The Company operates several equity-settled, share-based compensation schemes. The fair value of the employee services received in exchange for the grant of options or deferred shares is recognised as an expense and is calculated using Black-Scholes and stochastic models. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or deferred shares granted, excluding the impact of any non-market vesting conditions. The value of the charge is adjusted to reflect expected and actual levels of options vesting due to non-market vesting conditions.

Employee Share Ownership Plan Trust (ESOP)
The ESOP is a separately administered discretionary trust. Liabilities of the ESOP are guaranteed by the Company and the assets of the ESOP mainly comprise shares in the Company.

Own shares held by the ESOP are deducted from equity shareholders' funds and the shares are held at historical cost until they are sold. The assets, liabilities, income and costs of the ESOP are included in both the Company's and the consolidated financial statements.

Deferred tax
Provision is made for deferred tax using the incremental provision approach and is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

Deferred tax is recognised in respect of timing differences that have originated but not reversed by the balance sheet date subject to the following:
- Deferred tax is not recognised on the revaluation of non-monetary assets such as property unless a binding sale agreement exists at the balance sheet date. Where rollover relief is available on an asset then deferred tax is not recognised.
- Deferred tax is recognised on unremitted earnings of overseas subsidiaries and associates only where dividends are accrued as receivable or there is an intention to remit these in the foreseeable future.
- Deferred tax assets are recognised to the extent that they are regarded as recoverable. Assets are regarded as recoverable when it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.
- Deferred tax is not recognised on permanent differences.

Provisions
Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Financial instruments
Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or the Company has substantially transferred the risks and rewards of ownership. Financial liabilities (or a part of a financial liability) are derecognised when the obligation specified in the contract is discharged or cancelled or expires.

(i) Borrowings
Interest bearing borrowings are recorded at the proceeds received, net of direct issue costs and subsequently measured at amortised cost. Where borrowings are in designated and effective fair value hedge relationships, adjustments are made to their carrying amounts to reflect the hedged risks. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are amortised to the profit and loss account using the effective interest method.

1 Principal accounting policies continued

(ii) Trade creditors

Trade creditors are initially recognised at fair value and are subsequently measured at amortised cost.

(iii) Derivatives and hedge accounting

Where hedge accounting is not applied, or to the extent to which it is not effective, changes in the fair value of derivatives are recognised in the profit and loss account as they arise.

Derivatives are initially recorded at fair value on the date a derivative contract is entered into and subsequently carried at fair value. The accounting treatment of derivatives classified as hedges depends on their designation, which occurs on the date that the derivative contract is committed to. The Company designates certain derivatives as a hedge of the fair value of an asset or liability ('fair value hedge').

For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry being recorded in the profit and loss account. Gains or losses from remeasuring the corresponding hedging instrument are also recognised in the profit and loss account.

In order to qualify for hedge accounting, the Company documents in advance the relationship between the item being hedged and the hedging instrument. The Company also documents and demonstrates an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge has been and will be highly effective on an ongoing basis. The effectiveness testing is re-performed at each period end to ensure that the hedge remains highly effective.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts, and the host contracts are not carried at fair value with unrealised gains or losses reported in the profit and loss account.

2 Profit and loss account disclosures

The Company's audit fee was £0.5m (2007/08: £0.5m).

Dividend disclosures are provided in note 11 of the Kingfisher plc consolidated financial statements.

Employees

£ millions	2008/09	2007/08
Wages and salaries	**15**	15
Social security costs	**2**	2
Pensions		
Defined benefit	**1**	1
Defined contribution	**1**	1
Share-based payments	**2**	2
Employee benefit expenses	**21**	21

Number	2008/09	2007/08
Average number of persons employed		
Administration	**116**	118

Directors' remuneration and details of share option exercises are disclosed in the Remuneration report on pages 39 to 47. Total directors' remuneration for the year was £4.7m (2007/08: £5.2m).

3 Tangible fixed assets

£ millions	Fixtures, fittings and equipment
Cost	
At 3 February 2008	**4**
Additions	**1**
Disposals	**(1)**
At 31 January 2009	**4**
Depreciation	
At 3 February 2008	**(3)**
At 31 January 2009	**(3)**
Net carrying amount	
At 31 January 2009	**1**
At 2 February 2008	1

4 Investments

£ millions	Investments in Group undertakings
At 3 February 2008	**5,575**
Additions	**10**
At 31 January 2009	**5,585**

Additions to investments in Group undertakings represent £10m (2007/08: £100m) of capital injections into a number of subsidiary undertakings.

The Directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. A full list of subsidiary undertakings is attached to the latest annual return. The following information relates to those Group undertakings at the year end whose results or financial position, in the opinion of the Directors, principally affect the figures of the consolidated financial statements of Kingfisher plc.

