# Kingfisher

## 2020/21 annual report & accounts



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# Operating safely during Covid-19

**Kingfisher stores are operating with strict social distancing and safety measures to protect customers and colleagues.** **Read more about this on pages 15 to 17.**

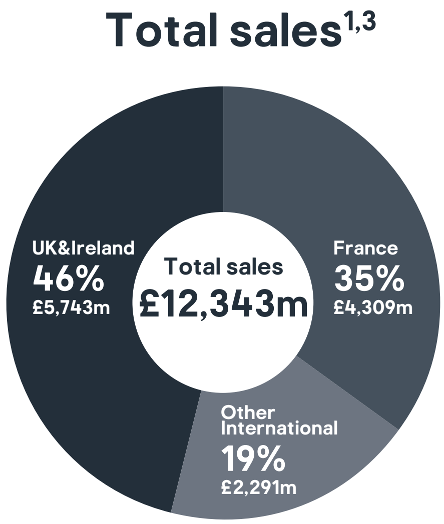
# Kingfisher at a glance

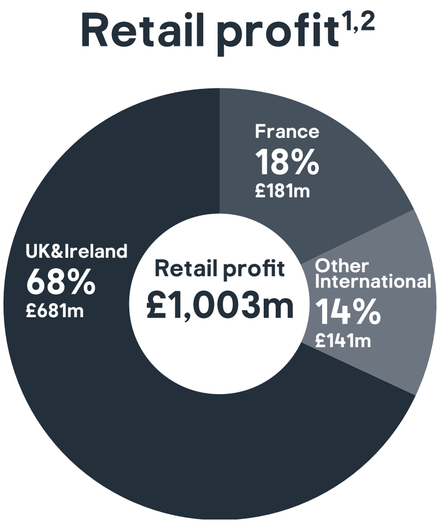
**Kingfisher plc is an international home improvement company with over 1,380 stores in eight countries across Europe. We operate under retail banners including B&Q, Castorama, Brico Dépôt, Screwfix, TradePoint and Koçtaş, supported by a team of 80,000 colleagues.**

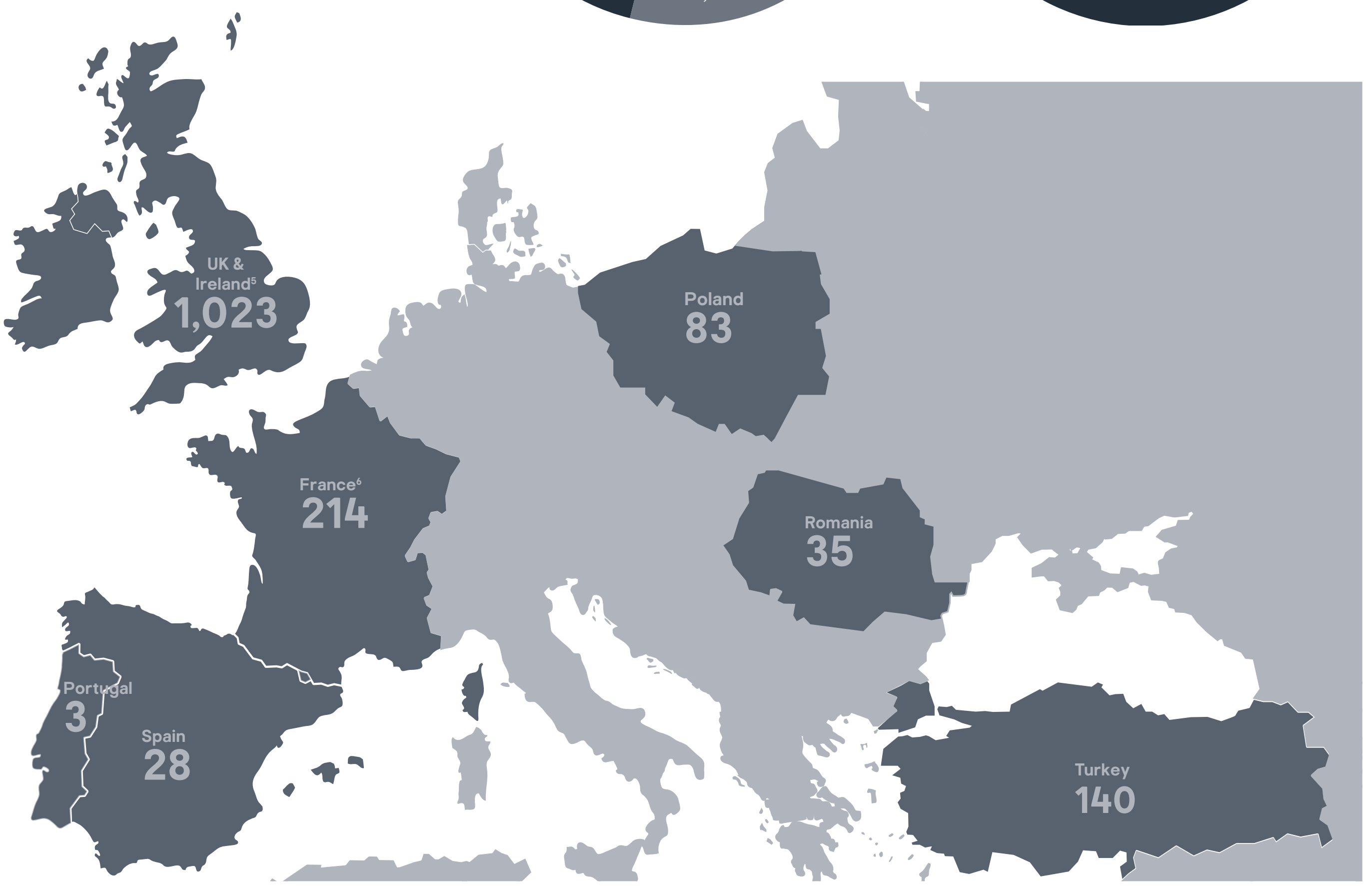
We offer home improvement products and services to consumers and trade professionals who shop in our stores and via our e-commerce channels. At Kingfisher, our purpose is to make better homes accessible for everyone.

**1,386[3] stores**

**80,000[3,4] colleagues**




All figures on this page relate to the year ended 31 January 2021.

1. Financial Key Performance Indicator (KPI). For prior year comparison, see the Financial Review on pages 33 to 39.
2. Alternative Performance Measure (APM). See the glossary on pages 183 to 185 for definitions and reconciliations of APMs.
3. Turkey joint venture not included.
4. Total, not full-time equivalent.
5. B&Q UK & Ireland 301. Screwfix UK & Ireland 722.
6. Castorama 93. Brico Dépôt 121.

The sale of our business in Russia was completed on 30 September 2020.

# Financial highlights and key performance indicators (KPIs)

For the year ended 31 January 2021

### Sales

**£12,343m** +6.8%[1]

**+7.1%** LFL[2]

### Gross profit / margin[2]

**£4,573m** +6.9%[1]

**37.1%** flat[1]

### Retail profit[2] / margin[2]

**£1,003m** +27.4%[1]

**8.1%** +130bps[1]

### Adjusted pre-tax profit[2] / margin

**£786m** +44.4%

**+6.4%** +170bps

### Statutory profit

Pre-tax **£756m** +634.0%

Post-tax **£592m** 2019/20: £8m

### Basic earnings per share (EPS)

Adjusted[2] **28.7p** +50.3%

Statutory **28.1p** 2019/20: 0.4p

### Dividend[3]

**8.25p**

2019/20: 3.33p

### Free cash flow[2]

**£938m**

2019/20: £191m

### Cash and bank overdrafts

**£1,136m**

2019/20: £195m

### Net debt[2]

**£(1,394)m**

2019/20: £(2,526)m

### Net leverage

**0.9x**

Net debt[2] to EBITDA[2]
2019/20: 2.0x

1. Variance in constant currency.
2. Alternative performance measure (APM). See the glossary on pages 183 to 185 for definitions and reconciliations of APMs.
3. The Board has proposed a total dividend per share of 8.25p in respect of FY 20/21, comprising an interim dividend of 2.75p in respect of the six months ended 31 July 2020 (FY 19/20 interim dividend: 3.33p) and a final dividend of 5.50p (FY 19/20 final dividend: nil).

Evaluation of KPIs against our strategy can be found in the Financial review on pages 33 to 39.

# Chair's statement

In last year's annual report, I paid tribute to the 80,000 colleagues who make up the Kingfisher organisation, thanking them for their extraordinary efforts on behalf of the company. Twelve months on and I want again to take the opportunity to express my gratitude to them for their remarkable support and commitment during the pandemic. Coronavirus has placed acute stress on every part of our society, but it is on an individual level that its impact is most keenly felt. Anxiety and uncertainty are widespread, precious links with family and friends have been broken and a great number of people have been badly affected. Our thoughts are with all those within the Kingfisher community who have been impacted.

In this most challenging of environments our teams have worked tirelessly to keep the business open, making available products that keep homes safe, warm and operating efficiently. We have tried our best to support the response efforts of the authorities and the communities in which we operate. We made community investments worth over £5.5 million in the year, including the donation of significant amounts of vital personal protective equipment for frontline healthcare teams. As optimism grows for an end to the pandemic it is right that we acknowledge these efforts and above all the tireless contribution of our people. They have been magnificent.

In most of our markets and for most of the time during the pandemic, Kingfisher's banners have been designated as 'retailers of essential products' with the corresponding right to remain open. In the first few weeks of the crisis, we chose to close the majority of our stores for several weeks despite this 'essential' designation to make sure we were set up operationally and as safely as we could be. This was the right decision, but it did create considerable financial strain on the organisation. Our business leaders moved quickly during this period to conserve cash and reduce discretionary costs wherever possible. They also showed great agility in bringing forward at record speed innovative new working practices and breakthrough developments in our e-commerce operations. These efforts put the company in a good position not just to manage such a rapidly changing environment but to improve our competitive position in the marketplace. The strong relative performances of all our banners over the last twelve months is testament to their efforts.

The company was grateful for the timely financial support offered through various Government schemes. At the time these were important and provided welcome reassurance. As the pandemic continued it became increasingly clear that trading was strong enough for us not to need Government support, and we were pleased to be able to return all furlough payments and business rates relief in the UK and Republic of Ireland. In addition, we were able to repay all outstanding Government corporate loan facilities in the UK and France. Our gratitude remains.

In June we announced our new strategic plan, 'Powered by Kingfisher' which is covered in the CEO's review on page 4, and set out in detail in the Group update section of this document on pages 6 to 14. Under the outstanding leadership of Thierry Garnier and his new executive team, the company is now fully underway with the new strategy and we are already seeing its benefits. Our new strategy will make an increasing difference as we emerge from the crisis stronger, more aligned and operating in a way that makes the very best use of the scale and resources of the company. We look forward with optimism for the future, confident in our ability both to deliver stronger performance in all the markets in which we operate and do our part with the important social and environmental issues of the day.

We are committed to leading our industry on Responsible Business practices, seeking to maximise our positive impact on the lives of our customers, colleagues, communities, and the planet. In addition to us supporting our communities when they needed help the most, during the year we launched our new Forest Positive commitment to plant more trees than we use. We are also on track to deliver our carbon emissions targets, while establishing more ambitious targets (see pages 25 to 29 for more information). Finally, in a year where issues involving inequality became even more stark, the Board approved a new Kingfisher Group diversity and inclusion strategy.

Turning to the financial results for the 2020/21 year, total sales were up 6.8% to £12.3 billion in constant currencies (up 7.1% like-for-like), with strong momentum in our current trading, as well as increased market share in our key markets. Adjusted pre-tax profits were up 44.4% to £786 million (including c.£85 million of non-recurring net cost savings), driven mainly by a strong performance in the UK. During 2020 we took the difficult decision to suspend dividend payments to preserve cash and liquidity during the crisis. This affected the full year dividend for 2019/20 and the interim dividend in 2020/21. But, as a result of our strong financial performance and our confidence in the future, the Board is pleased to announce the reinstatement of a sustainable dividend policy, with a proposed total dividend for the 2020/21 year of 8.25p (including an interim dividend of 2.75p in respect of the six months ended 31 July 2020).

During the year, we welcomed Catherine Bradley and Tony Buffin to the Board as non-executive directors. I am pleased to say that they are already fully engaged within the business and together have brought a wealth of experience from the retail sector, including home improvement and digital retail, finance, risk management, and governance. Earlier this year, we said goodbye to Mark Seligman, who stepped down from the Board in January after nine years' service as a non-executive director and our senior independent director. I was delighted that Catherine agreed to succeed Mark as senior independent director and I know that her significant experience and knowledge will be invaluable as we continue to engage with our investors and other stakeholders. I would like to take this opportunity to thank Mark for his significant contribution to Kingfisher over the years.

With these appointments, I firmly believe that we have the best possible mix of skills, experience, and perspectives to support the business and its delivery of our 'Powered by Kingfisher' strategy. We continue to assess the composition of the Board and our committees in line with our skills and experience matrix and diversity ambitions. Further information about our Board and our engagement with stakeholders is set out on pages 52 and 63 respectively.

**Andrew Cosslett**
Chair

# Chief Executive Officer’s statement

I would like to express my personal thanks to all the Kingfisher teams for their extraordinary achievements during the past year. It is now 18 months since I joined Kingfisher and I consider it a privilege to run this company. Reflecting on the experiences of the past year, I feel that all the teams can be proud of the way they have responded to the crisis together as a team. It is both humbling and inspiring to be part of this team as we navigate our way through such challenging circumstances. The dedication and commitment of my Kingfisher colleagues has enabled us to make substantial strategic, operational and financial progress this year. Kingfisher is coming out of the Covid-19 crisis as a stronger business, with an improved competitive position in all key markets, strong new customer growth and a step-change in digital adoption.

In the early stages of the pandemic we took the decision to close our stores in the UK and France for several weeks, in order to protect colleagues and limit the spread of the virus. This was despite our businesses in these markets holding ‘essential retailer’ status. From late April onwards last year we started to re-open our stores and our businesses saw consistently strong demand from customers for home improvement products and services. Throughout, we have been focused on serving these needs as effectively as possible, while protecting the safety of all concerned, especially our colleagues on the frontline.

At the peak of the crisis the agility of our management teams enabled our retail banners to react quickly to changing circumstances and meet the changing demands of our customers. The rapid change to our e-commerce operations, which increasingly use our stores for the picking and delivery of orders, helped e-commerce sales grow by 158% in the year. E-commerce sales now account for 18% of all Kingfisher sales (compared to 8% the previous year), with around 10 million new online customers.

In June we announced our ‘Powered by Kingfisher’ strategy. At the heart of this, our distinct retail banners, which address diverse customer needs, will be ‘powered’ by the Group in key areas such as own exclusive brand development, buying and sourcing, e-commerce, technology and services. Despite the challenges of the pandemic, we have rolled out our ‘Powered by Kingfisher’ strategy without delay and even accelerated in many areas. Our distinct retail banners are now empowered and much more agile, which enabled them to react quickly in what was a volatile situation last year, while supported by the scale, strength and expertise of the Kingfisher Group.

We continued to ‘focus and fix’ key aspects of the business. We have now finalised the fundamental reorganisation of our commercial operating model, and introduced new trading approaches tailored to local markets. In France, our performance and competitive position have significantly improved as we’ve addressed operational issues and strengthened our teams and ranges. There is still work to do, but our progress and the overall engagement of our teams are clear to see.

We are also making significant progress with our longer term strategic goals. In the area of e-commerce we have met the demand of our customers for speed and convenience by rapidly implementing changes in our stores, IT systems and supply chain. This approach, supported by our model of placing stores at the centre, has driven rapid click & collect growth, along with faster home delivery services, leading to accelerated sales growth as I mentioned earlier.

We have also accelerated the pace of development in the areas of mobile, services, store concepts and partnerships, and have many ongoing and exciting innovations in progress. For example, in November we announced the acquisition of NeedHelp, one of Europe’s leading online services marketplaces which brings together people who want help with their home improvement jobs with trade professionals and other experts who can provide it. In March 2021, we announced a new franchise agreement with the Al Futtaim Group to expand B&Q into the Middle East.

We have also made significant steps forward in 2020/21 with the development and successful roll-out of more own exclusive brands (OEB), including new kitchen and indoor lighting ranges; through testing and launching new compact stores, such as smaller format B&Q stores in the UK and Castorama France; and with multiple actions to reduce our costs and inventory.

The new ‘Powered by Kingfisher’ strategy, which focuses on empowering our distinct retail banners, has enabled us to deliver a strong financial performance in the year. Sales were up 6.8% in constant currency to £12.3 billion, driven by strong trading from Q2. Like-for-like sales were up 7.1% with growth across all banners in the UK & Ireland, France, Poland, Romania and Portugal. In the UK, Screwfix passed £2 billion of annual sales for the first time. Retail profit was up 27.4% in constant currency, largely driven by B&Q’s performance. Group adjusted pre-tax profit was up 44.4% to £786 million, with the Board confirming that the company will be resuming dividend payments.

Throughout this year, we have remained committed to making the right decisions for our colleagues, customers, and our communities. Our actions have included:

- Closing our stores in the early weeks of the crisis: To protect our colleagues and customers while establishing safe operating standards.
- Supporting our colleagues through the crisis: Significant investment in health and safety, wellbeing, home-working as well as rewarding frontline colleagues.
- PPE: Ringfencing and donating stock of personal protective equipment (PPE), worth over £2.5 million, for use by key health workers across all of our markets.
- Charitable donations: Supporting our banners' charitable foundations and charitable partners who work with communities affected by the pandemic, through donations worth over £2.5 million. Of this amount, over £1.5 million was raised by our colleagues and customers.
- Furlough: Repaying £25 million received under the UK and Republic of Ireland furlough programmes.
- Business rates: Foregoing £105 million of business rates relief in the UK and Republic of Ireland in 2020/21.
- Government-supported debt: Repaying, in full, government-supported debt in the UK (£600 million) and France (€600 million), which was arranged earlier in 2020 to provide the Group with additional liquidity headroom.
- Rewarding the efforts of our colleagues during the pandemic through frontline staff bonuses.
- We have also developed our plans to help tackle climate change and deforestation.

Finally, supporting our local communities, Kingfisher hired an extra 4,800 colleagues into its stores in the UK, France, and Poland in 2020/21.

Through the implementation of our 'Powered by Kingfisher' strategic plan we are focused on growth and creating shareholder value, with the following financial priorities:

- Prioritise top line growth and grow sales ahead of market;
- Aim to grow adjusted pre-tax profit in line with sales[1]; gradually faster than sales over time; and
- Generate strong free cash flow to underpin shareholder returns.

We believe that progressing the following key drivers will support the delivery of our financial priorities over time:

- **E-commerce sales growth and penetration** – grow e-commerce sales and lead the industry;
- **OEB sales growth** – grow total OEB sales, providing differentiation, value for money, and margin;
- **New compact stores** – test and roll out compact stores across our markets;
- **'Big-box' rightsizings** – starting with tests at B&Q and Castorama France;
- **Costs and same-store inventory reduction** – opportunity for self-help and to reverse inefficiencies; and
- **Responsible Business** – 'forest positive' and helping to limit global warming to 1.5°C.

Current trading remains positive and, while visibility is limited for the year as a whole, we are confident of continued outperformance of our wider markets. The Covid crisis has established new longer-term trends that are clearly supportive for our industry – including more working from home, the renewed importance of the home as a 'hub', and the development of a new generation of DIYers – and we expect these to endure. With our strategic progress, we are well positioned to capitalise on these new and positive market trends.

It has been a challenging year in so many ways but Kingfisher has performed strongly and I am confident that our strategy is creating a more modern, robust business for the future. We remain committed to our broader societal purpose, which is to help make better homes accessible for everyone. And I would once again like to thank all my Kingfisher colleagues for their hard work and dedication throughout these extraordinary times.

**Thierry Garnier**
Chief Executive Officer

1. Group total sales growth and adjusted pre-tax profit growth in constant currency.

# Group update

## (including 'Powered by Kingfisher' strategic plan)

In June 2020, Kingfisher announced its new strategic plan – **'Powered by Kingfisher'**. Under this plan we aim to maximise the benefits of our distinct retail banners (which address diverse customer needs) with the scale, strength and expertise of the Kingfisher Group, to address the significant growth opportunities that exist within the home improvement market. To serve customers effectively today, we need to be more digital and service orientated, while leveraging our strong store assets.

### Overview

This section provides an update on the progress made on our 'Powered by Kingfisher' strategy, organised around the following key messages:

1. We are emerging from the Covid-19 crisis stronger
2. We are making progress fixing issues from previous years
3. Our new strategy is delivering – empowered banners supported by the Group's scale, strength and expertise
4. Clear financial priorities and drivers

### 1. We are emerging from the Covid-19 crisis stronger

We are inspired and humbled by the way our colleagues have responded to the immense challenges brought about by the Covid-19 crisis. While the crisis is not yet over, we believe that it has accelerated many elements of our strategy, and pushed us to be bolder and more agile. As a result, we are emerging from the crisis as a far stronger business:

- **Roll-out of company strategy fully on track** – while navigating through the Covid-19 crisis has been incredibly challenging, the roll-out of our plans is fully on track (and ahead of plan in many areas). Our new strategy and new leadership teams are firmly established in the business, with our focus on speed, agility and 'done is better than perfect' approach yielding results in the toughest of circumstances.
- **Acceleration of e-commerce progress by at least two years** – we believe that Covid-19 has brought forward our e-commerce journey by at least two years. We have transformed our operations and enhanced our e-commerce capabilities to meet a surge in digital adoption, with c.10 million new online customers. Group e-commerce sales penetration is now at 18%, up from 8% in the prior year.
- **Leading with Responsible Business agenda** – the crisis has given us the opportunity to reinforce our Responsible Business credentials and goals, as well as demonstrate our culture across Kingfisher of 'doing the right thing'. We have been committed to supporting our colleagues, customers, local communities, and governments throughout the crisis, and took the painful but necessary step to close our stores for several weeks in March and April 2020 while we established safe store operating standards. We have also made significant strides forward with our actions to tackle climate change, deforestation, and sustainable home development.
- **Improved banner awareness and brand reputation** – through our Responsible Business agenda described above, offering a reliable omni-channel experience, and maintaining affordable prices and good stock availability, our retail banners have benefited from much improved awareness and brand reputation. This led to previous customers reconnecting with us, increased satisfaction from existing customers, and a rise in new customers.
- **Greater conviction in costs and inventory reduction** – the Covid-19 crisis has underlined the longer-term opportunity to manage our costs and inventory with greater efficiency. We took swift and effective action during the crisis to manage our costs, and same-store net inventory has reduced by £50 million (in constant currency) year on year. This is due to the exceptional demand levels seen in H2, but also to more focused inventory management initiatives. Further detail is included below within 'Source and buy better, reduce costs and same-store inventory'.
- **Stronger balance sheet** – our net leverage (net debt to EBITDA) is one turn stronger year on year following our strong trading and disciplined cash management measures, now at 0.9 times (31 January 2020: 2.0 times). As of 18 March 2021, we have access to over £2.2 billion in total liquidity, including cash and cash equivalents of over £1.4 billion.

### 2. We are making progress fixing issues from previous years

One of the key drivers of our strategic progress over the last year has been leveraging some of the strengths developed by Kingfisher in previous years, such as Group sourcing and buying, differentiated OEB development, and common SAP platform investments.

However, going in to 2020, we were also faced with many issues from previous years. As part of 'Powered by Kingfisher', we set out our 'Focus and Fix' priorities aimed at addressing these. We are pleased with the progress made so far, but there is still more work to be done.

These actions have had a significant positive impact on our trading in FY 20/21, enabling us to respond to the challenges of the Covid-19 crisis while also priming the roll-out of our new strategy.

### Build the new team:

- Kingfisher's Group Executive team was completed in March 2020 (see FY 19/20 results for further detail). We have an experienced team in place with a strong mix of functional expertise (including in digital and supply chain) as well as experience from Kingfisher, other home improvement companies and the broader retail and service industries.
- Additional key hires have been made at banner and Group level to reinforce some of our key teams, including the supply chain team in France and our Group Digital team.

### Rebalance local vs. Group:

- Initial steps were taken in Q4 19/20 to address the imbalance and complexity of our previous operating model. The agility demonstrated by Kingfisher during the Covid-19 crisis is testament to the move towards this approach.
- In September 2020 we launched a formal reorganisation of our commercial operating model, which is now fully implemented at Group level and across all our banners.
- We are also in the process of establishing new local-Group operating models for our IT and digital teams.

Further detail is included below within *'Move to a balanced and agile local-group operating model'*.

### New trading approach:

- During FY 20/21 we trialled and implemented new trading approaches in all our retail banners.
- This included placing a higher focus on promotion-based trading events, targeted price investments at Screwfix (maintaining its more favourable price position versus its nearest peers), strengthening ranges, and introducing new services (both in-store and online).
- The new commercial operating model has enabled our banners to reintroduce more well-known local ranges which had been removed from the assortment in previous years (e.g. Sandtex, Dewalt and Ryobi in the UK), as well as introducing some higher price-point brands and reinforcing existing brands, such as Tarkett and De'Longhi in Castorama France.

### Focus:

- As planned prior to the onset of the Covid-19 crisis, we paused or stopped several Group-wide initiatives this year, prioritising key activities and enabling us to do fewer things quicker and better.
- During the year, we reduced the level of range reviews by around 50%, and stopped all non-critical range changes, resulting in lower store disruption and clearance.
- Store net promoter scores (NPS) have improved across the majority of Kingfisher, with customers reacting positively to the renewed focus on the customer proposition.
- We completed the SAP roll-out at Castorama France, Castorama Poland and Brico Dépôt Romania in FY 20/21.
- To increase focus on Castorama France's SAP implementation, we paused the roll-out of our global SAP platform to Brico Dépôt France and Brico Dépôt Iberia, with implementation shifted to 2021.
- On 30 September 2020, we completed the sale of Castorama Russia for a total consideration of £72 million (see the Trading review on pages 30 to 32 for further detail). As previously reported, we reversed the original decision to exit Iberia and have plans to build a profitable, sustainable business under the discounter Brico Dépôt banner.

### Fix France:

- Established strong new leadership in France and strengthened key teams.
- As part of the commercial operating model reorganisation noted above, the teams now have more local autonomy to manage the business needs and requirements of each of the French banners.
- We stopped all non-critical IT projects and paused certain elements of global SAP roll-out, to prioritise and focus on Castorama France. During FY 20/21, a total of 18 key 'pain points' were identified and addressed, significantly improving the effectiveness of Castorama's SAP template.
- This enabled us, without any material disruption, to accelerate the implementation of our Group digital technology stack at Castorama. This upgraded digital capability played a crucial role in allowing the business to meet the exceptional levels of demand seen in FY 20/21.
- As part of the commercial operating model reorganisation noted above, the supply chain and logistics team in France has been strengthened with more than 25 critical hires, allowing for more autonomy and agility. As a result of this and the SAP 'fixes', both Castorama and Brico Dépôt have benefited from a more reliable supply chain and healthy levels of stock availability, despite the disruption and incremental demand brought about by the Covid-19 crisis.
- The new trading approach described above was implemented, including the reintroduction of local ranges, more trading events, and restoring the 'discounter DNA' at Brico Dépôt with upweighted special promotions (arrivages) and improved price positioning.
- Fewer range reviews as described in the 'Focus' initiatives above, led to less store disruption.

The above mentioned actions have contributed significantly to the improved performance in France, with FY 20/21 LFL sales at Castorama and Brico Dépôt up 6.2% and 3.8%, respectively. Store and website NPS scores also improved in both banners, with customers reacting positively to the renewed focus on customer propositions. We are also seeing significant improvements in our competitive position, especially at Castorama, where the banner outperformed the market for the first time in many years (based on Banque de France data). While the progress is promising, there is still much work to do to further improve both the operational performance and longer-term customer propositions of Castorama and Brico Dépôt.

## 3. Our new strategy is delivering – empowered banners supported by the Group's scale, strength and expertise

Under our new strategic plan, 'Powered by Kingfisher', we aim to maximise the benefits of our distinct retail banners (which address diverse customer needs) with the scale, strength and expertise of the Kingfisher Group, thereby addressing the significant growth opportunities that exist within the home improvement market.

Our retail banners occupy number one or two positions in all our key home improvement markets (number one in the UK, Poland and Turkey). While some of our banners are focused on trade (Screwfix, TradePoint at B&Q), others address more general DIY needs (B&Q, Castorama France, Castorama Poland, Brico Dépôt Romania, Koçtaş), while Brico Dépôt France and Brico Dépôt Iberia are positioned as discounters. This differentiation is a major strength, especially in a world that is more volatile and uncertain. In FY 20/21 every one of our retails banners has built on their clear market positioning to develop long-term growth plans.

Kingfisher's scale and resources, used intelligently, is an important source of growth acceleration and competitive advantage for our banners, through its OEB development, sourcing and buying scale, access to technologies, shared services, and lower cost functions. We are continuing our work to adapt our operating model so that these Group functions are set up in the most efficient way to 'power' growth in our retail banners.

This sub-section covers the progress made in FY 20/21 against our key strategic areas of focus:

a. Move to a balanced and agile local-group operating model
b. Grow e-commerce sales
c. Differentiate and grow through own exclusive brands (OEB)
d. Build a mobile-first and service orientated customer experience
e. Test compact store concepts and adapt our store footprint
f. Source and buy better, reduce costs and same-store inventory
g. Lead the industry in Responsible Business practices

### a. Move to a balanced and agile local-group operating model

We believe that striking the right balance between Group and local responsibilities sets the right conditions for our distinct retail banners to thrive.

In September 2020 we announced to our colleagues a fundamental reorganisation of our commercial operating model. The overall aim was to formalise the approach taken since Q4 19/20 to provide our retail banners with the flexibility and agility to address specific positioning and needs in local markets, while leveraging Group scale and resources to provide critical capabilities. This approach has had a clear positive impact on business performance in FY 20/21.

Under the new model we have established clear roles and accountabilities:

– Our **retail banners** are closest to our customers and are responsible for category strategies, overall product range, non-OEB buying, pricing and promotions, marketing, and merchandising.
– The **Group Offer & Sourcing (O&S)** team drives the development and sourcing of our market-leading OEBs, leveraging strong sourcing, design, and engineering capabilities to enable differentiation and higher OEB participation across our business. They collaborate with the retail banners on OEB ranges and manage global relationships with our top international brand suppliers.
– The **Group Supply Chain & Logistics (S&L)** team provides expertise in the development and execution of new OEB ranges, including contributing towards the selection of new OEB vendors, the optimisation of logistics conditions and the selection of the most appropriate routes to market. The retail banners are responsible and accountable for making their own decisions relating to local supply, availability, inventory, and logistics performance.

The reorganisation is now fully implemented at Group level and across all our banners, with France having been completed this month.

We are also in the process of establishing new local-Group operating models for our IT and digital teams, to provide speed, agility and local knowledge to our retail banners. The Group will continue to provide overall direction, technology and systems infrastructure, and a framework for efficient ways of working. The right balance of local and Group input has been critically important in responding to the challenges of the Covid-19 crisis.

Finally, we are in the process of implementing Group 'Centres of Excellence' in the areas of e-commerce, digital journey, data, store concepts, services and service platforms, property, and supply chain. The role of these Centres is to set strategy and targets, to share knowledge and best practices, to support implementation, and to help steer progress.

**b. Grow e-commerce sales**
We are committed to delivering growth in e-commerce sales through providing speed, convenience and choice to our customers.

Following the onset of the Covid-19 crisis and the rapid changes seen in consumer habits, we accelerated several of our planned e-commerce initiatives to offer greater convenience and faster deliveries to our customers.

To meet a significant increase in C&C demand, we rapidly transformed our operations in March 2020 to shift to store-based picking and fulfilment as a priority. During FY 20/21, 92% of the Group's online orders were picked in store, 11 percentage points higher than the prior year. Excluding Screwfix, 89% of online orders were picked in store, up 32 percentage points. To offer customers more pick-up options, we are trialling the use of C&C lockers at B&Q, Castorama France and Poland, and have implemented contactless 'Drive-thru' and car park collections in France.

Home delivery from store was also quickly introduced in all markets, supported by improved store-picking processes and new fulfilment relationships. Around 20% of our B&Q stores are being used as 'digital hubs', enabling an expanded available range. We are also testing 'same day' home delivery at B&Q which we believe, over time, will drive a key competitive advantage over online 'pure-plays'.

In addition, we are making progress with our plans to modernise the front-end IT architecture of Kingfisher's banners through the roll-out of our Group digital technology stack. Through cloud-based components, this technology enables more efficient and agile digital capabilities including scalable mobile apps, lower latency, seamless payments, smart search, and more efficient web content management. Roll-out has been successfully completed at B&Q, TradePoint and Castorama France, without disruption, with implementation planned for Poland in early 2022. This scalable platform is currently supporting over 500,000 C&C orders a week in B&Q and Castorama France combined, and helping to drive increased website conversion rates, a better customer mobile journey, and a smoother C&C and home delivery experience. During the summer of 2020 we reached a milestone of over 1.5 million online orders in one week, across the Group.

In FY 20/21, e-commerce sales accounted for 18% of total Group sales (FY 19/20: 8%) reflecting the substantial uplift in online orders in all retail banners since the onset of Covid-19. E-commerce sales penetration at our retail banners excluding Screwfix was 7% on average in FY 20/21 (FY 19/20: 2%).

Group e-commerce sales grew by 158% during FY 20/21, and by 144% excluding Screwfix. C&C sales, the largest and fastest growing fulfilment channel at a Group level, grew by 226% in FY 20/21, accounting for 90% of online orders (75% excluding Screwfix) and 78% of Group e-commerce sales (61% excluding Screwfix). In the prior year C&C accounted for 82% of online orders (63% excluding Screwfix) and 62% of Group e-commerce sales (48% excluding Screwfix).

Finally, the Group continues to explore e-commerce marketplace models, with common technology and vendor management, but tailored customer propositions by retail banner.

**c. Differentiate and grow through own exclusive brands (OEB)**
As described above, under 'Move to a balanced and agile local-group operating model', we believe that the Kingfisher Group's OEB product development is a significant source of value for our retail banners and their customers. OEB provides a strong point of differentiation for our retail banners in terms of design, functionality, sustainability, and value for money, as well as carrying a higher gross margin. We aim to grow our OEB sales further as we bring even more innovation to our ranges.

The performance of our OEB ranges in FY 20/21 was strong, with total OEB sales of c.£5.3 billion, up 7.5% (+15.7% in H2 20/21). This represents 44% of Group sales (FY 19/20: 44%; previously reported comparable was 39%, updated due to a definitional change).

During the year we implemented several new OEB ranges across our markets. The roll-out of Kingfisher's new OEB kitchen range completed in B&Q in H1 20/21, and will be fully implemented at Castorama France and Brico Dépôt France this month. The range is also in the process of being implemented at Castorama Poland. Supported by attractive price positioning and the establishment of both a socially-distanced and virtual sales model, the LFL sales performance of the new B&Q kitchens range in H2 20/21 was at double-digit growth. We also implemented our new indoor lighting range at all banners, starting with Castorama France in June 2020 where we saw a positive customer reaction and strong double-digit sales growth in FY 20/21.

In addition, we have seen a strong improvement in OEB brand awareness this year, and our five leading OEB brands contributed c.23% to total Group sales. Going forward, we plan to extend our ranges so that they are more specifically designed to cater for general home improvement, trade, or discounter banners. We are also continuing to simplify our OEB development approach, including engineering enhancements and prioritising key range reviews, to bring new products to market more quickly. This should also support more profitable sales growth over the longer term.

**d. Build a mobile-first and service orientated customer experience**

We intend to make it easier for customers to shop with us by building a mobile-first, data-led and service orientated customer experience. We also aim to provide customers with a more compelling and complete services offer, including visualisation tools and installation services.

More than ever, mobile is at the centre of our customers' home improvement journeys and experiences, from research and inspiration, all the way through to purchase, delivery, building and installation. We believe that this channel will remain the focal point of the end-to-end customer journey and experience. Mobile is our fastest growing channel, with orders up by over 200% in FY 20/21, accounting for c.56% of our total e-commerce orders (FY 19/20: 40%).

Across our banners, we have made good progress in optimising the mobile user experience through increasing page load speed, enhancing search functions, and developing mobile tools and apps. During FY 20/21, Castorama France launched its new website (including visual search) along with its new mobile app. Screwfix plans to rapidly roll out an upgraded mobile app in FY 21/22. In addition, both B&Q and Brico Dépôt Iberia are trialling mobile 'Scan & Go' technology for customers, enabling a speedier self-service store checkout process.

We also continue to test and launch new service propositions in all our banners. During FY 20/21, B&Q restarted kitchen and bathroom installation services, now available in all UK mainland stores. We are encouraged by the early take-up rate.

B&Q also acted quickly to establish a virtual sales model during the year for kitchens and bathrooms, which has proved to be popular. Several thousands of virtual showroom planning sessions have been conducted since the start of January 2021. Our showroom design capabilities will soon be supported by our new tool for 3D kitchen and bathroom design, which is currently being trialled in some of our retail banners.

In response to customer demand and in partnership with Speedy Hire we are trialling a comprehensive tool hire service. To date, we have opened 14 Speedy concessions within B&Q stores in the UK. We are also in the process of trialling new self-checkout terminals at B&Q.

Finally, in November 2020 Kingfisher acquired NeedHelp (www.needhelp.com), one of Europe's leading home improvement services marketplaces, for a total cash consideration of £9 million (before cash acquired of £1 million). The business is an innovative online platform that connects customers who need home improvement help, either in-store or online, with vetted professional tradespeople and other skilled experts.

NeedHelp is growing rapidly, having tripled its gross merchandise value and revenue every year since it launched in 2014. Through its open IT architecture, NeedHelp already provides its services to customers in over 500 stores, including Castorama France, Brico Dépôt France and a growing number of leading home improvement retailers. While most of its business is currently in France, NeedHelp also operates in Switzerland and has recently expanded into Germany, Belgium, Austria, and the Netherlands. NeedHelp is targeting expansion into the UK and Poland in FY 21/22, supported by B&Q, Screwfix and Castorama Poland.

**e. Test compact store concepts and adapt our store footprint**

We believe that stores have an increasingly important role to play in the home improvement market. Our c.1,390 stores are key to meeting our customers' needs, whether goods are purchased in-store or ordered online.

Stores are a critical feature of the home improvement market, due to the importance placed by customers on inspiration and visualisation, the advice and design expertise of in-store experts, serving as a 'one-stop shop' for projects, and the provision of customised services. However, as highlighted by the Covid-19 crisis, our conviction is that stores also play an integral role in meeting the increasing customer demand for convenience and speed, whether through fast C&C or home delivery. After the onset of the Covid-19 crisis in early 2020, Kingfisher rapidly transformed its operations to shift to store-based picking and fulfilment, in order to meet a surge in online demand.

We believe that the demand for speed and convenience is driving both the shift towards online in our industry, as well as the need for smaller and more localised stores. In response, over the next few years, we have plans to increase our overall store count, while at the same time reducing the average size of our stores. We expect to achieve this through a combination of opening more compact stores (less than 2,000 sqm), rebalancing our 'new store' opening programme to focus on 'medium-box' stores (2 to 6,000 sqm), and rightsizing some of our larger format 'big-box' stores (more than 8,000 sqm).

Compact stores are a key enabler for market share growth in urban catchment areas. In 2020 we tested six compact store concepts, including two new compact B&Q formats (in Merton and Twickenham); two B&Q store-in-store concessions within ASDA supermarkets (in Sheffield and Dagenham); one Castorama France high-street format called 'Casto Solférino' (in Lille); and one 'ultra-compact' Screwfix outlet called 'Screwfix Collect' (in central London). The performance of our new compact stores is showing encouraging signs. We plan to trial two further B&Q concession stores within ASDA stores in Q1 21/22, alongside several more tests of compact store formats in the UK, France and Poland during FY 21/22.

Screwfix, whose store operating model is based entirely around compact stores, opened a total of 38 new outlets in FY 20/21 with 30 in the UK and eight in the Republic of Ireland. This brought its total to 722, with an average sales floor size of 64 sqm per store. Following the identification of further opportunities in certain catchment areas, we now see a medium-term roadmap to over 900 stores in both the UK and Republic of Ireland (versus previous target of 800 in the UK alone). In H1 21/22 the business will commence its broader international expansion plans, initially through an 'online-first' approach, similar to that applied to the Republic of Ireland.

Medium-box stores in our banners tend to be well-located and with good sales densities. In FY 20/21 we opened three medium boxes in the UK and Poland.

In the UK and France, we have identified certain big-box stores which we believe to be over-spaced based on our analysis of catchment demand, store economics and proximity to other stores. As a result, we have selected a small number of stores to be tested for rightsizing at B&Q and Castorama France over the next two to three years. B&Q Canterbury is the first of these, where our rightsizing completed this month. The c.30% space reduction was taken over by Aldi and is expected to generate c.33% of annualised savings in store costs (including rent). Following the learnings from these tests we will establish a plan to target a larger sub-set of stores over the longer term.

As discussed above, we are testing store-in-store B&Q concessions within ASDA supermarkets, as well as Speedy Hire (tool hire) concessions within B&Q stores. More generally, we believe partnership models can enable Kingfisher to attract new customers and generate incremental revenues. As communicated earlier this month, we signed a franchise agreement with the Al-Futtaim Group to expand B&Q into the Middle East, with a first step being the opening of two B&Q-franchised stores in Saudi Arabia in autumn 2021. The stores and support office functions will be fully operated and staffed by the Al-Futtaim Group.

**f. Source and buy better, reduce costs and same-store inventory**

We believe there are significant opportunities to reduce costs across Kingfisher – in areas such as store productivity, supply and logistics, goods not for resale (GNFR), property (including lease renegotiations), IT and central costs, all of which will benefit from reduced organisational complexity over time. In addition, through the intelligent use of our scale, we expect to extract further value from sourcing and buying. Reducing same-store inventory levels is also a major priority.

Following the onset of the Covid-19 crisis in 2020, we took swift and decisive actions to reduce our costs while our stores were temporarily closed for several weeks in March and April 2020. While some of these cost reductions were temporary or one-off in nature, the crisis has deepened our conviction over the opportunity to operate effectively as a Group within a more efficient cost envelope over the longer term.

During the year, we validated and measured cost reduction programmes over several key areas of the Group, including identifying the capital and one-off expenditure required to achieve these savings. All cost programmes were launched in the year and are being managed by our retail banners and Group functions, with robust overall governance at Group Executive and Board level. To date we have made progress in the following areas:

- Fundamental reorganisation of commercial operating model: fully completed in the UK & Ireland, France, Poland, Romania and Iberia. Recorded £16 million of restructuring costs in FY 20/21.
- Commenced big-box rightsizing programme at B&Q; expect further tests at B&Q and Castorama France in FY 21/22.
- Completed nine B&Q lease renegotiations with a combined net rent reduction of approximately 25%, alongside improved lease terms.
- Commenced trials of store productivity initiatives such as 'Scan & Go' and new self-checkout terminals at B&Q.
- Commenced IT cost optimisation programme, covering areas such as IT hosting, telecoms, and other network costs.
- Launched GNFR efficiency initiatives across all retail banners.

In the area of sourcing and buying, we continue to deliver cost price efficiencies through leveraging our scale, and believe there is further potential for upside. In addition to driving sourcing and engineering benefits from our large OEB product base (c.44% of Group sales), we are also in the process of renewing strategic partnerships with our top 20-30 international brands.

While we are not disclosing the expected value of our multi-year cost reduction programmes, the net savings achieved are expected to partially offset the cost of inflation, expansion and space changes, and the investment requirements of our business over the next few years.

While stock availability has been under significant strain due to the Covid-19 crisis and volatile demand levels, we have seen lower clearance levels and an improvement in our inventory health year on year, mainly due to a reduction in range review activity and lower delisted stock. Net inventory at the end of FY 20/21 decreased by £63 million to £2,488 million (FY 19/20: £2,551 million, excluding Russia, in constant currency), largely driven by France. Same-store net inventory (in constant currency) decreased by £50 million, reflecting exceptional demand levels in H2 20/21 and the benefit of improved inventory management initiatives. Net stock days reduced by c.10% in FY 20/21.

While we expect to rebuild inventory levels ahead of peak trading periods during FY 21/22 (as our order cycle largely 'normalises'), our work to sustainably reduce same-store inventory continues. This includes a combination of better ranging and deployment (with a focus on removing and redeploying slow-moving inventory) and better planning and forecasting (including tighter control of purchase quantities and lead times). The completion of our SAP roll-out in 2021 and the further implementation of our Group digital technology stack will further support the above initiatives.

**g. Lead the industry in Responsible Business practices**

We are committed to leading our industry in responsible business practices, seeking to maximise our positive impact on the lives of our customers, colleagues, communities and the planet. This commitment has been at the forefront of our response throughout the Covid-19 crisis (see Managing the impact of Covid-19 on pages 15 to 17). Building on our strong ESG credentials, our 'Powered by Kingfisher' strategy sets out four priority areas for Responsible Business, where Kingfisher can apply its experience, scale and influence to achieve a positive impact.

We are all seeing enormous political, social, economic and environmental challenges within our world, many of which have been amplified over the last year by the Covid-19 crisis. Issues such as wellbeing and mental health, housing standards, climate change and inequality – to name a few – require urgent action. We want to play our part in helping tackle them.

## Group update (including 'Powered by Kingfisher' strategic plan) continued

**Our Covid-19 response:** Throughout the pandemic, we have been focused on serving our customers' essential needs as effectively as possible, while protecting the safety of all concerned, especially our colleagues on the frontline. We also demonstrated our commitment to supporting communities and governments in managing the pandemic. For further detail on the significant actions we have taken, see the Managing the impact of Covid-19 on pages 15 to 17.

**Responsible Business priorities:** During the year, we set out four priority areas where we can apply our experience, scale and influence to achieve a positive impact. These priorities, and our performance against them, are as follows:

- **Becoming a more inclusive company:**
  - In 2020, the Board approved our 'Inclusivity and Diversity' strategy. As part of this, each of our retail banners has developed an inclusivity action plan, showing how they will apply this strategy at local level.
  - During the year we launched an all-colleague share plan, as described further below.
- **Helping to tackle climate change and create more forests than we use:**
  - We continued to make strong progress with our Science Based Targets Initiative (SBTi)-approved greenhouse gas reduction targets, which are consistent with reductions required to help limit global warming to 2°C. To date, we have reduced our absolute Scope 1 and 2 (market-based) greenhouse gas emissions by 27%, compared with the baseline year of FY 16/17. This is a large movement from the previous year (FY 19/20: 18%), driven by the temporary closure of stores due to Covid-19 as well as strong underlying improvements.
  - We have therefore reviewed our plans and agreed new appropriate capital investment to now commit to a 1.5°C trajectory to 2025. We recently made our updated submission to SBTi and are awaiting their approval on this improved plan. Once approved, this should put Kingfisher among c.2% of retailers worldwide to have approved 1.5°C science-based targets.
  - As part of our commitment to be 'forest positive' by 2025, we have formed a partnership with the Rainforest Alliance to become a founding member of its 'Forest Allies' initiative. In FY 21/22 we will start investing in projects to protect, restore, and enable the responsible management of tropical forests in some of the countries at most risk of deforestation.
- **Helping to make greener, healthier homes affordable:**
  - Approximately 40% of our total Group sales now come from products that create greener, healthier homes (versus a target we set 10 years ago of 50% by FY 20/21). This includes LED lighting, low-flow taps, and low VOC paint.
  - In FY 21/22, we will be reviewing our approach with a view to updating this target.
- **Fighting to fix bad housing:**
  - During the year we launched a network of charitable Foundations for our banners in the UK, France, Poland, and Romania. These Foundations support charities who provide, maintain, repair and improve housing and community spaces.
  - Since FY 16/17 we have supported a total of 791,000 people and are well on our way towards our goal of helping more than one million people whose housing needs are greatest by 2025.

Including our response to the Covid-19 pandemic, we made community investments totalling over £5.5 million in FY 20/21. In addition, our colleagues and customers raised over £2.7 million.

In FY 20/21, for the first time, we linked a portion of our colleague bonus programme to our performance against our key Responsible Business priorities, and will continue to do so in FY 21/22.

To support the governance of Responsible Business, facilitate the setting of our priorities and monitor our performance against these, we established a new Responsible Business Committee (RBC) in FY 20/21. The RBC is a sub-committee of Kingfisher's Board, meeting at least twice a year and chaired by Sophie Gasperment, a non-executive director (NED) of the Board. The RBC also includes a further NED, as well as our Group CEO.

Please visit www.kingfisher.com/responsiblebusiness for further detail. Further data and performance against our priority areas will be published in our Responsible Business Report in June 2021.

**All-colleague share plan:** As part of our commitment to build a responsible and inclusive business, we were proud to launch our 1+1 'Sharing In Our Future' plan in September, giving all our colleagues the opportunity to become Kingfisher shareholders. We were very pleased with the take-up rate, with over 9,000 colleagues (c.12%) electing to participate in the plan, of which nearly 75% are store-based colleagues. Following a holding period of one year, Kingfisher will match each participant's investment (awarding one free share for every share bought), up to a value of £1,500. The value of colleague contributions that Kingfisher will match in FY 21/22 is approximately £8.5 million.

**Improved employee engagement:** Our annual colleague engagement survey, conducted in July 2020, showed a score of 81 for the Kingfisher Group, an increase of two points versus the prior year. This represents a top quartile score and is significantly higher than the retail benchmark of 66. Strengths highlighted by the survey included our ongoing support to ensure our colleagues and customers were safe, the positive impact of our new strategy, and a greater sense of empowerment to make decisions in a less bureaucratic and more agile way. We are actively working to address feedback from the survey, together with the output from our regular Kingfisher Colleague Forum meetings, which includes representatives from all parts of the Kingfisher business and is attended by Board and Group Executive team members.

## 4. Clear financial priorities and drivers

**Group financial priorities**
Through the implementation of our 'Powered by Kingfisher' strategic plan we are focused on growth and creating shareholder value, with the following financial priorities:

- **Prioritise top line growth and grow sales ahead of market:**
  - Clear strategy and actions to drive market share growth
  - Focused on store and website customer satisfaction
  - Attractive market with new longer-term industry support
- **Aim to grow adjusted pre-tax profit in line with sales±; gradually faster than sales over time:**
  - Focused on driving scale benefits and cost self-help, enabling us to accelerate investment in top line growth
- **Generate strong free cash flow to underpin shareholder returns:**
  - Focused on driving inventory self-help and capital expenditure discipline (targeting gross capex of c.3.0-3.5% of total sales per annum, on average)
  - Progressive, sustainable dividend policy, with target dividend cover of 2.25-2.75x
  - Committed to efficient capital structure while maintaining prudent position in times of uncertainty

## Key drivers

We believe that progressing the following key drivers will support the delivery of our financial priorities over time:

- **E-commerce sales growth and penetration** – grow e-commerce sales and lead the industry;
- **OEB sales growth** – grow total OEB sales, providing differentiation, value for money, and margin;
- **New compact stores** – test and roll out compact stores across our markets;
- **'Big-box' rightsizings** – starting with tests at B&Q and Castorama France;
- **Costs and same-store inventory reduction** – opportunity for self-help and to reverse inefficiencies; and
- **Responsible Business** – 'forest positive' and helping to limit global warming to 1.5°C

## Capital allocation

We aim to allocate capital, subject to strict returns criteria, to meet the strategic needs of the business. Our target is gross capex of approximately 3.0 to 3.5% of total sales per annum, on average. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and retain financial flexibility, invest in the business where economic returns are attractive, provide attractive returns to shareholders, target a solid investment grade credit rating and, over the medium term, to maintain a target of c.2.0 times net debt to EBITDA on an IFRS 16 basis (previously 2.0 to 2.5 times). To facilitate additional liquidity headroom during this current period of heightened uncertainty, net leverage is expected to be lower than 2.0 times in the short term (FY 20/21: 0.9 times).

Considering these objectives, the Board is pleased to announce a new progressive and sustainable dividend policy, with a target dividend cover range of 2.25 to 2.75 times, based on adjusted basic earnings per share (previously 2.0 to 2.5 times). The new policy will be applied from FY 21/22. The Board believes this target dividend cover range provides a solid base from which to sustainably grow the dividend over time while being consistent with the ongoing capital needs of the business.

## Dividend for FY 20/21

In March 2020, the Board took the difficult decision to not propose a final dividend in relation to FY 19/20, given the unprecedented challenges around the Covid-19 crisis and the need to preserve financial flexibility. Like many businesses, we continue to face challenges associated with the Covid-19 crisis. However, since reopening our stores from mid-late April 2020, our sales performance has been strong, supported by the significant progress our business has made under our 'Powered by Kingfisher' strategy and favourable demand trends for home improvement. While uncertainty remains in the markets in which we operate, we are confident that we can address the key risks we face and that, as our strategy is delivered, we will continue to grow our business.

As a result, the Board is pleased to confirm that we will be resuming dividend payments beginning with a proposed total dividend of 8.25 pence per share (approximately £175 million) in respect of the year ended 31 January 2021. The proposed dividend of 8.25 pence per share comprises an interim dividend of 2.75 pence per share in respect of the six months ended 31 July 2020 and a final dividend of 5.50 pence per share. The final dividend is subject to the approval of shareholders at the Annual General Meeting on 30 June 2021, and will be paid alongside the interim dividend on 5 July 2021 to shareholders on the register at close of business on 4 June 2021.

± Group total sales growth and adjusted pre-tax profit growth in constant currency.

# Group update (including 'Powered by Kingfisher' strategic plan) continued

## Brexit preparation

Kingfisher has been preparing for the new EU-UK trading relationship since the outcome of the UK Brexit referendum in 2016. Since the new Trade and Cooperation Agreement (TCA) came into force on 1 January 2021, we have been working to ensure we comply with the new requirements. We had taken several measures since 2016 to mitigate delays at the border as far as possible in advance of the new trading relationship, and continue to engage with our vendors to provide support on the new requirements where needed. Our teams are also continuing to work through the new requirements of the TCA and to limit the risk of delays wherever possible – for example, by introducing new IT and process changes. While we have experienced some relatively minor issues in exporting products to the Republic of Ireland due to overall market challenges, we are not experiencing any material challenges to our EU-UK flows to date. On tariffs, the direct impact resulting from rules of origin requirements are broadly neutral in comparison with our pre-Brexit position.

## Outlook for FY 21/22

The new financial year has started positively, with Q1 21/22 Group LFL sales (to 18 March 2021) up 24.2%, reflecting strong demand in the UK and France. However, we remain mindful of the continued uncertainty related to Covid-19 in continental Europe.

Recognising that these are highly unusual and uncertain times, we would like to provide more specific guidance where we can, to help frame expectations for the year ahead. The following guidance applies in the event of no adverse change in Covid-19-related confinement measures (e.g. new lockdown restrictions resulting in further store closures).

Given the profile of trading during FY 20/21, we expect distinct performances in the two halves of the coming year. In H1 21/22 we expect low double-digit Group LFL sales growth, supported by the delivery of our strategic objectives. In H2 21/22, we are planning for Group LFL sales scenarios of -15% to -5% (representing 2-year LFLs for H2 of -1% to +11%), given the strong comparable period performance (H2 20/21: Group LFL sales +16.6%) and uncertainty over the macroeconomic and consumer environment.

Despite the uncertain outlook for sales growth, especially through the latter half of the year, the Group is focused on carefully managing its cost base and is targeting full year adjusted pre-tax profit (before c.£85 million of non-recurring net cost savings in FY 20/21) to grow in line with total sales.

While the exceptional demand we have seen over the last year may moderate as vaccines are rolled out and restrictions for our customers become less prevalent, the Covid-19 crisis has established longer-term trends that are clearly supportive for our industry – including the renewed importance of the home, both as a 'hub' and for general wellness, more working from home, and the development of a new generation of DIY'ers. We now expect these broad trends to endure. With our strategic progress, we are well positioned to capitalise on these positive, long-term market trends and are confident of continued outperformance of our wider markets.

# Managing the impact of Covid-19

Throughout the Covid-19 crisis, Kingfisher has taken swift and effective measures to support our clear commitments – to serve our customers as a retailer of essential goods, to look after our colleagues as a responsible employer, to provide support to the communities in which we operate, and to protect our business for the long term. These commitments are ultimately about 'doing the right thing' – one of the key cultural characteristics of our 'Powered by Kingfisher' strategy.

The following section provides a summary of how we have managed, and continue to manage, the impact of Covid-19 on our business.

## Risk management

Kingfisher's central and retail business crisis committees continue to meet on an ongoing basis to monitor and manage the risks and impacts of Covid-19. These committees monitor the impact on all areas of our business, as well as ensuring publicly available advice is followed and appropriate safeguards are quickly implemented.

## Social distancing and safety measures

All our Kingfisher stores continue to operate under strict social distancing and safety measures to protect customers and colleagues. Similar measures are also in place at our distribution and fulfilment centres, and our corporate offices. In addition, we have provided support for safe home working where relevant, including risk assessments and the provision of office equipment. In most cases, the measures applied have gone beyond government recommendations in each market, which has been met with strong approval by both customers and colleagues.

## Supporting our colleagues

Along with ensuring the safety of our colleagues, we are also committed to providing proactive support for wellness and mental health during this period of unprecedented challenges. We have invested significant time and resources in Group-wide colleague engagement activities and initiatives, as well as ensuring that the tireless efforts of our colleagues during the pandemic are rewarded through frontline staff bonuses.

We have made dedicated training and support available for all line managers on leading through a crisis, leading remotely, and supporting their teams' mental health and wellbeing. Following our annual colleague engagement survey conducted over the summer, we implemented several actions related directly to the provision of advice and psychological support for colleagues, as well as support on wellbeing.

Colleagues who are unable to work due to being high-risk, vulnerable, or self-isolating, continue to have their salaries paid by the Group.

Finally, during the year we launched an all-colleague share plan, giving nearly 78,000 colleagues the opportunity to share in our future. Over 9,000 colleagues elected to participate in the plan, of which just under 75% are store-based colleagues.

## Supporting our communities and governments

Throughout the pandemic, we have been focused on serving our customers' essential needs as effectively as possible, while protecting the safety of all concerned, especially our colleagues on the frontline. We also demonstrated our commitment to supporting communities and governments in managing the pandemic.

Our actions over the last year have included:

- **Closing our stores:** Taking the painful but necessary decision to close our stores in the UK and France for several weeks in March and April 2020 (despite holding 'essential' retailer status), to protect colleagues and limit the spread of the virus.
- **PPE:** Ringfencing and donating stock of personal protective equipment (PPE), worth over £2.5 million, for use by key health workers across all of our markets.
- **Charitable donations:** Supporting our banners' charitable Foundations and charitable partners who work with communities affected by the pandemic, through donations worth over £2.5 million. Of this amount, over £1.5 million was raised by our colleagues and customers.
- **Furlough:** Repaying £25 million received under the UK and Republic of Ireland furlough programmes.
- **Business rates:** Foregoing £105 million of business rates relief in the UK and Republic of Ireland in FY 20/21.
- **Government-supported debt:** Repaying, in full, government-supported debt in the UK (£600 million) and France (€600 million), which was arranged earlier in 2020 to provide the Group with additional liquidity headroom.
- **Executive pay restraint:** Reduced Group Executive team pay and Board fees for several months during the crisis to reflect the challenging business environment; no bonus payments to the Group CEO and CFO relating to FY 19/20.

Finally, supporting our local communities, Kingfisher hired approximately 4,800 colleagues into its stores in the UK, France, and Poland in FY 20/21.

## Supply chain and availability

During the initial phases of the coronavirus outbreak in China, and subsequently in Europe, we experienced only modest disruption to our supply chain. There was a relatively limited impact on the supply of goods to our retail banners from any temporary closures of vendor factories.

From mid-to-late March 2020, following the decision to temporarily close our stores in the UK and France, we acted quickly to adjust the supply of certain goods in certain categories, to manage to demand levels and control our costs. Since reopening our stores from mid-late April 2020, the key risks around stock availability have been driven by polarised demand within our categories and, in particular, exceptional demand levels within the paint, decorating materials, outdoor, building materials and kitchen ranges, where our suppliers have been challenged in keeping up with high order levels.

## Managing the impact of Covid-19 continued

These challenges have been driven by a combination of capacity constraints and extended lead-times from their own raw material suppliers. In addition, the pandemic continues to place a considerable strain, industry-wide, on the international logistics infrastructure (in particular, port congestion and the cost and availability of shipping containers). We expect these challenges to continue for at least the next few months.

As a result of this, together with the consistently high demand levels in recent months, in-store availability is currently below last year, although is gradually improving. To date, we have been able to manage our supply and logistics needs well and expect to rebuild our inventory levels ahead of peak trading periods during FY 21/22.

### Financial impact

Significant actions were taken to limit the impact of store closures and trading restrictions in FY 20/21 on our profitability, and to preserve our financial flexibility.

**Actions to reduce costs and preserve cash**
We implemented multiple actions to reduce costs and preserve cash, especially during H1 20/21, including the benefit from several government support measures (many of which were subsequently repaid). As described in the Group update on pages 6 to 14, many of the cost reductions achieved were temporary or one-off in nature. Total non-recurring net cost savings in FY 20/21 were c.£85 million.

The actions we took to reduce costs and optimise our cash flow were as follows:

- **Furloughing:** From mid-March 2020, we announced furlough programmes to some of our colleagues in the UK, Republic of Ireland, France, Spain and Romania, such as the Coronavirus Job Retention Scheme (CJRS) in the UK and 'activité partielle' relief measures in France. Approximately 50% of our total Group colleagues were furloughed in April 2020, reducing to c.10% by the end of May as we reopened stores within the UK and France. With the exception of those who were vulnerable and/or at a higher risk of infection, all furloughed colleagues returned by 1 July. From this date we decided to no longer claim under the furlough programmes in the UK, Republic of Ireland and France, while our stores remain open. In Q4 20/21, we repaid £25 million received in the first half of the year under the UK and Republic of Ireland furlough programmes. A total of c.£45 million was claimed across other markets in FY 20/21, including France, Poland and Iberia.
- **UK and Republic of Ireland business rates:** The UK government announced in March 2020 that retail premises in England would be granted a relief from paying business rates in the 2020/21 tax year, effective from April. Similar measures (a combination of payment deferrals and relief) were announced by the local governments and assemblies of Scotland, Wales and Northern Ireland, as well as the Republic of Ireland. Kingfisher's total business rates bill eligible for relief in FY 20/21 was £105 million, of which £42 million was claimed in H1 20/21. In December, we decided to repay this and forego all UK and Republic of Ireland business rates relief for the entire 2020/21 tax year.
- **Store operating efficiencies:** Measures were put in place to reduce store variable costs during those periods when our stores were temporarily closed for in-store browsing and purchasing. These measures included reducing non-essential store maintenance costs and optimising store opening hours.
- **Discretionary costs:** We temporarily reduced spend on discretionary costs, including reducing or stopping travel, marketing, advertising, consumables and other GNFR spend. As we began to experience high levels of demand from Q2 20/21, it became necessary to resume most of these costs, and in some cases accelerate spend.
- **Inventory purchases:** We rapidly adjusted our purchasing plans in response to the significant changes in demand seen across the Group, particularly in Q1 20/21 when we temporarily closed our stores.
- **Capital expenditure (capex):** From mid-March 2020 we paused all non-committed development capex (for example, IT and new stores), and reduced repairs and maintenance capex to essential items. Following the reopening of stores from mid-late April 2020, all expenditure plans were evaluated on a case-by-case basis by the Group's investment committee. Obligatory contractual, legal or health and safety expenditures continued as normal. Gross capex during H1 20/21 was £76 million lower year on year. Spend on capex accelerated in H2 20/21 as we resumed new store openings and investment in IT initiatives, ending the year with total gross capex spend of £281 million (FY 19/20: £342 million). In line with our guidance, approximately £70 million of gross capex originally planned for FY 20/21 was deferred to FY 21/22.
- **Dividend:** As announced on 23 March 2020 and 22 September 2020, in light of the uncertainty caused by Covid-19, the Board did not propose a final dividend in relation to FY 19/20 (FY 18/19: £157 million) and did not declare an interim dividend for H1 20/21 (H1 19/20: £70m), respectively. As announced today, the Board will be resuming dividend payments. For further detail please refer to 'Dividend for FY 20/21' within the Group update on pages 6 to 14.

- **Rent:** In the UK and France, we paid a significant proportion of our quarterly-in-advance rental payments as monthly payments. We continue to negotiate rent reductions with landlords and in FY 20/21 we completed nine B&Q lease renegotiations with a combined net rent reduction of approximately 25%, alongside improved lease terms.
- **Deferral of indirect taxation (VAT) payments:** The UK government announced in March 2020 that all UK VAT-registered businesses had the option to defer any VAT payments due between 20 March 2020 and 30 June 2020. Having initially made use of this relief, all outstanding VAT payments were settled in June 2020.
- **Payments to suppliers:** To help optimise our working capital during H1 20/21, mutual agreements were reached with certain larger suppliers to temporarily extend payment terms by 30 days or more. Notwithstanding this, we maintained our policy to pay all suppliers in full and according to contractual payment terms.

**Board and Group Executive team remuneration**
In recognition of the impact of the above measures on Kingfisher's stakeholders and, at the request of the Board and Group Executive team, in March 2020 the Company's Remuneration Committee applied the following discretionary measures regarding executive remuneration:

- The entire Board and Group Executive team voluntarily reduced their base salaries and Board fees by 20%, from 1 April. The Group Executive team (excluding the CEO and CFO) returned to full salaries on 1 July, with the CEO and CFO following on 1 August. Board fees were restored from 1 October.
- The Group CEO and Group CFO received no annual FY 19/20 bonus payment.

## Cash and liquidity

As of 31 January 2021, Kingfisher had cash and cash equivalents (net of bank overdrafts) of £1,136 million (FY 19/20: £195 million). Free cash flow for FY 20/21 was £938 million (FY 19/20: £191 million), benefiting from Kingfisher's strong sales performance as well as the cost and cash preservation actions detailed above.

The Group also has access to undrawn Revolving Credit Facilities (RCFs) of £225 million (due to expire in March 2022) and £550 million (most of which is due to expire in August 2023), totalling £775 million. The Group cancelled its £250 million RCF in February 2021 (which was due to expire in May 2021).

During H1 20/21, Kingfisher issued and subsequently redeemed £600 million of 11-month commercial paper under the Bank of England's Covid-19 Corporate Financing Facility (CCFF). The Bank of England closed the CCFF to new purchases on 23 March 2021.

In May 2020, Kingfisher arranged a €600 million term facility with three French banks in support of its operations in France. As required under the terms of the loan, the full amount was drawn down on 18 May 2020. The term facility was repaid in full in December 2020 and cannot be redrawn.

As of 18 March 2021, the Group has access to over £2.2 billion in total liquidity, including cash and cash equivalents of over £1.4 billion.

# Business model

**We offer home improvement products and services to consumers and trade professionals who shop in our stores and via our e-commerce channels.**

**By delivering our strategy and operating as a responsible business, we create sustainable value for our customers, our colleagues, our shareholders, our suppliers and broader society.**

**At Kingfisher, our purpose is to help make better homes accessible for everyone.**

## Our key resources

**Our people and culture**
80,000 engaged colleagues, with the right training to serve customers.

**Our scale**
Over £12.3 billion of sales in eight countries.

**Our financial strength**
Strong balance sheet and cash generation.

**Our leading retail banners**
Strong and distinct retail banners that address diverse customer needs, operate different models and have a clear positioning and plan.

**Our channels**
Network of over 1,380 stores, our online presence and franchise and joint venture partners.

**Our product and service offer**
Strong sourcing, design, and engineering capabilities to develop differentiated own exclusive brands (OEB) and services.

**Suppliers**
We work closely with our suppliers to bring the best home improvement products to our customers at great prices while ensuring they meet our ethical standards.

**Natural resources**
We work to ensure the sustainable management and efficient use of key natural resources throughout our business (e.g. wood, energy, peat).

**Society**
We partner with our communities and non-governmental organisations (NGOs) to address the issues that matter most to us, such as housing and the environment.

## How do we create value?

**Our leading retail banners connect with customers and drive loyalty. These differentiated brands are aimed at specific customer segments within their markets. They are powered by Kingfisher, which provides key benefits, such as Group sourcing and buying, differentiated own exclusive brands, technology and partnerships (including joint venture partners, franchisees and marketplaces) and ensures our values and responsible business practices. These strengths are underpinned by our experienced, skilled and committed colleagues and the financial scale of the combined Kingfisher Group.**


* E-commerce, digital journey, data, store concepts, services and service platforms, supply chain.

## Who do we create value for?

### Customers
Making better homes accessible for everyone and providing tradespeople with the right products in the right place to get their jobs done quickly and affordably.

### Colleagues
Inclusive, rewarding work and careers, developing skills.

### Communities and society
Operating as a responsible business, with strong community involvement.

### Environment
Protecting and restoring natural resources (e.g. forests) and tackling climate change.

### Shareholders
Growing the value of the company sustainably.

### Suppliers
Sharing value in our supply chain.

### Partners
Growing our business together with joint venture, franchise and marketplace partners.

# Our markets

## The home improvement market

The home improvement market caters for a wide range of consumer needs, ranging from small maintenance, to repair or decoration tasks, and to heavy renovation projects. Kingfisher's addressable market is comprised primarily of consumers but also includes professional tradespeople. Customer needs are met by a wide range of product categories (consisting of private labels and branded products), from decoration to building materials to garden and outdoor. Services, such as installation and design, complement these product categories and help consumers complete their projects. Larger format home improvement stores and trade channels are the key distribution channels but home improvement specialist stores and e-commerce also play a role.

## Market size and growth

Kingfisher's total addressable market in the UK, France, Poland, Spain and Romania, is approximately £128 billion[1]. This is comprised primarily of private customer and professional tradespeople expenditure.

As a core consumer spending area, home improvement has grown steadily over time, and proved to be resilient even during periods of economic weakness. Data from national statistical offices, shows that across most of our markets, between 2009 and 2019, growth of expenditure on hardware and DIY goods has outperformed growth of total consumer expenditure.

While Brexit undoubtedly has had an impact on some market drivers, such as the number of housing transactions and consumer confidence, both internal and external data on the home improvement market show that the industry has had a regular growth trajectory during 2017-2019.

The covid pandemic has established new longer-term trends that are clearly supportive for our industry. Customers have placed a greater focus on improving comfort and wellness at home, resulting in a larger share of their income being allocated to home and garden spend. In addition, our homes are being transformed into 'hubs', where we work, exercise, entertain and rest. Finally, the covid crisis has given rise to a new generation of DIYers.

Over the next few years, Kingfisher expects a moderate rate of growth across its major markets, linked to a combination of structural drivers and market trends explained below.

## Market drivers are largely favourable across Kingfisher's key geographies

Home improvement is typically triggered by both functional and emotional needs at different stages of consumer's lives, leading to a mix of essential and discretionary spend.

As such, key drivers of the home improvement market include the volume of housing transactions, housing construction, home ownership levels, the growth and age of housing stock, as well as broader consumer spending and consumer confidence.

Between 2009 and 2019, housing transactions as a proportion of the total housing stock grew from 3% to 4% in the UK and from 2% to 3% in France, while in Poland it grew from 1% to 2%. During the same period the volume of secondary housing market transactions grew by an average of 3% per annum in the UK, 6% per annum in France and 25% per annum in Poland, contributing significantly to home improvement spending over that period. In 2020 in the UK, the combination of Brexit and the pandemic has led to a decline of housing transactions, but it is expected to recover in 2021.

Consumer confidence was another indicator that saw a decrease during 2020, but it shows signs of recovery as of February 2021, when it reached its March 2020 level.

Within Kingfisher's markets, housing demand on average tends to exceed housing supply, and the existing housing stock is typically 50-60 years old and requires improvement. Linked to this, most of Kingfisher's markets are expected to experience a moderate increase in housing construction over the next three years. New housing supply leads to a more dynamic housing market, with more house moves, which leads to additional spend on home improvement.

Historically, increasing disposable income, coupled with general consumer confidence levels, are also important drivers for the industry. Another factor is consumers' motivation to prioritise home improvement within their overall spend. This can be driven by functional and emotional needs related to the housing condition, household structure and lifestyle as well as incentives to improve energy saving.

1. Source: Kingfisher estimates.

Other gradual shifts that are influencing customer demand for home improvement include:

- Home as a 'hub': Over the last decade, homes have become more of a hub, where people work, entertain and play. This generates more home improvement needs: refreshing decoration, adapting space in homes for more uses.
- Services: With growing disposable income there has been a gradual increase in demand for professional services, to help more consumers complete their projects. Increasingly, digital platforms are helping consumers to connect seamlessly with professionals offering transparency (price, reviews) and convenience. Kingfisher acquired NeedHelp, a services marketplace in November 2020.
- Sustainability: With the increasing awareness of the risks of climate change and of inequalities in society, consumers are looking to buy more sustainable products that have been responsibly sourced. Approximately 40%[2] of our total Group sales now come from products that create greener, healthier homes (versus a target we set 10 years ago of 50% by 2020/21). This includes LED lighting, low-flow taps, and low VOC paint. In 2021/22, we will be reviewing our approach with a view to updating this target.

In terms of seasonality, sales are typically higher in spring and summer, as weather conditions are more favourable than during winter, and more outdoor projects are completed.

