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Howden Joinery Group Plc

Annual Report and Accounts 2012



The business review

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HOWDEN JOINERY

A young and successful business – with prospects

1995	First 14 depots – 28 staff
1995 – 2013	529 depots open – 4,500 depot staff
2011 – 2013	£30m invested in manufacturing in North of England Making 3.5m kitchen cabinets per year
2013	529 depots 2 factories 1 distribution centre 270,000 trade account holders Over 2,800 UK suppliers of goods and services 11,500 pension members 56,000 hours of in-house training 180 apprentices and 50 more being recruited 2,100 local charities supported by our staff Working in partnership with Leonard Cheshire Disability
Prospects	700 depots – up to 1,500 new jobs More investment in UK manufacturing

Keeping tradesmen competitive

Investing in UK manufacture and design

Howdens is an

...that has been growing since the day it started in October 1995

To supply from local stock nationwide the small builder's ever-changing, routine...

02

We understand the importance of a working kitchen

The kitchen is and always has been the focal point of the home, which is why everything in it must work. In the kitchen, we do much more than prepare, cook and store food. We spend much of our lives in the kitchen, and we expect more and more from the cabinets, surfaces, fittings and appliances that go into it.

Read more in Chief Executive's statement, on pages 10 to 16

That's why we focus on selling kitchens to professionals

The increasing complexity of the kitchen means that it must be installed by a professional fitter, which is why we only sell to trade customers. The local builder who installs the kitchen serves all parts of the market, including owner-occupiers and landlords in both private and public sectors.

Read more in Our market, on pages 4 to 5

Howdens is an entrepreneurial business with 529 local depots

Howdens is a local business. Since 1995 we have built a network of 529 depots located around the country. Each depot is run by a manager who is responsible for his or her profit and loss account. Managers and their teams are incentivised on a share of local profit and are highly motivated to open local accounts and help drive the growth of the business.

Read more in Our model, on pages 6 to 7

original idea...

*...integrated kitchen and joinery requirements,
assuring no-call-back quality and best local price.*

03

Our business model is highly differentiated

The entire Howdens model has been built from scratch to support our mission. We control our own manufacturing, and our supply chain is focused on supplying one customer, the local builder, with product that is in stock locally every day, all year round, in low-cost trade depots. We are extremely demanding in respect of both quality and cost: our objective is to offer the best, with no waste.

Read more in Chief Executive's statement, on pages 10 to 16, and CSR report, on pages 25 to 30.

We significantly outperformed the market in 2012

Last year we significantly improved profitability, increasing sales by 4% to £887.1m and improving gross profit margin by 1.8 percentage points to 61.5%. Profit before tax was £112.1m. Year-end cash was £96.4m, and we are recommending a final dividend of 2.7p, bringing the total for the year to 3.0p.

Read more in Chairman's statement, on pages 8 to 9, and Operating and Financial Review, on pages 17 to 24.

We have many more opportunities for growth

We have already identified many opportunities for further sales and profit growth within our existing depot network, as well as more ways to increase manufacturing efficiency. We also plan to open more new depots to serve the builder's local needs, to introduce more new product and to continue to focus on performance improvement in every area of the business.

Read more in Chief Executive's statement, on pages 10 to 16.

Our market

Understanding the builder's world

The builder

The builder is an entrepreneur running a business. Its nature will vary according to where and how it was established. It could be a family business that goes back several generations, or it could be a newly formed partnership. It might have two employees, or it might have twenty. It might be based in a big city, or at the end of a country lane. Every job must look good, be sturdy, and be delivered on time, complete and at a satisfactory price. Only when all of these conditions are fulfilled will the builder get paid.

demanding, ever-changing,

04

Raw materials

Rapidly evolving technologies and increasing environmental awareness are leading to the introduction of new materials and finishes for cabinets, worktops, flooring and appliances. As our tolerance of unreliability decreases, we are seeing more emphasis on high performance, durable good looks, cost-competitiveness and sustainability.

Lifestyle and design trends

We live in an increasingly design-conscious world in which new trends are discussed and shared via the internet and social media as well as face-to-face. Kitchens are becoming more complex as kitchen users expect a well-designed, integrated kitchen at all price points, accessible to users of all ages and different abilities. Most importantly, we are seeing the merging of cooking, eating and living space, reflecting the growing focus on the kitchen as the centre of the home.

His customers

The local builder is mainly concerned with repair, maintenance and improvement in his local area. A total house refurbishment or a contract to replace the kitchens in a block of flats can alternate with requests to build a wall or install a new sink. There is a marked trend in kitchen installation away from DIY and towards DFY (Done For You), so the skilled kitchen fitter is in demand across the whole of the marketplace. The customer to whom the builder sells a Howdens kitchen can be an owner-occupier, a private landlord, a local authority, a housing association or a small developer.

Even small kitchens are becoming more time-consuming to plan as customers become increasingly conscious of the need to maximise use of space as well as to make best use of their budget.

His working day

The builder is constantly juggling different jobs for different customers with a number of other variables, some of which are unpredictable even a week in advance. Local emergencies, heavy rain and customers who change their plans at the last minute all mean that the builder is managing chaos every day. He has no time to waste dealing with call centres or stuck in traffic jams, so the combination of reliable, personal advice and the availability of local stock of everything is all-important to his business.

complex, interconnected

05

The economic picture

Fragile consumer confidence and the difficulty of obtaining credit have reinforced the need for the builder to control costs and cash flow and to manage his business effectively. In recent years the builder has seen many changes in the market, including decreasing public sector spending, rising house prices, first-time buyers struggling to secure mortgages and little or no increase in the rate of new housebuilding, at least outside London. All of this means it is more and more important for the builder to be flexible, responsive and competitive.

Increasing regulation

Regulation and legislation govern every aspect of kitchen construction, installation and use, from raw materials to electrical and gas appliances, from child safety to energy consumption and waste disposal. The builder must keep abreast of the latest requirements, or face penalties, and is therefore heavily reliant on his kitchen and joinery supplier to do the same.

Our model

Making the builder more competitive

In stock

Howdens' complete range of kitchens and associated joinery and hardware is available all the time in every depot. This is only possible because we have built a dedicated and efficient supply chain and logistics operation focused on one customer, the builder. And because everything is in stock, the builder can complete his job and get paid by his customer, which means he can then pay Howdens.

Local

Local means on the doorstep, not half an hour's drive away. The closer he is to the depot, the easier it is for the builder to collect what he needs, arrange a visit for his own customer, or drop in for some friendly advice. That's why Howdens have already opened 529 depots across the country and why we believe there is scope for at least 700.

proven, flexible,

06

Range

Howdens offers a range of 40 kitchens, plus joinery, appliances and flooring at all price points that reflect the ever-changing needs and tastes of a wide range of customers. Howdens' combination of design, quality, availability and price supports the builder's sale.

Quality

We design and specify all our products and control our own manufacturing and sourcing, which means our product is of consistently high quality, ensuring fast, easy installation. Cabinets are rigid, not flatpack, which saves the builder valuable time on site. Howdens "no-call-back" quality standards mean the builder can minimise waste and maximise his margin.

Best local price

Howdens is able to offer best local price to the builder because our business is designed to be low-cost. High volumes, long runs, efficient sourcing and manufacturing, optimised logistics, scalable systems and straightforward trade depots means Howdens' costs will always be lower than those of a retailer.

Trade only

Howdens sell only to trade professionals, and our 10,000 square-foot trade depots are suited to their needs. No retail customers means no conflicts of interest in respect of product, pricing or service.

Credit terms

We run local, not national, accounts, limiting our exposure to any one customer. When a builder opens a credit account with his local Howdens' depot, we offer nett monthly terms, which allows the builder to get paid for a job by his customer before he has to pay us. We provide the cash flow that is critical to his business.

Confidential discount

Our trade account customers benefit from a confidential discount on list price, specific to them, which enables them to manage their margin on each job. Discounts are set locally by managers who know their customers and are motivated to serve their needs.

scalable and worthwhile

07

Advice

Howdens' depots are staffed by knowledgeable, professional staff who can nurture long-term relationships with local builders. They have access to comprehensive product information for every item we sell, but the real value of their expertise is in on-the-spot problem-solving in discussion with their customers.

Planning

Every successful kitchen begins with a good plan. We have invested in industry-leading CAD software and a team of over 1,000 kitchen designers trained to make best use of it. Builders and their customers benefit from our free planning service, which includes detailed visualisations of the kitchen and the ability to make modifications to the plan.

Chairman's statement

RESULTS

I am pleased to report that in 2012 Howden Joinery Group continued to grow and develop in a challenging economic environment. We have consistently outperformed the market through staying true to our successful model and the principles which underpin Howdens' business.

Strong price discipline, underpinned by successful product introductions and further efficiency improvements in our supply chain, led to an increase in gross margin to 61.5% (2011: 59.7%).

Our 2012 performance also reflects the strength of purpose of our management team and the commitment of our staff to providing a service of value to all who depend on Howdens. I would like to take this opportunity to thank them all for their hard work throughout the year.

DIVIDEND

The Board intends to target a capital structure that is both prudent and recognises the benefits of financial leverage and, after considering all other uses of capital, to return surplus capital to shareholders, by way of either ordinary dividends or alternative returns of capital.

The Group has a substantial number of property leases for the depot network, together with a material deficit in the Group pension fund and a small number of legacy

property liabilities related to the Group's former ownership of MFI. Taking into account this underlying financial gearing, the Board believes it is appropriate for the Group to be able to operate throughout the working capital cycle without incurring bank debt. Therefore, the Board has concluded that the Group now has the balance sheet strength to allow it to move towards a more normalised dividend policy.

The Board intends to move over the medium-term to a dividend cover of between 2.5x and 3.5x, with one-third of the previous year's dividend being paid as an interim dividend each year. The Board will monitor the Group's cash balances in light of future investment opportunities, anticipated peak working capital requirements and the trading outlook.

The Board is proposing a final dividend in respect of 2012 of 2.7p per share, giving a total dividend for the year of 3.0p per share (2011: 0.5p).

BOARD

During the year I have taken measures to review the effectiveness of the Board and to ensure continued achievement of the highest corporate standards.

We are now conducting a search for a new non-executive director to succeed Angus Cockburn, who has decided to step down from

the Board having served nearly seven years as a non-executive director. Angus, who chairs the Audit Committee, will remain on the Board for the time being to ensure an orderly handover to his successor. In appointing a new director, we will seek to ensure continuing strong governance of our audit function and to maintain a robust, diverse and representative Board.

MANAGEMENT AND ORGANISATIONAL DEVELOPMENT

In a rapidly evolving market, we plan to assure the long-term wellbeing of your Company through the continuing development of a competent and effective senior management team. We are currently reviewing the roles of the Executive Committee in order to understand where there may be opportunities to improve the organisation. In parallel with this work we are taking steps to ensure that all our senior managers have the appropriate mix of skills and abilities to lead the business forward.

SOCIAL CONTRIBUTION

The programme of growth and depot opening that we have pursued since Howdens started trading in 1995 has led to the creation of over 6,300 jobs, around two-thirds of which are in local depots. We support the creation of local employment opportunities and the development of the technical and commercial skills required in the joinery trade.

Howdens currently employs 180 modern apprentices, and a further 50 apprentices are being recruited. We are also proud to support the Howden Joinery Bursary, the first scheme of its kind in any industry, which funds first year wages for apprentice joiners in companies who would otherwise be unable to meet these costs themselves. To date, the Bursary has created opportunities for 40 young people across the country. We plan to pursue this and other successful initiatives, including our support programme for NVQ and diploma courses that are helping to train the next generation of joiners.

Howdens' commercial success is founded on good relationships between individuals who treat each other with fairness, openness and respect. This approach is reflected in the active involvement of our staff members in numerous different causes in their local area. Last year their initiative and commitment raised approximately £817,000 for the benefit of over 2,000 community activities.

The Group's longstanding partnership with Leonard Cheshire Disability continues to thrive. Howdens helps to fund LCD's recruitment and training programme which offers social support and mentoring to disabled young people, and donates kitchens to a number of Leonard Cheshire homes across the country.

OUTLOOK

Howdens is a young business that has already laid strong foundations for further growth. It has also demonstrated that it can succeed even against an economic backdrop that continues to be both challenging and uncertain. We intend to continue to invest in the service, products and people that will enable us to deliver long-term value to our customers and shareholders.

Will Samuel
Chairman

27 February 2013

Chief Executive's statement

Over the last five years we have transformed Howdens and its prospects. We have invested in depots, products, design, manufacturing, systems, service and people.

We have all but eliminated MFI's property legacy, and we have greatly improved profitability, adding over eight percentage points to gross margin in a recessionary environment.

In 2012, Howdens continued to outperform the market, and this year's trading has started well.

We have grown the business by developing new product and delivering better quality and availability with less stock, which in turn has allowed our managers to focus on cash, profit, costs and margin.

We continued to generate more cash, which means that as well as making legacy payments, we can continue to invest in the future growth and development of Howdens.

Why Howdens continues to grow market share

The first reason why our business works well is that it is focused on the small builder, because we have always been clear that the only way to get a kitchen installed and working is to have it fitted by a professional. This is even more true now than it was in 1995 when we started the business.

Today's kitchen involves many variables. It takes a qualified fitter to manage the combination of layout and design, accurate measurement, sophisticated surfaces and smooth finishing, not to mention the installation of integrated appliances, plumbing, lighting and waste disposal, so that everything looks good, works perfectly and conforms to all the relevant legislation.

All of this must be done well, in a way that makes best use of the end-customer's budget, and as quickly as possible, because the idea of being without a kitchen in one's home for a day longer than necessary is too awful to contemplate.

At any one time the builder is juggling several jobs for different customers who can change their plans at any moment, for any reason – and of course the weather can change too, which affects the kind of work he can do on a given day.

So the builder's life is complex and ever-changing, and the end-markets that he deals with are less fruitful than they were only a few years ago. Buy-to-let and new build properties are less plentiful. Landlords are refurbishing less often, both in the private and public sectors. House prices in many areas have stagnated or declined, and people are moving house less often. It seems to be harder to obtain a mortgage, especially for first-time buyers.

At the same time, we all know that our budgets are more restricted, and so is the space into which everything has to fit

We should remind ourselves of what really happens in the kitchen. It is not only a place to cook and eat. Today's kitchen is also a family room, an office, a schoolroom, a bank, a home cinema, a repair shop, a doctor's surgery, a vet's clinic, a travel agent, a rehearsal room and more besides. In this vitally important room, there are bad days and good days, ordinary days and special days. It's not just about burning the toast. It's where people deal with the big events in life: birth, marriage, divorce, bankruptcy and death – not necessarily in that order, of course.