	Country of incorporation and operation	% interest held and voting rights	Class of share owned	Main activity
B&Q plc [1]	Great Britain	100%	Ordinary & special [2]	Retailing
B&Q Properties Limited	Great Britain	100%	Ordinary	Property investment
Screwfix Direct Limited	Great Britain	100%	Ordinary	Retailing
Kingfisher TMB Limited	Great Britain	100%	Ordinary	Retailing
Castorama France S.A.S. [3]	France	100%	Ordinary	Retailing
Immobilière Castorama S.A.S. [3]	France	100%	Ordinary	Property investment
Brico Dépôt S.A.S. [3]	France	100%	Ordinary	Retailing
Eurodépôt Immobilier S.A.S. [3]	France	100%	Ordinary	Property investment
Castorama Polska Sp.z.o.o. [3]	Poland	100%	Ordinary	Retailing
B&Q (China) B.V. [4]	Netherlands	100%	Ordinary	Holding company
B&Q Asia Holdings Ltd [5]	Hong Kong	100%	Ordinary	Holding company
B&Q Ireland Limited	Ireland	100%	Ordinary	Retailing
Euro Depot España S.A. [3]	Spain	100%	Ordinary	Retailing
Castorama RUS LLC [6]	Russia	100%	Ordinary	Retailing
Halcyon Finance Ltd [7]	Great Britain	100%	Ordinary	Finance
Castorama Dubois Investissements S.C.A. [1,3]	France	100%	Ordinary	Holding company
Kingfisher S.A.S. [3]	France	100%	Ordinary	Holding company

[1] The Castorama and B&Q group is 100% owned of which 45% is held directly by Kingfisher plc.
[2] The special shares in B&Q are owned 100% by Kingfisher plc and are non-voting.
[3] Owing to local conditions, these companies prepare their financial statements to 31 January.
[4] Holding company for the Group’s Chinese retailing operations, which have a 31 December year end.
[5] Holding company for the Group’s former OBI China retailing operations, which have a 31 December year end.
[6] Owing to local conditions and to avoid undue delay in the presentation of the Group financial statements, this company prepares its financial statements to 31 December.
[7] Held directly by Kingfisher plc.

5 Debtors

£ millions	2008/09	2007/08
Amounts falling due within one year		
Owed by Group undertakings	**2,622**	4,283
Corporation tax	**27**	–
Derivatives	**68**	–
Other debtors	**2**	1
	2,719	4,284
Amounts falling due after more than one year		
Derivatives	**180**	60
Deferred tax assets	**7**	7
	187	67

6 Creditors: amounts falling due within one year

£ millions	2008/09	2007/08
Bank loans and overdrafts	**50**	100
Derivatives	**25**	–
Owed to Group undertakings	**3,106**	1,868
Corporation tax	**–**	4
Accruals and deferred income	**22**	22
Other creditors	**29**	25
	3,232	2,019

7 Creditors: amounts falling due after more than one year

£ millions	2008/09	2007/08
Borrowings		
Bank loans	**25**	75
Medium Term Notes and other fixed term debt	**1,757**	1,436
	1,782	1,511
Derivatives	**74**	53
	1,856	1,564

	2008/09	2007/08
Borrowings fall due for repayment as follows:		
One to two years	**631**	50
Two to five years	**661**	952
More than five years	**490**	509
	1,782	1,511

8 Provisions for liabilities and charges

£ millions	Onerous property contracts
At 3 February 2008	**2**
Charge to profit and loss account	**3**
Utilised in the year	**(1)**
At 31 January 2009	**4**

Within the onerous property contracts provision, the Company has provided against future liabilities for all properties sublet at a shortfall and long term idle properties. The provision is based on the value of future cash outflows relating to rent, rates and service charges.

9 Net pension (liability)/asset

The Company participates in both a funded defined benefit scheme and a funded defined contribution scheme.

Defined contribution scheme

Pension costs for the defined contribution scheme, at rates specified in the scheme's rules, are as follows:

£ millions	2008/09	2007/08
Charge to operating profit	**1**	1

Defined benefit scheme

Kingfisher plc is one of a number of Group companies that participate in the Kingfisher Pension Scheme, and therefore the Company has accounted for its share of the scheme assets and liabilities. The valuation of the scheme has been based on the most recent actuarial valuation as at 31 March 2007 and has been updated to 31 January 2009.