## Competitive environment

The home improvement market is, by nature, competitive and fragmented. Kingfisher is the fourth largest home improvement retailer in the world based on Group sales and the second largest in Europe. It is the market leader in the UK, Poland and Turkey, the second largest in France and third largest in Romania.[3]

While home improvement businesses, like many of Kingfisher's retail banners, enable consumers to find 'everything under one roof', the range of products required for specific home improvement tasks and projects can be widely different, meaning that the competitive set and channel structure varies across different product categories. For example, building materials and other heavy product categories are sold mostly through home improvement businesses and trade channels, while in categories such as bathrooms and kitchens, Kingfisher's banners compete mainly with specialist stores and online 'pure players' in some of our more established markets. Discount retailers are often competitors in categories such as storage and decoration.

E-commerce, including marketplaces, is growing strongly, with Covid accelerating the change in shopping habits as consumers look for more choice and convenience. Group e-commerce sales grew by 158% during 2020/21, reaching 18% of our sales.

Customer shopping habits show that stores remain central to the home improvement market. In contrast with online 'pure players', retailers with omnichannel strategies such as Kingfisher provide consumers with the option to visualise and design projects, seek advice both offline and online and chose from a wider range of fulfilment options. This ability to provide end-to-end support along the home improvement journey is very important, given the complexity of some projects.

Stores also play an important role supporting e-commerce, as Click & Collect and home delivery can be conducted quickly and efficiently from an existing store network. Click & Collect and home delivery volumes have grown significantly for Kingfisher's businesses during the pandemic. As in many other retail segments, there is growing customer interest in smaller, urban home improvement stores focused on convenience.

Private label products have grown over time as a proportion of the home improvement market and represent an opportunity to offer customers more choice at better value in many categories, in particular in areas such as storage, bathroom, kitchen and tools. Kingfisher, with its well-established development and global sourcing capability, is uniquely positioned to differentiate and grow its own exclusive brands (OEB). In 2020/21, 44% of Kingfisher's sales were from OEB (2019/20: 44%; previously reported comparable was 39%, updated due to a definitional change).

## Kingfisher is well placed to compete

Kingfisher's diverse portfolio of retail banners, with its distinct customer propositions, portfolio of own exclusive brands, focus on value for money, extensive store network and strengthened digital capabilities, is well positioned to compete successfully in the home improvement market. More information about our strategic progress can be found in the Group update on pages 6 to 14,

2. Our 2020/21 data is awaiting independent assurance and will be published in our Responsible Business report in June 2021.
3. Source: FEDIYMA, Global Home Improvement Report, 2019.

# People and culture

Wellbeing and engagement are key priorities in creating the conditions for colleagues to be successful at Kingfisher. These have never been more important than in the past year as we have learnt to navigate life during a global pandemic. Our 80,000 colleagues have done a tremendous job to keep our businesses running efficiently despite the disruption that Covid-19 has caused to both their personal and professional lives. Our teams, particularly those in frontline store roles, have approached the challenges of the past year with grit, determination, sensitivity and commitment.

### Our Covid-19 response

We have taken action to ensure the safety of our customers and colleagues in the following ways:

- Closed our stores in the UK and France for several weeks to protect colleagues and customers and limit the spread of the virus.
- Introduced additional safety measures in stores so we could open safely (notably B&Q was used as a case study on the Coronavirus Business Support blog on www.gov.uk).
- Ringfenced personal protective equipment (PPE) for several weeks, providing frontline colleagues with full PPE as well as supplying stocks for use by key health workers across all of our markets.
- Paid a bonus to our frontline store colleagues in recognition of their role in providing essential services for customers during the pandemic.
- Facilitated vulnerable colleagues to self-isolate and continued to pay the salaries of colleagues who were shielding and unable to work.
- Supported office-based colleagues with the necessary equipment and health and safety guidance to enable working from home.
- Introduced a range of resources to support the health and wellbeing of our colleagues, partnering with organisations such as the Retail Trust in the UK and Alterhego in France.

A key enabler of our Covid-19 response has been the way we have worked with our colleague forum representatives and union members from the different banners. They have worked jointly with leadership teams on decisions to keep our colleagues and customers safe and protect the business. This included new and more frequent communication, including:

- Regular Chief Executive Officer (CEO) and Group Executive vlogs, weekly leader messages and e-newsletters.
- Safety at work education, mental health training, remote working guides, "Wellness Wednesdays" which allowed colleagues time to dedicate to their own wellbeing.
- Adapting our annual engagement survey to understand the extent to which colleagues felt well supported in each market.
- The Kingfisher Colleague Forum met four times in 2020 hosted by the Group CEO (as referenced in the Corporate Governance Report on pages 55 to 69). The first meeting in July, with representatives from all our banners and Group functions, was dedicated to the Covid-19 response. One of the key aims was to explore how we take the positive learnings from Covid-19 and build them into our culture.

## A new People and Culture plan to empower our people

In June 2020, we launched the new 'Powered by Kingfisher' plan to address the significant growth opportunities that exist within the home improvement market. We also started work on a new People and Culture Plan that will help deliver this new strategy.

We identified four key People and Culture priorities:

1. Creating a balanced operating model.
2. Developing capabilities to fuel growth.
3. Creating an agile culture led by trust.
4. Developing leaders who drive growth, inspire pride and create an inclusive culture.

Key to the development of the plan was listening to what our colleagues felt mattered most. A cross-functional taskforce was established to gather input and ideas from hundreds of colleagues from stores and head office functions through listening groups, surveys, forums and interviews.

The four priorities under our People and Culture Plan are discussed in more detail on the following pages.

### 1. Creating a balanced operating model

Under our new strategic plan, 'Powered by Kingfisher', we aim to maximise the benefits of our distinct retail banners (which address diverse customer needs) with the scale, strength and expertise of the Kingfisher Group, thereby addressing the significant growth opportunities that exist within the home improvement market. Under the new Group operating model we have established clear roles and accountabilities for the banners and Kingfisher central functions:

- Our **retail banners** are closest to our customers and are responsible for category strategies, overall product range, non-OEB buying, pricing and promotions, marketing, and merchandising.
- The **Group Offer & Sourcing (O&S)** team drives the development and sourcing of our market-leading OEBs, leveraging strong sourcing, design, and engineering capabilities to enable differentiation and higher OEB participation across our business. They collaborate with the retail banners on OEB ranges and manage global relationships with our top international brand suppliers.
- The **Group Supply Chain & Logistics (S&L)** team provides expertise in the development and execution of new OEB ranges, including contributing towards the selection of new OEB vendors, the optimisation of logistics conditions and the selection of the most appropriate routes to market. The retail banners are responsible and accountable for making their own decisions relating to local supply, availability, inventory, and logistics performance.
- We are reviewing our IT & Digital organisation model to make sure we have the right capability in the banners and at Group level to meet our technology ambitions, to be more agile and cost-effective.
- At Group level, we have set up a number of Centres of Excellence (COE), which will provide expertise, drive innovation, and share learnings.

We continue to embed these changes, to simplify and improve our ways of working, as well as enhance our skills and share experiences across the teams.

## 2. Developing capabilities to fuel growth

We are focused on investing in the core capabilities that will be required to realise our growth aspirations, with a particular focus on our commercial and technology functions. As an example, we have:

- Strengthened our e-commerce teams with colleagues whose roles focus on the customer journey and the big data required to deliver a step-change in customer experience, as well as new services to support the growth of our banners.
- Brought together our key customer mobile, Click & Collect and home delivery services, including store-based home delivery, into a scalable, agile and product-based platform.
- Reinforced our Supply Chain teams in France as well as strengthened the expertise in the Group Supply Chain Centre of Excellence.
- Created over 4,000 new roles in 2020 to deliver store fulfilment and broader customer requirements in response to the increasing numbers of customers choosing to shop online and via mobile, as well as in stores.

Our commitment to support youth employment, social mobility and learning for life has continued with over 2,000 apprentices across Kingfisher in 2020.

- Last year, Brico Dépôt France doubled the number of apprentices it employed from 274 to 549, recognising the disproportionate impact the pandemic was having on young people.
- Castorama France and Brico Dépôt France partnered with Nos Quartiers ont des Talents (NQT), an association that supports young people living in disadvantaged urban areas to find employment, and appointed Store Directors as mentors to help with job search and career advice.
- Brico Dépôt Romania supported 10 community projects aimed at improving the living conditions, quality of life and security of more than 2,600 disadvantaged people.
- Screwfix, already an employer provider of apprenticeships, is now developing its own Retail Level 3 and 4 apprenticeship programmes with 121 enrolled to date.

Further investment in e-learning and the adoption of virtual learning meant that development could take place in stores and head offices despite Covid-19:

- This year, the Learning Academy focused on core product knowledge, for example, new materials for all Outdoor Trading colleagues to improve range implementation and drive profitable growth for outdoor products.
- The launch of the new MYLO system (My Learning Online) has significantly extended our learning offer to include over 16,000 LinkedIn Learning and Thrive courses available 24/7, which allows colleagues to manage their learning whenever and wherever they want.
- B&Q invested in its leadership development including the First Line Manager Programme, Future Stars Programme and Regional Manager Programme with over 900 participants.
- Castorama Poland ran DIY Majsterkowo workshops in-store for colleagues.

## 3. Creating an agile culture, led by trust

Our third focus area is building an agile, inclusive culture, based on trust.

We have focused on a 'done is better than perfect' approach at Kingfisher so that we can respond dynamically to the increasing pace of change. Covid-19 required us to react quickly to changing events and simplify our ways of working. For example, our teams rapidly adapted to Click & Collect and home deliveries in all markets, and we shared learning experiences across our banners as well as learning from other retailers. We rapidly made Kingfisher a more digital business; for example, we created e-commerce capability at Brico Dépôt Iberia and Brico Dépôt Romania from scratch, and we have moved to virtual online kitchen design capability at B&Q. Throughout, we have listened to our colleagues to test and refine our approach; it has resulted in shorter decision-making chains and streamlined processes that we want to continue in our future ways of working.

Inclusion and diversity

We recognise that we have more to do to become truly representative of the communities in which we operate and to meet the expectations of our colleagues and customers. Our new Inclusion & Diversity strategy was developed during 2020 and was approved by the Board.

From this, each banner has built its own inclusion and diversity plan specific to its market and demographic. For example, B&Q, in partnership with Green Park, has carried out a Culture Review, which has identified a number of priority areas. B&Q has also joined the Valuable 500, Unstereotype Alliance and Stonewall, and Kingfisher was shortlisted for the LGBTQI Network of the year award 2020.

In other areas, we have listened to colleagues to understand their lived experience and what we can do to become more inclusive. We have increased activities to raise awareness, for example:

- Broadening our Black History month programme with speakers from diverse backgrounds to stimulate conversation and discussion.
- We continue to work on our talent processes, for example balanced shortlists of candidates, removing bias in people processes.
- As well as our involvement in the 30% Club, which promotes gender diversity in leadership, we are now part of the MISSION Include programme – a cross-company mentoring programme with over 190 organisations involved in the UK & US, which enables advancement and inclusion beyond gender.

We will set improvement targets at a banner and Group level, reflecting where we are today and the varying societal and legislative environments in which we operate. Initially this will cover representation of women within management. We intend to tie the results to leadership incentives. In addition, banners will set further targets related to local priorities, for example in the UK, in 2021 we will focus on collecting data on ethnic diversity which will enable us to set future targets and publish our ethnicity pay gap in 2022.

## People and culture continued

We will include questions on the inclusiveness of our culture in our annual survey, shared with the Board, so we can monitor colleagues' feedback on how they experience our progress and enable us to derive a baseline from which we can set an improvement target.

Read more about our inclusion targets in the Responsible Business section on pages 25 to 29.

Sharing in our collective future
With our new strategic plan, we want to give all our colleagues the opportunity to be part of our collective future. We launched an all-colleague share plan: the '1+1 Sharing in Our Future' plan which gives every one of our 80,000 colleagues the opportunity to become shareholders in the company. We are delighted that over 9,000 (c.12%) of our colleagues signed up from stores, head offices, our sourcing offices and our call centres, with every market represented. The new plan will mean every share bought by a colleague will be matched by Kingfisher on a one-for-one basis after a six-month contribution and 12-month holding period. The current plan will be in place until July 2022.

### 4. Developing leaders who drive growth, inspire pride and create an inclusive culture

In 2020, we brought our top 100 leaders together virtually, more frequently, to steer the business through the crisis and launch the new 'Powered by Kingfisher' strategy. Our leaders adapted to these new ways of working, becoming more visible and available to their teams while maintaining a constant focus on supporting and inspiring colleagues.

We know each of our banners has a very strong local culture, fused with pride, warmth and loyalty. We continue to have high engagement across the Group, and Kingfisher's 2020/21 engagement score increased from 79 to 81 (vs the retail average of 66, as defined by our external engagement survey partner). Our leaders play an important role in driving this culture and we continue to invest in strengthening our leadership cohort for both now and the future. This year, we have reinforced our leadership team with over 30 appointments to the Group Executive and the wider leadership team combined. Over 67% of these wider leadership appointments were from internal promotions. We also adapted our core leadership development offering so that it could be run virtually.

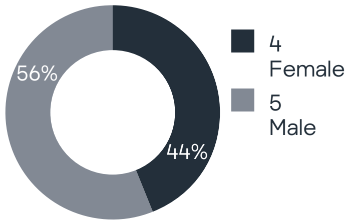
Equal opportunities
Kingfisher is committed to equal opportunities in employment and creating a workplace where everyone is treated with fairness, dignity and respect irrespective of age, educational and professional background, gender, gender re-assignment, marital status, race, ethnicity, religion and beliefs, and sexual orientation.

It is our policy to ensure that all employees are treated no less favourably on the grounds of disability and are not subject to unlawful discrimination. This policy applies to all aspects of employment including recruitment and selection processes, opportunities for training, development and promotion, and terms and conditions of employment. Through its policies, the company ensures that entry into, and progression within, the company is based solely on personal ability and competence to meet set job criteria. The company ensures that all our employment policies, practices and procedures promote accessibility for disabled people, providing reasonable adjustment where appropriate. Kingfisher continues to be a proud partner of a number of recognised forums across its geographies that champion diversity in all its forms.

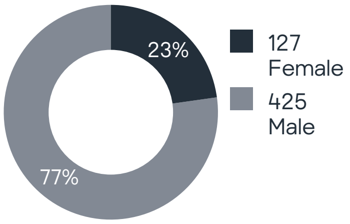
Further information about our People can be found in the Risk section on page 40 to 46.

At 31 January 2021, the gender breakdown of employees and directors as follows[1]:

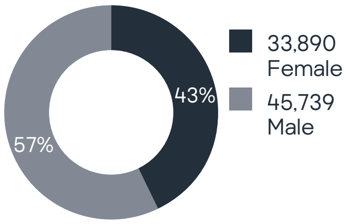
**Total Board (%)**




**Total Senior Management (%)**




**Total Workforce (%)**




1. 2019/20: **Board** – 3 female (38%), 5 male (62%); **Total Senior Management** – 135 female (24%), 424 male (76%); **Total Workforce** – 32,889 female (43%), 44,266 male (57%).

# Responsible Business

We are committed to leading our industry in responsible business practices, seeking to maximise our positive impact on the lives of our customers, colleagues, communities and the planet.

We have been working on responsible business issues for over two decades, helping to pioneer new approaches, from the responsible sourcing of wood and paper, to the circular economy, innovative charitable partnerships and creating more sustainable products for our customers.

Today, the big challenges of our time include Covid-19, climate change and inequality, and they continue to require urgent action. We want to play our part in tackling them – enabling our customers and communities to have better, more sustainable homes and helping to protect our forests and planet for the future.

Responsible business is a key priority in our 'Powered by Kingfisher' strategy.

### Responsible business strategy

In early 2020, we reviewed our responsible business strategy to identify how we can best use our experience, scale and influence to bring about positive change in our business, communities, supply chain and beyond. We have identified four responsible business priorities:

- **Colleagues:** working towards being a more inclusive company,
- **Planet:** helping to tackle climate change and create more forests than we use,
- **Customers:** helping to make greener, healthier homes affordable; and,
- **Communities:** fighting to fix bad housing.

We have set ambitious targets for each priority and established key performance indicators.

The impact of Covid-19 put our commitment to responsible business to the test and we have made progress in year one of our strategy. This is summarised on page 26 and more detail is provided in our Responsible Business Report which will be published in June 2021.

Our priorities are underpinned by our commitment to our Responsible Business Fundamentals – the many issues and impacts we need to measure and manage to ensure we continue to operate responsibly across our business. We have clear policies in each of these areas to ensure we take a consistent best practice approach.

### Governance of responsible business

Our new Responsible Business Committee (RBC) leads and oversees delivery of our responsible business strategy. The Committee's role is integral to setting the ambition, facilitating, and monitoring Kingfisher's responsible business strategy. The RBC is a Committee of the Board and is chaired by non-executive director Sophie Gasperment. Its members are our CEO, a second non-executive director, our Chief Offer & Sourcing Officer, our Chief People Officer and a banner CEO – Screwfix for the time being.

The Committee met twice during the year to review progress on our key priorities and Environmental, Social and Governance (ESG) risks and has plans to meet three times in 2021. The Board receives regular updates about our performance and sustainability risks and reviews our responsible business KPIs each quarter as part of its governance dashboard.

To encourage focus on our responsible business priorities, 10% of our colleague bonus was linked to performance against our key responsible business targets for the first time in 2020/21. The same will apply in 2021/22.

### Our Covid-19 community response

During the pandemic, we are focused on serving our customers' essential needs as effectively as possible, while protecting the safety of all concerned, especially our colleagues. We are committed to supporting communities and governments in managing the Covid-19 pandemic.

As part of this commitment, in 2020/21 we:

- Closed our stores in the UK and France for several weeks to protect colleagues and customers and limit the spread of the virus.
- Ringfenced personal protective equipment and other products for several weeks, worth over £2.5 million, for use by key health workers across all our markets.
- Supported local charities who work with communities affected by the pandemic through donations worth over £2.5 million. Of this amount, over £1.5 million was raised by our colleagues and customers.
- Reduced senior management pay for the Group Executive for 3 months, and for the CEO and CFO for four months, during the early stages of the pandemic to reflect the challenging business environment. In addition, there was no bonus paid for 2019/20 performance for the CEO and CFO. Fees for non-executive directors were also reduced for six months. For more information see the Corporate Governance report from page 55.
- Repaid furlough and business rates relief in the UK and Republic of Ireland, the Bank of England's Covid Corporate Financing Facility (CCFF) and the Prêt garanti par l'État in France.
- Paid a bonus to our frontline store colleagues to recognise their hard work during the pandemic.
- Continued to pay the salaries of colleagues who were shielding and unable to work.
- Introduced a range of resources to support the health and wellbeing of our colleagues who are required to work from home, for example, ensuring they had the right equipment for home working and partnering with organisations such as the Retail Trust and Alterhego.

Further information about how we are protecting colleagues during the pandemic is on pages 15 to 17.

### Partnering with the Rainforest Alliance

Wood and paper are the largest natural resources used across Kingfisher and are present in around a quarter of all the products we sell. We've been working on responsible wood and paper sourcing since the early 1990s and are stepping up our commitment to become Forest Positive by 2025, by creating more forests than we use.

To help us get there, in 2020 we announced we're partnering with the Rainforest Alliance, becoming a founding member of its Forest Allies initiative. We'll be investing in projects to protect, restore, and enable responsible management of tropical forests, improve forest biodiversity and help forest communities to build strong local economies.

## Our four priorities

### Colleagues

**We will be a more inclusive company**

**Our commitment**

We will become a more inclusive company and break down barriers to employment, making sure every one of our colleagues feels at home with us, shares in our success and builds skills for life.

**Our targets**

- Develop an inclusivity action plan for each of our businesses in 2020/21.
- Improve gender balance in management in 2020/21.
- Provide five million hours of learning by 2025 through our 'skills for life' programme.

**Our progress**

We convened a People and Culture Taskforce during the year to review our approach and have developed an inclusion strategy, focused on leadership sponsorship, increased diverse representation, creation of an inclusive culture & social mobility. Each of our banners has developed an inclusivity action plan, showing how they will apply our strategy at the local level. See pages 22 to 24.

36% of managers and 23% of senior managers are women[1].

We continued to develop our training and skills programmes (see page 23). We will report data in our Responsible Business Report in June 2021.

We launched our new 1+1 staff share plan, a simple, accessible and convenient way for our colleagues to become Kingfisher shareholders, and over 9,000 or c. 12% of Group colleagues have signed up. See page 24.

### Planet

**We will be Forest Positive and help tackle climate change**

**Our commitment**

We will help tackle climate change by reducing carbon emissions from our business, products and supply chains; and by creating more forests than we use. We will become Forest Positive by 2025 by investing in reforestation from 2021.

### Our targets

- Source 100% sustainable wood and paper for our products and catalogues by 2020/21.
- Achieve our approved science-based carbon reduction target by 2025.
- Become Forest Positive by 2025.

**Our progress**

We published our first industry-leading timber policy in the 1990s and are a founding member of the Forest Stewardship Council (FSC). Our Wood and Paper policy covers our products and operations, committing us to source from responsibly managed forests and not contribute to deforestation. We will report data in our Responsible Business Report.

We have launched a new partnership with the Rainforest Alliance to help us become Forest Positive.

We have recently completed reviewing our targets, with the aim to move to Science Based Targets Initiative (SBTi) approved greenhouse gas reduction targets that are consistent with a 1.5°C trajectory during 2021 and are awaiting its approval. For progress against targets, see page 27.

### Customers

**We help make greener, healthier homes affordable**

**Our commitment**

We will help millions of customers have a greener, healthier home – one that is resource-efficient, uses planet-friendly materials and is free from harmful chemicals.

**Our target**

- 50% of sales to be from our Sustainable Home Products by the end of 2020/21.

**Our progress**

Our customer research shows that people aspire to have a sustainable home, but they often find it complicated or expensive to achieve. We want to change this.

Using our best practice Sustainable Home Product guidelines, we're embedding sustainability into our ranges so that customers will be able to choose any product they want and be confident it is as sustainable as possible.

Approximtely 40%[2] of our total Group sales now come from products that create greener, healthier homes (versus a target we set 10 years ago of 50% by 2020/21). Examples from our ranges include energy efficient power tools, products made from recycled materials, taps that allow customers to use water more efficiently, and garden products that respect biodiversity and wildlife. See the Responsible Business Report in June for more detailed performance data.

### Community

**We will fight to fix bad housing**

**Our commitment**

We will fight to fix bad housing – donating our products, expertise and time to help more than one million people whose housing needs are greatest in the communities we serve.

**Our targets**

- Help more than one million people whose housing needs are greatest by 2025.
- Provide over 20,000 colleague volunteering hours to support housing and home improvement projects in 2020/21.

**Our progress**

We have launched a network of charitable foundations for our banners in the UK, France, Poland and Romania to support charities that provide, maintain, repair and improve housing and community spaces. Two further foundations will be launched in 2021 for Brico Dépôt France and in Spain.

We supported over 1,100 community programmes during the year through projects connected to improving housing and community spaces and to support Covid-19 relief efforts. Including our response to the Covid-19 pandemic, we made community investments totalling over £5.5 million in FY 20/21. In addition, our colleagues and customers raised over £2.7 million.

Altogether, since 2016/17 we have reached 791,000 people towards our goal of one million. Due to Covid-19, we were not able to meet our volunteering target as colleague safety was prioritised.

1. 2019/20: 35% managers and 24% senior managers were women.
2. Our 2020/21 data is awaiting independent assurance and will be published in our Responsible Business report in June 2021.

## Climate change and energy use

Climate change is, along with inequality, one of the biggest challenges of our time. We want to support global efforts to reach net zero emissions by 2050.

Our carbon targets were approved by the Science Based Targets initiative in 2019, confirming that they are consistent with reductions required to help limit global warming to 2°C, compared with pre-industrial levels.

Our targets are:

- Reduce our absolute greenhouse gas emissions from our direct operations by 22% by 2025 compared with a 2016/17 baseline (Scope 1 and 2); and
- Achieve a 40% reduction (per million pounds (£) turnover) from purchased goods and services and use of sold products by 2025 from a 2017/18 baseline (Scope 3).

To date, we have reduced our absolute Scope 1 and 2 (market-based) greenhouse gas emissions by 27%, compared with a 2016/17 baseline. This is a large reduction from the previous year (we reported 18%), in part due to the closure of stores due to Covid-19 and is exceptional. However, our underlying performance remains strong and puts us clearly on a 1.5°C trajectory. We have therefore reviewed our plans and agreed new appropriate capital investment to now commit to a 1.5°C trajectory to 2025. We have recently made our updated submission to SBTi and are awaiting their approval on this improved plan. More details will be provided in our annual responsible business report published in June 2021.

We support the Task Force on Climate-related Financial Disclosures (TCFD) and summarise our approach below. Over the next two years, we will be conducting a climate risk and opportunity scenario analysis, which will help us further align with its recommendations. See 'Strategy' below.

**Governance:** Governance of climate-related risks and opportunities is integrated into our overall sustainability governance and risk management structures. Our CEO has ultimate accountability for the issues of energy and climate change. The Board receives regular updates about our climate change targets.

Climate risks and opportunities are reviewed by our Responsible Business Committee (RBC), a committee of the Board which meets at least twice a year.

**Strategy:** Identification and management of climate risks is incorporated into our strategic risk assessment processes. The most material opportunity is from the growing market for energy efficient products and services in a low-carbon economy. The most material risks include the potential impact of rising energy and insurance costs on our business and supply chain. Other risks include the potential difficulty in sourcing raw materials. For all our risks, including aspects of our climate-related risks, we assess the recurring or one-off impact on (i) cash, (ii) like-for-like sales, (iii) net margin or (iv) cost. We are further developing our approach to assessing the financial impact of climate risks.

Over the next two years, we will be conducting scenario analysis projects focused on our most material impacts to deepen our understanding of how our strategy may be affected by climate change and the potential financial impacts for our business.

This work will start with analysis of our property portfolio, focusing on physical risks (such as flooding, increases in heat or extreme weather) to our stores, distribution centres and data centres. Subsequently, we will be analysing risks and opportunities associated with a net zero transition, the market for low-carbon products and services and supply chain impacts. We will report the outcomes of these projects in our 2021/22 Annual Report and further develop our disclosure over the following years.

**Risk management:** We monitor short (1-3 years), and medium- to long-term (over 3 years) sustainability risks, their probability, potential impact on our business, and our mitigation measures. We consider climate change as part of our environmental risks – see the Principal Risks on pages 40 to 46.

Our most significant risks are included in our internal sustainability risk register (part of our overall Group risk management process). At an asset level, we manage climate-related risks through our insurance programmes and by incorporating climate change factors into our planning and design of new stores, refurbishment projects and preventative maintenance programmes.

Further risks may be identified through our scenario analysis work in 2021.

**Metrics and targets:** We have established carbon reduction targets and KPIs to help us manage these risks and monitor progress. We will be conducting climate scenario analysis in 2021 and will assess whether any additional metrics are needed as part of this process.

### Reducing energy use

During the last financial year, we have taken further steps to reduce energy use. This includes: the continued roll-out of LED lighting to our store estate, development of three-year energy plans for all retail banners and logistics warehouses, applying our energy efficient blueprint to the design of new stores, improving the heating system in two of our large UK distribution centres, introducing building management systems to better manage energy demand in the UK, Poland and France, and installing renewable energy generation at stores and distribution centres in the UK.

## Greenhouse gas emissions and energy use data

| | | 2016/17 | 2017/18 | 2018/19 | 2019/20 | **2020/21** |
|---|---|---|---|---|---|---|
| **Group emissions and energy use (including UK)** | | | | | | |
| Scope 1 | Tonnes $CO_2e$ | 143,360 | 146,335 | 153,215 | 145,689 | **139,326** |
| Scope 2 – location-based | Tonnes $CO_2e$ | 190,013 | 162,609 | 138,204 | 126,154 | **110,604** |
| Scope 2 – market-based | Tonnes $CO_2e$ | 140,336 | 105,299 | 79,627 | 82,457 | **66,441** |
| Total Scope 1 and 2 emissions (market-based) | Tonnes $CO_2e$ | 283,696 | 251,634 | 232,842 | 228,146 | **205,767** |
| Carbon footprint (kg $CO_2e$) per $m^2$ of floor space | $kgCO_2e/m^2$ | 37.8 | 32.8 | 30.3 | 29.6 | **26.7** |
| Total energy consumption | GWh | 1,284 | 1,264 | 1,274 | 1,193 | **1,139** |
| Energy intensity | $kWh/m^2$ | 171 | 165 | 166 | 155 | **148** |
| **Breakdown of emissions and energy use for SECR disclosure** | | | | | | |
| UK total (Scope 1 and 2 location-based) | Tonnes $CO_2e$ | 211,187 | 185,057 | 167,369 | 149,511 | **134,935** |
| Non-UK total (Scope 1 and 2 location-based) | Tonnes $CO_2e$ | 122,186 | 123,887 | 124,050 | 122,332 | **114,995** |
| UK total (Scope 1 and 2 market-based) | Tonnes $CO_2e$ | 169,114 | 120,636 | 107,549 | 100,510 | **95,110** |
| Non-UK total (Scope 1 and 2 market-based) | Tonnes $CO_2e$ | 114,582 | 130,998 | 125,293 | 127,636 | **110,657** |
| UK energy consumption | GWh | 751 | 725 | 730 | 681 | **659** |
| Non-UK energy consumption | GWh | 533 | 539 | 544 | 512 | **480** |

**Notes to chart:** Our GHG emissions have been calculated using the UK Government (Defra) and International Energy Agency (IEA) emissions factors. Our data covers our material Scope 1 and 2 impacts: emissions from property energy use and dedicated delivery fleets. We use the market-based method for calculating Scope 2 emissions to account for our efforts in generating and purchasing low-carbon energy. We also publish our location-based emissions. We report on an 'operational control' basis, meaning that the data covers Kingfisher's retail banners where we have the full authority to introduce and implement operating policies. Emissions from our Koçtaş joint venture are reported under our Scope 3 emissions (category investments). With the sale of our Castorama Russia business, we have removed emissions associated with that business from previous years, including our 2016/17 baseline.

In line with the SECR (Streamlined Energy and Carbon Reporting) requirements, we now report our emissions and energy use split between the UK and other countries. UK emissions account for 46% of global market-based emissions and UK energy use accounts for 58% of total energy use.

Our data methodology document contains details on our greenhouse gas emissions and energy calculations and is available at www.kingfisher.com.

## Responsible business fundamentals

Alongside our four priorities, we manage a range of responsible business issues known as our responsible business fundamentals. These cover all aspects of the way we work, from how we treat our colleagues and partners, to our sourcing practices and our impact on the environment. We have clear policies in each area to help us take a consistent best practice approach across our retail banners and to keep improving and innovating. Key aspects are summarised below.

**Responsible sourcing and human rights**
We respect human rights and take steps to protect the rights of our employees, workers in our supply chain and others affected by our business activities.

Our Human Rights Policy sets out our commitment to regularly review human rights risks and to implement controls to mitigate them. It is based on international agreements and guidelines including: the United Nations Guiding Principles on Business and Human Rights; the International Bill of Human Rights (which includes the Universal Declaration of Human Rights); the UN Global Compact; the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work; the Children's Rights and Business Principles; and UN conventions on the elimination of discrimination.

We want to do business with suppliers who meet high standards on the environment, labour practices, and human rights and to work with them to raise standards and address sustainability challenges in our supply chain. As part of our due diligence, we assess performance through a programme of ethical audits. 1,034 out of 2,824 production sites that supply us with finished goods have had an ethical audit in the past two years. More detail will be provided in our Modern Slavery Statement and Responsible Business Report published in June.

We do not tolerate any form of modern slavery. Our Modern Slavery Working Group usually meets three times a year to oversee due diligence and disclosure on human rights and modern slavery. It has agreed an action plan including internal training, supplier training, supplier ethical risk assessment and audit. For further details and performance data, see our Modern Slavery Act Transparency Statement (www.kingfisher.com/Modern-Slavery).

**Health and safety**
All colleagues should be able to do their jobs in a safe working environment. Our Group Safety and Compliance Risk Officer oversees our approach to health and safety, implementing policies and procedures to make sure we're meeting high standards across the business.

We have a senior management safety committee in each retail banner and a network of safety professionals. We run Kingfisher Safety Network meetings and training sessions twice a year.

We have Group health and safety minimum standards and a Group-wide accident management reporting system that tracks accidents (including minor accidents) and near misses and helps us to identify the root causes of accidents and reduce safety risks. A Health & Safety dashboard, summarising performance at each retail banner, is reviewed quarterly by our Board and Group Executive Committee.

Performance data will be published in our Responsible Business Report in June 2021.

**Waste, materials and chemicals**
We are working to increase our use of sustainable and recycled materials and to reduce waste, aiming for zero waste to landfill and 90% recycling. We are also prioritising the phase-out of high priority chemicals from our products and supply chains so customers can enjoy a safe and healthy home, free from harmful chemicals. A full update will be published in the Responsible Business Report in June.

**Ethical conduct**
Our Code of Conduct sets out our personal and shared responsibilities for meeting high ethical standards and helps to promote a culture where transparency, honesty and fairness are the norm.

The Code forms part of the contractual terms and conditions for all new employees. Our colleagues complete annual e-learning compliance training on our Code and we have tailored modules for store- and office-based colleagues to reflect the different compliance risks they may encounter. We also provide additional Fair Competition and Market Abuse Regulation training for colleagues in higher risk roles.

We established our Group Ethics and Compliance Committee in 2020/21 to ensure good governance of compliance-related activities across the Group. The Committee is chaired by our Chief Financial Officer and meets at least four times a year. We are also in the process of establishing a local Ethics and Compliance Committee in each of our banners.

In 2020/21, we launched a new third-party due diligence tool to integrate and strengthen our due diligence process in areas such as anti-bribery and corruption, sanctions and conflict of interest.

We operate a confidential whistleblowing hotline and the Audit Committee of the Board receives regular updates about whistleblowing reports as well as the outcome of sensitive internal investigations. Read more about this on page 50.

We embed the requirements of our Code of Conduct into our procurement processes and supplier contracts. Potential new suppliers are informed during the tender process of our Code of Conduct, policies and ethical requirements so they can take these into account when quoting to provide products or services. We also operate an independent whistleblowing hotline for suppliers.

Our anti-bribery and corruption policies and procedures, and our approach to data protection and cyber security are explained in the Risk section on pages 40 to 46.

**ESG disclosure**
We align with a number of external disclosure initiatives including CDP (formerly the Carbon Disclosure Project), the Workforce Disclosure Initiative (WDI), the Global Reporting Initiative (GRI), and Task Force on Climate-Related Financial Disclosure (TCFD). From this year, we aim to further align our reporting with the Sustainability Accounting Standards Board (SASB) standards for Multiline and Speciality Retailers and Distributors. We will be publishing a SASB Index with our Responsible Business Report showing where relevant data and disclosures can be found.

For more information, visit https://www.kingfisher.com/responsiblebusiness.

# Trading review by division

Note: all commentary below is in constant currency.

## UK & IRELAND

| £m | 2020/21 | 2019/20 | % Reported Change | % Constant Currency Change | % LFL Change |
|---|---|---|---|---|---|
| B&Q | **3,707** | 3,284 | +12.9% | +12.8% | 13.0% |
| Screwfix | **2,036** | 1,828 | +11.4% | +11.4% | 6.6% |
| **Total sales** | **5,743** | 5,112 | +12.4% | +12.3% | 10.7% |
| | | | | | |
| **Retail profit** | **681** | 499 | +36.3% | +36.3% | |
| **Retail profit margin %** | **11.9%** | 9.8% | +210 bps | +210bps | |

Kingfisher UK & Ireland sales increased by 12.3% (LFL +10.7%) to £5,743 million, reflecting strong trading from Q2 20/21 onwards, following the impact of Covid-19-related temporary store closures and disruption in Q1 20/21. Gross margin % increased by 80 basis points, largely reflecting higher full-price sales and lower clearance in B&Q, partly offset by higher supply & logistics costs in Screwfix.

Retail profit increased by 36.3% to £681 million, with a strong performance from both B&Q and Screwfix. Operating costs increased by 7.2% largely due to higher staff costs (headcount increases, higher bonuses and wage inflation), 41 net new store openings, and Covid-19-related costs. This was partially offset by temporary cost reduction measures (e.g. reduced advertising & marketing).

In H2 20/21, Kingfisher repaid the full amount of £25 million received in H1 20/21 under the UK and Republic of Ireland furlough programmes. In addition, in December 2020, Kingfisher decided to forego all UK and Republic of Ireland business rates relief, worth £105 million in FY 20/21. Of this, the benefit in H1 20/21 from business rates relief was £42 million, which was repaid.

**B&Q** total sales increased by 12.8% to £3,707 million. LFL sales increased by 13.0% with building & joinery the strongest performing category, followed by outdoor and surfaces & décor. LFL sales of weather-related categories increased by c.22% while sales of non-weather-related categories, including showroom, increased by c.10%. B&Q's e-commerce sales grew strongly in FY 20/21, increasing by 117% and representing 10% of total sales (FY 19/20: 5% of total sales).

In FY 21/22 we plan to relaunch **TradePoint**, B&Q's trade-focused banner. The business continues to be a significant part of B&Q at c.19% of its sales, with sales growth of c.11% in FY 20/21. Work is ongoing to address gaps in ranges, and to improve the digital customer journey and services proposition. Engagement from trade customers has been high in FY 20/21, with TradePoint's H2 20/21 LFL sales growing at over 20%.

B&Q opened five new stores in FY 20/21, including three compact stores.

**Screwfix** total sales increased by 11.4% (LFL +6.6%) to £2,036 million, with net space growth of nearly five percentage points. E-commerce sales grew by 165%, representing 78% of total sales (FY 19/20: 33% of total sales). Screwfix's stores in the Republic of Ireland continue to trade well (first store opened in December 2019). Screwfix orders were taken exclusively online from late March to late July 2020, with all stores closed for in-store browsing and purchasing during that period.

In FY 20/21, Screwfix opened 36 net new stores (including eight in the Republic of Ireland). The total number of stores at year-end is 722, including 12 in the Republic of Ireland. The business has a longer-term target of over 900 stores in both the UK and Republic of Ireland (versus previous target of 800 in the UK). In H1 21/22 the business will commence its broader international expansion plans, initially through an 'online-first' approach, similar to that applied to the Republic of Ireland.

## FRANCE

| £m | 2020/21 | 2019/20 | % Reported Change | % Constant Currency Change | % LFL Change |
|---|---|---|---|---|---|
| Castorama | **2,265** | 2,145 | +5.6% | +3.3% | +6.2% |
| Brico Dépôt | **2,044** | 1,937 | +5.5% | +3.2% | +3.8% |
| **Total sales** | **4,309** | 4,082 | +5.5% | +3.2% | +5.1% |
| | | | | | |
| **Retail profit** | **181** | 164 | +10.3% | +7.9% | |
| **Retail profit margin %** | **4.2%** | 4.0% | +20bps | +20bps | |

Kingfisher France sales increased by 3.2% (LFL +5.1%) to £4,309 million, reflecting strong trading from Q2 20/21 onwards, following the impact of Covid-19-related temporary store closures and disruption in Q1 20/21. The previously announced closure of eight Castorama stores impacted total sales growth by c.-2%. LFL sales growth also benefited by c.1% from our decision to gradually open more stores on Sundays, from Q3 20/21, in order to satisfy higher demand safely. Our banners significantly improved their competitive position in the French home improvement market, in particular Castorama, where the banner outperformed the market for the first time in many years (based on Banque de France data, which shows DIY retail sales +6.1% in FY 20/21).

Gross margin % decreased by 120 basis points, largely reflecting more trading events at both banners, the upweighting of special promotions (arrivages), and higher supply & logistics costs (including storage costs arising from strike action at French ports, and the impact during the French lockdown period from closed ports and warehouses).

Retail profit increased by 7.9% to £181 million driven by an overall decrease in operating costs of 0.9%. Operating costs decreased largely due to cost saving initiatives and 'activité partielle' relief, and the closure of eight Castorama stores. This was partially offset by higher staff costs (headcount and higher frontline staff incentives & bonuses) and COVID-related costs.

**Castorama** total sales increased by 3.3% (LFL +6.2%) to £2,265 million. LFL sales of weather-related categories increased by c.12% while sales of non-weather-related categories, including showroom, increased by c.5%. Further commentary on many of the operational improvements made at Castorama France is detailed in 'We are making progress fixing issues from previous years', within the Group update on pages 6 to 14. Castorama's e-commerce sales increased by 187% in FY 20/21, representing c.5% of total sales (FY 19/20: 2% of total sales).

**Brico Dépôt** total sales increased by 3.2% (LFL +3.8%) to £2,044 million. The upweighting of arrivages sales increased as the business continued to re-establish its discounter credentials. Brico's sales performance rebounded strongly in Q2 20/21, following the Covid-19-related temporary store closures in Q1. In H2 20/21, sales performance remained strong but (relative to Castorama) was impacted by the less favourable trend for trade-oriented business versus general home improvement during periods of lockdown. Brico's e-commerce sales increased by 169% in FY 20/21, representing c.5% of total sales (FY 20/21: 2% of total sales).

The store closure programme announced in March 2019 is now complete. As part of this, we closed four loss-making Castorama stores during H1 20/21 and a further four stores in H2 20/21, resulting in an overall reduction in space in France of c.4% (year on year). Two of the Castorama stores that were closed in H2 20/21 will be reopened in FY 21/22 as Brico Dépôt stores, given the potential for discounter formats within these locations. In December 2020, Castorama opened a new high-street compact format store in Lille.

## OTHER INTERNATIONAL

| | 2020/21 | 2019/20 | % Reported Change | % Constant Currency Change | % LFL Change |
|---|---|---|---|---|---|
| **Sales (£m)** | | | | | |
| Poland | **1,550** | 1,461 | +6.1% | +8.0% | +4.9% |
| Iberia | **310** | 326 | (4.9)% | (7.0)% | (7.0)% |
| Romania | **242** | 216 | +12.1% | +11.8% | +10.8% |
| Other± | **–** | 5 | n/a | n/a | n/a |
| **Other International (ex-Russia)** | **2,102** | 2,008 | +4.7% | +5.6% | +3.5% |
| Russia | **189** | 311 | (39.4)% | (31.8)% | (8.8)% |
| **Other International** | **2,291** | 2,319 | (1.2)% | +1.2% | +2.3% |
| **Retail profit (£m)** | | | | | |
| Poland | **146** | 151 | (3.7)% | (1.9)% | |
| Iberia | **3** | 2 | +66.3% | +62.7% | |
| Romania | **(14)** | (23) | +38.7% | +38.8% | |
| Other± | **–** | (4) | n/a | n/a | |
| Turkey (50% JV) | **9** | 9 | (2.7)% | +22.4% | |
| **Other International (ex-Russia)** | **144** | 135 | +6.1% | +10.0% | |
| Russia | **(3)** | (12) | +85.7% | +83.9% | |
| **Other International** | **141** | 123 | +14.5% | +17.8% | |
| **Retail profit margin %** | | | | | |
| Poland | **9.4%** | 10.4% | (100)bps | (100)bps | |
| **Other International (ex-Russia)** | **6.8%** | 6.7% | +10bps | +30bps | |
| **Other International** | **6.2%** | 5.3% | +90bps | +90bps | |

± 'Other' relates to Screwfix Germany, where all 19 of its stores were closed during H1 19/20.

## Trading review by division continued

**Other International (ex-Russia)** total sales increased by 5.6% (LFL +3.5%) to £2,102 million, with growth in Poland and Romania offset by a decline in Iberia. Retail profit increased by 10.0% to £144 million, largely reflecting a lower retail loss in Romania. Including Russia, whose sale was completed on 30 September 2020, **Other International** retail profit increased by 17.8%.

Sales in **Poland** increased by 8.0% (LFL +4.9%) to £1,550 million, reflecting strong trading (in particular in Q2 and Q3 20/21, following Covid-19-related footfall declines in Q1 20/21). In addition, space growth contributed c.3% to total sales. LFL sales of weather-related categories increased by c.13% while sales of non-weather-related categories, including showroom, increased by c.4%. Poland's e-commerce sales grew strongly in FY 20/21, increasing by 171% and representing c.4% of total sales (FY 19/20: 2% of total sales). Gross margin % decreased by 60 basis points, largely reflecting mix, price positioning, and higher distribution costs. Retail profit decreased by 1.9% to £146 million with gross profit growth offset by an increase in operating costs of 9.4%. Operating costs increased largely due to space growth, wage and general inflation, higher frontline staff incentives & bonuses, and Covid-19-related costs. This was partially offset by the benefit of a Covid-19-related employment support scheme. Three new stores were opened during the year, including a new medium-box format.

In **Iberia**, sales decreased by 7.0% (LFL -7.0%) to £310 million, largely due to Covid-19-related temporary store closures in Spain (in H1 20/21), partially offset by a strong recovery in H2 20/21 (LFL sales +10.8%). Despite the impact of lockdowns on sales, operating costs were well controlled with retail profit increasing by 62.7% to £3 million.

**Romania** sales increased by 11.8% (+10.8% LFL) to £242 million, driven by higher demand across all product categories and the full year benefit from the successful rebranding of former Praktiker stores to the Brico Dépôt banner. As a result, the business reduced its retail loss by c.40% to £14 million (FY 19/20: £23 million reported retail loss), helped by lower operating costs.

Romania currently prepares its financial statements to 31 December. For FY 21/22, Romania will migrate to Kingfisher's financial reporting calendar, meaning Kingfisher's Q1 21/22 results will include an additional month of results for Romania (i.e. January to April).

As previously announced, Kingfisher completed the sale of Castorama Russia to Maxidom, a leading home improvement company in Russia, on 30 September 2020. Of the total consideration of £72 million, £57 million was received during the year, with the remaining £15 million to be received in equal instalments over the next two years. As a result of the timing of the transaction, **Russia** sales decreased by 31.8%, although on a LFL basis decreased by 8.8% to £189 million. Up to 30 September, the business made a retail loss of £3 million (FY 19/20: £12 million reported retail loss).

In **Turkey**, Kingfisher's 50% joint venture, Koçtaş, contributed £9 million of retail profit (FY 19/20: £9 million reported retail profit).

Finally, in November 2020, Kingfisher acquired **NeedHelp**, one of Europe's leading home improvement services marketplaces. The consolidated results of the business for the two-month period post-acquisition are included in 'Other International' but, due to its size and rounding, do not appear in the tables above. For further detail, see Build a mobile-first and service orientated customer experience within the Group update on pages 6 to 14.

# Financial review

Throughout the course of this section reference is made to adjusted measures and alternative performance measures (APMs). See the glossary on pages 183 to 185 for definitions and reconciliations of APMs.

A summary of the reported financial results for the year ended 31 January 2021 is set out below.

## Financial summary

| | **2020/21** | 2019/20 | % Total Change Reported | % Total Change Constant currency | % LFL Change Constant currency |
|---|---|---|---|---|---|
| Sales | **£12,343m** | £11,513m | +7.2% | +6.8% | +7.1% |
| Gross profit | **£4,573m** | £4,255m | +7.5% | +6.9% | |
| Gross margin % | **37.1%** | 37.0% | +10bps | – | |
| Operating profit | **£916m** | £283m | +223.7% | | |
| Statutory pre-tax profit | **£756m** | £103m | +634.0% | | |
| Statutory post-tax profit | **£592m** | £8m | n/a | | |
| Statutory basic EPS | **28.1p** | 0.4p | n/a | | |
| Cash and bank overdrafts | **£1,136m** | £195m | n/a | | |
| Total dividend | **8.25p** | 3.33p | n/a | | |
| **Adjusted metrics** | | | | | |
| Retail profit | **£1,003m** | £786m | +27.5% | +27.4% | |
| Retail profit margin % | **8.1%** | 6.8% | +130bps | +130bps | |
| Adjusted pre-tax profit | **£786m** | £544m | +44.4% | | |
| Adjusted pre-tax profit margin % | **6.4%** | 4.7% | +170bps | | |
| Adjusted effective tax rate | **23%** | 26% | n/a | | |
| Adjusted post-tax profit | **£604m** | £400m | +51.0% | | |
| Adjusted basic EPS | **28.7p** | 19.1p | +50.3% | | |
| Free cash flow | **£938m** | £191m | +391.1% | | |
| Net debt[1] | **£(1,394)m** | £(2,526)m | n/a | | |

1. Net debt includes c.£2.4 billion lease liabilities under IFRS 16 in FY 20/21 (2019/20: c.£2.6 billion).

Total **sales** increased by 6.8% on a constant currency basis, to £12,343 million, driven by a strong sales performance in all our key markets. On a reported basis, which includes the impact of exchange rates, total sales increased by 7.2%. LFL sales increased by 7.1%, which excludes the sales impact from an overall reduction in space of -0.3%. During the year, we opened 47 new stores (including 43 stores in the UK & Ireland, three in Poland and one in France), closed 10 stores (including 2 stores in the UK & Ireland and eight in France), and disposed of all 18 stores in Russia as part of the sale of the business.

**Gross margin %** was flat on a constant currency basis, reflecting higher full-price sales and lower clearance, offset by higher supply & logistics costs and more trading initiatives at some banners compared to the same period last year. On a reported basis, gross margin increased by 10 basis points.

Reported **retail profit** increased by 27.5% including £1 million of favourable foreign exchange movement on translating foreign currency results into sterling. In constant currency, retail profit increased by 27.4%, driven largely by a strong performance in the UK & Ireland. Participation in government support schemes, after amounts repaid, lowered the operating costs of the Group by £45 million in the year.

**Statutory pre-tax profit**, which includes exceptional adjusting items, increased by 634% to £756 million.

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

| | **2020/21 £m** | 2019/20 £m | Increase/ (decrease) |
|---|---|---|---|
| **Retail profit** | **1,003** | 786 | 27.5% |
| Central costs | **(54)** | (62) | |
| Share of interest and tax of joint ventures & associates | **(3)** | (7) | |
| Net finance costs (pre-exceptional adjusting items) | **(160)** | (173) | |
| **Adjusted pre-tax profit** | **786** | 544 | 44.4% |
| Exceptional adjusting items before tax | **(30)** | (441) | |
| **Statutory pre-tax profit** | **756** | 103 | 634.0% |

## Financial review continued

**Net finance costs** of £160 million (2019/20: £173 million) consists principally of interest on IFRS 16 lease liabilities. Net finance costs decreased by 6.2%, largely due to lower lease liabilities.

**Net exceptional adjusting items** were £33 million (2019/20: £400 million), as detailed below:

| | **2020/21 £m Gain/(charge)** | 2019/20 £m Gain/(charge) |
|---|---|---|
| Transformation exceptional costs | **–** | (8) |
| Store closures | **–** | (67) |
| Russia impairments & other exit costs | **(27)** | (130) |
| Russia loss on disposal | **(49)** | – |
| Store impairments / reversals | **42** | (118) |
| Romania impairments | **–** | (39) |
| FTA settlement and business tax | **–** | (50) |
| Property disposals | **13** | 15 |
| Commercial operating model restructuring | **(16)** | – |
| Other | **7** | (44) |
| **Exceptional adjusting items before tax** | **(30)** | (441) |
| Exceptional adjusting tax items | **(3)** | 41 |
| **Net exceptional adjusting items** | **(33)** | (400) |

Exceptional costs of £27 million have been recognised in FY 20/21 in relation to the sale of Castorama Russia in September 2020, mainly relating to additional impairments that reflect the net proceeds from the sale of the business.

The sale of Russia also resulted in a loss on disposal of £49 million. This relates largely to the transfer of cumulative foreign exchange losses previously recorded in the translation reserve and arising on consolidation from the retranslation of the Group's net investment in Castorama Russia.

Revised future store performance projections, reflecting the Group's 'Powered by Kingfisher' strategy and judgements on the sustainable benefits of the Covid-19 pandemic on the market for home improvement products and services, have resulted in net store asset impairment reversals of £42 million. These comprise predominately of reversals of impairment charges recorded in FY 19/20.

A profit of £13 million was recorded on the disposal of a property in the UK. In September 2020 we announced to our colleagues a fundamental reorganisation of our commercial operating model, for which a restructuring charge of £16 million was recorded.

'Other' exceptional adjusting items include a £14 million liability that was held in relation to warranties as part of the B&Q China disposal in 2014. This was released in FY 20/21 following the expiry of the warranty claims period. Of this amount, £10 million has been recognised within operating profit and £4 million has been recognised within exceptional adjusting tax items. 'Other' exceptional adjusting items in FY 20/21 also include £3 million in relation to IT asset write-downs.

### Taxation

The Group's adjusted effective tax rate is sensitive to the blend of tax rates and profits in the Group's various jurisdictions. It is higher than the UK statutory rate because of the amount of Group profit that is earned in higher tax jurisdictions. The adjusted effective tax rate, calculated on profit before exceptional adjusting items, prior year tax adjustments and the impact of future rate changes, is 23% (2019/20: 26%).

The overall effective tax rate includes the impact of exceptional adjusting items and prior year adjustments. The impact of these lower the rate from 23% to 22%. This mainly reflects the applicable tax treatment of exceptional adjusting items, the revaluation of deferred tax balances in the year due to the repealed UK tax rate reduction, and the release of prior year provisions which reflect a reassessment of expected outcomes, agreed positions with tax authorities and items that have time-expired.

| | **Pre-tax profit £m** | **Tax £m** | **2020/21 %** | Pre-tax profit £m | Tax £m | 2019/20 % |
|---|---|---|---|---|---|---|
| **Adjusted effective tax rate** | **786** | **(182)** | **23%** | 544 | (144) | 26% |
| Exceptional adjusting items | **(30)** | **(3)** | | (441) | 41 | |
| Prior year items | **–** | **21** | | – | 8 | |
| **Overall tax rate** | **756** | **(164)** | **22%** | 103 | (95) | 92% |

The Group has been impacted by the European Commission's state aid decision published in April 2019, which concerns the UK's controlled foreign company rules. Along with the UK government and other UK-based international companies, Kingfisher has appealed the decision to the European courts. See note 38 of the financial statements.

As Kingfisher operates in numerous jurisdictions, international tax reform and the changes to the tax rules in countries around the world could impact the Group's future effective tax rate.

In addition, the Group's overall effective tax rate could be affected by changes to tax rates in the jurisdictions in which we operate, changes in the blend of where profits are earned, restructuring and reorganisation of our businesses and resolution of open issues with authorities.

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

| | **Statutory tax rate 2021/22** | Statutory tax rate 2020/21 |
|---|---|---|
| UK | **19%** | 19% |
| France | **28%** | 32% |
| Poland | **19%** | 19% |

## Tax contribution

Kingfisher makes a significant economic contribution to the countries in which it operates. In 2020/21 it contributed £2.2 billion in taxes it both pays and collects for these Governments. The Group pays tax on its profits, its properties, in employing 80,000 people, in environmental levies, in customs duties and levies as well as other local taxes. The most significant taxes it collects for governments are the sales taxes charged to its customers on their purchases (VAT) and employee payroll-related taxes. Taxes paid and collected together represent Kingfisher's total tax contribution which is shown below:

Total taxes paid as a result of Group operations

| | **2020/21 £bn** | 2019/20[1] £bn |
|---|---|---|
| Taxes borne | **0.7** | 0.7 |
| Taxes collected | **1.5** | 1.3 |
| Total tax contribution | **2.2** | 2.0 |

1. 2019/20 comparatives are presented on a constant currency basis.

Both current and prior year figures exclude the tax contribution of discontinued operations.

Kingfisher participates in the Total Tax Contribution survey that PwC perform for the Hundred Group of Finance Directors. The 2020 survey ranked Kingfisher 26th (2019: 28th) for its Total Tax Contribution in the UK. In 2020, 97 (2019: 99) companies contributed to the survey.

## Taxation governance and risk management

The Kingfisher Code of Conduct applies high standards of transparency, honesty and fairness to our employees and suppliers. The Code requires that we carry out our work ethically and in compliance with the law. We have a zero-tolerance approach to tax evasion and the facilitation of tax evasion. These principles underpin our approach to tax. Our core tax objectives are to pay the right amount of tax at the right time and to comply with all relevant tax legislation in all Group entities. Kingfisher undertakes its activities and pays tax in the countries in which it operates in compliance with the local and worldwide tax rules. These tax objectives are met through the application of the Group Tax Standards and the published Kingfisher Tax Strategy, which are Board approved, as well as other relevant Group policies and standards, which document our approach to tax compliance, tax risk management and tax planning to ensure that consistent minimum standards are observed throughout the Group.

The responsibility for tax policy and management of tax risks lies with the Chief Financial Officer and the Group Tax Director who engage regularly with the Board and the Audit Committee on all tax matters.

Tax risks can arise from changes in law, differences in interpretation of law and the failure to comply with the applicable rules and procedures. The Group seeks to take a balanced approach to tax risk having regard to the interests of all stakeholders including investors, customers, staff and the governments and communities in the countries in which it operates.

As a multinational group, operating in an increasingly complex and changing international corporate tax environment, some risk is unavoidable.

Kingfisher manage and control this risk through local management, the tax specialists that it employs and agile monitoring of changes in law and interpretation of law. The Group may engage with reputable professional firms on areas of significant complexity, uncertainty or materiality, to support it in complying with its tax strategy. Group companies work within a tax controls framework, and compliance with this is monitored by the Internal Audit and Risk team.

The Group seeks to engage with tax authorities with professionalism, honesty and respect. It works with all tax authorities in a timely and constructive manner to resolve disputes where they arise, although it is prepared to litigate where this is not possible.

**Adjusted basic earnings per share** increased by 50.3% to 28.7p (2019/20: 19.1p), which excludes the impact of exceptional adjusting items and prior year tax items. **Basic earnings per share** increased to 28.1p (2019/20: 0.4p) as set out below:

| | Earnings[1] £m | 2020/21 EPS pence | Earnings[1] £m | 2019/20 EPS pence |
|---|---|---|---|---|
| **Adjusted basic earnings per share** | **604** | **28.7** | 400 | 19.1 |
| Net exceptional adjusting items | **(33)** | **(1.6)** | (400) | (19.1) |
| Prior year tax items | **21** | **1.0** | 8 | 0.4 |
| **Basic earnings per share** | **592** | **28.1** | 8 | 0.4 |

1. Earnings figures presented reconcile adjusted post-tax profits to statutory post-tax profits.

## Dividends

The Board has proposed a total dividend per share of 8.25p in respect of FY 20/21, comprising an interim dividend of 2.75p in respect of the six months ended 31 July 2020 (2019/20 interim dividend: 3.33p) and a final dividend of 5.50p (2019/20 final dividend: nil). The final dividend is subject to the approval of shareholders at the Annual General Meeting on 30 June 2021, and will be paid alongside the interim dividend on 5 July 2021 to shareholders on the register at close of business on 4 June 2021.

A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. The shares will go ex-dividend on 3 June 2021. For those shareholders electing to receive the DRIP the last date for receipt of election is 14 June 2021.

For further detail on dividends refer to the Group update on pages 6 to 14.

## Return on capital employed (ROCE)

In FY 20/21 Kingfisher's post-tax ROCE was 12.7% (2019/20: 8.6%). The increase was mainly driven by higher profit in the UK & Ireland, and the impact on capital employed of favourable movements in working capital. Kingfisher's weighted average cost of capital (WACC) is 6.9%.

ROCE by geographic division is analysed below (Russia is excluded from 2020/21):

| | Sales £bn | Proportion of Group sales | Capital employed (CE) £bn | Proportion of Group CE | ROCE 2020/21 | ROCE 2019/20 |
|---|---|---|---|---|---|---|
| UK & Ireland | 5.7 | 47.3% | 2.8 | 48.8% | **19.6%** | 13.6% |
| France | 4.3 | 35.4% | 1.7 | 30.3% | **7.0%** | 6.0% |
| Other International | 2.1 | 17.3% | 1.2 | 20.5% | **9.3%** | 6.7% |
| Central | | | – | 0.4% | | |
| **Total** | **12.1** | | **5.7** | | **12.7%** | 8.6% |

## Free cash flow

A reconciliation of free cash flow is set out below:

| | 2020/21 £m | 2019/20 £m |
|---|---|---|
| **Operating profit** | **916** | 283 |
| Exceptional adjusting items | **30** | 434 |
| **Operating profit (before exceptional adjusting items)** | **946** | 717 |
| Other non-cash items[1] | **570** | 566 |
| Change in working capital | **376** | (127) |
| Pensions and provisions | **(29)** | (33) |
| Net rent paid | **(456)** | (469) |
| **Operating cash flow** | **1,407** | 654 |
| Net interest paid | **(22)** | (17) |
| Tax paid | **(166)** | (104) |
| Gross capital expenditure | **(281)** | (342) |
| **Free cash flow** | **938** | 191 |
| Ordinary dividends paid | **–** | (227) |
| Share purchase for employee incentive schemes | **(14)** | (10) |
| Disposal of Castorama Russia and acquisition of NeedHelp | **19** | – |
| Disposal of assets and other[2] | **(1)** | 49 |
| **Net cash flow** | **942** | 3 |
| Opening net debt | **(2,526)** | (2,542) |
| Lease liabilities disposed | **27** | – |
| Other movements in lease liabilities | **136** | 40 |
| Other movements including foreign exchange | **27** | (27) |
| **Closing net debt** | **(1,394)** | (2,526) |

1. Includes principally depreciation and amortisation, share-based compensation charge and pension operating cost.
2. Includes exceptional adjusting cash flow items, principally relating to store closures and other restructuring costs.

Operating profit before exceptional adjusting items was £229 million higher than last year, largely reflecting higher profits in the UK & Ireland and France.

The working capital inflow of £376 million reflects the consistently strong sales performance of the Group from Q2 20/21 onwards. The inflow is driven by a £86 million decrease in stock, largely due to the strong demand levels seen in H2 20/21; and an increase in payables (net of receivables) of £290 million, reflecting timing of inventory purchases and higher payroll and VAT creditors associated with stronger sales levels.

Gross capital expenditure for the year was £281 million (2019/20: £342 million). After the onset of the coronavirus crisis, expenditure was largely limited to essential areas during the remainder of H1 20/21. Overall, approximately £70 million of gross capital expenditure originally planned for FY 20/21 was deferred to FY 21/22. Of the expenditure in FY 20/21, 32% was invested on refreshing, maintaining and adapting existing stores (including renewable energy initiatives), 23% on new stores, 27% on IT and digital development, 12% on range reviews and 6% on other areas including supply chain investment.

Overall, free cash flow for FY 20/21 was £938 million (2019/20: £191 million).

Kingfisher completed the sale of Castorama Russia to Maxidom, a leading home improvement company in Russia, on 30 September 2020. Of the total consideration of £72 million, £57 million was received during the year, with the remaining £15 million to be received in equal instalments over the next two years. This resulted in a net cash inflow on disposal of £27 million, after cash disposed with the business and transaction costs. Refer to note 35 of the financial statements.

In November 2020, Kingfisher acquired NeedHelp, one of Europe's leading home improvement services marketplaces, for a total cash consideration of £9 million (before cash acquired of £1 million), resulting in a net cash outflow on acquisition of £8 million. Refer to note 34 of the financial statements.

Net debt (including IFRS 16 lease liabilities) as of 31 January 2021 was £1,394 million (2019/20: £2,526 million).

## Management of balance sheet and liquidity risk and financing

**Management of cash and debt facilities**
Kingfisher regularly reviews the level of cash and debt facilities required to fund its activities. This involves preparing a prudent cash flow forecast for the medium term, determining the level of debt facilities required to fund the business, planning for repayments of debt at its maturity and identifying an appropriate amount of headroom to provide a reserve against unexpected outflows and/or unexpected impacts to cash inflows (for example, Covid-19-related temporary store closures).

**Net debt to EBITDA**
As a result of the Group's strong cash position, the Group ended the period with £1.4 billion (2019/20: £2.5 billion) of net debt on its balance sheet including £2.4 billion (2019/20: £2.6 billion) of total lease liabilities. The ratio of the Group's net debt to EBITDA was 0.9 times as of 31 January 2021 (2.0 times as of 31 January 2020). At this level, the Group has the necessary financial flexibility during this current period of heightened uncertainty, whilst retaining an efficient cost of capital. Over the medium term, the Group's objective is to maintain a target of c.2.0 times net debt to EBITDA.

Net debt to EBITDA is set out below:

| | **2020/21 £m** | 2019/20 £m |
|---|---|---|
| Retail profit | **1,003** | 786 |
| Central costs | **(54)** | (62) |
| Depreciation and amortisation | **536** | 545 |
| **EBITDA** | **1,485** | 1,269 |
| **Net debt** | **1,394** | 2,526 |
| **Net debt to EBITDA** | **0.9** | 2.0 |

**Credit ratings**
Kingfisher holds a BBB- credit rating with Fitch, (P) Baa2 rating with Moody's, and a BBB- rating with Standard and Poor's.

**Revolving credit facilities**
As of 31 January 2021, the Group had undrawn revolving credit facilities (RCFs) of £225 million due to expire in March 2022 and £550 million, most of which is due to expire in August 2023. The Group also had access to a £250 million RCF (that was due to expire in May 2021), which was cancelled in February 2021.

**Other borrowings**
In July 2018, following a reverse enquiry, a €50 million Floating Rate Note (FRN) was issued under Kingfisher's €2.5 billion European Medium Term Note (EMTN) programme. The note matured in July 2020.

The Group also has two fixed term loans: €50 million maturing in September 2021 and £50 million maturing in December 2021.

**Covenants**
The terms of the committed RCFs and the £50 million term loan require that the ratio of Group operating profit (excluding exceptional adjusting items), to net interest payable (excluding interest on IFRS 16 lease liabilities) must be no less than 3:1 for the preceding 12 months as at the half and full year-ends. As of 31 January 2021, Kingfisher's ratio was higher than this requirement.

**Prêt garanti par l'État**
In May 2020, Kingfisher arranged a €600 million (c.£537 million) term facility with three French banks in support of its operations in France. The loan was guaranteed at 80% by the French State (Prêt garanti par l'État) and had a maturity of one year, extendable for up to five years. As required under the terms of the loan, the full amount was drawn down on 18 May 2020. The term facility was repaid in full in December 2020 and cannot be redrawn.

**Euro Commercial Paper (ECP) programme and Covid Corporate Financing Facility (CCFF)**
During FY 20/21, the Group established an ECP programme, allowing it to issue short-term commercial paper for periods from one week up to 12 months into the market to provide liquidity. The establishment of this programme also enabled the Group to participate in the Bank of England's CCFF.

Following the UK Government's announcement on 17 March 2020, the Group successfully applied for the CCFF, which was made available to assist UK businesses bridge Covid-19-related disruption to their cash flows. During H1 20/21, the Group issued and subsequently redeemed £600 million of 11-month commercial paper under the CCFF. The Bank of England closed the CCFF to new purchases on 23 March 2021.

**Total liquidity**
As of 18 March 2021, the Group has access to over £2.2 billion in total liquidity, including cash and cash equivalents of over £1.4 billion and access to £775 million of funding under the RCFs.

Further detail on Kingfisher's debt and facilities can be found at www.kingfisher.com.

## Capital Risk Management

The Group's objectives when managing capital are:

- to invest in the business where economic returns are attractive;
- to retain financial flexibility;
- to provide attractive returns to shareholders;
- to target a solid investment grade credit rating; and
- over the medium term, to maintain a target of c2.0 times net debt to EBITDA on an IFRS 16 basis.

The Group manages its capital through:

- a continued focus on free cash flow generation;
- setting the level of capital expenditure and dividend in the context of its current year trading outlook and forecast free cash flow generation;
- rigorous review of capital investments and post investment reviews to drive better returns; and
- monitoring the level of the Group's financial and leasehold debt in the context of Group performance and its credit rating.

Kingfisher Insurance Designated Activity Company (Ireland), a wholly owned subsidiary, is subject to minimum capital requirements as a consequence of its insurance activities. The Group complied with the externally imposed capital requirements during the year.

## Property

Kingfisher owns a significant property portfolio, almost all of which is used for trading purposes. A valuation was performed for internal purposes in October 2020 with the portfolio valued by external professional valuers. Based on this exercise, on a sale and leaseback basis with Kingfisher in occupancy, the value of property is £2.7 billion as of 31 January 2021 (2019/20: £2.9 billion).

| | **2020/21 £bn** | **2020/21 Yields** | 2019/20 £bn | 2019/20 Yields |
|---|---|---|---|---|
| France | **1.4** | **8.3%** | 1.4 | 8.1% |
| UK | **0.5** | **6.9%** | 0.6 | 5.8% |
| Poland | **0.6** | **7.9%** | 0.6 | 7.4% |
| Other | **0.2** | **n.a.** | 0.3 | n.a. |
| **Total** | **2.7** | | 2.9 | |

This is compared to the net book value of £2.2 billion (2019/20: £2.2 billion) recorded in the financial statements (including investment property and property included within assets held for sale). Balance sheet values were frozen at 1 February 2004 on the transition to IFRS.

## Pensions

As of 31 January 2021, the Group had a net surplus of £359 million (2019/20: £277 million) in relation to defined benefit pension arrangements, of which a £504 million surplus (2019/20: £404 million) was in relation to the UK scheme. The favourable movement in the net surplus is driven by returns on the UK scheme assets more than offsetting the actuarial losses on the liabilities due to a lower discount rate assumption. This accounting valuation is sensitive to a number of assumptions and market rates which are likely to fluctuate in the future. Refer to note 28 of the financial statements for a sensitivity analysis.

# Risks

## Risk management

The Board of Directors recognises that effective risk management is critical to the achievement of our strategic and operational objectives and the long-term sustainable growth of our business. A detailed risk framework is in place to ensure that the Board has sufficient visibility of the principal risks and the opportunity to regularly review the adequacy and effectiveness of our mitigating controls and actions. During the year, the Board has considered the nature, likelihood and impact of the company's principal risks, including mitigating actions, to ensure that these risks are proactively managed.

The impact of Covid-19 on our operations, our colleagues and in the communities where we operate has been significant throughout 2020 and into 2021. The evolving and ongoing risks related to this pandemic have been proactively addressed by management and regularly reviewed by the Board. Our status as an essential retailer has mitigated the financial risk to Kingfisher but the operational risks, in particular the safety and welfare of our colleagues and customers, continue to be paramount.

## Our approach to risk management

On behalf of the Board, the Audit Committee takes responsibility for overseeing the effectiveness of risk management and internal control systems, including reviewing the process the company has put in place to identify, assess and manage our risks.

To **identify our risks,** we start with our strategic objectives and consider what might stop us achieving our plan within our three-year strategic planning period. The approach combines a top-down strategic view and a bottom-up operational view of the risks. Meetings are held with our retail banner and group function leadership teams to identify any changes to the risks within their operations. These are consolidated and used as one of the inputs to identify and validate our principal risks. In addition, a series of discussions are held with the Group Executive and non-executive directors.

To **assess our risks,** we consider the potential financial, reputational, regulatory or operational impact and the probability that each risk may materialise. This helps us to assess the nature and extent of the actions and controls we need to implement to manage the risk to an acceptable level. For each of the principal risks, we have included an assessment of the change in risk from last year. This assessment is based on the external environment, the Group's operations, and before considering the impact of the controls in place. We have considered whether the risk is increasing, decreasing or remains unchanged.

To **manage our risks,** ownership is assigned at all levels. Each retail banner and group function leadership team is responsible for managing its own risks, putting appropriate actions and controls in place along with monitoring procedures to verify that the controls are operating effectively. The Group Executive is accountable for identifying, assessing and managing the principal risks and for reviewing and assessing the management of the retail banner and group function risks.

To ensure we effectively **monitor our risks,** the principal risks are reviewed by the Group Executive and Board twice a year. Changes to the principal risks and mitigation activities are considered as part of this review. During the year, the Audit Committee reviews the risk assessment process and receives presentations from retail banners and group functions on a rotating basis. These presentations include their risk assessment and mitigating actions, enabling the Audit Committee to monitor the risks and level of controls in place. Internal Audit also considers the risks at the operational and Group level when developing the internal audit plan. This ensures a broad level of assurance is provided across all of our banners and functions.

This year we have strengthened our risk management activities by appointing a dedicated Director of Risk Management and undertaking a comprehensive review of our risk management processes. This has highlighted several areas for improvement which we are now implementing.

The Corporate Governance report on pages 55 to 69 gives further details about our governance processes.

## This year's update

We have made some changes to our principal risks this year to be clearer about the nature of the risk and the impact on our business. Risk descriptions are closely aligned to our 'Powered by Kingfisher' strategy and the agreed strategic plan. No new risks have been added.

**Contagious Diseases:** This risk was added last year and is retained this year. While the overall risk of Covid-19 is decreasing as vaccinations become more widely available, the impact of the virus is expected to continue for some time and there is the possibility of a more resistant strain or a completely new variant emerging.

The key changes this year are:

**Supply Chain Resilience:** This risk was previously called Business Resilience and covered both technology and supply chain. We have updated it to focus on disruption to our supply base and supply chain. The technology risk and mitigation are now included as part of the Changing Customer Preferences risk.

**Changing Customer Preferences:** This now explicitly covers the risks to the delivery of our e-commerce, our mobile-first and our service-orientated customer propositions. It also now includes the identification of changing trends and effective technology implementation.

**Our People:** This is now focused on the risk of not having the right skills, capabilities and capacity to deliver key elements of the strategy, particularly growing e-commerce sales, building a mobile-first, service orientated customer experience and differentiating and growing through our own exclusive brands.

