Notes to the consolidated financial statements continued

22 Trade and other payables

£ millions	2022/23	2021/22
Current		
Trade payables	**1,291**	1,352
Other taxation and social security	**238**	246
Deferred income	**179**	178
Contract to purchase own shares for cancellation	**7**	69
Liability to purchase own shares for ESOP trust	**–**	9
Merchandise returns provision	**21**	20
Payroll creditors and accruals	**199**	253
Accruals and other payables	**548**	547
	2,483	2,674
Non-current		
Accruals and other payables	**4**	10
Trade and other payables	**2,487**	2,684

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

Included in trade payables are amounts at 31 January 2023 of £146m (2021/22: £193m) 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 2023 is £15m (2021/22: £14m). These arrangements do not provide the Group with a significant benefit of additional financing and accordingly are classified as trade payables.

The contract to purchase own shares relates to a liability arising under an irrevocable buyback agreement which was in place at the balance sheet date (see note 29).

Accruals and other payables include items related to goods not for resale, property, capital expenditure, insurance and interest.

23 Borrowings

£ millions	2022/23	2021/22
Current		
Bank overdrafts	**16**	14
	16	14
Non-current		
Bank loans	**3**	2
Fixed term debt	**99**	–
	102	2
Borrowings	**118**	16

Bank loans

Non-current bank loans have an average maturity of two years (2021/22: two years) and are arranged at fixed rates of interest with an effective interest rate of 1.8% (2021/22: 1.0%).

Fixed term debt

	Principal outstanding	Maturity date	Coupon	Effective interest rate	2022/23 Carrying amount £m	2021/22 Carrying amount £m
GBP Term Loan	£50m	23/12/24[1]	SONIA + 0.70%	4.1%	**50**	–
GBP Term Loan	£50m	17/01/25[1]	SONIA + 0.75%	4.2%	**49**	–
					99	–

1. During the year the Group entered into two new £50m bilateral term loans with a maturity tenor of two years. Both loans were fully drawn at 31 January 2023.

As at 31 January 2023, the Group had an undrawn revolving credit facility (RCF) of £550m due to expire in May 2025.

The terms of the committed RCF and term loans require that the ratio of Group operating profit (excluding 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. At 31 January 2023, Kingfisher was in compliance with this requirement.

Fair values

£ millions	Fair value 2022/23	Fair value 2021/22
Bank overdrafts	**16**	14
Bank loans	**3**	3
Fixed term debt	**102**	–
Borrowings	**121**	17

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	2022/23	2021/22
Current assets	**16**	37
Non-current assets	**–**	1
Current liabilities	**(47)**	(12)
Non-current liabilities	**(5)**	(1)
	(36)	25

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

£ millions	2022/23	2021/22
Cash flow hedges	**(36)**	28
Non-designated hedges	**–**	(3)
	(36)	25

The Group holds the following derivative financial instruments at fair value:

£ millions	2022/23	2021/22
Foreign exchange contracts	**16**	38
Derivative assets	**16**	38
Foreign exchange contracts	**(52)**	(13)
Derivative liabilities	**(52)**	(13)
	(36)	25

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.

Notes to the consolidated financial statements continued

24 Derivatives continued

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 2023, net financing derivative assets included in net debt amount to £2m (2021/22: £3m liability).

Cash flow hedges

Forward foreign exchange contracts hedge currency exposures of forecast inventory purchases. At 31 January 2023 the Sterling equivalent amount of such contracts is £1,276m (2021/22: £1,236m). These are located in the derivative asset and derivative liability lines in the consolidated balance sheet with carrying amounts of £16m asset and £52m 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 gain of £58m (2021/22: £59m gain). Gains of £117m (2021/22: £16m loss) have been transferred to inventories for contracts which matured during the year. During the year, gains of £5m (2021/22: £nil) have been transferred to the income statement due to ineffectiveness arising from differences in timing and amount of forecast transactions relating to foreign currency inventory purchases. The weighted average hedged rates for derivatives outstanding at 31 January 2023 for our material currencies are EUR/USD 1.07 and GBP/USD 1.22.

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 performs a qualitative and, where necessary, a quantitative assessment of effectiveness.

For foreign currency inventory purchases, ineffectiveness may arise if the timing or amount 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. Foreign currency basis spread of the derivative has been excluded from the hedge designation. The non-designated element is immediately recognised in the income statement. The amount is immaterial in both years.

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 2023, the Sterling equivalent amount of such contracts is £481m (2021/22: £852m). 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 2023					
Derivative assets	**16**	**–**	**16**	**(16)**	**–**
Derivative liabilities	**(52)**	**–**	**(52)**	**16**	**(36)**
At 31 January 2022					
Derivative assets	38	–	38	(13)	25
Derivative liabilities	(13)	–	(13)	13	–

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 £197m (2021/22: £166m). The amount recognised in the translation reserve is a loss of £3m (2021/22: £1m loss). There is no ineffectiveness for 2022/23. The cumulative total amount recognised in the translation reserve in relation to net investment hedges is a loss of £112m (2021/22: £109m).

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, the Republic of Ireland, Poland and Romania.

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, most of the affected lease liabilities have been designated as net investment hedges of Group assets held in the same currency.

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:

									2022/23
	Sterling		Euro		US Dollar		Other		
£ millions	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Total
At 31 January 2023									
Net cash/(debt) before financing derivatives and lease liabilities	–	9	(2)	105	–	28	–	28	168
Financing derivatives	–	(425)	–	39	–	326	–	62	2
Lease liabilities	(1,821)	–	(582)	–	–	–	(41)	–	(2,444)
Net (debt)/cash	(1,821)	(416)	(584)	144	–	354	(41)	90	(2,274)

									2021/22
	Sterling		Euro		US Dollar		Other		
£ millions	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Total
At 31 January 2022									
Net cash/(debt) before financing derivatives and lease liabilities	–	142	(2)	179	–	429	–	59	807
Financing derivatives	–	(539)	–	372	–	136	–	28	(3)
Lease liabilities	(1,792)	–	(548)	–	–	–	(36)	–	(2,376)
Net (debt)/cash	(1,792)	(397)	(550)	551	–	565	(36)	87	(1,572)

Notes to the consolidated financial statements continued

25 Financial risk management continued

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.

	2022/23	2021/22
£ millions	**Net finance costs income/(costs)**	Net finance costs income/(costs)
Effect of 1% rise in interest rates on net finance costs		
Sterling	**(4)**	(4)
Euro	**1**	6
US Dollar	**4**	6
Other	**1**	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.

	2022/23	2021/22
£ millions	**Derivative cash flow hedges increase**	Derivative cash flow hedges increase
Effect of 10% appreciation in foreign exchange rates on derivative cash flow hedges		
US Dollar against Sterling	**50**	59
US Dollar against Euro	**36**	36
US Dollar against other	**20**	16

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 2023 and 31 January 2022 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.