Income statement

The amounts recognised in the profit and loss account are as follows:

£ millions	2008/09	2007/08
Amounts charged to operating profit		
Current service cost	1	1
Total charged to operating profit	1	1
Amounts charged/(credited) to net finance costs		
Interest on defined benefit obligation	2	2
Expected return on pension scheme assets	(3)	(3)
Net interest return	(1)	(1)
Total charged to profit and loss account	–	–

Balance sheet

£ millions	2008/09	2007/08
Present value of defined benefit obligation	(41)	(41)
Fair value of scheme assets	40	44
Net pension (liability)/asset before deferred tax	(1)	3
Related deferred tax liability	–	(1)
Net pension (liability)/asset	(1)	2

Movements in the present value of the defined benefit obligation are as follows:

£ millions	2008/09	2007/08
Present value of defined benefit obligation at beginning of year	(41)	(46)
Current service cost	(1)	(1)
Interest on defined benefit obligation	(2)	(2)
Actuarial gains	1	3
Benefits paid	2	5
Present value of defined benefit obligation at end of year	(41)	(41)

Movements in the fair value of scheme assets are as follows:

£ millions	2008/09	2007/08
Fair value of scheme assets at beginning of year	44	45
Expected return on pension scheme assets	3	3
Actuarial losses	(7)	(2)
Contributions paid by employer	2	3
Benefits paid	(2)	(5)
Fair value of scheme assets at end of year	40	44

The fair value of scheme assets is analysed as follows:

	2008/09		2007/08	
	£ millions	% of total	£ millions	% of total
Equities	13	33%	23	52%
Bonds	25	62%	18	41%
Property	2	5%	3	7%
Total market value of assets	40	100%	44	100%

The pension scheme does not hold any assets other than those disclosed above.

9 Net pension (liability)/asset continued

Actual returns and history of actuarial gains and losses

The actual returns on pension scheme assets are as follows:

£ millions	2008/09	2007/08
Actual (loss)/return on pension scheme assets	**(4)**	1

The history of actuarial gains and losses is as follows:

£ millions	2008/09	2007/08	2006/07	2005/06	2004/05
Present value of defined benefit obligation	**(41)**	(41)	(46)	(41)	(36)
Fair value of scheme assets	**40**	44	45	35	27
Net pension (liability)/asset before deferred tax	**(1)**	3	(1)	(6)	(9)
Changes in assumptions underlying present value of defined benefit obligation	**1**	3	(3)	(5)	(4)
Percentage of defined benefit obligation	***(2%)***	*(7%)*	*7%*	*12%*	*11%*
Actual (loss)/return less expected return on pension scheme assets	**(7)**	(2)	5	4	1
Percentage of scheme assets	***(18%)***	*(5%)*	*11%*	*11%*	*4%*
Total (losses)/gains recognised in the profit and loss reserve in the year	**(6)**	1	2	(1)	(3)

No experience gains or losses arose on the defined benefit obligation in the current or prior years.

The estimated amount of contributions expected to be paid to the pension scheme by the Company during the next financial year is £2m.

Principal actuarial valuation assumptions

The assumptions used in calculating the costs and obligations of the defined benefit pension schemes are set by the Directors after consultation with independent professionally qualified actuaries. The assumptions are based on the conditions at the time and changes in these assumptions can lead to significant movements in the estimated obligation.

The discount rate is based on the yield on the iBoxx over 15 year AA-rated Sterling corporate bond index adjusted for the difference in term between iBoxx and scheme liabilities. The overall expected rate of return on scheme assets reflects market expectations at the valuation date of long term asset returns and the mix of assets in the scheme.

Annual % rate	2008/09	2007/08
Discount rate	**6.5**	6.2
Salary escalation	**4.3**	4.1
Rate of pension increases	**3.5**	3.3
Price inflation	**3.5**	3.3

% rate of return	2008/09	2007/08
Equities	**8.7**	8.1
Bonds	**5.6**	5.3
Property	**7.1**	6.7
Other	**4.3**	4.3
Overall expected rate of return	**6.7**	6.8

The mortality assumptions used in the actuarial valuations have been selected with regard to the characteristics and experience of the membership of the scheme from 2004 to 2007. The base mortality assumptions have been derived by adjusting standard mortality tables (PA 92 tables) projected forward to 2007 with the medium cohort improvement factors for males and with the standard improvement factors for females. In addition, allowance has been made for future increases in life expectancy. For males, the allowance is in line with medium cohort improvements subject to a minimum rate of improvement of 1% pa, and for females, the allowance is in line with the standard improvements, subject to a minimum of 0.5% pa. These improvements have been set with regard to trends observed within the scheme over the past decade.