**Brexit:** We have faced some disruption to our supply chain since the UK officially left the EU, with the largest impact on product moving from the UK to the Republic of Ireland. There has been limited disruption in the main flow of imports from the EU to the UK. The overall impact on the Group is therefore manageable. We expect that the initial issues around processes and systems interfaces that have affected the flow to the Republic of Ireland to be resolved over time, which should further improve the situation. As a result, this is no longer assessed as a separate principal risk and the residual risk will be addressed within Supply Chain Resilience.

**Acquisitions and Disposals:** At the start of October, the Group successfully completed the sale of Castorama Russia, having already made the decision to retain Brico Depot Iberia. This was followed in November with the acquisition of NeedHelp, which is one of Europe's leading home improvement services marketplaces. Further acquisitions or disposals may be considered if they support the achievement of our strategic priorities. However, this is not currently considered a principal risk to the Group.

## Emerging risks

As part of our risk management process, we include the identification and monitoring of emerging risks. These risks are known but are difficult to fully assess and quantify at the current stage. In line with our principal risks, the Board has considered the following emerging risk:

**Environment:** Climate change has the potential to impact our operations, our suppliers and our customers. We have already agreed actions to start to mitigate this risk, including our commitment to be Forest Positive by 2025. Further details of this risk and our response are covered in the Task Force on Climate-related Financial Disclosures (TCFD) on page 27.

## Principal Risks

Key: Increasing | No change | Decreasing

### 1 Our People

Our colleagues are critical to the successful delivery of our 'Powered by Kingfisher' strategy. We are rebalancing responsibilities between Group and local level to set the right conditions for our individual banners to grow and to leverage the Group's scale and expertise to meet customer needs.

Failure to manage the impact of organisation changes, to attract, retain and develop colleagues with the appropriate skills, capabilities and diverse backgrounds, or to have adequate succession plans, could impact our ability to meet our business objectives.

**How our risks have changed**

**No change**
We continue to monitor and manage this risk closely. While the risk exposure is significant, we have a clear understanding of the scale of the change and have plans in place.

**Link to strategic priorities**
- Move to a balanced, simpler local-group operating model with an agile culture
- Grow e-commerce sales
- Build a mobile-first, service orientated customer experience
- Differentiate and grow through own exclusive brands (OEB)
- Lead the industry in Responsible Business practices

**How we manage and monitor the risk**
- The Board has approved our Group strategy for people and culture, with individual priorities agreed for each banner and function.
- The Group Executive and Board hold regular talent reviews focused on ensuring the senior leadership group has the required capabilities to deliver the strategy and on activities to strengthen our leadership succession pipeline.
- We have continued to invest in developing our leaders as their roles change in the new strategy and have conducted a capability review to identify future skill requirements (with a particular focus on technology and commercial functions). We have invested in tools and infrastructure to support our colleagues' learning, including a leadership development portal for bite-size instant learning and e-learning for our store teams on new products.
- We have implemented a rebalanced commercial operating model, placing significant emphasis on providing transparency of accountability, engaging and retaining colleagues during the change and defining effective future ways of working. We have also launched several Centres of Excellence to provide expertise and drive innovation and facilitate sharing of learnings and best practices across the Group. In addition, we are implementing our new IT operating model, which will enable our people to deliver change to our systems with greater agility and pace.
- A cross-functional taskforce was set up to identify opportunities to embed the key cultural shifts required to deliver the new strategy, focused on building agility, trust and an inclusive environment.
- Each banner has a tailored diversity and inclusion plan and relevant targets are linked to the remuneration of senior leaders.
- The physical and mental wellness of our colleagues has been a priority during the year with additional communications, provision of external support (e.g. mental health awareness training for line managers), new processes to protect our teams and regular listening to ensure concerns were quickly addressed. We adapted our annual colleague survey to specifically check in on key lessons learned during the first Covid-19 lockdown.

### 2 Level and Impact of Change

Under our strategic plan 'Powered by Kingfisher', the business is utilising its core strengths and commercial assets, and 'powering' its distinct retail banners to address the significant growth opportunities that exist within the home improvement market. Actions are already underway bringing continuous improvements to our offer, market positions and cost base. We have strong ambitions that require changes to roles and ways of working, while continuing to implement our IT systems programme.

Where relevant we may also consider complementary acquisitions, partnerships and joint ventures to optimise our business activities and support our strategy.

Failure to properly prioritise activity and manage change effectively could result in weaker than anticipated sales growth, reduced operating margins or insufficient cash being generated to meet our objectives.

**How our risks have changed**

**No change**
Change has been a constant feature of our business for some time and we have established processes in place to manage, monitor and report the delivery of strategic activities arising from these programmes.

**Link to strategic priorities**
- Move to a balanced, simpler local-group operating model with an agile culture
- Grow e-commerce sales
- Build a mobile-first, service orientated customer experience
- Differentiate and grow through own exclusive brands (OEB)
- Test compact store concepts and adapt our store footprint
- Source and buy better, reduce our costs and our inventory
- Lead the industry in Responsible Business practices

**How we manage and monitor the risk**
- Our 'Powered by Kingfisher' strategy has been clearly articulated to all colleagues.
- The Board has approved three-year plans for each banner and Group Function, that are aligned with delivering the strategy.
- The strategy has been externally validated by a global consultancy business.
- A central Results Delivery Office provides monthly reporting to the Group Executive and quarterly to the Board, based on a set of circa 60 KPIs, measuring the implementation and performance of strategic initiatives.
- Each of our key growth pillars is led and monitored by one of our banners or Global Functions, with monthly review points with the Group Executive sponsor.
- Annual strategic review and six-monthly updates performed with the Board, considering the agreed priorities and making changes where appropriate.
- Regular communication with all colleagues on the delivery of the strategy, key changes being made and forthcoming business developments.
- Periodic reviews of governance and enabling activities undertaken by Internal Audit.
- We have a dedicated M&A function, with accountability resting with the Chief Transformation and Development Officer. M&A activity exceeding £10 million in value requires Kingfisher plc Board scrutiny and approval.

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## Contagious Diseases

A prolonged global health threat and associated government restrictions could adversely affect our operations and those of our partners and suppliers. This could cause a significant reduction in footfall and consumer spending and could negatively impact our ability to receive products from affected countries. High levels of absence in our workforce could impact our ability to operate stores and warehouses, deliver products or provide appropriate functional support to our business. There is also a risk that we are perceived not to prioritise safety by our customers, colleagues or stakeholders, which could negatively impact our brands.

Such restrictions and/or reductions in demand could adversely affect our financial results and the financial condition of the Group.

### How our risks have changed

**No change**
We now have procedures in place to enable us to protect our colleagues and customers while continuing to trade. However, the risk of new variants and new diseases remains possible.

**Link to strategic priorities**
– Lead the industry in Responsible Business practices

### How we manage and monitor the risk

– The health and safety of our colleagues and customers remains our top priority, alongside supporting governments to limit the spread of the virus. We have implemented changes to all our stores, with strict hygiene and social distancing measures in place. We significantly invested in PPE to ensure availability for our staff, deep cleaned stores where required and allowed staff to self-isolate while continuing to be paid.
– We have communicated regularly to colleagues and customers, providing reassurance and responding to common concerns.
– Our Group Crisis Committee has met at least weekly throughout the year in response to the pandemic, with representation from banners and functions. The committee monitors events, changes in governments' approaches and response strategies. The Board provides regular oversight to evaluate the impact of Covid-19 on Kingfisher.
– Close liaison with governments to ensure we can continue to provide essential goods while playing our role to limit transmission of the disease.
– We have ensured that our office-based colleagues are able to work from home, in line with local governmental guidance, with access to appropriate equipment. Ongoing line manager training and mental health 'wellness' awareness has been provided for working in this way.
– We have mobilised business continuity and crisis teams in each of our markets, to ensure our response is prompt and tailored to the local situation.
– If required, we are able to significantly reduce discretionary spend (including freezing pay reviews, delaying bonus payments and/or recruitment), stop all non-committed capital expenditure, reprioritise sourcing requirements and adjust purchasing plans.
– We regularly monitor customer, colleague and stakeholder sentiment through social media and colleague feedback. This output is used to influence the operational decisions we take.

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## Supply Chain Resilience

A resilient supply chain is key to our business and the achievement of our strategic objectives. We are dependent on complex supply chains and delivery solutions to deliver our products to our customers. This year, there has been significant disruption caused by the pandemic with congestion at ports and an increased demand for containers. The pandemic has also caused operational difficulties for our suppliers, testing their ability to respond quickly to changes in demand. Major disruption to our supply chain could result in reduced levels of product available for sale, with an adverse financial and reputational impact.

### How our risks have changed

**No change**
Although there have been specific challenges to our supply chain as a result of the pandemic and Brexit, we have responded effectively.

**Link to strategic priorities**
– Move to a balanced, simpler local-group operating model with an agile culture
– Grow e-commerce sales
– Source and buy better, reduce our costs and our inventory

### How we manage and monitor the risk

– A new three-year Supply and Logistics roadmap was developed in 2020/21. It considers our future logistics capacity needs based upon the various sourcing, inventory and sales generative strategies identified in the Group's strategic planning activities.
– Business continuity plans are updated regularly, covering our internal points of failure and key partner disaster-recovery plans. The actions include a response to supplier and logistics failures, and plans were tested live as part of our Covid-19 response activities.
– Established partnerships with key transportation and logistics suppliers to align planning and secure capacity.
– A multi-functional Kingfisher Brexit Steering Group has been in place since 2016. This group is responsible for monitoring any issues arising from the recent Brexit deal.
– Since the start of the pandemic, a weekly meeting of Supply Chain Directors from across the Group has been held to identify and agree key actions to respond to the changing supply needs.
– In addition, a working group from our supply chain and sourcing teams is addressing supply challenges in critical categories and identifying where we anticipate future potential supply issues may occur.
– We have accelerated the implementation of store-based fulfilment for customer orders to support the business operation and increased demand during lockdown.
– We have an agreed supplier strategy which includes guidance on choosing which regions to source from and when to use more than one factory or supplier to increase resilience.
– There is a robust process for selecting individual suppliers. This includes checks on financial strength, ethical and environmental risks and their ability to manufacture the products to the agreed specification.
– We continually review key suppliers by category to establish capacity and volumes and assess the impact of an interruption in supply.

## Principal Risks continued

Key: Increasing No change Decreasing

### 5 Competition

Our competitors include both traditional store-based and online retailers. The pandemic has accelerated changes in the market, with a sharp rise in the use of online marketplaces. Competitors are also developing their offers, including both direct-to-customer operations and the services offered. Targeted actions by competitors could negatively impact our market share, the value of our assets and our financial results.

**How our risks have changed**

**No change**

**Link to strategic priorities**
- Move to a balanced, simpler local-group operating model with an agile culture
- Grow e-commerce sales
- Build a mobile-first, service orientated customer experience
- Differentiate and grow through own exclusive brands (OEB)
- Source and buy better, reduce our costs and our inventory

**How we manage and monitor the risk**

We are building a differentiated offer through:
- Clear positioning for each of our banners, with different operating models to address diverse customer needs.
- A clearly defined set of range principles and customer projects to create a compelling offer and to reinforce differentiation of our offer to build sales growth and margin improvement.
- Giving greater autonomy to local banners and allowing more local ranges, services and store formats that are tailored to customers' needs.
- Competing on price by using the scale of our Group to benefit from volume and lower purchase prices.

We monitor our performance, and that of our competitors, to react quickly to targeted actions via:
- Comparison of price indices vs competition in our key categories and measure customer price perception on a regular basis.
- Customer trend monitoring in all our markets to anticipate and develop an appropriate offer.

### 6 Changing Customer Preferences

The pandemic has caused an acceleration in the pace of change, with a greater use of e-commerce solutions for Click & Collect and home delivery. We must ensure we have innovative digital channels supported by an agile and reliable infrastructure, including technology and logistics capability, and an optimised property portfolio with in-store services, to make our product sufficiently compelling to customers and available when and where they want it. Failure to identify new trends and optimise our channels could affect our ability to stimulate spend and adversely impact the value of our assets and our financial results.

**How our risks have changed**

**Increasing**

Failure to keep pace with changing customer preferences is a key risk for us and an area we recognise is evolving even more rapidly due to the pandemic. We continue to enhance our priorities and processes to improve our capability and speed of delivery.

**Link to strategic priorities**
- Grow e-commerce sales
- Build a mobile-first, service orientated customer experience
- Test compact store concepts and adapt our store footprint

**How we manage and monitor the risk**

**Innovation**
- A Group digital strategy has been developed and approved by the Board, with various priority programmes underway.
- New teams have been created to take the lead on customer insight, digital experience and data.
- We have an established Product Council, meeting on a quarterly basis, to monitor financial and project portfolio performance and to prioritise upcoming digital initiatives.
- We have launched strategic programmes to grow e-commerce, focusing on putting stores at the centre of our fulfilment model.
- We are developing our service offer with the recent acquisition of NeedHelp, one of Europe's leading home improvement services marketplaces, and the trialling of third-party tool hire concessions in the UK.
- We have continued to develop our understanding of compact store formats with openings in the UK and France and the first concessions in ASDA (UK).
- We have a new strategic direction for technology, moving away from a long-release and waterfall-based approach to a product- and agile-based methodology.

## 7 Political and Market Volatility

Kingfisher operates in eight countries and relies on a global supply base, exposing us to geopolitical uncertainty and local volatility. Forms of disruption could include strikes, work stoppages and/or our ability to receive products from affected countries. This could also include the restrictions imposed by different governments in response to the current pandemic. Market volatility has increased due to the pandemic, creating a prolonged economic downturn resulting in changing customer behaviours and reduced consumer confidence. If governments try to recoup their budget deficits incurred through taxation, this will create additional burdens on businesses. These impacts could potentially disrupt the day-to-day operations of our business and our ability to meet our strategic objectives.

### How our risks have changed

**Increasing**

We have seen an increased level of uncertainty relating to the economy as a result of the pandemic, heightened geopolitical tensions, disruption in some of our markets and continued currency volatility.

**Link to strategic priorities**

– Move to a balanced, simpler local-group operating model with an agile culture

### How we manage and monitor the risk

**Monitoring and engagement activities**

– Our Corporate Affairs team actively monitors the political and economic situations in the countries in which we operate or which may impact our operations. This is supported by membership of key business trade associations in every market.

– Strategies are in place to identify, monitor and influence changes to legislation that may impact our business.

– Crisis management processes and teams are in place to monitor and manage situations as they arise.

– Group Offer and Sourcing teams manage supplier relationships with the aim of maintaining appropriate levels of product availability through periods of disruption.

**Mitigation activities**

– Each banner has a strategy for product offer and pricing that is designed to address consumer confidence.

– The Group has access to significant committed liquidity facilities and debt funding, through drawn term loans and the ability to issue debt into the capital markets through its European Medium-Term Note (EMTN) programme.

– Cash holdings are diversified across a number of financial institutions (for which credit risk is closely monitored).

– We have an appropriate and prudent mix of hedging policies, cash deposits and debt financing to minimise the impact of foreign exchange currency volatility on the company.

## 8 Legal and Regulatory

The Group's operations are subject to a broad range of regulatory requirements in the markets in which it operates. A major corporate issue or crisis, a significant fraud or material non-compliance with legislative or regulatory requirements would impact our brands and reputation, could expose us to significant fines or penalties and would require significant management attention.

### How our risks have changed

**No change**

**Link to strategic priorities**

– Move to a balanced, simpler local-group operating model with an agile culture

– Source and buy better, reduce our costs and our inventory

– Lead the industry in Responsible Business practices

### How we manage and monitor the risk

**Policies and procedures**

– Policies and procedures are in place including, but not limited to: Code of Conduct, Anti-Bribery and Corruption, Gifts & Hospitality, Data Protection, Money Laundering, Fair Competition and Market Abuse Regulation.

– A new Goods Not For Resale Vendor Engagement Assessment tool was implemented in October 2020, to increase the level of supplier due diligence covering business integrity, data protection and information security.

– A whistleblowing policy and hotline, facilitated by an independent third party, is in place throughout the Group. All calls are followed up and investigated where necessary.

**Training and communication**

– Revised Group-wide mandatory training on the Code of Conduct was rolled out in December 2020 with two modules for all staff (Code of Conduct, including anti-bribery and corruption, and GDPR) and two for head-office staff (Fair Competition & Market Abuse Regulation). These are required to be performed annually.

– An internal communication campaign was run during the year to raise awareness of the Code of Conduct and related processes.

**Oversight and reporting**

– Our Legal & Compliance network is well established, for teams at Group and retail banners to work and communicate together.

– A new Group Ethics and Compliance Committee (GECC) was formed in November 2020, ensuring that the Code of Conduct, related Group Policies and Standards, as well as the Group approach to ethics and compliance, are adequate and effective. This includes approving compliance training and reviewing both compliance risks and the outcomes of investigations. The GECC will be mirrored in each of the retail banners.

– We have a Disclosure Committee in place to address our Market Abuse Regulation requirements.

– Whistleblowing statistics and trends are monitored in the Local Ethics and Compliance Committees and reported to the GECC and to the Audit Committee twice annually.

Key: Increasing | No change | Decreasing

9 **Cyber and Data Security**

Cyber-attacks and security incidents have increased in recent years and the retail sector has joined a number of industry sectors as a target due to it becoming more data driven. Several high-profile organisations have suffered severe security incidents in recent times that have had an impact on operations, profitability and reputation, demonstrating the requirement not only to protect data but to have the ability to detect breaches and respond accordingly.

**How our risks have changed**

**Increasing**

We remain vigilant of the constantly changing threats we face, especially as we see the risk extending beyond traditional IT environments into business processing, the supply chain and connected device products we sell in stores.

Covid-19 has seen a global increase in cyber-attacks against businesses trying to respond to the crisis. Combine this with a response of accelerated digital growth and the risk landscape grows.

**Link to strategic priorities**

- Grow e-commerce sales
- Build a mobile-first, service orientated customer experience

**How we manage and monitor the risk**

- Cyber security continues to receive Group Executive-level sponsorship and Board focus.
- Cyber security is an integral part of the IT strategy with a clear three-year plan to continue to develop and evolve our capabilities to meet new threats such as Ransomware.
- Cyber insurance is purchased to provide financial cover and additional loss management support, should we suffer an event at Group or banner level.
- New IT developments go through a 'Secure By Design' process to ensure solutions are secure and compliant with regulations when deployed.
- We perform security assurance on our supply chain where a third party processes our data.
- We undertake regular vulnerability scanning of our perimeter, e-commerce platforms, websites and core internal systems.
- We have a deployed a number of defensive and protective tools that are actively managed and monitored.
- We have a robust major incident management process to respond to and manage security incidents and data breaches.
- We regularly review the cyber threats facing Kingfisher and have been working with partners and security specialists to implement tools and processes to better identify and remediate vulnerabilities.
- We have assessed our capability against the National Cyber Security Centre's (NCSC) '10 steps to cyber security' and have robust controls in each area.
- Independent reviews are performed of our cyber security processes and initiatives.

10 **Reputation and Trust**

Our customers, colleagues, suppliers, investors and the communities in which we operate expect us to conduct our business in a way that is responsible. We have publicly communicated ambitious Responsible Business targets (see the Responsible Business section on pages 25 to 29). Failure to deliver on our obligations and commitments could undermine trust in Kingfisher, damage our reputation and impact our ability to meet our strategic objectives.

**How our risks have changed**

**Increasing**

During the last year, we have seen an increased level of scrutiny and higher expectations from our stakeholders, particularly around our response to Covid-19 and the environment.

**Link to strategic priorities**

- Lead the industry in Responsible Business practices

**How we manage and monitor the risk**

**Governance**

- Our Code of Conduct establishes the core behaviours we expect of ourselves and others, including our suppliers.
- The Responsible Business Committee leads and oversees the delivery of the responsible business strategy. It is chaired by a non-executive director and includes the Chief Executive Officer.
- Proactively taking steps to support our communities, be it through our Covid-19 response or through our community priority (see the Responsible Business section on pages 25 to 29).
- Our annual reward measures help to ensure that Environment, Social and Governance (ESG) issues and stakeholder concerns are further prioritised.

**Issues tracking and stakeholder dialogue**

- Monitoring of external stakeholders' views of our company through traditional and digital media for all our companies.
- For colleagues, we have employee forums and works' councils in all of our businesses including a collective forum that meets with the CEO and members of the Board.
- Externally, we have regular engagement with NGO partners in our key markets, which helps to ensure that the company remains close to social and environmental concerns.

**Due diligence and external assurance**

- Our due diligence of suppliers covers a range of ESG issues, from environment to modern slavery; and includes our policy framework and supplier standards, which we expect suppliers to adhere to; supplier training and capacity building; and auditing of high-risk suppliers.
- Our due diligence extends to the data we disclose. Selected ESG data in the annual Responsible Business Report and Modern Slavery Statement is independently audited by DNV.
- Independent ratings agencies also monitor and rate our ESG performance throughout the year – including MSCI, CDP, Sustainalytics and ISS ESG.

# Viability statement

## Introduction

The UK Corporate Governance Code requires companies to state whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of assessment. Several scenarios have been modelled to support our viability statement, which assess the impact of our principal risks on the solvency and liquidity of the company.

## Assessment period

The Directors' assessment of viability has been made over a three-year period. This is considered appropriate as it is consistent with the period over which the Group considers its principal risks and aligns with the company's three-year strategic business planning period, which covers the period up to January 2024.

## Assessment of prospects

This viability statement should be read in conjunction with the description of the Group's business model and strategy, which are set out on pages 18 to 19 and 6 to 14, respectively.

The Directors assess the Group's prospects on a regular basis and in particular progress against the strategic objectives set out in its three-year plan. Kingfisher's planning process produces plans by retail banner that are consolidated to generate the Group plan. The plans deliver forecasts of the Group's financial performance including cash flows and allow the Directors to assess the Group's liquidity position and adequacy of funding. Sensitivity analysis of the main assumptions underlying the plans is also carried out. The plans are approved by the Directors and financial budgets and KPIs are subsequently used to monitor performance during the year via periodic performance reviews.

In its assessment of the Group's prospects, the Board has taken into account:

- **The company's new strategy and changes in operating models, including how these address changing customer preferences.** Our strategy aims to build leading customer propositions. At the heart of this is having e-commerce with stores at the centre, more compact stores, own exclusive brand-led differentiation, a mobile-first experience and a compelling services offer. Work has begun to progress these areas, including the reorganisation of our commercial operating model and IT operating model and the development of Centres of Excellence to increase our technical and digital capabilities.
- **The continued impact of Covid-19.** We have acted responsibly during the Covid-19 pandemic, keeping the safety of our customers and teams our first priority while also seeing strong like-for-like sales growth. This was made possible by being classified as an essential retailer in most markets, which has allowed us to continue trading throughout the pandemic. Although the Covid-19 vaccine roll-out is underway in the countries in which we operate, this will take time to complete and might not cover other variants if they appear.
- **Supply and supply chain risks.** This year has seen significant disruption caused by the pandemic, with congestion at ports and an increased demand for containers. The pandemic has also caused operational difficulties for our suppliers, testing their ability to respond quickly to changes in demand. However, we have worked with our partners to ensure an effective response and to minimise the overall impact.
- **Expectations of the future economic environment.** There remains a lot of uncertainty over macro-economic risks brought about by the Covid-19 pandemic, including changing customer behaviours, reduced consumer confidence and governments needing to recoup their budget deficits in the future.
- **Brexit.** A new trade agreement between the UK and the EU came into force on 1 January 2021 and the impact to operations has been well managed, with limited disruption in the main flow of imports from the EU to the UK.
- **The Group's financial position.** Despite the challenges of the past year, the company has reported a strong set of results. This has enabled us to repay the Coronavirus Job Retention Scheme grant to the UK government (with no claims being made in France since 1 July 2020) and to forego all business rates relief in the UK and Republic of Ireland. The Group also repaid in full both its French Term facility ('Prêt garanti par l'État') and the Bank of England's Covid Corporate Financing Facility (CCFF). Actions were taken to ensure we have sufficient working capital for the long-term, by increasing the company's cash headroom in 2020 and keeping this constantly under review.

Taking these factors into account, we have shown our business model to be resilient and we remain confident that the new strategic plan 'Powered by Kingfisher' is building a strong foundation for sustainable long-term growth.

## Assessment of viability

The scenarios for assessing the viability of the company were identified by considering the potential impact of individual principal risks and potential combinations (as shown in the table on page 48). In total, eight of the principal risks have been used in the modelling. These risks were chosen as they combine to represent plausible scenarios covering a range of different operational and financial impacts on the business.

The ongoing impact of the current pandemic and the potential of future pandemics have been carefully considered and are reflected in several of these scenarios. In total, four severe but plausible individual scenarios have been created, with a fifth 'collective' scenario, which combines all of the individual scenarios to model a worst-case hypothetical situation (as these could theoretically all run together, with different impacts on our business).

None of the scenarios modelled were found to have an impact on the long-term viability of the company over the assessment period. The modelling showed we are in a strong position to withstand each of the individual scenarios. The collective scenario is more extreme and highly unlikely. If it were to occur, this would require significant mitigation. However, there are sufficient options available including, but not limited to:

- Freezing pay and recruitment (including bonus payments)
- Reduce discretionary operating spend (including marketing, travel and expenses)
- Reduce non-committed capital expenditure
- Temporary suspension of dividend payments
- Renegotiating payment terms with key suppliers

## Viability Statement

Having assessed the current position, principal risks and prospects of the company, and taking into account the assumptions above, the Directors confirm they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the three-year assessment period.

# Viability statement continued

| Scenarios modelled | Links to principal risks |
|---|---|
| **Scenario 1**<br>**Demand/operational shock**<br>The whole of Kingfisher's operations are subject to a material and unexpected reduction in demand or there is operational disruption resulting in an inability to trade for a period of time (e.g. a future pandemic, prolonged failure of our global IT infrastructure).<br><br>Assumptions:<br>**Sales:** No sales during the period of severe operational impact, followed by a short period of recovery to prior levels.<br>**Margin:** Margin impacted by fixed distribution costs during lock down period.<br>**Cost:** Minimal cost savings due to the nature of the event and the need for extra marketing and communications.<br>**Inventory:** Limited adjustment opportunity given lead times. | **Risk 3:** Contagious diseases<br>**Risk 7:** Political and market volatility<br>**Risk 9:** Cyber and data security |
| **Scenario 2**<br>**Supply chain disruption**<br>Our suppliers and supply chain continue to be affected through 2021/22 and into 2022/23 by the impact of Covid-19. Stock availability is severely reduced in a number of key product categories and logistics costs are significantly increased for others. Suppliers are not able to support the increased sales volumes on key ranges.<br><br>Assumptions:<br>**Sales:** Negative sales impact with smaller stores most affected (more limited range depth so fewer alternatives). Applied to three-year plan sales for the years 2021/22 and 2022/23.<br>**Margin:** Increased shipping and transportation costs. | **Risk 3:** Contagious diseases<br>**Risk 4:** Supply chain resilience |
| **Scenario 3**<br>**Economic downturn**<br>Prolonged downturn in economic conditions across Europe with lower economic activity, higher unemployment and lower inflation resulting in changing customer behaviours, reduced consumer confidence and lower spending. Customers become more price sensitive and price reductions are required to manage overstocks. Suppliers of key ranges default on their supply commitments. Governments increase taxes in order to reduce deficits.<br><br>Assumptions:<br>**Sales:** Year-on-year sales reduction for a period of 18 months followed by recovery to initial level and then back to growth.<br>**Margin:** Margin reduction for a period of 24 months followed by recovery in third year. | **Risk 3:** Contagious diseases<br>**Risk 7:** Political and market volatility |
| **Scenario 4**<br>**Failure to successfully adjust our operating model**<br>The planned changes to our model are implemented across the banners but fail to deliver the expected sales and margin increases (e.g. e-commerce proposition cannibalises existing sales, in-store formats deliver no additional sales, price competitiveness does not result in increased sales volumes). In addition, there is a failure to realise cost efficiency targets.<br><br>Assumptions:<br>**Sales:** Non-delivery of planned sales growth from initiatives included in the three-year plan.<br>**Margin:** Non-delivery of margin increases linked to growth in own brand product sales.<br>**Costs:** Non-delivery of efficiency benefits. | **Risk 1:** Our people<br>**Risk 2:** Level and impact of change<br>**Risk 5:** Competition<br>**Risk 6:** Changing customer preferences |
| **Scenario 5**<br>**A combination of scenarios 1 to 4 above**<br>This is seen as a worst-case scenario, and highly unlikely. | As above |

## Non-financial information statement

The table below sets out where stakeholders can find information in our Strategic report that relates to non-financial matters, as required under the Non-Financial Reporting Directive.

| Reporting requirement | Where to read more in this report about related risk management and further additional information | Page |
|---|---|---|
| Environmental matters | Responsible Business<br>Governance of Responsible Business<br>Climate change | 25-29 |
| Employees | People<br>Employee diversity and inclusion<br>Board diversity and inclusion | 22-24<br><br>54, 72 |
| Human rights | Responsible sourcing and human rights | 28 |
| Social matters | Responsible Business – Our four priorities | 25-26 |
| Anti-bribery and corruption | Anti-bribery and corruption statement<br>Political donations | 50<br>109 |
| Description of business model | Business model | 18-19 |
| Non-financial KPIs | Responsible Business – Our four priorities<br>Strategic measures | 26<br>6-14 |
| Principal risks and uncertainties | Our approach to risk management<br>Principal risks | 40-41<br>42-46 |

## Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report including the principal risks of the Group set out on pages 42 to 46. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 33 to 39. In addition, note 25 of the Group financial statements includes the Group's financial risk management objectives and exposures to liquidity and other financial risks.

The Directors have considered the above and how they may impact going concern as well as modelling of a remote scenario which assesses the impact on the Group's liquidity headroom of more restrictive containment measures than those experienced during the Covid-19 pandemic to date. As a result of this review, the Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and consider it appropriate for the Group to continue to adopt the going concern basis of accounting in preparing the annual financial statements. Furthermore, based on the Group's strong performance, prospects and liquidity position, the Directors no longer consider going concern to be a critical accounting judgement. Further detail in relation to the use of the going concern assumption and the scenario modelled by the Directors are detailed in note 2 of the Group financial statements.

## Anti-bribery and corruption

Kingfisher is fully committed to conducting its business with high ethical standards. The Kingfisher Code of Conduct sets out our personal and shared responsibilities for meeting high ethical standards and helps to promote a culture where transparency, honesty and fairness are the norm. It contains our commitment to comply with anti-bribery and anti-corruption laws, as well as to compete fairly and not to tolerate any form of modern slavery. It underpins a set of five core integrity policies (anti-bribery and anti-corruption, whistleblowing, fair competition, sanctions and preventing facilitation of tax evasion), which set out the vision for how we want to behave and comply with laws and regulations applicable across the Group.

All new joiners are required to complete Code of Conduct training, which includes anti-bribery, anti-corruption and integrity policies. In the 2020/21 financial year, over 35,000 colleagues also completed a Code of Conduct refresher module, launched during the year, and over 3,000 colleagues working in sensitive areas of the business received a fair competition training module. An online gifts and hospitality and conflict of interests reporting, and approval process is in place in all relevant languages and geographies and the numbers are monitored by Local Compliance Officers and reported to senior management at Group level. We operate a confidential whistleblowing hotline, and the Audit Committee of the Board receives regular updates about whistleblowing reports as well as the outcome of sensitive internal investigations.

We embed the requirements of our Code of Conduct into our procurement processes and supplier contracts. Potential new suppliers are informed during the tender process of our Code of Conduct, policies and ethical requirements so they can take these into account when quoting to provide products or services. In 2020/21, we launched a new third-party due diligence tool for goods not for resale vendors to integrate and strengthen our due diligence process in areas such as anti-bribery and corruption, sanctions and conflict of interest.

We established our Group Ethics and Compliance Committee in 2020/21 to ensure good governance of compliance-related activities across the Group. The Committee is chaired by our Chief Financial Officer and meets at least four times a year. We are also in the process of establishing a local Ethics and Compliance Committee in each of our retail banners.

In the coming financial year, the company will be primarily focused on establishing the Local Ethics and Compliance Committees in all retail banners and improving its whistleblowing hotline, as part of our ambition to continuously enhance and raise awareness of the Speak Up channel across the Group.

For information about human rights, see the Responsible Business section on pages 25 to 29.

## Companies Act Section 172 Statement

The Directors are fully aware of their responsibilities to promote the success of the company in accordance with section 172 of the Companies Act 2006 (the 'Act').

The Directors aim, in good faith, to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (among other matters) to:

- the likely consequences of any decision in the long term and the impact of the company's operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- employee interests, the need to foster the company's business relationships with suppliers, customers, and others, and the effect of that regard, including on the principal decisions taken by the company during the financial year.

Ahead of matters being put to the Board for consideration, and in advance of many projects or activities, significant levels of engagement are often undertaken by the broader business. This engagement is often governed by formulated policies, control frameworks, regulation, legislation and may differ by region and Banner.

Kingfisher follows a highly developed and formalised governance and oversight framework, which includes but is not limited to Group policies, business principles and the Kingfisher Code of Conduct.

Kingfisher considers the following to be its core stakeholder groups:

- Customers.
- Colleagues.
- Shareholders.
- Suppliers.
- Communities & Non-governmental organisations.
- Regulators & Governments.

Please see pages 63 to 69 of the Corporate Governance report where you will find further detail regarding consideration of our stakeholders and Section 172, including principal decisions taken by the Board and how the Board's discussion and decision making during the year was influenced by engagement with our different stakeholders.

## Strategic Report approval

The Strategic report was approved by a duly authorised Committee of the Board of Directors on 21 March 2021 and signed on its behalf by:

**Thierry Garnier**
Chief Executive Officer

21 March 2021

# Board of Directors

**Andrew Cosslett, Chair of the Board** N R

**Appointed:** April 2017 **Chair of the Board:** June 2017

**Skills and experience:** Andrew's early career was with Unilever in a variety of branding and marketing roles. He then spent 14 years at Cadbury Schweppes in senior international roles before becoming chief executive officer (CEO) for InterContinental Hotels Group (IHG). Andrew was at IHG for six years, creating value by leveraging the power of its brands alongside executing a programme of significant transformational and cultural change. He served as CEO for Fitness First, where he was instrumental in successfully repositioning the business and brand.

**External appointments:** Andrew joined the board of the Rugby Football Union in 2012, before being appointed chair in 2016.

**Thierry Garnier, Chief Executive Officer** RB

**Appointed:** September 2019

**Skills and experience:** Thierry is an experienced retailer, having spent 20 years in senior roles at Carrefour, the French multinational retailer. In his previous role, Thierry was a member of the Carrefour group executive committee and the CEO of Carrefour Asia. From 2003 to 2008, Thierry was the managing director of Supermarkets for Carrefour France. Following this successful period, he became CEO of Carrefour International and a member of the group executive committee in 2008, with a broader remit including Asia, Latin America and various European countries.

**External appointments:** No external appointments.

**Bernard Bot, Chief Financial Officer**

**Appointed:** October 2019

**Skills and experience:** Bernard is a seasoned chief financial officer (CFO), having held the role at several international listed companies. Bernard also has significant experience of large-scale transformation programmes, logistics and supply chain management, and technology and digital services. He was CFO at Travelport Worldwide, a global NYSE-listed company providing a technology platform for the travel industry, until it was taken private in June 2019. Prior to that, Bernard was CFO of Aer Lingus and held various senior positions at TNT and TNT Express. Previously, he worked at McKinsey & Company where he rose to become a partner and leader of its worldwide Post and Logistics group.

**External appointments:** Bernard is a non-executive director of A.P. Møller–Mærsk A/S. and is a member of its audit committee.

**Claudia Arney, Non-Executive Director** N R

**Appointed:** November 2018

**Skills and experience:** Claudia brings a wealth of experience of business transformation and building digital capabilities to the Board having previously held non-executive roles, including interim chair of the Premier League, senior independent director of Telecity Group plc, chair of the remuneration committee at Halfords Plc, non-executive director at Ocado Group plc, and governance committee chair at Aviva plc. Claudia began her career at McKinsey & Company, before holding roles at Pearson, the Financial Times, Goldman Sachs, and HM Treasury. She was group managing director, digital at EMAP.

**External appointments:** Claudia is currently chair of Deliveroo and non-executive director and remuneration committee chair at Derwent London. She also serves as a member of the panel on Takeovers and Mergers.

**Catherine Bradley, Senior Independent Director** A N R

**Appointed:** November 2020

**Skills and experience:** Catherine provides substantial expertise to the Board in the fields of finance, risk management and corporate governance, having previously been a non-executive director of the Financial Conduct Authority, the UK financial regulator, where she chaired its audit committee. Catherine also served as an independent member of the supervisory board of PEUGEOT S.A. where she chaired its finance and audit committee.

Prior to embarking on her non-executive career, Catherine had a 30-year career in investment banking based in the US, the UK and Asia. She has French and British citizenship and was appointed a Commander of the Order of the British Empire (CBE) in June 2019.

**External appointments:** Catherine serves on the board of the International Integrated Reporting Council, based in the UK which has announced its merger with the Sustainability Accounting Standards Board (SASB) and is a non-executive director of Johnson Electric Holdings Limited, a Hong Kong-listed company, and of easyJet plc, where she chairs its finance committee.

**Tony Buffin, Non-Executive Director** N A

**Appointed:** December 2020

Tony brings a great deal to the Board, including his broad range of retail skills, particularly those gained in the home improvement and digital retail markets as well as a wealth of expertise in finance and transformation.

Tony has previously been CEO of Holland and Barrett as well as group chief operating officer and CFO at Travis Perkins PLC. Formerly, he was CFO of Australian grocery retailer, Coles Group, and prior to that he was CEO of The Loyalty Management Group. Tony has a track record of delivering change and digital growth, building new services businesses, and expanding international retail operations in both public and private businesses.

**External appointments:** Tony is the founder of The Tecsa Group; strategic data and analytics consultants. Tony also serves as a non-executive director of Weybourne Limited (Dyson) and Tyrefix.

**Jeff Carr, Non-Executive Director** A N R

**Appointed:** June 2018

**Skills and experience:** Jeff became CFO of Reckitt Benckiser Group plc on 9 April 2020. Reckitt Benckiser has operations in over 60 countries and a large number of globally trusted household brands and products. Jeff previously held an executive finance role with Reckitt Benckiser earlier in his career. Most recently, Jeff was CFO of Koninklijke Ahold Delhaize N.V. (Ahold Delhaize), one of the world's largest retail groups. Jeff was previously group finance director at both FirstGroup plc and easyJet plc, and held a senior finance role at Associated British Foods plc. He was also previously a non-executive director at McBride plc.

**External appointments:** Jeff is currently CFO of Reckitt Benckiser Group plc, the British multinational consumer goods company.

**Sophie Gasperment, Non-Executive Director** N RB

**Appointed:** December 2018

**Skills and experience:** Sophie brings to the Board expertise in strategy, brand and international retail markets as well as substantial experience in business transformation and digital capabilities, having held a number of senior leadership positions at L'Oréal, including executive chair and CEO of The Body Shop International and managing director of L'Oréal UK & Ireland.

**External appointments:** Sophie is a non-executive director of Accor, where she chairs the appointments, compensation, and corporate social responsibility committee. She is also a non-executive director of Givaudan S.A., the D'Ieteren group, and is the lead independent director on the board of Cimpress, a NASDAQ-listed technology company. In addition, Sophie is a senior advisor at the Boston Consulting Group.

**Rakhi Goss-Custard, Non-Executive Director** A N R RB

**Appointed:** February 2016

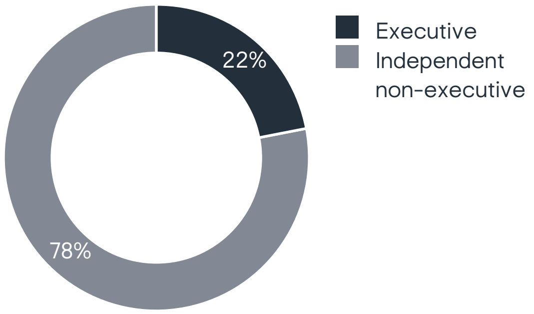
**Skills and experience:** Rakhi is a highly experienced director in digital retailing, having spent 11 years at Amazon.com. Most recently, she was director, UK media at Amazon, responsible for ranges such as books, music and DVDs. She was previously director, UK hardlines, where she was responsible for home, garden and DIY product ranges. Prior to joining Amazon, Rakhi held roles at TomTom and in management consultancy in the United States, and was previously a non-executive director of Intu Properties plc.

**External appointments:** Rakhi is a non-executive director of Schroders plc, Rightmove plc, and Travelopia.

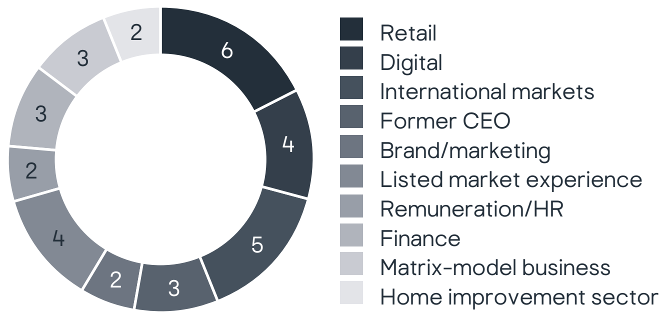
**Key** A Audit Committee N Nomination Committee R Remuneration Committee
RB Responsible Business Committee ◯ Chair

# Board composition

**Board independence**




**Non-executive director sector experience**




| Current Directors | Tenure at 31 January 2021 (0-3 years / 3-6 years / 6-9 years) |
|---|---|
| Andrew Cosslett | 3 years, 10 months |
| Claudia Arney | 2 years, 3 months |
| Catherine Bradley | 3 months |
| Tony Buffin | 2 months |
| Jeff Carr | 2 years, 8 months |
| Sophie Gasperment | 2 years, 2 months |
| Rakhi Goss-Custard | 5 years, 0 months |
| Thierry Garnier | 1 year, 4 months |
| Bernard Bot | 1 year, 3 months |

### Board diversity and ethnicity

Our Board is **44% female** and includes **one director of colour** (as defined in The Parker Review, 2017 and 2020).

| Board nationality | |
|---|---|
| Dutch | 1 |
| US | 1 |
| French | 3 |
| British | 4 |

# Corporate Governance

Dear Shareholder,

I am pleased to present our Corporate Governance report for the year ended 31 January 2021, on behalf of the Board.

This report sets out our corporate governance framework (outlined on pages 57 to 69) and explains how it underpins and supports management in delivering the company's 'Powered by Kingfisher' strategy and enables the Board to take decisions that create long-term sustainable value for the benefit of our shareholders and wider stakeholder groups.

This year, perhaps more than any other, has tested the resilience of our business, our Board and our colleagues, as well as our policies and processes.

### Coronavirus pandemic (Covid-19)

Throughout the pandemic, our priorities have been to provide support to the communities in which we operate, to look after our colleagues as a responsible employer, to serve our customers as a retailer of essential goods, and to protect our business for the long term.

In response to the unfolding impacts of Covid-19 on the business and the sustained unprecedented level of uncertainty that resulted, the Board held 20 unscheduled meetings during the year to consider significant operational matters, as well as the Group's liquidity and funding position. An overview of the key activities of the Board during the year is provided on pages 59 and 60 including steps taken to keep our colleagues and customers safe, and to support our wider communities. Kingfisher was pleased to be able to donate over £2.5 million of personal protective equipment (PPE) from across its banner network, to frontline health workers. The Board, and I, are grateful to all our colleagues for their extraordinary resilience and commitment in what was an unprecedented year of change and challenge.

As I outlined earlier in the year, the company complied with the Financial Conduct Authority's (FCA) request to all listed companies and delayed the publication of our 2019/20 preliminary financial statements. Further, against the backdrop of government restrictions in multiple markets in which we operate, and the continued uncertainty caused by Covid-19, the Board determined not to propose a final dividend in relation to 2019/20. The Board recognises the importance of dividends to shareholders and is pleased to be proposing a total dividend of 8.25 pence per share in respect of the year ended 31 January 2021. The proposed dividend comprises an interim dividend of 2.75 pence per share in respect of the six months ended 31 July 2020 and a final dividend of 5.50 pence per share. The final dividend is subject to approval by shareholders at the Annual General Meeting (AGM) on 30 June 2021, and will be paid alongside the interim dividend on 5 July 2021.

Finally, in recognition of the impact of the significant actions taken to reduce costs and optimise cash flow and liquidity on the company's stakeholders, the entire Board and Group Executive voluntarily reduced their base salaries and Board fees by 20%, from 1 April 2020. The Group Executive team (excluding the CEO and CFO) returned to full salaries on 1 July 2020, with the CEO and CFO following on 1 August 2020. Board fees were restored from 1 October 2020. In addition, the CEO and CFO received no annual 2019/20 bonus payments.

### Governance

The report has been prepared in line with the requirements of the 2018 UK Corporate Governance Code (the Code) and The Companies (Miscellaneous Reporting) Regulations 2018 (the Regulations). The Board remains supportive of the Code's enhanced emphasis on engagement with stakeholders, diversity, remuneration structures and strengthening of corporate culture. The company complies with all Provisions of the Code, with one exception. The company is non-compliant with Provision 36 in relation to grants under long-term incentive schemes, which dictates that vesting should be phased, rather than awarded in a single large block. Further detail on our compliance with the Provisions of the Code is set out on page 62 of this report. In addition, the Corporate Governance Statement, available on our website, provides a detailed account of how the company has applied the Code Principles.

### Board leadership and composition

Through the Nomination Committee, the Board will continue to keep its composition under review to anticipate retirements and to ensure it continues to reflect the skills, knowledge, experience, background, and diversity required to remain effective as Kingfisher delivers its new 'Powered by Kingfisher' strategy, and as our external environment evolves.

Mark Seligman served as a non-executive director and senior independent director for nine years and retired from the Board in January 2021. Catherine Bradley, previously a non-executive director of the FCA, and Tony Buffin, previously CEO of Holland and Barrett, each joined the Board as non-executive directors during the year. Catherine assumed the role of senior independent director, following Mark's departure in January. Directors' biographies, including tenure and skills, are set out on pages 52 to 54.

During the year, our newly established Responsible Business Committee met for the first time. This Board Committee was established to strengthen Environmental, Social, and Governance (ESG) within Kingfisher and underscore the company's commitment to lead the industry in Responsible Business practices, announced as part of the new strategic plan. The Responsible Business Committee report is set out on pages 74 and 75 of this report.

## Board effectiveness

In accordance with best practice and the Code, we conduct an external Board and Committee effectiveness review every three years. This year's review was conducted internally and concluded that the Board continued to operate effectively while identifying some areas for further development. Details of this review, together with an update on progress we have made against last year's actions, are set out on pages 60 and 61.

## Company strategy, purpose, and culture

The Board recognises the importance of its role in setting the tone of the company's culture and embedding its principles of transparency, honesty and fairness throughout the Group. The Group's culture is underpinned by our Code of Conduct and associated policies and practices.

Under normal circumstances, the Board has a programme of site visits and receives regular briefings from executive leadership to allow it to assess the behaviour and culture of the business. During the year, management continued to develop its culture reporting to assist the Board to monitor and assess the company's culture in practice and implementation of the company's vision and values as articulated in the 'Powered by Kingfisher' strategy and Responsible Business strategy. The Board also received updates following each meeting of the Kingfisher Colleague Forum (KCF) and remained responsible for the oversight and the receipt of reports under the Whistleblowing Policy. Details of how the Board's discussion and decision making have been influenced by these updates are set out on pages 63 to 69.

## Diversity and Inclusion

We continue to support the objectives of the Hampton Alexander Review and the work of the 30% Club to drive improvements in gender diversity at all levels. We are also pleased to confirm that we continue to meet The Parker Review (2017 and 2020) target of at least one director of colour on our Board, as defined in the Review as we have since 2016.

Further, the Board is fully supportive of the company's Responsible Business priority of being a more inclusive company and has targets in place to achieve this. Further details are set out on in the Responsible Business section on pages 25 to 29 of the Strategic report.

## Stakeholder engagement

As Chair of the Board, I was pleased to participate in an annual roadshow of stakeholder engagement meetings in November and December with major shareholders representing around one-third of our register. I found the meetings to be extremely valuable and a very instructive exercise. I was accompanied by the Group Investor Relations Director and the Group Corporate Affairs Director, and the output from these discussions was reported back to my fellow directors at a subsequent Board meeting.

As previously mentioned, during the year, the Board also received regular updates from our KCF, the joint forum of Kingfisher-nominated management representatives and formally elected employee representatives. Scheduled KCF meetings are usually held twice a year and are attended by Sophie Gasperment, Chair of the Responsible Business Committee, and the CEO. Recognising the exceptional circumstances the business was operating under, the KCF met four times during 2020/21.

The Board's stakeholder engagement influenced its discussions and decision making throughout the year and in particular, in forming our response to the Covid-19 outbreak, when weighing the decision to retain our Iberia business, and when approving the exit from Russia. The company's Section 172 Statement is set out on page 51 of the Strategic report and more details regarding how the Board has met its Section 172 obligations this year are set out on pages 63 to 69 of this report.

## Looking ahead

The Board and I are fully committed to working with management to set a culture of transparency, honesty, and fairness, supported by a robust corporate governance framework. As we monitor the progress of delivery against our objectives relating to the 'Powered by Kingfisher' strategy and our culture over the coming year, we will continue to develop our approach to engagement with our stakeholders and our colleagues.

**Andrew Cosslett**
Chair of the Board

21 March 2021

### Governance documents available at www.kingfisher.com

Articles of Association

Matters reserved for the Board

Terms of references of Board Committees

Role profiles of the Chair of the Board, CEO, senior independent director, a non-executive director and the Company Secretary

Corporate Governance Statement

## Governance structure

The company is governed through a structured framework comprising the Board and several Committees, which enable the company and its directors to effectively discharge their duties, as illustrated below:

### Kingfisher plc Board

The Board has responsibility for the overall leadership of the Group, setting the Group's purpose and values and strategy and satisfying itself that these align with its culture, taking into consideration the views of shareholders and other key stakeholders, to promote the long-term sustainable success of the Group and its contribution to wider society. It also has responsibility for the Group's performance and governance oversight. The Board's key activities for the year are set out on pages 59 and 60. The Matters Reserved for the Board and the Committees' terms of reference are published on our website.

### Audit Committee

Oversees financial reporting, audit, and risk.

Report on pages 76 to 81.

### Nomination Committee

Oversees Board composition and succession planning.

Report on pages 70 to 73.

### Remuneration Committee

Oversees the linking of reward to strategy.

Report on pages 82 to 107.

### Responsible Business Committee

Oversees the Group's responsible business activity.

Report on pages 74 and 75 and additional reporting on pages 25 to 29.

### Disclosure Committee

Oversees the framework for the identification, control, and release of inside information.

### Group Executive

Comprises the CEO, his direct reports including the CFO, the retail banner CEOs, and certain functional leads. Its members meet monthly to support and advise the CEO to develop and implement the strategic direction of Kingfisher and its businesses, to make and implement operational decisions, and to make recommendations to the Board.

### Group Investment Committee

The CEO and Group Executive are supported by the Group Investment Committee. Chaired by the CFO, its members are directly accountable for all capital and revenue expenditure above the threshold reserved for approval at the banner or group function level, which can also be approved by the CEO.

## Board attendance

The table below shows the directors' attendance at Board and Committee meetings during the year. In addition to its normal schedule of meetings, the Board met 20 times, in light of the exceptional circumstances including those arising from the Covid-19 pandemic. Directors who are unable to attend scheduled meetings due to competing engagements or unforeseen circumstances are encouraged to input offline and, ideally, ahead of the meeting. More detail regarding information flows to the directors ahead of Board and Committee meetings can be found in the Corporate Governance Statement on our website. Details of how we have improved the information flows during the year together with our action plan for further development can be found on page 61, as part of our Board evaluation process.

| Current directors | Scheduled Board | Additional Board | Nomination | Audit | Remuneration | Responsible Business |
|---|---|---|---|---|---|---|
| Andrew Cosslett | 11/11 | 20/20 | 4/4 | – | 8/8 | – |
| Claudia Arney[1] | 11/11 | 17/20 | 4/4 | – | 8/8 | – |
| Bernard Bot | 11/11 | 20/20 | – | – | – | – |
| Catherine Bradley[2] | 3/3 | 2/2 | 1/1 | 1/1 | 1/2 | – |
| Tony Buffin[3] | 2/2 | 2/2 | 1/1 | 1/1 | – | – |
| Jeff Carr[4] | 11/11 | 17/20 | 3/4 | 6/6 | 8/8 | – |
| Thierry Garnier | 11/11 | 20/20 | – | – | – | 2/2 |
| Sophie Gasperment[5] | 11/11 | 18/20 | 3/4 | – | – | 2/2 |
| Rakhi Goss-Custard[6] | 11/11 | 19/20 | 4/4 | 6/6 | 8/8 | 2/2 |
| **Former directors who served during 2020/21** | | | | | | |
| Mark Seligman[7] | 11/11 | 19/20 | 3/4 | 6/6 | 7/8 | – |

1. Claudia Arney was unable to join three of the additional Board meetings due to prior commitments.
2. Catherine Bradley joined the board on 2 November 2020 and assumed the role of senior independent director on 29 January 2021. On joining the Board, Catherine became a member of the Audit, Nomination and Remuneration Committees. Catherine was unable to join one Remuneration Committee meeting due to a prior commitment.
3. Tony Buffin joined the Board on 1 December 2020. On joining the Board, Tony became a member of the Audit and Nomination Committees.
4. Jeff Carr was unable to attend three additional Board meetings and one Nomination Committee meeting due to prior commitments.
5. Sophie Gasperment was unable to attend two additional Board meetings and one Nomination Committee meeting due to prior commitments.
6. Rakhi Goss-Custard was unable to attend one additional Board meeting due to a prior commitment.
7. Mark Seligman stepped down from the Board on 29 January 2021. Mark was unable to attend one additional Board meeting, one Nomination Committee meeting, and one Remuneration Committee meeting due to prior commitments.

## Key activities for the year

**Strategy**

- Received, reviewed, and approved the 'Powered by Kingfisher' strategy, including individual Banner strategies.
- Monitored delivery of the Group's strategy, including an appraisal of the planned delivery against the strategic targets.
- Analysis of store portfolio, including proposing strategy and concepts.
- Approved the acquisition of NeedHelp, a home improvement services company.
- Received updates on the acceleration of Click & Collect and e-commerce in banners, primarily in response to Covid-19.
- Monitored the roll-out of digital technologies and received regular digital and IT updates.
- Considered Screwfix international expansion and pricing strategies.
- Monitored the ongoing review of the company's master data.
- Received updates on the performance of the Responsible Business strategy.
- Analysed the new Offer proposition, including Kingfisher's own exclusive brands.
- Oversaw the exit from the Russian market and reassessment of the company's position in Iberia.
- Oversaw developments to the operating model.

**Shareholder engagement**

- Discussed feedback from the post-results investor roadshows between Executive leadership, the Chair of the Board, and investors.
- Monitored the investor consultation around the Delivering Value Incentive targets for 2020/21.
- Determined to hold the 2020 AGM electronically for the safety of all attendees during the pandemic and to allow the Board to continue to engage with our shareholders.
- Attended the 2020 AGM electronically and answered shareholders' questions.
- Considered bid defence and received a shareholder activism update.
- Received feedback from the Chair of the Board following the investor roadshow conducted in the autumn.

**Finance and performance**

- Reviewed and discussed the business progress through the CEO's reports, including market and trading updates.
- Reviewed monthly reports on performance against budget and forecast.
- Approved the three-year plan and annual budget.
- Reviewed cash flow and dividend cover and determined whether to recommend or declare dividend payments, accordingly.
- Reviewed contingent tax liabilities and transfer pricing positions.
- Approved the UK tax strategy and required disclosures.
- Reviewed reports on customer insights and dashboards with key customer metrics.

**People, culture, vision and values**

- Agreed and adopted Responsible Business priorities and fundamentals that support culture, vision and values.
- Approved and monitored the adoption of a new all-employee share plan.
- Monitored the level of health and safety incidents through regular reports.
- Received feedback from colleagues through the Kingfisher Colleague Forum and acted when required.
- Considered the People and Culture plan and Inclusion strategy, together with progress against key initiatives and learnings from colleague listening.
- Reviewed and discussed the findings of the Group Executive and senior management talent review and endorsed the 2020 talent and succession plan.
- Discussed feedback from the Responsible Business Committee meetings held during the year.

## Key activities for the year

**Governance and risk**

- Received regular updates on the management of the impacts and implications of the Covid-19 crisis.
- Discussed feedback from the Audit Committee following a deep dive into the risk and controls implications of the Covid-19 crisis on areas of the business.
- Received updates on Brexit-related risks and contingency planning that was being undertaken within the business.
- Received regular updates on capital expenditure and investment decisions taken by the Group Investment Committee, in line with the Group's governance processes and procedures.
- Approved the Modern Slavery Transparency Statement.
- Appraised the principal and emerging risks, mitigation steps and set the Group's risk appetite.
- Reviewed and approved the Matters Reserved for the Board and each of the Committees' terms of reference.
- Discussed the findings of the internally facilitated Board effectiveness evaluation and agreed actions for 2021/22.
- Received updates on the company's compliance with GDPR, the Anti-Bribery and Corruption Policy and Whistleblowing Policy.

**Covid-19**

- Briefed on the established Group Coronavirus Crisis Committee to oversee and manage the developing crisis.
- Donated a total of over £2.5 million of personal protective equipment (PPE) to frontline healthcare workers during the year.
- Reviewed multiple scenario analyses of the impact of the Covid-19 pandemic on the company's cash flow and liquidity position.
- Agreed to delay publication of the 2019/20 preliminary financial statements for at least two weeks and consequently the Annual Report and Accounts, in compliance with the FCA's guidelines.
- Determined to furlough c. 50% of our total Group employees in April and accept the government support available in the relevant jurisdictions to safeguard the longer-term financial stability of the business.
- Determined not to propose a final dividend in relation to 2019/20 amid uncertainty of changes in the magnitude, duration and geographic reach of Covid-19 on business performance.
- Monitored the company's 2019/20 going concern and viability position.
- Approved to apply for the Covid-19 liquidity support offered by the Bank of England and the French State in addition to endorsing the drawdown of the company's Revolving Credit Facility, and approving to raise a further Revolving Credit Facility.
- Approved to return in full the UK and Republic of Ireland business rates relief and furlough payments received as a result of the Covid-19 crisis where it was possible to do so.
- Approved or endorsed the repayment or redemption in full of Covid-19 liquidity support received from the Bank of England and the French State respectively, as appropriate.
- Requested the Remuneration Committee to apply discretion for the Board and Group Executive to forgo 20% of their base salaries or Board fees and the CEO and CFO to receive no annual 2019/20 bonus payment.

## 2020/21 Board effectiveness evaluation

The Board and each of its Committees conducts an annual effectiveness evaluation. In line with the Code Principles, it includes consideration of the skills, composition and performance of the Board, its Committees, and individual directors, and is externally facilitated every third year.

During the year the Board continued to focus on the areas that the externally facilitated 2019/20 evaluation had identified and reviewed and measured progress against the actions that had been agreed. Due to the nature of certain actions and the Board's deep focus on the Group's response to the Covid-19 pandemic, progress in some of the identified areas had to be deferred and will be addressed in 2021/22.

During 2020/21, an internal evaluation was led by the Chair of the Board , supported by the Company Secretary. The evaluation was conducted via an online survey, facilitated by our third-party consultant, Lintstock. The survey was developed and agreed by the Chair of the Board and the Company Secretary and invited feedback on key areas of the Board's effectiveness including its role in the evolution, adoption, and monitoring of the 'Powered by Kingfisher' strategy, as well as management of the Group's response to the Covid-19 pandemic. A detailed report was then considered by the Board and the outcome from this, as well as progress against last year's actions, were discussed.

The internal evaluation determined that the Board, its Committees, and individual directors continued to operate effectively. However, the evaluation identified key areas for further development as follows:

## 2020/21 Board evaluation

| Areas of focus | Action plan for 2021/22 |
|---|---|
| **Strategy and performance** | – Board to review progress of the 'Powered by Kingfisher' strategy, including regular Castorama France updates.<br>– Selected Board meetings each year to be extended to accommodate key strategic and operational topics.<br>– Board to visit banners more regularly, including store visits and meetings with local management (subject to Covid-19 restrictions). |
| **Board information** | – Board to review and assess more frequently competitor data and updates. |
| **Governance** | – Schedule regular non-executive director-only meetings.<br>– Increase informal gatherings and meetings to ensure productive relationships between Board members and executives. |

The Board will continue to review its procedures, effectiveness, development and composition during the year ahead. The Chair will use the output of the Board evaluation and individual director performance reviews to further develop the performance of the Board during the year ahead.

Mark Seligman, senior independent director, led a separate review of the Chair's performance in January 2021 with support from other non-executive directors. The review concluded that the Chair continued to operate effectively and that there were no concerns regarding his performance.

## 2019/20 External evaluation progress update

The table below outlines progress against actions agreed during the 2019/20 external evaluation. Further information can be found in last year's Annual Report:

| Areas of focus | Progress against action plan for 2020/21 |
|---|---|
| **Board information** | – Expanded the scope and use of a commercial dashboard to encompass market trends, competitor activity and customer insight, and to assist the Board to track key information across the business.<br>– Board reviewed and tracked corporate purpose, values and culture across the Group through enhanced culture reporting, utilising a variety of mechanisms including dashboards to assist the Board to monitor and asess the company's culture in practice and implementation of the company's vision and values as articulated in the 'Powered by Kingfisher' strategy and Responsible Business strategy. |
| **Board time and meetings** | – Due to the Covid-19 pandemic, meetings were scheduled and held with greater frequency and flexibility than in previous years and using a variety of digital means not previously utilised.<br>– However, also resulting from the pandemic, travel restrictions meant that it was not possible to hold two meetings within the business' operations or to include meetings with local senior executive and rising talent from across the Group.<br>– Increased use of private meetings held electronically between the CEO and the non-executive directors during the year.<br>– Increased use of non-executive director-only meetings held electronically during the year. |
| **Governance** | – Reviewed and refreshed the composition of the principal Committees during the year, supported by the addition of two new non-executive directors.<br>– The new Responsible Business Committee of the Board met twice during 2020 to focus on the Group's Environmental, Social and Governance agenda. |
| **Values and strategic focus** | – Worked with the new CEO to develop and launch the 'Powered by Kingfisher' strategy.<br>– Identified strategic initiatives and key performance indicators to support and measure delivery against the strategic priorities, respectively.<br>– Focused on delivery of the strategic priorities over the longer term through the lens of talent development and succession within the business. |

# Compliance with the UK Corporate Governance Code

The company was subject to the Financial Reporting Council's (FRC) 2018 UK Corporate Governance Code (the Code) for the year ended 31 January 2021. Throughout the Covid-19 pandemic, the Board has continued to embrace the increased emphasis on engagement with our stakeholders, diversity, remuneration structures, and strengthening of corporate culture.

The company complies with all Provisions of the Code with one exception. The company is non-compliant with Provision 36 in relation to grants under long-term incentive schemes, which dictates that vesting should be phased, rather than awarded in a single large block. Kingfisher's Directors' Remuneration Policy (the Policy), approved by 97% of shareholders who voted at the 2019 AGM, includes long-term incentives that are split into two awards at grant, each subject to a three-year performance period to align with the prevailing time horizons of the business strategy. This award does not therefore align with Provision 36.

Following careful consideration and consultation with major shareholders during the review of the Policy, it was determined that it remained appropriate to structure the Delivering Value Incentive awards in this way considering the link to the company's five-year strategic plan at that time, and the stretching performance targets. Separate Alignment Shares awarded under the Kingfisher Alignment Shares and Transformation Incentive Plan are made annually. The Remuneration Committee continues to keep the operation of the Delivering Value Incentive along with the existing Policy and structure under review and invites consultation with major shareholders when appropriate, to ensure it remains fit for purpose, including the alignment to the new 'Powered by Kingfisher' strategy.

All other Code provisions have been complied with including a five-year vesting and holding period for share awards, pensions contributions for executives aligned to what is offered to the workforce, post-employment shareholding requirements, malus and clawback provisions, and use of Remuneration Committee discretion. More detail on the context for executive remuneration at Kingfisher can be found on pages 82 to 107.

A copy of the Code is available on the FRC's website: www.frc.org.uk

Together with the other Governance documents listed on page 56, the company has published a Corporate Governance Statement (CGS) on its website that provides a detailed account of Kingfisher's compliance with the Code. Further information can be found as follows:

| | Page no. or CGS |
|---|---|
| **1–Board leadership and company purpose** | |
| A. Effective and Entrepreneurial Board | CGS, Matters Reserved, 40-51 |
| B. Purpose, value and strategy | CGS |
| C. Resources and controls | CGS |
| D. Engagement with stakeholders | CGS, 51, 63-69, |
| E. Workforce policies and practices | CGS, 22-24, 29 |
| **2–Division of responsibilities** | |
| F. Role of the Chair | CGS, Role Profiles |
| G. Composition of the Board | CGS, 52-54 |
| H. Role of the non-executive director | CGS, Role Document |
| I. Board information, time and resource | CGS, 58 |

| | Page no. or CGS |
|---|---|
| **3–Composition, succession and evaluation** | |
| J. Appointment to the Board | CGS, 71-73 |
| K. Board composition | CGS, 52-54, 70-73 |
| L. Board evaluation | CGS, 60-61 |
| **4–Audit, risk and internal control** | |
| M. Internal and external audit functions | CGS, 80-81 |
| N. Fair, balanced and understandable | CGS, 77, 111 |
| O. Risk management | CGS, 40-52, 80-81 |
| **5–Remuneration** | |
| P. Aligning remuneration to strategy | CGS, 82-92 |
| Q. Policy for executive remuneration | CGS, 85-92 |
| R. Independent judgement | CGS, 93-107 |

## Consideration of our stakeholders and Section 172

The Board recognises its responsibility to consider the needs and concerns of our stakeholders as part of its discussion and decision-making processes and seeks to deliver value for all our stakeholders. The Board continues to support the 2018 Code's firm stance on this. The Board receives regular updates providing insights and feedback from key stakeholders, which allow it to understand and consider the perspectives of stakeholders effectively when making strategic decisions and to help the business maintain a high standard of business conduct. The Board paper template has been developed and improved to include a section on key stakeholder impacts to ensure this is at the forefront of each of the Board's decisions.

The table below highlights how the company and the Board ensures effective engagement with, and encourages participation from, our stakeholders. The company's Section 172(1) disclosure is available in the Strategic report on page 51.

The Board remains firmly committed to supporting our communities and governments to manage the impact of Covid-19. The Board is conscious of the effect of Covid-19 on colleagues and customers alike and remains committed to do everything it can to support them. At the same time, the Board is working hard to minimise the impact on the performance of the business for the sake of all its stakeholders.

## The Board's approach to stakeholder engagement

### Customers

**Who they are:** All those who visit our stores or our online platforms with the intention to buy our products or services.

**Why we engage:** The Board recognises that customer safety and satisfaction are pivotal to the success of the business, and that customer needs, behaviours and feedback should be sought, assessed and utilised to underpin the development of the long-term strategy.

**How we engage:**

- Customer research to ensure we understand their needs, attitudes and behaviours and how these are evolving.
- Continuous customer surveys to monitor post-purchase or post-interaction perception on all touchpoints through the Net Promoter Score (NPS).
- Continuous customer surveys to track brand perceptions over time against our competitors.
- Ad hoc research to get customer feedback before or just after launching a new product, service or store concept.
- The Board and Group Executive receive regular customer insight updates.
- We monitor price indices versus competition in our key categories and measure customer price perception on a regular basis.
- Using our industry-leading Sustainable Home Product guidelines, we are transforming our ranges to make greener, healthier homes accessible to everyone.

**Key considerations and what we hope to learn more about:**

- To understand our customers' home improvement needs and challenges.
- To develop best-in-class products and experiences; for example, in 2020 to understand the pandemic impact on customer expectations and behaviours.
- To ensure our customers are at the heart of everything across the business.
- To continue to serve our customers' essential needs as effectively as possible, while protecting their safety and the safety of all concerned.
- To test customers' reactions to the initiatives we are developing.
- To ensure we strive to offer competitive pricing and affordability to our customers.
- To monitor customer perceptions of their experience with us, and of our brands against our competitors; for example, more specifically in 2020, to understand their perceptions of the adjustments we have made during lockdowns.
- To ensure we handle customer complaints in an appropriate and timely manner.
- To help make greener and healthier homes affordable for our customers.

**Key benefits:**

- Over 1.3 million customer surveys collected for NPS across our markets during the 2020/21 year.
- NPS is used in all retail banners at each point (store, online, contact centre) to monitor and improve the day-to-day customer experience, and consolidated at retailer level to understand which drivers can improve satisfaction.
- Thanks to our price reality monitoring and price perception monitoring, we can adjust our pricing strategies over the year.

**How the Board is kept informed:** Through the CEO, the Board receives regular updates on customer opinion, behaviour and feedback, including monthly analysis of the NPS and Customer Insight reports, which are used to inform future investment decisions and identify key revenue drivers.

The company employs a commercial dashboard issued monthly to encompass market trends, competitor activity, customer insight, and to assist the Board to track key information across the business.

The Board also receives biannual presentations from the Group Customer and Market Intelligence Director.

**How engagement influenced Board discussions and decision-making:** The Board considered the online NPS results across banners and decided to prioritise fulfilment and last-mile delivery in the development of NextGen, our group ecommerce platform that powers ecommerce in B&Q and Castorama France online and in stores, and which is being rolled out to Castorama Poland.

**Covid-19:** The Board considered government advice and learnings from internal best practices and major food retailers across Europe in forming its response to the outbreak. The Board took the decision initially to close in-store trading in the UK and France while establishing stringent safety and social distancing protocols for customers and our store colleagues.

As a business, we quickly adapted our operating model to help meet customers' essential needs safely, initially through contactless Click & Collect and home delivery, and then through phased store reopenings when it was possible to do so under strict social distancing and safety measures to protect our customers and our store colleagues. In most cases, the measures applied went beyond government recommendations in each market.

Furthermore, formal and regular internal audits of the application of health, hygiene and safety rules were implemented, together with continuous monitoring of the policies and incidents. To date, the measures have been met with strong approval by customers, and we are able to monitor them regularly through the addition of a dedicated question within our Voice of Customer tracker.

## Colleagues

**Who they are:** Colleagues of Kingfisher plc and its subsidiaries.

**Why we engage:** The Board recognises that the implementation of an effective people strategy and strong culture underpin the effective delivery of the company's strategy and ultimately its performance.

The Board acknowledges the importance of attracting, retaining and developing talent and considers the views of colleagues when making decisions and assessing the impact of those decisions on our colleagues and culture.

**How we engage:**

- Regular communication using a mix of channels to encourage two-way dialogue; in addition, leader vlogs, Yammer updates, online townhalls, and use of Microsoft Teams.
- Training, learning and development opportunities for all colleagues, adapted for remote working.
- Regular performance check-ins and online or face-to-face development for all colleagues.
- Engagement surveys and listening groups such as the Kingfisher Colleague Forum (KCF) and retail banner colleague forums.
- Union dialogue where appropriate.
- We are developing Group Diversity and Inclusion principles and we are training our senior colleagues to model inclusive leadership behaviours.
- Our Wellness Framework helps support colleagues to look after their mental, physical, social and financial health.

**Key considerations and what we hope to learn more about:**

Gain a clear understanding of colleague sentiment regarding Kingfisher's:

- Training and development.
- Engagement.
- Inclusivity and diversity.
- Attracting and retaining the right people.
- Wellbeing.

**Key benefits:**

- 79% of colleagues responded to Kingfisher's colleague engagement survey, which received an engagement score of 81 (2019/20: 79).
- The Learning Academy for product knowledge moved successfully online as a result of Covid-19 with Microsoft Teams events, live streaming, and videos available for Outdoor tailored for our store colleagues in each banner.
- Over 4,000 colleagues in France and the UK on workplace apprentice programmes.
- Ongoing training of recruiters to minimise the impact of bias and ensure a fair recruitment process.
- All colleagues in the UK, France and across many of our other geographies have access to online training and advice on wellness as well as counselling support provided by experts (for example, Retail Trust in the UK and Alterhego in France.)

**How the Board is kept informed:** Under normal circumstances, the Board has a programme of site visits and regular briefings from Executive leadership to allow it to assess the behaviour and culture of the business and receives regular updates on the company's people strategy.

Throughout the year, the Board received the following updates:

- The Whistleblowing report, which included the reporting and follow-up of any concerns by employees regarding possible improprieties in matters of financial reporting, other fraud-related matters, and bribery;
- The CEO and Chief People Officer (CPO) provide regular Board updates on important matters affecting the workforce, including:
  - The steps taken to invest in training and development and our Responsible Business approach;
  - Analysis and outcomes from the results of the colleague engagement survey; and
  - Dialogue with, and feedback from the Kingfisher Pension Trustee and the KCF.

Following the appointment of the CPO during the year, management has continued to develop its culture reporting for the Board, utilising a variety of mechanisms, including dashboards to assist the Board to monitor and assess the company's culture in practice and implementation of the company's vision and values as articulated in the 'Powered by Kingfisher' strategy and Responsible Business strategy.