People need more functionality from their kitchens, and the internet helps them to make price comparisons, but they still don't have any more time in which to make decisions. Also, we have all grown less tolerant of poor service.

The Howdens' model is designed to solve these problems.

It is based on an understanding of what is needed in the home and how the builder works. And the reason it is consistently successful is because Howdens makes the builder more competitive than any other offer in the marketplace.

The builder is in business to make money and build a reputation, and he can only do that if every job is complete and satisfactory, and he can finish it on time and on budget.

So the builder must be able to rely on having truly local stock – preferably next door – of everything he needs, from cabinets and ovens to screws and glue.

What the builder buys must be of good quality. He can't afford to waste time returning things. It must also be capable of being fitted quickly and accurately. That's why our cabinets are rigid, which saves days of assembly time.

Howdens also offers the builder a trade discount, on a confidential basis, allowing him to determine his margin for each job, and we give good credit terms – up to 60 days with a nett monthly account.

On top of this, we help the builder to sell to his customer.

The Howdens' range of kitchens and joinery makes good design and quality accessible at all price points. A successful kitchen begins with a good plan. Howdens has invested in up-to-the-minute professional planning software and in our team of over 1,000 experienced planners who are there to sit down with the builder and the builder's customer to make sure everyone gets the best possible result.

Chief Executive's statement continued

Everything we sell is easily viewed by both builder and end-user, in print and online. We invest in intelligent marketing and in building the Howdens' brand on the backbone of reliability and service.

Above all, we offer the builder continuity in a changing world. When we open a depot, it stays open. When we make a sale, it is face-to-face. When we make a promise, we keep it.

Today, 270,000 small builders all over the country hold credit accounts with Howdens, and the service we provide is the cornerstone of their business. For them, Howdens is not simply a supplier. We provide essential business support in a challenging marketplace.

I would like to underline the fact that none of this happened by accident. When we first developed the Howdens' model, we identified what made a depot work well and replicated it.

The list begins with a 10,000 square foot depot, with a trade counter, not a showroom, and a warehouse to hold everything in stock. We can fit out a depot for about £170,000. Our depots have always been in the same sort of places – ones that are easy for the builder, on trading estates, with plenty of parking. The rent on such locations is reasonable. We are still opening depots today with rent at around £5 per square foot, and our average depot rent across the whole portfolio is less than £5.50 per square foot.

In each depot we put an entrepreneurial, manager-driven sales team, capable of opening local accounts, building local relationships, allowed to do their own marketing, responsible for their own profit and loss account and incentivised on local profit.

Then, we invested in making the model work at scale. So we built a stable, focused supply chain with our own dedicated factories delivering well-designed product, and a robust, flexible infrastructure which allows us to control quality, quantity, availability and cost.

We also invested in credit management. We close inactive accounts after 15 months, so we are focused on active customers. Last year we added over 20,000 net new accounts. The total cost of credit control, including bad debts, has actually decreased to 1.2% of sales.

In the longest period of continuing economic uncertainty that many of us can remember, we must draw the conclusion that not only are our credit controllers efficient, but that our customers want the Howdens offer – and they will pay promptly for it.

Above all, we invest in service to builders, and it underpins margin. In fact it is impossible to sustain margin – and certainly not at the levels we achieve – without consistently offering good, reliable service.

Two key elements of this service are more local depots and a continuous flow of attractive new product

Last year we opened 20 new depots, bringing the total number of depots at the end of 2012 to 529. The value of being a local business has only increased as demands grow on the builder's time and the roads become busier every year. So we are confident there is scope for at least 700 depots, and we plan to increase the pace of our opening programme. Meanwhile our depot pilot in France continues, and it breaks even at depot level.

Back in the UK, our new depots are performing well. We now have plenty of evidence to show that when we open "infill" depots – new depots in towns and cities where we are already established – we achieve a substantial increase in sales, profits and accounts in that locality. Even if the original depot loses some sales and profit, it gains more time in which to offer better service to its local account holders and thereby to improve sales per head.

We can look at the example of what has happened in Watford, which is a representative example of an area where we opened a new "infill" depot. Watford is one of our original 1995 depots, and so is very well established. In 2011, we opened another depot in North Watford, just over four miles away, and the outcome was that in 2012, after only one full year of having two depots in place, we increased sales

from the Watford area by 44%, and improved the trading profit attributable to these two depots by 26%. Together, Watford and North Watford now have just over 1,000 credit accounts, and they both now have more time to trade. We see this as an investment in service, and it looks like a good investment for the future.

We are learning more all the time from analysing individual depot performance. Our continuing focus on what we call best demonstrated practice allows each manager to see how his or her depot measures up against the best in the business, and helps managers to focus on the many opportunities for growth that exist within their own profit and loss account.

All depots are hungry for product, and new product is critical to Howdens' growth. Last year, around 15% of sales were from new product introduced in 2011 and 2012. The fact that we have more product in the business with less stock is a very important point. It results from the combination of successful product design and development, constant sales monitoring, increased manager focus on profit, active product discontinuation, and faster decision-making in which depots are directly involved, plus an adaptable supply chain that can deliver quality and volume with shorter lead times, meaning guaranteed availability, better planning and more predictable results.

Chief Executive's statement continued

Howdens' ability to manage this complexity is a source of significant competitive advantage

Successful new product ranges build sales quickly, so as new trends emerge, the ability to move fast becomes increasingly important. We saw a good example of this recently with our latest Greenwich Gloss kitchen. Gloss is in high demand, and new technology means that it is now possible to source it in large volumes at reasonable cost. By introducing a gloss version of our popular Greenwich kitchen at a competitive price in Period 11 (our peak autumn trading period) we were able to strengthen our entry-level offer, grow market share and sustain margin growth.

At a different price point, but still reflecting the trend to gloss and the pace of sales growth, the Integrated Handle kitchen in Gloss White was our fastest growing range in 2012. After only 18 months in the market it is already our Number 5 seller.

Another new trend we have observed is the continuing shift to solid colours. Over 70% of our kitchen sales now come from white, cream and grey. Grey in particular has taken off, with sales rising from 3% of the total in 2011 to 9% in 2012. We can meet this growing demand because of the capabilities I have described.

Last year we also took the opportunity to fill out our range of joinery doors with a wider range of sizes so that we can supply the builder's routine needs in all

of our best-selling styles. In the first quarter of this year we will be introducing more joinery doors, especially at entry level.

We are harnessing our scale and our access to new materials and technologies in all product categories to make the builder even more competitive. Last year we launched 20 new worktops, of which 14 were square-edged, and they are performing well. Square-edged models already represent nearly 20% of all worktop sales, and more options will be introduced shortly.

Our Lamona appliances are growing market share. Last year, we sold one million units of Lamona products across all categories including taps and sinks. No less than four of our integrated Lamona appliances – a single oven, a dishwasher, a fridge-freezer and a built-under fridge – are now the No 1 sellers in their category in the UK.

How we see the road ahead

I have only mentioned a few of our new product introductions. We continue to develop all aspects of our offer, including flooring, joinery, hardware, sinks, taps and accessories. The objective, as ever, is to continue to improve our service to the builder.

At the end of last year, we signed an agreement to secure our supply of moulded-skin joinery doors for the next five years. This agreement greatly enhances security of supply. It brings us continuous access at predictable prices to a key part of our product offering.

Doors account for around 10% of sales volume, but their real value lies in the fact that they are a judgement point for price, quality and availability, and the builder will quickly “read across” from the basic six-panel door and make up his mind about the entire Howdens’ proposition

Given the scale of our operations, security of supply is very important, and not only with doors. We have also signed a five-year agreement to guarantee a consistent supply of chipboard of the right quality for our needs, and to underpin availability of our products at all times

As I said earlier, a flexible and responsive supply chain is fundamental to our ability to deliver new product. We have, as previously reported, invested over £20m in new manufacturing facilities at Howden and Runcorn. These facilities will be fully operational by the end of the first half, so the full benefit of our investment is yet to come

The installation and commissioning of the new equipment is going well. The largest element of the programme is two new cabinet production lines, one at each factory. The ability to control our own manufacturing and to retain control as the business grows is at the heart of our promise to the builder, which is of continuing guaranteed availability, quality and price

Having control means having flexibility. This is an important point for Howdens, especially since in our peak autumn trading period our sales accelerate to reach twice the level

that we see in other periods of the year. Flexibility is designed into our manufacturing activity. We have lots of short assembly lines, rather than one long one, and we have flexible working arrangements which mean that we can start and stop individual lines according to demand without incurring extra costs, unnecessary risk and uncertainty for our staff

Over the last nine months, by improving our manufacturing operations, streamlining our logistics and working closely with our suppliers, we have significantly increased speed to market of new ranges and appliances

This year, we are introducing new procedures in our factories which will allow us to monitor stock availability even more rigorously. That in turn means that we can offer an even better service to all our depots

As we have often emphasised, this service must be underpinned by systems that work. On our busiest day of trading in the whole of last year our systems handled £20m of sales, and that is well within our capacity. There is no limit on the number of depots we can support via our sales and stock management system, and no constraints on our capacity to handle warehousing, logistics, point of sale and management information for a growing business that serves a complex and sophisticated market

So, to summarise what I have said, Howdens continues to focus on growth through opening more depots, launching new products,

Chief Executive's statement continued

improving productivity and increasing efficiency – all of which supports margin

The "Rough Diamond" project on which we embarked in 2006 to create value out of the ruins of MFI has been successful. It has delivered sales, profit, cash, jobs and growth opportunities for staff, customers, investors and communities. It is tempting to speculate how much more value it might have added to all of these parties had it not been for the recession, which slowed the pace of expansion but not the extent of our ambitions.

In 2013, it is time to hone and polish the diamond. So we intend to continue on our road to growth. It is not unreasonable to assume that, given the successful extension of the Howden concept, and the fact that "Rough Diamond" allowed the business to become robust and flexible enough to weather severe economic storms, that we can look forward to the following trajectory:

- More depot openings: between 20 and 30 this year, including "infill" where we already have successful depots
- More new product: we have over 60 new introductions planned across all product categories in the first half alone

- More performance improvement: we continue to focus on best demonstrated practice and the significant organic growth that it delivers

The economic outlook remains far from clear but, as we have already shown, Howdens is able to adapt quickly to changing circumstances.

We have a clear strategy and a proven, cash-generative model that drives a business of worth and value for all concerned. We intend to maintain both the focus and the principles that have served us so well as we continue to build the future of Howdens.

Matthew Ingle
Chief Executive

27 February 2013

Review of operations and finance

FINANCIAL RESULTS FOR 2012

The financial performance of the Group during 2012 benefited from the Group's competitive position and actions taken to improve performance. Although there was a modest decline in the volume of kitchen cabinets sold, the impact of this was offset by an improved gross profit margin and changes in the mix of kitchen ranges sold.

Total Group revenue increased by £33.3m to £887.1m

	2012	2011
Revenue	£m	£m
Group	887.1	853.8
comprising		
Howden Joinery UK depots	872.5	838.7
Howden Joinery French depots	14.6	15.1

Howden Joinery UK depot revenue rose by 4.0% to £872.5m, increasing 1.9% on a same depot basis.

In demanding market conditions, this growth was achieved through a number of factors and is a testament to the strength of the business model. The slowing of the growth rate in the second half of the year, from 6.8% in the first half to around 3%, reflected the benefit of the earlier timing of the price rise in 2012 falling away on the anniversary of the June 2011 price increase. It also reflected continuing focus on price discipline and margin (see below). We have continued to see an increase in the number of customer accounts.

Sales by our French depots of £14.6m were up over 5% on a same depot basis in constant currency terms.

Gross profit rose by £36.0m to £545.3m. As a result, the gross profit margin for the year increased to 61.5% (2011: 59.7%). This reflected the continuing focus on price discipline and margin achievement across all depots, particularly in the

second half of the year, supported by our focused supply chain, and an exchange rate gain on the cost of goods purchased from overseas of £5m.

Selling and distribution costs, and administrative and other operating expenses increased by £31.5m to £425.5m. The increase reflects the costs of new depots, investment in growth, increased marketing expenditure, and the impact of inflation, particularly on payroll costs. Also reflected in the increase are the impacts of around £5m of costs arising from the inclusion of a 53rd week in 2012 and certain one-off credits of around £5m in 2011.

Operating profit from continuing operations increased by £4.5m to £119.8m.

The net interest charge rose by £3.4m to £7.7m, due to an increased finance expense in respect of pensions. The net result was profit before tax from continuing operations rose by

£1.1m to £112.1m. For 2013, the finance expense in respect of pensions will decrease by £4m, albeit that this is expected to reverse in 2014, when a revision to IAS 19 is implemented.

As previously announced, there was a loss attributable to discontinued operations before tax of £4.4m in respect of the closure of two non-core support businesses.

The tax charge on profit before tax from continuing operations was £24.1m, an effective rate of tax of 21.5%. There was a tax credit of £0.6m in respect of the loss from discontinued operations.

Review of operations and finance continued

Basic earnings per share from continuing operations were 14.0p (2011 13.5p). Basic earnings per share from continuing and discontinued operations were 13.4p (2011 12.1p).

We have seen a strong performance in cash flow in 2012, with underlying working capital decreasing slightly. The performance is in part due to timing changes in capital expenditure, legacy property payments and the resolution of a tax dispute.

There was a net cash inflow from operating activities of £64.9m. This was after payments relating to legacy properties totalling £16.4m and a cash contribution to the Group's pension schemes, in excess of the operating charge, of £41.7m.

Excluding the legacy property payments, underlying working capital decreased by £2.1m. A small decrease in stock (£2.6m) was partly offset by a small increase in debtors (£0.7m), creditors being virtually unchanged.

Also included within net cash flows from operating activities was tax paid totalling £16.9m.

Payments to acquire fixed and intangible assets totalled £24.2m (2011 £19.6m).

Reflecting the above, there was a net cash inflow of £39.3m in 2012, the Group having net cash of £96.4m at the end of the year (24 December 2011 £57.1m net cash).

At 29 December 2012, the pension deficit shown on the balance sheet was £154.5m (24 December 2011 £136.9m). An increase in the scheme's assets, arising from the Group's contribution to fund the deficit and better than expected asset returns, was more than offset by higher liabilities, arising from a decrease in the discount rate.

Dividend

The Board intends to target a capital structure that is both prudent and recognises the benefits of financial leverage and, after considering all other uses of capital, to return surplus capital to shareholders, by way of either ordinary dividends or alternative returns of capital.

The Group has significant property leases for the depot network, and currently has a material deficit in the Group pension fund and a small number of remaining legacy liabilities related to the Group's former ownership of MFI. Taking into account this underlying level of gearing, the Board believes it is appropriate for the Group to be able to operate throughout the working capital cycle without incurring bank debt.