The assumptions for life expectancy of the scheme members are as follows:

Years	2008/09	2007/08
Age to which current pensioners are expected to live (60 now)		
– Male	**87.2**	87.2
– Female	**85.9**	85.9
Age to which future pensioners are expected to live (60 in 15 years time)		
– Male	**88.8**	88.8
– Female	**87.1**	87.1

The main financial assumption is the real discount rate, representing the excess of the discount rate over the rate of inflation. If this assumption increased or decreased by 0.1%, the defined benefit obligation would decrease or increase by approximately £1m.

10 Called up share capital

	Number of ordinary shares millions	Ordinary share capital £ millions
At 3 February 2008	**2,361**	**371**
At 31 January 2009	**2,361**	**371**

The total number of authorised ordinary shares is 3,023m shares (2007/08: 3,023m shares) with a par value of 15⁵⁄₇p per share. All issued shares are fully paid.

11 Reserves

£ millions	Share premium account	Non-distributable reserves	Profit and loss account	Total
At 3 February 2008	**2,188**	**2,934**	**876**	**5,998**
Actuarial losses on defined benefit pension scheme	**–**	**–**	**(6)**	**(6)**
Share-based compensation	**–**	**–**	**2**	**2**
Own shares disposed	**–**	**–**	**5**	**5**
Transfers	**–**	**(2,223)**	**2,223**	**–**
Loss for the year	**–**	**–**	**(1,947)**	**(1,947)**
Dividends	**–**	**–**	**(125)**	**(125)**
Tax on items recognised directly in equity	**–**	**–**	**2**	**2**
At 31 January 2009	**2,188**	**711**	**1,030**	**3,929**

During the year the Group has undertaken a restructuring project to create a more efficient Group structure. As part of this project the Company has waived an intercompany receivable balance owed by a wholly owned subsidiary of £2.2 billion. The original recognition of this balance was treated as non-distributable and held within non-distributable reserves. On the waiver of the receivable the balance was transferred to the profit and loss account. As a consequence of this restructuring the Company made a loss on ordinary activities after taxation of £1,947m (2007/08: £1m profit).

Included within the profit and loss account are profits of £557m related to intragroup restructuring which are not distributable.

The non-distributable reserves represent the premium on the issue of convertible loan stock in 1993 and the merger reserve relating to the acquisition of Darty.

The value of own shares deducted from the profit and loss reserve at 31 January 2009 is £57m (2007/08: £66m).

12 Reconciliation of movement in equity shareholders' funds

£ millions	2008/09	2007/08
(Loss)/profit for the year	**(1,947)**	1
Dividends	**(125)**	(249)
	(2,072)	(248)
Actuarial (losses)/gains on defined benefit pension scheme	**(6)**	1
Shares issued under share schemes	**–**	3
Share-based compensation	**2**	2
Own shares disposed	**5**	6
Tax on items recognised directly in equity	**2**	–
Net decrease in equity shareholders' funds	**(2,069)**	(236)
Equity shareholders' funds at beginning of year	**6,369**	6,605
Equity shareholders' funds at end of year	**4,300**	6,369

Notes to the Company financial statements

13 Share options

Options to subscribe under the various schemes for ordinary shares of 15$^{5}/_{7}$p, including those held by executive directors disclosed in the Remuneration report on pages 39 to 47, are shown below:

	Date of grant	Exercisable from	Exercise price £	2008/09 Options Number	2007/08 Options Number
Kingfisher Incentive Share Scheme	06/04/05	06/04/08	–	**–**	1,163,987
	06/04/05	06/04/08	–	**–**	324,460
	10/04/06	10/04/09	–	**971,459**	1,068,242
	10/04/06	10/04/09	–	**169,792**	203,624
	01/04/07	01/04/08	–	**–**	19,766
	01/04/07	01/04/09	–	**19,766**	19,766
	11/04/07	11/04/10	–	**1,683,652**	1,848,887
	30/04/07	30/10/07	–	**–**	22,222
	30/04/07	30/04/09	–	**14,814**	14,814
	30/04/07	30/04/10	–	**12,962**	12,962
	01/05/07	01/05/08	–	**–**	36,463
	01/05/07	01/05/09	–	**36,463**	36,463
	01/05/07	01/05/10	–	**36,463**	36,463
	11/06/07	11/06/10	–	**–**	4,197
	18/06/07	18/06/08	–	**–**	10,319
	18/06/07	18/06/09	–	**8,225**	8,225
	18/06/07	18/06/10	–	**6,191**	6,191
	19/11/07	31/03/09	–	**28,801**	–
	21/04/08	21/04/11	–	**3,287,837**	–
	10/06/08	10/06/09	–	**22,900**	–
	10/06/08	10/06/10	–	**15,267**	–
	20/11/08	01/04/12	–	**20,000**	–
				6,334,592	4,837,051
Performance Share Plan	28/06/06	28/06/09	–	**1,252,969**	1,464,400
	24/10/06	24/10/09	–	**1,164,686**	1,350,827
	11/04/07	11/04/10	–	**1,031,514**	1,199,754
	01/10/07	01/10/10	–	**1,829,857**	2,092,221
	01/02/08	01/02/11	–	**1,114,206**	1,114,206
	01/02/08	01/02/12	–	**1,114,206**	1,114,206
	21/04/08	21/04/12	–	**13,276,650**	–
	24/07/08	24/07/12	–	**1,328,997**	–
	01/10/08	01/10/11	–	**1,935,275**	–
	01/10/08	01/02/12	–	**656,392**	–
				24,704,752	8,335,614
Kingfisher Retention Plan	16/03/06	30/03/08	–	**–**	767,500
	28/06/06	28/06/08	–	**–**	155,000
	21/04/08	21/04/09	–	**1,122,500**	–
	21/04/08	21/04/11	–	**1,437,500**	–
	21/04/08	21/04/12	–	**2,750,000**	–
				5,310,000	922,500
UK and International ShareSave	23/10/01	01/12/06	1.71	**–**	966
	02/05/02	01/07/07	2.33	**–**	2,842
	31/10/02	01/12/07	1.57	**–**	2,346,448
	01/05/03	01/07/07	2.28	**–**	4,487
	01/05/03	01/07/08	1.87	**252,506**	810,117
	22/10/04	01/12/07	2.45	**–**	1,016,961
	22/10/04	01/12/09	2.45	**599,309**	788,449
	27/10/05	01/12/08	1.76	**1,710,065**	2,093,323
	27/10/05	01/12/10	1.76	**684,280**	1,009,722
	26/10/06	01/12/09	1.97	**1,270,059**	1,980,452
	26/10/06	01/12/11	1.97	**825,019**	1,203,759
	01/11/07	01/12/10	1.55	**2,226,433**	4,393,005
	01/11/07	01/12/12	1.55	**1,225,548**	3,132,231
	29/10/08	01/12/11	1.09	**6,313,572**	–
	29/10/08	01/12/13	1.09	**4,226,428**	–
				19,333,219	18,782,762

	Date of grant	Exercisable from	Exercise price £	2008/09 Options Number	2007/08 Options Number
Executive, International Executive and Phantom Share Options	27/04/98	27/04/04	4.15	**–**	453,476
	26/10/98	26/10/04	3.96	**–**	80,325
	01/04/99	01/04/04	5.90	**373,390**	413,332
	26/05/99	26/05/04	6.08	**6,105**	6,105
	28/09/99	28/09/04	4.83	**41,922**	41,922
	17/04/00	17/04/04	3.93	**1,080,135**	1,161,972
	25/09/00	25/09/04	3.57	**490,666**	513,200
	26/09/01	26/09/04	2.10	**540,027**	630,365
	26/09/01	26/09/05	2.07	**471,031**	471,031
	09/04/02	09/04/05	2.90	**1,807,248**	1,971,095
	09/04/02	09/04/06	2.86	**701,976**	701,976
	08/10/02	08/10/05	1.95	**1,520,905**	1,650,121
	08/10/02	08/10/06	1.95	**853,126**	853,126
	17/04/03	17/04/06	2.38	**2,844,462**	3,029,768
	17/04/03	17/04/07	2.38	**1,429,760**	1,498,666
				12,160,753	13,476,480
All-employee	21/07/98	21/07/01	3.75	**–**	3,177,703
Total				**67,843,316**	49,532,110

The Kingfisher Incentive Share Scheme and Performance Share Plan are described as part of the Remuneration report on pages 39 to 47.

Certain employees, excluding directors, have been granted contingent share awards under the Kingfisher Retention Plan.

Under the UK ShareSave Scheme, eligible UK employees have been invited to enter into Inland Revenue approved savings contracts for a period of three or five years, whereby shares may be acquired with repayments under the contract. The option price is the average market price over three days shortly before an offer to subscribe, discounted by 20%. Options are exercisable within a six month period from the conclusion of a three or five year period. The International ShareSave Plan, which operates along the lines of the UK ShareSave Scheme, includes eligible employees in certain overseas locations.

The last grant of options under the Executive, International Executive and Phantom Share Option schemes was made in April 2003. Under these schemes, participants received a bi-annual grant of options based on their position in the Group. These options are normally exercisable from the third anniversary of the date of the grant (up to the tenth anniversary), except where the performance condition has not been met, in which case this date is deferred accordingly. The performance conditions for all options have now been met, except for the grant made in April 2003. On the exercise of Phantom Share Options, participants receive in cash the increase in value of the allocated number of shares in the Company. All permanent employees (excluding those receiving Executive Options) were each granted options over 529 shares in 1998, provided that they were employed as at 19 March 1997 and in employment on the date of grant. These options were granted under the Executive Share Option Scheme.