**How engagement influenced Board discussions and decision-making:** When approving the exit from Russia and the associated store closures, the Board considered the impact on our colleagues and oversaw the communications with the impacted individuals.

When weighing the decision to retain its Iberia business and the associated stores and offices, the Board considered the impacts on our colleagues, customers and investors and were instrumental in the communications with each intrinsically different stakeholder group.

Recognising the exceptional circumstances the business was operating under, the company's colleague forum met four times during 2020/21 where ordinarily its meetings are held twice a year. The KCF is a joint forum of Kingfisher-nominated management representatives and formally elected employee representatives. A non-executive director, Sophie Gasperment (the Chair of the Responsible Business Committee) and the CEO attend each scheduled meeting, and therefore through this forum the Board engages with colleagues on transnational issues, and consults on major decisions or events with significant impact on the company and its employees. Details of the KCF discussions are reviewed by the Board at subsequent meetings, and this has proven to be a strong engagement channel. This, alongside the colleague engagement tool implemented in 2018, has provided an opportunity for the views of the workforce to be regularly discussed and heard by Executive leadership and the Board on a range of issues.

**Covid-19:** The Board took into account government advice and learnings from internal best practices and major retailers across Europe in forming its response to the outbreak. The Board took the decision initially to voluntarily close in-store trading in the UK and France while establishing stringent safety and social distancing protocols for our store colleagues.

The wellbeing of those colleagues ordinarily based in our offices is of equal importance to us and from March 2020 homeworking was made possible for all. The offices, in our geographies where working from home was a legal requirement, gradually reopened for those who exceptionally needed to gain access. Following the easing of restrictions after the first lockdown some offices closed again, in line with local government regulations. In most cases, the measures applied went beyond government recommendations in each market. Furthermore, formal and regular internal audits of the application of health, hygiene and safety rules were implemented. To date, the measures have been met with strong approval by colleagues and we were able to monitor them through the colleague engagement survey conducted during the year.

The company utilised the Coronavirus Job Retention Scheme (CJRS) in the UK, 'activité partielle' relief measures in France, and similar schemes in Spain and Romania. This led to c.50% of the Group's colleagues being furloughed in April, reducing significantly to c.10% by the end of May as the Group reopened stores in the UK and France. With the exception of those who were vulnerable and/or at a higher risk of infection, all remaining colleagues in France and Romania returned from furlough on 1 June and those in the UK and Spain returned on 1 July. From this date the Group decided to no longer claim under the furlough programmes in the UK and France.

## Shareholders

**Who they are:** Investors who provide capital to the business.

**Why we engage:** The Board recognises it is critical that the owners of our shares as well as potential investors in the company have a full understanding of our business, including the 'Powered by Kingfisher' strategy, growth potential, and risks in the business as well as the overall performance of the business.

**How we engage:**

- Annual General Meeting (AGM) of shareholders.
- Communication with shareholders via the Annual Report and Accounts.
- Full-year and half-year results presentations and quarterly trading updates.
- Eight ad hoc market disclosures via the London Stock Exchange regulatory news service, as appropriate and most recently in relation to the impacts of Covid-19 on the business.
- Investor roadshows attended by the CEO and CFO, store tours, and capital markets events.
- Regular dialogue with research analysts and institutional investors.
- Investor meetings attended by the Chair of the Board.
- Meetings with investors about Environmental, Social and Governance (ESG) matters.
- Tailored shareholder consultations; for example, on matters related to the remuneration of Kingfisher's executive directors and the executive director Remuneration Policy.

**Key considerations and what we hope to learn more about:**

Gain a clear understanding of investor sentiment regarding Kingfisher's:

- Strategy and our progress.
- Responsible Business agenda.
- Financial performance.
- Balance sheet health.
- Total shareholder return.
- Capital Allocation Policy.
- Remuneration Policy.

**Key benefits:**

- The Board benefits from regular investor feedback reporting providing clarity of sentiment in key areas.
- The Board welcomes the opportunity to have direct dialogue with retail shareholders at the AGM.
- The Board, through the Remuneration Committee, has incorporated ESG priorities and targets into management's remuneration (bonus) criteria.
- Feedback sought from shareholder consultations helps inform decisions and proposed targets related to the remuneration of Kingfisher's executive directors and the executive director Remuneration Policy.

**How the Board is kept informed:** The company has a dedicated Investor Relations function that reports to the CFO. Through the Investor Relations function, the company and Board maintain a dialogue with shareholders and analysts on Kingfisher's progress against its strategic priorities, its operating and financial performance, and ultimately how the company plans to create long-term shareholder value. The Board takes ultimate responsibility for ensuring that such engagement takes place in a frequent and regular manner.

Major decisions regarding the allocation of the company's capital are set out within the Matters Reserved for the Board. The Board engages with shareholders and analysts in relation to a broad range of capital allocation decisions taken by the Board, including working capital requirements, investment opportunities and matters such as the Dividend Policy.

In addition, during the year, the Board engages with shareholders through:

- Direct engagement by the Chair of the Board, the Chair of the Remuneration Committee, the CEO and the CFO.
- Investor Relations reports to the Board on the views of existing and potential shareholders.
- Investor presentations and events, including the post-results roadshows.
- Interactions with shareholders at the AGM.
- Attendance at Board meetings by key advisors.

**How engagement influenced Board discussions and decision making:** The CEO, the CFO, and the Chair of the Board engaged with major shareholders and analysts regularly throughout the year particularly this year, during the FCA's permitted period of delay ahead of publication of the company's 2019/20 full-year results announcement and, as usual, following these full and half-year results announcements.

When taking the decision not to recommend a 2019/20 final dividend, in accordance with our Dividend Policy, the Board assessed the strength of the company's balance sheet and future prospects. In addition, it also considered a range of other factors in the context of the unprecedented uncertainty regarding the scale and duration of the impact of Covid-19 on the business. These included the long-term viability of the company; its expected cash flow and financing requirements; the ongoing need for investment in our business; and the expectations of our shareholders as the supplier of long-term equity capital to the company. When making strategic decisions, the Board analyses how the decision will impact the delivery of long-term shareholder value and consults with shareholders on the potential impact, when appropriate.

The Remuneration Committee will consult with shareholders in 2021 on the targets for the second half of the Delivering Value Incentive (DVI). Once concluded, the targets for the second half of the DVI will be announced via an RNS ahead of the 2021 AGM in order to allow shareholders to vote on this remuneration report with clarity on the targets.

**Covid-19:** While the crisis obviously shifted our immediate priorities, the Board continued to plan for the longer term and implement the new 'Powered by Kingfisher' strategic plan. Kingfisher found itself well positioned within a home improvement market that is resilient and has attractive long-term growth prospects. In forming its response to the Covid-19 outbreak, the Board was able to leverage Kingfisher's strong market positions and distinctly positioned retail banners to address the diverse and evolving customer needs, by quickly adapting our operating model towards, initially, contactless Click & Collect and home delivery, and then through phased store reopenings. Throughout the period, the Board continued to closely monitor the financial impact of Covid-19 and take mitigating actions, on all of which it continued to engage with shareholders through regular London Stock Exchange announcements. The Board complied with the FCA's request to all listed companies to delay the publication of preliminary financial statements for at least two weeks and ultimately published its preliminary financial statements and its Annual Report and Accounts on 17 and 26 June 2020, respectively. The Board also responded to changes in legislation and adapted its approach to its AGM, which was held as an electronic meeting to enable shareholders to continue to participate and attend in the safest manner possible in line with the then UK Government guidance, without leaving their homes.

## Suppliers

**Who they are:** Those companies we work with to deliver products and services to our customers.

**Why we engage:** The Board recognises that building and maintaining trusted partnerships with the company's suppliers is fundamental to the success of the business and will be instrumental in delivering Kingfisher's Responsible Business strategy.

**How we engage:**

- Engaging suppliers with Kingfisher's Code of Conduct and Responsible Business strategy.
- Supplier ethical risk assessment and audit:
  - Registration on Sedex, the online supplier data exchange, for Goods For Resale (GFR) suppliers.
  - Ethical audits of high-risk production sites.
  - An EcoVadis assessment, the sustainability ratings platform, for spend with new Goods Not For Resale (GNFR) suppliers above £75,000.
  - A Vendor Engagement Assessment via an online tool, for spend with GNFR suppliers between £5,000 and £75,000 to screen for things such as business integrity, data protection, information security, and ethical practices.
- Factory and site visits.
- Conducting risk-based anti-bribery and corruption due diligence.
- Reviewing our approach to human rights.
- Supplier conferences on topics of significance.
- We report our payment practices under the UK Government's Duty to Report Requirements,

**Key considerations and what we hope to learn more about:**

- Contractual negotiations and commercial terms.
- Alignment with Kingfisher's Responsible Business priorities and fundamentals.
- Cost of labour and raw materials.
- Meeting our customers' needs.
- Supply chain resilience.
- Responsible payment practices.
- Adherence to Kingfisher's key policies, including the Code of Conduct.

**Key benefits:**

- 62% of our GFR suppliers are currently registered on Sedex.
- the number of high-risk production sites changes annually due to changes in the wider supplier profile. At the date of this report 960, or 73%, of our high-risk production sites have had an ethical audit in the past two years (in 2019/20 we reported that 941, or 68% of our high-risk production sites at that time, had an ethical audit in the previous two years).
- 333 of our top 1,000 GNFR suppliers completed an EcoVadis assessment. These suppliers represent 90% of our spend.
- Further details and performance data are set out in our Modern Slavery Act Transparency Statement on our website.
- Suppliers provided with our Sustainable Home Product guidelines to inform product development.
- Suppliers attended a conference to update them about our textile restricted substance list on chemicals.

**How the Board is kept informed:** During the year, the Board approved the Modern Slavery Transparency Statement, received an update on progress across key areas of the business and supply chain and were informed of areas for ongoing improvement. The Board noted that the business continued implementation of our modern slavery action plan covering diligence, ethical audit, supplier and colleague engagement, training, policy and reporting. The Board also endorsed the strengthening of the company's strategy to understand human rights risks across the business.

The Audit Committee receives periodic updates from each retail banner CEO and function head and at each meeting from Internal Audit on the key risks, policies and procedures, and from Group Legal and Finance on the internal controls in place. During the year, this has included interactions with suppliers and the efficiency of the supply chain. Interactions with suppliers during 2020/21 included preparations to carefully manage the disruption to our supply chain anticipated when the UK officially left the EU. This preparation resulted in minimal supplier driven Brexit disruption.

**How engagement influenced Board discussions and decision-making:** The Board does not regularly engage directly with suppliers but receives frequent reporting from the business areas that interface with them. During the year, the Board received updates on Brexit-related risks and contingency planning that was being undertaken within the business.

The Board considers the impact on suppliers when making key strategic decisions relating to product ranges or supply and logistics. During 2020/21, the Board also reviewed and approved the adoption of a new supplier relationship strategy.

The Responsible Business Committee receives updates regarding progress against, and delivery of, the Responsible Business strategy and objectives, including in relation to human rights and the ethical risk assessment and audit of suppliers.

**Covid-19:** In light of the Covid-19 outbreak, the Board received more frequent updates regarding the operational status of Kingfisher's global sourcing offices in China, other Asian countries and Europe as well as the capacity of the Group's suppliers globally to fulfil existing and new customer orders during the pandemic and adjust future commitments, in line with the evolving demand and operating model. During the pandemic, weekly meetings were established to engage with and support our suppliers. Attended by members of Group functions including Supply and Logistics and Offer and Sourcing, as well as representatives from the banner supply chain, meetings focused on the resolution of issues relating to supply in our Kitchen and Wood product ranges, on providing long term forecasts to suppliers, and the arbitration of stock when demand outstripped supplier capacity. In certain circumstances, to minimise service disruption, it also proved necessary to secure premium capacity containers to support both higher demand and as a result of service failure due to the global disruption in the international freight market. The Group Executive received weekly updates on activity in this area and the CEO shared updates with the Board, as appropriate.

## Communities & Non-governmental organisations (NGOs)

**Who they are:** The environment, the people who live where we work, and charitable organisations we support and work alongside.

**Why we engage:** The Board is conscious that concerns around companies' impact on the environment and their roles in society and climate change have increased and that there are higher expectations on companies to demonstrate environmental, social and governance credentials.

**How we engage:**

- Ad hoc meetings on matters of importance or emerging issues.
- Strategic partnerships and engagement in each of our markets, with charitable organisations active in the environment and on housing issues aligned with our purpose:
  - Housing – such as Shelter in the UK, Fondation Abbé Pierre in France, and our banners' in-country charitable foundations.
  - Environmental – Rainforest Alliance – Forest Allies, Green Alliance, Aldersgate Group, BioRegional, and the FSC.
- Support of organisations to help us develop our inclusivity agenda, e.g. Business Disability Forum, Stonewall.
- Collaboration to tackle modern slavery, partnering with the Slave Free Alliance.
- Brexit and the future of UK and Europe relationships – Kingfisher is a supporter of the Centre for European Reform.

**Key considerations and what we hope to learn more about:**

- Improve practices to address environmental climate change impacts.
- Support Reforestation projects.
- Tackle and fix bad housing.
- Collaboration to ensure we make a positive impact on society.
- Support discussions on Brexit and future trading relationships.

**Key benefits:**

- The Board and Remuneration Committee have agreed the incorporation of ESG targets within the company's remuneration packages and executive bonus scheme.
- Through a network of charitable foundations in the countries in which we operate for allocating grants to charitable organisations that share our commitment to fix bad housing and our thought leadership actions such as the 'If Walls Could Talk' Housing Research.
- Contribution to policy change, for example; the UK Government's commitment to upholding environmental standards after Brexit.
- Enable delivery of our Forest Positive commitment through reforestation initiatives from 2021.

Read more about our work in these areas in the Responsible Business section on pages 25 to 29.

**How the Board is kept informed:** The Board receives regular updates on progress towards the company's Responsible Business strategy and targets and progress made in moving towards a co-ordinated community programme.

The Chair of the Responsible Business Committee reports to the Board following each meeting of the Committee regarding the discussions and actions from the meeting.

This included updates on our Forest Positive strategy, which includes our new partnership with the Rainforest Alliance 'Forest Allies', our climate change carbon reduction target, Task Force on Climate-related Financial Disclosures (TCFD) reporting, together with regular updates on our wider community programmes.

**How engagement influenced Board discussions and decision making:** At Kingfisher, we are committed to being a responsible business and to having a positive impact on the lives of our customers, colleagues and communities. The Board recognises that expectations around ESG issues continue to increase year on year and received a presentation regarding the company's Responsible Business and Community strategies.

To underline our commitment, for the first time in 2020/21, the Board and Remuneration Committee approved the inclusion of Responsible Business metrics for each of our four Responsible Business platforms in our annual reward targets for our colleagues. We also established a Responsible Business Committee (RBC) of the Board, chaired by one of our non-executive directors that met twice during the year. The RBC will lead and oversee delivery of how we operate as a responsible business. The RBC report is set out on pages 74 and 75 of this report.

During 2019/20, the Board approved the forfeiture of dividends unclaimed for more than 12 years for donation to the Kingfisher banners' network of in-country charitable foundations in the UK, France, Poland and Romania, totalling a charitable donation of £260,000.

**Covid-19:** Throughout the pandemic, our priorities have been clear – to provide support to the communities in which we operate, to look after our colleagues as a responsible employer, to serve our customers as a retailer of essential goods, and to protect our business for the long term. Kingfisher was pleased to be able to donate over £2.5 million of personal protective equipment (PPE) from across its banner network to frontline health workers.

## Regulators and Government

**Who they are:** Bodies that supervise industry and business activities.

**Why we engage:** The Board wishes to ensure we maintain the trust of our stakeholders including our politicians and regulators, to help realise our purpose, provide employment opportunities, and contribute to the economic prosperity of the places where our people live and work.

**How we engage:** We engage with the governments and regulators in each of our key markets and with the EU, both directly and through our trade associations. This includes attending events hosted by governments, responding to consultations, and participating in parliamentary inquiries. The company also regularly engages with regulators and government departments, including in the UK, the Registrar of Companies, the Financial Conduct Authority (FCA), the Financial Reporting Council (FRC), the London Stock Exchange, and the Information Commissioner's Office on matters of statutory or regulatory compliance.

Further, Kingfisher has membership of trade associations, including the British Retail Consortium, Confederation of British Industry, The European DIY Retail Association, the French DIY retail association, the Polish retail employers' organisation, and EuroCommerce on matters of industry importance. A full list will be available in the Responsible Business report, which will be published later in 2021.

**Key considerations and what we hope to learn more about:**

- Covid-19 response.
- Taxation.
- ESG, including the Environmental Policy.
- Employment Policy.
- Brexit.
- Housing Policy.
- Operational issues (e.g. Sunday trading).
- Product issues (e.g. chemicals in products).
- Data protection.

**Key benefits:**

- Our engagement this year has primarily supported the business in its response to the Covid-19 pandemic (see below), enabling the business to operate as safely as possible for its colleagues and customers, to provide essential hardware products and services for our customers' homes, and to support our communities, especially in the early phases of the crisis, by working with governments and communities to ringfence our stocks of PPE so they could be donated to healthcare needs in our markets.
- Our engagement this year has also supported the business in its preparations for the new EU-UK Trade and Cooperation Agreement.
- Our engagement with the FCA and agreement to comply with their request to all listed companies to delay the publication of preliminary financial statements also supported maintenance of an orderly market for investors during the pandemic.
- Achieved a positive change in the way that tax credits and government support for energy efficiency projects are administered in France and the UK, which will make it easier for customers to claim for energy efficient improvements and products in their homes.
- Supported our charity partners in their policy aims where we have mutual objectives, including housing market reform and improvement of environmental policies in line with our Responsible Business agenda.

**How the Board is kept informed:** The Board receives biannual Government Affairs reports from the Group Corporate Affairs Director, which contain a summary of the main policy and political issues that have a direct operational impact on Kingfisher across all jurisdictions in which the company operates. An explanation of what action is being taken to monitor and address the key issues is also included.

The Board also receives a Governance report ahead of each meeting, which outlines key governance and regulatory changes that have the potential to impact the company.

**How engagement influenced Board discussions and decision-making:** The Board, in coordination with the Group Executive, engages with our regulators, government stakeholders and political representatives when required. This includes responding to policy consultations and formal information requests.

During the year, engagement has focused on the continuing political uncertainty surrounding the Covid-19 outbreak and ongoing negotiations regarding Brexit. During the pandemic, the company engaged with the FCA and the FRC regarding financial reporting considerations and in particular, in relation to the Board's decision to comply with the FCA's request to all listed companies to adhere to a moratorium and delay the publication of preliminary financial statements for at least two weeks. The company also participated in consultations around deforestation policy and UK business rates, and changes to energy efficiency schemes for customers.

**Covid-19:** During the height of the pandemic, the company applied to different government schemes, including furlough programmes, business rates relief, and temporary liquidity support (Covid Corporate Financing Facility or CCFF in the UK and Prêt garanti par l'État programme or PGE in France). The Board reaffirmed Kingfisher's commitment to supporting governments and regulators in managing the Covid-19 pandemic. Having been classified as an essential retailer in most of its markets, Kingfisher has worked closely with governments and regulators throughout the pandemic to adapt its retail operations in line with local requirements as circumstances evolved during the year and to support the enforcement of the restrictions by our teams and customers. Given the resilience of our business, the Board approved or endorsed the repayment or redemption of the following in full, as appropriate:

- £23 million received under the UK Coronavirus Job Retention Scheme and €1.4 million received under the Irish Wage Subsidy Scheme to its respective governments. No claims have been made under the furlough schemes in the UK, the Republic of Ireland, or France since 1 July 2020.
- c. £130 million of UK and Republic of Ireland business rates relief to its respective governments, where it was possible to do so.
- €600 million French term facility (PGE), partially guaranteed by the French State, to the French banks.
- £600 million of 11-month commercial paper in July 2020, which had been issued under the Bank of England's CCFF in June 2020.

# Nomination Committee report

Dear Shareholder,

The Nomination Committee had a critical role to play during the year. As part of the progressive refreshment of the Board, Mark Seligman indicated his intention to step down as a non-executive director and senior independent director, having served nine years on the Board. The Committee devoted much time in identifying, and ultimately in securing, the best candidate for this role, and that of a further non-executive director to strengthen the depth and breadth of experience on the Board to meet the needs of the business.

I am pleased to report that the Committee recommended the appointments of Catherine Bradley as non-executive director from 2 November 2020 and senior independent director from 29 January 2021, and Tony Buffin as non-executive from 1 December 2020, both announced earlier in the year. Each has brought deep knowledge and experience to the business. Catherine provides substantial finance, risk management and corporate governance expertise, having previously been a non-executive director of the Financial Conduct Authority and having had a 30-year career in investment banking. Tony brings a broad range of home improvement and digital retail skills as well as a wealth of expertise in finance and transformation, having previously been CEO of Holland and Barrett and chief operating officer and CFO of Travis Perkins.

Mark Seligman stepped down as a non-executive director and senior independent director on 29 January 2021. Directors' biographies, including tenure are set out on pages 52 to 54.

The Committee continued to keep the Board Diversity and Inclusion Policy, and our commitment to support diversity at Board and Group Executive level, very much in focus during the year's recruitment programmes. On behalf of the Board, the Committee continues to monitor the evolving governance landscape and the company's ability to meet its challenges in promoting inclusion and diversity, in all its forms, at this level. The newly established Responsible Business Committee, on behalf of the Board, oversees the delivery and monitoring of the company's Responsible Business strategy and in particular our priority of working towards being a more inclusive company.

We continue to support the objectives of the Hampton Alexander Review and the work of the 30% Club to drive improvements in diversity at all levels. We are proud to confirm that we continue to meet The Parker Review target of at least one director of colour on our Board (as defined by the Review), as we have since 2016.

| | Eligible | Attended** |
|---|---|---|
| Andrew Cosslett* | 4 | 4 |
| Catherine Bradley | 1 | 1 |
| Tony Buffin | 1 | 1 |
| Claudia Arney | 4 | 4 |
| Jeff Carr | 4 | 3 |
| Sophie Gasperment | 4 | 3 |
| Rakhi Goss-Custard | 4 | 4 |
| **Former directors who served during 2020/21** | | |
| Mark Seligman | 4 | 3 |

* Chair of the Committee.

** More details on attendance and those directors who stepped down during the year are set out on page 58.

The Committee continues to support business resilience and delivery against the 'Powered by Kingfisher' strategic plan through ongoing prioritisation of long-term succession planning at the Board and Group Executive level. We will continue to keep the composition of the Board and its Committees under review during 2021/22.

## Effectiveness evaluation

I am happy to report that the 2020/21 effectiveness evaluation concluded that the Committee continued to operate effectively and that there were no areas of concern identified. It has been agreed that the Committee will continue to focus on executive director longer-term succession planning on an annual basis, which has been incorporated into the Committee's forward agenda for the forthcoming year and going forward.

## Governance

The Board has approved terms of reference for the Committee, which are reviewed and refreshed annually and are available on the website. Membership of the Committee is comprised solely of independent non-executive directors.

**Andrew Cosslett**
Chair of the Nomination Committee

21 March 2021

### Committee key activities 2020/21

1. Non-executive director recruitment and induction
2. Induction of Thierry Garnier (CEO) and Bernard Bot (CFO)
3. Succession planning at the Board and Group Executive level and maintenance of the Board's skills matrix
4. Reviewed the Board Diversity and Inclusion Policy considering The Parker Review 2020, together with progression against the Policy objectives
5. Refreshed the Committee's terms of reference

### Areas of focus 2021/22

1. Ongoing induction of Catherine Bradley and Tony Buffin
2. Succession planning at the Board and Group Executive level, including executive director longer-term succession planning
3. Ongoing progression against the Board Diversity and Inclusion Policy objectives
4. Review the Board's approach to ongoing director development noting any effects of the increased remote attendance due to Covid-19

## Succession planning

During the year, the Committee focused on succession and recruitment for non-executive roles, including the senior independent director. However, long-term succession planning at the Board and Group Executive level continued to be a priority. The Committee recommends Board and executive management appointments, and develops succession plans, based on merit and objective criteria. The Committee aims to promote diversity of gender, social and ethnic background, and cognitive and personal strengths to provide the relevant balance of oversight, constructive challenge, and expertise.

As part of the succession planning process, the Committee reviewed tenure and, as previously outlined, anticipated retirement within the non-executive membership of the Board and sought to balance continuity with the introduction of fresh perspectives. To inform this planning process, the Committee employs a skills and experience matrix that captures the principal strategic and committee experience the Board considers to be required for running a UK-listed company, and an international, matrix-model retail business. This is used to prioritise internal and external candidates when seeking new directors, and in the annual effectiveness evaluation of the Board. A summary of the skills of our non-executive directors is set out on page 54.

Following the Committee's review of the skills, knowledge, experience, background, and diversity currently represented on the Board and its Committees, and those that would be desirable in the future, the Committee recommended that two new appointments be made during the year. The Board has not identified the need to recruit any further non-executive directors during 2021/22 and there are currently no anticipated retirements, but we will continue to keep the depth and breadth of experience on the Board under review.

## Selection and appointment

An outline of the process followed by the Committee for the selection and appointment of Catherine Bradley and Tony Buffin is set out below. The Committee was supported by Egon Zehnder, our independent search consultants, in respect of the recruitment for these roles.

Egon Zehnder has no other relationship to the company, or any of its directors, and is a signatory to the latest Voluntary Code of Conduct for executive search firms, which seeks to address gender diversity on corporate boards.

| | |
|---|---|
| **1. Board composition review** | – The Committee reviewed the structure, size and composition of the Board and its Committees including the skills and experience matrix, diversity, and tenure of the directors.<br>– The Committee agreed the desirable qualities, having considered the company's business model, strategy and external environment. |
| **2. Role brief development** | – The Committee developed comprehensive role briefs for the non-executive positions to be filled.<br>– The briefs were aligned to the desired Board and Committee composition, with reference to the skills and experience matrix, Board Diversity and Inclusion Policy, related commitments, and any key corporate governance requirements. |
| **3. Shortlisting** | – The mandate to provide candidates suitable as non-executive directors as well as the senior independent director supported Egon Zehnder in preparing an initial longlist of candidates from a broad range of backgrounds.<br>– The Chair of the Board and Company Secretary then worked with Egon Zehnder to prepare a shortlist for review by the Committee.<br>– The Committee agreed the candidates to be invited for interview. |
| **4. Interview** | – A formal multiple-stage interview process was used to assess the candidates, tailored for relevance to each role.<br>– Initial interviews were held for both roles with the Chair of the Board and senior independent director, and as relevant to the respective role, with the Chairs of the Audit and Remuneration Committees, respectively.<br>– A calibration exercise was undertaken by the Committee to agree candidates to be invited for final interview.<br>– Final interviews were held with the Committee, or a sub-committee of the Committee.<br>– Additional advisory meetings with executive management were included, where appropriate. |
| **5. Due diligence and recommendation** | – A comprehensive due diligence and referencing process was undertaken for all appointments.<br>– Upon satisfactory completion, the Committee made appointment recommendations to the Board. |

## Induction process

The Committee, supported by the Company Secretary, oversees the induction programmes of new directors, which are designed to help establish a broad knowledge and full understanding of the company's operations and challenges, aspirations and culture. Each programme is tailored to meet a new director's specific requirements and is phased to allow feedback and further customisation of development activities, where required. During the year, comprehensive and ongoing induction programmes were delivered for Thierry Garnier and Bernard Bot. Similar programmes have been initiated for Catherine Bradley and Tony Buffin since they joined the Board in November and December 2020, respectively. Typical induction programmes include:

- Individual one-to-one meetings with all directors and the Company Secretary.
- Meetings with members of the Group Executive and senior members of Group functions and retail banners.
- Meetings with the company's external auditor and brokers.
- Meetings with a number of the company's investors.
- Meetings with the company's legal advisors regarding the obligations of the company and its directors, including those set out in the Act, the Code, the Listing and the Disclosure and Transparency Rules, and the EU Market Abuse Regulation.
- Briefing sessions on the activities of each of the Board's Committees.
- Visits to the company's stores, office locations, and key sites across the business.
- Access to the Board's online resources, including to Board and Committee minutes, key reference materials, and briefings on market status and competition.

It has not been possible to complete certain steps due to the outbreak of Covid-19. Board visits to the company's stores and its office locations across the business will be reinstated once government guidance permits and it is deemed safe to do so.

Information about the Board's approach to ongoing director development and training is available in the Corporate Governance Statement on our website.

## Independence, time commitment, and re-election to the Board

The Board provides an indication of the time commitment expected from its non-executive directors on appointment, noting that additional requirements may emerge in certain circumstances. During the year, the Committee reviewed the independence, effectiveness and commitment of each of the non-executive directors and concluded that each remained independent and that none were overextended, or unable to fulfil their duties to the Board. All directors are subject to annual re-election by shareholders, as required by the company's articles of association.

Kingfisher's policy allows its executive directors to hold one external non-executive directorship as it considers that the additional exposure may be of mutual benefit to the company and the director. Bernard Bot is a non-executive director and member of the audit committee of A.P. Møller-Mærsk A/S.

## Diversity and inclusion

The Committee reviews the effectiveness of the Board Diversity and Inclusion Policy annually, on behalf of the Board and recognises that it is important that it remains aligned with the sentiment of the Kingfisher Code of Conduct and the Responsible Business strategy. As a business, Kingfisher has committed to becoming an inclusive company, breaking down barriers to employment and progression and being representative of the societies and communities we serve. For Kingfisher, inclusion encompasses all the things we do to create a culture and workplace where everyone feels valued and respected, a sentiment that is also key at the Board and Group Executive level.

The table on the following page sets out the company's published commitments designed to ensure delivery against the Policy's objectives, together with an outline of the progress made. The Committee reviewed the Policy during the year and re-endorsed its objectives. The Policy was updated to reflect the Committee's commitment to consider the enhanced reporting requirements on policies and activities of The Parker Review 2020. The Committee considered that the commitments set out in the Policy were met during the year and continue to be integral to the executive and non-executive director recruitment process. A copy of the Board Diversity and Inclusion Policy is available on our website.

Details of gender and ethnic diversity on the Board are set out on page 54. In line with the Act, details of gender diversity on the Board are also set out together with the gender diversity of senior management and the total workforce, on page 24 in the Strategic report.

| Disclosure | Commitments | Progress to date |
|---|---|---|
| Engage with executive search agencies in a manner that enhances opportunities for diverse candidates to be considered for appointment | – Only those executive search firms that are signatories to the Voluntary Code of Conduct for Executive Search Firms (the Voluntary Code) will be considered when recruiting for a Board position.<br>– The Committee will work with the executive search agency to prepare an appropriate role brief, including relevant skills, underlying competencies, and personal capabilities desired, to support the agency in assessing candidates from a broad range of backgrounds.<br>– To facilitate the provision of a broad and diverse range of candidates, the Committee will require longlists to be drawn up following consideration of candidates from both within and beyond the corporate mainstream, in line with the requirements of the Voluntary Code. | – Egon Zehnder and Heidrick & Struggles, our retained search consultants, are accredited firms under the UK Government's Enhanced Code of Conduct for Executive Search Firms.<br>– The Committee met with Egon Zehnder during the year to discuss the recruitment of two non-executive directors and to develop a comprehensive role brief, free from bias.<br>– The long list approach was carried out for each of the vacancies recruited for during the year. The Voluntary Code applies equally to executive and non-executive director positions. Where appropriate, the Committee challenges its search consultants as regards the scope of their search and the breadth of the pool from which the long list has been drawn. |
| Support Board-level diversity throughout the succession planning process | – Succession planning will be reviewed at least annually by the Committee and will address the need for progressive refreshing of the Board, in accordance with the requirements of the Code.<br>– The Committee will assess current individual Board member competencies and develop its understanding of the qualities needed for the company's continued Board and committee effectiveness in the longer term. This review will also consider the long-term diversity of the Board.<br>– Non-executive directors will normally serve no more than nine years to support progressive refreshing of the Board and to maintain appropriate levels of independence. Appointments of non-executive directors for periods beyond nine years will be made only in exceptional circumstances. | – The Committee continues to look at Board succession and the skills and experience matrix at least annually.<br>– Questions intended to elicit the Board's consideration and assessment of its directors' competencies and diversity make-up and ambition have continued to be included in the 2020/21 Board evaluation conducted internally.<br>– These stipulations, which were reaffirmed by the Code published in 2018, have continued to be followed by the Committee. The progressive refreshment of the Board that has taken place during 2020/21 actively reflects this. |
| Support efforts to increase diversity in the senior management pipeline towards executive and non-executive Board positions | – Senior management succession planning processes will include identification of individuals within the organisation with Board-level potential and will support those individuals to progress their careers. | – The company has reaffirmed its commitment to better gender balance through its published Responsible Business strategy target 'To improve gender balance in management in 2020/21'. Kingfisher continues to support the objectives of the Hampton Alexander review and the work of the 30% Club.<br>– The company has also met The Parker Review target of at least one director of colour on our Board (as defined in the Review) and is pleased to participate in The Parker Review's annual public disclosure process. |

# Responsible Business Committee report

Dear Shareholder,

I am delighted to present my first letter to shareholders as Chair of the Responsible Business Committee. The Committee was established in 2019/20 to strengthen responsible business governance within Kingfisher and underscore the company's commitment, to lead the industry in Responsible Business practices, announced as part of the 'Powered by Kingfisher' strategic plan during 2020/21.

Being a responsible business encompasses all aspects of the way we work, from the way we treat our colleagues and interact with our customers, to our supply chain and our impact on the environment and the communities we serve. Kingfisher has clear policies and we have set ourselves ambitious targets to ensure we take a consistent best practice approach and keep improving and innovating. The Committee's role is integral to setting the ambition, facilitating, and monitoring the company's Responsible Business strategy.

We are committed to doing everything we can to make a positive impact for society so that all our homes – as well as our communities, our forests and planet – can flourish.

Within our Responsible Business strategy, we have identified four key priorities where we believe we can most help bring about positive change on some of the big challenges facing society. These are:

**Colleagues:** becoming a more inclusive company

**Customers:** helping to make greener, healthier homes affordable

**Planet:** becoming Forest Positive and helping to tackle climate change

**Communities:** fighting to fix bad housing

Our four Responsible Business priorities are underpinned by our commitment to our Responsible Business fundamentals – the many issues and impacts we need to measure and manage to ensure we continue to operate responsibly across our business – from ethical sourcing and human rights, to health and safety and waste and recycling.

| | Eligible | Attended** |
|---|---|---|
| Sophie Gasperment* | 2 | 2 |
| Rakhi Goss-Custard | 2 | 2 |
| Thierry Garnier | 2 | 2 |
| John Mewett | 2 | 2 |
| Kate Seljeflot | 2 | 2 |
| Henri Solère | 2 | 2 |

* Chair of the Committee.

** More details on attendance and those directors who stepped down during the year are set out on page 58.

The Committee is developing an annual forward agenda over key events in the responsible business reporting cycle, progress on our four Responsible Business priorities, oversight of the Responsible Business fundamentals, and regulatory or legislative updates. Pre-read materials for Committee meetings are structured to support the Committee to oversee delivery of our priorities, ensure meaningful focus on the Responsible Business fundamentals and facilitate adequate challenge by Committee members, as necessary. Committee members also receive monthly Responsible Business updates.

Further detail regarding the Responsible Business priorities and fundamentals, together with the business activities delivering progress against them, is set out in the Strategic report on pages 25 to 29 and in the Responsible Business report available on the website.

### Committee key activities 2020/21

1. Endorsed the Board-adopted Committee terms of reference and established ways of working
2. Reviewed the 2019/20 Responsible Business report
3. Reviewed status updates on the Responsible Business strategy
4. Reviewed targeted reporting on specific priorities – Colleagues (Diversity and Inclusivity) and Planet (Forest Positive and Climate Change)
5. Reviewed the company's planned partnership with the Rainforest Alliance 'Forest Allies' initiative
6. Reviewed status updates on science-based carbon targets and climate change reporting
7. Approved the Responsible Business risk register

### Areas of focus 2021/22

1. Review updates on four priority areas – Colleagues, Customers, Planet, and Communities
2. Review status updates on Responsible Business fundamentals including human rights and ethical assurance programme
3. Review the 2020/21 Responsible Business company performance and report

## Effectiveness evaluation

Although it is early days, I am happy to report that the 2020/21 effectiveness evaluation concluded that the Committee has operated effectively and constructively in its first year. The review invited the Committee to pay particular attention to the integration of our Responsible Business practices within each banner as the new 'Powered by Kingfisher' operating model is deployed, and to support colleague and customer engagement throughout the business.

**Sophie Gasperment**
Chair of the Responsible Business Committee

21 March 2021

## Governance

The Board has approved terms of reference for the Committee that will be reviewed and updated annually and are available on the website. Membership of the Committee is comprised of two independent non-executive directors, the Group CEO, the Chief People Officer, a retail banner CEO, and the Chief Offer and Sourcing Officer. Directors biographies are set out on pages 52 and 53 of this report and those of the Group Executive are on our website.

The Chair of the Board and the Company Secretary are invited to attend each Committee meeting as a matter of course. The Group Corporate Affairs Director and Head of Sustainability also attend each meeting. The Committee met twice during the year and the Chair of the Committee reports to each subsequent Board meeting on the activity of the Committee and as needed on matters of relevance to the Board in the conduct of the Committee's role.

# Audit Committee report

Dear Shareholder,

The Committee is integral to the company's governance framework. The Board has delegated responsibility to the Committee for oversight of the accounting, financial reporting and internal control processes, risk management, internal audit, and the company's relationship with the external auditor. The Committee's main activities in 2020/21 are set out on page 78 and the significant financial reporting matters considered are set out on page 79. Areas of focus included the Group's operational response and crisis management activities in response to the Covid-19 outbreak, the assessment of going concern and viability (in particular in the first half of the year due to the initial impacts of Covid-19), the review of the company's results ahead of publication (released in compliance with the FCA's moratorium impacting the Group's publication of its 2019/20 preliminary financial statements), consideration of the Group's store impairment exercise, output from the independent effectiveness evaluation of the Internal Audit function, and the consideration of a 24-month Internal Audit roadmap.

The Committee has an annual forward agenda covering key events in the financial reporting cycle, a programme of reviews of our retail banners and Group functions, and standing items, in line with its terms of reference. This agenda evolves in response to the changing risks and priorities of the business. During the year, two additional meetings were held. Following the outbreak of the Covid-19 pandemic, the Board delayed the publication of the 2019/20 preliminary financial statements and Annual Report and Accounts in line with the timeframes advocated by the FCA moratorium. The Committee received a presentation regarding the key functional areas of activity undertaken by the business in response to the crisis encompassing governance and oversight, operations, people, finance and liquidity, e-commerce and cyber, and legal and compliance.

| | Eligible | Attended** |
|---|---|---|
| Jeff Carr* | 6 | 6 |
| Catherine Bradley | 1 | 1 |
| Tony Buffin | 1 | 1 |
| Rakhi Goss-Custard | 6 | 6 |
| **Former directors who served during 2020/21** | | |
| Mark Seligman | 6 | 6 |

* Chair of the Committee.

** More details on attendance and those directors who stepped down during the year are set out on page 58.

The Chair reports to each subsequent Board meeting on the activity of the Committee and as needed on matters of relevance to the Board in the conduct of the Committee's role.

An important element of the Committee's responsibilities is to assess key issues in respect of published financial statements. The Committee pays particular attention to any matters it considers may affect the integrity of the company's financial statements, with a view to satisfying itself that each matter has been treated appropriately. The significant financial reporting matters considered during the year and the actions taken by the Committee in relation to this are set out in detail on page 79. The Committee discussed these with the external auditor and, where appropriate, they have been addressed as key audit matters in the Independent Auditor's report on pages 112 to 123.

### Committee key activities 2020/21

1. Reviewed the outputs of internal audits conducted
2. Received targeted Covid-19 reporting from retail banners and Group functions to highlight key areas of activity undertaken in response to the crisis including related to governance and oversight, operations, people, finance and liquidity, e-commerce and cyber, and legal and compliance
3. Considered going concern and longer-term viability, particularly in light of Covid-19 impacts in the first half of the year
4. Analysed significant financial reporting matters, including store impairments, uncertain tax positions, inventory valuation, exceptional adjusting items, and going concern
5. Received risk and internal controls presentations from our retail banners and Group functions
6. Assessed the external audit effectiveness and recommended the external auditor's reappointment
7. Considered the outputs from the independent effectiveness evaluation of the Internal Audit function and approved the resulting Internal Audit roadmap, which sets out a programme of continuous improvement activities and associated milestones

### Areas of focus 2021/22

1. Receive risk and internal controls presentations from our retail banners and Group functions, including execution of the 'Powered by Kingfisher' strategic plan and delivery of the related objectives
2. Receive the output of the external audit effectiveness review as regards the conduct of the 2020/21 audit process and consider the external auditor's reappointment
3. Receive updates and monitor progress against the Internal Audit roadmap and milestones established following the independent effectiveness evaluation
4. Receive updates from our General Counsel to continue to closely monitor adequacy and effectiveness of compliance and ethical conduct policies and controls
5. Monitor plans and progress to enhance the framework for internal controls over financial reporting ahead of expected UK regulatory change towards a more SOX-like environment
6. Keep under review Kingfisher's processes and preparedness for reporting, in line with the new Task Force on Climate-related Financial Disclosures
7. Closely monitor liquidity risk management

## Effectiveness evaluation

I am happy to report that the 2020/21 effectiveness evaluation concluded that the Committee continued to operate effectively. The evaluation was conducted internally led by the Chair of the Committee, supported by the Company Secretary. The evaluation was conducted via an online survey, facilitated by our third-party consultant, Lintstock. The survey was developed and agreed by the Chair of the Committee and the Company Secretary and invited feedback on key areas of the Committee's effectiveness including its role in reviewing the integrity of the Group's financial reporting, assessing the system of internal controls, and monitoring the management of risk.

The 2019/20 effectiveness evaluation of the Committee had concluded that the Committee should keep its composition and size under review during 2020/21. The Committee's composition was refreshed during the year by the addition of two new non-executive directors, Catherine Bradley and Tony Buffin, who joined the Committee on their appointment to the Board. Mark Seligman stepped down as a non-executive director and Committee member shortly before the end of the financial year.

**Jeff Carr**
Chair of the Audit Committee

21 March 2021

## Governance

The Board has approved terms of reference for the Committee that are reviewed and updated annually and are available on the company website. Membership of the Committee is comprised solely of independent non-executive directors. Jeff Carr, the Chair of the Committee, has been designated the Committee member with recent and relevant financial experience to meet the Committee's responsibilities and the requirements of the Code. Jeff is a qualified chartered accountant and an experienced CFO both in the retail sector and listed UK companies. During the year, Catherine Bradley and Tony Buffin joined the Board and the Committee, each of whom has a strong financial background. Directors' biographies are set out on pages 52 and 53 of this report.

The external auditor, Deloitte LLP (Deloitte), is invited to attend each Committee meeting together with the Chair, CEO, CFO and Company Secretary, who each attend as a matter of course. The Group Finance Director, Financial Controller, and Internal Audit and Risk Director also attend each meeting.

The Committee allows time at the end of every scheduled meeting for a private session with each of the CFO and the Internal Audit and Risk Director and meets privately with Deloitte at a minimum at the half and full year. There were no significant matters of note to report following these meetings.

## Fair, balanced and understandable

The Committee reviews the company's financial statements and announcements ahead of publication with the support and advice of the Disclosure Committee. The Disclosure Committee is comprised of the CFO, Group Company Secretary, Group General Counsel, and Group Investor Relations Director. The Committee considers, and challenges management regarding, significant accounting principles, policies and practices and their appropriateness, financial reporting issues and significant judgements made, including those summarised on page 79.

Following its review of the 2020/21 Annual Report and Accounts and preliminary financial results announcement, the Committee recommended to the Board that the disclosures, and the processes and controls underlying their production, met the legal and regulatory requirements for a UK-listed company and that the 2020/21 Annual Report and Accounts and preliminary financial results announcement, taken as a whole, were fair, balanced, and understandable.

## Going concern and viability statements

The Committee received a report on both the company's ability to continue operating as a going concern and on the rationale and the tests conducted to support the viability statement and considered how these aligned to the delivery of the new strategic plan. The going concern and viability statements are set out on pages 50 and 47 to 48, respectively. The Committee confirms that, following review, it has recommended both statements for approval by the Board.

## Activities of the Committee during 2020/21

| Accounting, tax and financial reporting | Risk management and internal controls |
|---|---|
| – Assessed the external audit effectiveness and recommended to the Board the reappointment of Deloitte as external auditor for 2021/22. | – Considered Internal Audit's regular reviews, including regarding the design and effectiveness of the additional operational controls implemented to safeguard customers and colleagues in our stores resulting from the Covid-19 pandemic. |
| – Considered the going concern and longer-term viability statements and ultimately recommended their approval to the Board, having reviewed scenarios and risk mitigations underpinning the sensitivity analysis undertaken, and considered how these aligned to the delivery of the strategic objectives. This exercise was particularly important during the first half of 2020/21, following the outbreak of the Covid-19 pandemic and the temporary closure of stores. | – Considered reports regarding the key functional areas of activity undertaken by the business in response to the Covid-19 crisis, including related to governance and oversight, operations, people, finance and liquidity, e-commerce and cyber, and legal and compliance.<br>– Considered the Group's business continuity planning framework, particularly crisis management preparedness following the Covid-19 outbreak. |
| Received updates on:<br>– Asset impairment assessments undertaken for goodwill, stores and other assets.<br>– Uncertain tax positions, including transfer pricing.<br>– The level and ageing of the Group's inventory.<br>– Alternative performance measures, including exceptional adjusting items.<br>– The accounting and reporting for the exit from Russia.<br>– Payment practices, performance, and policies for UK companies.<br>– The Group's policy for the use of external auditors for non-audit services. | Received briefings from the Internal Audit and Risk Director as well as from retail banner CEOs and Group function directors on operational risks and associated controls, including updates on:<br>– Controls failings during the period and how these would be mitigated or reduced going forward.<br>– From March 2020, on the company's operational response and crisis management activities following the outbreak of the Covid-19 pandemic. |
| Received briefings from Deloitte and management on emerging reporting and accounting regulation and standards, including those in relation to Covid-19, to the extent they impact the financial reporting matters for the Group. | Considered the outputs from the independent effectiveness evaluation of the Internal Audit function and approved the Internal Audit roadmap and milestones. |

## Significant financial reporting matters considered during the year

| Matter considered | Role of the Committee | Conclusion |
|---|---|---|
| – The Committee considered the carrying value of stores to determine whether any **store impairment** charges or reversals were required. | – The Committee reviewed and challenged the results of the year end impairment exercise undertaken by management and assessed the validity of cash flow projections based on the three-year strategic plans and the significant financial assumptions used, including forecast sales growth, margin and operating profit percentages, allocation of central overheads, discount rates and long-term growth rates.<br>– The Committee considered the implications of improvements in actual and forecast performance, particularly at Castorama France and B&Q, banners which had previously suffered from significant exceptional adjusting impairment losses. This consideration included actual trading during the pandemic, expectations on the future market environment and the impact of Kingfisher's strategy. | – The Committee endorsed the recognition of store net impairment reversals, excluding Russia, of £42 million (recorded as exceptional adjusting items), in particular in France and B&Q in the UK. Refer to notes 3, 5, 15, and 17 to the consolidated financial statements. |
| – The Committee considered the treatment of liabilities and contingent liabilities in relation to **uncertain tax positions.** | – Throughout the year, the Committee reviewed various tax positions and audits across the Group's jurisdictions, including transfer pricing arrangements and the European Commission state aid investigation. This review has included the appropriate recognition and measurement of liabilities recorded, and the classification and disclosures of contingent liabilities. | – The Committee endorsed management's judgements and assumptions in relation to the treatment of liabilities and contingent liabilities for uncertain tax positions.<br>– In relation to the state aid case, a current liability has been recorded of £57 million, which has been settled after the balance sheet date. A non-current asset of £57 million has also been recognised and, in addition, a contingent liability of £6m disclosed. Refer to notes 3, 38, and 40 to the consolidated financial statements. |
| – The Committee reviewed the principal judgements relating to **inventory valuation.** | – The Committee reviewed the levels of inventory at each of the operating businesses, the performance of the Group's own exclusive brands, and the estimated impacts on future selling prices of range review and clearance activities. This review included consideration of strong trading performance reduced stock levels across the banners, and the impacts of new ranges such as kitchens.<br>– The Committee reviewed the Group's inventory provisions and policy, which considers factors including stock turn, range or de-listed status, shrinkage, damage and obsolescence when assessing net realisable value. | – The Committee endorsed management's principal judgements relating to inventory valuation (£2.5 billion in note 19 to the consolidated financial statements) and concurred that the level of provisions was appropriate in light of the profile of inventories held by the Group at the reporting date. Refer to notes 3 and 19 to the consolidated financial statements. |
| – The Committee reviewed and endorsed management's assessment of **exceptional adjusting items**. | – The Committee reviewed the classification as exceptional adjusting of items including impairment reversals of stores (as noted above), asset impairments and disposal losses relating to the Russian business, and restructuring costs related to the Group's new commercial operating model. Whether an item is treated as exceptional falls outside of IFRS and the Group therefore makes its own determination, in accordance with its policies and practice. Refer to note 2 to the consolidated financial statements for the definition of exceptional adjusting items. | – The Committee was content that the Group's policy for the classification of exceptional adjusting items, amounting to £33 million net cost after tax in the year, had been applied consistently and appropriately. Refer to notes 3 and 5 to the consolidated financial statements. |
| – The Committee reviewed and endorsed management's assessment of **going concern.** | – Following the unprecedented circumstances that have arisen since the outbreak of the Covid-19 pandemic, the Committee has reviewed management's assessment of going concern during the year and for these financial statements. This included a review and challenge of the cash flow scenario analysis performed, including sensitivities and the financing options available, and the conclusions reached. This involved significant judgement in respect of the delayed 2019/20 Annual Report and Accounts and the 2020/21 Interim Condensed Financial Statements, following the outbreak of the Covid-19 pandemic and the closure of stores in the first half of the year. | – The Committee endorsed management's assessment that the company has adequate resources to continue in operational existence for the foreseeable future, and that they should continue to adopt the going concern basis of accounting in preparing the financial statements.<br>– Note that this was not judged to be a significant financial reporting matter or critical accounting judgement for the 2020/21 Annual Report and Accounts given the strong trading performance and liquidity of the Group. Refer to note 2a to the consolidated financial statements. |

### External audit

The Committee has oversight of the company's relationship with, and performance of, the external auditor. This includes making recommendations to the Board on the appointment, reappointment, and removal of the external auditor, assessing its independence on an ongoing basis and negotiating the audit fee. The Committee reviewed the terms of engagement and fees payable for the 2020/21 audit work. Details of the amounts paid to Deloitte for its audit services are set out in note 8 to the consolidated financial statements.

Deloitte was appointed as auditor of the company in 2009/10 and reappointed in 2019/20 following a comprehensive and competitive audit tender process. The current external audit engagement partner is Nicola Mitchell, who has held this role since the start of the 2019/20 process. The company is in compliance with the requirements of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 and the Code.

### Non-audit services

In addition to its statutory duties, the services of Deloitte are also engaged where, due to its position as external auditor, it is best placed to perform non-statutory audit services. This is primarily work in relation to matters such as the interim review, additional assurance procedures, shareholder circulars, regulatory filings and certain business acquisitions and disposals. Other work is awarded by competitive tendering. The company's policy governing the use of Deloitte to provide non-audit work was reviewed and updated during the year. The current version of the policy dated September 2020 can be found on the website and reflects the Financial Reporting Council's Ethical Standard as applied to listed public interest entities. Fees for non-audit services are set out in note 8 to the consolidated financial statements.

### Independence, effectiveness and reappointment

The effectiveness of the external auditor was assessed during the year. The Committee considered Deloitte's independence and decided that no breaches of policy had been identified that would call into question the independence or objectivity of the auditor in providing a true and fair opinion on the company's financial statements and Annual Report. In addition, Deloitte confirmed it was not aware of anything that it should bring to the company's attention in relation to its independence and objectivity.

For the financial year ending 2021/22, and based on its review of auditor effectiveness, objectivity, independence and competence, the Committee has recommended to the Board that Deloitte be reappointed under the current external audit contract and the Board has endorsed that recommendation. The Board has therefore proposed the reappointment of Deloitte at the 2021 AGM. The company will be required to put its external audit process out to tender again no later than 2029.

## Accountability, risk management and internal control

### Accountability

The Board has overall responsibility for the system of internal control, which is designed to safeguard the assets of the company and ensure the reliability of the financial information for both internal use and external publication. The Committee has primary responsibility for the oversight of the company's system of internal control, including the risk management framework and the work of the Internal Audit function. Internal Audit reports directly to the Committee and has the authority to review any part of the company and its businesses and to oversee the operation of the individual retail banners' audit committees. From 2020/21, Internal Audit established an annual reporting cycle to the Board to support the function's role in providing the Committee and the Board with objective assurance on the control environment across the Group.

During the year, the Committee closely monitored the Group's internal control and risk management systems and received regular reports from management and the Internal Audit and Risk Director covering the major risks and events faced by the business. Kingfisher's approach is compliant with the requirements of the Code and developed with reference to the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The Committee provides an independent overview of internal control matters. Deloitte's reports to the Committee include key audit risk and control findings relevant to the audit process.

### Risk management and internal control

The company's risk assessment process and the way in which significant business risks are managed is a key focus for the Committee. The Committee's consideration of risk management and internal control is driven primarily by the company's assessment of its emerging and principal risks and uncertainties, as set out on pages 40 to 46.

The Board has responsibility for establishing a framework of prudent and effective controls, which enable risk to be assessed and managed. Our internal control environment is codified in a suite of policies, procedures and operating standards. Delegated authorities are also in place to ensure approval for significant matters is derived at the appropriate level. Such procedures are subject to regular review and provide an ongoing process for identifying, evaluating and managing the significant risks faced by the company. This internal control environment is designed to manage rather than eliminate the risk of failure to achieve the business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

Management is responsible for applying judgement when evaluating the risks the company faces in the achievement of its objectives and assessing the likelihood that they will come to fruition, and the appetite and potential for their mitigation. Further information regarding the company's approach to risk management is set out on pages 40 to 46.

There are clear processes for controlling and monitoring the system of internal control and reporting any significant control failings or weaknesses, together with details of corrective action. These include:

- An annual planning process and regular financial reporting, comparing results with plan and the previous year, on a monthly and cumulative basis.
- Reports from the CEO and CFO at each Board meeting.
- Documented reports from retail banner CEOs and Group function directors to the Committee on the control environment in their business and improvements made, as appropriate.
- Reports and presentations to the Board on certain specialist risks, including treasury, insurance, tax, governance and pensions.

In addition, retail banner CEOs and Group function directors certify quarterly compliance with the company's policies and procedures and that appropriate internal controls were in operation during the period under review. Any weaknesses are highlighted, and the results are reviewed by the Internal Audit and Risk Director, the CFO, the Committee and the Board.

The Internal Audit function monitors and selectively checks the results of this exercise, ensuring that representations made are consistent with the results of its work during the year. Each year, the Internal Audit function's reviews are aligned to the company's risks. The function works with the retail banners and Group functions to develop, improve and further embed risk management tools and processes into their operations.

## Group Internal Audit

The Internal Audit function reports to each scheduled Committee meeting and at least annually to the Board. Audit Committee reports from the Internal Audit function during the year included updates on the company's risk management systems and findings from reviews of these systems. The Committee also received reports on the outcome of corporate and store audits. The Internal Audit and Risk Director also led the Group's operational response and crisis management activities in response to the Covid-19 outbreak and reported to the Committee and the Board regularly.

The Committee reviewed the remit, organisation and resources of the function, together with the Internal Audit plan. The Internal Audit plan is regularly reviewed during the year to ensure the function remains aligned to the key risks of the business and responsive during delivery of the strategic plan.

In line with the Committee's intent to strengthen the role of the Internal Audit function and aligned with the Chartered Institute of Internal Auditors' guidelines, the effectiveness of the Internal Audit function was reviewed by an independent third party during 2020/21.

Following a competitive tender process led by the Company Secretary, Ernst & Young LLP (EY) was appointed to conduct the independent evaluation to include an assessment of the maturity of the Kingfisher Internal Audit function and determine its conformance to the Global Institute of Internal Auditors standards and the voluntary Internal Audit Code. EY submitted its report to the September meeting of the Committee and provided significant input to inform the strategy and Internal Audit roadmap and milestones in support of a high quality, progressive Internal Audit function.

The evaluation was conducted with the full cooperation of the Internal Audit and Risk Director and the Internal Audit function, who provided a high degree of collaboration, alignment and good discussion. In addition, the views of Committee members and relevant executive directors and senior management were also considered. The final report ultimately set out actions that considered both EY's recommendations and the Internal Audit and Risk Director's initial observations, having assumed her role at the beginning of 2020. The material changes proposed for the shape and structure of the Internal Audit function proposed, included:

- Creation of a more centralised staff pool to create more independence and agility.
- Consolidation of teams into a smaller number of key market hubs.
- Establishing an Asia team to focus on sourcing and supply chain risk.
- Development of a more efficient approach to the delivery of store audits.
- Revising spans of control.

EY also proposed that a stronger link between assurance over the Group's principal risks and the content of the audit programme be established, with changes to resourcing strategies and enhanced utilisation of audit management tools to be considered to support delivery. The Internal Audit function will provide regular progress updates to the Committee regarding delivery of the roadmap and milestones in 2021/22 and moving forward.

# Directors' remuneration report

Dear Shareholder,

As Chair of Kingfisher's Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the financial year ended 31 January 2021. This year was my first full year as Remuneration Committee Chair and, in this introductory statement, I describe the context to Kingfisher's remuneration arrangements, and key items considered by the Committee during the year, including the impacts and actions taken as a result of the Covid-19 pandemic, Annual Bonus outcomes for 2020/21 as well as the broader context of remuneration at Kingfisher.

### Coronavirus pandemic (Covid-19)

2020/21 has been a challenging year for all. As set out in the Chair's statement on page 3, Kingfisher's main priority has been the safety of our colleagues and customers during this crisis and we undertook necessary actions to ensure this. This included the temporary closure of our stores in the UK and France for several weeks in March and April to ensure we had sufficient safety measures in place. As well as the initial strain on the business this caused, we were also mindful of the impact that the pandemic had on all our stakeholders, including our colleagues who went on furlough, and we therefore took the following actions on pay:

- The executive directors and Group Executive voluntarily reduced their salaries by 20% from 1 April until 31 July for executive directors and until 30 June for the Group Executive.
- The Chair and non-executive directors also voluntarily reduced their fees by 20% from 1 April to 30 September.
- No bonus for 2019/20 performance was paid to the executive directors.

We have been active in supporting our communities with investments of over £5.5 million. We also returned government furlough payments and business rates relief in the UK and Republic of Ireland, repaid all outstanding government corporate loan facilities in the UK and France and have reinstated our dividend policy with a proposed total dividend of 8.25 pence per share in respect of the year ended 31 January 2021. The proposed dividend comprises an interim dividend of 2.75 pence per share in respect of the six months to 31 July 2020 and a final dividend of 5.50 pence per share.

In 2020/21, our sales and free cashflow were up by 7.1% (LFL, Group) and 391% to £12.34 billion and £938 million respectively. During the financial year, our share price also increased by over 30%. This strong financial performance can be significantly attributed to the new 'Powered by Kingfisher' strategy, progress on which is further detailed in the CEO's Statement and Group update section of this report on pages 4 to 14, and the dedication and hard work undertaken by all our colleagues in these challenging times.

While we determined that there was to be no bonus for 2019/20 for the executive directors, we decided it was appropriate to pay a 2019/20 bonus last summer to eligible colleagues and also one-off bonuses to many of our colleagues in store.

I would like to take this opportunity to echo what has been said by the Chair and CEO and thank our colleagues for their achievements to date and for their ongoing efforts and contributions.

### Performance and remuneration decisions made during the year

We remain committed to ensuring that rewards received by our executives focus on long-term outcomes and are aligned to our strategic priorities. The Committee is confident that the Policy has operated as intended during the year. The Committee also did not exercise any discretion in determining the incentive outcomes for the year being reported on. Read more about these in the Annual Report on Remuneration, which begins on page 93. The remuneration decisions detailed in the following sections illustrate how we, as a Committee, are executing this commitment.

### Salary increase

No salary increases were awarded to the executive directors for 2020/21 and during April to July 2020, their salaries were reduced by 20% in response to the Covid-19 pandemic.

A salary increase of 2% will be awarded to the executive directors effective from 1 April 2021. This increase is in line with the increase offered to our wider UK workforce and is a reflection of their strong performance during the year.

### Annual Bonus outturn

The 2020/21 Annual Bonus was assessed against the key strategic measures linked to our strategic priorities. In line with the policy, the Committee reviewed the outcome of each measure and also undertook a holistic view of the outturn vs. underlying performance and value delivered to our shareholders.

The Committee noted that it was not possible for the Group to have achieved the Community target of 20,000 volunteering hours due to social distancing restrictions. However, the Group has made significant contributions to our communities through other initiatives and therefore the Committee concluded that it was appropriate to take these into account as part of their judgement in assessing the achievement against the Community measure. In applying this judgement, the Committee determined that the Community measure should pay out at target performance which represents a 1% payout of the overall bonus.

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### About this report

The Directors' Remuneration Report, on pages 82 to 107, has been prepared in compliance with the remuneration disclosures required under the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).

This means that the outturn of the 2020/21 bonus for executive directors is 79.8% of maximum, which equals 63.8% of salary for both executive directors (the outcome would have been 78.8% had this judgement not been made). This outturn was viewed as appropriate given the strong performance during the year and increase in shareholder value.

Full detail on the performance against each of the 2020/21 strategic measures can be found on page 97.

### Targets for the second half of the DVI

In 2019, our executive directors were granted an award under the Delivering Value Incentive scheme (DVI). The performance measures attached to the vesting of this award are EPS, ROCE and Relative TSR, which are assessed within a five-year time horizon over two periods, one applying to one half of the total award (i) 1 February 2019 to 31 January 2022 and ii) 1 February 2021 to 31 January 2024. This approach was undertaken to better align with the company's strategy at that time. Details of targets for the first half of the DVI award were initially shared in an RNS statement ahead of the AGM, and also shared in last year's report.

We communicated at that time that the Committee would additionally consult with shareholders in 2021 on the targets for the second half of the DVI. After the consultation has concluded, the targets for the second half of the DVI will be disclosed in an RNS ahead of the 2021 AGM in order to allow shareholders to vote on this Remuneration Report with clarity on the targets.

### Other Incentives

The Committee also reviewed the vesting outcomes of the 2016 Transformation Incentive and 2018 Alignment Share awards. Neither of the current executive directors have these awards. Further details are provided on page 98.

### Key remuneration decisions for 2021/22

The Committee will implement the Remuneration Policy on a similar basis to 2020/21 for 2021/22. Following careful consideration of historic shareholder feedback, and the latest Kingfisher strategy, for the 2021/22 Annual Bonus the Committee has introduced a profit measure to the basket of Group Strategic Measures with a weighting of 30% in order to provide a stronger link to the financial performance of the business. For more details on the key remuneration decisions and application of the policy for 2021/22, see page 106 of the Annual Report on Remuneration.

### Consideration of the broader context

It is Kingfisher's colleagues who make all the difference every day for our customers and that is why the Committee continues to oversee the drive for fair employment practices across the whole workforce. We believe that having a diverse workforce, with fair representation, is strategically important and generates value for all our stakeholders.

In September 2020, we launched our 1+1 Sharing In Our Future share plan, which is a one-off global share purchase plan available to all colleagues who were employed on the launch date.

The plan is part of our drive to building a responsible and inclusive business, one in which every one of our colleagues should have the opportunity to participate and share in Kingfisher's future. The plan was structured as follows to ensure that the plan is inclusive:

- It was opened to all colleagues globally. Where it was not possible to run a true share plan due to legal requirements in some jurisdictions, a mirror plan was run instead.
- Colleagues are able to contribute monthly over a six-month period from 1 January 2021. Contributions range from £10 to £250 per month with a cap of £1,500 over the six-month period. The contributions can be withdrawn at any point by the participant.
- Purchased shares are matched on a 1:1 basis by the company using market purchased shares. The matching shares vest after a 12-month period in July 2022.
- Participants are entitled to dividend shares and can also vote at the AGM.

I am pleased to report that over 9,000 colleagues participated with involvement from all of our banners and locations. None of the executive directors or Group Executive members participated in the plan to ensure the emphasis of the plan remained on the wider colleague population.

The Committee also oversaw Kingfisher's fourth gender pay report, which is available on the website. While this analysis is a statutory requirement in the UK, management also produces additional analysis to support pay decisions across all our markets to ensure fair representation. For the third year, we have disclosed our CEO pay ratio (see page 102), which the Committee reviews annually.

In 2019, the Group established the Kingfisher Colleague Forum, a pan-European employee-led consultative body that meets at least twice a year, with attendance by at least one non-executive director and members of the Group Executive at each scheduled meeting. This, alongside our annual engagement survey, has provided an opportunity for the workforce's views on a range of issues, including on reward arrangements at Kingfisher where these are raised by management representatives, to be discussed and heard by executive management and the Board.

### Looking ahead

The Committee recognises that executive remuneration continues to be a focus for shareholders and other stakeholders and remains committed to ensuring that we have an open and transparent dialogue with our shareholders. In the upcoming year, the Committee will undertake an in-depth review of the policy to ensure it is aligned with the 'Powered by Kingfisher' strategy, updated for any new disclosure and corporate governance requirements ahead of bringing it to a binding vote at the 2022 AGM. In line with the prior policy review, this includes ensuring the continued alignment of the remuneration policy under the principles listed under Provision 40 of the Corporate Governance Code which includes clarity, alignment to culture etc. I will therefore be contacting shareholders at the end of the year to outline any changes we plan to make to the policy at the time.

I will be available to answer any questions you may have about the Committee, its work and how it operates at the 2021 AGM.

**Claudia Arney**
Chair of the Remuneration Committee

21 March 2021

## At a glance

The following page provides a summary of our approach to remuneration, how this approach links to the delivery of our strategy and the award decisions we have taken to date under our Remuneration Policy.

### Our remuneration principles

**Employees as shareholders**
- Share ownership acting as transparent performance pay aligned to interests of shareholders
- Encouraging employees to become substantial long-term shareholders even after leaving the business

**Delivering the strategy**
- Focusing incentives on team performance and development and strategic delivery
- Maintaining fairness through a consistent cascade of pay structures enabling all employees to share in our success

**Delivering value to stakeholders**
- Prioritising long-term value creation over short-term financial goals
- Long-term reward linked to long-term performance as the strategy is delivered

**Simple, transparent and relevant**
- Simple and transparent reward to ensure we pay people in a way that motivates them
- Awarding long-term incentives to those with the most impact on the business strategy

| Element | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | Strategic link |
|---|---|---|---|---|---|---|
| Base Salary | Reviewed annually | | | | | |
| Annual Bonus | Annual award | | | | | Achievement of annual financial and strategic measures critical to the delivery of the company's strategy |
| Alignment Shares | 100% of award: three-year vesting period | | | Two-year post-vesting holding period | | Balance sheet health |
| Delivering Value Incentive (formerly the Transformation Incentive) | 2016: Five-year performance period; 2019A: Three-year performance period | 2019 B: Three-year performance period | Two-year deferral period | | | Delivering long-term benefits for shareholders |

#### Base Salary

**Policy**

Set with reference to FTSE 25-75 and the retail peer group. Salary effective from appointment

**Application of policy in 2021/22**

CEO: £816,000 (from 1 April 2021)

CFO: £576,300 (from 1 April 2021)

#### Annual Bonus

**Policy**

To focus executives on the achievement of annual financial and strategic objectives critical to the company's strategy. Maximum of 80% of base salary, paid fully in cash and based on performance against annual measures.

**Remuneration in respect of 2020/21**

Based on measures resulting in a bonus worth 63.8% of salary being paid.

CEO: £510,720

CFO: £360,696

#### Alignment Shares

**Policy**

To align executives' reward with the long-term health of the company and shareholder returns through a long-term share award. Maximum of 80% of base salary with 100% vesting in Year 3, subject to business health underpin measures and the two-year holding period.

**Remuneration in respect of 2020/21**

Award made at maximum opportunity (80% of salary) for CEO and CFO in July 2020.

**Application of policy in 2021/22**

Award to be made at maximum opportunity to the CEO and CFO (80% of salary). 100% of award to vest in Year 3, subject to underpins. The Committee to make the award based on strong performance of the CEO and CFO since appointment.

#### Delivering Value Incentive (formerly the Transformation Incentive)

**Policy**

To align executives' reward with the interests of shareholders; rewarding executives for the delivery of improved growth and providing shareholder returns through the execution of the company's strategy. Awards granted once every three years, subject to five-year vesting period. On-target award of 220% of salary for CEO; 200% for CFO. Maximum opportunity of four times on-target award.

**Application of policy in 2016/17**

Award granted at maximum opportunity in July 2016. Final vesting of awards is subject to EPS (50%) and ROCE (50%) performance over the five-year transformation period.

**Application of policy in 2017/18 and 2018/19**

No award made in 2017/18 or in 2018/19, in line with policy.

**Application of policy in 2019/20**

Award granted to the CEO and CFO at reduced target opportunities of 190% of salary and, after time pro-rata, 162.5% of salary, respectively in October 2019. Final vesting of awards is subject to EPS (1/3), ROCE (1/3) and relative TSR (1/3) measured over two separate three-year performance periods within the five-year period.

**Application of policy in 2020/21 and 2021/22**

No award made in 2020/21 or to be made in 2021/22, in line with policy.

## Directors' Remuneration Policy

Our Remuneration Policy (the Policy) is set out in this section. The Policy was approved by 97% of shareholders at the AGM held on 9 July 2019 following a comprehensive consultation with shareholders prior to approval. The full version of the shareholder-approved Policy can be found on the company's website at www.kingfisher.com/en/investors/company-reports. The Policy is presented unchanged from that approved by shareholders other than minor wording changes to reflect, for example, changes to the Board since its approval and updated scenario charts.

## Policy table (approved at the 2019 AGM)

### Base salary

**Element and purpose**
Base salary reflects the individual's role, experience and contribution to the company and is set at levels that support the recruitment and retention of executive directors of the calibre required by the company.

**Operation**
Base salaries are set with reference to two primary comparator groups;

- FTSE 25–75 excluding financial services organisations; and
- FTSE 100 retailers and privately held retailers that are considered to be of a similar size and market capitalisation to the company.

Alternative peer groups may need to be referenced depending on the business circumstances or domicile of individual executive directors outside the UK.

**Maximum opportunity**
Maximum increase of 8% per annum.

Increases awarded each year will be set out in the statement of implementation of the Policy.

**Assessment of performance**
Individual performance is an important factor considered by the Committee when reviewing base salary each year.

**Changes**
None.

### Benefits

**Element and purpose**
Benefits are provided to assist executive directors in the performance of their roles and are designed to be competitive and cost-effective.

**Operation**
The company may provide pension benefits (set out below), a company car or cash alternative, medical insurance, and life assurance cover.

Other benefits may be provided from time to time if considered reasonable and appropriate by the Committee, such as relocation allowances, and would be explained in the subsequent Annual Report on Remuneration.

The company pays the cost of providing benefits on a monthly basis or as required for one-off events such as financial planning advice.

Store discounts may be offered to all executive directors on the same basis as offered to other company employees.

**Maximum opportunity**
Maximum levels of benefit provision are:

- Car allowance of £25,000 per annum.
- Private medical insurance on a family basis.
- Life assurance cover of four times base salary.
- Store discount of up to 20%.

The cost of providing insurance benefits varies according to premium rates so there is no formal maximum monetary value.

Any relocation allowance will be limited to 50% of base salary (inclusive of any tax payable on expenses reimbursed).

**Assessment of performance**
None.

**Changes**
None.

## Pension

**Element and purpose**
To provide retirement benefits, support retirement planning, and provide a competitive fixed pay package.

**Operation**
Pension provision for executive directors is by way of contributions to a defined contribution scheme or cash allowance.

**Maximum opportunity**
Maximum employer contribution into a defined contribution scheme of 14% of base salary or a cash alternative of 12.5% of base salary, in line with arrangements for other UK colleagues.

**Assessment of performance**
None.

**Changes**
None.

## Annual Bonus

**Element and purpose**
To incentivise executive directors to achieve or exceed annual strategic objectives set by the Committee at the start of each financial year.

**Operation**
Annual bonuses are earned over the year and paid in cash after the end of the financial year to which they relate, based on performance against targets over the year.

The Committee has the discretion to adjust the bonus outcome in light of overall underlying performance. Any adjustment made using this discretion will be explained in the following Annual Report on Remuneration.

Malus and clawback apply under circumstances as set out in the notes to the Policy table.

**Maximum opportunity**
The maximum Annual Bonus award is 80% of base salary.

The level of payment at threshold is set on an annual basis but will not exceed 25% of maximum.

**Assessment of performance**
The specific measures, targets and weightings may vary from year to year in order to align with the company's strategy over each year.

The measures will be dependent on the company's goals over the year under review and directly link to the key measurable strategic measures to incentivise executives to focus on the execution of the strategy.