The Board has concluded that the Group now has the balance sheet strength to allow it to move towards a more normalised dividend policy. As a result, it intends to move over the medium term to a dividend cover of between 2.5x and 3.5x, with one third of the previous year's dividend being paid as an interim dividend each year.

The Board will monitor the cash balances in light of the Group's future investment opportunities, expected peak working capital requirements and the trading outlook. To the extent the Group has sustainable levels of capital in excess of expected requirements, the Board expects to return it to shareholders.

For the 2012 financial year, the Board is proposing a final dividend of 2.7p per share, giving a total dividend for the year of 3.0p per share (2011 0.5p).

OPERATIONAL REVIEW

The business model of Howden Joinery is "To supply from local stock nationwide the small builder's ever-changing routine integrated kitchen and joinery requirements, assuring no-call-back quality and best local price".

In July 2010, in our Half Yearly Report, we said that the opportunity to transform the scale of the business was apparent and that, as the performance of the business was improving and legacy issues

were diminishing, we were stepping up investment in the future growth of Howden Joinery

Since then, this investment in growth has not only seen a step-up in capital expenditure but also increased expenditure in a number of other areas, to support the growth of the business and its performance in demanding market conditions

Depot network and operations

During the course of 2012, 20 new depots were opened in the UK, bringing the total trading at the end of the year to 529. In addition, 16 depots were extended and one depot was relocated. In France, two new depots were opened.

We have introduced a system that allows us to provide our builder customer's clients with a video of the kitchen that has been designed for them.

Our account base continues to grow, having increased by over 20,000 net new credit accounts in 2012. While there has been a significant increase in accounts in recent years, our debt collection performance continues to improve.

Product and marketing

We continue to enhance our product offering, having introduced a number of new products during 2012 across all our product categories. Notable amongst these

were eight new kitchen ranges, amongst which we introduced grey options in four of our kitchen families, across all price points, and we extended gloss options to our lower priced Greenwich family, twenty new worktops and associated accessories, including 14 new square-edged and five contemporary 3mm radius matt laminate worktops, significant changes to our sinks and taps categories, an extension of tall wall units offered, a range of black appliances, and a range of sliding wardrobe doors.

Throughout the year, we again held a series of roadshows with our kitchen designers and other depot staff to help inform our new product development programme. These roadshows considered how sales of various product categories could be improved through the sharing of ideas and selling tools, learning from successful existing products and identifying gaps in our offering.

Supporting our sales effort, in addition to updating our extensive product literature, we introduced a wider format joinery brochure and a new hardware catalogue. We have also implemented a Howdens You Tube channel, accessible through our website (www.howdens.com), which offers an extensive range of videos showcasing products and a number of cookery demonstrations using Lamona appliances.

Manufacturing and logistics operations

Our UK-based manufacturing and logistics operations play a key role in ensuring that we are able to supply our small builder customers from local stock nationwide. We continue to invest in these operations so as to ensure that this key aspect of the Howdens' model is never compromised.

The £20m two-year programme of investment in our two manufacturing sites is on schedule, with the new cabinet production line facilities due to be fully operational at Howden by the end of the first quarter of 2013 and at Runcorn by the end of the first half of 2013.

A new painted skirting board and architraves production facility costing £1.5m has been installed in our Howden factory, and will be fully operational in the first quarter of 2013.

A new stock planning system was implemented that provides improved information for our manufacturing scheduling and product purchasing teams. This has helped improve service and stock efficiency through our central warehouses.

Review of operations and finance continued

GROUP DEVELOPMENTS

Legacy properties

The Group continues to reduce its legacy property portfolio

During 2012, the leases of five properties were terminated, at a cost of £11.7m, mitigating future liabilities that would have totalled over £27m. Since the year-end, two properties have been released early, with less than one year of each lease remaining, at a cost of £1.4m, with small savings being made.

As a result, the number of legacy properties now stands at 14, compared with 21 at the end of 2011. Included within this are seven properties that are fully or part occupied by tenants.

The net annual rent and rates of the remaining properties is less than £4m. By the end of 2014, all other things being equal, both the number of leases remaining and the net annual rent and rates will have approximately halved, as leases expire. The leases remaining thereafter will all have expired by 2025.

CURRENT TRADING AND OUTLOOK FOR 2013

Howden Joinery UK depot sales in the first two periods of 2013 (to 23 February) were up 17% on the same periods last year. This reflects the benefit of an additional week of trading in the first period of 2013. It also reflects the earlier timing of a price change, which will shortly annualise last year's price increase. The pattern and volume of sales in the first two periods is in line with our expectations and, given the one-off nature of these impacts, we expect the rate of UK depot sales growth to normalise through the coming periods.

For the rest of 2013, we expect market conditions to continue to be challenging and we remain cautious about the outlook. As in recent years, we will quickly and appropriately adapt our business model to the market and economic conditions we encounter.

The Group remains committed to its view that the number of depots in the UK can be increased from its current level of 529 and believes that this number could be around 700. During the course of 2013, we are currently planning to open around 20 to 30 depots as part of our investment in the next stage of Howdens' longer term growth and development.

Since its inception in 1995, Howden Joinery has grown rapidly and has gained a significant share of the UK kitchen market. Even in these challenging market conditions, we would expect to continue to benefit from the opening of new depots and from the growth of our depots that have yet to reach maturity.

KEY FINANCIAL PERFORMANCE INDICATORS

The Group uses a number of financial performance indicators to measure operational and financial activity in the business. Non-financial indicators are discussed further in the corporate social responsibility report on pages 25 to 30.

Total sales growth

Growth in sales of the UK Howden Joinery depots is key to enhancing shareholder value. This measure, along with monitoring our programme of depot openings, tracks the ability of the Group to grow the business.

Operating profit

The Group targets steady growth in operating profit before exceptional items over the medium term.

Earnings per share (EPS)

We believe that EPS, while not perfect, is an accessible measure of the returns we are generating as a Group for our shareholders, and also has the merit of being auditable and well understood. The key measure of short-term financial performance is basic earnings per share before exceptional items.

Depot openings

The business model is based on individual depots providing kitchens to small builders within a local community. The continuing drive to open new depots in new localities is therefore key to the Group's growth prospects. Howden Joinery currently intends to open between 20 and 30 depots in 2013. We have the ability to adjust the rhythm of the opening programme in line with economic conditions.

PRINCIPAL RISKS AND UNCERTAINTIES

The Board considers that the Group's principal risks and uncertainties, together with an indication of actions taken to manage and mitigate them, are as detailed below. They do not comprise all risks associated with the Group and are not set out in any order of priority. Additional risks not presently known to management or currently deemed to be less material may also have an adverse effect on the Group's business in the future.

Market conditions

The Group's products are predominantly sold to small local builders for installation in public and private housing, mainly in the repair, maintenance and improvement markets.

The Group's results are consequently dependent on levels of activity in these markets, which are impacted by many factors including general economic conditions, consumer confidence, interest rates and credit availability, unemployment, demographic trends and, in the short-term, weather. A severe downturn in market conditions could impact on our ability to achieve our sales and profit forecasts. This could in turn put pressure on our cash availability and banking covenants.

We monitor the market closely and can take swift management action as necessary in response to adverse changes, with the aim that the business is aligned to market conditions and, consequently, that we should have sufficient cash facilities for business needs and adequate covenant headroom.

Failure to implement the Group's business model and culture

The future success of the business depends on the successful implementation of the Group's business model and locally-enabled, entrepreneurial culture.

In particular, if the Group fails to implement its business model in the locally enabled, decentralised manner envisaged, there may be an adverse effect on the Group's future financial condition and profitability.

Led by the actions of the Board and Executive Committee, the business model and the Howdens culture are at the centre of the activities and the decision-making processes of the Group, and are continually emphasised. The Executive and senior management regularly visit our depots and factories, and hold regular events during which they reinforce the importance of the Group's business model and culture. Throughout the business, successful implementation of the Group's business model and culture forms the basis of the incentive structure.

Failure to maximise exploiting the growth potential of the business

The Group considers that there is significant potential for growth, and has identified this as a strategic opportunity and aim.

If the growth opportunities are not understood and exploited in line with our business model, or if current structures and skills within the Group are not aligned to meet the challenges of growth, there may be an adverse effect on the Group's ability to obtain maximum benefit from this growth potential.

Review of operations and finance continued

The Group places continuing focus on the opportunities, challenges and additional requirements related to growth. The potential for growth is incorporated into Group strategic plans and budgets, and existing structures and skills are reviewed in the context of growth, and adjusted where necessary.

Continuity of supply

The Group's business model requires that every depot can supply product from local stock.

Any disruption to the relationship with key suppliers or interruption to manufacturing operations could adversely affect the Group's ability to implement the business model.

With suppliers, the Group tries to maintain dual supply wherever possible to mitigate the effects if a key supplier was unable to deliver goods or services. We also enter into long-term contracts to secure supply of our key materials. Good supplier relations are maintained by prompt settlement of invoices, regular communication and an annual supplier conference. Within our manufacturing operations, we adopt best practice health & safety and fire prevention procedures. Business continuity plans are in place for key production processes. The Group continues to make significant investment in its manufacturing facilities, to enable manufacturing capacity

to match our expected growth as well as providing further cabinet production capacity which will provide additional cover in the event of an interruption to manufacturing operations.

Loss of key personnel

The skills, experience and performance of key members of the Group's management team make a large contribution to the Group's success.

The loss of a key member of the Group's management team could adversely affect the Group's operations.

The Group uses the Remuneration Committee to ensure that key team members are appropriately compensated for their contributions and incentivised to continue their careers with the Group.

Input price pressure

The Group's gross margin performance drives profitability.

The Group's financial success could be adversely affected by increasing commodity prices, inflationary pressures and currency fluctuations.

The Group adopts a number of measures to mitigate input price pressure. As well as conducting regular reviews of the market and of price trends, these measures include negotiation with suppliers,

consideration of longer-term supply deals, "make vs buy" decisions where appropriate and product pricing decisions. The Group also has an ongoing review process to drive efficiency and identify opportunities to reduce costs in the supply base, to protect margin and profitability.

Financial position

The growth of the business relies in some part on our ability to open new depots, develop and introduce new product, and to invest in manufacturing capacity.

If the Group's financial position was to deteriorate, limiting financial resources to meet its obligations and to fund the growth and development of the business, this would impact on future growth.

The Group regularly forecasts its cash availability and its compliance with banking covenants, with the aim that there is sufficient cash and/or available credit under our banking facility to meet planned future expenditure and investment requirements. These forecasts are closely monitored throughout the year and reviewed against actual performance, and actions are taken to realign the position where necessary.

USE AND MANAGEMENT OF FINANCIAL INSTRUMENTS, AND EXPOSURE TO FINANCIAL RISK

The Group holds financial instruments for one principal purpose to finance its operations. The Group does not currently use derivative financial instruments to reduce its exposure to interest or exchange rate movements. The Group finances its operations by a mixture of cash flows from operations and longer term loans from banks. Treasury operations are managed within policies and procedures approved by the Board.

The main risks arising from the Group's financial instruments are funding and liquidity risk, interest rate risk, counterparty risk and foreign currency risk discussed below.

No speculative use of derivatives, currency or other instruments is permitted. The Treasury function does not operate as a profit centre and transacts only in relation to the underlying business requirements.

Funding and liquidity

The Group's objective with respect to managing capital is to maintain a balance sheet structure that is both efficient in terms of providing long-term returns to shareholders and safeguards the Group's ability to continue as a going concern. As appropriate, the Group can choose

to adjust its capital structure by varying the amount of dividends paid to shareholders, returns of capital to shareholders, issuing new shares or the level of capital expenditure.

During 2012, the Group had a £160m asset-backed bank facility which is due to expire in July 2016.

The Group's committed borrowing facility contains certain financial covenants which have been met throughout 2012. The covenants are tested every four weeks and are based around (i) fixed charges, (ii) tangible net worth, and (iii) earnings before interest, tax, depreciation and amortisation (EBITDA) for Howden Joinery Limited.

In addition, our pension trustees, who carry a charge over the share capital of Howden Joinery Limited, have a separate covenant test around the EBITDA of Howden Joinery Limited.

The current economic conditions create uncertainty around the Group's trading position, particularly over the level of demand for the Group's products and the exchange rate between sterling and both the Euro and the US dollar. The Group's latest forecasts and projections have been stress-tested for reasonably possible adverse variations in trading performance and show that

the Group will operate within the terms of its borrowing facility and covenants for the foreseeable future.

The cash drawdown against the bank facility at the year-end was £2.1m and, after taking into account other utilisation of the facilities for terminable indemnities, the Group was left with £126.0m of available funds.

Interest rate risk

The Group's exposure to interest rate fluctuations on its borrowings may be managed when necessary by borrowing on a fixed rate basis and entering into rate swaps, rate caps and forward rate agreements. The Group's policy objective has been to undertake transactions of this nature only when net debt exceeds £150m. Net debt has not exceeded £150m during the year.

Counterparty risk

Group Treasury policy on investment restricts counterparties to those with a minimum Standard and Poor's/Moody's long-term credit rating of AA- and a short-term credit rating of A-1/P-1. Investments mainly consist of bank deposits and certificates of deposit. The Group continuously reviews the credit quality of counterparties, the limits placed on individual credit exposures and categories of investments.

Review of operations and finance continued

Principal exchange rates versus UK pound (£)	2012 Average	2012 Year-end	2011 Average	2011 Year-end
United States dollar (US\$)	1 58	1 61	1 60	1 57
Euro (€)	1 23	1 22	1 15	1 20

Foreign currency risk

The most significant currencies for the Group are the US dollar and the Euro. It is difficult to pass the prescribed tests under IAS 39 "Financial Instruments Recognition and Measurement" to ensure the ability to hedge account for derivative currency transactions. As the resultant volatility cannot be avoided in the income statement, it is the view of the Board that routine transactional conversion between currencies is completed at the relevant spot exchange rate. This policy is reviewed on a regular basis.

The net impact of exchange rates on currency transactions in the year, compared to the previous year, was £5.0m. The Group does not have many overseas assets/liabilities, so the impact of currency translation is not material.

Set out in the table above are the principal exchange rates versus the UK pound affecting the profits of the Group.

NEW ACCOUNTING STANDARDS

No new accounting standards which have an implication for the Group came into effect during the year.