The rules of all schemes include provision for the early exercise of options in certain circumstances.

Under FRS 20 ‘Share-based Payment’ the Company recognises a charge for share options granted after 7 November 2002. The Company has not repeated the disclosures required by FRS 20 as these are already included in note 31 of the Kingfisher plc consolidated financial statements.

The Employee Share Ownership Plan Trust (ESOP)

The ESOP is funded by interest free loans from the Company and its subsidiary undertakings of £56m (2007/08: £62m) to enable it to acquire shares in Kingfisher plc. The shares are used to satisfy options awarded under the Kingfisher Incentive Share Scheme, Retention Plan, International ShareSave Plan, Executive and International Executive Share Option Schemes and Phantom Share Option Scheme.

The ESOP’s shareholding at 31 January 2009 was 15m shares (2007/08: 17m shares) with a nominal value of £2m (2007/08: £3m) and a market value of £21m (2007/08: £26m). Dividends on these shares were waived for the interim and final dividends.

14 Contingent liabilities

The Company has an obligation to provide a bank guarantee for £50m (2007/08: £50m) to the liquidators of Kingfisher International France Limited in the event that the Company’s credit rating falls below ‘BBB’. The obligation arises from an indemnity provided in June 2003 as a result of the demerger of Kesa Electricals.

Independent auditors' report to the members of Kingfisher plc

We have audited the Parent Company financial statements of Kingfisher plc for the year ended 31 January 2009 which comprise the Company balance sheet and the related notes. These Parent Company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration report that is described as having been audited.

We have reported separately on the Group financial statements of Kingfisher plc for the year ended 31 January 2009.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration report and the Parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Directors' Statement of Responsibility.

Our responsibility is to audit the Parent Company financial statements and the part of the Directors' Remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Parent Company financial statements give a true and fair view and whether the Parent Company financial statements and the part of the Directors' Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the Parent Company financial statements. The information given in the Directors' report includes that specific information presented in the Financial review, "Risks", "Our business and our markets" and Key Performance Indicators that is cross referred from the business review section of the Directors' report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Parent Company financial statements. The other information comprises only the Chairman's statement, the Financial review, "Our business and our markets", the unaudited part of the Directors' Remuneration report and all the other information listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Parent Company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Parent Company financial statements and the part of the Directors' Remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Parent Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Parent Company financial statements and the part of the Directors' Remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Parent Company financial statements and the part of the Remuneration report to be audited.

Opinion

In our opinion:

- the Parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 January 2009;
- the Parent Company financial statements and the part of the Directors' Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the Parent Company financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
25 March 2009

Group five year financial summary

£ millions	2004/05 [1] 52 weeks	2005/06 [1] 52 weeks	2006/07 [1,2] 53 weeks	2007/08 [1,2] 52 weeks	2008/09 52 weeks
Income statement					
Revenue	7,420	7,743	8,364	9,050	**10,026**
Retail profit	719	504	473	469	**503**
Central costs before exceptional items	(37)	(38)	(39)	(40)	**(41)**
Share of interest and tax of joint ventures and associates before exceptional items	(13)	(10)	(13)	(5)	**(16)**
Operating profit before exceptional items	669	456	421	424	**446**
Net finance costs before financing fair value remeasurements	(29)	(40)	(55)	(67)	**(78)**
Adjusted pre-tax profit	640	416	366	357	**368**
Exceptional items before tax	(13)	(215)	49	4	**(273)**
Financing fair value remeasurements	–	2	5	5	**(5)**
Profit before taxation	627	203	420	366	**90**
Income tax expense	(196)	(82)	(102)	(114)	**(88)**
Profit from continuing operations	431	121	318	252	**2**
Balance sheet					
Goodwill and other intangible assets	2,533	2,660	2,641	2,617	**2,469**
Property, plant and equipment and investment property	3,051	3,281	3,240	3,727	**3,723**
Investments in joint ventures and associates	174	185	185	204	**219**
Net current (liabilities)/assets [3]	(29)	72	(51)	(23)	**(278)**
Other net non-current liabilities [3]	(500)	(522)	(300)	(242)	**(331)**
Capital employed	5,229	5,676	5,715	6,283	**5,802**
Equity shareholders' funds	4,385	4,311	4,414	4,713	**4,783**
Minority interests	3	10	7	11	**15**
Net debt [3]	841	1,355	1,294	1,559	**1,004**
Capital employed	5,229	5,676	5,715	6,283	**5,802**
KPIs					
Like-for-like sales growth	3.8%	(2.4%)	0.8%	2.8%	**(4.1%)**
Effective tax rate [4]	32%	33%	32%	31%	**31%**
Basic earnings per share (pence)	18.7	5.2	13.6	10.9	**0.2**
Adjusted basic earnings per share (pence) [5]	18.6	11.8	10.6	10.6	**11.0**
Dividend per share (pence)	10.65	10.65	10.65	7.25	**5.325**
Gross capital expenditure [6]	382	482	436	513	**390**