The performance targets are calibrated each year to align with the announced strategic plan.

The actual performance targets set are not disclosed at the start of the financial year, as they are considered to be commercially sensitive. Where no longer commercially sensitive, performance targets and outcomes will be disclosed following the payment of bonuses.

**Changes**
None.

## Alignment Shares

**Element and purpose**
To align executives with the long-term health of the company and with shareholder returns by providing a long-term share award subject to underpinning business health conditions, while ensuring competitive total reward.

**Operation**
Alignment Shares are awarded annually subject to good personal performance.

Awards vest after three years, subject to the achievement of an underpin, and are subject to a two-year holding period.

Dividend equivalents are payable in respect of the shares that vest. Malus and clawback apply under circumstances as set out in the notes to the policy table.

Change of control provisions apply as set out in the notes to the policy table.

**Maximum opportunity**
Annual award of 80% of salary.

**Assessment of performance**
Alignment Shares have two underpin conditions to ensure balance sheet and business health:

– Maintenance of the dividend subject to a dividend cover test.
– Assessment of the ratio of net debt to EBITDA (prior to IFRS 16, this was lease-adjusted net debt to EBITDAR).

The performance targets are calibrated to be robust in the context of the announced strategic plan.

If one condition is not met, up to 50% of the unvested shares would lapse. If both are not met, up to 100% of the unvested shares would lapse.

Performance will be considered each year and any reduction will apply to the relevant award next due to vest.

The specific metrics may vary in future years in order to align with the company's strategy, but will always include objective financial metrics, which will be set out prospectively in each Annual Report on Remuneration.

In the event that the net debt to EBITDA ratio is exceeded due to a Board-approved acceleration of investment plans, the Remuneration Committee may apply discretion to allow vesting. In these circumstances, the Committee may delay vesting by a further year to ensure sustainability of performance.

**Changes**
None.

**Delivering Value Incentive (formerly the Transformation Incentive)**

**Element and purpose**
To incentivise executives to deliver improved growth and returns for shareholders by executing the company's strategy. To retain executives and provide market-competitive total reward.

Performance conditions are aligned with shareholder interests and Kingfisher's transformation.

**Operation**
Awards are granted once every three years, subject to a five-year vesting period and stretching performance conditions throughout the five-year performance period.

Dividend equivalents are payable in respect of the shares that vest.

The Committee has discretion to adjust the vesting outcome if the pure application of a formula is not felt to produce an appropriate result in light of overall underlying company performance. Any adjustment made using this discretion will be explained in the following Annual Report on Remuneration.

Malus and clawback apply under circumstances as set out in the notes to the policy table.

Change of control provisions apply as set out in the notes to the policy table.

**Maximum opportunity**
The on-target award granted once every three years is 220% of salary for the CEO and 200% for the CFO and any other executive directors.

A maximum multiplier of four times target can apply for exceptional performance.

For threshold performance on any measure, at most 25% of the maximum award available for that measure may vest.

Only one award will be made to each executive director during each three-year period. The equivalent annualised maximum opportunity that can be awarded is 293% of salary for the CEO and 267% of salary for the CFO.

**Assessment of performance**
Awards granted will vest based on performance over five years against the following performance measures:

– 1/3 relative total shareholder return (TSR).
– 1/3 earnings per share (EPS).
– 1/3 return on capital employed (ROCE).

Performance of the 2019 award will be measured over two periods (i) 1 February 2019 to 31 January 2022 and (ii) 1 February 2021 to 31 January 2024. The outcomes of both periods will be assessed at the end of the five-year period to ensure they are appropriate within the context of the wider business performance. The performance measures have been chosen to balance growth and returns and ensure sustainable delivery of performance.

**Changes**
None.

## Chair and non-executive director fees

**Element and purpose**
To attract and retain a Chair and non-executive directors of the highest calibre.

**Operation**
The fees paid to the Chair are determined by the Committee, while the fees of the non-executive directors are determined by the Board with affected persons absenting themselves from the discussions, as appropriate.

The Committee reviews the Chair's fees annually.

The Chair's fees are determined with reference to time commitment and relevant benchmark market data. Contributions are made towards the cost of running the Chair's office.

The Board determines non-executive directors' fees under a policy that seeks to recognise the time commitment, responsibility and technical skills required to make a valuable contribution to an effective Board.

A base fee is paid to all non-executive directors and additional fees are also paid to the Senior Independent Director and the Chair of each of the Audit and Remuneration Committees.

Chair and membership fees may be introduced for current and new committees.

Appropriate benefits, including the reimbursement of appropriate expenses may be provided from time to time, as required.

The Board may annually review fees paid to non-executive directors against those in similar companies and take into account the time commitment expected of them.

Fees are paid monthly wholly in cash.

The Chair and the non-executive directors do not participate in any of the company's performance-related pay programmes and do not receive pension benefits.

**Assessment of performance**
Aggregate annual fees paid to the Chair and non-executive directors are limited by the company's Articles of Association, which may be varied by special resolution of the shareholders.

The current limit contained within the Articles of Association is £1.75 million as approved at the 2014 AGM. Contributions towards the cost of running the Chair's office will not exceed £60,000 per annum and are included within the aggregate fees set out above.

**Assessment of performance**
None.

**Changes**
None.

## All-employee share plans

**Element and purpose**
Executive directors may participate in Kingfisher's all-employee share plans on similar terms to other employees.

**Operation**
In particular, UK-based executive directors may participate in the Sharesave Plan (Sharesave), a tax-approved all-employee scheme under which they make monthly savings over a period of three or five years, which may be used to buy Kingfisher shares at a discounted price when the scheme matures. They may also choose to withdraw their savings at the end of the savings period or at any time during the savings contract.

UK-based executive directors may also participate in the Share Incentive Plan (SIP). Designed to promote employee share ownership, the SIP enables employees to make monthly investments in Kingfisher shares.

**Maximum opportunity**
The maximum limit for the Sharesave is currently £500 per month.

The maximum amount an individual may invest in partnership shares under the SIP is currently £150 per month.

The SIP also allows the award of free and matching shares up to the limits set by the UK Government.

The company may increase the amounts that can be saved or invested under the Sharesave and SIP plans in line with any increases authorised by the UK Government for approved plans.

**Assessment of performance**
None.

**Changes**
None.

## Approach to recruitment remuneration

| Area | Policy and operation |
|---|---|
| **Overall** | When hiring a new executive director, or making internal promotions to the Board, the Committee will apply the Remuneration Policy. The rationale for the package offered will be explained in the following Annual Report on Remuneration.<br>For internal promotions, any commitments made prior to appointment may continue to be honoured as the executive is transitioned to the new remuneration arrangements. Where an individual is promoted after the Delivering Value Incentive grant in the Policy period, an award may be made to bring the executive on to the in-flight cycle at an opportunity level reflecting their new role, subject to the limits set out in the Policy. Awards may be pro-rated to reflect the remaining portion of the vesting period. Any award will take into consideration awards granted prior to promotion.<br>The Policy below is consistent with the principles of the previous Recruitment Policy, which have been adapted in line with the new remuneration structure. |
| **Base salary** | Base salary would be set at an appropriate level to recruit the best candidate based on their skills, experience and current remuneration. |
| **Benefits** | Benefits provision would be in line with normal Policy.<br>Where appropriate, the executive may also receive relocation benefits or other benefits reflective of normal market practice in the territory in which the executive director is employed. |
| **Pension** | Pension provision would be in line with normal Policy. |
| **Incentive awards** | Incentive awards would be made under the Annual Bonus, Alignment Share and Delivering Value Incentive in line with the normal Policy, which determines the maximum incentive award that can be made.<br>Where an individual joins after the Delivering Value Incentive grant in the Policy period, an award may be made to bring the executive on to the in-flight cycle subject to the limits set out in the Policy. Awards may be pro-rated for the portion of vesting period served. |
| **Buyout awards** | In addition to normal incentive awards, buyout awards may be made to reflect value forfeited through an individual leaving their previous employer.<br>If a buyout award is required, the Committee would aim to reflect the nature, timing and value of awards forgone in any replacement awards. Awards may be made in cash, shares, Alignment Shares, Delivering Value Incentive or by any other method deemed appropriate by the Committee. Where possible, share awards will be replaced with share awards. Where performance conditions applied to the forfeited awards, performance conditions will be applied to the replacement award or the award size will be discounted accordingly.<br>In establishing the appropriate value of any buyout, the Committee would also take into account the value of the other elements of the new remuneration package.<br>The Committee would aim to minimise the cost to the company; however, buyout awards are not subject to a formal maximum. Any awards would be broadly no more valuable than those being replaced. |

## Shareholding requirements

To ensure the alignment of the interests of executives and shareholders over the long term, executive directors are required to build a significant shareholding. The shareholding requirement is 350% of salary for the CEO and 250% for any other executive director.

All shares owned beneficially and nil-cost awards that have vested but that the executive has yet to exercise are considered to count towards the shareholding on a notional post-tax basis. Deferred bonus shares, awarded under the 2014 Remuneration Policy, are not included in the assessment of the shareholding requirement until the transfer of beneficial ownership to the executive at the end of the three-year deferral period.

Until the shareholding requirement is met, executive directors are required to retain 100% of vested post-tax Alignment Shares, retain 50% of vested post-tax Transformation Incentive or Delivering Value Incentive shares, and retain 50% of post-tax shares that vest from awards granted under the 2014 Remuneration Policy. It is expected that executives would retain 100% of post-tax shares from the Transformation Incentive or Delivering Value Incentive until the requirement is met.

As first implemented in 2016, upon leaving the company the shareholding requirements will continue to apply for two years. From 2019, the full shareholding requirement will apply for two years post-employment (previously 100% of the shareholding requirement for the first year and 50% of the shareholding requirement for the second year applied after departure). The Committee has established mechanisms to enforce the post-employment shareholding guidelines once an executive director has left the company.

## Notes to the Policy table

**Malus and clawback**
Malus and clawback may operate in respect of the Annual Bonus, Alignment Shares and Delivering Value Incentive. These provisions enable the company to reduce (including, if appropriate, to nil) the payout and vesting levels or to recover the relevant value following the cash bonus payout or vesting of shares. Clawback will apply to the cash bonus for a period of three years following payment and for a period of two years following vesting under the Alignment Shares and Transformation Incentive or Delivering Value Incentive grants. These provisions could take effect in the event of financial misstatement, serious reputational damage, or material misconduct in individual cases.

**Change of control**
In the event of a change of control, share awards will normally vest subject to performance conditions. Alignment Shares and Transformation Incentive or Delivering Value Incentive awards will normally be reduced on a time pro-rated basis in line with the treatment for good leavers, which is set out in the 'Service contracts and the policy on payment for loss of office' section of this Directors' Remuneration Policy.

The Committee may alternatively consider that such a reduction is inappropriate, e.g. if it is agreed with an acquirer to roll over outstanding awards. Other awards may be reduced at the Committee's discretion.

**Discretions**
The Committee retains certain discretions in relation to the Annual Bonus Plan, which are set out in full in the plan rules, and which include but are not limited to:

- The determination, and timing, of any bonus payment.
- The impact of a change of control or restructuring.
- Overriding formulaic outcomes in line with the provisions of the Code.
- Adjustments for accounting or equivalent changes for both bonus and the Kingfisher Alignment Share and Transformation Incentive Plan (KASTIP).
- Any adjustments required as a result of a corporate event (such as a transaction, corporate restructuring event, special dividend, share buyback or rights issue).

Discretions set out as part of this Remuneration Policy provide the Committee with discretion in certain matters regarding the administration and operation of the Alignment Shares, Transformation Incentive and Delivering Value Incentive (as set out in the corresponding plan rules approved by shareholders), including, but not limited to the following:

- Any adjustments to performance conditions or awards required as a result of a corporate event (such as a transaction, corporate restructuring event, special dividend or rights issue).
- The assessment of good leaver status.
- Overriding formulaic outcomes in line with the provisions of the Code.
- Minor administrative matters to improve the efficiency of the operation of the plans or to comply with local tax law or regulation.

In relation to the Annual Bonus Plan, Alignment Shares, Transformation Incentive and Delivering Value Incentive, and in line with the plan rules, the Committee retains the ability to amend the performance conditions and/or measures in respect of any award or payment if one or more event(s) occur that would lead the Committee to consider that it would be appropriate to do so, provided that such an amendment would not be materially less difficult to satisfy than the unaltered performance condition would have been but for the event in question.

Should the Committee use any of the discretions set out above, these would, where relevant, be disclosed in the following Annual Report on Remuneration. The views of major shareholders may also be sought. Discretion in relation to the company's All-Employee Share Plans (Sharesave and SIP) would be exercised within the parameters of the HMRC-approved plan status and the FCA's Listing Rules.

**Legacy awards**
In-flight awards made before the adoption of this Policy will continue in line with the approved Policy under which they were granted. Further details of these awards can be found within the Remuneration Policy approved at the 12 June 2014 AGM and included within the 2013/14 Annual Report and Accounts, or the Remuneration Policy approved at the 15 June 2016 AGM and included within the 2015/16 Annual Report and Accounts.

**Differences in Remuneration Policy for all employees**
The remuneration structure for members of the Group Executive follows a similar approach as for the executive directors but with a lower maximum opportunity as appropriate. The Delivering Value Incentive is granted only to the executive directors and members of the Group Executive.

For the next tier of management below the Group Executive, the remuneration structure consists of base salary, benefits, pension, bonus, and Alignment Shares. Performance measures are tailored to reflect the position of the individual and the part of the business in which they operate; however, many of our colleagues have a proportion of their remuneration assessed against our strategic measures.

All other employees are entitled to base salary and benefits and may also receive bonus, pension, profit share and share awards, which vary according to local jurisdiction and market practice. The maximum provision and incentive opportunity available are determined by the seniority and responsibility of the role.

**Statement of consideration of employment conditions elsewhere in the company**
The Chief People Officer (CPO) is invited to present to the Committee on the proposals for salary increases for the employee population generally and on any other changes to the Group's wider remuneration policy. The CPO consults with the Committee on the performance conditions for the executive directors' bonuses and the extent to which these should be cascaded to other employees. The Committee has oversight of all long-term incentive awards across the Group.

The Committee is provided with data on the remuneration structure for all individuals in Kingfisher's leadership team, which includes retail banner CEOs and Group function directors. The Committee approves the policy on share award levels for all employees and uses this information to ensure that there is consistency of approach across Kingfisher.

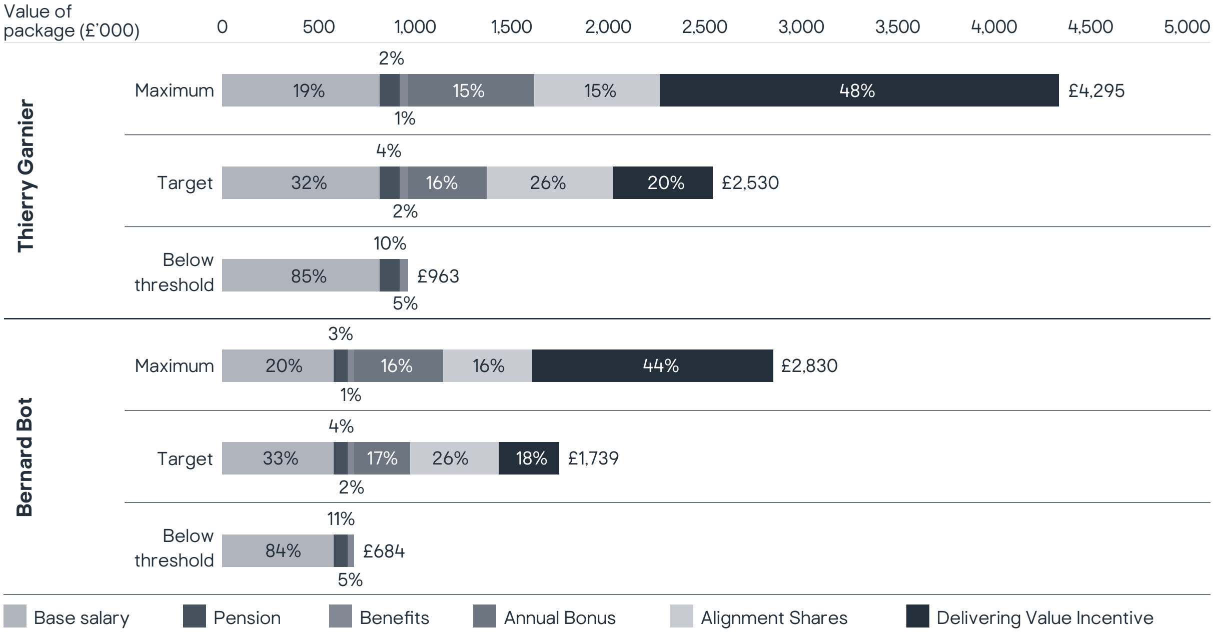
The Group did not consult with employees when drafting the Directors' Remuneration Policy.

**Statement of consideration of shareholder views**

When determining remuneration, the Committee considers the views of our shareholders and best practice guidelines issued by institutional investor bodies. The Committee is always open to feedback from shareholders on our Remuneration Policy and remuneration arrangements and commits to ensuring consultation with our largest shareholders in advance of any significant changes to the Remuneration Policy. The Committee continues to monitor trends and developments in corporate governance and market practice to ensure the structure of executive remuneration remains appropriate.

**Illustration of the application of the Remuneration Policy**

The tables and charts below provide estimates of the potential total future remuneration for each executive director based on the remuneration opportunity expected to be granted in 2021/22. Potential outcomes for each executive director, based on three different performance scenarios, are shown. These graphs do not take into account share price appreciation or dividends received; however, the impact of share price appreciation is included as a footnote.




**Notes:**

Base salary: reflects the salary effective from 1 April 2021.

Benefits: estimate based upon benefits received during 2020/21 as recorded in the single total figure of remuneration table (excluding the relocation allowance for Thierry Garnier).

Pension: shown as a percentage of salary in line with Policy.

Delivering Value Incentive: one award will be granted in the first three years. The figures above have been annualised by dividing the Delivering Value Incentive by three in recognition that there will be no award in years two (2020/21) and three (2021/22).

Fixed remuneration: comprises base salary, benefits and pension.

Short-term variable compensation comprises the Annual Bonus. Long-term variable compensation comprises both the Alignment Shares and the Delivering Value Incentive.

The Committee has also calculated the implied target and maximum remuneration scenario with the overlay of 50% share price increase on equity incentives. This would result in a target and maximum value of Thierry Garnier's package of £3,110k and £5,635k respectively and of Bernard Bot's package of £2,123k and £3,673k respectively.

| Below threshold | On-target | Maximum |
|---|---|---|
| Only the fixed pay elements (base salary, benefits and pension) of the package are received.<br><br>Minimum performance targets for the Annual Bonus and Delivering Value Incentive are not achieved, therefore no payments are made, and awards will lapse.<br><br>The underpin requirement for the unvested Alignment Shares is not met. | Fixed pay elements plus target Annual Bonus are received, Alignment Shares and target Delivering Value Incentive vest.<br><br>Alignment Shares are equivalent to 80% of base salary.<br><br>Annual Bonus on-target performance is achieved, resulting in a bonus of 50% of salary.<br><br>Annualised Delivering Value Incentive on-target performance is achieved, resulting in a one times multiplier. The annualised value is 63% of salary for the CEO and 54% of salary for the CFO (salary in 2019 when grant was made). | Fixed pay elements plus maximum Annual Bonus are received, Alignment Shares and maximum Delivering Value Incentive vest.<br><br>Alignment Shares are equivalent to 80% of base salary.<br><br>Annual Bonus maximum performance achieved, resulting in a bonus of 80% of salary.<br><br>Annualised Delivering Value Incentive maximum performance achieved resulting in a four times multiplier. The annualised value is 253% of salary for the CEO and 217% of salary for the CFO. |

## Policy for payment for loss of office

| Area | Policy |
|---|---|
| **Notice period** | 12 months' notice by either the director or the company. |
| **Non-compete** | During employment and for 12 months after leaving. |
| **Executive directors' contractual termination payment** | **Resignation**<br>No payments on departure will be made on termination, even if by mutual agreement the notice period is cut short.<br>**Departure not in the case of resignation**<br>For the period of notice served, the executive director may continue to receive their monthly base salary, benefits and pension. During this time, at the discretion of the company, they may continue their duties or be assigned garden leave.<br>For the period of notice not served, the executive director may receive a payment in lieu of notice. This would be delivered by continuing to pay his or her monthly base salary over this period and would be subject to mitigation.<br>No other payments should be due on departure.<br>**Settlement agreement**<br>The Committee may agree payments it considers reasonable in settlement of legal claims.<br>This may include an entitlement to compensation in respect of a director's statutory rights under employment protection legislation in the UK or in other jurisdictions.<br>The Committee may also include in such payments reasonable reimbursement of professional fees in connection with such agreements. |
| **Treatment of incentives for bad leavers** | No payments under any incentive plans will be made in the event of the Committee determining the departing individual to be a bad leaver as defined by the Plan Rules. |
| **Leaver provisions for Annual Bonus for good leavers** | Bonus payments may be receivable at the normal date, pro-rated for time, and taking into account performance achieved.<br>The Committee retains the ultimate discretion to make bonus payments and determine the basis upon which they are made and their value, taking into account the individual circumstances of the departure. |
| **Alignment Shares for good leavers** | The default position is that awards will lapse upon cessation of employment.<br>If the Committee is of the view that performance has been good, discretion may be applied for the shares to vest.<br>The shares would continue to be subject to the normal underpin condition and would be released according to the normal timeframe, but not subject to the holding period after the second anniversary of cessation provided that the shareholding requirement is met.<br>Awards made in the 12 months prior to departure may be pro-rated based on the proportion of the 12 months from grant that has been served.<br>Where the participant ceases to be employed as a result of death, the award will vest shortly after the company is notified, pro-rated for time, and take into account the Committee's assessment of performance achieved to that date.<br>The Committee may decide, acting fairly and reasonably, that any adjustment set out above to reduce the vesting of the award would be inappropriate. |
| **Transformation Incentive and Delivering Value Incentive for good leavers** | Awards will vest on the normal date, pro-rated for time, and will take into account performance achieved.<br>The Committee retains discretion to further reduce the awards granted to reflect any personal performance issues.<br>Where the participant ceases to be employed as a result of death, the award will vest shortly after the company is notified, pro-rated for time, and taking into account the Committee's assessment of performance achieved to that date.<br>The Committee may decide, acting fairly and reasonably, that any adjustment set out above to reduce the vesting of the award would be inappropriate. |
| **Shareholding requirements** | Upon leaving the company, the shareholding requirement will continue to apply for two years.<br>The shareholding requirement will be 100% of the shareholding requirement for two years after departure.<br>Shareholding requirements will no longer apply in the case of death. At its discretion, the Committee may apply the same treatment in cases of ill-health. |
| **Chair and non-executive directors' contractual termination payment** | Non-executive directors are appointed under letters of engagement.<br>Appointments have historically been for an initial period of three years and invitations to act for subsequent three-year terms are subject to a review of performance and take into account the need to progressively refresh the Board.<br>The appointment may be terminated by either party giving the other not less than three months' prior written notice, unless terminated earlier in accordance with the company's Articles of Association.<br>The company has no obligation to pay compensation when the appointment terminates. |

## Annual Report on Remuneration

This section of the report outlines how the Committee implemented the Directors' Remuneration Policy (the Policy) in the financial year ended 31 January 2021. This report, together with the Annual Statement from the Chair of the Remuneration Committee, will be put to shareholders for approval at the AGM to be held on 30 June 2021. Shareholder approval is on an advisory basis only.

These reports have been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and include the items required to be disclosed under 9.8.6R and 9.8.8R of the Financial Conduct Authority's Listing Rules. Where information disclosed has been subject to audit by the Group's auditor, Deloitte LLP, this is highlighted.

## The Remuneration Committee

The Committee has delegated authority from the Board over the company's remuneration framework and Policy. The role of the Committee is set out in the terms of reference, which are reviewed and updated annually and are available on the website.

**Committee composition**
The Committee comprised the following members during the year:

| | Date appointed to the Committee | Eligible | Attended ** |
|---|---|---|---|
| Claudia Arney* | 1 November 18 | 8 | 8 |
| Catherine Bradley | 2 November 20 | 2 | 1 |
| Jeff Carr | 29 January 19 | 8 | 8 |
| Andrew Cosslett | 13 June 17 | 8 | 8 |
| Rakhi Goss-Custard | 13 March 18 | 8 | 8 |
| **Former directors who served during 2020/21** | | | |
| Mark Seligman | 22 January 16 | 8 | 7 |

* Chair.

** More details on attendance and those directors who stepped down during the year are set out on page 58.

Non-executive directors, who are not members, may also attend Committee meetings. The CEO, Chief People Officer, Head of Reward and the Committee's remuneration advisors were regular attendees at Committee meetings held during the year. No individual was present when his or her own remuneration or benefits were discussed.

## Activities during the year

The significant matters considered by the Committee during the year are set out below:

| Areas of Committee focus | Items discussed |
|---|---|
| **Kingfisher 1+1 Sharing In Our Future Plan** | – Approved the adoption and launch of the Kingfisher 1+1 Sharing In Our Future Plan. |
| **Salary review and remuneration decisions** | – During the Covid-19 pandemic, considered and enacted temporary voluntary salary reductions for the executive directors and Group Executive.<br>– Reviewed and approved the salary proposals in respect of the Group Executive and Company Secretary in respect of 2020/21.<br>– In addition, at its meeting in January 2021, the Committee reviewed and approved the salary proposals in respect of the executive directors, Group Executive and Company Secretary, effective from April 2021. |
| **Annual Bonus** | – Judged performance against the 2019/20 strategic measures and agreed the 2019/20 Annual Bonus outturn for the members of the Group Executive, taking into consideration the external environment and impact of Covid-19.<br>– Considered the 2019/20 Annual Bonus award and agreed that no annual bonus would be paid to executive directors considering the external environment and impact of Covid-19.<br>– Assessed performance against the 2020/21 Annual Bonus measures and reviewed the year-end forecast.<br>– Determined measures for the 2021/22 Annual Bonus. |
| **Alignment Shares** | – Approved the underpins to be used for the 2020 Alignment Share awards and the subsequent grant of awards.<br>– Assessed performance to date of the 2018 Alignment Shares, which will vest in April 2021.<br>– Reviewed the performance of the 2017 Alignment Share awards and determined that the award would lapse in full. |
| **Delivering Value Incentive** | – Considered the targets for the second tranche of the 2019 Delivering Value Incentive ready for consultation with shareholders to seek their feedback on the proposals ahead of the 2021 Annual General Meeting.<br>– Approved the grant of Delivering Value Incentive awards to new Group Executive members who joined after October 2019. |
| **Transformation Incentive Award** | – Assessed performance to date of the 2016 Transformation Incentive Award, which will vest on 19 July 2021 subject to performance to 31 January 2021. |
| **Impact of IFRS on targets for Long Term Incentive Plans** | – Considered the impact of IFRS on the targets for the Delivering Value Incentive, Transformation Incentive and Alignment Share awards. Agreed that no adjustments were required but would continue to model against what the outturn would have been under IAS 17. |
| **Governance and other areas of focus** | – Received updates from Group Reward on the Group's remuneration practices to provide a fair and appropriate pay structure for all colleagues.<br>– Considered and approved the company's guidelines on share ownership.<br>– Monitored developments in corporate governance and market practice in respect to executive remuneration.<br>– Reviewed the output of the annual evaluation of the Committee.<br>– Reviewed and approved the 2019/20 Directors' Remuneration Report.<br>– Received updates on and considered Kingfisher's gender pay gap reporting.<br>– Undertook the annual review and approval of the updated Committee terms of reference. |

## Advisors to the Committee

During the financial year ended 31 January 2021, PricewaterhouseCoopers LLP (PwC) provided services to the Committee. The advice received from PwC by the Committee was considered, and it was determined that PwC provides objective and independent advice to the Committee. The Committee is satisfied that the PwC engagement partner and team, who provide remuneration advice to the Committee, do not have connections with the Group that may impair their objectivity and independence.

PwC was appointed by the Committee as its principal advisor on 1 February 2013 following a robust tender process. PwC is a member of, and adheres to, the Code of Conduct for Remuneration Consultants (which can be found at www.remunerationconsultantsgroup.com). During the year, PwC provided the Committee with executive remuneration advice. PwC also provided Kingfisher with reward advice for below-Board staff, tax advice, accounting advice, and legal advice during the year. For services provided to the Remuneration Committee, the fees paid to PwC were £250,750. These fees were incurred through a retainer, and on a time and expenses basis.

## Voting at the Annual General Meeting (AGM)

The following table shows the results of the advisory vote on the Annual Report on Remuneration at the 2020 AGM and the binding vote on the Remuneration Policy at the 2019 AGM.

| Resolution | Votes for (and % of votes cast) | Votes against (and % of votes cast) | Proportion of shares voted | Shares on which votes were withheld |
|---|---|---|---|---|
| Annual Report on Remuneration (2020 AGM) | 1,674,266,051 (98.08%) | 32,722,506 (1.92%) | 80.89% | 4,651,921 |
| Directors' Remuneration Policy (2019 AGM) | 1,667,154,482 (96.76%) | 55,848,890 (3.24%) | 81.65% | 3,102,345 |

**Single total figure of remuneration for the executive directors** (audited information)
The table below sets out the remuneration of each of the executive directors for the financial year ended 31 January 2021 and the comparative figures for the financial year ended 31 January 2020. The Committee did not exercise any discretion in determining the incentive outcomes for the year being reported on.

| Name | | 1. Base salary £'000 | 2. Taxable benefits £'000 | 3. Annual Bonus £'000 | 4. Alignment Shares £'000 | 5. Pension £'000 | 6. Total Fixed pay £'000 | 7. Total Variable Pay £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Executive director** | | | | | | | | | |
| Thierry Garnier[1] | **2020/21** | **746.7[3]** | **305.5** | **510.7** | **n/a** | **93.3** | **1,145.5** | **510.7** | **1,656.2** |
| | 2019/20 | 279.4 | 119.6 | 0 | n/a | 34.9 | 433.8 | 0 | 433.8 |
| Bernard Bot[2] | **2020/21** | **527.3[3]** | **35.7** | **360.7** | **n/a** | **65.9** | **628.9** | **360.7** | **989.6** |
| | 2019/20 | 159.7 | 9.7 | 0 | n/a | 20.0 | 189.4 | 0 | 189.4 |
| Total | **2020/21** | **1,274.0** | **341.1** | **871.4** | **n/a** | **159.3** | **1,774.4** | **871.4** | **2,645.8** |
| | 2019/20 | 439.0 | 129.3 | 0 | n/a | 54.9 | 623.3 | 0 | 623.2 |

1. Thierry Garnier joined the company on 25 September 2019.
2. Bernard Bot joined the company on 21 October 2019.
3. Includes temporary 20% reduction on base salary during 1 April 2020 – 31 July 2020. This amounts to a reduction of £53,333 and £37,667 for the CEO and CFO respectively. This also resulted in a pension reduction of £6,667 and £4,708 respectively.

## Notes to the single total figure of remuneration table

### 1. **Base salary** (audited information)

No salary increases were awarded to the executive directors for 2020/21 financial year. From 1 April 2020 to 31 July 2020, both executive directors voluntarily agreed to temporarily reduce their base salary by 20% in response to the Covid-19 pandemic.

| | **As at 1 April 2020 £'000** | As at 1 April 2019 £'000 | % increase |
|---|---|---|---|
| **Executive director** | | | |
| Thierry Garnier | **800.0** | 800.0 | 0% |
| Bernard Bot | **565.0** | 565.0 | 0% |

### 2. **Taxable benefits** (audited information)

The benefits provided to executive directors for both 2020/21 and 2019/20 included car benefit (or cash allowance), private medical insurance, death-in-service cover, life assurance, tax advice and, where applicable, relocation support.

| Name | Car benefit[1] £'000 | Medical £'000 | Relocation support[2] £'000 | Tax advice[3] £'000 | Life assurance £'000 | **Total 2020/21 £'000** | Total 2019/20 £'000 |
|---|---|---|---|---|---|---|---|
| **Executive director** | | | | | | | |
| Thierry Garnier | 25 | 10.3 | 260.9 | 6.2 | 3.0 | **305.5** | 119.6 |
| Bernard Bot | 25 | 8.6 | n/a | n/a | 2.1 | **35.7** | 9.7 |

1. Both directors opt for a cash allowance.
2. As Thierry moved from China to the UK as part of his appointment as CEO, in line with the Remuneration Policy, he is entitled to relocation support of up to 50% of salary.
3. This benefit relates to ongoing annual tax preparation assistance provided to the CEO. This assistance is provided in recognition of the international nature of the CEO's role and is limited to income tax return preparation required in respect of the CEO's employment income. Note that this figure is inclusive of tax payable on expenses reimbursed.

### 3. **Annual Bonus** (audited information)

The purpose of the Annual Bonus is to focus executives on the achievement of strategic measures that are critical to the Kingfisher strategy. The 2020/21 Annual Bonus was based on strategic measures in the following five areas.

The table below sets out the targets that were set in respect of each measure, the corresponding achievement against those targets during the year ending 31 January 2021, and the resulting payout.

| Strategic area | Measure | Targets | | | Achievement | Outturn |
|---|---|---|---|---|---|---|
| | | Threshold (10% of max) | Target (50% of max) | Stretch (100% of max) | | |
| Financial (60%) | Like for like sales growth (30%) | –0.4% | +1.6% | +3.6% | 7.1% | 30.0% |
| | Free Cash Flow (30%) | £208.7m | £260.9m | £313.1m | £938m | 30.0% |
| Customer (10%) | Customer NPS based on in-store purchases (5%) | 66.1 | 68.0 | 70.5 | 69.3 | 3.8% |
| | NPS based on digital purchases (5%) | 16.0 | 19.0 | 22.0 | 11.1 | 0.0% |
| Offer (10%) | 'Own Brand' or OEB penetration (OEB sales as a % of Group sales) | 40.5% | 41.5% | 42.5% | 40.3% when outcome is assessed on a comparable basis to targets originally set (2020/21 figure is 44%) | 0.0% |
| Digital (10%) | Digital sales growth | +12.8% | +17.1% | +21.4% | 157.1% | 10.0% |
| ESG (10%) | Colleagues (2%) | Inclusivity improvement plans in place, and action taken, in each Banner and improvement in gender ratio at management level | | | For Group, there has been a c.1 percent point improvement in the female: male ratio at management. Inclusivity improvement plans in place in all Banners and at Group. Actions, including workshops and listening groups, have been undertaken under these plans | 2.0% |
| | Climate change (2%) | Deliver annual carbon reductions in line with current Kingfisher Group 2025 target which is to reduce own scope 1 and 2 carbon emissions by 22% by 2025 from a 2016 baseline | | | 27% reduction so far from the 2016 baseline | 2.0% |
| | Planet (2%)[1] | 99.5%-100% responsibly sourced wood and paper by end of 2020 for all Goods for Resale (GFR) & catalogue paper | | | 100% and 80.9% of catalogue paper and GFR respectively are from responsibly sourced wood and paper | 1.0% |
| | Community (2%) | Absolute target of 20,000 volunteering hours from employees in making home improvement accessible to everyone | | | 6,335 volunteering hours. However significant other contributions to our communities were made during the year, details of which are set out below the table. | 1.0% |
| | Greener, healthier homes (2%)[1] | 50% of Group sales to come from products that help create a more sustainable home | | | 41.3% of Group Sales from products that help create a more sustainable home | 0.0% |
| **Total outturn** | | | | | | **79.8%** |

1. At the time of the publication of the report, the Planet and Greener, healthier homes outturns were still undergoing external verification. The figures are not expected to change in a way which changes the level of payout (i.e. catalogue paper outturn is expected to remain at stretch and GFR and % of Group Sales that help create a more sustainable home is expected to remain below STE). If there is any change which impacts the level of payout, this will be disclosed in next year's Annual Report.

At the meeting in March 2021, the Committee considered performance against all measures and targets set at the beginning of the year and concluded that all apart from the Community measure remain relevant over the performance period. For Community, due to social distancing restrictions it was not legally possible for the Group to fulfil their volunteering hours target. However, the Group made community contributions of over £5.5m which consists of PPE donations, additional support for community emergency response to Covid-19, product donations and set up and launch costs for our charitable Banner foundations. From 2019 to the end of 2020, the Group also has helped 791,000 people whose housing needs are viewed as the greatest: our stated aim is to help over 1 million people by 2025. These areas were very actively championed by the executive directors, and whilst this is not direct volunteering, we believe that the really significant efforts made by everyone to ensure that we kept trading in a way which was safe and responsible for both colleagues and customers and continued to support our communities should be taken into account, and demonstrates our broader commitment to the communities in which we operate. With this in mind, the Committee has applied its judgement in determining that the Community measure has been met at target. This means that the total outturn under the 2020/21 annual bonus for executive directors is 79.8% of maximum (the outcome would have been 78.8% had this judgement not been made). The final payout equates to 63.8% of salary for the CEO and CFO which is £510,720 and £360,696 respectively. In line with Policy, 100% of the bonus is paid in cash.

In determining whether this level of bonus outturn is appropriate, the Committee has considered a wide range of factors including financial performance, the value delivered to shareholders, the treatment of wider workforce as well as other stakeholders etc. The Committee has also taken into account the criteria which external bodies expect to be considered when determining if a bonus payout is appropriate in respect of this exceptional year. Our commitment to these factors is provided in more detail in the Coronavirus pandemic section of the Remuneration Committee Chair's letter. The Committee concluded that a bonus of 79.8% of maximum for 2020/21 is appropriate given the strong financial performance and the improvement in the share price over the year and that the bonus outturn would remain the same if it was adjusted to exclude one off non-recurring net cost savings linked to Covid-19.

**4. Alignment Shares (audited information)**

In line with our Policy, the Committee approved the grant of Alignment Shares at the level of 80% of salary for the CEO and CFO on 28 July 2020. 100% of these awards will vest after three years and be subject to underpins. These awards will not appear in the single figure table until they vest based on performance in the 2022/23 financial year.

At the March 2021 Remuneration Committee meeting, the Committee reviewed performance against the underpins attached to the Alignment Shares awarded in 2018 that are due to vest in 2021. Neither of the current executive directors has a 2018 Alignment Share award; however, as previously disclosed, the former CEO, Véronique Laury, retained her Alignment Share awards on departure from the business. The ratio of Net debt to EBITDA for 2020/21 is less than 2.5 times (0.9 for 2020/21) under IFRS 16 and the Committee are comfortable that the vesting outcome would have been the same had the performance been tested under IAS 17 and if one-off non-recurring net cost savings linked to Covid-19 were excluded. However, the proposed total year dividend for 2020/21 is 8.25p with no other dividend paid for the year. This is less than 10.1p required for the maintenance of dividend underpin to be met therefore 50% of the 2018 Alignment Share Award will lapse. This means that 50% of Véronique Laury's award will vest in April 2021. The Committee believes this outturn is appropriate and is reflective of performance over the performance period. In line with regulations, the value of the vested award will be detailed in the 'Payments to past directors' section in next year's Annual Report.

**5. Transformation Incentive** (audited information)

In March 2021, the Committee also reviewed performance against the performance measures attached to the Transformation Incentive awarded in 2016 and due to vest on 19 July 2021.

Neither of the current executive directors currently has a 2016 Transformation Incentive award; however, the former CEO, Véronique Laury, retained her Transformation Incentive on departure from the business and is pro-rated in line with the Kingfisher Alignment Share and Transformation Incentive Plan (KASTIP) Rules.

The performance measures, weightings and actual performance are as follows:

| **Payout multiple** | EPS growth (p.a.) (50% of award) | 2020/21 ROCE (50% of award) |
|---|---|---|
| Zero | 4% | 12% |
| 1x Target | 6.5% | 13% |
| 2x Target | 9% | 14% |
| 3x Target | 12% | 15% |
| 4x Target | 16% | 17% |
| Actual performance | 4.2% | 12.2% |

1. The performance is assessed over a five-year performance period of 1 February 2016 to 31 January 2021 for EPS.
2. Payouts occur on a straight-line basis between each of the required EPS and ROCE performance points.

The 2020/21 EPS and ROCE used to determine the outturn under the Transformation Incentive differs from figures shown in the Annual Report. This is because, performance has been assessed using IAS 17 rather than IFRS 16 as IAS 17 was the accounting standard in place during the time of when the targets were set and no adjustments were made to the targets when the accounting standard changed. This ensures that the outturn is assessed on the same basis as the targets. In assessing all of Kingfisher's incentive plans this year the Committee has considered what the outturn would have been had an adjustment been made for the one off non-recurring net cost savings linked to Covid.

Under the Transformation Incentive, EPS and ROCE were adjusted to exclude £45 million which directly relates to non-UK furlough costs which has not been repaid (UK and Ireland furlough costs and other external financing schemes related to Covid-19 have been repaid). The Committee viewed this adjustment to be appropriate as it is a one-off benefit which cannot be credited to performance, and therefore should not flow through to benefit any incentive outcome. Therefore, performance under the adjusted EPS and ROCE results in a vesting outcome of 1.2% of the total award under the EPS growth element of the award and 2.3% of the total award under the ROCE element of the award which in total equates to 0.14x of target or 3.5% of maximum.

The Remuneration Committee has reviewed this outturn with the adjustment and have concluded it to be appropriate given the performance under the period. This means that 3.5% of Véronique Laury's pro-rated award will vest in July 2021. In line with regulations, the value of the vested award will be detailed in 'Payments to past directors' section in next year's Annual Report.

**6. Pensions** (audited information)

Executive directors based in the UK are eligible to join the UK defined contribution pension plan (the DC Scheme). No executive director has a prospective right to a defined benefit pension.

The company operates a policy to limit the combined employer and member pension contributions during a tax year to the annual allowance, with the excess employer contribution being directed into a taxable monthly cash allowance. In addition, directors may choose to opt out of the scheme completely if, for example, they have reached the lifetime allowance.

A summary of the arrangements for the executive directors is set out below.

| Name | Notional employer contribution rate into defined contribution pension scheme for which the individual is eligible | Member of the UK DC Scheme? | Cash allowance in lieu of employer contributions into DC Scheme? | Equivalent cash allowance rate as % of salary |
|---|---|---|---|---|
| **Executive director** | | | | |
| Thierry Garnier | 14% | No | Yes, in full | 12.5% |
| Bernard Bot | 14% | No | Yes, in full | 12.5% |

**Notes:**

Cash allowances are provided on a cost-neutral basis for the company. This means that a discount is applied to those directors joining after the introduction of pension salary sacrifice (SMART pensions) in 2012.

This accounts for the fact that employer's national insurance is payable on the cash alternative, whereas it is not payable on the employer pension contribution into the defined contribution scheme. Accordingly, the cash alternative is 12.5% of salary.

## Pension benefits paid during the year

| Name | Employer contributions into DC Scheme £'000 | Cash alternative £'000 | Total 2020/21 £'000 | Total pension benefit as a % of base salary |
|---|---|---|---|---|
| **Executive director** | | | | |
| Thierry Garnier[1] | n/a | 93.3 | 93.3 | 12.5% |
| Bernard Bot[1] | n/a | 65.9 | 65.9 | 12.5% |

1. From 1 April 2020 to 31 July 2020, both executive directors voluntarily agreed to temporarily reduce their base salary by 20% in response to the Covid-19 pandemic. This reduced their pension contributions for this period.

## **Payments to past directors** (audited information)

As communicated in the 2019/20 Remuneration Report and our section 430(2b) announcement, Véronique Laury received a one-off relocation allowance paid during 2020/21 to support her repatriation to France. The amount paid to Véronique Laury in respect of this was £319,698 inclusive of taxes. This is within the approved Remuneration Policy.

Values of her vested awards under 2018 Alignment Share award and 2016 Transformation Incentive Award will be detailed in this section in next year's Annual Report. However the expected vesting outcomes under these incentives are set out in the previous section.

## **Payments for loss of office** (audited information)

There were no payments made to directors for loss of office.

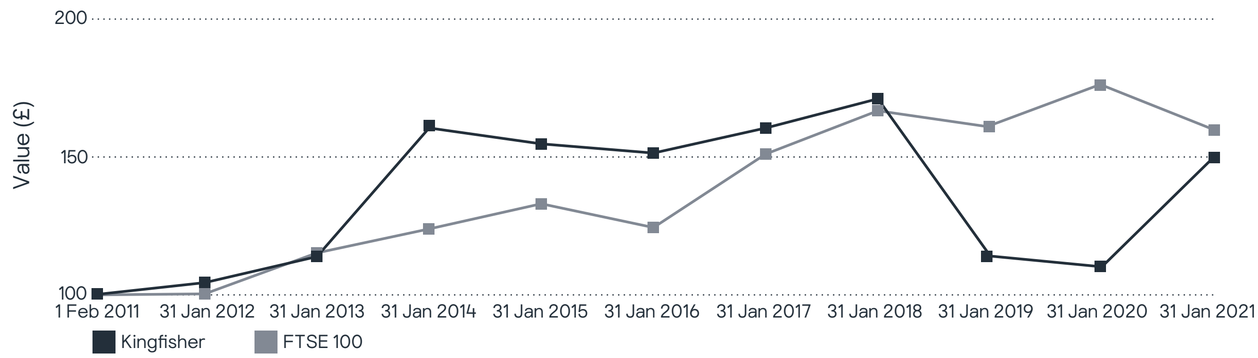
## Outside appointments for Executive directors

Subject to the rules governing conflicts of interest, Kingfisher is supportive of its executive directors holding one external non-executive position. The exercise of such roles can provide valuable insight for the executive directors, which can be of benefit to Kingfisher. Subject to the Committee's agreement, the individual may retain any fees applicable for these roles.

Bernard Bot is a non-executive director and member of the audit committee at A.P. Møller-Mærsk A/S. Bernard receives 1,250,000 DKK per annum for fulfilling this role. He retains these fees.

## Performance graph

The graph below shows Kingfisher's total shareholder return for the 10 years to 31 January 2021, which assumes that £100 was invested in Kingfisher on 1 February 2011. The company chose the FTSE 100 Index as an appropriate comparator for this graph, as Kingfisher has been a constituent of that index for the majority of the period.




## CEO's remuneration over the last 10 years

The table below sets out the total remuneration of the holder of the office of CEO for the period from 1 February 2011 to 31 January 2021.

| Year | CEO | Bonus % of maximum awarded[1] | Value of bonus awarded £'000 | Original Alignment Share grant as a % of salary[2] | Alignment Share % of maximum vesting[2] | Value of shares vested £'000 | Original LTIP grant level as a % of salary[3] | LTIP % of maximum vesting | Value of vested shares £'000 | CEO's single figure £'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| 2011/12 | Sir Ian Cheshire | 93.5 | 1,525.9 | – | – | – | 200 | 98.9 | 6,083.0 | 8,628.3 |
| 2012/13 | Sir Ian Cheshire | 30.8 | 502.7 | – | – | – | 200 | 50.0 | 1,157.6 | 2,817.2 |
| 2013/14 | Sir Ian Cheshire | 32.0 | 532.7 | – | – | – | 500 | 31.1 | 1,799.4 | 3,455.4 |
| 2014/15[4] | Sir Ian Cheshire/Véronique Laury | 12.3 | 202.6 | – | – | – | n/a | n/a | n/a | 1,306.1 |
| 2015/16 | Véronique Laury | 69.1 | 967.4 | – | – | – | n/a | n/a | n/a | 1,983.0 |
| 2016/17 | Véronique Laury | 90.0 | 537.0 | 20[5] | 100 | 151.1 | 200 | 24.5 | 100.1 | 1,715.1 |
| 2017/18 | Véronique Laury | 87.0 | 534.2 | 20[5] | 100 | 156.9 | 200 | 0.0 | 0.0 | 1,582.6 |
| 2018/19 | Véronique Laury | 82.0 | 522.0 | 50[6] | 62.5 | 323.8 | n/a | n/a | n/a | 1,761.3 |
| 2019/20 | Véronique Laury/Thierry Garnier[7] | 0 | 0 | 20[6] / n/a[8] | 25.0 / n/a | 136.2 / n/a | n/a | n/a | n/a | 1,178.7 |
| 2020/21 | Thierry Garnier | 79.8 | 510.7 | n/a[8] | n/a | n/a | n/a | n/a | n/a | 1,656.2 |

1. The maximum bonus opportunity was 200% of base salary up to the end of the 2015/16 financial year. The maximum bonus opportunity from 2016/17 onwards was 80% of salary.
2. New element of reward introduced under the Remuneration Policy approved by shareholders at the 2016 AGM.
3. The original LTIP grant shows the award level at the point of grant, three years prior to the date the vesting percentage was determined.
4. Sir Ian Cheshire stepped down as CEO on 8 December 2014, at which point Véronique Laury took over the position. Sir Ian Cheshire's remuneration in the table is from the start of the financial year up until 8 December 2014, and Véronique Laury's is from 8 December 2014 to the end of the financial year. The single total figure in the table above shows the combined total remuneration for both Sir Ian Cheshire and Véronique Laury.
5. This represents 25% of the total Alignment Share award (equivalent to 80% of salary) granted in 2016 and 2017 respectively. This portion vested upon grant. The remaining 75% of this award (equivalent to 60% of salary) may vest three years after the date of grant, subject to performance against the underpin measures set out in the corresponding Remuneration Report.
6. This represents 25% of the total Alignment Share award (equivalent to 80% of salary) granted in 2018 or 2019 (that vested upon grant) and 75% of the total Alignment Share award granted in 2016 (that partially vested in June 2019) and in 2017 (which lapsed in full) for Véronique Laury and which were subject to performance against the underpin measures set out in the corresponding Remuneration Report.
7. Véronique Laury stepped down as CEO on 24 September 2019, at which point Thierry Garnier took over the position. Véronique Laury's remuneration in the table is from the start of the financial year up until 24 September 2019, and Thierry Garnier's is from 25 September 2019 to the end of the financial year. The single total figure in the table above shows the combined total remuneration for both Véronique Laury and Thierry Garnier.
8. 100% of the Alignment Share award granted to Thierry Garnier (equivalent to 80% of salary) in 2019 and 2020 is subject to performance against the underpin measures set out in the corresponding Remuneration Report.

## Change in the remuneration of the directors

In line with the updated reporting regulations, the table below shows how the percentage change in each director's (including the non-executive directors') salary, fees, non-taxable benefits and bonus between 2019/20 and 2020/21 compared with the average percentage change of each of those components for all full-time equivalent employees based in Kingfisher plc. In line with prior years, the percentage change for each director has also been compared to the UK employee workforce (the UK entities, including B&Q and Screwfix). The UK employee workforce is deemed to be a suitable comparator group as the executive directors are based in the UK (albeit with global roles and responsibilities) and pay changes across Kingfisher vary widely depending on local market conditions.

| | Base salary/fees | Taxable benefits | Bonus |
|---|---|---|---|
| **Executive directors** | | | |
| Thierry Garnier[1] | -6.7% | 112%/15.2%[2] | n/a[3] |
| Bernard Bot[1] | -6.7% | 1.0% | n/a[3] |
| **Non-executive directors** | | | |
| Andrew Cosslett | -9.1% | 8.6% | n/a |
| Claudia Arney[4] | 17.7% | n/a | n/a |
| Jeff Carr | -10% | n/a | n/a |
| Sophie Gasperment | -10% | n/a | n/a |
| Rakhi Goss-Custard | -10% | n/a | n/a |
| Catherine Bradley[5] | n/a | n/a | n/a |
| Tony Buffin[5] | n/a | n/a | n/a |
| **Former non-executive director** | | | |
| Mark Seligman[6] | -10% | n/a | n/a |
| All Kingfisher plc employees | -13.8% | -33.0% | 97.66% |
| All UK employees[7] | -0.6% | -19.1% | 128.8% |

1. Joined on 25 September 2019 and 21 October 2019: percentages calculated on a full-time basis.
2. First figure includes relocation paid during 2020/21, the second excludes it.
3. No bonus was paid in 2019/20 so comparison is not possible.
4. Became Chair of the Remuneration Committee on 21 January 2020. Fee for this role is £20,000 on top of non-executive director fees.
5. Joined on 2 November 2020 and 1 December 2020 so comparison is not possible.
6. Left on 29 January 2021.
7. Includes all UK employees including those in B&Q and Screwfix.

## Relative importance of spend on pay

The table below shows the relative importance of spend on employee remuneration when compared with distributions to shareholders. There were no share buybacks undertaken during the year.

| | **2020/21 £m** | 2019/20 £m | Percentage change |
|---|---|---|---|
| Overall expenditure on pay | **1,891** | 1,770 | 6.8% |
| Total dividends paid in the year | **0** | 227 | -100% |

## Pay ratio analysis

| Year | Method | 25th percentile pay ratio | Median pay ratio | 75th percentile pay ratio |
|---|---|---|---|---|
| 2020/21 | Option B (i.e. 25th percentile, median and 75th percentile individual identified from our April 2020 gender pay gap analysis) | 95:1 | 93:1 | 71:1 |
| 2019/20 | Option B (i.e. 25th percentile, median and 75th percentile individual identified from our April 2019 gender pay gap analysis) | 71:1 | 64:1 | 56:1 |
| 2018/19 | Option B (i.e. 25th percentile, median and 75th percentile individual identified from our April 2018 gender pay gap analysis) | 106:1 | 97:1 | 81:1 |

We have used Option B in the legislation to leverage the analysis completed as part of our UK gender pay gap reporting exercise. We have determined our 25th, median and 75th percentile individual using data from the respective 5 April snapshots. While gender pay gap legislation and CEO pay ratio legislation employ different calculations, the three identified UK employees receive similar remuneration structures, and therefore we are confident that they also represent broadly the same respective percentiles when calculated using the single figure of total remuneration methodology required in the CEO pay ratio calculation. Where relevant, each employee's pay and benefits were calculated on a full-time equivalent basis, and no further adjustments were made. The values for total remuneration for the 25th, median and 75th percentile were £17.5k, £17.8k and £23.5k respectively comprising of salary, ad hoc bonuses in relation to Covid and employer contribution to pension. The salaries for these employees were £17k, £17.3k and £21.7k respectively. The year-on-year change can be explained primarily by the decision to pay a bonus to the CEO this year when no bonus was paid last year. The year-on-year change was also influenced by a number of employees in the UK going on furlough at the start of the Covid pandemic last year, furlough reductions and the temporary 20% reduction in the CEO's salary. It is in the Committee's view that the ratios remain consistent with pay and progression policies for UK employees.

## Executive directors' shareholdings and share interests (audited information)

Executive directors are required to build a significant shareholding in the company. Unvested awards are not included when assessing holding requirements. Vested awards are included when assessing holdings but are adjusted to take into account the tax liability arising on exercise.

The table below sets out the beneficial interests of the executive directors (or any connected persons) in the ordinary shares of the company and a summary of the outstanding share awards as at 31 January 2021. Calculations are based on a share price of 277.7 pence per share (being the closing price of a Kingfisher share on 31 January 2021).

| | Shares held | | Awards over nil-cost options | | | | |
|---|---|---|---|---|---|---|---|
| Name | Number of shares held outright | | Vested but not exercised[1] | Unvested and subject to continued employment | Unvested and subject to performance conditions and continued employment[2] | Shareholding requirement (% of base salary) | Shareholding 31 Jan 21 (% of base salary)[3] |
| | 31 Jan 21 | 31 Jan 20 | | | | | |
| **Executive director** | | | | | | | |
| Thierry Garnier[4] | 60,000 | 60,000 | – | – | 3,653,504 | 350% | 21% |
| Bernard Bot[4] | 50,000 | 50,000 | – | – | 1,982,954 | 250% | 25% |

1. Nil-cost options and awards that have vested but have yet to be exercised are considered to count towards the shareholding requirement, other than any such shares that correspond to the estimated income tax and national insurance contributions that would arise on their exercise (estimated at 47% of the award).
2. These awards include nil-cost options to Thierry Garnier and Bernard Bot in respect of the 2019 and 2020 Alignment Share awards and the 2019 Delivering Value Incentive award.
3. Between 1 February 2021 and the date of this report, there were no changes in the beneficial interests of the executive directors' shareholdings.
4. As potential beneficiaries of the Kingfisher Employee Benefit Trust (the Trust), Thierry Garnier and Bernard Bot are deemed to have an interest in the company's ordinary shares held by the Trust. The Trust held 7,813,417 ordinary shares at 31 January 2021.

## Share awards made during the financial year (audited information)

Options and awards over shares were made during the year ended 31 January 2021 under the Kingfisher Alignment KASTIP in respect of the 2020/21 Alignment Share award.

**1. 2020/21 Alignment Share award**

**Vesting subject to performance conditions**

| Name | Date of grant[1] | Number of shares | Face value of award[2] £'000 | End of performance period[3] | Final exercise date[4] |
|---|---|---|---|---|---|
| Thierry Garner | 28 July 2020 | 255,013 | 635.7 | 31 Jan 23 | 28 Jun 30 |
| Bernard Bot | 28 July 2020 | 180,103 | 449.0 | 31 Jan 23 | 28 Jun 30 |

1. Vesting date of 28 July 2023.
2. The number of shares, at the time of grant, was based on 80% of base salary and the three-day average closing share price preceding the date of grant. The awards were made under the KASTIP and the value above is based on the closing share price as at the date of grant, of 249.3p per share for 28 July 2020.
3. The shares will vest subject to performance against the underpin conditions over the period to the end of the 2022/23 financial year.
4. The awards are structured as nil-cost options and have an exercise period of 10 years less one month.

The performance conditions attached to the 2020 Alignment Share award are as follows:

– Maintenance of the 2019/20 dividend subject to dividend cover being above 1.75 times.
– Maintenance of ratio of net debt to EBITDA below 2.5 times.

If one condition is not met, up to 50% of the unvested shares will lapse. If both are not met, up to 100% of the unvested shares will lapse.

**2. 2019 Delivering Value Incentive award**

As detailed in the 2019/20 Annual Report, the Committee approved the grants made under the Delivering Value Incentive (DVI) in October 2019 to both executive directors. The 2019 DVI award consolidates three years' worth of long-term share awards, therefore in line with Policy no award was made in 2020/21.

The 2019 DVI award is dependent on EPS, ROCE and Relative TSR performance.

50% of the 2019 DVI is dependent on EPS, ROCE and relative TSR targets. Performance will be measured within a five-year time horizon of the award over two periods, each applying to one half of the total award (i) 1 February 2019 to 31 January 2022 and (ii) 1 February 2021 to 31 January 2024, to better align with the phasing of the company's strategy. The targets for the first performance period can be found in the 2019/20 Annual Report.

The Committee is undergoing consultation with shareholders on the proposed targets for the second performance period (1 February 2021 to 31 January 2024) and will publish the targets in an RNS ahead of the 2021 AGM.

## Scheme interests exercised during the financial year (audited information)

No awards were exercised by executive directors during the year.

**Dilution limits**
The terms of the company's share plans set limits on the number of newly issued shares that may be issued to satisfy awards. In accordance with guidance from the Investment Association, these limits restrict overall dilution under all plans to under 10% of the issued share capital over a 10-year period, with a further limitation of 5% in any 10-year period on executive plans.

Only those awards granted under the Kingfisher Sharesave plan are satisfied by newly issued shares.

Any awards that are satisfied by market-purchased shares are excluded from these calculations, including all awards made under the Kingfisher Alignment Share and Transformation Incentive Plan.

No treasury shares were held or utilised in the year ended 31 January 2021.

## Single total figure of remuneration for the non-executive directors (audited information)

**Fees payable to non-executive directors**
The table below sets out the remuneration of each non-executive director during the financial year ended 31 January 2021 and the comparative figures for the year ended 31 January 2020. During the year, no payments were made to non-executive directors for expenses other than those incurred in the ordinary course of their appointments.

| Name | Additional responsibilities | Committee membership[1] | Fees 2020/21 £'000[2] | Fees 2019/20 £'000 | Taxable benefits 2020/21 £'000 | Taxable benefits 2019/20 £'000 | Total 2020/21 £'000 | Total 2019/20 £'000 |
|---|---|---|---|---|---|---|---|---|
| Andrew Cosslett[3] | Chair, Nomination Committee Chair | R, N | 450.0 | 495.0 | 1.2[4] | 1.1 | 451.2 | 496.1 |
| Claudia Arney[5] | Remuneration Committee Chair | R, N | 76.5 | 65.0 | – | – | 76.5 | 65.0 |
| Catherine Bradley[6] | Senior independent director | A, R, N | 16.3 | – | – | – | 16.3 | – |
| Tony Buffin[7] | | A, N | 10.8 | – | – | – | 10.8 | – |
| Jeff Carr | Audit Committee Chair | A, N, R | 76.5 | 85.0 | – | – | 76.5 | 85.0 |
| Sophie Gasperment | Responsible Business Committee Chair | N, RB | 58.5 | 65.0 | – | – | 58.5 | 65.0 |
| Rakhi Goss-Custard | | A, R, N, RB | 58.5 | 65.0 | – | – | 58.5 | 65.0 |
| **Former directors** | | | | | | | | |
| Mark Seligman[8] | Senior independent director | A, R, N | 76.5 | 85.0 | – | – | 76.5 | 85.0 |
| **Total** | | | **823.7** | **860.0** | **1.2** | **1.1** | **824.8** | **861.1** |

1. Indicates which directors served on each committee during the year: Audit Committee = A; Nomination Committee = N; Remuneration Committee = R; Responsible Business Committee = RB.
2. Includes 20% reduction in fees between 1 April 2020 and 30 September 2020 in response to the Covid-19 pandemic.
3. For his role as Chair, Andrew Cosslett receives a fee of £450,000 per annum (£405,000 once the 20% reduction in fees between 1 April 2020 and 30 September 2020 has been accounted for). The fees paid to Andrew Cosslett include a contribution of £45,000 towards the costs of an assistant.
4. These relate to private medical cover for Andrew Cosslett and his family.
5. Claudia Arney became Chair of the Remuneration Committee on 21 January 2020.
6. Catherine Bradley was appointed to the Board on 2 November 2020 and was appointed as senior independent director with effect from 29 January 2021.
7. Tony Buffin was appointed to the Board on 1 December 2020.
8. Mark Seligman stepped down from the Board on 29 January 2021.

## Notes to the single total figure of remuneration for the non-executive directors (audited information)

**Fees**
Fees paid to the Chair and non-executive directors for 2020/21 and 2019/20 are shown below. No benefits are provided except for a store discount card of up to 20%.

| | Fees £'000 | | |
|---|---|---|---|
| | As at 1 February 2020 | As at 1 February 2019 | % increase |
| Chair[1] | 495.0 | 495.0 | 0% |
| Non-executive director fee | 65.0 | 65.0 | 0% |
| Senior independent director | 20.0 | 20.0 | 0% |
| Audit Committee Chair | 20.0 | 20.0 | 0% |
| Remuneration Committee Chair | 20.0 | 20.0 | 0% |

1. Andrew Cosslett, who was appointed as Chair with effect from 13 June 2017, receives a fee of £450,000 per annum, plus a contribution towards the costs of an assistant of £45,000 per annum and private medical insurance for himself and his family.

## **Non-executive directors' shareholdings** (audited information)

The table below sets out the current shareholdings of the non-executive directors (including beneficial interests) as at 31 January 2021. The company does not operate a share ownership policy for the non-executive directors but encourages non-executive directors to acquire shares on their own account.

| | Number of shares held outright as at 31 January 2021[1] | Number of shares held outright as at 31 January 2020 |
|---|---|---|
| Andrew Cosslett | 290,866 | 290,866 |
| Catherine Bradley | 10,000 | n/a |
| Tony Buffin | 10,000 | n/a |
| Claudia Arney | 27,460 | 27,460 |
| Jeff Carr | 10,000 | 10,000 |
| Sophie Gasperment | 10,000 | 10,000 |
| Rakhi Goss-Custard[2] | 6,124 | 6,124 |
| **Former directors[3]** | | |
| Mark Seligman[4] | 25,000 | 25,000 |

1. There have been no changes to the beneficial interests of the non-executive directors between 1 February 2021 and 21 March 2021.
2. Rakhi Goss-Custard holds her interest in these shares through her spouse.
3. Shares held at date of stepping down from the Board.
4. Mark Seligman held his interest in these shares through his spouse and through M Seligman & Co Limited, a company owned jointly by Mark Seligman and his spouse.

## Statement on the implementation of the Remuneration Policy for 2021/22

### Implementation of the Remuneration Policy for executive directors for the year ahead

| | |
|---|---|
| Base salary | A 2% salary increase will be awarded to the executive directors effective from 1 April 2021. The new salaries are £816,000 for the CEO and £576,300 for the CFO. This is in line with the Policy and the wider UK workforce. |
| Benefits | Will be implemented in line with the Policy. |
| Pension | 12.5% of salary cash allowance in lieu of pension contributions, which is in line with the offering to the wider workforce. This is in line with the Policy. |
| Annual Bonus | Will be awarded in line with the Policy.<br>The Annual Bonus will have a maximum opportunity of 80% of salary and will be judged based on the achievement of a number of strategic measures critical to the delivery of strategy, with an increased focus on financial and output measures, as set out below:<br>– 30% Like-for-like sales growth<br>– 30% Adjusted PBT<br>– 10% Free cash flow<br>– 10% 'Own brand' sales growth<br>– 10% Digital sales growth<br>– 10% ESG measures<br>A holistic assessment of Group performance will also be taken into consideration.<br>In the opinion of the Committee, the detail of the Annual Bonus measures and targets for 2021/22 are commercially sensitive as they closely align with annual business priorities and accordingly are not disclosed. These will be disclosed in the 2021/22 Annual Report and Accounts. |
| Alignment Shares | Will be awarded in line with the Policy.<br>The Committee recognised the strong personal performance of the CEO and CFO during the year and therefore the Committee intends to make Alignment Share awards at the level of 80% of salary in line with the Policy.<br>A summary of the personal performance for each executive director is set out below:<br>– Thierry Garnier has moved swiftly to develop a robust new strategy focused on returning Kingfisher to growth and underpinned by strong sustainability and responsible business principles. In embedding the 'Powered by Kingfisher' strategy, he has created alignment across the Banners and focused his team on stewardship and leadership across the Group. His deep understanding and experience of retailing has been invaluable throughout the Covid-19 pandemic, where he has successfully navigated the business through very challenging and uncertain times, ensuring that we continue to be able to serve our local communities as an essential retailer in a way that is compliant with government advice, and has the safety of our colleagues and customers at its heart.<br>– Bernard Bot has built on the financial planning, reporting and process rigour and governance he put in place on joining and this continues to cement his credibility both internally with the Board and externally. He moved quickly as the Covid-19 pandemic surfaced to understand and mitigate the financial risk for Kingfisher by putting in place key capital and financial structuring which provided security to Kingfisher during the uncertainty of 2020/21. His broad commercial experience, combined with that of Thierry Garnier, continues to provide strong stewardship for the 'Powered by Kingfisher' strategy.<br>The underpin conditions for the Alignment Share awards relate to maintaining the underlying health of the business over the course of the vesting period, to the end of 2023/24. The underpin conditions for the 2021/22 awards, which will apply throughout the duration of the three-year vesting period, are:<br>– Maintenance of the 2020/21 dividend subject to dividend cover being above 1.75 times.<br>– Maintenance of the ratio of net debt to EBITDA below 2.5 times.<br>If one underpin condition is not met, up to 50% of the unvested shares will lapse. If both are not met, up to 100% of the unvested award will lapse. The Committee would determine the appropriate deduction considering business performance. Performance against the underpin will be considered annually and any reduction will apply to the award next due to vest.<br>In the event that the net debt to EBITDA ratio is exceeded due to Board-approved acceleration of investment plans, the Committee may apply discretion to allow vesting. In these circumstances, the Committee would consider delaying vesting (in whole or part) by a further year to ensure sustainability of performance. |
| Delivering Value Incentive | No awards will be made during the year. |

## Implementation of the Remuneration Policy for non-executive directors for the year ahead

| Fees £'000 | As at 1 February 2021 | As at 1 February 2020 | % increase |
|---|---|---|---|
| Chair[1] | 495.0 | 495.0 | 0% |
| Non-executive director fee | 66.3 | 65.0 | 2% |
| Senior independent director fee | 20.0 | 20.0 | 0% |
| Audit Committee Chair | 20.0 | 20.0 | 0% |
| Remuneration Committee Chair | 20.0 | 20.0 | 0% |
| Responsible Business Committee Chair | 20.0 | n/a | n/a |

1. Part of the Chair's fee relates to a contribution to the cost of his assistant of £45,000 per annum. He additionally receives private medical insurance for himself and his family.

The Board reviewed the non-executive director base fee for 2021/22 and agreed to increase the fee by 2%. This moderate increase which is in line with the salary increase awarded to the broader employee population reflects that the fee has not been increased since 2018 and helps to ensure that we can attract and retain non-executive directors of the highest calibre, as set out in the Remuneration Policy. A fee for the Chair of the Responsible Business Committee position fee has also been introduced.

## Service contracts/letters of appointment

| | Date of service contract/letter of appointment | Expiry of current term | Length of service at 31 January 2021 |
|---|---|---|---|
| Andrew Cosslett | 1 April 17 | 31 March 2023 | 3 years |
| Claudia Arney | 1 November 18 | 31 October 21 | 2 years |
| Bernard Bot | 21 October 19 | 12 months rolling | 1 year |
| Catherine Bradley | 2 November 20 | 1 November 2023 | <1 year |
| Tony Buffin | 1 December 20 | 30 November 2023 | <1 year |
| Jeff Carr | 1 June 18 | 31 May 21 | 2 years |
| Thierry Garnier | 25 September 19 | 12 months rolling | 1 year |
| Sophie Gasperment | 1 December 18 | 30 November 21 | 2 years |
| Rakhi Goss-Custard | 1 February 16 | 31 January 22 | 5 years |

Copies of the executive directors' service contracts and the non-executive directors' letters of appointment are held at the company's registered office address and are available to shareholders for inspection on request. Requests should be sent by email to shareholderenquiries@kingfisher.com.

**Claudia Arney**
Chair of the Remuneration Committee

21 March 2021

# Directors' report

This report sets out the information the company and the Group are required to disclose in the Directors' report in compliance with the Companies Act 2006 (the Act), the Financial Conduct Authority's Listing Rules (Listing Rules), the Disclosure and Transparency Rules (DTRs), and the 2018 UK Corporate Governance Code (the Code). This report should be read in conjunction with the Strategic report on pages 1 to 51 and the Corporate Governance report on pages 52 to 107. Together, the Strategic report, this Directors' report, and other sections of the Corporate Governance report incorporated by reference, when taken as a whole, form the Management Report as required under Rule 4.1.5R of the DTRs.

The table below sets out the location of applicable disclosures incorporated into the Directors' report, by reference. The majority of the disclosures required under Listing Rule 9.8.4 R are not applicable to the Group. The table below includes the location of the disclosures for those requirements that do apply:

| Disclosure | page |
|---|---|
| Allotment of equity securities (LR9.8.4 R) | 110 |
| Annual General Meeting (AGM) | 181 |
| Corporate Governance report, including reports from Board committees | 52-107 |
| Directors' interests | 93-105 |
| Directors' statement of responsibility | 111 |
| Diversity and inclusion | 23-24 |
| Employee share schemes | 162-163 note 31 |
| Equal opportunities | 24 |
| Financial instruments and financial risk management | 154-157 note 25 |
| Financial review (LR9.8.4 R) | 33-39 |
| Future developments | 6-14 |
| Going concern and viability statement | 50, 47-48 |
| Governance and risk management for climate change | 27-28 |
| Interest capitalised by the Group (LR9.8.4 R) | 140 note 6 |
| Important events since the end of the financial year | 167 note 40 |
| Key performance indicators | 2 |
| People and development | 22-24 |
| Risk management and internal control | 40-46 |
| Statement on engagement with employees | 51, 62, 64-65 |
| Statement on engagement with external stakeholders | 51, 62-69 |

## Articles of Association (Articles)

The Articles of the company may only be amended by special resolution at a meeting of the shareholders. The Articles are available on the Company's website.

## Branches

The Kingfisher Group, through various subsidiaries, has established branches in a number of countries in which the business operates.

## Directors

The Board and their biographical details are set out on pages 52 to 53. Directors are appointed in accordance with the Articles, the Act, and the Code. During the year, the following changes were made to the Board:

| | |
|---|---|
| Catherine Bradley | Non-executive director (Appointed 2 November 2020)<br>Senior independent director (Appointed 29 January 2021) |
| Tony Buffin | Non-executive director (Appointed 1 December 2020) |
| Mark Seligman | Senior independent director (Resigned 29 January 2021) |

## Directors' indemnity arrangements

The directors who served on the Board during the year have been granted a qualifying third-party indemnity, under the Act, which remains in force. The Group also maintains Directors' and Officers' liability insurance in respect of its directors and officers, and the directors of the Group's subsidiary companies. Neither the company's indemnity nor insurance provide cover in the event that an indemnified individual is proved to have acted fraudulently or dishonestly.

## Directors' powers

Subject to provisions of the Act, the Articles, and to any directions given by special resolution, the business of the company shall be managed by the Board, which may exercise all the powers of the company.

## Borrowing powers

The directors may exercise all the powers of the company to borrow money.

## Pre-emptive rights, new issues and share buybacks

The directors were authorised by shareholders at the 2020 AGM to allot shares, as permitted by the company's Articles. During the year, 617,206 shares were issued under the terms of the ShareSave Plan at prices between 159.0 and 281.0 pence per share.