CAUTIONARY STATEMENT

Certain statements in this Annual Report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. Because these statements contain risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

By order of the Board

Mark Robson
Chief Financial Officer

27 February 2013

Corporate social responsibility report

INTRODUCTION

Howden Joinery Group's business is centred on the manufacture and sale of kitchens and joinery to trade customers. With 529 depots throughout the UK, we are a local business with national scale and therefore have unique responsibilities to all of the communities in which we operate. Our business is built on the relationships our depots have with their customers but we recognise that we have wider responsibilities with regard to our product, our environment and how we operate.

As such, we continue to focus on our five key responsibilities which we have cited in previous years:

- Responsibility to manufacture safe and sustainable product
 - Our kitchens must not only function properly and comply with regulations and legislation but they must be produced in a way which is mindful of the wider environmental impact both of our own operations and the product we sell
- Responsibility to our staff
 - With over 6,300 employees, we recognise the importance of our business to our staff and their families
- Responsibility to customers and suppliers
 - Our 270,000 trade account holders rely on our products and services to ensure the growth and prosperity of their own businesses

- Our international supply base of over 200 suppliers provides opportunities and employment in a wide range of trades
- Responsibility to local communities
 - Each of our sites is an integral part of the community in which it operates, and helping those communities to flourish is important to everyone who lives and works in them
- Responsibility to future generations
 - Through apprentice programmes and college support schemes, we aim to help both our own staff and also the next generation of builders and tradespeople

As our business grows, so does the impact of our actions. To that end, the 2012 CSR report shows how we have been committed to maintaining our relationships with all of our stakeholders, improving our products and reducing our overall environmental impact. Through the setting of rolling and extended KPIs we hope that it also demonstrates our long-term commitments in these areas.

For ease of reading and comparison, the report is in a similar format to previous years, and, unless otherwise stated, the report covers the entirety of our business.

MEASURING ACHIEVEMENTS

The Group continues to measure its performance in respect of environmental issues through the

use of a number of Key Performance Indicators (KPIs). These relate to:

- our use of wood,
- how we manage our waste, and
- our ability to offer energy efficient products to consumers

These KPIs, which are discussed in detail below, help us to ensure that the action we take to reduce our environmental impact is targeted where it will have most benefit, and that our progress is measurable and motivational for all those involved.

RESPONSIBLE MANUFACTURING

We remain committed to UK manufacturing and continued to invest in our two manufacturing facilities (Howden, East Yorkshire and Runcorn, Cheshire) during 2012. In July 2011 we announced that we would be investing some £20m in new facilities at these locations over a two year period and we firmly believe that investing in local manufacturing ensures that we can maintain the quality of our product, protects the long-term competitiveness of our business and benefits our communities.

During 2012, our UK-based manufacturing teams produced around:

- 3.5 million cabinets,
- 800,000 kitchen worktops and breakfast bars, and
- 2 million kitchen frontals

MANAGING OUR IMPACT ON THE ENVIRONMENT

Wood

Manufactured Product

Given that wood based products are central to our business, we continue to set challenging targets for the responsible use of wood based products and paper products. Our rolling KPI to monitor the provenance of our wood based product is

"To ensure that 100% of our wood based product used in our manufacturing processes comes from certified sources."

In 2012, we used 198,000 cubic metres of chipboard and 13,000 cubic metres of MDF in our manufacturing process. As has been the case every year since 2006, all of this came from certified sources.

We set similarly challenging targets for our use of cardboard packaging, with our KPI being that all packaging should be sourced from recycled or certified sources. In 2012 we used 3,100 tonnes of cardboard packaging all of which came from recycled sources. It is our intention to achieve a similarly high standard in the future.

All of the kitchen ranges which are manufactured at our factories are certified by the UK Forest Stewardship Council (UK FSC) and over 99% of all products we manufacture in-house are FSC compliant (2011 99%).

Bought-in product

Ethical and environmental sourcing continues to be an important

factor when we determine which suppliers we use. In order to ensure consistency with our manufactured product, we aim to source from suppliers who have similarly high standards and international accreditation.

- As part of our continuous improvement programmes all our key suppliers are regularly audited. The audit programme operates across some 14 countries and incorporates measures relating to Quality, Environment, Health & Safety, Employment and Business Continuity.
- In 2012, as in 2011, 92% of our European timber based product suppliers were certified as sourcing timber from a sustainable supply.
- Howden Joinery has been certified by the FSC and the European Programme for the Endorsement of Forest Certification (PEFC) since February 2008. At the end of 2012, 22 of our 40 kitchen ranges (55% of our kitchens) were fully compliant with FSC requirements (compared to 50% in 2011 and 43% in 2010). We aim to maintain a similar proportion in 2013.

Energy

Our efforts to reduce energy use across the business are recognised by our accreditation under the Carbon Trust Standard. For over 10 years prior to the introduction of the Carbon Trust accreditation, the Group's manufacturing facilities had enjoyed accreditation under the standard's predecessor, the Energy Efficiency Accreditation Scheme.

As well as assessing the Group's overall reduction in energy usage over a three-year period, the Standard also looks at general energy management systems across the business and the ways in which energy reduction is encouraged across all sites. The Carbon Trust's assessors also noted our commitment to supply energy efficient products to our customers where possible.

Manufacturing

- One of our key metrics for energy usage in the factories is the electricity we consume per cabinet produced. Our baseline measurement in 2008 was 3 62kWh per cabinet, and we are pleased that this figure has significantly decreased over the last four years. In 2012, we made significant improvements in our energy management through the efforts of our employees and the application of new technology. Our achievements in 2012 resulted in the figure dropping to 2 84kWh per cabinet (2011 3 36kWh). We managed to achieve this 15% reduction in our consumption per cabinet by installing energy efficient variable speed drive compressors in our Howden site thereby reducing the energy used in loading. We also introduced a programme of lighting system upgrades in all factories and the Northampton Distribution Centre warehouse, making a significant improvement in energy consumption whilst also improving the working environment. Given the progress made in 2012, our target for 2013 is to maintain the consumption per cabinet level achieved in 2012.

- All our Supply division sites – manufacturing, distribution or warehouse related – have maintained compliance with their ISO 14001 standard for Environmental Management as well as helping the Group retain its certification under the Carbon Trust Standard

Truck Fleet

The Company operates a fleet of 104 trucks. We continue to work with our haulier partners through traffic sharing arrangements and maximise the use of backhaul capacity. All of our trucks remain Euro 5 compliant.

We implemented a new tracking system across the truck fleet during the year. By monitoring and directing improvements in driving style, this system has resulted in a 2.4% reduction in CO₂ emissions across the fleet since its introduction.

Car Fleet

We have now completed our plan to replace our manager and sales representatives' vehicles with more eco-friendly models. Where practical, we also continue to introduce the latest fuel efficient models as they become available from our vehicle supplier.

Products

Our KPI in this area, which we set for a three year period (2010-2012), was aimed at improving the efficiency of our best selling own-brand products both in terms of energy consumption and water usage. The targets were

"To improve the efficiencies of our best selling own brand electric ovens by reducing the kilowatt consumption per hour by 5% or more over the 3 year period "

"To reduce the water consumed per cycle by 5% or more for own brand laundry and dishwashers over the 3 year period "

Excellent progress has been made over the last three years in respect of our ovens, with energy consumption in our own brand "Lamona" appliances reduced by 12% overall and by 5% for our best selling ranges.

In the last year we have also reduced water consumption by 10% with our new dishwashers and laundry appliances.

Our aim is to extend this type of KPI over the next two year period to see if we can also reduce the electricity consumption of our dishwashers by 5% (measured on a kilowatt consumption per hour basis).

In addition to measuring our performance against our chosen KPIs, we are committed to gaining Energy Savings Trust (EST) certification for some of our appliances. We now have fifteen appliances certified and recommended by EST (2011: 6) and we continue to seek certification for a number of other appliances. Where appropriate, we will design new appliances in line with EST recommendations.

Waste

Our employees are encouraged to consider how we can improve our environmental performance in all areas by reducing consumption, reusing materials and recycling wherever possible.

In 2012, our Supply division reduced overall waste by 13% and continued to recycle waste in line with their rolling KPI which is

"To recycle more than 95% of all manufacturing waste produced "

- Of the 33,000 tonnes of waste produced (2011: 37,900), 98% was recycled (2011: 98%).
- One element of waste from the manufacturing process is sawdust. In 2012 we converted 14,700 tonnes of sawdust into energy at our Howden and Runcorn sites (2011: 16,600 tonnes), with sawdust fuelling five wood combustion boilers that burn this waste to heat our factories. This equates to approx 75k MWh of energy generated from sawdust in 2012.
- We also supplied 4,700 tonnes of milled sawdust to a local manufacturer of animal bedding where the sawdust is recycled for use in bedding for horses, cattle and other livestock (2011: 5,000 tonnes).
- We continue with the initiative started in 2007 to recover and repair pallets which would otherwise have been scrapped. Last year we recovered or repaired more than 125,000 pallets (2011: 138,000).

During the year, our trade division engaged with a waste contractor to implement a recycling programme to reduce the waste sent to landfill from our trade depots. To date this programme has been rolled-out to 248 depots, with initial results showing that there has been an overall reduction in excess of 50% in waste being sent to landfill. We will continue to roll the programme out further in 2013.

SUPPORTING OUR WORKFORCE TO ACQUIRE AND PRACTICE CORE SKILLS

Employee responsibility

We take our responsibilities as an employer seriously. We aim to provide a positive work environment for all our staff, whether they work in factories, warehouses, depots or offices. Our culture emphasises the importance of individual accountability, which means the personal responsibility of each of us towards those we work with every day. We are proud of this culture, which encourages openness and transparency within the business and has been vital to its growth and development since 1995. This culture is reinforced by our commitment to certain core principles:

- Recognising by reward the hard work of all employees,
- investing in training and development across the business, and
- ensuring that recruitment, career success and progression are solely determined by an employee's abilities and achievements

Supporting learning and development in the community

Howden Joinery's heritage and culture means we place a high value on the whole range of skills – technical, commercial and interpersonal – that are practised by local tradespeople. We are keen to promote the use of these skills in the workplace and interest in them in the wider community.

Developing apprenticeships in-house

During 2012, we continued our partnership with The Real Apprenticeship Company to further promote the use of apprenticeships within the workplace. The Group currently employs 10 modern apprentices in our Supply division and 170 within the depot network, with a further 50 apprentices currently being recruited. During 2012, the business saw 115 apprentices gain their apprenticeship qualification.

Pioneering bursary scheme for apprentice joiners

As well as helping promote the value of apprenticeships in-house, we also continue to help the next generation of builders and joiners by supporting apprentices in the wider community. In partnership with CITB-ConstructionSkills (the Sector Skills Council and Industry Training Board for the construction industry), we continue to offer the Howden Joinery Bursary for new apprentice joiners. The scheme was the first of its kind in the country, its aim being to fund first year wages for apprentice joiners in companies which would otherwise feel

unable to afford to fund an apprentice. Other than stipulating that the money be used specifically to fund apprentice joiners, Howdens has no involvement in choosing either the apprentices or the companies involved.

Having funded 20 places over the first two years of the scheme, in September 2012 we agreed to extend the funding to accommodate a further 20 places, creating opportunities for 20 more young people across the country. We are pleased with the feedback from the scheme to date not only from the newly qualified joiners themselves but also from the companies who now see the value of apprentices and are committed to employing more of them in the future, this time without the help of a bursary.

Partnerships with Further Education colleges

In addition to running the bursary scheme, we also support trainee builders and joiners in their local community as they go through their courses and develop their skills. To do this, we continue to encourage our depots to build on their relationships with construction departments in local colleges of Further Education. As well as donating discontinued products on which students can practise, depots also sponsor end of year awards and prizes. Just over three years ago we started a separate programme of support for colleges that offer NVQ/Diploma courses that include a module on kitchen installation. We provide each college with a supply of equipment tailored to their individual requirements for both

practice and examinations. When requirements are finalised for our latest recruit to this project, we will have fulfilled our initial objective of recruiting one college in each of our eight regions across the country.

Training at Howdens

Ongoing BTEC programmes

Our commitment to training does not, however, stop with apprenticeships. Our training team in our Trade division continue to deliver the BTEC Level 2 Award in Trade Business Services and recently launched the BTEC Level 3 Certificate in Trade Business Management through internal job related training. This course is unique to Howden Joinery. By the end of 2012, 481 employees had successfully been awarded the Level 2 award, and 23 members of management had enrolled to complete the Level 3 certificate programme.

Management development

In 2012, our Supply division also focused specifically on management and leadership development to support the future growth of the business. During the year, our Supply division training team achieved "accredited centre" status with the Institute of Leadership Management which enables us to deliver a Level 3 accredited management development programme (Institute of Leadership Management) for Shift Managers and Group Leaders.

Other internal courses

As well as supporting staff to gain accreditations, our staff have also

benefited from our investment in internal courses, with over 56,000 training hours completed during the year. Courses are offered in subjects ranging from HR skills to manual handling, from diversity & inclusion to health & safety, from environmental awareness to LGV and fork-lift truck driving. We plan to continue to invest in training and development in 2013 as well as maintain a strong in-house delivery capability as we continue to encourage staff to achieve training qualifications themselves.

Health & safety (depots, manufacturing & distribution)

In the depots

There were 23 reportable health & safety incidents in our 529 depots during 2012 (2011: 31) and we are pleased to report that the overall accident trend over the last five years continues downward.

To ensure we maintain a health & safety culture in the Trade division, we continue to run a number of courses including:

- Our defensive driving course which runs for those staff across the depot network who are required to drive as part of their day-to-day role. This year a total of 321 drivers completed this course.
- Management of safety in a depot, where managers continue to be trained every three years. During 2012, 239 managers and 166 assistant managers completed this course.

In our manufacturing, warehouse and distribution sites

All three sites achieved the prestigious "International Safety Award" given by the British Safety Council. For our Howden site it is the fourth consecutive year of entry and the second time it has achieved a "Distinction". In their first year of entry, our Runcorn and Northampton sites have both been awarded "Distinctions".

Additionally, all three sites retained their OHSAS BS 18001 certification and maintained "5-Star" status in the British Safety Council 5-Star audit, achieving over 95% compliance.

During 2012, there were seven reportable health & safety incidents (2011: 16). This continues a downward trend in reportable accidents which have declined by 89% over the past five years. Average time lost per incident has fallen by 79% over the same five year period.

Across the Group there were no prosecutions, prohibitions or improvement notices by either the Health & Safety Executive (HSE) or the Environment Agency (EA).

PLAYING AN ACTIVE ROLE IN OUR COMMUNITIES

Each depot, manufacturing site, distribution and support centre fulfils an important role in the life of the area it serves. So as a locally driven business, it is our policy to encourage staff at each of our sites to support and engage with local community activities.