[1] Income statement, like-for-like sales growth, effective tax rate, basic and adjusted earnings per share and gross capital expenditure restated for discontinuance of Castorama Italy.
[2] Like-for-like sales growth in 2006/07 calculated by comparing 53 weeks against the equivalent 53 weeks of the prior year. 2007/08 growth calculated by comparing 52 weeks against the equivalent 52 weeks of the prior year. This only impacted UK operations with all other operations reporting on a calendar basis. The effect of the 53rd week on 2006/07 results was an increase of £79m in reported revenue, but with no significant impact on operating profit.
[3] Net debt comprises borrowings and financing derivatives (excluding accrued interest), less cash and cash equivalents and current other investments. Financing derivatives are those that relate to underlying items of a financing nature. Net current (liabilities)/assets and other net non-current liabilities reported above exclude any components of net debt.
[4] On profit before exceptional items and excluding tax adjustments in respect of prior years and changes in tax rates.
[5] Before exceptional items, acquisition intangible amortisation, financing fair value remeasurements, related tax items and prior year tax items.
[6] Excluding business acquisitions.

Shareholder information

Annual General Meeting

The Annual General Meeting of Kingfisher plc will be held on Wednesday 3 June 2009 at 11.00am at The Paddington London Hilton Hotel, 146 Praed Street, London W2 1EE.

Results and financial diary

First quarter results	2 June 2009
Pre-close first half trading	23 July 2009
Interim results to 31 July 2009	17 September 2009
Third quarter results	3 December 2009
Fourth quarter results	February 2010

Registrar

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 7ZZ
Telephone: 0870 702 0129

Shareholder enquiries

Any queries that shareholders have regarding their shareholdings, such as a change of name or address, transfer of shares, lost share certificates or dividend cheques, should be referred to the Company's Registrar using the contact details above. A shareholder helpline is available on UK business days between 8.30am to 5.00pm and contains an automated self-service functionality which is available 24 hours a day.

Low cost share dealing facilities

Shareholders have the opportunity to buy or sell Company shares using a low cost share dealing facility operated by the Registrar.

- **Telephone share dealing:** Commission is 1%, subject to a minimum charge of £15, stamp duty at 0.5% is payable on purchases. The service is available from 8am to 4.30pm Monday to Friday excluding bank holidays. Telephone: 0870 703 0084.
- **Internet share dealing:** Commission is 0.5%, subject to a minimum charge of £15, stamp duty at 0.5% is payable on purchases. The service is also available to place orders out of market hours. Simply log onto www.uk.computershare.com.

Terms and conditions for both of these services can be obtained by calling 0870 702 0129.

Unauthorised brokers (boiler room scams)

Kingfisher plc is legally obliged to make its share register available to the general public. Consequently some shareholders may receive unsolicited mail, including correspondence from unauthorised investment companies.

Companies have become increasingly aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based brokers who target UK shareholders offering to sell what often turn out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive. Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. Details of any share dealing facilities that the Company endorses will be included in Company mailings.

Share price history

Financial year	Pence per ordinary share*		Dollars per ADR**	
	High	Low	High	Low
2008/09	153.6	91.8	5.45	3.53
2007/08	284	143.1	11.05	5.16
2006/07	273	218.75	11.05	8.45
2005/06	312.25	201	9.50	7.65
2004/05	317.25	270.50	12.25	9.50

* Based on the daily closing price of Kingfisher plc shares on the London Stock Exchange
** Based on the daily closing price of Kingfisher plc ADRs in the Over the Counter (OTC) market

Dividend

The interim dividend for the financial year ended 31 January 2009 of 1.92p per share was paid on 14 November 2008. The table below provides the payment information for the final dividend of 3.4p per share, subject to shareholder approval at the AGM on 3 June 2009:

Ex-dividend date	6 May 2009
Record date	8 May 2009
Final date for return of DRIP mandate forms	29 May 2009
Euro exchange rate notification	1 June 2009
Payment date and DRIP purchase	19 June 2009
Interim dividend payable	November 2009