Shareholders also approved a resolution for the company to make purchases of its own shares up to a maximum of 10% of its issued share capital. As at 21 March 2021 the directors had not used this authority.

These resolutions were in line with guidance issued by the Investment Association and remain in force until the conclusion of the 2021 AGM, or if earlier, until close of business on 24 October 2021. The company will seek to renew these standard authorities at the 2021 AGM.

## Conflicts of interest

The company has robust procedures in place to identify, authorise and manage potential or actual conflicts of interest, and these procedures have operated effectively during the year. Where potential conflicts arise, they are reviewed, and if appropriate, approved by the Board. Processes for managing such conflicts are put in place to ensure no conflicted director is involved in any decision related to his or her conflict. Directors' other key appointments are set out in the directors' biographies on pages 52 and 53.

## Dividends

In light of the unprecedented uncertainty caused by Covid-19, the Board did not pay a final dividend for the 2019/20 financial year.

The Board recognises the importance of dividends to shareholders and is pleased to recommend the payment of a total dividend of 8.25 pence per share in respect of the year ended 31 January 2021. The proposed dividend comprises an interim dividend of 2.75 pence per share in respect of the six months ended 31 July 2020 and a final dividend of 5.50 pence per share. The final dividend is subject to approval by shareholders at the AGM on 30 June 2021, and will be paid alongside the interim dividend on 5 July 2021 to shareholders on the register as at 4 June 2021.

## Major shareholdings

The company had been notified under Rule 5 of the DTRs of the following interests in voting rights in its shares as at 31 January 2021 or the date of this report where indicated. The information below was calculated at the date on which the relevant disclosures were made in accordance with the DTRs, however, the number of shares held by each may have changed since the company was notified.

| | Number of ordinary shares held) | % of total voting rights |
|---|---|---|
| BlackRock, Inc.[1] | 135,395,563 | 6.42 |
| Mondrian Investment Partners Limited | 112,274,595 | 5.00 |
| Templeton Global Advisors Limited | 104,803,951 | 4.97 |
| Silchester International Investors | 104,372,883 | 4.95 |
| Jupiter Fund Management Plc | Below 5% | Below 5% |

1. Part of the shares held by BlackRock, Inc. are in the form of American Depositary Receipts (ADRs).

## Political donations

The company made no political donations during the year (2019/20: £nil) and does not intend to make any political donations in the future.

As is our policy and practice, the company will continue to seek shareholder approval annually to enable us to make donations or incur expenditure in relation to EU political parties, other political organisations, or independent election candidates. This is on a precautionary basis to avoid any unintentional breach of the relevant provisions set out in the Act.

## Research and development

The company undertakes research and development activities in order to develop its digital capability and products. More information is available on pages 6 to 14 of the Strategic report.

## Share capital

The share capital of the company comprises ordinary shares of $15^{5/7}$ pence per share. All of the company's issued shares are fully paid up and each share carries the right to one vote at general meetings of the company. The authorised and issued share capital of the company, together with movements in the company's issued share capital during the year, are shown in note 29 to the financial statements on page 161. The Articles contain provisions governing the ownership and transfer of shares.

The holders of ordinary shares are entitled to receive the company's Annual Report and Accounts, to attend and ask questions at general meetings, to appoint proxies and to exercise voting rights. 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 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 Act, or (ii) where their holder is precluded from exercising voting rights by the Listing Rules or the City Code on Takeovers and Mergers.

The company has a Sponsored Level 1 American Depositary Receipt programme in the United States.

## 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 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 Kingfisher as a whole except for:

- The £225 million credit facility dated 25 March 2015 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 lenders shall not be obliged to fund a new drawing, and 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 £550 million credit facility dated 10 August 2018 (amending the credit facility originally dated 29 November 2016) 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 lenders shall not be obliged to fund a new drawing, and 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 £50 million term loan agreement dated 13 December 2018, which contains a provision such that in the event of a change of control, the bank may cancel its commitment whereupon all outstanding loans together with accrued interest will become immediately due and payable.
- The €50 million credit facility agreement dated 21 September 2018, which contains a provision such that in the event of a change of control, the bank may cancel its commitment whereupon all outstanding loans together with accrued interest will become immediately due and payable.

There are no agreements in place 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 incentive schemes may cause options and awards granted under such schemes to vest on a takeover.

## Disclosure of information to auditor

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 418 of the Act) of which the company's auditor is unaware; and
- Each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

**The Directors' report was approved by a duly authorised committee of the Board of directors on 21 March 2021 and signed on its behalf by**

**Paul Moore**
Company Secretary

21 March 2021

# Directors' Statement of Responsibility

### Responsibility for preparing financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

United Kingdom company law requires the directors to prepare financial statements for each financial year. Under that law, the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 101 'Reduced Disclosure Framework'. Under company law, the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the parent company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and accounting estimates that are reasonable and prudent.
- Follow applicable United Kingdom Accounting Standards (except where any departures from this requirement are explained in the notes to the parent company financial statements).
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the Group financial statements in accordance with IAS 1, 'Presentation of financial statements', the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial performance.
- Make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation, regulation and practice in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation, regulation and practice in other jurisdictions.

### Responsibility statement

The directors confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the parent company and the undertakings included in the consolidation taken as a whole.
- The Strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.
- The Annual Report and financial statements, taken as a whole, are fair, balanced, and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

**The Directors' Statement of Responsibility was approved by a duly authorised committee of the Board of directors on 21 March 2021 and signed on its behalf by**

**Paul Moore**
Company Secretary

21 March 2021

# Independent auditor's report to the members of Kingfisher plc

## Report on the audit of the financial statements

### 1. Opinion

In our opinion:

- the financial statements of Kingfisher plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 January 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 40 to the group financial statements and notes 1 to 16 to the parent company financial statements

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

### 2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and parent company for the year are disclosed in note 8 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### 3. Summary of our audit approach

| | |
|---|---|
| **Key audit matters** | The key audit matters that we identified in the current year were:<br>– impairment of store based assets: B&Q and France;<br>– taxation matters: transfer pricing;<br>– classification and presentation of exceptional adjusting items; and<br>– inventory valuation |
| **Materiality** | We have determined materiality to be £27 million, which represents 3.4% of profit before tax and exceptional adjusting items. This amount is capped at the prior year level due to the uncertainty in the current macro-economic climate. We considered a range of benchmarks including revenue, profit and net assets. After due consideration of these benchmarks, we determined that profit before tax and exceptional adjusting items was the most appropriate benchmark to use. |
| **Scoping** | We focused our group audit scope on all significant trading entities and the group's head office and support functions. These accounted for 95% of the group's revenue, 99% of the group's profit before tax and 94% of the group's net assets. |
| **Significant changes in our approach** | In addition to the changes to materiality outlined above, we have reconsidered our key audit matters in the current year and highlight the following changes since the prior year.<br>– *Going concern:* in the prior year we considered going concern to be a key audit matter due to the uncertainty arising as a result of restrictions in the group's key markets following government responses to the Covid-19 pandemic. As described on page 129 in note 2 of the financial statements, throughout the pandemic the group's key banners have been classified as "essential" retailers and have been able to remain open through enacting social distancing measures. At the year end date the group has a significant cash balance and access to further financing facilities. Management has modelled a downside scenario which considers the impact of a significant drop in sales over a period of six months followed by a recovery period. Such a downside scenario would be significantly adverse to anything that the group has experienced to date. In this scenario, financial covenants are not breached, limited use of the revolving credit facility is required and there is no utilisation of the portion that expires in March 2022. Based on the performance of the group throughout the pandemic and the circumstances noted above, we concluded that going concern is no longer a key audit matter in the current year.<br>– *Impairment of goodwill in relation to the Romania cash-generating unit:* this is not a key audit matter in the current year as the remaining goodwill balance in Romania is immaterial.<br>– *Impairment of Romanian store-based assets:* in the prior year our key audit matter in respect of impairment of store-based assets was also focused on Romania due to the historical trading performance in this territory. We no longer pinpoint the risk to this location as the carrying value of assets in Romania is no longer significant as a result of the prior year impairment booked and given the recent positive trading results.<br>– *IFRS 16 'Leases' valuation and discount rates on transition:* transition application considerations were relevant in the year of implementing this new standard and we do not consider the ongoing accounting associated with IFRS 16 to be a key audit matter in the current year. |

## 4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- understanding the relevant controls relating to the assessment of the appropriateness of the going concern assumptions;
- analysing the current financing facilities including the nature of the facilities, maturity of the revolving credit facilities and covenants;
- considering the linkage of management's forecasts to business model and medium-term risks in particular the risk of disruption to trading due to lockdown restrictions;
- challenging the appropriateness of the assumptions used in the forecasts (including the related risks where relevant such as the impact of Covid-19 and Brexit);
- assessing the level of headroom in the forecasts and testing committed facilities for covenant compliance over the going concern period;
- performing sensitivity analysis on management's model including the remote scenario as explained on page 130; and
- evaluating the integrity of the model used to prepare the forecasts, which includes testing of clerical accuracy of those forecasts and our assessment of the historical accuracy of forecasts prepared by management.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## 5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

There have been changes in the key audit matters we report compared to the prior period. These are explained in section 3.

The following key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### 5.1. Impairment of store based assets: B&Q and France

Refer to page 79 (Audit Committee report), page 137 (source of estimation uncertainty), page 133 (accounting policy) and pages 146-148 (financial statement disclosures)

| | |
|---|---|
| **Key audit matter description** | As at 31 January 2021, property, plant and equipment totalled £3,075 million (31 January 2020: £2,988 million) and property and equipment right-of-use assets totalled £1,845 million (31 January 2020: £1,916 million), as disclosed in notes 15 and 17 to the financial statements.<br>Net store asset impairment reversals totalling £42 million (excluding Russia), of which £66 million are impairment reversals and £24 million are impairment charges (2019/20: impairment of £139 million (excluding Russian store assets and £18 million of goodwill impairment in Romania)), are disclosed in note 15 and note 17. These have been recognised as exceptional adjusting due to revised future store performance projections, reflecting the group's 'Powered by Kingfisher' strategy and judgements made with respect to the sustainable benefits that Covid-19 has on the market for home improvement products and services, as described in note 5. Of this total, a £43 million net reversal relates to B&Q and the group's banners in France with impairments noted in the other components which offset this amount.<br>At each reporting date an assessment is performed as to whether there are any indicators that property, plant and equipment, including the group's stores, may be impaired or whether there is any indication that an impairment loss recognised in a previous period either no longer exists or has decreased. Should such indicators exist, the assets' recoverable amounts are subsequently estimated.<br>Impairment of store-based assets is primarily evaluated with reference to the value in use of stores, which is calculated as the net present value of future cash flows. The group also uses vacant possession valuations to approximate fair value less costs to sell when considering the recoverable amount of freehold and certain long leasehold stores.<br>There are several judgements in assessing value in use that are set out below and there is a risk that the net impairment reversal recorded is not supportable based on the inputs used in the model. Cash flow forecasting, impairment modelling and assessing property values are all inherently judgemental.<br>The key assumptions applied by management in their store impairment reviews are:<br>– determining the cash-generating units (CGUs) that show indicators of impairment. A CGU is determined to be an individual store;<br>– forecast short term cash flows, which include contribution growth, store costs, including rent, staff payroll and general operating costs;<br>– country-specific discount rates and long-term growth rates;<br>– identifying and allocating a proportion of central overheads to stores; and<br>– determining the vacant possession value of freehold properties throughout the group.<br>The group has also considered the impact of Covid-19 on the future performance of the stores as outlined in the strategic review. |

| | |
|---|---|
| **How the scope of our audit responded to the key audit matter** | Our audit focused on whether store-based asset impairment reversals in B&Q and the group's banners in France have been appropriately calculated in accordance with the requirements of IAS 36, 'Impairment of Assets'. In doing so we carried out the following procedures with respect to those CGUs:<br>– obtained an understanding of the relevant controls in respect of the impairment reviews across the group and key review controls associated with the group's budgeting process and the impairment models;<br>– assessed the mechanical accuracy of the impairment models;<br>– challenged key inputs into the value in use computation, namely forecast sales growth and margin, by reviewing both past performance, gained an understanding of the group's strategic initiatives, benchmarking against external information and understanding the rationale for future assumptions. We also challenged the level of past store performance to assess whether assumptions applied were appropriate at the store level. This included an assessment of how the impact of Covid-19 has been incorporated into the group's forecasts;<br>– reviewed management's reconciliation of CGU-level cash flows to the board-approved three-year plan in order to test the allocation of those cash flows;<br>– evaluated the discount rate and long-term growth rates applied by management against external economic data with the involvement of internal valuation specialists;<br>– considered the structure of the business to evaluate the identification and allocation of central overheads into store impairment models;<br>– agreed the vacant possession value of freehold property to third party valuation reports and challenged the inputs and valuation methodology applied using our internal real estate specialists; and<br>– reviewed the appropriateness of the financial statements disclosures made. |
| **Key observations** | We are satisfied that the net impairment reversal booked and carrying value of store-based assets within B&Q and the French banners are appropriate and that appropriate disclosures have been made under IFRS. |
| **5.2. Taxation matters: transfer pricing** | Refer to page 79 (Audit Committee report), page 137 (critical accounting judgement), page 134 (accounting policy) and pages 142 and 157 (financial statement disclosures) |
| **Key audit matter description** | The group files tax returns in many jurisdictions and is periodically subject to tax audits in the ordinary course of its business, including matters relating to cross-border intra-group services, brand royalties and interest. Applicable tax laws and regulations are subject to differing interpretations and the resolution of a final tax position can take several years.<br>Where it is considered that future tax liabilities are more likely than not to arise, an appropriate provision is recognised in the financial statements and is held as a tax liability on the balance sheet.<br>Our key audit matter focused on the completeness and valuation of the provision associated with these ongoing cases. There is judgement in determining whether provisions should be recorded, where they are recorded and what the value of the provision should be with reference to the facts and circumstances of the individual case. |

| 5.2. Taxation matters: transfer pricing continued | |
|---|---|
| **How the scope of our audit responded to the key audit matter** | In performing our procedures in relation to transfer pricing provisions, we carried out the following:<br>– we obtained an understanding of the relevant controls, which includes management's review and challenge of the provisions held for taxation matters;<br>– in conjunction with our tax specialists, we evaluated the tax positions taken by management in the context of local tax law and tested the accuracy and completeness of transfer pricing provisions. This work included reviewing the external opinions and other support received from management's expert and we evaluated their competence, capability and objectivity;<br>– tested the valuation of provisions and accuracy of underlying schedules used to compute the transfer pricing provisions;<br>– engaged our internal transfer pricing specialists to understand the approach taken to transfer pricing, the transactions that flow between group entities including any changes in approach during the year; and<br>– in conjunction with tax specialists, reviewed the disclosures in the financial statements in relation to taxation matters. |
| **Key observations** | We consider the provisions recorded for transfer pricing to be acceptable in the context of the group's overall potential tax exposures and our materiality.<br>We consider the overall level of disclosure in relation to tax provisioning and the disclosure of contingent liabilities in note 38 to be appropriate. |

**5.3. Classification and presentation of exceptional adjusting items**

Refer to page 79 (Audit Committee report), page 137 (critical accounting judgement), page 130 (accounting policy) and page 139 (financial statement disclosures)

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|---|---|
| **Key audit matter description** | The presentation and consistency of costs and income presented within exceptional adjusting items is a key determinant in assessing the quality of the group's underlying earnings.<br>For the year ended 31 January 2021, the group incurred net exceptional adjusting costs before tax of £30 million (2019/20: £441 million) as disclosed in note 5.<br>During the year management implemented the "Powered by Kingfisher" strategy, which introduces changes to the group's operating model as set out on page 6. Management has presented costs associated with this new strategy as exceptional adjusting items.<br>The presentation of certain income and costs as non-GAAP measures under IFRSs is judgemental, with IFRSs only requiring the separate presentation of material items.<br>The exceptional adjusting items are expected to be non-recurring and are disclosed separately by virtue of their nature, size or incidence and do not reflect the group's ongoing trading performance.<br>Management judgement is required in determining whether an item meets the group's definition of exceptional adjusting. We therefore identified this as a possible risk of fraud and a key audit matter as a possible risk of inappropriate manipulation if items, which are not exceptional adjusting, are labelled as such in the financial statements. |

| | |
|---|---|
| **How the scope of our audit responded to the key audit matter** | We carried out the following procedures in assessing the classification and accuracy of exceptional adjusting items:<br>– we obtained an understanding of the relevant controls in respect of the group's classification of exceptional adjusting items, including a review by senior members of the finance team over the appropriateness of these items and whether they are in line with the group's policy;<br>– evaluated the appropriateness of the inclusion of items, both individually and in aggregate, within exceptional adjusting items, including any potential impact of the "Powered by Kingfisher" strategy;<br>– considered the consistency with the group's definition of exceptional adjusting items and with due consideration to recent guidance issued by the Financial Reporting Council;<br>– reviewed management's application of the policy on exceptional adjusting items for consistency with previous accounting periods and whether this remains appropriate and if a change should be made to classifying items as adjusting;<br>– agreed a sample of these items to supporting documentation to validate the appropriateness and accuracy of these items;<br>– assessed all items, either highlighted by management or identified through the course of our audit, which are regarded as one-off but included within underlying earnings to evaluate that these are not material either individually, or in aggregate;<br>– assessed whether the disclosures within the financial statements provided sufficient detail for the reader to understand the nature of these items; and<br>– for all significant adjustments recorded in calculating underlying profits, discussed the appropriateness of these items and disclosure considerations with the Audit Committee. |
| **Key observations** | We are satisfied that the amounts classified as exceptional adjusting items are valid and consistent in the application of the definitions and classification of exceptional adjusting items in line with group policy.<br>We are satisfied that the related disclosure of these items in the financial statements is appropriate. |

### 5.4. Inventory valuation

Refer to page 79 (Audit Committee report), page 136 (source of estimation uncertainty), page 133 (accounting policy) and page 150 (financial statement disclosures)

| | |
|---|---|
| **Key audit matter description** | As at 31 January 2021, net inventory, after recognising relevant provisions, is £2,488 million (2019/20: £2,485 million) as disclosed in note 19 to the financial statements.<br>Assessing the valuation of inventory requires significant judgement in estimating the eventual selling price of items held, as well as assessing which items may be slow-moving or obsolete. This is impacted in the current year due to the implementation of the new "Powered by Kingfisher" strategy and the impact of Covid-19 on customer trends and the need for promotional or markdown activity on products. We have determined the key audit matter to be specifically in relation to the judgements and methodology applied in determining the level of inventory provisioning required.<br>Given the judgement required in determining this provisioning which relies on forward-looking information, and that the effects of changes in inventory provisioning could have a significant impact on gross profit and margin, we consider this risk to be a fraud risk. |
| **How the scope of our audit responded to the key audit matter** | Our audit focused on whether the valuation of year-end inventory was in accordance with IAS 2 'Inventories'. This included challenging the judgements taken regarding the recording of obsolescence and NRV provisions.<br>We obtained assurance over the appropriateness of management's assumptions applied in calculating the value of inventory provisions by performing the following:<br>– obtained an understanding of the relevant controls, which includes a review of the inventory provision recorded at a banner level by members of the finance team and tested these controls in certain locations;<br>– critically assessed the group's inventory provisioning policy, with specific consideration of its ongoing appropriateness in light of changes in the business, with specific consideration given to the risk profile of inventory and expected clearance activity;<br>– tested the existence and condition of inventory by attending a sample of inventory counts physically and remotely throughout the year across all in scope components;<br>– checked the value of a sample of inventory to test that it is held at the lower of cost and selling price, through comparison to vendor invoices and current sales prices; and<br>– re-calculated provisions recorded to verify that they are in line with group policy and IAS 2. This was done in conjunction with our IT specialists for some components where a manual re-calculation was not possible. |
| **Key observations** | The results of our audit work were satisfactory and we concur that the level of inventory provisions is appropriate. |

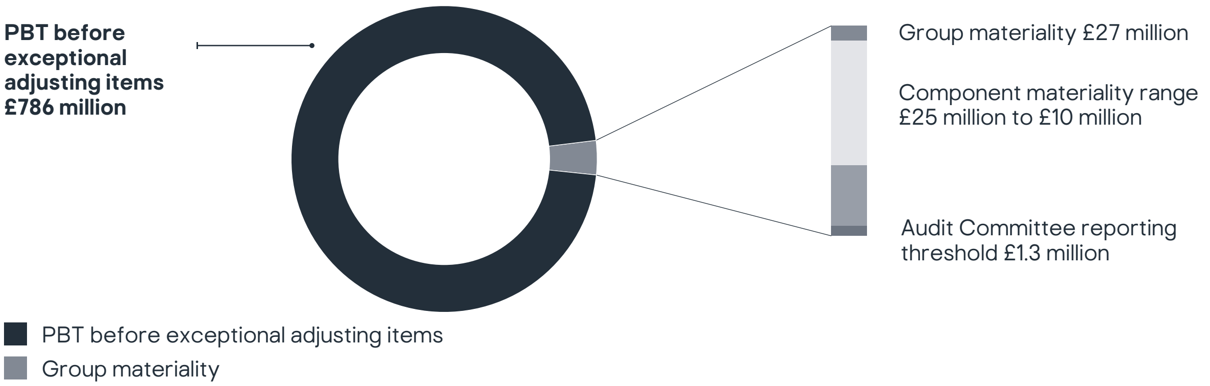
## 6. Our application of materiality

### 6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | Group financial statements | Parent company financial statements |
|---|---|---|
| **Materiality** | £27 million (2019/20: £27 million) | £25 million (2019/20: £25 million) |
| **Basis for determining materiality** | We have determined materiality to be £27 million, which represents 3.4% (lower than the previous year of 5%) of profit before tax and exceptional adjusting items in the current year. This amount is capped at the prior year level due to the uncertainty in the current macro-economic climate. We considered a range of a range of benchmarks including revenue, profit and net assets.<br>Exceptional adjusting items are defined in note 5. | Parent company materiality equates to 0.4% (2019/20: 0.4%) of net assets, which is capped at 95% of group materiality. This approach is consistent with the prior year. |
| **Rationale for the benchmark applied** | In determining our benchmark for materiality we considered the focus of the users of the financial statements. These included profit before taxation and exceptional adjusting items, revenue and net assets.<br>After due consideration of these benchmarks, we determined that profit before tax and exceptional adjusting items was the most appropriate benchmark to use. | The company is non-trading and contains the investments in all of the trading components of the group. |



### 6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

| | Group financial statements | Parent company financial statements |
|---|---|---|
| **Performance materiality** | 70% (2019/20: 70%) of group materiality | 70% (2019/20: 70%) of parent company materiality |
| **Basis and rationale for determining performance materiality** | In determining performance materiality for both group and the parent company, we considered the following factors:<br>– our risk assessment, including our assessment of the group's overall control environment; and<br>– the nature, volume and size of misstatements (corrected and/or uncorrected) in the previous audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods. | |

### 6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.3 million (2019/20: £1.3 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also reported to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## 7. An overview of the scope of our audit

### 7.1. Identification and scoping of components

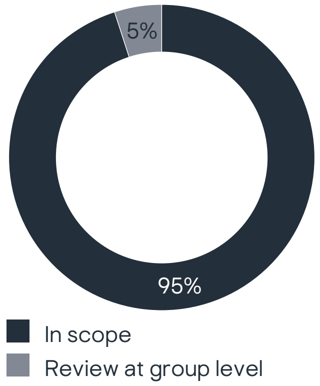
Our approach to scoping the group audit was to understand the group and its environment, including group-wide controls, and assess the risks of material misstatement at the group level. The group operates over 1,300 stores in eight countries across Europe.

We focused our group audit scope primarily on all significant trading entities as well as central sourcing, support and head office entities. In the prior year full scope audit procedures were performed over the following components: B&Q UK, Screwfix UK, KITS UK, Kingfisher Digital, KIPL UK, Castorama France, Brico Dépôt France, Castorama Poland, Castorama Russia, Brico Dépôt Romania, Praktiker Romania, Brico Dépôt Spain and the parent company. Since that date the trading entities in Romania have merged and the Castorama Russia business has been sold by the group.

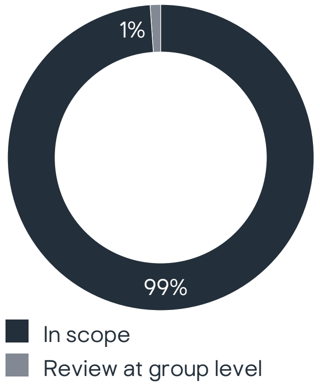
We have reviewed our audit scope in the current year with due consideration of the risk profile, control environment, the changes in the group structure and how much coverage we will obtain. As such we concluded that full scope audit procedures would be performed for B&Q UK, Screwfix UK, Castorama France, Brico Dépôt France and Castorama Poland. KITS UK, Brico Dépôt Romania and B&Q Properties were subject to specified audit procedures on prescribed balances associated with defined audit risks. All other entities were subject to analytical procedures at the group level. All financial reporting is managed by local finance functions with group oversight from the head office in London.

In scope entities include both full scope entities and entities subject to specified procedures. These entities account for 95% (2019/20: 94%) of the group's revenue, 99% (2019/20: 93%) of the group's profit before tax and 94% (2019/20: 95%) of the group's net assets.

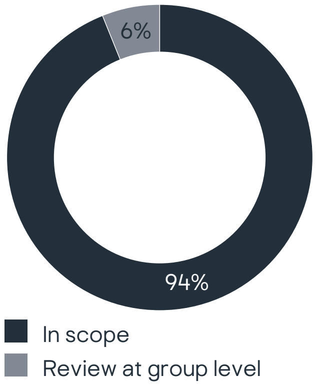
**Revenue**




**Profit before tax**




**Net assets**



**7.2. Our consideration of the control environment**

7.2.1. IT environment

We identified the main finance systems (SAP, CODA, HFM) and some in-store transaction processing systems as the key IT systems relevant to our audit. SAP and CODA are enterprise resource planning systems used for day-to-day financial management at the local level. HFM is a financial reporting system used internally to facilitate the reporting of financial information between the local and group finance teams. IT systems are primarily managed from the centralised Kingfisher IT Services function and therefore we engaged a central IT audit team to evaluate the IT systems to support our audit.

We planned to rely on IT controls associated with SAP and CODA across the full scope entities. We identified general IT controls relevant to the audit as well as specific IT controls that supported our controls reliance approach for certain business processes. Across the in-scope entities, IT controls were relied on in the trading businesses to support audit work on the revenue, expenditure and inventory processes as detailed in Section 7.2.2.

In order to evaluate the operating effectiveness of IT controls, we performed walkthrough procedures to understand whether the purpose of the control was effectively designed to address the IT related risk and then performed testing of the control across the audit period, to determine whether the control had been consistently applied.

Our procedures enabled us to place reliance on IT controls, as planned, in the audit approach.

7.2.2. Controls reliance

We sought to adopt a controls reliance approach over the revenue, expenditure and inventory processes across certain components of the group.

Our ability to adopt a controls reliance approach relied on the evaluation of testing the operating effectiveness of key controls in the above business processes throughout the year.

For components that were not subject to full scope audit procedures, we were not able or chose not to adopt a controls reliance approach in the business processes above, having given due consideration to the risk and controls profile of that component. This did not affect our ability to conclude in these areas at either the component or group level.

**7.3. Working with other auditors**

We worked closely with the Deloitte component auditors to involve them in our planning procedures and also to maintain oversight throughout the audit process. We communicated our requirements of the component auditors regularly throughout the year and issued referral instructions formalising our requirements of the component teams. We held an internal team meeting where component teams met with us virtually to discuss the planned audit approach and the risks within each component. In the current year this included formalisation and tailoring of our audit approach on the use of shared services across our in scope component teams and for how risks associated with the Covid-19 pandemic would be addressed through our audit procedures.

A senior member of the group audit team maintained regular contact with the component audit teams and discussed significant audit matters arising from the performance of local audit procedures. Periodic meetings with group and component management were held throughout the year to build on the understanding of the significant audit matters within components to inform our group audit approach.

The most significant components of the group are its retail businesses in the UK, France and Poland. As such, there was a high level of communication between these teams to ensure an appropriate level of group audit team involvement in the component audit work.

For each of these most significant components, a senior member of the group audit team reviewed the component working papers, including key planning and reporting documents, the procedures performed to address group significant risks and the procedures performed to respond to other areas of focus and local significant risks, in order to satisfy ourselves that we had obtained sufficient appropriate audit evidence in response to the identified risks.

The Senior Statutory Auditor and other senior members of the group audit team attended the audit close meeting of every component within group audit scope. In performing the procedures detailed above the group audit team reviewed, considered and challenged the key matters relevant to our conclusion in relation to the group audit and assessed the impact on our group audit.

## 8. Other information

The other information comprises the information included in the annual report, being the strategic reports on pages 1 to 51 and the governance reports on pages 52 to 111, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

## 9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

## 10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report..

## 11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

### 11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team including significant component audit teams and relevant internal specialists, including tax, real estate, valuations, pensions, IT, financial instrument and forensic specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: inventory valuation and classification and presentation of exceptional adjusting items. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Companies Act 2006, the Listing Rules, General Data Protection Regulation, government grants, Energy and Carbon regulations, UK corporate governance legislation and UK and overseas tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty.

### 11.2. Audit response to risks identified

As a result of performing the above, we identified inventory valuation and classification and presentation of exceptional adjusting items as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing internal audit reports; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

## Report on other legal and regulatory requirements

### 12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

### 13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 50;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on page 50;
- the directors' statement on fair, balanced and understandable set out on page 111;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 40-46;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 40; and
- the section describing the work of the audit committee set out on page 76.

### 14. Matters on which we are required to report by exception

#### 14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

#### 14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

### 15. Other matters which we are required to address

#### 15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were reappointed as auditor of the Company by the Board of Directors to audit the financial statements for the period ending 31 January 2021 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 12 years, covering the periods from our initial appointment through to the period ending 31 January 2021.

#### 15.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

### 16. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

**Nicola Mitchell FCA (Senior statutory auditor)**

**For and on behalf of Deloitte LLP**
**Statutory Auditor**
**London, United Kingdom**

**21 March 2021**

# Consolidated income statement

Year ended 31 January 2021

| £ millions | Notes | 2020/21 Before exceptional adjusting items | 2020/21 Exceptional adjusting items (note 5) | 2020/21 Total | 2019/20 Before exceptional adjusting items | 2019/20 Exceptional adjusting items (note 5) | 2019/20 Total |
|---|---|---|---|---|---|---|---|
| **Sales** | 4 | **12,343** | **–** | **12,343** | 11,513 | – | 11,513 |
| Cost of sales | | **(7,770)** | **–** | **(7,770)** | (7,258) | – | (7,258) |
| **Gross profit** | | **4,573** | **–** | **4,573** | 4,255 | – | 4,255 |
| Selling and distribution expenses | | **(2,843)** | **12** | **(2,831)** | (2,772) | (398) | (3,170) |
| Administrative expenses | | **(809)** | **(6)** | **(815)** | (790) | (51) | (841) |
| Other income | | **19** | **13** | **32** | 21 | 15 | 36 |
| Other expenses | | **–** | **(49)** | **(49)** | – | – | – |
| Share of post-tax results of joint ventures and associates | 18 | **6** | **–** | **6** | 3 | – | 3 |
| **Operating profit** | 4 | **946** | **(30)** | **916** | 717 | (434) | 283 |
| Finance costs | | **(180)** | **–** | **(180)** | (191) | (7) | (198) |
| Finance income | | **20** | **–** | **20** | 18 | – | 18 |
| Net finance costs | 6 | **(160)** | **–** | **(160)** | (173) | (7) | (180) |
| **Profit before taxation** | 8 | **786** | **(30)** | **756** | 544 | (441) | 103 |
| Income tax expense | 10 | **(161)** | **(3)** | **(164)** | (136) | 41 | (95) |
| **Profit for the year** | | **625** | **(33)** | **592** | 408 | (400) | 8 |

| | Notes | 2020/21 | 2019/20 |
|---|---|---|---|
| **Earnings per share** | 11 | | |
| Basic | | **28.1p** | 0.4p |
| Diluted | | **27.9p** | 0.4p |
| Adjusted basic | | **28.7p** | 19.1p |
| Adjusted diluted | | **28.5p** | 19.0p |

The proposed dividend for the year ended 31 January 2021, subject to approval by shareholders at the Annual General Meeting, is 8.25p per share, comprising an interim dividend of 2.75p in respect of the six months ended 31 July 2020 and a final dividend of 5.50p.

# Consolidated statement of comprehensive income

Year ended 31 January 2021

| £ millions | Notes | 2020/21 | 2019/20 |
|---|---|---|---|
| **Profit for the year** | | **592** | 8 |
| Remeasurements of post-employment benefits | 28 | **68** | 42 |
| Inventory cash flow hedges – fair value (losses)/gains | | **(48)** | 20 |
| Tax on items that will not be reclassified | | **(13)** | (24) |
| **Total items that will not be reclassified subsequently to profit or loss** | | **7** | 38 |
| Currency translation differences | | | |
| Group | | **112** | (134) |
| Joint ventures and associates | | **(2)** | (1) |
| Transferred to income statement | 35 | **49** | – |
| Other cash flow hedges | | | |
| Fair value gains/(losses) | | **5** | (3) |
| (Gains)/losses transferred to income statement | | **(5)** | 3 |
| **Total items that may be reclassified subsequently to profit or loss** | | **159** | (135) |
| **Other comprehensive income/(loss) for the year** | | **166** | (97) |
| **Total comprehensive income/(loss) for the year** | | **758** | (89) |

# Consolidated statement of changes in equity

Year ended 31 January 2021

**2020/21**

| £ millions | Notes | Share capital | Share premium | Own shares held | Retained earnings | Capital redemption reserve | Other reserves (note 30) | Total equity |
|---|---|---|---|---|---|---|---|---|
| **At 1 February 2020** | | **332** | **2,228** | **(23)** | **2,994** | **43** | **228** | **5,802** |
| Profit for the year | | – | – | – | 592 | – | – | 592 |
| Other comprehensive income for the year | | – | – | – | 44 | – | 122 | 166 |
| **Total comprehensive income for the year** | | – | – | – | 636 | – | 122 | 758 |
| Inventory cash flow hedges – losses transferred to inventories | | – | – | – | – | – | 13 | 13 |
| Share-based compensation | 31 | – | – | – | 14 | – | – | 14 |
| New shares issued under share schemes | | – | – | – | 1 | – | – | 1 |
| Own shares issued under share schemes | | – | – | 14 | (14) | – | – | – |
| Purchase of own shares for ESOP trust | | – | – | (14) | – | – | – | (14) |
| Tax on equity items | | – | – | – | (1) | – | (2) | (3) |
| **At 31 January 2021** | | **332** | **2,228** | **(23)** | **3,630** | **43** | **361** | **6,571** |

2019/20

| £ millions | Notes | Share capital | Share premium | Own shares held | Retained earnings | Capital redemption reserve | Other reserves (note 30) | Total equity |
|---|---|---|---|---|---|---|---|---|
| **At 1 February 2019** | | 332 | 2,228 | (25) | 3,192 | 43 | 379 | 6,149 |
| Profit for the year | | – | – | – | 8 | – | – | 8 |
| Other comprehensive income/(loss) for the year | | – | – | – | 22 | – | (119) | (97) |
| **Total comprehensive income/(loss) for the year** | | – | – | – | 30 | – | (119) | (89) |
| Inventory cash flow hedges - gains transferred to inventories | | – | – | – | – | – | (40) | (40) |
| Share-based compensation | 31 | – | – | – | 11 | – | – | 11 |
| Own shares issued under share schemes | | – | – | 12 | (12) | – | – | – |
| Purchase of own shares for ESOP trust | | – | – | (10) | – | – | – | (10) |
| Dividends | 12 | – | – | – | (227) | – | – | (227) |
| Tax on equity items | | – | – | – | – | – | 8 | 8 |
| **At 31 January 2020** | | 332 | 2,228 | (23) | 2,994 | 43 | 228 | 5,802 |

# Consolidated balance sheet

At 31 January 2021

| £ millions | Notes | 2020/21 | 2019/20 restated (note 2) | 2018/19 restated (note 2) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Goodwill | 13 | **2,427** | 2,416 | 2,436 |
| Other intangible assets | 14 | **320** | 339 | 371 |
| Property, plant and equipment | 15 | **3,075** | 2,988 | 3,302 |
| Investment property | 16 | **20** | 8 | 8 |
| Right-of-use assets | 17 | **1,845** | 1,916 | 2,017 |
| Investments in joint ventures and associates | 18 | **20** | 16 | 15 |
| Post-employment benefits | 28 | **504** | 404 | 320 |
| Deferred tax assets | 26 | **15** | 12 | 13 |
| Other tax authority asset | 38 | **57** | – | – |
| Other receivables | 20 | **29** | 27 | 41 |
| | | **8,312** | 8,126 | 8,523 |
| **Current assets** | | | | |
| Inventories | 19 | **2,488** | 2,485 | 2,574 |
| Trade and other receivables | 20 | **290** | 293 | 406 |
| Derivative assets | 24 | **5** | 14 | 26 |
| Current tax assets | | **20** | 9 | 1 |
| Cash and cash equivalents | 21 | **1,142** | 790 | 850 |
| Assets held for sale | 36 | **12** | 196 | 89 |
| | | **3,957** | 3,787 | 3,946 |
| **Total assets** | | **12,269** | 11,913 | 12,469 |
| **Current liabilities** | | | | |
| Trade and other payables | 22 | **(2,520)** | (2,210) | (2,415) |
| Borrowings | 23 | **(101)** | (644) | (622) |
| Lease liabilities | 33 | **(330)** | (306) | (308) |
| Derivative liabilities | 24 | **(59)** | (43) | (21) |
| Current tax liabilities | | **(70)** | (78) | (118) |
| Other tax authority liability | 38 | **(57)** | – | – |
| Provisions | 27 | **(46)** | (65) | (27) |
| Liabilities directly associated with assets held for sale | 36 | **–** | (88) | – |
| | | **(3,183)** | (3,434) | (3,511) |
| **Non-current liabilities** | | | | |
| Other payables | 22 | **(11)** | (5) | (6) |
| Borrowings | 23 | **(2)** | (93) | (139) |
| Lease liabilities | 33 | **(2,091)** | (2,221) | (2,318) |
| Derivative liabilities | 24 | **(1)** | (3) | (2) |
| Deferred tax liabilities | 26 | **(232)** | (189) | (192) |
| Provisions | 27 | **(33)** | (39) | (37) |
| Post-employment benefits | 28 | **(145)** | (127) | (115) |
| | | **(2,515)** | (2,677) | (2,809) |
| **Total liabilities** | | **(5,698)** | (6,111) | (6,320) |
| **Net assets** | 4 | **6,571** | 5,802 | 6,149 |
| **Equity** | | | | |
| Share capital | 29 | **332** | 332 | 332 |
| Share premium | | **2,228** | 2,228 | 2,228 |
| Own shares held in ESOP trust | | **(23)** | (23) | (25) |
| Retained earnings | | **3,630** | 2,994 | 3,192 |
| Capital redemption reserve | | **43** | 43 | 43 |
| Other reserves | 30 | **361** | 228 | 379 |
| **Total equity** | | **6,571** | 5,802 | 6,149 |

The financial statements were approved by the Board of Directors on 21 March 2021 and signed on its behalf by:

**Thierry Garnier**
**Chief Executive Officer**

**Bernard Bot**
**Chief Financial Officer**

# Consolidated cash flow statement

Year ended 31 January 2021

| £ millions | Notes | 2020/21 | 2019/20 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated by operations | 32 | **1,816** | 1,052 |
| Income tax paid | | **(166)** | (155) |
| **Net cash flows from operating activities** | | **1,650** | 897 |
| | | | |
| **Investing activities** | | | |
| Purchase of property, plant and equipment and intangible assets | 4 | **(281)** | (342) |
| Disposal of property, plant and equipment, investment property, assets held for sale and intangible assets | | **48** | 188 |
| Purchase of businesses, net of cash acquired | 34 | **(8)** | – |
| Disposal of businesses, net of cash disposed | 35 | **27** | – |
| Interest received | | **4** | 12 |
| Interest element of lease rental receipts | | **2** | 1 |
| Principal element of lease rental receipts | | **3** | 5 |
| Advance payments on right-of-use assets | | **(2)** | (3) |
| Dividends received from joint ventures and associates | | **–** | 1 |
| **Net cash flows used in investing activities** | | **(207)** | (138) |
| | | | |
| **Financing activities** | | | |
| Interest paid | | **(26)** | (35) |
| Interest element of lease rental payments | | **(153)** | (165) |
| Principal element of lease rental payments | | **(309)** | (319) |
| Repayment of bank loans | | **(1)** | (1) |
| Issue of fixed term debt | | **1,950** | – |
| Repayment of fixed term debt | | **(2,011)** | – |
| Receipt on financing derivatives | | **1** | – |
| New shares issued under share schemes | | **1** | – |
| Purchase of own shares for ESOP trust | | **(14)** | (10) |
| Ordinary dividends paid to equity shareholders of the Company | 12 | **–** | (227) |
| **Net cash flows from financing activities** | | **(562)** | (757) |
| | | | |
| **Net increase in cash and cash equivalents and bank overdrafts** | | **881** | 2 |
| Cash and cash equivalents and bank overdrafts at beginning of year | | **195** | 229 |
| Exchange differences | | **60** | (36) |
| **Cash and cash equivalents and bank overdrafts at end of year** | 33 | **1,136** | 195 |

Cash and cash equivalents at the end of the year include £nil of cash included within assets held for sale on the balance sheet (2019/20: £6m).

# Notes to the consolidated financial statements

## 1 General information

Kingfisher plc ('the Company'), its subsidiaries, joint ventures and associates (together 'the Group') supply home improvement products and services through a network of retail stores and other channels, located mainly in the United Kingdom and continental Europe. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 1 to 51.

The Company is incorporated in England and Wales, United Kingdom, and is listed on the London Stock Exchange. The address of its registered office is 3 Sheldon Square, Paddington, London W2 6PX. A full list of related undertakings of the Company and their registered offices is given in note 15 of the Company's separate financial statements.

These consolidated financial statements have been approved for issue by the Board of Directors on 21 March 2021.

## 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, its subsidiaries, joint ventures and associates are made up to 31 January, except as disclosed in note 18 of the consolidated financial statements and in note 5 of the Company's separate financial statements. The current financial year is the year ended 31 January 2021 ('the year' or '2020/21'). The comparative financial year is the year ended 31 January 2020 ('the prior year' or '2019/20'). The consolidated income statement and related notes represent results for continuing operations, there being no discontinued operations in the years presented.

The consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRS Standards) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial statements have also been prepared in accordance with International Financial Reporting Standards as issued by the IASB.

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 Group's principal accounting policies is set out below.

The preparation of financial statements in accordance with IFRS requires the use of certain accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving critical accounting judgements and key estimation uncertainties, which are significant to the consolidated financial statements, are outlined in note 3.

**Going concern**
Based on the Group's liquidity position and cash flow projections, including a forward looking remote scenario, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements for the year ended 31 January 2021.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 33 to 39. The principal risks and viability statement of the Group are set out on pages 40 to 48. In addition, note 25 includes the Group's financial risk management objectives and exposures to liquidity and other financial risks. The Directors have considered these areas alongside the principal risks and how they may impact going concern.

The Directors no longer consider going concern to be a critical accounting judgement as was previously disclosed in the prior year financial statements for the year ended 31 January 2020 and interim financial statements for the half year ended 31 July 2020. In determining that going concern is no longer a critical accounting judgement the Directors have taken into account the significantly reduced level of uncertainty based on the prolonged period of very positive trading and strong financial performance under social distancing provisions (resulting in LFL sales up 7.1% for the year), the continuing categorisation of the group's activities as 'essential' in its largest markets, the strong liquidity position of the Group and the progress on the Powered by Kingfisher strategy during the year within this environment.

The new financial year has started positively, reflecting continued strong demand across all our banners (Q1 2021/22 Group LFL sales (to 18 March 2021) up 24.2%). While the exceptional demand we have seen since early May 2020 may moderate, the COVID crisis has established longer term trends that are clearly supportive for our industry – including more working from home, the renewed importance of the home, both as a 'hub' and for general comfort and wellness, and the development of a new generation of DIY'ers.

As of 18 March 2021, Kingfisher had access to over £2.2bn of liquidity comprising cash and cash equivalents (net of bank overdrafts) of over £1.4bn and access to undrawn Revolving Credit Facilities (RCFs) of £225m (expiring at the end of March 2022, not forecast to be utilised with the continuing requirement to be addressed during the next 12 months) and £550m (most of which is due to expire in August 2023), totalling £775m. The ratio of net debt to EBITDA on an IFRS 16 basis was 0.9 as of 31 January 2021. To facilitate additional liquidity headroom during this current period of heightened uncertainty, the ratio is expected to be lower than 2.0 in the short term.

Considering whether the Group's financial statements can be prepared on a going concern basis, the Directors have reviewed the Group's business activities together with factors likely to affect its performance, financial position and access to liquidity (including consideration of financial covenants and credit ratings).

While trading continues to be exceptionally strong, in forming their outlook on the future financial performance, the Directors considered the normalisation of store traffic and average spend, the risk of higher business volatility and the potential negative impact of the general economic environment on household and trade spend.

## 2 Principal accounting policies continued

The Directors' review also included a remote scenario to assess the impact of more restrictive containment measures than those experienced during the pandemic to date in the event of a more severe wave of resurgence of the Covid-19 pandemic. The remote scenario considers the impact of a significant drop in sales over a period of six months followed by a period of recovery lasting two months before trading resumes to the base case expected forecast. The total loss of sales in this scenario is c.£1.9bn (21% over the impacted period). The scenario assumes the impact of lost sales is partially offset by a limited set of mitigating actions on variable and discretionary costs, capital expenditure and the suspension of dividend payments. Even under this remote scenario the group retains significant headroom on its credit facilities with only a limited drawing on the RCF required for a few months. Given current trading and expectations for the business, the Directors believe that this scenario reflects a remote outcome for the Group. Should the impact of the pandemic be more prolonged or severe than currently forecast by the Directors under this remote scenario, the Group would need to implement additional operational or financial measures.

**Restatement of prior periods**
Within the year, it was determined that the Group's cash and overdraft balances within notional cash pooling arrangements did not meet the requirements for offsetting in accordance with IAS 32: 'Financial Instruments: Presentation' and should not therefore be presented on a net basis on the balance sheet. For presentational purposes, amounts at 31 January 2020 have been restated in accordance with IAS 8: 'Accounting Policies, Changes in Accounting Policies and Errors' with an additional £601m (31 January 2019: £621m) within borrowings and cash balances increased by an equal amount. There is no impact on net assets or net profit.

**Changes to accounting policies as a result of new standards issued and effective**
Changes to accounting policies as a result of new standards issued and effective do not have a material impact on the consolidated financial statements.

In the prior year, the Group early adopted the IFRS 9 amendments which provides temporary relief to hedging relationships that are directly affected by IBOR reform. This has no impact on the Group's financial statements as the existing hedge relationships described in note 24 will terminate in advance of the planned IBOR replacement date.

**Standards issued but not yet effective**
New standards, amendments and interpretations which are in issue but not yet effective are not expected to have a material impact on the consolidated financial statements.

**Risks and uncertainties**
The principal risks and uncertainties to which the Group is exposed are set out in the Strategic Report on pages 40 to 46.

**Use of non-GAAP measures**
In the reporting of financial information, the Group uses certain measures that are not required under IFRS, the generally accepted accounting principles ('GAAP') under which the Group reports. Kingfisher believes that retail profit, adjusted pre-tax profit, adjusted effective tax rate, and adjusted earnings per share provide additional useful information on performance and trends to shareholders. These and other non-GAAP measures (also known as 'Alternative Performance Measures'), such as net debt, are used by Kingfisher for internal performance analysis and incentive compensation arrangements for employees. The terms 'retail profit', 'exceptional adjusting items', 'adjusted', 'adjusted effective tax rate', 'net cashflow' and 'net debt' are not defined terms under IFRS and may therefore not be comparable with similarly titled measures reported by other companies. They are not intended to be a substitute for, or superior to, GAAP measures.

Retail profit is defined as continuing operating profit before central costs, the Group's share of interest and tax of joint ventures and associates, and exceptional adjusting items. Central costs principally comprise the costs of the Group's head office before exceptional adjusting items.

Exceptional adjusting items, which are presented separately within their relevant income statement category, include items which by virtue of their size and/or nature, do not reflect the Group's ongoing trading performance. The principal items which are included as exceptional adjusting items are:

- non-trading items included in operating profit such as profits and losses on the disposal, closure, exit or impairment of subsidiaries, joint ventures, associates and investments which do not form part of the Group's ongoing trading activities;
- profits and losses on the disposal of properties and significant write-downs of goodwill and significant write-downs (or impairment reversals) of other assets;
- the costs of significant restructuring and incremental acquisition integration costs; and
- significant one-off tax settlements and provision charges/releases and the tax effects of other exceptional adjusting items.

The term 'adjusted' refers to the relevant measure being reported for continuing operations excluding exceptional adjusting items, financing fair value remeasurements ('FFVR'), related tax items and prior year tax items (including the impact of changes in tax rates on deferred tax). 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 hedged items of a financing nature.

The adjusted effective tax rate is calculated as continuing income tax expense excluding tax on exceptional adjusting items and adjustments in respect of prior years and the impact of changes in tax rates on deferred tax, divided by continuing profit before taxation excluding exceptional adjusting items. The exclusion of items relating to prior years, and those not in the ordinary course of business, helps provide an indication of the Group's ongoing rate of tax.

Net debt comprises lease liabilities, borrowings and financing derivatives (excluding accrued interest) less cash and cash equivalents and short-term deposits, including such balances classified as held for sale.

Refer to the glossary for definitions of all of the Group's Alternative Performance Measures, including further information on why they are used and details of where reconciliations to statutory measures can be found where applicable.

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

**(i) Subsidiaries**
Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries acquired 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 are included up to the effective date of disposal.

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interests in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of acquired 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 joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. 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 or joint control, generally accompanied by 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 share of post-acquisition profits or losses is recognised in the income statement within operating profit, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. 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.

The equity method of accounting is discontinued from the date an investment ceases to be a joint venture or associate, that is the date on which the Group ceases to have joint control or significant influence over the investee or on the date it is classified as held for sale.

### c. Foreign currencies

**(i) Presentation and functional currencies**
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 (i.e. its 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 subsidiaries are expressed in Sterling at the rates of exchange at the balance sheet date. Profits and losses of overseas subsidiaries are expressed in Sterling at average exchange rates for the period. Exchange differences arising on the retranslation of foreign operations, including joint ventures and associates, 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, lease liabilities and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold, such exchange differences recorded since 1 February 2004 (being the date of transition to IFRS) 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. Goodwill arising prior to 1 February 2004 is denominated in Sterling, and not subsequently retranslated.

**(iv) Principal rates of exchange against Sterling**

| | **2020/21** | | 2019/20 | |
|---|---|---|---|---|
| | **Average rate** | **Year end rate** | Average rate | Year end rate |
| Euro | **1.12** | **1.13** | 1.14 | 1.19 |
| US Dollar | **1.29** | **1.37** | 1.28 | 1.32 |
| Polish Zloty | **5.00** | **5.11** | 4.91 | 5.11 |
| Romanian Leu | **5.43** | **5.50** | 5.44 | 5.69 |
| Russian Rouble | **92.43***  | **103.99** | 82.13 | 84.48 |

* **The Group completed the sale of Castorama Russia on 30 September 2020. The 2020/21 Russian Rouble YTD average rate relates to the period to 30 September 2020 (i.e. to the date of disposal).**

## 2 Principal accounting policies continued

### d. Revenue recognition
Sales represent the supply of home improvement products and services. Sales exclude transactions made between companies within the Group, Value Added Tax, other sales-related taxes and are net of returns, trade and staff discounts.

Revenue is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue relating to sales of in-store products is generally recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the product and on cash receipt. Where customers have a right to return purchased goods in exchange for a refund, a liability for returns is recognised based on historic trends and offset against revenue in the period in which the sale was made. An asset (with a corresponding adjustment to cost of sales) is also recognised for goods expected to be returned from customers. Where award credits such as vouchers or loyalty points are provided as part of the sales transaction, the amount allocated to the credits is deferred and recognised when the credits are redeemed and the Group fulfils its obligations to supply the awards.

For delivered products and services, sales are recognised when the relevant performance obligations have been satisfied. Sales from delivered products and services represent only a small component of the Group's sales as the majority relates to in-store purchases of products.

Other income includes external rental income and gains on disposal of assets. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

### e. Rebates
Rebates received from suppliers mainly comprise volume related rebates on the purchase of inventories. Contractual volume related rebates are accrued as units are purchased based on the percentage rebate applicable to forecast total purchases over the rebate period, where it is probable the rebates will be received and the amounts can be estimated reliably. Discretionary rebates are not anticipated and only recognised once earned. Rebates relating to inventories purchased but still held at the balance sheet date are deducted from the carrying value so that the cost of inventories is recorded net of applicable rebates. Such rebates are credited to the cost of sales line in the income statement when the goods are sold.

Other rebates received, such as those related to advertising and marketing, are credited to cost of sales in the income statement when the relevant conditions have been fulfilled.

### f. Government grants
Government grant income is recognised in the Income Statement over the periods necessary to match the benefit of the credit with the costs for which it is intended to compensate. The grant is only recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received. Grant income is recorded as a deduction to the related expense, where the expense has been incurred in the same period as the grant income received.

### g. 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.

### h. Intangible assets

#### (i) Goodwill
Goodwill represents the future economic benefits arising from assets acquired in a business combination that are not individually identified and separately recognised. Such benefits include future synergies expected from the combination and intangible assets not meeting the criteria for separate recognition.

Goodwill is carried at cost less accumulated impairment losses. Goodwill is not amortised and is tested annually for impairment at country level, representing the lowest level at which it is monitored for internal management purposes, 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 pre-tax discount rates are derived from the Group's weighted average cost of capital, taking into account the cost of equity and debt, to which specific market-related premium adjustments are made for each country in which the cash generating unit ('CGU') operates. 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
Where software is not an integral part of a related item of computer hardware, it is classified as an intangible asset. Costs that are directly associated with the acquisition or production of identifiable software products controlled by the Group, which are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Capitalised costs include those of software licences and development, including costs of employees, consultants and an appropriate portion of relevant overheads.

Costs associated with identifying, sourcing, evaluating or maintaining computer software are recognised as an expense as incurred.

Software under development is held at cost less any provisions for impairment, with impairment reviews being performed annually, or when there is an indication of impairment.

Amortisation commences when the software assets are available for use and is over their estimated useful lives of two to ten years.

### i. Property, plant and equipment

#### (i) Cost
Property, plant and equipment held for use in the business are carried at cost less accumulated depreciation and any provisions for impairment.

Properties that were held at 1 February 2004 are carried at deemed cost, being the fair value of land and buildings as at the transition date to IFRS. All property acquired after 1 February 2004 is carried at cost less accumulated depreciation.

#### (ii) Depreciation
Depreciation is provided to reflect a straight-line reduction from cost to estimated residual value over the estimated useful life of the asset as follows:

| | |
|---|---|
| Freehold land | – not depreciated |
| Freehold buildings | – over remaining useful life |
| Leasehold improvements | – over remaining period of the lease |
| Fixtures and fittings | – between 4 and 20 years |
| Computers and electronic equipment | – between 3 and 5 years |
| Motor cars | – 4 years |
| Commercial vehicles | – between 3 and 10 years |

**(iii) Impairment**
At each reporting date an assessment is performed as to whether there are any indicators that property, plant and equipment, including the Group's stores, may be impaired or whether there is any indication that an impairment loss recognised in a previous period either no longer exists or has decreased. Should such indicators exist, the assets' recoverable amounts are subsequently estimated. For store impairment testing, each individual store is determined to be a cash generating unit. 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. A vacant possession valuation basis is used to approximate the fair value less costs to sell. The pre-tax discount rates are derived from the Group's weighted average cost of capital, taking into account the cost of equity and debt, to which specific market-related premium adjustments are made for each country. Long-term growth rates are derived from both external long-term inflation forecasts for the territories in which the businesses operate and internal long-term sales projections. Any impairment or impairment reversal is charged or credited 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.

**j. Leased assets**
The Group assesses whether a contract is or contains a lease at inception of the contract. Typically, lease contracts relate to properties such as stores and distribution centres, and equipment leases such as mechanical handling equipment and vehicles. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

The liability is initially measured as the present value of the lease payments not yet paid at the commencement date, discounted at an appropriate discount rate. Where the implicit rate in the lease is not readily determinable, an incremental borrowing rate is calculated and applied. The calculation methodology is based upon applying a financing spread to a risk-free rate, with the resulting rate including the effect of the credit worthiness of the operating company in which the lease is contracted, as well as the underlying term, currency and start date of the lease agreement.

Lease payments used in the measurement of the lease liability principally comprise fixed lease payments (subject to indexation/rent reviews) less any incentives. The lease liability is subsequently measured using an effective interest method whereby the carrying amount of the lease liability is measured on an amortised cost basis, and the interest expense is allocated over the lease term. The lease term comprises the non-cancellable lease term, in addition to optional periods when the Group is reasonably certain to exercise an option to extend (or not to terminate) a lease.

The Group remeasures the lease liability and makes a corresponding adjustment to the related right-of-use asset whenever an event occurs that changes the term or payment profile of a lease, such as the renewal of an existing lease, the exercise of lease term options, market rent reviews and indexation. A lease liability which is denominated in a currency that is not the functional currency of the relevant Group entity (e.g. a euro-denominated lease in Castorama Poland) is translated into that entity's functional currency with foreign exchange gains and losses recorded in the income statement, unless the lease liability is able to be designated as a net investment hedge with foreign exchange gains and losses recorded in other comprehensive income.

The right-of-use assets are initially measured at the amount equal to the lease liability, adjusted by any upfront lease payments or incentives and any initial direct costs incurred. Subsequently, the assets are measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated on a straight-line basis over the remaining lease term.

**Lessor accounting**
Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

**k. Investment property**
Investment property is property held by the Group to earn rental income or for capital appreciation. Investment properties are carried at cost less depreciation and provision for impairment. Depreciation is provided on a consistent basis with that applied to property, plant and equipment.

**l. 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.

**m. Inventories**
Inventories are carried at the lower of cost and net realisable value, on a weighted average cost basis.

Trade discounts and rebates received are deducted in determining the cost of purchase of inventories. Cost includes appropriate attributable overheads and direct expenditure incurred in the normal course of business in bringing goods to their present location and condition. Costs of inventories include the transfer from equity of any gains or losses on qualifying cash flow hedges relating to purchases.

## 2 Principal accounting policies continued

Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. Write downs to net realisable value are made for slow moving, display, damaged or obsolete items and other events or conditions resulting in expected selling prices being lower than cost. The carrying value of inventories reflects known and expected losses of product in the ordinary course of business.

**n. 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. 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.

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

For defined contribution schemes, 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.

**o. 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.

The Group is subject to income taxes in numerous jurisdictions and there are many transactions for which the ultimate tax determination is uncertain during the ordinary course of business. For uncertain tax positions, on the basis that tax authorities have full knowledge of the relevant information it is determined whether it is probable that, in aggregate, an outflow of economic resources will occur following investigation. The potential impact of the relevant tax authority's examination of the uncertain tax positions is measured to make the best estimate of the amount of the tax benefit that may be lost, for which liabilities are then recorded. Where the final outcome of these matters is different from the amounts which were initially recorded, such differences will impact the income tax and deferred tax liabilities in the period in which such determination is made. These adjustments in respect of prior years are recorded in the income statement, or directly in equity, as appropriate.

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.

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. 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.

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.

Current and deferred tax are calculated using tax rates which 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.

Current and deferred tax are charged or credited to the income statement, except when they relate to items charged or credited to other comprehensive income or directly to equity, in which case the current or deferred tax is also recognised in other comprehensive income or directly in equity.

Current and 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.

Operating levies, such as certain revenue, property and payroll-based taxes, are not treated as income tax and are included within operating profit. The timing of recognition of a liability to pay an operating levy is determined by the event identified under the relevant legislation that triggers the obligation to pay the levy.

**p. Provisions and contingent liabilities**
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.

A provision is recorded if the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it. The unavoidable costs reflect the net cost of exiting the contract.

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. Credits or charges arising from changes in the rate used to discount the provisions are recognised within net finance costs.

Contingent liabilities are possible obligations arising from past events, whose existence will only be confirmed by future uncertain events that are not wholly within the Group's control, or present obligations where it is not probable that an outflow of resources will be required or the amount of the obligation cannot be reliably measured. If the outflow of economic resources is not considered remote, contingent liabilities are disclosed but not recognised in the financial statements.

**q. 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 financial 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.

Financial assets and liabilities are offset only when the Group has a currently enforceable legal right to set-off the respective recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**(i) Cash and cash equivalents**
Cash and cash equivalents include cash in hand, uncleared credit card receipts, deposits held on call with banks and other short-term highly liquid investments with original maturities of three months or less. For cashflow statement reporting purposes, the Group considers bank overdrafts as part of cash and cash equivalents.

**(ii) Borrowings**
Interest bearing borrowings are recorded at fair value (which is typically equivalent to 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 (including short-term deposits)**
Other investments may include equity investments (where the Group does not have control, joint control or significant influence in the investee), short-term deposits with banks and other investments with original maturities of more than three months. Any dividends received are recognised in the income statement. Changes in fair value of the investments are recognised in the profit and loss as they arise unless the Group irrevocably elects at initial recognition (if criteria are met) to recognise changes in fair value through other comprehensive income. The fair value movements recognised in other comprehensive income are never reclassified to profit and loss, even if the asset is impaired, sold or otherwise derecognised.

**(iv) Trade receivables**
Trade receivables are initially recognised at their transaction price and are subsequently measured at amortised cost less any allowance for expected credit losses.

**(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.

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 and other financial instruments classified as hedges depends on their designation, which occurs at the start of the hedge relationship. The Group designates certain financial instruments 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 other comprehensive income, with any ineffective portion being 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 deferred 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.

**Net investment hedges**
Where the Group hedges net investments in foreign operations through foreign currency borrowings or lease liabilities, the gains or losses on retranslation are recognised in other comprehensive income. If the Group uses derivatives as the hedging instrument, the effective portion of the hedge is recognised in other comprehensive income, with any ineffective portion being recognised immediately 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 risk management objective and strategy for undertaking the hedge and 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 will be highly effective on an ongoing basis and provides an analysis of the sources of hedge ineffectiveness. The effectiveness testing is performed at half year and year end or upon a significant change in circumstances affecting the hedge effectiveness requirements.

## 2 Principal accounting policies continued

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 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 deferred in equity is transferred to the income statement.

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.

**r. Assets and liabilities held for sale**
Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale.

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. This excludes financial assets, deferred tax assets and assets arising from employee benefits, which are measured according to the relevant accounting policy.

Property, plant and equipment, right-of-use assets and intangible assets are not depreciated once classified as held for sale. The Group ceases to use the equity method of accounting from the date on which an interest in a joint venture or an interest in an associate becomes classified as held for sale.

## 3 Critical accounting judgements and key sources of estimation uncertainty

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 significant judgements applied in the preparation of the financial statements, along with 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.

Lease liability discount rates has been removed as a critical accounting judgement following completion of the adoption of IFRS 16 'Leases'. This was added as a critical accounting judgement in the 2019/20 financial statements due to the significance of the liabilities (and corresponding right-of-use assets) which were brought on to the balance sheet on transition. This is no longer considered as a critical accounting judgement following the completion of the transition to IFRS 16 as the impact of the discount rate on lease additions and modifications during the year, and the level of judgement required in determining the discount rates, was not significant.

Going concern has been removed as a critical accounting judgement. Refer to note 2.

**Key sources of estimation uncertainty**

**Inventories**
The carrying amount of inventories recognised on the balance sheet, which are carried at the lower of cost and net realisable value, are subject to estimates around rates of provision applied to certain inventory items. The level of provisions recorded are subject to estimation uncertainty in determining the eventual sales price of goods to customers in the future, as well as assessing which items may be slow-moving or obsolete. This is impacted by factors such as stock turn, range or delisted status, shrinkage, damage, obsolescence and range review activity.

Range reviews and resulting clearance activity adds additional complexity to assessing the level of inventory that may become obsolete and the expected net realisable value of inventory which will be sold.

The carrying amount of inventories subject to estimation uncertainty is £2,488m (2019/20: £2,485m). A 1% increase in the provision as a percentage of gross inventory (before provisions and a deduction for rebates), which based on management's judgment represents a reasonably possible change, would result in a £27m decrease in the carrying amount of inventories (2019/20: £27m).

The quantity, age and condition of inventories are regularly measured and assessed as part of range reviews and inventory counts undertaken throughout the year and across the Group.

**Impairment of property, plant & equipment**
The Group applies procedures to ensure that its assets are carried at no more than their recoverable amount. These procedures, by their nature, require estimates and assumptions to be made. The most significant are set out below.

Property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable, or where there is any indication that an impairment loss recognised in a previous period either no longer exists or has decreased. When a review for impairment is conducted, the recoverable amount of an asset or a cash generating unit is determined as the higher of fair value less costs to sell and value-in-use.

The determination of value-in-use for store assets requires the estimation of future cash flows expected to arise from the continuing operation of the store and the determination of suitable discount and long-term growth rates in order to calculate the present value of the forecast cash flows. Sales projections take into consideration both external factors such as market expectations, and internal factors such as trading plans. For certain stores, they assume sales increases that are higher than recent (pre-pandemic) experience and market growth expectations, driven by an improved and differentiated offer. Assumed margin percentage improvements reflect increased sales of the Group's own exclusive brands (OEB) as well as lower cost of sales from leveraging our key vendors, and better clearance management. Higher assumed operating profit percentages reflect operational leverage from increased sales as well as cost savings through operational efficiencies, including more efficient organisation and leveraging our GNFR spend. Actual outcomes could vary significantly from these estimates and sensitivity analyses are undertaken to assess the impact of projected benefits not being realised.

During the year, the Group has recorded net store asset impairment reversals of £42m (2019/20: £118m impairment charges) as exceptional adjusting items (excluding Russia), of which £24m related to property, plant & equipment, principally relating to revised future performance projections in France and the UK. Further information, including a sensitivity analysis relating to store assets, is provided in note 15.

**Post-employment benefits**
The present value of the defined benefit liabilities recognised on the balance sheet is dependent on a number of market rates and assumptions including interest rates of high quality corporate bonds, inflation and mortality rates. The net interest expense or income is dependent on the interest rates of high quality corporate bonds and the net deficit or surplus position. The market rates and assumptions are based on the conditions at the time and changes in these can lead to significant movements in the estimated obligations. During the year, changes in financial and demographic assumptions have resulted in an increase in defined benefit liabilities of £100m. To help the reader understand the impact of changes in the key market rates and assumptions, a sensitivity analysis is provided in note 28.

**Critical accounting judgements**

**Exceptional adjusting items**
The Group separately reports exceptional adjusting items in order to calculate adjusted results, as it believes these adjusted measures provide additional useful information on continuing performance and trends to shareholders.

Judgement is required in determining whether an item should be classified as an exceptional adjusting item or included within adjusted results.

The Group's definition of exceptional adjusting items is outlined in note 2 (a). During the year the Group has recorded, before taxation, exceptional adjusting items of £30m (2019/20: £441m). Refer to note 5 for further information on exceptional adjusting items.

**Income taxes**
The Group is subject to income taxes in numerous jurisdictions in which it operates and there are many transactions for which the ultimate tax determination is open to differing interpretations during the ordinary course of business. Significant judgement may therefore be required in determining the liability for income taxes in each of these territories. Where it is anticipated that additional taxes are probable, the Group recognises liabilities for the estimate of any potential exposure. These judgments are continually reassessed, and where the final outcome of these matters is different from the initially recorded amount, such differences will impact the income tax and deferred tax liabilities in the period in which such determination is made. These adjustments in respect of prior years are recorded in the income statement, or directly in other comprehensive income as appropriate, and are disclosed in the notes to the accounts. Refer to notes 10 and 26.

Judgment has continued to be required in determining the outcome of the European Commission's state aid investigation into the Group Financing Exemption section of the UK controlled foreign company rules. During the year, the Group received a charging notice from HM Revenue & Customs (HMRC) for £57m, which is included in current liabilities. The final impact on the Group remains uncertain but based upon advice taken, the Group considers that no provision is required at this time and, consequently, £57m is included in non-current assets to reflect the Group's view that the amount paid will ultimately be recovered. Further details are provided in note 38.

## 4 Segmental analysis

### Income statement

| £ millions | UK & Ireland | France | Poland | Other | Other International | Total |
|---|---|---|---|---|---|---|
| | | | | | | **2020/21** |
| **Sales** | **5,743** | **4,309** | **1,550** | **741** | **2,291** | **12,343** |
| **Retail profit/(loss)** | **681** | **181** | **146** | **(5)** | **141** | **1,003** |
| Central costs | | | | | | **(54)** |
| Share of interest and tax of joint ventures and associates | | | | | | **(3)** |
| Exceptional adjusting items | | | | | | **(30)** |
| **Operating profit** | | | | | | **916** |
| Net finance costs | | | | | | **(160)** |
| **Profit before taxation** | | | | | | **756** |

| £ millions | UK & Ireland | France | Poland | Other | Other International | Total |
|---|---|---|---|---|---|---|
| | | | | | | 2019/20 |
| **Sales** | 5,112 | 4,082 | 1,461 | 858 | 2,319 | 11,513 |
| **Retail profit/(loss)** | 499 | 164 | 151 | (28) | 123 | 786 |
| Central costs | | | | | | (62) |
| Share of interest and tax of joint ventures and associates | | | | | | (7) |
| Exceptional adjusting items | | | | | | (434) |
| **Operating profit** | | | | | | 283 |
| Net finance costs | | | | | | (180) |
| **Profit before taxation** | | | | | | 103 |

### Balance sheet

| £ millions | UK & Ireland | France | Poland | Other | Other International | Total |
|---|---|---|---|---|---|---|
| | | | | | | **2020/21** |
| **Segment assets** | **2,774** | **1,686** | **899** | **303** | **1,202** | **5,662** |
| Central liabilities | | | | | | **(124)** |
| Goodwill | | | | | | **2,427** |
| Net debt | | | | | | **(1,394)** |
| **Net assets** | | | | | | **6,571** |

| £ millions | UK & Ireland | France | Poland | Other | Other International | Total |
|---|---|---|---|---|---|---|
| | | | | | | 2019/20 |
| **Segment assets** | 2,989 | 1,715 | 855 | 488 | 1,343 | 6,047 |
| Central liabilities | | | | | | (135) |
| Goodwill | | | | | | 2,416 |
| Net debt | | | | | | (2,526) |
| **Net assets** | | | | | | 5,802 |

### Other segmental information

| £ millions | UK & Ireland | France | Poland | Other | Other International | Central | Total |
|---|---|---|---|---|---|---|---|
| | | | | | | | **2020/21** |
| Capital expenditure | **134** | **50** | **85** | **10** | **95** | **2** | **281** |
| Depreciation and amortisation | **326** | **130** | **46** | **27** | **73** | **7** | **536** |
| Impairment losses | **8** | **17** | **1** | **30** | **31** | **3** | **59** |
| Impairment reversals | **(21)** | **(39)** | **–** | **(6)** | **(6)** | **–** | **(66)** |
| Non-current assets [1] | **4,297** | **2,219** | **865** | **319** | **1,184** | **7** | **7,707** |

| £ millions | UK & Ireland | France | Poland | Other | Other International | Central | 2019/20 Total |
|---|---|---|---|---|---|---|---|
| Capital expenditure | 162 | 79 | 73 | 19 | 92 | 9 | 342 |
| Depreciation and amortisation | 306 | 137 | 39 | 45 | 84 | 18 | 545 |
| Impairment losses | 24 | 83 | – | 171 | 171 | 39 | 317 |
| Impairment reversals | – | – | (2) | – | (2) | – | (2) |
| Non-current assets [1] | 4,418 | 2,156 | 793 | 296 | 1,089 | 20 | 7,683 |

1. Non-current assets comprise goodwill, other intangible assets, property, plant and equipment, right-of-use assets, investment property and investments in joint ventures and associates.

The operating segments disclosed above are based on the information reported internally to the Board of Directors and Group Executive, representing the geographical areas in which the Group operates. The Group only has one business segment being the supply of home improvement products and services. The majority of the sales in each geographical area are derived from in-store sales of products.

The 'Other International' segment consists of Poland, Iberia, Russia, Romania, NeedHelp, the Group's joint venture Koçtaş in Turkey and, in the prior year, Germany. Poland has been shown separately due to its significance. The Castorama Russia business was disposed of on 30 September 2020 (see note 35). The Group has no remaining trading operations in Russia following this disposal.

Central costs principally comprise the costs of the Group's head office before exceptional adjusting items. Central liabilities comprise unallocated head office and other central items including pensions, insurance, interest and tax.