During 2012, our staff were responsible for 2,126 donations to local good causes (2011 2,229) amounting to some £817k across the Group (2011 £814k) Cash and stock donations together with employee fund raising initiatives, typically supported a broad cross section of local causes including schools, colleges, village halls, care homes, hospices, sports clubs, scouts, guides and youth groups

More than eight years ago we formed a partnership with Leonard Cheshire Disability Like Howdens, this charity works closely with local communities, supporting thousands of disabled people across the country Since its foundation in 1948, volunteers have always been important to Leonard Cheshire Disability For the past six years Howdens has funded many areas of their volunteer recruitment and training programme, including the "Can Do" project

This initiative offers social support and personal mentoring to young disabled people For many of them, the support network they had always relied on invariably comes to an end when they finish full time education The objective is to prevent social exclusion by including them in local activities and giving them the support to find long-term volunteering positions that may in a few cases lead to employment Last year "Can Do" supported over 1,600 volunteering opportunities which led to nearly 5,000 hours of volunteering by 521 people

Earlier this year Leonard Cheshire Disability officially opened their first training kitchen for young disabled people, operating from their care home Bell's Piece in Farnham, Surrey This was a joint Howdens/Leonard Cheshire Disability project involving the partial conversion of a large existing outbuilding In the first four months of opening, 50 students, supported by "Can Do", each completed five healthy eating workshops at the centre These accredited courses are led by professional staff and offer the possibility that some students could go on to gain qualifications and employment

Inspired by working with their residents, our inclusive kitchen research with the charity continues to enable us to offer affordable kitchen solutions to people of all abilities In addition to the kitchen in Bell's Piece, we installed three further activity centres in three other homes as well as revisiting two kitchens to carry out modifications following feedback from staff and residents As well as offering many therapeutic and recreational benefits, these installations also enable individual homes to offer life-skills retraining both to residents and day centre visitors

Every year our staff take up various fundraising challenges to raise funds for Leonard Cheshire Disability Howdens' team entry for the Great North Run has now become a regular event, with some 30 individuals competing every year

They raise about £10k each year with funds going towards an adapted minibus for one of the charity's homes We also had three entries in the new multi-ability triathlon "Tri Together" in south London, five in the London Marathon and four in the Great South Run

Last August, 65 members of our product and marketing team, spent two of their annual team building "away days" working as volunteers on a community allotment project called Green Patch in Kettering This site is run by the environmental regeneration charity Groundwork UK The team took on eleven separate projects ranging from barbecue, shed and path building (improving disability access) to pond clearance and fence building

Our "Truly Local" book, which we have published for a number of years and distributed through our depot network, is available online at [http // www.howdens.com/about-us/a-truly-local-business/](http://www.howdens.com/about-us/a-truly-local-business/) This provides a snap-shot of just some of the activities in which we are involved but are not necessarily documented in this report

Matthew Ingle
Chief Executive

27 February 2013

Board of directors

NON-EXECUTIVE CHAIRMAN

Will Samuel

Will was appointed a non-executive director and Chairman designate in July 2006 and became Chairman in October 2006. He is Senior Adviser to Lazard & Co Ltd, Chairman of Ecclesiastical Insurance Group plc and Deputy Chairman of Inchcape plc. He was also appointed a Senior Adviser to the Financial Services Authority (FSA) in January 2012. Prior to this he was a director of Schroders plc, Co-Chief Executive Officer at Schroder Salomon Smith Barney (a division of Citigroup Inc) and Vice Chairman, European Investment Bank of Citigroup Inc, Chairman of H P Bulmer plc and a non-executive director of Edinburgh Investment Trust plc. He is a Chartered Accountant.

CHIEF EXECUTIVE

Matthew Ingle

Matthew was appointed Chief Executive in October 2005. He set up Howden Joinery in 1995 and has been responsible for its growth into a successful business today. Prior to joining the Company he had been Managing Director of the Magnet Trade operation. He was elected to the Board of the Company in 1998.

CHIEF FINANCIAL OFFICER

Mark Robson

Mark joined the Board in April 2005 as Chief Financial Officer. Mark spent the previous six years as Group Finance Director at Delta plc. Prior to this, he had held a number of senior financial positions with ICI plc between 1985 and 1998. He is a Chartered Accountant and qualified with Price Waterhouse

NON-EXECUTIVE DIRECTORS

Mark Allen

Mark was appointed non-executive director in May 2011. Mark is CEO of Dairy Crest Group plc. After a brief period at Shell between 1986-1991, Mark joined Dairy Crest in 1991 as a general manager and, after being promoted through a variety of roles including Sales & Operations Director and two divisional Managing Director roles, he was appointed to Dairy Crest's main Board in 2002, becoming Chief Executive in 2006. He is Chairman of The Prince's Rural Action Programme and a Trustee for The Prince's Countryside Fund.

Angus Cockburn

Angus was appointed a non-executive director in October 2006. He has been Chief Financial Officer of Aggreko plc since 2000, having previously been Managing Director of Pringle of Scotland and Regional Finance Director Central Europe for PepsiCo Foods. He was appointed non-executive director of GKN plc in January 2013. He is a Chartered Accountant and qualified with KPMG Peat Marwick.

Tiffany Hall

Tiffany was appointed a non-executive director in May 2010. Currently UK Marketing Director at BUPA, Tiffany was previously Head of Marketing at British Airways. She was also Chairman of Airmiles and BA Holidays. Prior to that, she held various positions at British Airways including Head of Global Sales and Distribution and Head of UK Sales and Marketing. Tiffany was previously a non-executive director of Think London.

Michael Wemms

Michael was appointed a non-executive director in November 2006. Michael was Chairman of House of Fraser plc from 2001 until November 2006 and was an executive director of Tesco plc from 1989 to 2000. He is a non-executive director of Moneysupermarket.com plc. He was Chairman of the British Retail Consortium from 2004 until 2006.

Directors' report

The directors have pleasure in submitting their report and the audited financial statements for the 53 week period ended 29 December 2012. Comparative figures relate to the 52 weeks ended 24 December 2011.

PRINCIPAL GROUP ACTIVITIES, BUSINESS REVIEW AND RESULTS

The principal activity of Howden Joinery Group Plc and its subsidiaries is the sale of kitchens and joinery products, along with the associated procurement, manufacture and distribution of these products. Further information on our business and the Howden model can be found on pages 1 to 7.

The Company is required by the Companies Act 2006 to include a business review in this report. The information that fulfils the requirements of the business review can be found in the following sections which are incorporated in this report by reference:

- Chairman's statement on pages 8 to 9
- Chief executive's statement on pages 10 to 16
- Review of operations and finance on page 17 to 24 (including a review of principal risks and uncertainties and key performance indicators) and the illustrated business model on pages 2 to 7
- Corporate governance report including Going Concern statement on pages 50 to 57
- Audit Committee report on pages 58 to 62
- Corporate social responsibility report on pages 25 to 30

containing environmental matters, social & community issues and additional information on employees.

The full results for the period are shown in the financial statements on pages 63 to 115.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 29 to the financial statements.

The subsidiary and associated undertakings principally affecting the profits or net assets of the Group in the year are listed in the table of parent company and principal subsidiary undertakings on page 116. There have been no significant events since the balance sheet date.

DIVIDEND

The Board recommends the payment of a final dividend of 2.7 pence per ordinary share to be paid on 21 June 2013 to ordinary shareholders on the register on 24 May 2013 (2011: 0.5 pence). An interim dividend of 0.3 pence was paid during the year (2011: nil).

SHARE CAPITAL

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 24. The Company has one class of ordinary share which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares which are both governed by the general provisions

of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 27. Shares held by the Howden Joinery Group Plc Employee Share Trust abstain from voting.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act and related legislation. The Articles may be amended by special resolution of the shareholders. The business of the Company is managed by the Board who may exercise all the powers of the Company subject to the provision of the Articles of Association, the Companies Act and any ordinary resolution of the Company.

There are a number of agreements that take effect, alter or terminate upon a change of control such as commercial contracts, bank loan agreements and employee share plans. The only one of these which is considered to be significant in terms of likely impact on the business of the Group as a whole, is the bank facility (as described in note 21) which requires majority lender consent for any change of control.

Should such consent not be forthcoming, a change of control would trigger a mandatory repayment of the entire facility. The directors are not aware of any agreements between the Company and its directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

ESSENTIAL CONTRACTS

The mission of the Group relies on product of "no-call-back quality" being in stock at all times in order to service the needs of the builder. The Group benefits from a number of contracts which are key to providing the volume of product required to enable the Group to fulfil this mission but is nevertheless confident that other commercial solutions would be available should these contracts be terminated.

Contracts with key personnel are discussed in the review of principal risks and uncertainties on page 22.

DIRECTORS AND THEIR INTERESTS

Details of the directors in office on 29 December 2012 are shown on page 31.

All of the directors will retire at the Annual General Meeting (AGM) in accordance with the UK Corporate Governance Code and each will offer themselves for re-election in accordance with Article 118 of the Articles of Association.

In proposing their re-election, the Chairman confirms that the Nominations Committee has considered the formal performance evaluation in respect of those

directors seeking re-election and the contribution and commitment of the directors that are required to offer themselves for re-election. He has confirmed to the Board that their performance and commitment is such that the Company should support their re-election.

Having served nearly seven years as a non-executive director and Chair of the Company's Audit Committee, Angus Cockburn has informed the Board that he intends to resign as a non-executive director once a suitable candidate had been recruited to replace him. In order to ensure a smooth transition, Angus will continue as non-executive director and Chairman of the Audit Committee until after the AGM and thereafter until such time as a replacement can be appointed. Angus will therefore offer himself for re-election at the AGM along with the other directors. The Nominations Committee has appointed an executive search agency to assist in finding a suitable candidate.

Information on the directors' service agreements, options and interests of the directors and their families in the share capital of the Company, is set out in the separate Directors' remuneration report on pages 35 to 49. Details of indemnity provisions made for the benefit of directors are given in the Corporate Governance report on pages 50 to 57.

SUPPLIERS' PAYMENT TERMS

The Group and Company's policy, in relation to all its suppliers, is to settle its terms of payment when agreeing the terms of the transaction and to abide by those terms provided that it is satisfied that the supplier has

provided the goods or services in accordance with the agreed terms and conditions.

The number of days' purchases outstanding for payment by the Group at the period end was 46 days (2011: 48 days) and nil (2011: nil) for the Company.

FIXED ASSETS

There is no material difference between the book value and the current open market value of the Group's interest in land and buildings.

CHARITABLE AND POLITICAL CONTRIBUTIONS

Kitchen and joinery products and services donated to various charities, as well as charitable donations made during the period amounted to £817k (2011: £814k).

The Group made no political donations during the current and previous period.

SUBSTANTIAL SHAREHOLDINGS

As at 27 February 2013, the Company had been notified in accordance with Chapter 5 of the Disclosure & Transparency Rules, of the following voting rights as a shareholder of the Company:

Standard Life Investments Ltd	14.16%
Blackrock Inc	9.94%
Jupiter Asset Management Ltd	5.28%
Cazenove Capital Management Ltd	5.18%
Old Mutual Asset Managers (UK) Ltd	4.11%
EES Trustees International Ltd (as Trustee of Howden Joinery Group Employee Benefit Trust)	3.35%
Legal & General Assurance (Pensions Management) Ltd	3.18%

Directors' report continued

The percentage interest is as stated by the shareholder at the time of notification and current interests may vary

ACQUISITION OF THE COMPANY'S OWN SHARES

At the end of the year, the directors had authority under the shareholders' resolutions of 16 May 2012 to purchase through the market 63,391,533 of the Company's ordinary shares at prices ranging between 10p and the higher of (a) 105% of the average middle market quotation for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased and (b) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System. The authority expires at the conclusion of the next AGM or 15 months from the date of passing.

EMPLOYEES

The average number of employees and their remuneration are shown in note 8 to the financial statements.

At the year end, the Group had 6,300 employees (2011: 6,397) throughout the United Kingdom and overseas and strives to engage its employees wherever possible in its business goals by means of regular regional and local staff meetings.

The Board remains committed to linking reward to business budgets and targets thereby giving employees the opportunity to share in the financial success of the Group. In keeping with the structure of the business, the Company is committed to applying this policy locally, and as a result, staff of all levels regularly benefit from achieving local targets throughout the year. The Board also recognises employees for their contribution through the use of employee incentive plans and share plans within overall remuneration.

The Group promotes the importance of diversity and adopts an Equal Opportunities Policy under which training and career development opportunities are available to all employees, regardless of gender, religion or race. The Group is committed to meeting the code of practice on the employment of disabled people and full and fair consideration is given to disabled applicants for employment. It aims to do all that is practicable to meet its responsibility towards the employment and training of disabled people and welcomes, and considers fully, applications by disabled persons, having regard to their particular aptitudes and abilities.

It is also the Group's policy to retain employees who may become disabled while in service and to provide appropriate training.

AUDIT INFORMATION AND AUDITORS

Each of the persons who is a director at the date of approval of this Annual Report confirm that

- so far as each of the directors is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming AGM.

ANNUAL GENERAL MEETING

The Annual General Meeting is to be held at UBS Investment Bank, 1 Finsbury Avenue, London, EC2M 2PP on 9 May 2013.

By order of the Board


Caroline Bishop
Secretary

27 February 2013

Directors' remuneration report

STATEMENT TO SHAREHOLDERS FROM THE CHAIR OF THE REMUNERATION COMMITTEE

Dear Shareholder,

On behalf of the Board, I am pleased to present the Remuneration Committee's Report for 2012 for which we will be seeking approval from shareholders at our AGM on 9 May 2013

The subject of executive remuneration has continued to receive significant focus from both shareholders and the wider public. Of particular note is the ongoing consultation by the Department for Business, Innovation & Skills (BIS) and its new regulations relating to the disclosure and shareholder approval of executive remuneration. Whilst these regulations do not come into force until Howdens' 2013 financial year, we have nevertheless incorporated a number of changes this year in response to the draft regulations to help make our Remuneration Report clearer and easier to understand. As part of this, the report has been split into two sections: a forward looking policy report, which sets out the pay policy agreed by the Committee for the Group's executives, and a backward-looking implementation report, which provides details on remuneration related outcomes over the past year.

Context to the Committee's decisions

In 2012 the Group faced another year of uncertain trading conditions, with continued pressure on costs and little in the way of economic

growth to stimulate customer spending. In spite of this, the Group has continued to perform well with revenues up 4.0% on 2011. This has been driven by strong growth on a same depot basis, and continued investment in future growth with 20 new depots opened this year. At the same time, the Group has continued to strengthen its balance sheet. The share price has reflected this combined performance increasing from £1.00 at the beginning of 2012 to £1.73 at the end.