Analysis of Share Register Categories as at 31 January 2009

	Holdings	%	Shares	%
Individuals	26,699	89.66%	43,906,666	1.87%
Bank or Nominees	2,799	9.40%	2,137,695,527	90.55%
Investment Trust	24	0.08%	53,727	0.00%
Insurance Company	14	0.05%	346,673	0.01%
Other Company	215	0.72%	174,771,445	7.40%
Pension Trust	9	0.03%	37,978	0.00%
Other Corporate Body	19	0.06%	4,023,217	0.17%
Total	29,779	100%	2,360,835,233	100%

Payment methods

Shareholders can elect to receive their dividends in a number of ways:

- **Cheque:** cash dividends will automatically be paid to shareholders by cheque, which will be sent by post to the shareholders registered address.
- **BACS:** cash dividends can be paid by mandate directly to a UK bank or building society account through the BACS system. Shareholders resident in any of the eurozone countries can elect to receive dividends in euros. This method of payment reduces the risk of your cheque being intercepted or lost in the post. Shareholders wishing to receive their dividends in this way should complete a dividend mandate form and return it to the Registrars;
- **Dividend Reinvestment Plan:** the Company also offers shareholders a Dividend Reinvestment Plan, whereby shareholders can use their cash dividend to buy further shares in the Company. Shareholders can apply online at www.computershare.com/investor/uk or complete a mandate form and return it to the address shown above; and
- **Global payments service:** this service provided by Kingfisher's Registrar enables shareholders to have dividend payments paid directly into their bank account in their chosen local currency. To view terms and register, please visit www.computershare.com/uk/investor/GPS.

ADRs

The Company has a Sponsored Level One ADR programme in America. Each ADR is worth two Kingfisher shares.

Electronic communication

At the 2008 AGM the Company obtained shareholder approval to adopt the changes in law regarding electronic communications, allowing the Company to use the Kingfisher plc website as the main method of communication with shareholders, unless they have elected to continue receiving hard copy statutory documentation. For shareholders who have not elected to receive their statutory documentation in electronic form, you can sign up by visiting www.computershare/investor/uk/ecomms and registering your details. When you register for e-communications, you will be sent an email each time the Company publishes statutory documents, providing you with a link to the information.

Electing for e-communications does not mean shareholders can no longer obtain hard copy documents. Should shareholders require a hard copy version of any of the Company's statutory documentation, they should contact the Company Secretary at the registered office address.

Document viewing

Shareholders will have the opportunity to view certain documentation as outlined in the Notice of Meeting for the AGM from 15 minutes prior to the meeting until its conclusion.

The Memorandum and Articles of Association of the Company and other documentation referred to in this annual report can be viewed at the registered office during normal business hours.

Company Secretary and registered office

Nick Folland
Kingfisher plc
3 Sheldon Square
Paddington
London
W2 6PX

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www.kingfisher.com

Registered in England and Wales
Registered Number 01664812

Cautionary note regarding forward-looking statements

Certain statements included in this Annual Report and Accounts are forward-looking and are therefore subject to risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed or implied because they relate to future events. These forward-looking statements include, but are not limited to, statements relating to the Company's expectations around its three key priorities of Management, Capital and Returns and the associated seven steps to 'Delivering Value' objectives.

Forward-looking statements can be identified by the use of relevant terminology including the words: "believes", "estimates", "anticipates", "expects", "intends", "plans", "goal", "target", "aim", "may", "will", "would", "could" or "should" or, in each case, their negative or other variations or comparable terminology and include all matters that are not historical facts. They appear in a number of places throughout this Annual Report and Accounts and include statements regarding our intentions, beliefs or current expectations and those of our officers, directors and employees concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the businesses we operate.

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements include, but are not limited to:

- global economic business conditions
- monetary and interest rate policies
- foreign currency exchange rates
- equity and property prices
- the impact of competition, inflation and deflation
- changes to regulations, taxes and legislation
- changes to consumer saving and spending habits; and
- our success in managing the above factors.

Consequently, our actual future financial condition, performance and results could differ materially from the plans, goals and expectations set out in our forward-looking statements. The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

FTSE4Good

Dow Jones Sustainability Indexes
Member 2008/09

Kingfisher is included in two socially responsible indices, the FTSE4Good and Dow Jones Sustainability Indexes.

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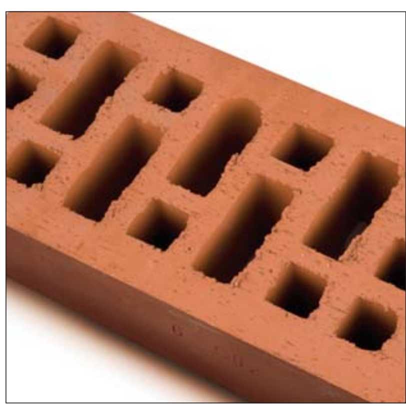

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