## 5 Exceptional adjusting items

| £ millions | 2020/21 | 2019/20 |
|---|---|---|
| **Included within selling and distribution expenses** | | |
| Impairments of Russia assets and other exit costs | **(27)** | (130) |
| Net store asset impairment reversals/(charges) | **42** | (118) |
| IT asset write-downs and related costs | **(3)** | (44) |
| UK & Ireland and continental Europe restructuring | **–** | (67) |
| Impairments of Romania assets | **–** | (39) |
| | **12** | (398) |
| **Included within administrative expenses** | | |
| Commercial operating model restructuring | **(16)** | – |
| Release of B&Q China disposal warranty liability | **10** | – |
| Transformation exceptional costs | **–** | (8) |
| Penalties on French Tax Authority settlement | **–** | (17) |
| France business tax | **–** | (26) |
| | **(6)** | (51) |
| **Included within other income/(expenses)** | | |
| Profit on disposal of properties | **13** | 15 |
| Loss on disposal of Castorama Russia | **(49)** | – |
| | **(36)** | 15 |
| **Included within net finance costs** | | |
| Interest on French Tax Authority settlement | **–** | (7) |
| | **–** | (7) |
| **Exceptional adjusting items before tax** | **(30)** | (441) |
| French Tax Authority settlement | **–** | (51) |
| Other exceptional adjusting tax items | **(3)** | 92 |
| **Exceptional adjusting items** | **(33)** | (400) |

Exceptional costs (pre-disposal) of £27m have been recognised in the current year relating to the exit of Russia, predominately attributable to additional impairments that reflected the performance during the year and the anticipated net proceeds under the planned sale. The decision to exit Russia was announced in November 2018 and the business was classified as held for sale in January 2020.

The disposal of the Castorama Russia business was completed in September 2020, resulting in a loss on disposal of £49m. This principally related to the transfer of cumulative foreign exchange losses previously recorded in the translation reserve and arising on consolidation from the retranslation of the Group's net investment in Castorama Russia. See note 35 for further details.

Revised future store performance projections, reflecting the Group's 'Powered by Kingfisher' strategy and judgements on the sustainable benefits of the Covid-19 pandemic on the market for home improvement products and services, have resulted in net store asset impairment reversals of £42m. These predominately comprised reversals of impairment charges recorded in 2019/20.

IT asset write-downs and related costs of £3m in the current year relate to additional impairments of digital tools for which no further development is currently planned.

## 5 Exceptional adjusting items continued

In September 2020, the Group commenced formal consultation with employee representatives regarding its proposal to implement a new commercial operating model. Exceptional costs of £16m have been recorded, predominately related to redundancy costs.

A £14m liability that was held in relation to warranties as part of the B&Q China disposal in 2014 has been released in the year following the expiry of the warranty claims period. Of this amount, a £10m credit has been recognised within administrative expenses and a £4m credit recognised within other exceptional adjusting tax items.

In August 2020, the Group completed the disposal of a UK freehold property on a sale and leaseback basis, generating cash proceeds of £38m and a profit on disposal of £13m.

## 6 Net finance costs

| £ millions | **2020/21** | 2019/20 |
|---|---|---|
| Bank overdrafts and bank loans | **(13)** | (22) |
| Fixed term debt | **(14)** | (4) |
| Lease liabilities | **(153)** | (165) |
| Capitalised interest | **2** | 3 |
| Other interest payable | **(2)** | (3) |
| Exceptional interest on French Tax Authority settlement | **–** | (7) |
| **Finance costs** | **(180)** | (198) |
| Cash and cash equivalents and short-term deposits | **3** | 10 |
| Net interest income on defined benefit pension schemes | **6** | 7 |
| Finance lease income | **2** | 1 |
| Release of liability for interest on uncertain tax positions | **9** | – |
| **Finance income** | **20** | 18 |
| **Net finance costs** | **(160)** | (180) |

Fixed term debt interest includes a net interest charge accrued on derivatives of £1m (2019/20: £1m) and amortisation of issue costs of borrowings of £3m (2019/20: £1m).

Financing fair value remeasurements comprise a net gain on derivatives, excluding accrued interest, of £11m (2019/20: £17m loss), offset by a net loss from fair value adjustments to the carrying value of borrowings of £11m (2019/20: £17m gain).

## 7 Government grants

From mid-March 2020, the Group announced furlough programmes to some of our colleagues in the UK, Republic of Ireland, France, Poland, Spain and Romania, such as the Coronavirus Job Retention Scheme (CJRS) in the UK and 'activité partielle' relief measures in France. Approximately 50% of the Group's colleagues were furloughed in April, reducing to c.10% by the end of May as stores within the UK and France were reopened. With the exception of those who were vulnerable and/or at a higher risk of infection, all furloughed colleagues returned by 1 July. From this date the Group decided to no longer claim under the furlough programmes in the UK, Republic of Ireland and France. In Q4 2020/21, the Group repaid £25m received in the first half of the year under the UK and Republic of Ireland furlough programmes. Participation in these schemes, after amounts repaid, has lowered the operating costs of the Group by £45m (2019/20: £nil) in the year.

The UK government announced in March 2020 that retail premises in England would be granted a relief from paying business rates in the 2020/21 tax year, effective from April. Similar measures (a combination of payment deferrals and relief) were announced by the local governments and assemblies of Scotland, Wales and Northern Ireland, as well as the Republic of Ireland. Kingfisher's total business rates bill eligible for relief in FY 20/21 was £105m, of which £42m was claimed in H1 2020/21. In December, the Group decided to repay this and forego all UK and Republic of Ireland business rates relief for the entire 2020/21 tax year.

Refer to note 33 for details of government financing support received and fully repaid in the year.

## 8 Profit before taxation

The following items of expense/(income) have been charged/(credited) in arriving at profit before taxation:

| £ millions | 2020/21 | 2019/20 |
|---|---|---|
| Research and development recognised as an expense | 1 | 1 |
| Amortisation of intangible assets [1] | 69 | 72 |
| Depreciation of property, plant and equipment, investment property and right of use assets | 467 | 473 |
| Impairment of goodwill | – | 18 |
| Impairment of intangible assets | 9 | 39 |
| Impairment of property, plant and equipment, right-of-use assets and assets held for sale | 50 | 260 |
| Reversal of impairment of property, plant and equipment and right-of-use assets | (66) | (2) |
| (Gain)/loss on disposal: | | |
| Land and buildings and investment property | – | (12) |
| Fixtures, fittings and equipment | 3 | 2 |
| Sale and leasebacks | (13) | (3) |
| Write-down to recoverable amount of trade and other receivables | 5 | 6 |

1. Of the amortisation of intangible assets charge, £1m (2019/20: £1m) and £68m (2019/20: £71m) are included in selling and distribution expenses and administrative expenses respectively.

**Auditor's remuneration**

| £ millions | 2020/21 | 2019/20 |
|---|---|---|
| Fees payable for the audit of the Company and consolidated financial statements | 0.5 | 0.8 |
| Fees payable to the Company's auditor and their associates for other services to the Group: | | |
| The audit of the Company's subsidiaries pursuant to legislation | 1.2 | 1.4 |
| **Audit fees** | 1.7 | 2.2 |
| Audit-related assurance services | 0.2 | 0.1 |
| Other assurance services | 0.1 | 0.1 |
| Non-audit fees | 0.3 | 0.2 |
| **Auditor's remuneration** | 2.0 | 2.4 |

Details of the Group's policy on the use of auditors for non-audit services, the reasons why the auditor was used rather than another supplier and how the auditor's independence and objectivity were safeguarded are set out in the Audit Committee Report on page 76. Audit-related assurance services relate to the interim review. Other assurance services include assurance services provided in relation to the disposal of Castorama Russia, renewal of the Group's Euro Medium Term Note programme and local regulatory filings. No services were provided pursuant to contingent fee arrangements.

## 9 Employees and Directors

| £ millions | 2020/21 | 2019/20 |
|---|---|---|
| Wages and salaries | 1,556 | 1,444 |
| Social security costs | 278 | 271 |
| Post-employment benefits | | |
| Defined contribution | 34 | 34 |
| Defined benefit (service cost) | 10 | 10 |
| Share-based compensation | 13 | 11 |
| **Employee benefit expenses** | 1,891 | 1,770 |

| Number thousands | 2020/21 | 2019/20 |
|---|---|---|
| Stores | 72 | 72 |
| Administration | 6 | 6 |
| **Average number of persons employed** | 78 | 78 |

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

**Remuneration of key management personnel**

| £ millions | 2020/21 | 2019/20 |
|---|---|---|
| Short-term employee benefits | 9.8 | 7.1 |
| Post-employment benefits | 0.5 | 0.5 |
| Termination benefits | – | 0.6 |
| Share-based compensation | 0.3 | (2.1) |
| | 10.6 | 6.1 |

The Group defines key management personnel as being those members of the Board of Directors and the Group Executive.

## 9 Employees and Directors continued

Further detail with respect to the Directors' remuneration is set out in the Directors' Remuneration Report on pages 82 to 107. Other than as set out in the Directors' Remuneration Report, there have been no transactions with key management during the year (2019/20: £nil).

## 10 Income tax expense

| £ millions | 2020/21 | 2019/20 |
|---|---|---|
| **UK corporation tax** | | |
| Current tax on profits for the year | **(102)** | (57) |
| Adjustments in respect of prior years | **10** | (5) |
| | **(92)** | (62) |
| **Overseas tax** | | |
| Current tax on profits for the year | **(61)** | (46) |
| Adjustments in respect of prior years | **5** | (6) |
| | **(56)** | (52) |
| **Current tax** | **(148)** | **(114)** |
| **Deferred tax** | | |
| Current year | **(26)** | 20 |
| Adjustments in respect of prior years | **2** | – |
| Adjustments in respect of changes in tax rates | **8** | (1) |
| **Deferred tax** | **(16)** | 19 |
| **Income tax expense** | **(164)** | (95) |

**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 19% (2019/20: 19%). The differences are explained below:

| £ millions | 2020/21 | 2019/20 |
|---|---|---|
| Profit before taxation | **756** | 103 |
| Profit multiplied by the standard rate of corporation tax in the UK of 19% (2019/20: 19%) | **(144)** | (20) |
| Net expense not deductible for tax purposes | **(19)** | (66) |
| Temporary differences: | | |
| Losses not recognised | **(10)** | (10) |
| Foreign tax rate differences | **(16)** | 13 |
| Adjustments in respect of prior years | **17** | (11) |
| Adjustments in respect of changes in tax rates | **8** | (1) |
| Income tax expense | **(164)** | **(95)** |

The adjusted effective tax rate, based on profit before exceptional adjusting items and excluding prior year tax adjustments and the impact of changes in tax rates on deferred tax, is 23% (2019/20: 26%). Exceptional adjusting tax items for the year amount to a net charge of £3m, with a £4m credit relating to prior year items (2019/20: £41m net credit, with a £20m charge related to prior year items). The effective tax rate calculation is set out in the Financial Review on page 34.

The overall tax rate for the year is 22% (2019/20: 92%). This predominantly reflects the applicable tax treatment of exceptional adjusting items, the revaluation of deferred tax balances in the year due to the repealed UK tax rate reduction, alongside a release of prior year liabilities which reflect a reassessment of expected outcomes, agreed positions with tax authorities and items that have time expired.

In addition to the amounts charged to the income statement, tax of £16m has been charged to equity (2019/20: £16m charge) of which a £4m credit (2019/20: £5m credit) is included in current tax and a £20m charge (2019/20: £21m charge) is included in deferred tax and principally relates to post-employment benefits.

### Changes in tax rates

The UK Budget on 3 March 2021 announced the intention to increase the tax rate from the current rate of 19% to 25%, with effect from April 2023. As this change had not been substantively enacted by the balance sheet date, the impact is not included in these financial statements. If the 25% tax rate had been reflected, the effect would be to reduce the net deferred tax liability as reported by £25m. This reflects an increase in net deferred tax assets that would be expected to reverse in the future at the new rate, with net deferred tax liabilities not impacted by this future change in rate.

French legislation is progressively reducing the applicable rate in France for large companies to 25.83% by 2022/23. The intervening rate applicable for 2020/21 was 32.02%, with a reduced rate of 28.41% applying in 2021/22. These financial statements reflect these enacted future rates, where appropriate.

## 11 Earnings per share

| | 2020/21 | | | 2019/20 | | |
|---|---|---|---|---|---|---|
| | **Earnings £ millions** | **Weighted average number of shares millions** | **Earnings per share pence** | Earnings £ millions | Weighted average number of shares millions | Earnings per share pence |
| **Basic earnings per share** | **592** | **2,105** | **28.1** | 8 | 2,101 | 0.4 |
| Effect of dilutive share options | **–** | **14** | **(0.2)** | – | 13 | – |
| **Diluted earnings per share** | **592** | **2,119** | **27.9** | 8 | 2,114 | 0.4 |
| **Basic earnings per share** | **592** | **2,105** | **28.1** | 8 | 2,101 | 0.4 |
| Exceptional adjusting items | **33** | | **1.6** | 400 | | 19.1 |
| Prior year tax items | **(21)** | | **(1.0)** | (8) | | (0.4) |
| **Adjusted basic earnings per share** | **604** | **2,105** | **28.7** | 400 | 2,101 | 19.1 |
| **Diluted earnings per share** | **592** | **2,119** | **27.9** | 8 | 2,114 | 0.4 |
| Exceptional adjusting items | **33** | | **1.6** | 400 | | 19.0 |
| Prior year tax items | **(21)** | | **(1.0)** | (8) | | (0.4) |
| **Adjusted diluted earnings per share** | **604** | **2,119** | **28.5** | 400 | 2,114 | 19.0 |

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 trust') 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 both the exercise price is less than the average market price of the Company's shares during the year and any related performance conditions have been met.

## 12 Dividends

| £ millions | **2020/21** | 2019/20 |
|---|---|---|
| **Dividends paid to equity shareholders of the Company** | | |
| Ordinary interim dividend for the year ended 31 January 2021 of nil per share (31 January 2020: 3.33p per share) | **–** | 70 |
| Ordinary final dividend for the year ended 31 January 2020 of nil per share (31 January 2019: 7.49p per share) | **–** | 157 |
| | **–** | 227 |

The proposed dividend for the year ended 31 January 2021, subject to approval by shareholders at the Annual General Meeting, is 8.25p per share, comprising an interim dividend of 2.75p in respect of the six months ended 31 July 2020 and a final dividend of 5.50p.

## 13 Goodwill

| £ millions | |
|---|---|
| **Cost** | |
| At 1 February 2020 | **2,449** |
| Additions | **9** |
| Exchange differences | **2** |
| At 31 January 2021 | **2,460** |
| | |
| **Impairment** | |
| At 1 February 2020 | **(33)** |
| At 31 January 2021 | **(33)** |
| | |
| **Net carrying amount** | |
| At 31 January 2021 | **2,427** |

| | |
|---|---|
| **Cost** | |
| At 1 February 2019 | 2,451 |
| Exchange differences | (2) |
| At 31 January 2020 | 2,449 |
| | |
| **Impairment** | |
| At 1 February 2019 | (15) |
| Charge for the year | (18) |
| At 31 January 2020 | (33) |
| | |
| **Net carrying amount** | |
| At 31 January 2020 | 2,416 |

During the year, the Group acquired NeedHelp resulting in additions to goodwill of £9m. Refer to note 34.

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

| £ millions | UK | France | Poland | Romania | NeedHelp | Total |
|---|---|---|---|---|---|---|
| At 31 January 2021 | | | | | | |
| Cost | **1,796** | **524** | **81** | **50** | **9** | **2,460** |
| Impairment | **–** | **–** | **–** | **(33)** | **–** | **(33)** |
| Net carrying amount | **1,796** | **524** | **81** | **17** | **9** | **2,427** |
| | | | | | | |
| At 31 January 2020 | | | | | | |
| Cost | 1,796 | 522 | 81 | 50 | – | 2,449 |
| Impairment | – | – | – | (33) | – | (33) |
| Net carrying amount | 1,796 | 522 | 81 | 17 | – | 2,416 |

The recoverable amounts of the 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, France and Poland. The key assumptions used for value-in-use calculations are set out below.

**Assumptions**
The cash flow projections are based on approved strategic plans covering at least a three-year period. These are based on both past performance and expectations for future market development. The projections reflect the expected benefits from certain strategic initiatives, including an increased offer, an improved digital journey and improved operational efficiency. Cash flows related to uncommitted future restructurings and enhancement capital expenditure are excluded from the projections. For further details, refer to the Strategic Report on pages 1 to 51.

Key drivers in the strategic plans are sales growth, margin and operating profit percentages. Sales projections take into consideration both external factors such as market expectations, and internal factors such as trading plans. They assume sales increases in each country that are higher than recent (pre-pandemic) experience and market growth expectations, driven by an enlarged offer, an improved digital journey and local trading initiatives. Assumed gross margin percentages benefit from increased sales of the Group's own exclusive brands (OEB) as well as lower cost of sales from leveraging our key vendors, as well as better clearance management. Higher assumed operating profit percentages reflect operational leverage from increased sales as well as cost savings through operational efficiencies, including more efficient organisation and leveraging our GNFR spend.

Cash flows beyond the period of the strategic plans are calculated using a growth rate which does not exceed the long-term average growth rate for the countries in which the Group's CGUs operate.

The Board has reviewed a sensitivity analysis and does not consider that a reasonably possible change in the assumptions used in the value-in-use calculations would cause the carrying amounts of the UK, France and Poland CGUs to exceed their recoverable amounts.

The pre-tax discount rates are derived from the Group's weighted average cost of capital, taking into account the cost of equity and debt, to which specific market-related premium adjustments are made for each country in which the CGU operates.

The risk adjusted nominal discount rates and long-term nominal growth rates used are as follows:

| | | | | 2020/21 | | | | 2019/20 |
|---|---|---|---|---|---|---|---|---|
| Annual % rate | UK | France | Poland | Romania | UK | France | Poland | Romania |
| Pre-tax discount rate | **7.7** | **7.4** | **8.3** | **10.6** | 8.3 | 7.5 | 9.3 | 9.8 |
| Post-tax discount rate | **6.8** | **6.1** | **7.3** | **9.8** | 7.2 | 6.0 | 8.1 | 9.1 |
| Long-term growth rate | **2.8** | **2.2** | **2.8** | **3.6** | 2.0 | 1.5 | 3.2 | 3.8 |

## 14 Other intangible assets

| £ millions | Computer software | Other | Total |
|---|---|---|---|
| **Cost** | | | |
| At 1 February 2020 | **745** | **17** | **762** |
| Additions | **57** | **–** | **57** |
| Disposals | **(38)** | **(2)** | **(40)** |
| Exchange differences | **3** | **1** | **4** |
| At 31 January 2021 | **767** | **16** | **783** |
| **Amortisation** | | | |
| At 1 February 2020 | **(412)** | **(11)** | **(423)** |
| Charge for the year | **(68)** | **(1)** | **(69)** |
| Impairment losses | **(9)** | **–** | **(9)** |
| Disposals | **38** | **2** | **40** |
| Exchange differences | **(1)** | **(1)** | **(2)** |
| At 31 January 2021 | **(452)** | **(11)** | **(463)** |
| **Net carrying amount** | | | |
| At 31 January 2021 | **315** | **5** | **320** |
| **Cost** | | | |
| At 1 February 2019 | 700 | 15 | 715 |
| Additions | 78 | 3 | 81 |
| Disposals | (31) | – | (31) |
| Exchange differences | (2) | (1) | (3) |
| At 31 January 2020 | 745 | 17 | 762 |
| **Amortisation** | | | |
| At 1 February 2019 | (334) | (10) | (344) |
| Charge for the year | (71) | (1) | (72) |
| Impairment losses | (39) | – | (39) |
| Disposals | 31 | – | 31 |
| Exchange differences | 1 | – | 1 |
| At 31 January 2020 | (412) | (11) | (423) |
| **Net carrying amount** | | | |
| At 31 January 2020 | 333 | 6 | 339 |

Additions in the current and prior year primarily related to the development of IT infrastructure for the benefit of the Group. This included expenditure related to the continued roll-out of a common IT platform, which is amortised over its estimated useful life of 10 years as it becomes available for use in the operating companies.

## 14 Other intangible assets continued

Impairment losses of £9m (2019/20: £39m) have been recognised relating to IT intangible assets, mainly reflecting IT platform modules and digital tools for which no further development or usage is currently planned, of which £3m has been recorded as exceptional adjusting items.

Computer software includes £183m (2019/20: £202m) of internally generated development costs. None of the Group's other intangible assets have indefinite useful lives.

## 15 Property, plant and equipment

| £ millions | Land and buildings | Fixtures, fittings and equipment | Total |
|---|---|---|---|
| **Cost** | | | |
| At 1 February 2020 | **2,638** | **2,903** | **5,541** |
| Additions | **48** | **178** | **226** |
| Disposals | **(16)** | **(80)** | **(96)** |
| Reclassified to investment property | **(9)** | **(6)** | **(15)** |
| Transfers to assets held for sale | **(41)** | **–** | **(41)** |
| Exchange differences | **79** | **46** | **125** |
| At 31 January 2021 | **2,699** | **3,041** | **5,740** |
| **Depreciation** | | | |
| At 1 February 2020 | **(483)** | **(2,070)** | **(2,553)** |
| Charge for the year | **(34)** | **(156)** | **(190)** |
| Impairment reversals | **21** | **18** | **39** |
| Impairment losses | **(13)** | **(4)** | **(17)** |
| Disposals | **9** | **73** | **82** |
| Reclassified to investment property | **–** | **2** | **2** |
| Transfers to assets held for sale | **21** | **–** | **21** |
| Exchange differences | **(17)** | **(32)** | **(49)** |
| At 31 January 2021 | **(496)** | **(2,169)** | **(2,665)** |
| **Net carrying amount** | | | |
| At 31 January 2021 | **2,203** | **872** | **3,075** |
| **Cost** | | | |
| At 1 February 2019 | 2,896 | 2,836 | 5,732 |
| Additions | 49 | 194 | 243 |
| Disposals | (13) | (42) | (55) |
| Transfers to assets held for sale | (225) | (41) | (266) |
| Exchange differences | (69) | (44) | (113) |
| At 31 January 2020 | 2,638 | 2,903 | 5,541 |
| **Depreciation** | | | |
| At 1 February 2019 | (466) | (1,964) | (2,430) |
| Charge for the year | (38) | (158) | (196) |
| Impairment reversals | 2 | – | 2 |
| Impairment losses | (143) | (40) | (183) |
| Disposals | 6 | 35 | 41 |
| Transfers to assets held for sale | 140 | 33 | 173 |
| Exchange differences | 16 | 24 | 40 |
| At 31 January 2020 | (483) | (2,070) | (2,553) |
| **Net carrying amount** | | | |
| **At 31 January 2020** | 2,155 | 833 | 2,988 |
| **Assets in the course of construction included above at net carrying amount** | | | |
| At 31 January 2021 | **27** | **121** | **148** |
| At 31 January 2020 | 23 | 84 | 107 |

Net impairment reversals of £22m have been recorded in the year (2019/20: £181m net impairment losses). Current year impairment reversals principally relate to store property and equipment assets in the UK and France, resulting from revised future performance projections. Impairment charges principally relate to a reduction in store freehold property market values. Net store impairment reversals of £24m have been recorded as exceptional adjusting items.

Impairment reversals/(charges) were based on a determination of recoverable amounts of the stores as the net present value of future pre-tax cash flows ('value-in-use') or fair value less costs to sell (using market valuations performed by independent external valuers) if higher. Refer to note 13 for details of the key drivers of the strategic plans which cash flow projections are based on for the purpose of calculating value-in-use.

For store property and equipment assets, the following changes in assumptions, which based on the Group's previous experience and management's judgment represent reasonably possible changes, would lead to the following impacts on the net impairment:

| Assumption | Change in assumption | Impact on net impairment reversal |
|---|---|---|
| Operating cash flows | Decrease by 10% | Decrease by £17m |
| Discount rate | Increase by 1% | Decrease by £24m |
| Long-term growth rate | Decrease by 1% | Decrease by £21m |

The cumulative total of capitalised borrowing costs included within property, plant and equipment, net of depreciation, is £9m (2019/20: £17m).

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. Based on this exercise the value of property is £2.6bn (2019/20: £2.8bn) on a sale and leaseback basis with Kingfisher in occupancy. The key assumption used in calculating this is the estimated yields. Property, plant and equipment market valuations are considered to have been determined by level 3 inputs as defined by the fair value hierarchy of IFRS 13, 'Fair value measurement'. A vacant possession valuation basis is used to approximate the fair value less costs to sell when reviewing for impairment.

## 16 Investment property

| £ millions | |
|---|---|
| **Cost** | |
| At 1 February 2020 | **11** |
| Reclassified from property, plant & equipment | **15** |
| Transfers to assets held for sale | **(1)** |
| At 31 January 2021 | **25** |
| **Depreciation** | |
| At 1 February 2020 | **(3)** |
| Reclassified from property, plant & equipment | **(2)** |
| At 31 January 2021 | **(5)** |
| **Net carrying amount** | |
| At 31 January 2021 | **20** |
| **Cost** | |
| At 1 February 2019 | 11 |
| At 31 January 2020 | 11 |
| **Depreciation** | |
| At 1 February 2019 | (3) |
| At 31 January 2020 | (3) |
| **Net carrying amount** | |
| At 31 January 2020 | 8 |

A property valuation exercise is performed for internal purposes annually as described in note 15. Based on this exercise the fair value of investment property is £17m (2019/20: £8m). All the investment property market valuations are considered to have been determined by level 3 inputs as defined by the fair value hierarchy of IFRS 13, 'Fair value measurement'.

## 17 Leases

The Group is a lessee of various retail stores, offices, warehouses and plant and equipment under lease agreements with varying terms, escalation clauses and renewal rights. The Group is also a lessor and sub-lessor of space with freehold and leasehold properties respectively.

### Right-of-use assets

| £ millions | 2020/21 | 2019/20 |
|---|---|---|
| Land and buildings | **1,759** | 1,829 |
| Fixtures, fittings and equipment | **86** | 87 |
| **Net carrying amount** | **1,845** | **1,916** |

| £ millions | 2020/21 | 2019/20 |
|---|---|---|
| **At beginning of year** | **1,916** | 2,017 |
| Additions [1] | **164** | 303 |
| Depreciation charge for the year | **(277)** | (277) |
| Impairment reversals | **27** | – |
| Impairment losses | **(9)** | (77) |
| Transfers to assets held for sale | **–** | (23) |
| Other movements | **8** | (8) |
| Exchange differences | **16** | (19) |
| **At end of year** | **1,845** | 1,916 |

1. Right-of-use asset additions include new leases, lease renewals and increases in term and/or scope for existing leases.

Net right-of-use asset impairment reversals of £18m (2019/20: £77m impairment charge) have been recorded resulting from revised future store performance projections. The net store impairment reversals of £18m have been recorded as exceptional adjusting items. Refer to note 13 for details of the key drivers of the strategic plans which cash flow projections are based on for the purpose of calculating value-in-use.

### Amounts included in profit and loss

| £ millions | 2020/21 | 2019/20 |
|---|---|---|
| Short term rentals | **(50)** | (45) |
| Sublease income | **1** | 1 |
| Gain on sale and leasebacks | **13** | 3 |
| Depreciation of right-of-use assets | | |
| Property leases | **(240)** | (240) |
| Equipment leases | **(37)** | (37) |
| Interest on lease liabilities | | |
| Property leases | **(149)** | (161) |
| Equipment leases | **(4)** | (4) |

### Amounts recognised in the cash flow statement

| £ millions | 2020/21 | 2019/20 |
|---|---|---|
| Interest element of lease rental payments | | |
| Property leases | **(149)** | (161) |
| Equipment leases | **(4)** | (4) |
| Principal element of lease rental payments | | |
| Property leases | **(272)** | (283) |
| Equipment leases | **(37)** | (36) |
| **Total cash outflow for leases** | **(462)** | (484) |

### Maturity analysis of operating lease receivables

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

| £ millions | 2020/21 | 2019/20 |
|---|---|---|
| Year 1 | **4** | 4 |
| Year 2 | **4** | 4 |
| Year 3 | **3** | 3 |
| Year 4 | **3** | 3 |
| Year 5 | **3** | 3 |
| Year 6 and onwards | **12** | 11 |
| | **29** | 28 |

**Maturity analysis of finance lease receivables**
The following table reconciles the undiscounted sublease rentals receivable under non-cancellable finance leases to the present value of sublease receivables as disclosed as part of trade and other receivables (note 20):

| £ millions | **2020/21** | 2019/20 |
|---|---|---|
| Year 1 | **5** | 5 |
| Year 2 | **5** | 5 |
| Year 3 | **4** | 5 |
| Year 4 | **4** | 4 |
| Year 5 | **3** | 4 |
| Year 6 and onwards | **2** | 6 |
| **Total undiscounted sublease receipts receivable** | **23** | 29 |
| Unearned finance income | **(4)** | (5) |
| **Sublease receivables** | **19** | 24 |

**Other lease disclosures**
The maturity analysis of lease liabilities has been reflected in note 25 Financial risk management.

Lease arrangements under which rental payments are contingent upon sales, other performance or usage are not significant for the Group.

There are no corporate restrictions imposed by lease arrangements such as those concerning dividends, additional debt and further leasing.

**Sale and leaseback transactions**
During the year the group sold one property (2019/20: eight) for total proceeds of £38m (2019/20: £102m) which was leased back for a lease term of 2 years (2019/20: average term of 15 years).

## 18 Investments in joint ventures and associates

| £ millions | **2020/21** |
|---|---|
| At 1 February 2020 | **16** |
| Share of post-tax results | **6** |
| Exchange differences | **(2)** |
| At 31 January 2021 | **20** |

| £ millions | 2019/20 |
|---|---|
| At 1 February 2019 | 15 |
| Share of post-tax results | 3 |
| Dividends | (1) |
| Exchange differences | (1) |
| At 31 January 2020 | 16 |

No goodwill is included in the carrying amount of investments in joint ventures and associates (2019/20: £nil).

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

| | Principal place of business | % interest held | Class of shares owned | Main activity |
|---|---|---|---|---|
| Principal joint venture | | | | |
| Koçtaş Yapi Marketleri Ticaret A.S. [(1)] | Turkey | 50% | Ordinary | Retailing |
| Principal associate | | | | |
| Crealfi S.A. [(1)] | France | 49% | Ordinary | Finance |

1. The financial statements of these companies are prepared to 31 December.

## 18 Investments in joint ventures and associates continued

Aggregate amounts relating to joint ventures and associates:

| £ millions | 2020/21 Joint ventures | 2020/21 Associates | 2020/21 Total | 2019/20 Joint ventures | 2019/20 Associates | 2019/20 Total |
|---|---|---|---|---|---|---|
| Non-current assets | **11** | **2** | **13** | 13 | 2 | 15 |
| Current assets | **51** | **50** | **101** | 46 | 50 | 96 |
| Current liabilities | **(48)** | **(41)** | **(89)** | (36) | (42) | (78) |
| Non-current liabilities | **(4)** | **(1)** | **(5)** | (16) | (1) | (17) |
| **Share of net assets** | **10** | **10** | **20** | 7 | 9 | 16 |
| | | | | | | |
| Sales | **105** | **4** | **109** | 121 | 4 | 125 |
| Operating expenses | **(96)** | **(4)** | **(100)** | (112) | (3) | (115) |
| Operating profit | **9** | **–** | **9** | 9 | 1 | 10 |
| Net finance costs | **(2)** | **–** | **(2)** | (6) | – | (6) |
| Profit before taxation | **7** | **–** | **7** | 3 | 1 | 4 |
| Income tax expense | **(1)** | **–** | **(1)** | (1) | – | (1) |
| **Share of post-tax results** | **6** | **–** | **6** | 2 | 1 | 3 |

## 19 Inventories

| £ millions | 2020/21 | 2019/20 |
|---|---|---|
| Finished goods for resale | **2,488** | 2,485 |

The cost of inventories recognised as an expense and included in cost of sales for the year ended 31 January 2021 is £7,024m (2019/20: £6,578m).

## 20 Trade and other receivables

| £ millions | 2020/21 | 2019/20 |
|---|---|---|
| **Non-current** | | |
| Prepayments | **6** | 7 |
| Sublease receivables | **15** | 20 |
| Business disposal consideration receivable | **8** | – |
| | **29** | 27 |
| | | |
| **Current** | | |
| Trade receivables | **62** | 71 |
| Allowance for expected credit losses | **(6)** | (6) |
| Net trade receivables | **56** | 65 |
| Property receivables | **3** | 4 |
| Sublease receivables | **4** | 4 |
| Merchandise returns asset | **11** | 9 |
| Prepayments | **60** | 60 |
| Rebates due from suppliers | **112** | 104 |
| Business disposal consideration receivable | **7** | – |
| Other receivables | **37** | 47 |
| | **290** | 293 |
| | | |
| **Trade and other receivables** | **319** | 320 |

The fair values of trade and other receivables approximate to their carrying amounts. Refer to note 25 for information on the credit risk associated with trade and other receivables.

Other receivables include items related to other taxation and social security.

## 21 Cash and cash equivalents

| £ millions | 2020/21 | 2019/20 restated (note 2) | 2018/19 restated (note 2) |
|---|---|---|---|
| Cash at bank and in hand | **437** | 768 | 841 |
| Other cash and cash equivalents | **705** | 22 | 9 |
| Cash and cash equivalents [1] | **1,142** | 790 | 850 |

1. Excludes £nil of cash and cash equivalents included within assets held for sale (2019/20: £6m).

Included in cash and cash equivalents is restricted cash of £49m (2019/20: £27m) relating to cash held by the Group's captive insurance company and in virtual captive arrangements.

Other cash and cash equivalents, fixed for periods of up to three months, comprise bank deposits and investments in money market funds. The fair values of cash and cash equivalents approximate to their carrying amounts.

Cash and borrowings balances for 2019/20 and 2018/19 have been restated to reflect the grossing up of cash and overdraft balances subject to the Group's cash pooling arrangements and to ensure the Group's presentation of these balances is in line with the requirements for offsetting in accordance with IAS 32. See note 2.

## 22 Trade and other payables

| £ millions | 2020/21 | 2019/20 |
|---|---|---|
| **Current** | | |
| Trade payables | **1,374** | 1,242 |
| Other taxation and social security | **237** | 211 |
| Deferred income | **131** | 87 |
| Merchandise returns provision | **20** | 17 |
| Accruals and other payables | **758** | 653 |
| | **2,520** | 2,210 |
| **Non-current** | | |
| Accruals and other payables | **11** | 5 |
| **Trade and other payables** | **2,531** | 2,215 |

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

Included in trade payables are amounts at 31 January 2021 of £174m (2019/20: £140m) due under supply chain finance arrangements with third party banks. Suppliers choose to enter into these arrangements, which provide them with the option of access to earlier payment at favourable interest rates from the third party banks based on Kingfisher's investment grade credit rating. If suppliers do not choose early payment under these arrangements, their invoices are settled by the third party banks in accordance with the originally agreed payment terms. Under certain of these arrangements, Kingfisher has agreed extended payment terms. The total amount outstanding on such extended payment terms at 31 January 2021 is £14m (2019/20: £12m). These arrangements do not provide the Group with a significant benefit of additional financing and accordingly are classified as trade payables.

Accruals and other payables include items related to goods not for resale, property, capital expenditure, payroll, insurance and interest.

## 23 Borrowings

| £ millions | 2020/21 | 2019/20 restated (note 2) | 2018/19 restated (note 2) |
|---|---|---|---|
| **Current** | | | |
| Bank overdrafts | **6** | 601 | 621 |
| Bank loans | **2** | 1 | 1 |
| Fixed term debt | **93** | 42 | – |
| | **101** | 644 | 622 |
| **Non-current** | | | |
| Bank loans | **2** | 2 | 3 |
| Fixed term debt | **–** | 91 | 136 |
| | **2** | 93 | 139 |
| **Borrowings** | **103** | 737 | 761 |

**Bank overdrafts**

Cash and borrowings balances for 2019/20 and 2018/19 have been restated to reflect the grossing up of cash and overdraft balances subject to the Group's cash pooling arrangements and to ensure the Group's presentation of these balances is in line with the requirements for offsetting in accordance with IAS 32. See note 2.

**Bank loans**

Current bank loans mature within 12 months of the balance sheet date. These are arranged at floating rates of interest.

Non-current bank loans have an average maturity of two years (2019/20: two years) and are arranged at fixed rates of interest with an effective interest rate of 0.7% (2019/20: 1.0%).

**Fixed term debt**

| | Principal outstanding | Maturity date | Coupon | Effective interest rate | 2020/21 Carrying amount £m | 2019/20 Carrying amount £m |
|---|---|---|---|---|---|---|
| EUR Medium Term Note | €50m | 31/07/20[1] | 3M EURIBOR +45bps | 0.1% | **–** | 42 |
| EUR Term Loan | €50m | 21/09/21[2] | 6M EURIBOR +47.5bps | 0.5% | **43** | 41 |
| GBP Term Loan | £50m | 13/12/21 | 6M LIBOR +83bps | 1.9% | **50** | 50 |
| | | | | | **93** | 133 |

1. €50m swapped to floating rate Sterling based on 3-month LIBOR plus a margin using a cross-currency interest rate swap. Repaid on maturity.
2. €50m swapped to floating rate Sterling based on 6-month LIBOR plus a margin using a cross-currency interest rate swap.

The Medium Term Notes ("MTNs") were issued in 2018/19 under the Group's €2,500m MTN programme and the GBP and EUR term loans were also issued in 2018/19.

As at 31 January 2021, the Group had undrawn revolving credit facilities (RCFs) of £250m due to expire in May 2021, £225m due to expire in March 2022 and £550m due to expire in August 2022. In August 2020, the Group completed an extension of £493m of the £550m revolving credit facility, taking the term to August 2023.

The terms of the committed RCFs and the £50m term loan require that the ratio of Group operating profit (excluding exceptional items), to net interest payable (excluding interest on IFRS 16 lease liabilities) must be no less than 3:1 for the preceding 12 months as at the half and full year-ends. At 31 January 2021, Kingfisher's ratio was higher than this requirement.

To protect the Group against extended lockdown measures and deeper periods of disruption than anticipated, the Group secured access to additional funding arrangements.

On 9 May 2020 the Group arranged an additional one year £250m revolving credit facility, which was subsequently cancelled in February 2021.

On 18 May 2020, the Group drew on a €600m term facility with three French banks in support of its operations in France. This loan was guaranteed at 80% by the French State ('Prêt garanti par l'État') and had a maturity of one year, extendable for up to five years. This loan was fully repaid on 11 December 2020.

The Group also confirmed its eligibility under the Bank of England's Covid Corporate Financing Facility ('CCFF') scheme and on 12 June 2020 issued 11-month Commercial Paper for £600m under this programme, the maximum amount under its allocated issuer limit. These funds were fully repaid on 23 July 2020.

**Fair values**

| £ millions | 2020/21 | 2019/20 | Fair value 2018/19 restated (note 2) |
|---|---|---|---|
| Bank overdrafts | **6** | 601 | 621 |
| Bank loans | **4** | 4 | 5 |
| Fixed term debt | **95** | 135 | 138 |
| Borrowings | **105** | 740 | 764 |

Fair values of borrowings have been calculated by discounting cash flows at prevailing interest and foreign exchange rates. This has resulted in level 2 inputs as defined by the fair value hierarchy of IFRS 13, 'Fair value measurement'.

## 24 Derivatives

| £ millions | 2020/21 | 2019/20 |
|---|---|---|
| Current assets | **5** | 14 |
| Current liabilities | **(59)** | (43) |
| Non-current liabilities | **(1)** | (3) |
| | **(55)** | (32) |

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

| £ millions | 2020/21 | 2019/20 |
|---|---|---|
| Cash flow hedges | **(43)** | (15) |
| Non-designated hedges | **(12)** | (17) |
| | **(55)** | (32) |

The Group holds the following derivative financial instruments at fair value:

| £ millions | 2020/21 | 2019/20 |
|---|---|---|
| Foreign exchange contracts | **5** | 14 |
| Derivative assets | **5** | 14 |
| Cross currency interest rate swaps | **(1)** | (5) |
| Foreign exchange contracts | **(59)** | (41) |
| Derivative liabilities | **(60)** | (46) |
| | **(55)** | (32) |

The fair values are calculated by discounting future cash flows arising from the instruments and adjusted for credit risk. These fair value measurements are all made using observable market rates of interest, foreign exchange and credit risk.

All the derivatives held by the Group at fair value are considered to have fair values determined by level 2 inputs as defined by the fair value hierarchy of IFRS 13, 'Fair value measurement', representing significant observable inputs other than quoted prices in active markets for identical assets or liabilities. There are no non-recurring fair value measurements nor have there been any transfers of assets or liabilities between levels of the fair value hierarchy.

At 31 January 2021, net financing derivative liabilities included in net debt amount to £12m (2019/20: £22m).

**Cash flow hedges**
Forward foreign exchange contracts hedge currency exposures of forecast inventory purchases. At 31 January 2021 the Sterling equivalent amount of such contracts is £1,215m (2019/20: £978m). These are located in the derivative asset and derivative liability lines in the consolidated balance sheet with carrying amounts of £2m asset and £44m liability. The associated fair value gains and losses will be transferred to inventories when the purchases occur during the next 18 months. The amount recognised in other comprehensive income during the year is a loss of £48m (2019/20: £20m gain). Losses of £13m (2019/20: £40m gains) have been transferred to inventories for contracts which matured during the year. There is no ineffectiveness for 2020/21 on these hedges. The weighted average hedged rates of the hedging instruments for our material currencies are USD/EUR 1.18 and USD/GBP 1.31.

Cross currency interest rate swap contracts hedge currency exposures of Euro debt. At 31 January 2021 the Sterling equivalent amount of such contracts is £44m. These are located in the derivative liability line in the consolidated balance sheet with a carrying amount of £1m, with movements recognised in other comprehensive income. The net foreign exchange gain on of these contracts is £5m and has been transferred from other comprehensive income to the income statement in net finance costs (see note 6) and offset with the foreign exchange movement on the debt. The weighted average hedged rate for the cross currency swaps is EUR/GBP 1.12. There is no ineffectiveness for 2020/21 in relation to the cross currency interest rate swap. The swap matures in September 2021.

Hedge effectiveness is assessed at the inception of the hedge relationship and on an ongoing basis to ensure that an economic relationship exists between the hedged item and the hedging instrument. The Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group therefore performs a qualitative assessment of effectiveness.

## 24 Derivatives continued

For foreign currency inventory purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated or if there are changes in the credit risk of the Group or the derivative counterparty. For the cross currency interest rate swaps, hedge ineffectiveness may arise from credit risk of the Group or the derivative counterparty.

**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 2021, the Sterling equivalent amount of such contracts is £1,404m (2019/20: £1,657m). 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 short-term foreign exchange contracts.

The Group has reviewed all significant contracts for embedded derivatives and 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.

The Group enters into netting agreements with counterparties to manage the credit and settlement risks associated with over-the-counter derivatives. These netting agreements and similar arrangements generally enable the Group and its counterparties to settle cash flows on a net basis and set-off liabilities against available assets in the event that either party is unable to fulfil its contractual obligations.

Offsetting of derivative assets and liabilities:

| £ millions | Gross amounts of recognised derivatives | Gross amounts offset in the consolidated balance sheet | Net amounts of derivatives presented in the consolidated balance sheet | Gross amounts of derivatives not offset in the consolidated balance sheet | Net amount |
|---|---|---|---|---|---|
| At 31 January 2021 | | | | | |
| Derivative assets | **5** | **–** | **5** | **(5)** | **–** |
| Derivative liabilities | **(60)** | **–** | **(60)** | **5** | **(55)** |
| At 31 January 2020 | | | | | |
| Derivative assets | 14 | – | 14 | (14) | – |
| Derivative liabilities | (46) | – | (46) | 14 | (32) |

**Net investment hedges**
Foreign currency denominated lease liabilities recognised on the adoption of IFRS 16 are designated as hedging the exposure to movements in the spot retranslation of the Group's investment in foreign subsidiaries. The gains and losses on retranslation of the hedging instruments are presented in the translation reserve within other reserves to offset gains and losses on the hedged balance sheet exposure. The nominal values of these lease liabilities is £192m (2019/20: £153m). The amount recognised in the translation reserve is a loss of £7m (2019/20: £2m). There is no ineffectiveness for 2020/21.

## 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's treasury function is not run as a profit centre and 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 fixed term debt, bank loans and deposits, money market funds, interest rate 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.

**Currency risk**
The Group's principal currency exposures are to the Euro, US Dollar, Polish Zloty and Romanian Leu. The Euro, Polish Zloty and Romanian Leu exposures are operational and arise through the ownership of retail businesses in France, Spain, Portugal, Republic of Ireland, Poland and Romania. The Group disposed of its Russian retail business on 30 September 2020.

In particular, the Group generates a substantial part of its profit from the Eurozone, and as such is exposed to the economic uncertainty of its member states. The Group continues to monitor potential exposures and risks and consider effective risk management solutions.

It is the Group's policy not to hedge the translation of overseas earnings into Sterling. In addition, the Group has significant transactional exposure arising on the purchase of inventories denominated in US Dollars, which it hedges using forward foreign exchange contracts. Under Group policies, the Group's operating companies are required to hedge committed inventory purchases and a proportion of forecast inventory purchases arising in the next 18 months. This is monitored on an ongoing basis.

The Group also has exposure to certain leases denominated in currencies which are different from the functional (reporting) currencies of the lessee. To reduce the Group's exposure to this, the majority of the affected lease liabilities have been designated as net investment hedges of Group assets held in the same currency.

The Group has Euro denominated loans at a floating rate. This exposes the Group to Euro currency risk which has been swapped to a Sterling floating rate using cross currency swaps.

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

| | | | | | | | | | **2020/21** |
|---|---|---|---|---|---|---|---|---|---|
| | **Sterling** | | **Euro** | | **US Dollar** | | **Other** | | |
| £ millions | **Fixed** | **Floating** | **Fixed** | **Floating** | **Fixed** | **Floating** | **Fixed** | **Floating** | **Total** |
| At 31 January 2021 | | | | | | | | | |
| Net cash/(debt) before financing derivatives and lease liabilities | **–** | **316** | **(3)** | **140** | **–** | **501** | **–** | **85** | **1,039** |
| Financing derivatives | **–** | **(1,029)** | **–** | **687** | **–** | **87** | **–** | **243** | **(12)** |
| Lease liabilities | **(1,789)** | **–** | **(598)** | **–** | **–** | **–** | **(34)** | **–** | **(2,421)** |
| Net (debt)/cash | **(1,789)** | **(713)** | **(601)** | **827** | **–** | **588** | **(34)** | **328** | **(1,394)** |

| | | | | | | | | | 2019/20 |
|---|---|---|---|---|---|---|---|---|---|
| | Sterling | | Euro | | US Dollar | | Other | | |
| £ millions | Fixed | Floating | Fixed | Floating | Fixed | Floating | Fixed | Floating | Total |
| At 31 January 2020 | | | | | | | | | |
| Net cash/(debt) before financing derivatives and lease liabilities | – | 9 | (3) | (15) | – | 3 | – | 65 | 59 |
| Financing derivatives | – | (1,185) | – | 637 | – | 459 | – | 67 | (22) |
| Lease liabilities [(1)] | (1,912) | – | (586) | – | – | – | (65) | – | (2,563) |
| Net (debt)/cash | (1,912) | (1,176) | (589) | 622 | – | 462 | (65) | 132 | (2,526) |

1. Includes lease liabilities included within liabilities directly associated with assets held for sale.

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 (reflecting the impact on profit) and derivative cash flow hedges (reflecting the impact on other comprehensive income) to changes in interest rates and foreign exchange rates.

| £ millions | **2020/21** Net finance costs income/(costs) | 2019/20 Net finance costs income/(costs) |
|---|---|---|
| **Effect of 1% rise in interest rates on net finance costs** | | |
| Sterling | **(7)** | (12) |
| Euro | **8** | 6 |
| US Dollar | **6** | 5 |
| Other | **3** | 1 |

Due to the Group's hedging arrangements and offsetting foreign currency assets and liabilities, there is no significant impact on profit from the retranslation of financial instruments.

| £ millions | **2020/21** Derivative cash flow hedges increase | 2019/20 Derivative cash flow hedges increase |
|---|---|---|
| **Effect of 10% appreciation in foreign exchange rates on derivative cash flow hedges** | | |
| US Dollar against Sterling | **51** | 44 |
| US Dollar against Euro | **36** | 34 |
| US Dollar against other | **16** | 12 |

The impact of changes in foreign 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. 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 2021 and 31 January 2020 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 foreign exchange rates.

## 25 Financial risk management continued

### 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 medium term, determining the level of debt facilities required to fund the business, planning for repayments of debt at its maturity and identifying an appropriate amount of headroom to provide a reserve against unexpected outflows.

At 31 January 2021, the Group had undrawn revolving credit facilities of £250m due to expire in May 2021, £225m due to expire in March 2022 and £550m due to expire in August 2022. In August 2020, the Group completed an extension of £493m of the £550m revolving credit facility, taking the term to August 2023.

The following table analyses the Group's financial liabilities and derivatives into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest) and as such may differ from the amounts disclosed on the balance sheet.

| | | | | | | | | **2020/21** |
|---|---|---|---|---|---|---|---|---|
| £ millions | **On demand** | **Less than 1 year** | **1-2 years** | **2-3 years** | **3-4 years** | **4-5 years** | **More than 5 years** | **Total** |
| At 31 January 2021 | | | | | | | | |
| Bank overdrafts | **(6)** | **–** | **–** | **–** | **–** | **–** | **–** | **(6)** |
| Trade and other payables [1] | **–** | **(2,132)** | **(11)** | **–** | **–** | **–** | **–** | **(2,143)** |
| Bank loans | **–** | **(2)** | **(1)** | **(1)** | **–** | **(1)** | **–** | **(5)** |
| Fixed term debt | **–** | **(95)** | **–** | **–** | **–** | **–** | **–** | **(95)** |
| Lease liabilities | **–** | **(456)** | **(417)** | **(390)** | **(346)** | **(304)** | **(1,300)** | **(3,213)** |
| *Derivative financial liabilities:* | | | | | | | | |
| Derivative contracts – receipts | **–** | **2,155** | **60** | **–** | **–** | **–** | **–** | **2,215** |
| Derivatives contracts – payments | **–** | **(2,211)** | **(61)** | **–** | **–** | **–** | **–** | **(2,272)** |
| *Derivative financial assets:* | | | | | | | | |
| Derivatives contracts – receipts | **–** | **438** | **11** | **–** | **–** | **–** | **–** | **449** |
| Derivatives contracts – payments | **–** | **(434)** | **(12)** | **–** | **–** | **–** | **–** | **(446)** |

| | | | | | | | | 2019/20 restated (note 2) |
|---|---|---|---|---|---|---|---|---|
| £ millions | On demand | Less than 1 year | 1-2 years | 2-3 years | 3-4 years | 4-5 years | More than 5 years | Total |
| At 31 January 2020 | | | | | | | | |
| Bank overdrafts | (601) | – | – | – | – | – | – | (601) |
| Trade and other payables [1] | – | (1,895) | (5) | – | – | – | – | (1,900) |
| Bank loans | – | (1) | (1) | (1) | (1) | – | – | (4) |
| Fixed term debt | – | (43) | (93) | – | – | – | – | (136) |
| Lease liabilities | – | (457) | (435) | (398) | (361) | (325) | (1,486) | (3,462) |
| *Derivative financial liabilities:* | | | | | | | | |
| Derivative contracts – receipts | – | 1,939 | 75 | – | – | – | – | 2,014 |
| Derivatives contracts – payments | – | (1,977) | (79) | – | – | – | – | (2,056) |
| *Derivative financial assets:* | | | | | | | | |
| Derivatives contracts – receipts | – | 708 | 12 | – | – | – | – | 720 |
| Derivatives contracts – payments | – | (696) | (12) | – | – | – | – | (708) |

1. Excluding non-financial items relating to deferred income and merchandise returns provisions and non-contractual items relating to other taxation and social security payables.

The liquidity risk tables above have been amended in the current year (with restatement of comparatives) to include overdrafts which were previously excluded as the balances were offset against cash. Cash and overdraft balances are now presented separately to reflect the terms of the Group's cash pooling arrangements.

### Credit risk

The Group deposits surplus cash with a number of banks with strong short-term credit ratings and with money market funds which have AAA credit ratings and offer same-day liquidity. A credit limit for each counterparty is agreed by the Board covering the full value of deposits and the fair value of derivative contracts. The credit risk is reduced further by spreading the investments and derivative contracts across several counterparties. At 31 January 2021, the highest total cash investment with a single counterparty was £97m (2019/20: £47m).

The Group applies the low credit risk simplification under IFRS 9 for expected credit losses relating to cash at bank, short-term deposits and money market funds. The resulting expected credit losses are not significant.

The Group's exposure to credit risk at the reporting date is the carrying value of trade and other receivables, cash at bank, short-term deposits and the fair value of derivative assets. Trade and other receivables mainly relate to trade receivables and rebates which comprise low individual balances with short maturity spread across a large number of unrelated customers and suppliers, resulting in low credit risk levels. They do not have a significant financing component and therefore the Group has elected to measure expected credit losses using lifetime expected losses.

The estimated lifetime expected losses are based on historical loss rates adjusted where necessary for expected changes in economic conditions.

At 31 January 2021, trade and other receivables that are past due amount to £32m (2019/20: £38m), of which £6m (2019/20: £9m) are over 120 days past due.

**Capital risk**
Capital risk management disclosures are provided in the Financial Review on page 39.

## 26 Deferred tax

| £ millions | **2020/21** | 2019/20 |
|---|---|---|
| Deferred tax assets | **15** | 12 |
| Deferred tax liabilities | **(232)** | (189) |
| | **(217)** | (177) |

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, and has the legally enforceable right, to settle its current tax assets and liabilities on a net basis.

**2020/21**

| £ millions | **Accelerated tax depreciation** | **Gains on property** | **Leases** | **Short term timing differences** | **Tax losses** | **Post-employment benefits** | **Investment in subsidiaries** | **Other** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| At 1 February 2020 | **(130)** | **(56)** | **110** | **49** | **8** | **(159)** | **–** | **1** | **(177)** |
| (Charge)/credit to income statement | **(6)** | **1** | **(1)** | **(3)** | **(7)** | **2** | **(2)** | **–** | **(16)** |
| Credit/(charge) to equity | **–** | **–** | **1** | **1** | **–** | **(31)** | **–** | **9** | **(20)** |
| Exchange differences | **(6)** | **(3)** | **1** | **2** | **–** | **2** | **–** | **–** | **(4)** |
| At 31 January 2021 | **(142)** | **(58)** | **111** | **49** | **1** | **(186)** | **(2)** | **10** | **(217)** |

2019/20

| £ millions | Accelerated tax depreciation | Gains on property | Leases | Short term timing differences | Tax losses | Post-employment benefits | Investment in subsidiaries | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| At 1 February 2019 | (141) | (69) | 104 | 65 | 6 | (135) | (7) | (2) | (179) |
| Credit/(charge) to income statement | 5 | 12 | 7 | (15) | 2 | 1 | 7 | – | 19 |
| (Charge)/credit to equity | – | – | – | – | – | (24) | – | 3 | (21) |
| Exchange differences | 6 | 1 | (1) | (1) | – | (1) | – | – | 4 |
| At 31 January 2020 | (130) | (56) | 110 | 49 | 8 | (159) | – | 1 | (177) |

At the balance sheet date, the Group has unused trading tax losses of £231m (2019/20: £281m) available for offset against future profits. A deferred tax asset has been recognised in respect of £1m (2019/20: £30m) of such losses. No deferred tax asset has been recognised in respect of the remaining £230m (2019/20: £251m) due to the unpredictability of future profit streams.

Included in this amount are tax losses arising in Romania of £131m (2019/20: £111m) and Portugal of £15m (2019/20: £15m) which can only be carried forward in the next one to seven and one to twelve years respectively. Other unrecognised losses may be carried forward indefinitely.

At the balance sheet date, the Group also has unused capital tax losses of £15m (2019/20: £21m) available for offset against future capital gains. A deferred tax asset has been recognised in the year in respect of £1m (2019/20: £2m) of such losses. All of these losses may be carried forward indefinitely.

A new deferred tax liability has been recognised in the period, reflecting the withholding tax anticipated to arise in light of a planned repatriation of certain earnings that were generated in prior years. Except for this new liability, all other unremitted earnings of overseas subsidiaries and joint ventures are continually reinvested by the Group. Therefore, as no tax is expected to be payable on these earnings in the foreseeable future, no deferred tax liabilities are recorded in relation to them. Additional earnings which could be remitted on which there would be tax to pay total £248m (2019/20: £209m).

## 27 Provisions

| £ millions | Onerous property contracts | Restructuring | Total |
|---|---|---|---|
| At 1 February 2020 | **5** | **99** | **104** |
| Charge to income statement | **2** | **15** | **17** |
| Utilised in the year | **–** | **(47)** | **(47)** |
| Exchange differences | **–** | **5** | **5** |
| At 31 January 2021 | **7** | **72** | **79** |
| | | | |
| Current liabilities | 1 | 45 | 46 |
| Non-current liabilities | 6 | 27 | 33 |
| | 7 | 72 | 79 |

Onerous property contracts exclude contracts 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 rates and service charges. Rental obligations under onerous property contracts are included within lease liabilities.

Restructuring provisions include both the cost of people change and the cost to exit stores and property contracts.

In September 2020, the Group commenced formal consultation with employee representatives regarding its proposal to implement a new commercial operating model. Provisions of £15m for the cost of the related employee redundancy plan have been recognised as exceptional adjusting items. Other restructuring provisions predominately relate to costs in France to restructure the business as part of the Group's legacy transformation and store closure plans.

The ultimate costs and timing of cash flows related to the above provisions are largely dependent on the timing of the related store closures.

The provisions have been discounted to reflect the time value of money and the risks associated with the specific liabilities.

## 28 Post-employment benefits

The Group operates a variety of post-employment benefit arrangements covering both funded and unfunded defined benefit schemes and defined contribution schemes. The most significant defined benefit and defined contribution schemes are in the UK. The principal overseas defined benefit schemes are in France, where they are mainly retirement indemnity in nature.

**Defined contribution schemes**
Costs for the Group's defined contribution pension schemes, at rates specified in the individual schemes' rules, are as follows:

| £ millions | 2020/21 | 2019/20 |
|---|---|---|
| Charge to operating profit | **34** | 34 |

From July 2012, an enhanced defined contribution pension scheme was offered to all UK employees. Eligible UK employees have been automatically enrolled into the scheme since 31 March 2013.

**Defined benefit schemes**
The Group's principal defined benefit arrangement is its funded, final salary pension scheme in the UK. This scheme was closed to new entrants from April 2004 and was closed to future benefit accrual from July 2012.

The scheme operates under trust law and is managed and administered by the Trustee on behalf of members in accordance with the terms of the Trust Deed and Rules and relevant legislation. The Trustee Board consists of ten Trustee Directors, made up of five employer-appointed Directors, one independent Director and four member-nominated Directors. The Trustee Board delegates day-to-day administration of the scheme to the Group pensions department of Kingfisher plc.

The main risk to the Group is that additional contributions are required if investment returns and demographic experience are worse than expected. The scheme therefore exposes the Group to actuarial risks, such as longevity risk, currency risk, inflation risk, interest rate risk and market (investment) risk. The Trustee Board regularly reviews such risks and mitigating controls, with a risk register being formally approved on an annual basis. The assets of the scheme are held separately from the Group and the Trustee's investment strategy includes a planned medium-term de-risking of assets, switching from return-seeking to liability-matching assets. Other de-risking activities have included the scheme acquiring an interest in a property partnership, as set out further below, and entering into bulk annuities.

A full actuarial valuation of the scheme is carried out every three years by an independent actuary for the Trustee and the last full valuation was carried out as at 31 March 2019.

Following this valuation and in accordance with the scheme's Statement of Funding Principles, the Trustee and Kingfisher have agreed annual employer contributions of £27m from April 2019 to July 2024, subject to any changes being agreed with the Trustee. The contribution schedule has been derived with reference to a funding objective that targets a longer-term, low risk funding position in excess of the minimum statutory funding requirements. This longer-term objective is based on the principle of the scheme reaching a point where it can provide benefits to members with a high level of security, thereby limiting its reliance on the employer for future support. 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.

The Trust Deed provides Kingfisher with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the Trustee has no rights to unilaterally wind up, or otherwise augment the benefits due to members of, the scheme. Based on these rights, any net surplus in the UK scheme is recognised in full.

**UK scheme interest in property partnership**
In 2010/11, the Group established a partnership, Kingfisher Scottish Limited Partnership ('Kingfisher SLP'), as part of an arrangement with the UK scheme Trustee to address an element of the scheme deficit and provide greater security to the Trustee. The partnership interests are held by the Group and by the scheme, the latter resulting from investments of £78m and £106m made by the Trustee in January and June 2011 respectively. These investments followed Group contributions of the same amounts into the scheme. In accordance with IAS 19, 'Employee benefits', the investments held by the scheme in Kingfisher SLP do not represent plan assets for the purposes of the Group's consolidated financial statements. Accordingly, the reported pension position does not reflect these investments.

UK property assets with market values of £83m and £119m were transferred, in January 2011 and June 2011 respectively, into the partnership and leased back to B & Q Limited. The Group retains control over these properties, including the flexibility to substitute alternative properties. The Trustee has a first charge over the properties in the event that Kingfisher plc becomes insolvent. The scheme's partnership interest entitles it to much of the income of the partnership over the 20-year period of the arrangement. The payments to the scheme by Kingfisher SLP over this term are reflected as Group pension contributions on a cash basis. At the end of this term, Kingfisher plc has the option to acquire the Trustee's partnership interest in Kingfisher SLP.

The Group has control over the partnership and therefore it is consolidated in these Group financial statements. Accordingly, advantage has been taken of the exemptions provided by Regulation 7 of the Partnerships (Accounts) Regulations 2008 from the requirements for preparation, delivery and publication of the partnership's accounts.

**Income statement**

| | | | 2020/21 | | | 2019/20 |
|---|---|---|---|---|---|---|
| £ millions | UK | Overseas | Total | UK | Overseas | Total |
| **Amounts charged/(credited) to operating profit** | | | | | | |
| Current service cost | 2 | 7 | 9 | 2 | 8 | 10 |
| Past service cost | 1 | – | 1 | – | – | – |
| Administration costs | 3 | – | 3 | 3 | – | 3 |
| | 6 | 7 | 13 | 5 | 8 | 13 |
| **Amounts (credited)/charged to net finance costs** | | | | | | |
| Net interest (income)/expense | (7) | 1 | (6) | (8) | 1 | (7) |
| **Total (credited)/charged to income statement** | (1) | 8 | 7 | (3) | 9 | 6 |

Of the net charge to operating profit, a £10m charge (2019/20: £10m charge) and £3m charge (2019/20: £3m charge) are included in selling and distribution expenses and administrative expenses respectively. Remeasurement gains and losses have been reported in the statement of comprehensive income.

**Balance sheet**

| | | | 2020/21 | | | 2019/20 |
|---|---|---|---|---|---|---|
| £ millions | UK | Overseas | Total | UK | Overseas | Total |
| Present value of defined benefit obligations | (3,092) | (165) | (3,257) | (3,114) | (147) | (3,261) |
| Fair value of scheme assets | 3,596 | 20 | 3,616 | 3,518 | 20 | 3,538 |
| **Net surplus/(deficit) in schemes** | 504 | (145) | 359 | 404 | (127) | 277 |

Movements in the surplus or deficit are as follows:

| | | | 2020/21 | | | 2019/20 |
|---|---|---|---|---|---|---|
| £ millions | UK | Overseas | Total | UK | Overseas | Total |
| **Net surplus/(deficit) in schemes at beginning of year** | 404 | (127) | 277 | 320 | (115) | 205 |
| Current service cost | (2) | (7) | (9) | (2) | (8) | (10) |
| Past service cost | (1) | – | (1) | – | – | – |
| Administration costs | (3) | – | (3) | (3) | – | (3) |
| Net interest income/(expense) | 7 | (1) | 6 | 8 | (1) | 7 |
| Net remeasurement gains/(losses) | 73 | (5) | 68 | 51 | (9) | 42 |
| Contributions paid by employer | 26 | 3 | 29 | 30 | 2 | 32 |
| Exchange differences | – | (8) | (8) | – | 4 | 4 |
| **Net surplus/(deficit) in schemes at end of year** | 504 | (145) | 359 | 404 | (127) | 277 |

## 28 Post-employment benefits continued

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

| £ millions | 2020/21 UK | 2020/21 Overseas | 2020/21 Total | 2019/20 UK | 2019/20 Overseas | 2019/20 Total |
|---|---|---|---|---|---|---|
| Present value of defined benefit obligations at beginning of year | **(3,114)** | **(147)** | **(3,261)** | (2,842) | (135) | (2,977) |
| Current service cost | **(2)** | **(7)** | **(9)** | (2) | (8) | (10) |
| Past service cost | **(1)** | **–** | **(1)** | – | – | – |
| Interest expense | **(49)** | **(1)** | **(50)** | (70) | (1) | (71) |
| Remeasurement losses – changes in financial assumptions | **(71)** | **(11)** | **(82)** | (411) | (15) | (426) |
| Remeasurement (losses)/gains – changes in demographic assumptions | **(18)** | **–** | **(18)** | 55 | – | 55 |
| Remeasurement gains – experience adjustments | **36** | **6** | **42** | 14 | 6 | 20 |
| Benefits paid | **127** | **3** | **130** | 142 | 2 | 144 |
| Exchange differences | **–** | **(8)** | **(8)** | – | 4 | 4 |
| Present value of defined benefit obligations at end of year | **(3,092)** | **(165)** | **(3,257)** | (3,114) | (147) | (3,261) |

The present value of UK scheme defined benefit obligations is 62% (2019/20: 62%) in respect of deferred members and 38% (2019/20: 38%) in respect of current pensioners.

The weighted average duration of the UK scheme obligations at the end of the year is 20 years (2019/20: 20 years).

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

| £ millions | 2020/21 UK | 2020/21 Overseas | 2020/21 Total | 2019/20 UK | 2019/20 Overseas | 2019/20 Total |
|---|---|---|---|---|---|---|
| Fair value of scheme assets at beginning of year | **3,518** | **20** | **3,538** | 3,162 | 20 | 3,182 |
| Administration costs | **(3)** | **–** | **(3)** | (3) | – | (3) |
| Interest income | **56** | **–** | **56** | 78 | – | 78 |
| Remeasurement gains – actual return less interest income | **126** | **–** | **126** | 393 | – | 393 |
| Contributions paid by employer | **26** | **3** | **29** | 30 | 2 | 32 |
| Benefits paid | **(127)** | **(3)** | **(130)** | (142) | (2) | (144) |
| Fair value of scheme assets at end of year | **3,596** | **20** | **3,616** | 3,518 | 20 | 3,538 |

The fair value of scheme assets is analysed as follows:

| £ millions | 2020/21 UK | 2020/21 Overseas | 2020/21 Total | 2020/21 % of total | 2019/20 UK | 2019/20 Overseas | 2019/20 Total | 2019/20 % of total |
|---|---|---|---|---|---|---|---|---|
| Government bonds [1] | **1,762** | **–** | **1,762** | **49%** | 1,735 | – | 1,735 | 49% |
| Corporate bonds | **944** | **–** | **944** | **26%** | 909 | – | 909 | 26% |
| Derivatives | **(32)** | **–** | **(32)** | **(1%)** | (26) | – | (26) | (1%) |
| UK equities | **10** | **–** | **10** | **–** | 14 | – | 14 | – |
| Overseas equities | **189** | **–** | **189** | **5%** | 173 | – | 173 | 5% |
| Property | **14** | **–** | **14** | **–** | 22 | – | 22 | 1% |
| Annuities | **380** | **–** | **380** | **11%** | 393 | – | 393 | 11% |
| Cash and other | **329** | **20** | **349** | **10%** | 298 | 20 | 318 | 9% |
| Total fair value of scheme assets | **3,596** | **20** | **3,616** | **100%** | 3,518 | 20 | 3,538 | 100% |

1. Including LDI repurchase agreement liabilities.

All UK scheme assets have quoted prices in active markets, except for £612m (2019/20: £615m) of property, annuity and other assets.

To reduce volatility risk a liability driven investment (LDI) strategy forms part of the Trustee's management of the UK defined benefit scheme's assets, including government bonds, corporate bonds and derivatives. The government bond assets category in the table above includes gross assets of £2.9bn (2019/20: £2.9bn) and associated repurchase agreement liabilities of £1.2bn (2019/20: £1.2bn). Repurchase agreements are entered into with counterparties to better offset the scheme's exposure to interest and inflation rates, whilst remaining invested in assets of a similar risk profile. Interest rate and inflation rate derivatives are also employed to complement the use of fixed and index-linked bonds in matching the profile of the scheme's liabilities.

The estimated amount of total contributions to be paid to the UK and overseas pension schemes by the Group during the next financial year is £27m.

**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 derived using a single equivalent discount rate approach, based on the yields available on a portfolio of high-quality Sterling corporate bonds with the same duration as that of the scheme liabilities.

| | | **2020/21** | | 2019/20 |
|---|---|---|---|---|
| Annual % rate | **UK** | **Overseas** | UK | Overseas |
| Discount rate | **1.5** | **0.3** | 1.6 | 0.7 |
| Price inflation | **2.9** | **2.0** | 2.9 | 2.0 |
| Rate of pension increases | **2.8** | **–** | 2.8 | – |
| Salary escalation | **n/a** | **2.4** | n/a | 2.4 |

For the UK scheme, the mortality assumptions used for IAS 19 purposes have been selected with regard to the characteristics and experience of the membership of the scheme as assessed from time to time relating to triennial funding valuations. The base mortality assumptions have been derived using an analysis of current mortality rates carried out by Club Vita for the Trustee and the CMI life expectancy projection model data published by the UK actuarial profession. The latter allowance is in line with CMI 2019 improvements subject to a long-term rate of 1.5% p.a. for both males and females. The assumptions for life expectancy of UK scheme members are as follows:

| Years | **2020/21** | 2019/20 |
|---|---|---|
| Age to which current pensioners are expected to live (60 now) | | |
| – Male | **86.5** | 86.4 |
| – Female | **87.3** | 87.2 |
| Age to which future pensioners are expected to live (60 in 15 years' time) | | |
| – Male | **87.6** | 87.5 |
| – Female | **90.2** | 90.1 |

The following sensitivity analysis for the UK scheme shows the estimated impact on the obligation 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 0.5% | Decrease/increase by £328m |
| Price inflation | Increase/decrease by 0.5% | Increase/decrease by £261m |
| Rate of pension increases | Increase/decrease by 0.5% | Increase/decrease by £247m |
| Mortality | Increase in life expectancy by one year | Increase by £116m |

Due to the asset-liability matching investment strategy, the above impacts on the obligations of changes in discount rate and price inflation would be significantly offset by movements in the fair value of the scheme assets.

## 29 Share capital

| | Number of ordinary shares millions | Ordinary share capital £ millions |
|---|---|---|
| Allotted, called up and fully paid: | | |
| At 1 February 2020 | **2,110** | **332** |
| New shares issued under share schemes | **1** | **–** |
| At 31 January 2021 | **2,111** | **332** |
| At 1 February 2019 | 2,110 | 332 |
| At 31 January 2020 | 2,110 | 332 |

Ordinary shares have a par value of $15\frac{5}{7}$ pence per share and carry full voting, dividend and capital distribution rights.

## 30 Other reserves

| £ millions | Translation reserve | Cash flow hedge reserve | Other | Total |
|---|---|---|---|---|
| | | | | 2020/21 |
| At 1 February 2020 | **75** | **(6)** | **159** | **228** |
| Inventory cash flow hedges – fair value losses | **–** | **(48)** | **–** | **(48)** |
| Tax on items that will not be reclassified subsequently to profit or loss | **–** | **11** | **–** | **11** |
| Currency translation differences | | | | |
| Group | **112** | **–** | **–** | **112** |
| Joint ventures and associates | **(2)** | **–** | **–** | **(2)** |
| Transferred to income statement | **49** | **–** | **–** | **49** |
| Other cash flow hedges | | | | |
| Fair value gains | **–** | **5** | **–** | **5** |
| Gains transferred to income statement | **–** | **(5)** | **–** | **(5)** |
| **Other comprehensive income/(loss) for the year** | **159** | **(37)** | **–** | **122** |
| Inventory cash flow hedges - losses transferred to inventories | **–** | **13** | **–** | **13** |
| Tax on equity items | **–** | **(2)** | **–** | **(2)** |
| **At 31 January 2021** | **234** | **(32)** | **159** | **361** |

| | Translation reserve | Cash flow hedge reserve | Other | Total |
|---|---|---|---|---|
| | | | | 2019/20 |
| At 1 February 2019 | 210 | 10 | 159 | 379 |
| Inventory cash flow hedges – fair value gains | – | 20 | – | 20 |
| Tax on items that will not be reclassified subsequently to profit or loss | – | (4) | – | (4) |
| Currency translation differences | | | | |
| Group | (134) | – | – | (134) |
| Joint ventures and associates | (1) | – | – | (1) |
| Other cash flow hedges | | | | |
| Fair value losses | – | (3) | – | (3) |
| Losses transferred to inventories | – | 3 | – | 3 |
| **Other comprehensive (loss)/income for the year** | (135) | 16 | – | (119) |
| Inventory cash flow hedges – gains transferred to inventories | – | (40) | – | (40) |
| Tax on equity items | – | 8 | – | 8 |
| At 31 January 2020 | 75 | (6) | 159 | 228 |

The 'other' category of reserves represents the premium on the issue of convertible loan stock in 1993 and the merger reserve relating to the acquisition of Darty in 1993.