Similarly, performance has been strong in terms of profit and cash generation, the two key metrics driving our incentive schemes. Continued good profit performance has resulted in the performance conditions applying to the 2010 grant of market value options being met in full. Also a year of outstanding cash generation, as discussed in the Operations and Finance Review on pages 17 to 24, has led to the cash flow component of the annual bonus being met in full.

However the challenging targets set by the Committee mean that performance against the profit component of the annual bonus is below target. Combined with the cash flow outcomes this means an aggregate bonus payout at the target level. Given the Group's overall performance and the progress made towards its long-term strategic goals, the Committee feels these levels of vesting are appropriate and has approved them.

Key Committee decisions

The Committee is comfortable that our pay decisions reflect performance whilst demonstrating responsibility and ensuring our arrangements appropriately reward our management team for delivering strong, sustainable performance and shareholder value. The key decisions for 2013 are highlighted below.

- Moderate salary increases for executive directors of 3%, in line with the broader employee budget.
- Approval of 2012 annual bonus payouts at 103% of salary, following a year of strong Group performance.
- Approval of the vesting of the 2010 market priced options in full, following three years of exceptional profit growth.
- Agreeing an improved definition of cash flow for use with the annual bonus to incorporate the efficiency with which working capital is used into the definition.
- Confirmation that the incentive structure used in 2012 will again be used in 2013. This maintains the simplicity within the remuneration package of using one annual and one long-term component, both focused on our core strategic measures of profit and cash generation. However, to recognise the increasing maturity of the business the Committee has chosen to reduce the significance of the cash flow component of the annual bonus by half, meaning the maximum opportunity under this component will be 20% of salary in 2013 (40% of salary in 2012).

Directors' remuneration report continued

- Confirmation that no amendments are to be made to the normal remuneration cycle to take advantage of the change in UK income tax rate

Further details of the changes in remuneration structure for 2013 are set out in the pay policy table on pages 37 and 38. The Committee will continue to monitor the current arrangements and remuneration policy to ensure they remain effective in supporting the Group's long-term business goals.

Finally, I would like to thank my fellow Committee members and those other individuals who supported the Committee for their hard work and commitment over the past year.

On behalf of the Board

Michael Wemms
Chairman of the Remuneration Committee

POLICY REPORT

This policy report sets out the pay policy agreed by the Committee for the Group's executives.

The key elements of pay

The Committee has an overall remuneration policy on which it bases decisions on executive directors' pay, as follows:

- The remuneration package should be simple and support the continuing growth of Howdens while continuing to encourage an entrepreneurial culture.
- Where appropriate, remuneration policies and performance measures are cascaded throughout the business from the CEO down to the depot managers.
- Upper quartile levels of total remuneration should be available for truly superior performance with at least two-thirds of the executive directors' total potential reward being performance-related.
- Profit growth and cash management, which are within management's control and influence, are considered to be the key performance drivers of shareholder value. The Company's targets are considered achievable but still at the top-end of stretching performance.

- The overall reward policy encourages executives to own and invest in Howden Joinery Group shares, aligning performance over the longer term. Executives are encouraged to invest in shares in the Company and to build and maintain a shareholding of at least one times salary over a reasonable time frame (two times salary for CEO).

Remuneration is benchmarked against rewards available for equivalent roles in a suitable comparator group. In addition to benchmarking, the Committee also considers general pay and employment conditions of all employees within the Group and is sensitive to these, to prevailing market conditions, and to governance trends when assessing the level of salaries and remuneration packages of executives. The table on pages 37 and 38 sets out the key components of executive directors' pay packages, including why they are used, how they are operated in practice and changes for 2013.

Element	Purpose and how it supports the strategy	2012 opportunity/level	Approach and performance measurement	Changes for 2013
Base salary	Base salary recognises the market value of the executive's role, skill, responsibilities, performance and experience	<div>CEO £555,000</div> <div>CFO £389,300</div>	Base salaries are reviewed annually, taking into account the performance of the individuals, changes in responsibilities and salary levels for similar roles in comparable companies (policy is to pay median). Internal relativities and the level of total remuneration against the market are also considered	Salaries to be increased by 3% in line with the salary increases for the wider workforce, to the following <div>CEO £571,700</div> <div>CFO £401,000</div>
Fees for non-executive directors	<p>The fees reflect the time commitment and responsibilities of the roles. Accordingly the committee chairmanship, membership and SID fees are in addition to the NEDs' basic fee. The committee chairmanship and membership fees apply only to the Audit and Remuneration Committees.</p> <p>The Chairman receives no fees in addition to the Chairman's fee</p>	<div>Chairman fee £170,000</div> <div>NED base £35,000</div> <div>SID £3,000</div> <div>Committee Chair £8,000</div> <div>Committee member £2,500</div>	<p>The fees for the non-executives are determined by the Chairman and Chief Executive.</p> <p>The fee for the Chairman is determined by the Remuneration Committee while the Chairman is absent.</p>	The fees for the Chairman and non-executive directors will be reviewed during 2013
Benefits	To provide a competitive level of benefits	Comprises receipt of a car allowance, non-exclusive use of a driver, health insurance and death-in-service insurance payable by the Company	Benefits are provided in accordance with market practice	No changes for 2013
Annual bonus	<p>Incentivises annual profit and cash flow performance over the financial year. Profit and cash flow are key to the Group's strategy and are core drivers of shareholder value.</p> <p>The deferred element has no further performance conditions. Shares are paid out in equal tranches on the first and second anniversary of the deferral date. Payment is subject to continued employment. This links the bonus payout to Group performance over the medium term.</p>	Maximum bonus of 200% of salary for the CEO and CFO (although this represents a notional cap on the profit share component and the Committee do not envisage this level of payout being attained). Any bonus in excess of 100% of salary is deferred into shares.	Performance is assessed annually against cash flow and PBT targets. The cash flow element can result in a payout of up to 40% of salary. Achievement against PBT targets can result in a payout of 0% up to 200% of salary. However as the total bonus receivable by executives cannot exceed 200% of salary, the maximum payout under PBT is limited by the achievement against cash flow targets.	The opportunity available under the cash flow component of the annual bonus is to be halved meaning a maximum payout under this component of 20% of salary in 2013. This change has been made to reflect the increasing maturity of the business.

Directors' remuneration report continued

Element	Purpose and how it supports the strategy	2012 opportunity/level	Approach and performance measurement	Changes for 2013
Co-Investment Plan (CIP)	Executives have the opportunity to participate in the CIP on an annual basis. The CIP operates over a three year cycle. The long-term PBT growth targets used focus management's attention on longer term PBT growth than addressed by the annual bonus and is key to the generation of shareholder value. The investment is funded by the executives themselves.	The CEO can invest up to the lesser of 650,000 shares or 150% of salary. The CFO is able to invest an equivalent proportion of salary. Each invested share is matched by the Group with two shares.	The shares vest after a three year vesting period subject to performance against PBT growth targets. PBT performance is measured over a three year period. The targets are set at the start of each three year performance period.	No changes for 2013.
Long-Term Incentive Plan (LTIP)	A new LTIP was adopted by the Company at the AGM in 2009. Awards of restricted shares or share options may be made under the LTIP. Although this plan was not used in 2012, the Committee has the option to use it in future years as an alternative to the CIP.	The plan allows for awards to be granted to participants of up to 100% of salary in restricted shares or 200% of salary in market value options.	The shares or options would vest after a three year vesting period subject to performance against PBT growth targets. PBT performance would be measured over a three year period. The targets would be set at the start of the three year performance period.	As in 2012, there is no intention to use the plan in 2013.
Howden Joinery Group Pension Plan (the Plan)	To provide competitive long-term savings opportunities.	<p>The Plan is a hybrid defined benefit, occupational pension plan. The defined benefit pension accrues on a Career Average Revalued Earnings (CARE) basis at the rate of 1/50th of actual pensionable pay in each year (currently capped at £135,000).</p> <p>In addition the Company will match any voluntary member contribution made to the defined contribution top-up section to a maximum of 8% of pensionable pay. Alternatively a participant may receive a salary supplement of 8% of salary in lieu of this defined contribution opportunity.</p> <p>A pension supplement system operates concurrently with the Plan which recognises that pension entitlement in respect of the CARE part of the Plan is capped. This supplement is 30% of basic salary above the Plan Cap to reflect competitive market practice. The CEO has chosen to opt out of membership of the Plan and consequently receives a salary supplement of 30% of salary in lieu of pension.</p> <p>This Plan is now closed to new entrants. If an executive director joins who is not already a member of the Plan, they will be able to participate in the new auto-enrolment defined contribution scheme or to receive a supplement payment of 30% of total Basic Salary.</p>	For 2013 the Cap will increase to £138,000 in line with inflation.	

No changes have been made to the policy except where identified above.

Remuneration policy for other employees

The remuneration policy described in the previous table applies specifically to executives of the Group. However, the Remuneration Committee believes it is appropriate that all senior management's reward is directly linked to the performance of the Company and aligned with shareholder value. Accordingly Executive Committee members participate in the same incentive schemes as the executive directors at a reduced level to ensure alignment between the leadership team with each other and with our shareholders.

Below this level, a system of profit sharing and the encouragement of share ownership is cascaded through all tiers of management. Individuals who sit within the upper tiers of the organisation participate in a similar bonus plan that is linked to PBT and cash flow. These individuals also receive share awards which vest dependent on the same performance measures as the long-term incentive plan awarded to executive directors.

Share grants are made at a reduced level to a wider population within Howdens that do not use performance conditions. These awards are made in order to encourage share ownership throughout the Company.

2013 remuneration scenarios

The remuneration package for the executive directors is designed to provide an appropriate balance between fixed and variable, performance-related components, with a significant proportion of the package weighted towards long-term variable pay. The Committee is satisfied that the composition and structure of the remuneration package is appropriate and does not incentivise inappropriate risk taking and reviews this on an annual basis.

The composition and value of the executive directors' remuneration packages in a range of performance scenarios are set out in the charts below. These show that the proportion of the package delivered through long-term performance is in line with our remuneration policy and changes significantly across the performance scenarios. As a result, the package promotes the achievement of superior long-term performance and aligns the interests of the executive directors with those of other shareholders. A brief description of each remuneration scenario is set out below the charts.

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Base salary corresponds to 2013 salary. Benefits figure uses 2012 actual benefits as per the emoluments table as an indication for 2013 benefits. Pension represents 2013 salary supplement for CEO and an estimate of the 2013 pension provided to the CFO in line with HMRC methodology. Below target no incentives vest. Bonus reflects 100% of salary for the target scenario and 200% of salary for the maximum scenario. This 200% bonus level represents a cap rather than a maximum award and the Committee do not envisage this level of payout being attained under normal circumstances. The LTIP figures reflect the midpoint of the threshold and maximum vesting for the target scenario and full vesting for the maximum scenario. Share price movement has not been incorporated into the above figures.

Non-executive directors do not receive performance related pay. Their fees are disclosed in the policy table.

Directors' remuneration report continued

Consideration of conditions elsewhere in the Group

When making decisions on executive reward, the Remuneration Committee considers the wider economic environment and conditions within the Company. In particular the Committee considers pay conditions across the Company when reviewing base salaries for executive directors.

Additionally some of the Company's workforce are unionised or belong to a works council. Howdens maintains open lines of communication with these bodies and the Committee is always made aware of any relevant information in relation to remuneration policy.

Accordingly the salary increase for the wider workforce for 2013 was 3% on average, which was in line with the increase provided to the CEO and CFO.

Consideration of shareholder views

The Committee remains committed to maintaining an ongoing and transparent dialogue with its shareholders. During the year, open channels of dialogue were maintained with our major shareholders and shareholder representation bodies. The Committee Chairman also sent a letter to the Group's top ten shareholders in advance of the publishing of this remuneration report summarising the contents and the key areas for shareholders' attention. This allowed shareholders to raise any issues or concerns they may have had in advance of the final publication date.

Shareholders were generally supportive and did not highlight any areas for change in policy during this year's dialogue.

Service contracts

The Company's policy on service contracts and termination arrangements is set out below. As an overriding principle, it is the Company's policy that there should be no element of reward for failure. The Committee's approach when considering payments in the event of termination is to take account of the individual circumstances including the reason for termination, contractual obligations of both parties as well as share plan and pension scheme rules.

All executive directors' employment contracts have twelve months' notice of termination on both sides. In the event of termination by the Company, there will be no compensation for loss of office due to misconduct or normal resignation. In other circumstances, executive directors may be entitled to receive compensation for loss of office which will be paid monthly for a maximum of twelve months. Such payments will be equivalent to the monthly salary that the executive would have received if still in employment with the Company. Executive directors will be expected to mitigate their loss within a twelve month period of their departure from the Company.

In their service contracts, executive directors have the following remuneration related contractual provisions:

- Receipt of a salary, which is subject to annual review
- Receipt of a car allowance and non-exclusive use of a driver
- Health insurance and death-in-service insurance payable by the Group
- Eligibility to participate in any bonus scheme or arrangement which the Company may operate from time to time, subject to the plan's rules
- Participation in the Company's pension plan, subject to the approval of the Board

IMPLEMENTATION REPORT

This implementation report outlines remuneration related activities and outcomes over the past year. Those sections of this report which have been audited are indicated in the title to the section.

The Committee and its advisers

Membership of the Committee

The Remuneration Committee comprises four independent non-executive directors who have no personal financial interest, other than as shareholders, in the matters to be decided. During the year, the members of the Committee were

- Michael Wemms (Chairman of the Remuneration Committee)
- Mark Allen
- Angus Cockburn
- Tiffany Hall

Under its terms of reference (published in the Governance section of Howden Joinery Group Plc website at <http://www.howdenjoinerygroupplc.com> and reviewed on an annual basis) the Committee is responsible for determining the broad policy and specific remuneration packages for executive directors, the Company Secretary and other members of the Executive Committee, including pension rights and, where applicable, any compensation payments. The Committee is also regularly updated on pay and conditions applying to other employees in the Company.

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The Committee met three times during 2012 and attendance of the Committee is shown in the table in the Corporate Governance report. The meetings covered the following key areas:

- Approve salaries for the Executive Board members and Executive Committee
- Review the developments in corporate governance best practice and competitive market practice trends during the course of the year
- Review and approve the Remuneration Report to shareholders
- Review and approve the Chairman's fees
- Review and approve the terms and conditions of the annual bonus and long-term incentives awarded for 2011, including determining the appropriate performance targets
- Review and approval of annual bonus payouts for 2011
- Review and approval of share-based awards vesting for 2011
- Review and approve the terms of reference of the Committee
- Initial review of the ongoing appropriateness and relevance of the remuneration policy and incentives for 2013
- Review of the balance between risk and reward to ensure that the incentives are compatible with the Company's risk policies and systems. The Committee concluded that the incentives did not expose the Company to any excessive risk and were appropriately managed.