## 31 Share-based payments

| | **2020/21** | | 2019/20 | |
|---|---|---|---|---|
| | **Number of options thousands** | **Weighted average exercise price £** | Number of options thousands | Weighted average exercise price £ |
| Outstanding at beginning of year | **51,190** | **0.60** | 39,356 | 0.84 |
| Granted during the year [1] | **12,409** | **0.58** | 27,411 | 0.48 |
| Forfeited and expired during the year | **(4,868)** | **1.50** | (11,660) | 1.34 |
| Exercised during the year | **(5,433)** | **0.29** | (3,917) | 0.01 |
| Outstanding at end of year | **53,298** | **0.55** | 51,190 | 0.60 |
| Exercisable at end of year | **3,833** | **0.52** | 4,730 | 0.86 |

1. The weighted average exercise price for options granted during the year represents a blend of nil price Delivering Value Incentive awards, Alignment Share awards, KISP awards and discounted Sharesave options (see below).

Information on the share schemes is given in note 13 of the Company's separate financial statements.

Options have been exercised on a regular basis throughout the year. On that basis, the weighted average share price during the year, rather than at the date of exercise, is £2.36 (2019/20: £2.19). The options outstanding at the end of the year have exercise prices ranging from nil to £3.06 and a weighted average remaining contractual life of 5.6 years (2019/20: 5.8 years).

The Group recognised a total expense of £14m in the year ended 31 January 2021 (2019/20: £11m) relating to equity-settled share-based payment transactions.

The fair value of share options and deferred shares is determined by independent valuers using Black-Scholes and stochastic option pricing models. The inputs of the principal schemes into these models are as follows:

| | Date of grant | Share price at grant £ | Exercise price £ | Expected life [2] years | Expected volatility [3] % | Dividend yield [4] % | Risk free rate % | Fair value £ |
|---|---|---|---|---|---|---|---|---|
| Kingfisher Incentive Share | 25/04/12 | 2.96 | – | 7 | – | – | – | 2.96 |
| Scheme [1] | 11/04/13 | 2.97 | – | 7 | – | – | – | 2.97 |
| | 23/04/14 | 4.19 | – | 7 | – | – | – | 4.19 |
| Kingfisher Incentive Share Plan – | 23/04/15 | 3.52 | – | 7 | – | – | – | 3.52 |
| Deferred Bonus Awards | 21/04/16 | 3.61 | – | 7 | – | – | – | 3.61 |
| | 03/05/17 | 3.40 | – | 7 | – | – | – | 3.40 |
| | 23/04/18 | 3.09 | – | 7 | – | – | – | 3.09 |
| | 24/04/19 | 2.63 | – | 7 | – | – | – | 2.63 |
| Performance Share Plan | 17/06/11 | 2.65 | – | 7 | – | – | – | 2.65 |
| | 21/10/11 | 2.63 | – | 7 | – | – | – | 2.63 |
| | 03/05/12 | 2.91 | – | 7 | – | – | – | 2.91 |
| | 16/10/12 | 2.81 | – | 7 | – | – | – | 2.81 |
| | 25/04/13 | 3.10 | – | 7 | – | – | – | 3.10 |
| | 22/10/13 | 3.74 | – | 7 | – | – | – | 3.74 |
| Long Term Incentive Awards | 03/07/14 | 3.61 | – | 7 | – | – | – | 3.61 |
| | 15/09/14 | 3.16 | – | 7 | – | – | – | 3.16 |
| UK and International | 22/10/13 | 3.74 | 3.15 | 5.5 | 33.6% | 2.5% | 1.6% | 0.59 |
| Sharesave | 21/10/14 | 2.94 | 2.52 | 5.5 | 24.5% | 3.4% | 1.5% | 0.31 |
| | 22/10/15 | 3.51 | 2.81 | 3.5 | 22.4% | 2.9% | 0.8% | 0.48 |
| | 22/10/15 | 3.51 | 2.81 | 5.5 | 23.1% | 2.9% | 1.2% | 0.41 |
| | 01/11/16 | 3.64 | 3.06 | 3.5 | 22.9% | 2.8% | 0.4% | 0.44 |
| | 01/11/16 | 3.64 | 3.06 | 5.5 | 23.5% | 2.8% | 0.7% | 0.39 |
| | 31/10/17 | 3.13 | 2.42 | 3.5 | 22.8% | 3.4% | 0.6% | 0.43 |
| | 31/10/17 | 3.13 | 2.42 | 5.5 | 22.3% | 3.4% | 0.8% | 0.34 |
| | 01/11/18 | 2.62 | 2.06 | 3.5 | 23.2% | 4.1% | 1.1% | 0.33 |
| | 01/11/18 | 2.62 | 2.06 | 5.5 | 23.0% | 4.1% | 0.8% | 0.27 |
| | 01/11/19 | 2.07 | 1.59 | 3.5 | 25.7% | 5.2% | 0.4% | 0.39 |
| | 01/11/19 | 2.07 | 1.59 | 5.5 | 25.1% | 5.2% | 0.4% | 0.35 |
| | 29/10/20 | 2.88 | 2.37 | 3.5 | 37.0% | 2.8% | 0.0% | 0.80 |
| | 29/10/20 | 2.88 | 2.37 | 5.5 | 32.4% | 2.8% | 0.0% | 0.77 |
| Alignment Shares | 19/07/16 | 3.32 | – | 10 | – | – | – | 3.32 |
| | 19/07/16 | 3.32 | – | 10 | – | – | – | 3.03 |
| | 24/04/17 | 3.37 | – | 10 | – | – | – | 3.37 |
| | 24/04/17 | 3.37 | – | 10 | – | – | – | 3.07 |
| | 23/04/18 | 3.09 | – | 10 | – | – | – | 3.09 |
| | 24/04/19 | 2.63 | – | 10 | – | – | – | 2.63 |
| | 30/07/19 | 2.62 | – | 10 | – | – | – | 2.62 |
| | 28/07/20 | 2.51 | – | 10 | – | – | – | 2.51 |
| Transformation Incentive | 19/07/16 | 3.32 | – | 10 | – | – | – | 3.32 |
| Delivering Value Incentive | 30/07/19 | 2.24 | – | 10 | – | – | – | 2.24 |

1. The Kingfisher Incentive Share Scheme ('KISS') includes the Company Share Option Plan ('CSOP') element of the KISS awards.
2. Expected life is disclosed based on the UK schemes. For the KISP, KISS and PSP schemes in the UK, the expiry date is 7 years from the date of grant. For the Transformation Incentive award and Alignment Share award the expiry date is 10 years from the date of grant. Expiry of the overseas Alignment Share award is 3 years from the date of grant.
3. 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.
4. As these awards are made under an approved SAYE scheme, option holders cannot be compensated for dividends foregone. As such the historical dividend yield is used, calculated as dividends announced in the 12 months prior to grant as a percentage of the share price on the date of grant.

## 32 Cash generated by operations

| £ millions | 2020/21 | 2019/20 |
|---|---|---|
| **Operating profit** | **916** | 283 |
| Share of post-tax results of joint ventures and associates | **(6)** | (3) |
| Depreciation and amortisation | **536** | 545 |
| Net impairment (gains)/losses | **(7)** | 315 |
| Gain on disposal of property, plant and equipment, investment property, assets held for sale and intangible assets | **(10)** | (15) |
| Loss on disposal of subsidiaries | **49** | – |
| Lease gains | – | (5) |
| Share-based compensation charge | **14** | 11 |
| Decrease/(increase) in inventories | **86** | (65) |
| Decrease in trade and other receivables | **17** | 53 |
| Increase/(decrease) in trade and other payables | **267** | (91) |
| Movement in provisions | **(30)** | 43 |
| Movement in post-employment benefits | **(16)** | (19) |
| **Cash generated by operations** | **1,816** | 1,052 |

## 33 Net debt

| £ millions | 2020/21 | 2019/20 restated (note 2) | 2018/19 restated (note 2) |
|---|---|---|---|
| Cash and cash equivalents | **1,142** | 790 | 850 |
| Cash and cash equivalents included within assets held for sale | **–** | 6 | – |
| Bank overdrafts | **(6)** | (601) | (621) |
| **Cash and cash equivalents and bank overdrafts** | **1,136** | 195 | 229 |
| Bank loans | **(4)** | (3) | (4) |
| Fixed term debt | **(93)** | (133) | (136) |
| Net financing derivatives | **(12)** | (22) | (5) |
| Lease liabilities | **(2,421)** | (2,527) | (2,626) |
| Lease liabilities directly associated with assets held for sale | **–** | (36) | – |
| **Net debt** | **(1,394)** | (2,526) | (2,542) |

| £ millions | 2020/21 | 2019/20 |
|---|---|---|
| **Net debt at beginning of year** | **(2,526)** | (2,542) |
| Net increase in cash and cash equivalents and bank overdrafts | **881** | 2 |
| Repayment of bank loans | **1** | 1 |
| Issue of fixed term debt | **(1,950)** | – |
| Repayment of fixed term debt | **2,011** | – |
| Receipt on financing derivatives | **(1)** | – |
| **Net cashflow** [(1)] | **942** | 3 |
| Lease liabilities disposed | **27** | – |
| Other movements in lease liabilities | **136** | 40 |
| Exchange differences and other non-cash movements | **27** | (27) |
| **Net debt at end of year** | **(1,394)** | (2,526) |

1. Refer to the glossary for the definition of net cashflow.

| £ millions | Borrowings (excluding bank overdrafts) | Net financing derivative liabilities | Lease liabilities | 2020/21 Total financing liabilities |
|---|---|---|---|---|
| **At 1 February 2020** | **(136)** | **(22)** | **(2,563)** | **(2,721)** |
| Repayment of bank loans | **1** | **–** | **–** | **1** |
| Issue of fixed term debt | **(1,950)** | **–** | **–** | **(1,950)** |
| Repayment of fixed term debt | **2,011** | **–** | **–** | **2,011** |
| Receipt on financing derivatives | **–** | **(1)** | **–** | **(1)** |
| Lease rental payments | **–** | **–** | **462** | **462** |
| Interest paid | **24** | **–** | **–** | **24** |
| Cash outflow/(inflow) relating to financing liabilities | **86** | **(1)** | **462** | **547** |
| Interest on borrowings | **(24)** | **–** | **–** | **(24)** |
| Interest on lease liabilities | **–** | **–** | **(153)** | **(153)** |
| Lease liability additions | **–** | **–** | **(164)** | **(164)** |
| Lease liabilities disposed | **–** | **–** | **27** | **27** |
| Other movements in lease liabilities | **–** | **–** | **(9)** | **(9)** |
| Amortisation of issue costs | **(3)** | **–** | **–** | **(3)** |
| Fair value movements and exchange differences | **(20)** | **11** | **(21)** | **(30)** |
| **At 31 January 2021** | **(97)** | **(12)** | **(2,421)** | **(2,530)** |

| £ millions | Borrowings (excluding bank overdrafts) | Net financing derivative liabilities | Lease liabilities | 2019/20 Total financing liabilities |
|---|---|---|---|---|
| **At 1 February 2019** | (140) | (5) | (2,626) | (2,771) |
| Repayment of bank loans | 1 | – | – | 1 |
| Lease rental payments | – | – | 484 | 484 |
| Interest paid | 25 | – | – | 25 |
| Cash outflow relating to financing liabilities | 26 | – | 484 | 510 |
| Interest on borrowings | (25) | – | – | (25) |
| Interest on lease liabilities | – | – | (165) | (165) |
| Lease liability additions | – | – | (303) | (303) |
| Other movements in lease liabilities | – | – | 24 | 24 |
| Amortisation of issue costs | (1) | – | – | (1) |
| Fair value movements and exchange differences | 4 | (17) | 23 | 10 |
| **At 31 January 2020** | (136) | (22) | (2,563) | (2,721) |

In July 2020 Kingfisher repaid a €50m Medium Term Note at its maturity.

During the year the Group drew down on and repaid in full the following funds:

- £600m of commercial paper under the Bank of England's Covid Corporate Financing Facility;
- €600m term facility with three French banks guaranteed at 80% by the French State (Prêt garanti par l'État);
- £775m of the Group's revolving credit facilities; and
- €50m of temporary borrowing.

## 34 Acquisitions

In November 2020, the Group completed the acquisition of NeedHelp (We Share Trust SAS), one of Europe's leading home improvement services marketplaces, for a purchase price of £9m (before cash acquired of £1m). As part of the transaction, the founder of NeedHelp has reinvested proceeds from the sale in a 20% interest in the business, resulting in Kingfisher owning 80%.

NeedHelp is an innovative B2B2C online platform that connects customers who need home improvement help, either in-store or online, with vetted professional tradespeople and other skilled experts. Goodwill of £9m was recognised on acquisition of the business, with the acquisition representing an important step forward for one of the Group's key priorities under its recently announced 'Powered by Kingfisher' strategy: to build a mobile-first and service-orientated customer experience.

## 35 Disposals

On 30 September 2020, the Group disposed of its 100% interest in the Castorama Russia (Castorama RUS LLC) business to Maxidom for a gross consideration of £72m, of which £57m was received during the year, with the remaining £15m to be received in equal instalments over the next two years. Castorama Russia has not been classified as a discontinued operation as it does not represent a major operation for the Group.

The loss on disposal of £49m is analysed as follows:

| £ millions | |
|---|---|
| Proceeds | **72** |
| Net assets disposed (see below) | **(63)** |
| Transactions costs, warranties and indemnities | **(9)** |
| **Loss on disposal before cumulative exchange losses** | **–** |
| Cumulative exchange losses transferred from translation reserve | **(49)** |
| **Exceptional adjusting loss on disposal** | **(49)** |

The current year net cashflow effect of the disposal is analysed as follows:

| £ millions | |
|---|---|
| Cash proceeds | **57** |
| Cash disposed | **(27)** |
| Transaction costs paid | **(3)** |
| **Net disposal proceeds received** | **27** |

The major classes of assets and liabilities disposed are as follows:

| £ millions | |
|---|---|
| Property, plant and equipment | **34** |
| Right-of-use assets | **9** |
| Inventories | **55** |
| Trade and other receivables | **8** |
| Cash | **27** |
| Trade and other payables | **(43)** |
| Lease liabilities | **(27)** |
| **Net assets disposed** | **63** |

## 36 Assets held for sale

| £ millions | **2020/21** | 2019/20 |
|---|---|---|
| Assets held for sale | **12** | 196 |
| Liabilities directly associated with assets held for sale | **–** | (88) |
| | **12** | 108 |

Assets held for sale at 31 January 2021 include freehold properties in the UK, France and Poland. In the prior year, assets and liabilities held for sale comprised the Castorama Russia disposal group, as well as freehold properties in Poland and Romania.

Impairments of assets held for sale of £24m were recorded during the year related to the Castorama Russia disposal group and classified as exceptional adjusting items. The Group completed the disposal of Castorama Russia on 30 September 2020. Refer to note 35.

## 37 Commitments

Capital commitments contracted but not provided for by the Group at 31 January 2021 amount to £38m (2019/20: £62m).

## 38 Contingent liabilities

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.

The Group files tax returns in many jurisdictions around the world and at any one time, is subject to periodic tax audits in the ordinary course of its business. Applicable tax laws and regulations are subject to differing interpretations and the resolution of a final tax position can take several years to complete. Where it is considered that future tax liabilities are more likely than not to arise, an appropriate liability is recognised in the financial statements.

In October 2017, the European Commission opened a state aid investigation into the Group Financing Exemption section of the UK controlled foreign company rules. While the Group has complied with the requirements of UK tax law in force at the time, in April 2019 the European Commission concluded that aspects of the UK controlled foreign company regime partially constitute state aid. The UK government and the Group, along with other UK-based international companies, have appealed the European Commission decision to the European Courts.

Notwithstanding these appeals, under EU law, the UK government is required to commence collection proceedings. In January 2021, the Group received a charging notice from HM Revenue & Customs (HMRC) for £57m, which is included in current liabilities. The Group has appealed against the notice but as there is no right of postponement, the amount charged was paid in February 2021.

The final impact on the Group remains uncertain but based upon advice taken, the Group considers that no liability is required at this time and, consequently, £57m is included in non-current assets to reflect the Group's view that the amount paid will ultimately be recovered.

The Group estimates that compound interest of £6m will be due, resulting in a maximum exposure of £63m if all appeals against the position are unsuccessful.

Whilst the procedures that must be followed to resolve these types of tax issues make it likely that it will be some years before the eventual outcome is known, other than the state aid case described above, the Group does not currently expect the outcome of these contingent liabilities to have a material effect on the Group's financial position.

## 39 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 are shown below:

| | | 2020/21 | | 2019/20 |
|---|---|---|---|---|
| £ millions | **Income** | **Receivable** | Income | Receivable |
| Transactions with Koçtaş Yapi Marketleri Ticaret A.S. in which the Group holds a 50% interest | | | | |
| Commission and other income | **0.2** | **–** | 0.3 | – |
| Transactions with Crealfi S.A. in which the Group holds a 49% interest | | | | |
| Provision of employee services | **0.2** | **–** | 0.1 | – |
| Commission and other income | **4.8** | **0.2** | 4.9 | 0.2 |
| Transactions with the Kingfisher Pension Scheme | | | | |
| Provision of administrative services | **0.7** | **0.3** | 1.0 | 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 remuneration of key management personnel is given in note 9.

Other transactions with the Kingfisher Pension Scheme are detailed in note 28.

## 40 Post balance sheet events

In February 2021, the Group paid £57m in relation to the charging notice received from HMRC in respect of the European Commission state aid investigation. Refer to note 38.

In February 2021, the Group cancelled its £250m Revolving Credit Facility (RCF), which was due to expire in May 2021.

# Company balance sheet

At 31 January 2021

| £ millions | Notes | 2020/21 | 2019/20 |
|---|---|---|---|
| **Non-current assets** | | | |
| Right-of-use assets | 4 | **2** | 4 |
| Investment in subsidiary | 5 | **6,822** | 6,823 |
| Post-employment benefits | 11 | **19** | 17 |
| | | **6,843** | 6,844 |
| **Current assets** | | | |
| Trade and other receivables | 6 | **6,183** | 6,325 |
| Derivative assets | 9 | **3** | 6 |
| Current tax assets | | **62** | 56 |
| Cash and cash equivalents | | **333** | 30 |
| | | **6,581** | 6,417 |
| **Total assets** | | **13,424** | 13,261 |
| **Current liabilities** | | | |
| Trade and other payables | 7 | **(7,091)** | (6,869) |
| Borrowings | 8 | **(93)** | (42) |
| Lease liabilities | 4 | **(3)** | (3) |
| Derivative liabilities | 9 | **(16)** | (21) |
| | | **(7,203)** | (6,935) |
| **Non-current liabilities** | | | |
| Borrowings | 8 | **–** | (91) |
| Lease liabilities | 4 | **(1)** | (4) |
| Derivative liabilities | 9 | **–** | (3) |
| Deferred tax liabilities | | **(3)** | (2) |
| Provisions | 10 | **(2)** | (2) |
| | | **(6)** | (102) |
| **Total liabilities** | | **(7,209)** | (7,037) |
| **Net assets** | | **6,215** | 6,224 |
| **Equity** | | | |
| Share capital | 12 | **332** | 332 |
| Share premium | | **2,228** | 2,228 |
| Own shares held in ESOP trust | | **(23)** | (23) |
| Retained earnings | | **2,924** | 2,933 |
| Capital redemption reserve | | **43** | 43 |
| Other reserves | | **711** | 711 |
| **Total equity** | | **6,215** | 6,224 |

The Company's loss for the year was £10m (2019/20: profit of £242m).

The financial statements of Kingfisher plc (company number 01664812) were approved by the Board of Directors on 21 March 2021 and signed on its behalf by:

**Thierry Garnier**
**Chief Executive Officer**

**Bernard Bot**
**Chief Financial Officer**

# Company statement of changes in equity

Year ended 31 January 2021

| £ millions | Notes | Share capital | Share premium | Own shares held | Retained earnings | Capital redemption reserve | Other reserves [1] | Total equity |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | **2020/21** |
| **At 1 February 2020** | | **332** | **2,228** | **(23)** | **2,933** | **43** | **711** | **6,224** |
| Loss for the year | | **–** | **–** | **–** | **(10)** | **–** | **–** | **(10)** |
| Other comprehensive income for the year | | **–** | **–** | **–** | **1** | **–** | **–** | **1** |
| **Total comprehensive loss for the year** | | **–** | **–** | **–** | **(9)** | **–** | **–** | **(9)** |
| Share-based compensation | | **–** | **–** | **–** | **2** | **–** | **–** | **2** |
| Capital contributions given relating to share-based payments | | **–** | **–** | **–** | **12** | **–** | **–** | **12** |
| New shares issued under share schemes | | **–** | **–** | **–** | **1** | **–** | **–** | **1** |
| Own shares issued under share schemes | | **–** | **–** | **14** | **(14)** | **–** | **–** | **–** |
| Purchase of own shares for ESOP trust | | **–** | **–** | **(14)** | **–** | **–** | **–** | **(14)** |
| Tax on equity items | | **–** | **–** | **–** | **(1)** | **–** | **–** | **(1)** |
| **At 31 January 2021** | | **332** | **2,228** | **(23)** | **2,924** | **43** | **711** | **6,215** |

| £ millions | Notes | Share capital | Share premium | Own shares held | Retained earnings | Capital redemption reserve | Other reserves [1] | Total equity |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | 2019/20 |
| **At 1 February 2019** | | 332 | 2,228 | (25) | 2,918 | 43 | 711 | 6,207 |
| Profit for the year | | – | – | – | 242 | – | – | 242 |
| Other comprehensive income for the year | | – | – | – | 1 | – | – | 1 |
| Total comprehensive income for the year | | – | – | – | 243 | – | – | 243 |
| Capital contributions given relating to share-based payments | | – | – | – | 11 | – | – | 11 |
| Own shares issued under share schemes | | – | – | 12 | (12) | – | – | – |
| Purchase of own shares for ESOP trust | | – | – | (10) | – | – | – | (10) |
| Dividends | | – | – | – | (227) | – | – | (227) |
| **At 31 January 2020** | | 332 | 2,228 | (23) | 2,933 | 43 | 711 | 6,224 |

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

# Notes to the Company financial statements

## 1 General information

The Company is a public company limited by shares and incorporated in England and Wales. The Company is non-trading and is the ultimate parent of the Kingfisher plc group ('the Group'). The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 1 to 51.

The Company is incorporated in England and Wales, United Kingdom, and is listed on the London Stock Exchange. The address of its registered office is 3 Sheldon Square, Paddington, London W2 6PX. A full list of related undertakings of the Company and their registered offices is given in note 15.

## 2 Principal accounting policies

The financial statements of Kingfisher plc ('the Company') are for the year ended 31 January 2021 ('the year' or '2020/21') and were authorised for issue by the Board of Directors on 21 March 2021. The comparative financial year is the year ended 31 January 2020 ('the prior year' or '2019/20').

The directors of Kingfisher plc consider that adequate resources exist for the Company to continue in operational existence for the foreseeable future and they continue to adopt the going concern basis in preparing the financial statements for the year ended 31 January 2021. Refer to note 2a of the consolidated financial statements for details of the Directors' assessment.

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 and as such these financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101') and the provisions of the Companies Act 2006. 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 post-employment benefits.

As permitted by section 408 of the Companies Act 2006, the income statement of the Company has not been presented.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based Payment';
- the requirements of IFRS 7 'Financial Instruments: Disclosures';
- the requirements of paragraphs 91 to 99 of IFRS 13 'Fair Value Measurement';
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 'Presentation of Financial Statements';
- the requirements of IAS 7 'Statement of Cash Flows';
- the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Error';
- the requirements of paragraphs 17 and 18A of IAS 24 'Related Party Disclosures';
- the requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 'Impairment of Assets'.

Where required, equivalent disclosures are given in the consolidated financial statements of Kingfisher plc.

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.

**Changes to accounting policies as a result of new standards issued and effective**
Changes to accounting policies as a result of new standards issued and effective do not have a material impact on the Company's financial statements.

**Standards issued but not yet effective**
New standards, amendments and interpretations which are in issue but not yet effective are not expected to have a material impact on the Company's financial statements.

**a. 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 income statement.

Principal rate of exchange against Sterling:

| Euro | 2020/21 | 2019/20 |
|---|---|---|
| Year end rate | 1.13 | 1.19 |

The financial statements are presented in Sterling, which is the Company's presentation currency and the currency of the primary economic environment in which the entity operates (i.e. its functional currency).

**b. Leased assets**
The Company assesses whether a contract is or contains a lease at inception of the contract. Typically, lease contracts relate to properties such as the Company's Head Office. For leases in which the Company is a lessee, the Company recognises a right-of-use asset and a lease liability, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

The liability is initially measured as the present value of the lease payments not yet paid at the commencement date, discounted at an appropriate discount rate. Where the implicit rate in the lease is not readily determinable, an incremental borrowing rate is calculated and applied. The calculation methodology is based upon applying a financing spread to a risk-free rate, with the resulting rate including the effect of the credit worthiness of the Company, as well as the underlying term, currency and start date of the lease agreement.

Lease payments used in the measurement of the lease liability principally comprise fixed lease payments (subject to indexation/rent reviews) less any incentives. The lease liability is subsequently measured using an effective interest method whereby the carrying amount of the lease liability is measured on an amortised cost basis, and the interest expense is allocated over the lease term. The lease term comprises the non-cancellable lease term, in addition to optional periods when the Company is reasonably certain to exercise an option to extend (or not to terminate) a lease.

The Company remeasures the lease liability and makes a corresponding adjustment to the related right-of-use asset whenever an event occurs that changes the term or payment profile of a lease, such as the renewal of an existing lease, the exercise of lease term options, market rent reviews and indexation.

The right-of-use assets are initially measured at the amount equal to the lease liability, adjusted by any upfront lease payments or incentives and any initial direct costs incurred. Subsequently, the assets are measured at cost less accumulated depreciation and impairment losses.

**Lessor accounting**
Leases for which the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Company is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

**c. Investments**
Investments in subsidiaries are included in the balance sheet at cost, less any provisions for impairment.

**d. Employee benefits**

**(i) Post-employment benefits**
The Company operates defined benefit and defined contribution pension schemes for its employees. 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 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 held under trusts and are 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. 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.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are credited or charged to other comprehensive income as they arise.

For defined contribution schemes, 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.

**(ii) 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.

The fair value of the compensation given to subsidiaries in respect of share-based compensation schemes is recognised as a capital contribution over the vesting period. The capital contribution is reduced by any payments received from subsidiaries in respect of these schemes.

**(iii) Employee Share Ownership Plan trust ('ESOP trust')**
The ESOP trust is a separately administered discretionary trust. Liabilities of the ESOP trust are guaranteed by the Company and the assets of the ESOP trust mainly comprise shares in the Company.

Own shares held by the ESOP trust are deducted from equity and the shares are held at historical cost until they are sold. The assets, liabilities, income and costs of the ESOP trust are included in both the Company's and the consolidated financial statements.

**e. Taxation**
The tax currently payable or receivable is based on taxable profit or loss 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.

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 assets and liabilities are not generally recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Company 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.

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.

Current and deferred tax are calculated using tax rates which 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.

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

**f. 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.

## 2 Principal accounting policies continued

A provision is recorded if the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it. The unavoidable costs reflect the net cost of exiting the contract.

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.

**g. 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.

Financial assets and liabilities are offset only when the Group has a currently enforceable legal right to set-off the respective recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**(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) 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.

**(iv) Trade payables**
Trade payables are initially recognised at fair value and are subsequently measured at amortised cost.

**(v) 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.

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 and other financial instruments classified as hedges depends on their designation, which occurs at the start of the hedge relationship. 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 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.

In order to qualify for hedge accounting, the Company documents in advance the risk management objective and strategy for undertaking the hedge and 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 will be highly effective on an ongoing basis and provides an analysis of the sources of hedge ineffectiveness. The effectiveness testing is performed at half year and year end or upon a significant change in circumstances affecting the hedge effectiveness requirements.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

**h. 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.

**Critical accounting judgements and key sources of estimation uncertainty**
The preparation of the Company financial statements requires the Company 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 significant judgements applied in the preparation of the financial statements, along with 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.

Going concern was added as a critical accounting judgement, disclosed in the prior year financial statements for the year ended 31 January 2020, following the unprecedented circumstances that arose with the outbreak of the Covid-19 pandemic. The Directors no longer consider going concern to be a critical accounting judgement - refer to note 2a of the consolidated financial statements for further details. No other critical accounting judgements were applied to the year ended 31 January 2020 or the year ended 31 January 2021.

Key sources of estimation uncertainty

**Post-employment benefits**
The present value of the defined benefit liabilities recognised on the balance sheet is dependent on a number of market rates and assumptions including interest rates of high quality corporate bonds, inflation and mortality rates. The net interest expense or income is dependent on the interest rates of high quality corporate bonds and the net deficit or surplus position. The market rates and assumptions are based on the conditions at the time and changes in these can lead to significant movements in the estimated obligations. To help the reader understand the impact of changes in the key market rates and assumptions, a sensitivity analysis is provided in note 11.

## 3 Income statement disclosures

The audit fee for the Company and the consolidated financial statements is disclosed in note 8 of the Kingfisher plc consolidated financial statements. Fees payable to Deloitte LLP and their associates for audit and non-audit services to the Company are not required to be disclosed because the Group financial statements disclose such fees on a consolidated basis. Details of the Company's policy on the use of auditors for non-audit services, the reasons why the auditor was used rather than another supplier and how the auditor's independence and objectivity were safeguarded are set out in the Audit Committee Report on pages 76 to 81.

Dividend disclosures are provided in note 12 to the Kingfisher plc consolidated financial statements.

| £ millions | **2020/21** | 2019/20 |
|---|---|---|
| Wages and salaries | **23** | 24 |
| Social security costs | **5** | 5 |
| Post-employment benefits – defined contribution | **2** | 2 |
| Share-based compensation | **2** | – |
| **Employee benefit expenses** | **32** | 31 |

| Number | **2020/21** | 2019/20 |
|---|---|---|
| Average number of persons employed | | |
| Administration | **232** | 257 |

Directors' remuneration and details of share option exercises are disclosed in the Directors' Remuneration Report on pages 82 to 107. Total Directors' remuneration for the year is £3m (2019/20: £1m).

As permitted by s408 of Companies Act 2006, no separate income statement or statement of comprehensive income is presented in respect of the parent Company. The profit attributable to the Company is disclosed in the footnote to the Company's balance sheet.

## 4 Leases

**The Company is a lessee and intermediate lessor of office space.**

**Right-of-use assets**

| £ millions | **2020/21** | 2019/20 |
|---|---|---|
| Land and buildings | **2** | 4 |
| **Net carrying amount** | **2** | 4 |

Additions to right-of-use assets during the year were £nil (2019/20: £nil).

**Amounts included in profit and loss**

| £ millions | **2020/21** | 2019/20 |
|---|---|---|
| Depreciation of right-of-use assets | | |
| Land and buildings | **(2)** | (2) |

**Other lease disclosures**
Lease arrangements under which rental payments are contingent upon sales, other performance or usage are not significant for the Company.

There are no corporate restrictions imposed by lease arrangements such as those concerning dividends, additional debt and further leasing.

**Lease liabilities**

| £ millions | **2020/21** | 2019/20 |
|---|---|---|
| Current | **3** | 3 |
| Non-current | **1** | 4 |
| | **4** | **7** |

## 5 Investments

| £ millions | Investment in subsidiary |
|---|---|
| At 1 February 2020 | **6,823** |
| Capital contributions given relating to share-based payments | **12** |
| Contributions received relating to share-based payments | **(13)** |
| At 31 January 2021 | **6,822** |

The more significant subsidiary undertakings of the Company at 31 January 2021 and the ultimate percentage holding are set out below. For a full list of subsidiaries and related undertakings, see note 15.

## 5 Investments continued

| | Country of incorporation and operation | % interest held and voting rights | Class of share owned | Main activity |
|---|---|---|---|---|
| B&Q Limited | United Kingdom | 100% | Ordinary & Special [1] | Retailing |
| B&Q Properties Limited | United Kingdom | 100% | Ordinary | Property investment |
| Halcyon Finance Limited | United Kingdom | 100% | Ordinary | Financing |
| Kingfisher Digital Limited | United Kingdom | 100% | Ordinary | Digital services |
| Kingfisher Holdings Limited | United Kingdom | 100% | Ordinary | Holding company |
| Kingfisher International Products Limited | United Kingdom | 100% | Ordinary | Sourcing |
| Kingfisher Information Technology Services (UK) Limited | United Kingdom | 100% | Ordinary | IT services |
| Screwfix Direct Limited | United Kingdom | 100% | Ordinary | Retailing |
| Sheldon Holdings Limited | United Kingdom | 100% | Ordinary | Holding company |
| Zeus Land Investments Limited | United Kingdom | 100% | Ordinary | Holding company |
| B&Q Ireland Limited | Ireland | 100% | Ordinary | Retailing |
| Brico Dépôt S.A.S. | France | 100% | Ordinary | Retailing |
| Castorama France S.A.S. | France | 100% | Ordinary | Retailing |
| Euro Dépôt Immobilier S.A.S. | France | 100% | Ordinary | Property investment |
| Kingfisher Investissements SAS | France | 100% | Ordinary | Holding company |
| L'Immobilière Castorama S.A.S. | France | 100% | Ordinary | Property investment |
| Kingfisher Asia Limited | Hong Kong | 100% | Ordinary | Sourcing |
| Castim Sp. z o.o. | Poland | 100% | Ordinary | Property investment |
| Castorama Polska Sp. z o.o. | Poland | 100% | Ordinary | Retailing |
| Brico Dépôt Portugal S.A. | Portugal | 100% | Ordinary | Retailing |
| Bricostore Romania S.A.[2] | Romania | 100% | Ordinary | Retailing |
| Euro Dépôt España S.A.U. | Spain | 100% | Ordinary | Retailing |

1. The special shares in B & Q Limited are owned 100% by Kingfisher plc and are non-voting.
2. Owing to local conditions, this company prepares its financial statements to 31 December.

At each reporting date an assessment is performed as to whether there are any indicators that the Company's investments may be impaired and, should such indicators exist, the recoverable amounts are estimated. At the balance sheet date, the Company's market capitalisation was less than the carrying amount of its investments which is an indicator of impairment.

Impairment reviews have been performed for the Company's investments with no resulting impairments. The Board has reviewed a sensitivity analysis and does not consider that a reasonably possible change in the assumptions used in the value-in-use calculations would cause the carrying amount of the Company's investments to exceed their recoverable amounts. See note 13 to the consolidated financial statements for further details on the assumptions used.

## 6 Trade and other receivables

| £ millions | **2020/21** | 2019/20 |
|---|---|---|
| **Current** | | |
| Owed by Group undertakings | **6,183** | 6,323 |
| Property debtors | **–** | 1 |
| Sublease receivables | **–** | 1 |
| | **6,183** | 6,325 |

Amounts owed by Group undertakings are repayable on demand and any interest due thereon is at current market rates.

## 7 Trade and other payables

| **£ millions** | **2020/21** | 2019/20 |
|---|---|---|
| **Current** | | |
| Owed to Group undertakings | **7,055** | 6,837 |
| Other taxation and social security | **3** | 3 |
| Accruals and other payables | **33** | 29 |
| | **7,091** | 6,869 |

Amounts owed to Group undertakings are repayable on demand and any interest due thereon is at current market rates.

## 8 Borrowings

| £ millions | 2020/21 | 2019/20 |
|---|---|---|
| **Current** | | |
| Fixed term debt | **93** | 42 |
| | **93** | 42 |
| **Non-current** | | |
| Fixed term debt | **–** | 91 |
| | **–** | 91 |

The fixed term debt represents a EUR50m term loan and a GBP50m term loan. A EUR50m Medium Term Note was repaid in the year on maturity.

During the year the Company confirmed its eligibility under the Bank of England's Covid Corporate Financing Facility ('CCFF') scheme and on 12 June 2020 issued 11-month Commercial Paper for £600m under this programme, the maximum amount under its allocated issuer limit. These funds were fully repaid on 23 July 2020.

See notes 23 and 33 to the consolidated financial statements for further details.

## 9 Derivatives

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

| £ millions | 2020/21 | 2019/20 |
|---|---|---|
| Foreign exchange contracts | **3** | 6 |
| Derivative assets | **3** | 6 |
| | | |
| Cross currency interest rate swaps | **(1)** | **(5)** |
| Foreign exchange contracts | **(15)** | (19) |
| Derivative liabilities | **(16)** | (24) |

The fair values are calculated by discounting future cash flows arising from the instruments and adjusted for credit risk. These fair value measurements are all made using observable market rates of interest, foreign exchange and credit risk. Further details are given in note 24 to the consolidated financial statements.

## 10 Provisions

| £ millions | Onerous property contracts |
|---|---|
| At 1 February 2020 | **2** |
| At 31 January 2021 | **2** |
| | |
| Current liabilities | **–** |
| Non-current liabilities | **2** |
| | **2** |

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 present value of future cash outflows relating to rates and service charges.

## 11 Post-employment benefits

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 | 2020/21 | 2019/20 |
|---|---|---|
| Charge to operating profit | **2** | 2 |

From July 2012, an enhanced defined contribution scheme was offered to all Company employees. Eligible Company employees have been automatically enrolled into the defined contribution scheme since 31 March 2013.

## 11 Post-employment benefits continued

**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 Group's policy is for each entity to recognise its share of assets and liabilities based on the proportion of the scheme contributions paid by that entity. See note 28 to the consolidated financial statements for further detail on the Kingfisher Pension Scheme. The valuation of the scheme has been based on the most recent actuarial valuation as at 31 March 2019 and has been updated to 31 January 2021.

The final salary pension scheme was closed to future benefit accrual with effect from July 2012.

The Trust Deed provides Kingfisher with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the Trustee has no rights to unilaterally wind up, or otherwise augment the benefits due to members of, the scheme. Based on these rights, any net surplus in the scheme is recognised in full.

In 2010/11 and 2011/12 the Company entered into two phases of a property partnership arrangement with the scheme Trustee to address an element of the scheme deficit. Further details on this arrangement are given in note 28 to the consolidated financial statements. The reported pension position reflects the Company's share of the resulting scheme asset.

**Balance sheet**
Movements in the present value of the defined benefit obligation and the fair value of scheme assets are as follows:

| £ millions | Defined benefit obligation | Scheme assets | Total |
|---|---|---|---|
| At 1 February 2020 | **(92)** | **109** | **17** |
| Interest (expense)/income | **(1)** | **1** | **–** |
| Remeasurement (losses)/gains [1] | **(2)** | **3** | **1** |
| Contributions paid by employer | **–** | **1** | **1** |
| Benefits paid | **4** | **(4)** | **–** |
| At 31 January 2021 | **(91)** | **110** | **19** |
| At 1 February 2019 | (83) | 98 | 15 |
| Interest (expense)/income | (2) | 2 | – |
| Remeasurement (losses)/gains [1] | (10) | 11 | 1 |
| Contributions paid by employer | – | 1 | 1 |
| Benefits paid | 3 | (3) | – |
| At 31 January 2020 | (92) | 109 | 17 |

[1] Representing the total amounts recognised in other comprehensive income for the year.

The fair value of scheme assets is analysed as follows:

| £ millions | **2020/21** | 2019/20 |
|---|---|---|
| Equities | **6** | 5 |
| Government and corporate bonds | **79** | 77 |
| Property | **–** | 1 |
| Cash and other | **25** | 26 |
| Total fair value of scheme assets | **110** | 109 |

The following sensitivity analysis for the scheme shows the estimated impact on the obligation 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 0.5% | Decrease/increase by £10m |
| Price inflation | Increase/decrease by 0.5% | Increase/decrease by £8m |
| Rate of pension increases | Increase/decrease by 0.5% | Increase/decrease by £7m |
| Mortality | Increase in life expectancy by one year | Increase by £3m |

## 12 Called up share capital

| | Number of ordinary shares millions | Ordinary share capital £ millions |
|---|---|---|
| Allotted, called up and fully paid: | | |
| At 1 February 2020 | **2,110** | **332** |
| New shares issued under share schemes | **1** | **–** |
| At 31 January 2021 | **2,111** | **332** |

Ordinary shares have a par value of $15^5/_7$ pence per share, and have attached to them full voting, dividend and capital distribution rights.

## 13 Share-based payments

The Company operates a number of share incentive plans including the Kingfisher Alignment Share and Transformation Incentive Plan ('KASTIP'), Kingfisher Incentive Share Plan ('KISP'), Long Term Incentive Plan ('LTIP') and Sharesave plans in the UK and Ireland.

Options have been exercised on a regular basis throughout the year. On that basis, the weighted average share price during the year, rather than at the date of exercise, is £2.36 (2019/20: £2.19). The options outstanding at the end of the year have exercise prices ranging from nil to £3.06 and a weighted average remaining contractual life of 7.4 years (2019/20: 7.8 years).

In the current year the Company recognised a total expense of £2m (2019/20: £nil) relating to equity-settled share-based payment transactions.

The Executive Directors' awards are disclosed in the Directors' Remuneration Report on pages 82 to 107. The KASTIP awards are described as part of the Directors' Remuneration Report.

Under the KISP, share awards are deferred for three years. The awards were granted as nil cost options. Vesting dates may vary according to individual grants.

LTIP was granted annually based on performance over a three-year period. Performance conditions were based on 50% EPS and 50% Kingfisher Economic Profit ('KEP'). The awards were granted as nil cost options, and only accrue dividends after they vest. Vesting dates varied according to individual grants.

Under the UK Sharesave scheme, eligible UK employees have been invited to enter into HMRC-approved savings contracts for a period of three or five years, whereby shares may be acquired with savings under the contract. The option price is the average market price over three days shortly before the invitation to subscribe, discounted by 20%. Options are exercisable within a six-month period from the conclusion of a three- or five-year period. The Irish Sharesave plan, which operates along similar lines to the UK Sharesave scheme, includes eligible employees in Ireland.

The rules of all schemes include provision for the early exercise of options in certain circumstances.

**The Employee Share Ownership Plan trust ('ESOP trust')**
The ESOP trust is funded by an interest free loan from the Company of £74m (2019/20: £77m) to enable it to acquire shares in Kingfisher plc. The shares are used to satisfy options awarded under the Delivering Value Incentive award, Transformation Incentive Award, Alignment Share award, KISP and LTIP.

The ESOP trust's shareholding at 31 January 2021 is 8 million shares (2019/20: 8 million shares) with a nominal value of £1m (2019/20: £1m) and a market value of £23m (2019/20: £23m). Dividends on these shares were waived for the interim and final dividends.

## 14 Related party transactions

During the year, the Company 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 are shown below:

| | **2020/21** | | 2019/20 | |
|---|---|---|---|---|
| £ millions | **Income** | **Receivable** | Income | Receivable |
| Transactions with Koçtaş Yapi Marketleri Ticaret A.S. in which the Kingfisher plc Group holds a 50% interest | | | | |
| Commission and other income | **0.2** | **–** | 0.3 | – |
| Transactions with the Kingfisher Pension Scheme | | | | |
| Provision of administrative services | **0.7** | **0.3** | 1.0 | 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.

Directors' remuneration and details of share option exercises are disclosed in the Directors' Remuneration Report on pages 82 to 107.

Other transactions with the Kingfisher Pension Scheme are detailed in note 11.

## 15 Related undertakings of the Group

In accordance with Section 409 of the Companies Act 2006, a full list of related undertakings as at 31 January 2021, the address of their registered office and their country of incorporation is shown below. The entire issued share capital is held within the Group except where otherwise shown.

**Subsidiary undertakings**
All subsidiary undertakings, unless otherwise noted, are consolidated in the Group's financial statements, have only one class of share in issue (being ordinary shares), and have all their shares held by companies within the Group other than the Company (Kingfisher plc). The undertakings denoted with an asterisk (*) will take advantage of the audit exemption set out within Section 479A of the Companies Act 2006 for the year ended 31 January 2021.

ADSR Real Estate S.A.S.[1]
Alcedo Finance Limited[2]*
B&Q (Retail) Guernsey Limited[3]
B&Q (Retail) Jersey Limited[4]
B&Q Foundation[5]
B&Q Ireland Limited[6]
B&Q Limited [a,5]
B&Q Properties Chesterfield Limited[5]
B&Q Properties Chestnut Retail Park Limited[5]
B&Q Properties Farnborough Limited[5]*
B&Q Properties Investments Limited[7]
B&Q Properties Limited[5]
B&Q Properties New Malden Limited[5]
B&Q Properties Nursling Limited[5]
B&Q Properties South Shields Limited[5]
B&Q Properties Sutton-In-Ashfield Limited[5]*
B&Q Properties Swindon Limited[5]
B&Q Properties Witney Limited[5]*
B&Q Properties Wrexham Limited[5]
Bargain Bob's Limited[8]*
Brico Communication S.R.L.[9]
Brico Dépôt Portugal S.A.[10]
Brico Dépôt S.A.S.[11]
Brico Supply S.R.L.[9]
Bricostore Romania S.A.[9]
Castim Sp. z o.o.[12]
Castorama Polska Sp. Z o.o[12]
Castorama France S.A.S[13]
Dickens Limited[5]*
DIY Express Limited[8]*
EasyDrive (GB) Limited[8]*
Eijsvogel Finance Limited[2]
Electricfix Limited[8]*
Erbauer (UK) Limited[8]*
Euro Dépôt España S.A.U.[14]
Euro Dépôt Immobilier S.A.S.[11]
Forge Steel Limited[8]*
Fundacja Castorama GoodHome[12]
Geared Up Limited[8]*
Good Home Products Limited[2]*
Halcyon Finance Limited[2]
KF7 S.A.S.[1]
KFL8 S.A.S.[1]
KFS Sp. z o.o.[12]
Kingfisher (Paddington) Limited[2]
Kingfisher (Shanghai) Sourcing Consultancy Co. Limited[15]
Kingfisher Asia Limited[16]
Kingfisher B.V.[17]
Kingfisher Développement SAS[1]
Kingfisher Digital Limited[2]
Kingfisher France Limited[2]
Kingfisher Group Finance B.V.[18]
Kingfisher Group Limited[2]
Kingfisher Holdings B.V.[17]
Kingfisher Holdings Limited[b,2]
Kingfisher Information Technology Services (France) S.A.S.[1]
Kingfisher Information Technology Services (UK) Limited[2]
Kingfisher Insurance Designated Activity Company[19]
Kingfisher International Finance S.A.[20]
Kingfisher International Holdings Limited[2]
Kingfisher International Products B.V.[17]
Kingfisher International Products France S.A.S.[1]
Kingfisher International Products Limited[2]
Kingfisher International Products Romania SRL[9]
Kingfisher Investissements SAS[13]
Kingfisher Pension Trustee Limited[2]*
Kingfisher Properties Investments Limited[2]
Kingfisher Scottish Limited Partnership[c,21]
Kingfisher Properties Investments Limited[2]
Kingfisher Sourcing Eastern Europe Sp. z o.o.[12]
Kingfisher TMB Limited[5]
Kingfisher UK Investments Limited[2]*
Kingfisher UK Limited[2]
KSO Istanbul Sourcing Ev Geliştirme Ürünleri ve Hizmetleri Limited Şirketi [22]
L'Immobilière Castorama S.A.S.[13]
Locke & Co Limited[8]*
Martin Pecheur Holdings Limited[24]
Martin Pecheur Investments Limited[25]
Martin Pecheur Limited[25]
Martin Pecheur Sterling Investments Limited[2]
Moretti (UK) Limited[8]*
New England Paint Company Limited[2]
No Nonsense Limited[8]*
Owl Developments Sp. z.o.o[12]
Paddington Investments Ireland Limited[24]
Plumbfix Limited[8]*
Portswood B.V.[17]
Portswood Investments Limited[2]
Powersmith Limited[8]*
ProLand Corporation LLC[26]
Screwfix Direct (Ireland) Limited[6]
Screwfix Direct Limited [d,8]
Screwfix Investments Limited[2]*
Screwfix Limited[8]*
Screwfix S.A.S.[1]
Screws Limited[8]*
SFD Limited[8]*
Sheldon Euro Investments Limited[2]
Sheldon Euro Investments 2 Limited[2]
Sheldon Holdings Limited[2]
Sheldon Poland Investments Limited[2]
Sheldon Sterling Investments Limited[2]
Site (UK) Limited[8]*
Société Letranne S.C.I.[11]
SOCODI S.A.R.L.[1]
Street Club Limited[5]*
The Screwfix Foundation[8]
Titan Power Tools (UK) Limited[8]*
Trade Point Limited[5]*
Watersmith UK Limited[8]*
Wildbird International Limited[e,8]*
Zeus Land Investments Limited[2]

**Related undertakings other than subsidiaries**

**Crealfi S.A. (France, 49%) [27]**

**Kingfisher Services S.A.S. (France, 80%) [1]**

**Koçtaş Yapi Marketleri Ticaret A.S. (Turkey, 50%) [28]**

**We Share Trust (France, 80%) [29]**

(a) Kingfisher plc holds 1,000 Special Shares of £0.05 each, and 1,000 Special A Shares of £0.05 each – both representing 100% of the nominal value of each class of share.
(b) The shares are held directly by Kingfisher plc.
(c) Kingfisher Properties Investments Limited and Kingfisher Pension Trustee Limited are the limited partners; B&Q Properties Investments Limited is the general partner.
(d) 4,083 Ordinary A shares of £1 each, 45,917 Ordinary C shares of £1 each and 4,591,700 Ordinary D Shares – each representing 100% of the nominal value of each class of share. These represent 100% of the total issued share capital.
(e) 200 Ordinary A shares of £1 each, 100 Ordinary B shares of £1 each, 5 Ordinary C shares of £1 each, 5 Ordinary D shares of £1 each and 10 Ordinary E shares of £1 each – each representing 100% of the nominal value of each class of share. These represent 100% of the total issued share capital.

Registered offices and country of incorporation:

1. Parc d'Activités, Zone Industrielle, Templemars, 59175, France
2. 3 Sheldon Square, Paddington, London, W2 6PX, United Kingdom
3. Dorey Court, Admiral Park, St Peters Port, GY1 3BQ, Guernsey
4. Gaspe House, 66-72 Esplanade, St. Helier, Jersey, JE2 3QT, Jersey
5. B&Q House, Chestnut Avenue, Chandlers Ford, Eastleigh, Hampshire, SO53 3LE, United Kingdom
6. 6th Floor, 2 Grand Canal Square, Dublin 2, Ireland
7. 124-125 Princess Street, Edinburgh, EH2 4AD, Scotland, United Kingdom
8. Trade House, Mead Avenue, Houndstone Business Park, Yeovil, BA22 8RT, United Kingdom
9. Bucharest, District 6, Calea Giuleşti, No. 1-3, corp 02, 3rd floor, Bricostore Shopping Center
10. Rua Elias García,Estrada Nacional 294, km 14, Freguesia de Rio de Mouro, Concelho de Sintra, Lisbon, Portugal
11. 30-32 Rue de la Tourelle, 91310 Longpont-sur-Orge, France
12. ul. Krakowiaków 78, 02-255, Warsaw, Poland
13. Zone Industrielle, 59175 Templemars, France
14. C/ la Selva, 10 Inblau Edificio A 1a, 08820 El Prat de Llobregat, Barcelona, Spain
15. B&Q China, 4th Floor, B&Q Pudong Commercial Building, No. 393 Yin Xiao Road, Pudong New Area, Shanghai, 201204, China
16. 2/F, Koho, 73 - 75 Hung To Road, Kwun Tong, Hong Kong
17. Rapenburgerstraat 175, E, 1011 VM, Amsterdam, Netherlands
18. Prins Bernardplein 200, 1097 JB Amsterdam, Netherlands
19. Willis Towers Watson House, Elm Park, Merrion Road, Dublin 4, Ireland
20. Regus Park Atrium, Rue des Colonies 11, 1000 Brussels, Belgium
21. Womble Bond Dickinson (UK) LLP, 2 Semple Street, Edinburgh, EH3 8BL, Scotland
22. Çolakoglu Is Merkezi Turgut Özal Bulvari, No: 82/3-4-5-6 Taşd, Çekmeköy, İstanbul, Turkey
23. 99 Grand-rue, L-1661, Luxembourg
24. 1st - 2nd Floors, 1-2 Victoria Buildings, Haddington Road, Dublin 4, D04 XN32, Ireland
25. Ogier House, The Esplanade, St Helier, JE4 9WG, Jersey
26. Derbenevskaya nab. 7, Building 8, 115114, Moscow, Russian Federation
27. 1 rue Victor Basch, CS 70001, MASSY CEDEX, 91068, France
28. Tasdelen, Sile otobani 11.Km.Alemdar Sapagi Sirri Celik Bulvari, No.1 C.Blok Cekmekoy, Istanbul, 34788, Turkey
29. 5, villa Victor Hugo, PARIS, 75016, France

## 16 Post balance sheet events

In February 2021, the Company cancelled its £250m Revolving Credit Facility (RCF), which was due to expire in May 2021.

# Group five year financial summary

| £ millions | 2016/17 | IAS 17 2017/18 | 2018/19 | 2019/20 | IFRS 16 (5) 2020/21 |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| Sales | 11,225 | 11,655 | 11,685 | 11,513 | **12,343** |
| Retail profit | 847 | 849 | 824 | 786 | **1,003** |
| Central costs | (48) | (46) | (69) | (62) | **(54)** |
| Share of interest and tax of joint ventures and associates (before exchange differences on lease liabilities) | (5) | (4) | (5) | (7) | **(3)** |
| Net finance costs before financing fair value remeasurements ('FFVR'), exchange differences on lease liabilities ('Lease FX') and exceptional adjusting items | (7) | (2) | (176) | (173) | **(160)** |
| Transformation P&L costs (6) | (44) | (114) | – | – | – |
| Adjusted pre-tax profit | 743 | 683 | 574 | 544 | **786** |
| Exceptional adjusting items (before tax) | 17 | – | (267) | (441) | **(30)** |
| FFVR and Lease FX | (1) | (1) | (7) | – | – |
| Profit before taxation | 759 | 682 | 300 | 103 | **756** |
| Income tax expense (including exceptional adjusting items) | (149) | (197) | (107) | (95) | **(164)** |
| Profit for the year | 610 | 485 | 193 | 8 | **592** |
| **Balance sheet** | | | | | |
| Goodwill and other intangible assets | 2,707 | 2,792 | 2,807 | 2,755 | **2,747** |
| Property, plant and equipment and investment property | 3,613 | 3,756 | 3,310 | 2,996 | **3,095** |
| Right-of-use assets | – | – | 2,017 | 1,916 | **1,845** |
| Investments in joint ventures and associates | 23 | 25 | 15 | 16 | **20** |
| Assets and liabilities (excluding net debt) held for sale | – | – | 89 | 138 | **12** |
| Other net current assets (1) | 51 | 368 | 429 | 424 | **105** |
| Post-employment benefits | 131 | 99 | 205 | 277 | **359** |
| Other net non-current liabilities (1) | (395) | (360) | (181) | (194) | **(218)** |
| Capital employed | 6,130 | 6,680 | 8,691 | 8,328 | **7,965** |
| Equity shareholders' funds | 6,771 | 6,748 | 6,149 | 5,802 | **6,571** |
| Net (cash)/debt | (641) | (68) | 2,542 | 2,526 | **1,394** |
| Capital employed | 6,130 | 6,680 | 8,691 | 8,328 | **7,965** |
| **Other financial data** | | | | | |
| Like-for-like sales growth | 2.3% | (0.7%) | (1.6%) | (1.5%) | **7.1%** |
| Adjusted effective tax rate (2) | 26% | 30% | 27% | 26% | **23%** |
| Basic earnings per share (pence) | 27.1 | 22.1 | 9.1 | 0.4 | **28.1** |
| Adjusted basic earnings per share (pence) | 24.4 | 21.8 | 19.8 | 19.1 | **28.7** |
| Ordinary dividend per share (pence) | 10.4 | 10.82 | 10.82 | 3.33 | **8.25** |
| Gross capital expenditure (3) | 406 | 368 | 331 | 342 | **281** |
| Number of stores (4) | 1,194 | 1,280 | 1,331 | 1,367 | **1,386** |

1. Other net current assets and other net non-current liabilities reported above exclude any components of net (cash)/debt.
2. 2017/18 adjusted effective tax rate (adjusted ETR) includes the impact of a one-off French tax surcharge. This increased the adjusted ETR by c.3%.
3. Excluding business acquisitions.
4. Excluding joint ventures and associates. 2017/18 excludes 3 Praktiker Romania stores that were closed in 2018/19.
5. IFRS 16 'Leases' adopted from 2019/20, with restatement of 2018/19 comparatives; 2016/17 and 2017/18 are stated under IAS 17 'Leases'.
6. From 2019/20 with restatement of 2018/19 comparatives, the Group no longer reported Transformation P&L costs separately.

# Shareholder Information

## Financial calendar

| | |
|---|---|
| Q1 results* | 20 May 2021 |
| Annual General Meeting | 30 June 2021 |
| Half-year results* | 21 September 2021 |
| Q3 results* | 23 November 2021 |

* These dates are provisional and may be subject to change.

## Annual General Meeting (AGM)

We consider the AGM to be an important event in our calendar and a significant opportunity to engage with our shareholders.

Considering the continued unpredictability of UK Government guidance due to the Covid-19 pandemic, the 2021 AGM will be held in the first instance as an electronic meeting which will enable our shareholders to participate and attend in the safest manner possible, without leaving their homes. We expect attendance in person to be possible, but the Board and I strongly encourage shareholders to make full use of the enhanced electronic meeting facilities available.

Details of how to participate at the AGM are set out in the Notice of AGM and on our website.

## Company Secretary

Paul Moore

## Registered office

Kingfisher plc
3 Sheldon Square,
Paddington, London, W2 6PX

Telephone: +44 (0) 20 7372 8008
Fax: +44 (0) 20 7644 1001

Website: www.kingfisher.com

Registered in England and Wales
Registered Number 01664812

## Registrars

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ

Telephone: +44(0) 370 702 0129

Shareholders can also visit our online Investor Centre, www.investorcentre.co.uk.

## Dividends

The company pays all cash dividends through direct payment to shareholder bank accounts. Shareholders who have not yet notified our Registrar of their preferred bank account details should do so without delay. This does not affect those shareholders who have subscribed for the Dividend Reinvestment Plan.

The Board recognises the importance of dividends to shareholders and is pleased to recommend the payment of a total dividend of 8.25 pence per share in respect of the year ended 31 January 2021. The proposed dividend comprises an interim dividend of 2.75 pence per share in respect of the six months ended 31 July 2020 and a final dividend of 5.50 pence per share. The final dividend is subject to approval by shareholders at the AGM on 30 June 2021 and if approved, will be paid alongside the interim dividend on 5 July 2021.

The table below provides the payment information for the interim and final dividend, subject to shareholder approval at the 2021 AGM.

| | |
|---|---|
| Ex-dividend date | 3 June 2021 |
| Record date | 4 June 2021 |
| Final date for return of DRIP mandate forms/currency elections | 14 June 2021 |
| Euro exchange rate notification | 15 June 2021 |
| Payment date and DRIP purchase | 5 July 2021 |

## American Depositary Receipts (ADR)

The company has a Sponsored Level 1 ADR programme in the US, which trades on the OTCQX Platform. Each ADR represents two Kingfisher plc ordinary shares. The company's ADR programme is administered by Citibank, N.A., who were appointed by the company on 1 October 2015.

## ADR investor contact

Telephone: +1 877 248 4237
Email: citibank@shareholders-online.com

## ADR broker contact

Telephone: +1 212 723 5435 / +44 (0) 20 7500 2030
Email: citiadr@citi.com

## Share dealing facilities

Our Registrar offers a share dealing facility through which shareholders can buy or sell Kingfisher plc ordinary shares. To take advantage of this, you should log on to www.computershare.trade.

## ShareGift

If you would like to consider donating your shareholding to the charity ShareGift (Registered charity 1052686), further information may be obtained by calling 020 7930 3737 or from www.ShareGift.org.

## Shareholder security

Details of any share dealing facilities that the company endorses will be included in company mailings only. If you receive any unsolicited investment advice, whether over the telephone, through the post or by email, you should:

- Make sure you get the name of the person and organisation;
- Check that they are properly authorised by the FCA before getting involved by visiting https://register.fca.org.uk/s/; and
- Report the matter to the FCA either by calling 0800 111 6768 or by completing an online form at www.fca.org.uk/consumers/report-scam-unauthorised-firm.

More detailed information on this or similar activity can be found on the FCA website www.fca.org.uk/scamsmart.

## Share price information

The company's ordinary shares are listed on the London Stock Exchange. Share price history and the latest share price are available on the company's website.

## Electronic communications

Shareholders who have not yet elected to receive shareholder documentation in electronic form can sign up by visiting www.investorcentre.co.uk/ecomms and registering their details.

## Forward-looking statements

All statements in this Annual Report and Accounts, other than historical facts, may be forward-looking statements. Such statements are therefore subject to inherent risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed or implied, because they relate to future events.

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, among ther things, our results of operations, financial condition, changes in tax rates, 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, global and regional trade 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, acts of war or terrorism worldwide, work stoppages, slowdowns or strikes, public health crises, outbreaks of contagious disease or environmental disaster, and our success in managing these 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. Reliance should not be placed on any forward-looking statement. Nothing in this Annual Report and Accounts or on the Kingfisher website should be construed as a profit forecast or an invitation to deal in the securities of Kingfisher. For further information regarding risks to Kingfisher's business, consult the Risks section on pages 40 to 46.

The forward-looking statements contained herein speak only as of the date of this Annual Report and Accounts and the company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise, other than in accordance with its legal or regulatory obligations (including under the UK Listing Rules and the Disclosure and Transparency Rules of the Financial Conduct Authority).

# Glossary

## Alternative Performance Measures (APMs)

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures (APMs), also known as non-GAAP measures, of historical or future financial performance, position or cash flows other than those defined or specified under International Financial Reporting Standards (IFRS). These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including those used by other retailers. APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

| APM | Closest equivalent IFRS measure | Reconciling items to IFRS measure | Definition and purpose |
|---|---|---|---|
| Adjusted basic earnings per share (EPS) | Basic earnings per share | A reconciliation of adjusted basic earnings per share is included in the Financial Review (pages 33 to 39) and note 11 of the financial statements | Adjusted basic earnings per share represents profit after tax attributable to the owners of the parent, before the impact of exceptional adjusting items, FFVR (see below), related tax items and tax on prior year items, divided by the weighted average number of shares in issue during the period. The exclusion of exceptional adjusting items, FFVR, related tax items and tax on prior year items helps provide an indication of the Group's ongoing business performance. |
| Adjusted effective tax rate | Effective tax rate | A reconciliation to the overall tax rate is set out in the Financial Review (pages 33 to 39) | Adjusted effective tax rate is calculated as continuing income tax expense excluding tax on exceptional adjusting items and adjustments in respect of prior years and the impact of changes in tax rates on deferred tax, divided by continuing profit before taxation excluding exceptional adjusting items. The exclusion of items relating to prior years and those not in the ordinary course of business helps provide an indication of the Group's ongoing tax rate. |
| Adjusted pre-tax profit | Profit before taxation | A reconciliation of adjusted pre-tax profit is set out in the Financial Review (pages 33 to 39) and the consolidated income statement of the financial statements | Adjusted pre-tax profit is used to report the performance of the business at a Group level. This is stated before exceptional adjusting items and FFVR. The exclusion of exceptional adjusting items and FFVR helps provide an indication of the Group's ongoing business performance. |
| Adjusted pre-tax profit margin % | No direct equivalent | Refer to definition | Adjusted pre-tax profit is used to report the performance of the business at a Group level and is separately defined. Adjusted pre-tax profit margin % represents adjusted pre-tax profit as a percentage of sales. It is a measure of overall business profitability. |
| Adjusted post-tax profit | Profit after tax | A reconciliation of adjusted post-tax profit is set out in the Financial Review (pages 33 to 39) and note 11 of the financial statements | Adjusted post-tax profit is used to report the after tax performance of the business at a Group level. This is stated before exceptional adjusting items, FFVR and tax on those items. This also excludes tax adjustments in respect of prior years and the impact of changes in tax rates on deferred tax. The exclusion of exceptional adjusting items, FFVR and tax items relating to prior years and those not in the ordinary course of business helps provide an indication of the Group's ongoing after tax business performance. |
| Central costs | No direct equivalent | Not applicable | Central costs principally comprise the costs of the Group's head office before exceptional adjusting items. This helps provide an indication of the Group's ongoing head office costs. |
| Constant currency | No direct equivalent | Not applicable | Constant currency changes in total sales, LFL sales, gross profit, gross margin % and retail profit reflect the year on year movements after translating the prior year comparatives at the current year's average exchange rates. These are presented to eliminate the effects of exchange rate fluctuations on the reported results. |
| Dividend cover | No direct equivalent | Not applicable | Dividend cover represents the ratio of earnings to dividends. It is calculated as adjusted basic earnings per share divided by the total (full year) dividend per share. It is used as an indication of how sustainable dividend payments are. |
| EBITDA | Profit before taxation | A reconciliation of EBITDA is set out in the Financial Review (pages 33 to 39) | EBITDA (earnings before interest, tax, depreciation and amortisation) is calculated as retail profit less central costs and before depreciation and amortisation. This measure is widely used in calculating the ratio of net debt to EBITDA, and is used to reflect the Group's leverage. |
| Exceptional adjusting items | No direct equivalent | Not applicable | Exceptional adjusting items are certain types of income or cost that are excluded by virtue of their size and/or nature in order to reflect management's view of the ongoing performance of the Group. The principal exceptional adjusting items are: non-trading items included in operating profit such as profits and losses on the disposal, closure, exit or impairment of subsidiaries, joint ventures, associates and investments which do not form part of the Group's ongoing trading activities; profits and losses on the disposal of properties and significant write-downs of goodwill and significant write-downs (or impairment reversals) of other assets; the costs of significant restructuring; and incremental acquisition integration costs; and significant one-off tax settlements and provision charges/releases and the tax effects of other exceptional adjusting items. |
| FFVR | No direct equivalent | Included within net finance costs in note 6 of the financial statements | FFVR (financing fair value remeasurements) represent fair value fluctuations from financial instruments. |

## Glossary continued

| APM | Closest equivalent IFRS measure | Reconciling items to IFRS measure | Definition and purpose |
|---|---|---|---|
| Free cash flow | No direct equivalent | A reconciliation of free cash flow is set out in the Financial Review (pages 33 to 39) | Free cash flow represents the cash generated from operations (excluding exceptional adjusting items) less the amount spent on interest, tax and capital expenditure during the year (excluding business asset disposals). This provides a measure of how much cash the business generates that can be used for expansion, capital returns and other purposes. |
| Gross margin % | No direct equivalent | Refer to definition | Gross profit represents sales from the supply of home improvement products and services (excluding VAT), less the associated cost of those sales. Gross margin % represents gross profit as a percentage of sales. It is a measure of operating performance. |
| LFL | Sales | Refer to definition | LFL (like-for-like) sales growth represents the constant currency, year on year sales growth for stores that have been open for more than one year. Stores temporarily closed or otherwise impacted due to COVID are also included. It is a measure to reflect the Group's performance on a comparable basis. |
| 2-year LFL | Sales | Refer to definition | 2-year LFL is calculated by compounding current and prior year LFL growth. For example, current year LFL growth of 10% and prior year LFL growth of 5% results in 2-year LFL growth of 15.5%. It is a measure to reflect the Group's performance on a comparable basis. |
| Net debt | No direct equivalent | A reconciliation of this measure is provided in note 33 of the financial statements | Net debt comprises lease liabilities, borrowings and financing derivatives (excluding accrued interest), less cash and cash equivalents and short-term deposits, including such balances classified as held for sale. |
| Net cash flow | Net increase in cash and cash equivalents and bank overdrafts | A reconciliation of net cash flow is set out in note 33 of the financial statements | Net cash flow is a measure to reflect the total movement in the net debt balance during the year excluding the movement in lease liabilities, exchange differences and other non-cash movements. |
| Non-recurring net cost savings | No direct equivalent | Not applicable | Non-recurring net cost savings include discretionary cost savings such as advertising & marketing and government furlough programme support. This is net of one-off COVID-related costs, including supply & logistics costs, costs of PPE and social distancing, donations, new store layouts, additional store security, and additional bonuses to frontline store staff. |
| Retail profit | Profit before taxation | A reconciliation to profit before taxation is set out in the Financial Review (pages 33 to 39) and note 4 of the financial statements | Retail profit is stated before central costs, exceptional adjusting items and the Group's share of interest and tax of JVs and associates. This is the Group's operating profit measure used to report the performance of our retail businesses. |
| Retail profit margin % | No direct equivalent | Refer to definition | Retail profit is the Group's operating profit measure used to report the performance of our retail businesses and is separately defined. Retail profit margin % represents retail profit as a percentage of sales. It is a measure of operating performance. |
| ROCE | No direct equivalent | Refer to definition | ROCE is the post-tax retail profit less central costs, excluding exceptional adjusting items, divided by capital employed excluding historic goodwill, net cash and exceptional adjusting restructuring provision. The measure provides an indication of the ongoing returns from the capital invested in the business. Capital employed is calculated as a two point average. The calculation excludes disposed businesses. |
| Same-store net inventory | Inventory | Refer to definition | Same-store net inventory movement represents the constant currency, year on year change in net inventory before the impact of store openings and closures. Stores temporarily closed or otherwise impacted due to COVID are also included. It is a measure to reflect the Group's inventory management on a comparable basis. |

**Banque de France** data for DIY retail sales (non-seasonally adjusted). Includes relocated and extended stores. http://webstat.banque-france.fr/en/browse.do?node=5384326

**E-commerce sales** are total sales derived from online transactions, including click & collect. This includes sales transacted on any device, however not sales through a call centre. References to digital or e-commerce sales growth relates to growth at constant currency.

**France** consists of Castorama France and Brico Dépôt France.

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

**Iberia** consists of Brico Dépôt Spain and Brico Dépôt Portugal.

**Other International** consists of Poland, Iberia, Romania, NeedHelp, Russia, Screwfix Germany and Turkey (Koçtaş JV). Screwfix Germany was wound down in H1 19/20 and the sale of Russia was completed in H2 20/21 (on 30 September 2020).

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

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

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

MIX
Paper from responsible sources
FSC® C001785

Printed by Park Communications on FSC® certified paper.

Park works to the EMAS standard and its Environmental Management System is certified to ISO 14001.

This publication has been manufactured using 100% offshore wind electricity sourced from UK wind.

100% of the inks used are vegetable oil based, 95% of press chemicals are recycled for further use and, on average 99% of any waste associated with this production will be recycled and the remaining 1% used to generate energy.

This document is printed on Edixion Offset, a paper made of material from well-managed, FSC®-certified forests and other controlled sources.

Artworking and production by Black Sun plc

blacksunplc.com

# Our own exclusive product brands

At Kingfisher, we help make better homes accessible for everyone. Innovation is key to make this purpose a reality. We leverage our expertise to build a useful, affordable and sustainable own exclusive brand (OEB) offer that simplifies our customers' lives and their home improvement projects. Our OEBs are developed or selected by Kingfisher exclusively for the Kingfisher network of banners and franchises. They are grouped in three distinct portfolios tailored to each of our formats – Professionals, Home Improvers and Discounters – and create a point of differentiation versus our competition.

GoodHome

### Always simplifying

Great quality, functional designs at affordable prices across all home improvement projects including kitchens, bathrooms, flooring and tiling and decorative ranges such as paint.


Erbauer

### Get it done

Professional power tools that work reassuringly hard to get it done.


MAGNUSSON

### Tough, Durable, Reliable

Great jobs start with quality hand tools.

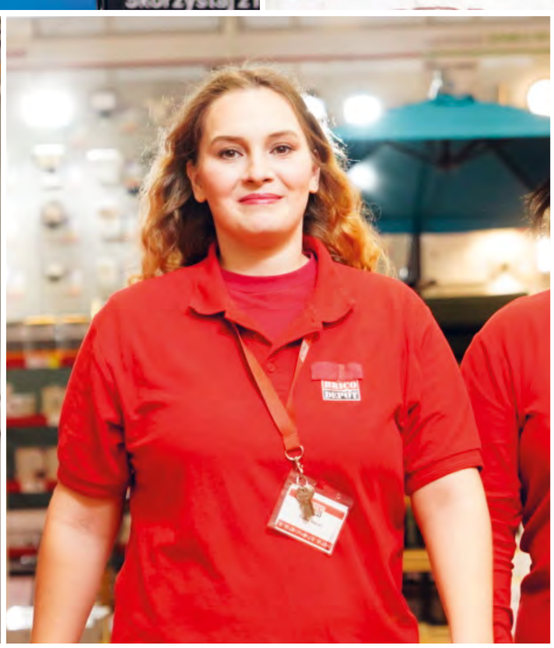
verve

### Bring your garden to life

Horticulture, watering and garden wear.

Kingfisher





**Kingfisher plc**

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B&Q castorama BRICO DEPÔT SCREWFIX TRADE POINT koctas