Directors' remuneration report continued

Advice to the Committee

The Committee regularly consults with the Chief Executive on matters concerning remuneration, although he is never present when his own reward is under discussion. The Company Chairman attends the Remuneration Committee by invitation except when his own remuneration is determined. The Company Secretary acts as secretary to the Committee but is never present when her own reward is determined.

The Committee also has access to detailed external information and research on market data and trends from independent consultants. PricewaterhouseCoopers LLP (PwC) is the Committee's retained independent advisers and provided advice to the Committee during the year. PwC also undertook a review of the Group's internal audit function during 2012 (see the Audit Committee report on pages 58 to 62 for further details).

Statement of shareholder voting

The table below shows the voting outcome at the May 2012 AGM for the approval of the 2011 Remuneration Report.

	For	Against	Abstain
Votes	96.7%	1.7%	1.6%

The Committee was pleased with the strong vote in favour of the report the Group received from shareholders.

DIRECTORS' REMUNERATION (AUDITED)

The following table sets out the directors' emoluments for the 53 weeks to 29 December 2012.

All figures in £000	Emoluments table						53 weeks to 29 Dec 2012	52 weeks to 24 Dec 2011
	Basic salary	Fees	Benefits ⁽¹⁾	Annual cash incentive ⁽²⁾	Pension supplement ⁽³⁾			
Chairman								
Will Samuel	-	170	-	-	-		170	170
Executive directors								
Matthew Ingle	555	-	18	555	165		1,293	1,255
Mark Robson	389	-	32	389	108		918	867
Sub-total	944	170	50	944	273		2,381	2,292
Non-executive directors								
Mark Allen	-	40	-	-	-		40	23
Angus Cockburn	-	48	-	-	-		48	48
Tiffany Hall	-	40	-	-	-		40	40
Ian Smith ⁽⁴⁾	-	-	-	-	-		-	29
Michael Wemms	-	51	-	-	-		51	51
Total	944	349	50	944	273		2,560	2,483

1 The benefits column incorporates benefits in kind which relate in the main to the provision of a fully expensed car or cash equivalent, private medical cover and use of the company driver.

2 Total bonus outcome for Messrs Ingle and Robson was 103% of salary. Any amount earned in excess of 100% of salary is deferred into shares: half of which will be held in trust for a further year and half being held in trust for a further two years.

3 Pension supplements are paid every six months in arrears and the next payment is due in March 2013. The table above includes an accrued amount for the period from 1 October 2012 to 29 December 2012. Further details of the pension supplement are given on page 38.

4 Ian Smith retired from the Board on 21 September 2011.

STATEMENT OF DIRECTORS' SHAREHOLDING

In order that their interests are aligned with those of shareholders, executive directors are expected to build up and maintain a personal shareholding in the Company

Under the share ownership guidelines the Chief Executive is required to hold a personal shareholding equal to twice his basic salary. Other executive directors are required to hold a personal shareholding equal to their basic salary.

There are no shareholding guidelines for non-executive directors.

The table below sets out the total shares in the Group held or potentially held by directors and the extent to which the executive directors have met the shareholding guidelines.

Director	Shareholding requirement	Shares held			Options held		Current shareholding (% salary)*	Guideline met?
		Owned outright	Subject to performance conditions	Subject to deferral	Owned outright	Subject to performance conditions		
Matthew Ingle	200%	3,285,280	2,600,000	107,862	4,569,941	1,333,333	977%	Yes
Mark Robson	100%	1,417,739	1,825,256	70,011	4,022,874	892,193	601%	Yes
Will Samuel	n/a	40,000						
Mark Allen	n/a	3,000						
Angus Cockburn	n/a	3,000						
Tiffany Hall	n/a	3,000						
Michael Wemms	n/a	42,000						

*Based on a share price of £1.65, being the 3 month average share price to 29 December 2012 (source: Datastream)

BASE SALARIES IN 2012

The Committee's policy is to position base salary for each director at the median level compared to market practice. Base salaries are reviewed annually and are determined by taking into account the performance of the individuals, changes in their responsibilities and information from independent remuneration consultants on the levels of salary for similar jobs having regard to the size of the Company – its turnover, market capitalisation and complexity. The Committee also takes into account internal relativities and the total remuneration of the executives compared to the market. Base salary is the only element of remuneration which is pensionable. In addition, benefits are provided to executive directors in accordance with market practice.

The salary increases for 2012 and 2013 are set out in the table below. The increases provided are in line with salary increases provided to the wider workforce. The CEO's increase in 2012 was his first increase since 2008.

	2012		2013	
	Salary	Increase on prior year	Salary	Increase on prior year
Matthew Ingle	£555,000	3%	£571,700	3%
Mark Robson	£389,300	3%	£401,000	3%

Directors' remuneration report continued

VARIABLE PAY OUTCOMES FOR THE YEAR ENDING 29 DECEMBER 2012

2012 bonus

In line with the current policy, the bonus opportunity for 2012 was capped at 200% of salary with any payment over 100% of salary deferred into shares. The performance measures were made up of pre-exceptional profit before tax (PBT) and cash flow targets as shown below.

Under the PBT component, no bonus is payable for achieving below Threshold performance. In 2012, this was set at £99m PBT. At Threshold performance, 10% of salary can be earned rising to 77% of salary for achieving a Target level of PBT performance with straight-line vesting between these points. Above Target, the bonus is determined on a "profit share basis" whereby participants earn a bonus based on a fixed percentage of the Company's PBT. In 2012, the profit share percentages for the CEO and CFO were 0.43% and 0.30% respectively.

In respect of the cash flow element of the bonus, executives can earn up to 40% of salary based on achieving pre-determined cash flow targets. The cash flow measure used in 2012 is based on net cash flow from operating activities, taking into account the efficiency with which working capital is used, and adjusted for exceptional items. 15% of salary is payable for achieving threshold performance and 40% of salary is payable for achieving maximum performance, with payments determined on a straight-line basis between these points. No bonus in respect of the cash flow element will be paid below threshold.

Annual bonus outcomes	Matthew Ingle	Mark Robson
Cash flow component achievement and outcome	Achieved £139m cash flow Outcome 40% of salary	
PBT component achievement and outcome	Achieved £112m PBT Outcome 63% salary	
Details of any discretion exercised	No discretion was exercised in respect of annual bonus outcomes in the year under review	
Total paid	£572,726	£401,734
– delivered in cash	£555,000	£389,300
– delivered in shares	£17,726	£12,434

2010 Market Priced Options

Market priced options were granted to executives on 25 March 2010 under the Howden Joinery Long-Term Incentive Plan, which vest on 25 March 2013. The share options vest in full if 2012 PBT has grown by RPI + 8% p.a. on 2009 PBT and lapse if growth was below RPI.

Over the performance period the Group's PBT increased at a rate of 14% p.a. in excess of RPI. Therefore, the maximum profit targets under the plan were significantly exceeded. In addition the share price increased over the period from 76p on 27 December 2009 (the beginning of FY10) to 173p on 29 December 2012 (the end of FY12). In light of this, and given the Group's overall performance and the progress made towards its long-term strategic goals, the Committee feels this level of vesting is appropriate and has approved them.

FIVE YEAR TOTAL SHAREHOLDER RETURN (AUDITED)

Under the Directors' Remuneration Report Regulations 2002 ("the Regulators") the Company is required to include in this report a graph showing the Company's total shareholder return (TSR) performance over the most recent five years compared to an appropriate index. The graph below illustrates the Company's TSR performance relative to the constituents of the FTSE 250 index (excluding Investment Trusts) of which the Company is a constituent.

It shows that over the past five years Howden Joinery Group has generated significantly higher returns than the FTSE 250 (excluding Investment Trusts).

Directors' remuneration report continued

DETAIL ON VARIABLE PAY AWARDED IN THE YEAR

During 2012, the executive directors were invited to participate in the Co-Investment Plan. The plan operated on the same basis as the awards which were granted in 2011, as follows:

- The CEO was able to invest up to the lesser of 650,000 shares and 150% salary of his own shares into the plan for three years. At the time of award, 650,000 shares equated to 149% of salary (based on a closing share price of £1.275 on the day prior to grant).
- The CFO was able to invest up to the same proportion of salary as the CEO.
- Both the CEO and CFO invested the full amount.
- Under the plan, each invested share is matched by up to two additional shares which vest subject to the achievement of stretching PBT growth targets.
- In setting the performance targets, the Remuneration Committee aims to align management's reward with longer term PBT growth which is central to the achievement of Howdens strategy.

The table below provides further details of this award:

Nature of award	Restricted shares awarded under the Co-Investment Plan		
Level of award	Executive	Number of invested shares	Maximum potential matching shares
			Face value of CIP award
	CEO	650,000	1,300,000
	CFO	455,937	911,874
PBT component vesting schedule	PBT growth performance condition		Number of matching shares that would vest per invested share
	12% p.a.		2
	Straight-line vesting between these points		Straight-line vesting between these points
	6% p.a.		0.5
	Less than 6% p.a.		0
Performance period	Performance measured from FY11 to FY14		
Vesting date	26 March 2015		

LOSS OF OFFICE PAYMENT

No exit payments were made in the year under review.

TOTAL PENSION ENTITLEMENTS (FOR DEFINED BENEFIT SCHEMES) (AUDITED)

Executive directors can participate in the Howden Joinery Group Pension Plan (the Plan). The Plan is funded and HMRC approved. With effect from 1 September 2006 the basis changed to a hybrid defined benefit, occupational pension plan.

Its main features are

- the defined benefit pension accrues on a Career Average Revalued Earnings (CARE) basis at the rate of 1/50th of actual pensionable pay in each year (currently capped at £135,000), post-retirement increases are linked to the increase in the retail prices index with a maximum of 2.5%.
- members contribute 8% of pensionable pay to the CARE plan,
- in addition to the defined benefit section, the Company will match any voluntary member contribution made to the defined contribution top-up section to a maximum of 8% of pensionable pay. The member may opt to receive a salary supplement of 8% of salary in lieu of this defined contribution opportunity,
- life assurance cover of six times pensionable pay for those members with dependents and two times for those without dependents,
- pension payable in the event of ill health, and
- spouse's pension on death in retirement of 2/3 of deceased's pension.

Pensionable pay is limited to the member's basic salary.

A pension supplement system operates concurrently with the Plan which recognises that pension entitlement in respect of the CARE part of the Plan has included maximum benefit restrictions which was £135,000 for 2012. This supplement is 30% of basic salary above the Plan Cap to reflect competitive market practice.

If a director chooses to opt out of membership of the pension plan, then the supplement payment will be 30% of total basic salary. During the year, Mark Robson participated in the Plan. Matthew Ingle had a fully funded pension position in 2006 and hence has chosen to opt out of membership of the Plan. Mr Ingle consequently receives a salary supplement of 30% of basic salary in lieu of pension.

The table below sets out the accrued pension for both executive directors.

Name	Date pensionable service commenced	Accrued pension	Pensionable service (complete years and months)
		at 29 Dec 2012 £000	
Matthew Ingle	12 April 1995	45.8	10 years 11 months
Mark Robson	12 April 2005	21.9	7 years 8 months

Directors' remuneration report continued

The table below shows the accrued pension should the director leave employment as at the financial period end

	Transfer value at 24 Dec 2011 £000	Real increase in accrued pension £000	Inflation £000	Increase in accrued pension £000	Transfer value of real increase in accrued pension (less directors' contributions) £000	Other changes to transfer value £000	Increase / (decrease) in transfer value less directors' contributions £000	Directors' contributions £000	Accrued pension at 29 Dec 2012 £000	Transfer value at 29 Dec 2012 £000
Matthew Ingle	685.7	-	1.0	1.0	-	(52.4)	(52.4)	-	45.8	633.3
Mark Robson	346.8	2.7	0.4	3.1	46.6	(11.1)	35.5	-	21.9	382.3

1 Matthew Ingle opted out of the pension plan on 5 April 2006 and consequently receives a 30% salary supplement from this date. Mark Robson receives a salary supplement of 30% on basic earnings over and above the earnings cap.

2 Employee pension contributions are paid on a Salary Sacrifice basis and therefore aggregate pension costs paid by the Company in respect of the directors' qualifying services were £19,760 (2011: £30,060). The amount paid in respect of the highest paid director was £19,760 (2011: £30,060).

SHARE OPTIONS (AUDITED)

Details of share options of those directors who served during the year are as follows

Director	At 24 Dec 2011	Awarded	Lapsed / expired unexercised	Exercised	At 29 Dec 2012	Exercise price (pence)	Earliest date of exercise	Expiry date
Matthew Ingle								
2000 Share Option Plan (Section 3)	275,483	-	-	-	275,483	106.5	26 May 2008	26 May 2015
2000 Share Option Plan (Section 2)	2,862,972	-	-	(715,743)	2,147,229	50.0	16 April 2012	16 April 2019
2000 Share Option Plan (Section 2)	2,862,972	-	-	(715,743)	2,147,229	25.0	16 April 2012	16 April 2019
Howden Joinery LTIP	1,333,333	-	-	-	1,333,333	80.7	25 March 2013	25 March 2020
Mark Robson								
2000 Share Option Plan (Section 3)	191,388	-	-	-	191,388	106.5	26 May 2008	26 May 2015
2000 Share Option Plan (Section 2)	1,915,743	-	-	-	1,915,743	50.0	16 April 2012	16 April 2019
2000 Share Option Plan (Section 2)	1,915,743	-	-	-	1,915,743	25.0	16 April 2012	16 April 2019
Howden Joinery LTIP	892,193	-	-	-	892,193	80.7	25 March 2013	25 March 2020
	12,249,827	-	-	(1,431,486)	10,818,341			

1 The options outstanding are exercisable at prices between 25 pence and 106.5 pence. In the period the highest middle market closing price was 176.3 pence per share and the lowest middle market closing price was 99.1 pence per share. The middle market price on 28 December 2012 (the last business day before the financial year end) was 173.2 pence per share.

2 Options granted under Sections 2 and 3 of the 2000 Share Option Plan Portfolio and those granted under the Howden Joinery Group LTIP are not normally exercisable unless challenging targets are met. These options have been divided into the following performance conditions.

- For the options granted in 2005, 40% of the option became exercisable subject to growth in EPS, calculated on an IIMR basis, being equal to RPI + 40% over three years, increasing on a straight-line basis up to 100% of an option becoming exercisable where EPS growth equals or exceeds RPI + 100% over three years. Options lapsed on 26 May 2008 to the extent that these targets were not satisfied. Targets are not restated.
- For the options granted in 2009, options vested if the Group achieved a cumulative pre-exceptional PBT of £90m over the three financial years ending 2009, 2010 and 2011.
- For the options granted in 2010, 15% of the options will vest if the Group achieves growth in pre-exceptional PBT equivalent to RPI over the performance period, 100% will vest if pre-exceptional PBT growth equivalent to RPI + 8% is achieved.

CONDITIONAL RIGHTS TO ORDINARY SHARES (AUDITED)

Details of the Company's ordinary shares over which those directors who served during the year have conditional rights under the LTIP are as follows

Director	Scheme interest at 24 Dec 2011	Awarded	End of the period for qualifying conditions to be fulfilled	Lapsed / expired	Vested	At 29 Dec 2012
Matthew Ingle						
Co-Investment Plan (2011 grant)	1,300,000	–	31 Dec 2013	–	–	1,300,000
Co-Investment Plan (2012 grant)	–	1,300,000	31 Dec 2014	–	–	1,300,000
Mark Robson						
Co-Investment Plan (2011 grant)	913,382	–	31 Dec 2013	–	–	913,382
Co-Investment Plan (2012 grant)	–	911,874	31 Dec 2014	–	–	911,874
	2,213,382	2,211,874		–	–	4,425,256

1 For both awards under the Group's Co-Investment Plan, each invested share will be matched by an award of up to two shares if PBT growth of 12% is achieved over the three year performance period, 25% of the maximum match will be earned if PBT growth of 6% is achieved over the performance period. The awards will vest on a sliding scale between these two points.

2 From 2009 onwards, the directors have been required to defer any part of their annual bonus payment earned in excess of 100% of salary into shares. The shares are bought out of taxed income. Half of these shares will be held in trust for one year and the remaining 50% will be held in trust for two years. Mr Ingle has 107,862 shares held in Trust under this arrangement and Mr Robson 70,011 shares.

DIRECTORS' AWARD OF FREESHARES – SHARE INCENTIVE PLAN (AUDITED)

The aggregate awards of free shares made to the executive directors under the Share Incentive Plan are as follows

Executive	No of Shares
Matthew Ingle	311

Michael Wemms
Remuneration Committee Chairman

27 February 2013

Corporate governance report

INTRODUCTION AND STATEMENT OF COMPLIANCE

The Company remains committed to the principles of corporate governance contained in the UK Corporate Governance Code (the "Code") for which the Board is accountable to shareholders. Throughout the 53 weeks ended 29 December 2012, the Company has been in compliance with the provisions set out in the Code applicable to accounting periods commencing before 1 October 2012.

The Company has applied the principles set out in the Code, including both the main and supporting principles, by complying with the Code as reported above. Examples of how the principles and supporting principles have been applied are set out below and in the Remuneration report and Committee reports. The Board received a formal update in November 2012 on the amendments made to the Code by the FRC during the year and continue to apply the Code in the spirit in which it was adopted.

HOWDENS' APPROACH TO CORPORATE GOVERNANCE

As stated previously, as a locally empowered, entrepreneurial business, Howden Joinery is reliant on a strong, effective and consistent governance culture throughout the business. The Board takes seriously its responsibility for leading the corporate governance agenda and cascading throughout the business the values and standards which contribute so much to our

culture and therefore ultimately to our success. Importantly, it also recognises that good governance lies not merely with following codes and popular trends but ensuring that appropriate structural safeguards are in place to minimise risk and ensure that the Company can achieve its long-term ambitions of stability and success.

THE BOARD

Role

The Board has responsibility for the overall management and performance of the Howden Joinery Group. They are collectively responsible for challenging and assisting in the development of strategy and ensuring that there are sufficient resources in place to meet the strategic objectives which have been set.

The directors are also responsible for determining the nature and extent of significant risks and maintaining sound risk management and internal control procedures throughout the Group.

The Board reviews the performance of and provides counsel to the senior management in their day to day running of the business, and is ultimately responsible for the safeguarding of its shareholders' interests and ensuring its own effectiveness.

Decisions reserved for consideration by the Board are detailed in a schedule which is reviewed annually. These include decisions about strategy, acquisition and

disposals, risk management and internal control, capital projects over a defined level, annual budgets, Group borrowing facilities and consideration of significant financial and operational matters. The Board also considers legislative, environmental, health & safety, governance and employment issues.

Board composition

The Board is structured to ensure that there is a clear distinction between the strategic functions of the Board and the operational management of the Company. The Board currently comprises two executive directors, the Chairman and four non-executive directors.

Details of the individual directors can be found on page 31.

Will Samuel was the non-executive Chairman during the whole period.

Executive directors

There were no changes to the executive directors during the period. Matthew Ingle and Mark Robson continued in their roles as Chief Executive and Chief Financial Officer. Mr Ingle was appointed to the Board in 1998, Mr Robson in 2005.

Non-executive directors

The non-executive directors have been selected for the diversity of their backgrounds as well as their personal attributes and experience. The current board members bring a wide range of skills and experience to the Board and all actively contribute in discussion.

The Board considered that the following directors were deemed to be independent during the period

- Mark Allen
- Angus Cockburn
- Tiffany Hall
- Michael Wemms (Senior Independent Director)

The Chairman, Will Samuel, was considered to be independent on appointment as outlined in the Code

At all times during the period the Company adhered to provision B 1 2 of the Code which provides that at least half of the Board excluding the Chairman must be independent and to the provisions of the Code related to the composition of the Audit, Remuneration and Nominations Committees

The Board is proposing that all of the directors will be subject to re-election at the 2013 AGM. However, having served nearly seven years as a non-executive director and Chair of the Company's Audit Committee, Angus Cockburn has informed the Board that he intends to resign as a non-executive director after the AGM once a suitable candidate has been recruited to replace him. In order to ensure a smooth transition of responsibilities, Angus will continue as a non-executive director and Chairman of the Audit Committee after the AGM and until such time as a replacement has been appointed

Angus will therefore offer himself for re-election at the AGM along with the other directors

Division of responsibilities

The roles of Chairman and Chief Executive are separate and clearly defined. The Chairman is primarily responsible for leadership of the Board and has a pivotal role in creating the conditions for individual director and board effectiveness including ensuring a culture of openness and debate in the boardroom. The Chairman is responsible for setting the Board's agenda and works closely with the Company Secretary in this regard. He ensures that adequate time for discussion is afforded to all agenda items at meetings. It is also the responsibility of the Chairman to ensure effective communication with the shareholders. The executive directors, and in particular the Chief Executive, are responsible for satisfactory execution of the policies and strategy agreed by the Board.

In accordance with the Code, the Board has established Audit, Remuneration and Nominations Committees, each with defined terms of reference. The membership and terms of reference of these committees are reviewed annually and are available on the Group's website at <http://www.howdenjoinerygroupplc.com/investors/governance/>. The work of each of these committees is considered in detail below.

The Board has also established a Pensions Committee dealing with matters associated with the Group's pension scheme and a Disclosure Committee which considers matters which could give rise to an obligation to make a market announcement under the FSA Listing Rules.

In addition to these standing committees, the Group has an Executive Committee comprising those members detailed on page 119. The principal purpose of the Committee, which meets at least twice a month, or more frequently if required, is the implementation of the Group's strategy and operational plans. The Committee monitors the operational and financial performance of the business, as well as being responsible for the optimisation of resources and the identification and control of operational risk within the Group.

Attendance

The Board holds regular meetings and receives accurate and timely information. During 2012, the Board held seven formal Board meetings and a number of other meetings and teleconferences to discuss and review progress on issues affecting the Group during the year.

Corporate governance report continued

	Board		Audit		Remuneration		Nominations	
	Actual	Possible	Actual	Possible	Actual	Possible	Actual	Possible
Will Samuel	7	7	–	–	–	–	2	2
Matthew Ingle	7	7	–	–	–	–	–	–
Mark Robson	7	7	–	–	–	–	–	–
Mark Allen	7	7	3	3	3	3	2	2
Angus Cockburn	7	7	3	3	3	3	2	2
Tiffany Hall	7	7	3	3	3	3	2	2
Michael Wemms	7	7	3	3	3	3	2	2

Denotes Chairman

The table above shows the number of meetings individual directors could have attended (taking account of eligibility, appointment and retirement dates during the year) and their actual attendance. For the Committees, only the attendance of members of that committee is shown, although other directors, where appropriate, have often also attended at the invitation of the chairman of the committee.

If a director is unable to attend a meeting, they are nevertheless provided with all the papers and information relating to the meeting and are able to discuss the issues arising directly with the Chairman and executive directors.

The non-executive directors also met twice during the year without the executive directors present.

Diversity

The Board recognises the importance of ensuring that there is diversity of perspective, background and approach in its management

team and on its Board. Since the business was established in 1995 it has sought to enable individuals to progress within the organisation regardless of age, gender, background or formal qualifications. We have appointed one female director and one male director to our Board since May 2010, which means that currently 14% of Board members are women.

We believe that it is in the interests of the business and of its shareholders for us to build a stable, cohesive and representative Board. The Nominations Committee will continue to seek diversity of mindset as well as of gender and background when considering new appointments in the period to 2015. More widely, we are committed to developing a long-term pipeline of executive talent that reflects the diversity of Howdens' business and of all its stakeholders. Currently 33% of the members of our Executive Committee are female (2011: 25%).

Board evaluation

A formal review of the Board's effectiveness was conducted following the September Board meeting in accordance with the Board's formal process for reviewing its own effectiveness. During the year, the Board agreed that, as in 2011 and in accordance with provision B 6.2 of the Code, the 2012 review would be undertaken by the Company Secretary and the 2013 review would be externally facilitated. The 2012 review was conducted within a methodology previously agreed by the Board and comprised a series of interviews with all Board members and a questionnaire. Interviews were also conducted with a number of investors.

The formal evaluation addressed key topics which included:

- the composition of the Board,
- the extent and quality of information provided to the Board and Committees,

- the conduct of Board meetings and processes,
- the extent to which the Board engages in strategic planning,
- talent management and continuity planning,
- the performance of the Chairman, of Board committees and of individual members,
- the quality of debate within the Board, and
- the extent to which actions arising from the 2011 evaluation exercise had been implemented effectively

The report of the evaluation was presented to the Board in February 2013 and the Board accepted its findings and recommendations

The Senior Independent Director met with the non-executive directors in the absence of the Chairman to assess the Chairman's performance

There is a procedure for all directors to take independent external advice, at the Company's expense, in the course of their duties via the Company Secretary. Working with the Chairman, the Company Secretary is responsible for ensuring that Board procedures are followed and all directors have access to her advice and services

Directors' indemnity & insurance

In accordance with the Articles of Association, the Company has provided indemnities to the directors (to the extent permitted by the Companies Act) in respect of liabilities incurred as a result of their office. In addition the Company

maintains appropriate insurance cover against legal action brought against it or its subsidiaries, directors and officers. Neither the indemnity nor insurance provides cover in the event that the director is proved to have acted dishonestly or fraudulently

AUDIT COMMITTEE

A detailed review of the work of the Audit Committee can be found in the Audit Committee report on pages 58 to 62

To view the Audit Committee terms of reference please refer to the Company website at <http://www.howdenjoinerygroupplc.com/investors/governance/audit/>

REMUNERATION COMMITTEE

A detailed review of the work of the Remuneration Committee can be found in the Remuneration Committee report on pages 35 to 49

To view the Remuneration Committee full terms of reference please refer to the Company website at <http://www.howdenjoinerygroupplc.com/investors/governance/remuneration/>

NOMINATIONS COMMITTEE

To view the Nominations Committee full terms of reference please refer to the Company website at <http://www.howdenjoinerygroupplc.com/investors/governance/nomination/>

Composition

In accordance with the Committee's terms of reference, the Nominations Committee consists of five members: the Chairman of the Board, who (in accordance with

provision B 21 of the Code) also chairs the Committee, and the independent non-executive directors

Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Executive and external advisers may be invited to attend for all or part of any meeting, as and when appropriate. Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three-year periods, provided the director remains independent

More information on the Board's commitment to diversity in the Howdens' Board and senior management can be found on page 52

Function

The Committee keeps under review the size, composition and structure of the Board and makes recommendations to the Board for all new appointments and reappointments. In recent years, the Board as a whole has chosen to consider succession planning rather than delegate it to the Nominations Committee. As part of that work, a review of all the Executive Committee roles is currently being undertaken in order to understand better where there may be opportunities to improve the organisation, as well as looking more broadly at how we ensure that all our senior managers have the appropriate mix of skills and abilities to lead the business forward

During 2012, the Nominations Committee met twice to consider

- the reappointment of directors at the 2012 AGM,
- the renewal of non-executive director contracts in relation to Will Samuel, Angus Cockburn and Michael Wemms, and
- the performance of the Committee and the appropriateness of the Committee's terms of reference

INDUCTION AND ONGOING TRAINING

There were no new appointments to the Board during the year and therefore no directors undertook the Group induction programme. Future appointments to the Board will undertake an induction programme tailored to the needs of the individual. However, the Group's induction programme for newly appointed directors will continue to be centred on familiarisation with the Group's operations and will include meeting directors and executives individually, visiting operational locations, and discussions with the Company's external advisers.

The Chairman meets with individual directors annually to discuss, amongst other things, individual training and development needs. Ongoing training and development for the directors includes attendance at formal conferences and internal events as well as briefings from external advisers.

Directors are also encouraged to attend external seminars and briefings as part of their

continuous professional development. The non-executive directors are also encouraged to meet with Howdens' employees at all levels in order to maintain a broad purview of the business.

RELATIONS WITH SHAREHOLDERS

The Company considers its relationship with both institutional and private investors to be important and readily enters into dialogue with investors. The Company has consulted extensively with its principal shareholders in the course of 2012 in relation to the ongoing progress of the Company and also in relation to identifying appropriate executive incentive arrangements. The Company is aware of the stewardship obligations of institutional investors as set out in the UK Stewardship Code and will continue to work with its institutional investors to ensure that they are able to satisfy these requirements.

Both of the executive directors, the Chairman and the Senior Independent Director met with shareholders during the year and all of the directors make themselves available for meetings with shareholders as required.

The Company's website (www.howdenjoinerygroupplc.com) includes a specific investor relations section and provides an effective channel for communication with existing and potential investors. The Board receives regular reports from the CFO with regard to relations with the major shareholders and

developments and changes in their shareholdings. The Board also commissions regular feedback reports from the Company's joint brokers, UBS and JP Morgan Cazenove.

The Annual General Meeting (AGM) provides shareholders with an opportunity to discuss the Group's progress and operations directly with the Board. At the AGM, the Company proposes separate resolutions on each substantially separate issue and the numbers of proxy votes cast for and against each resolution are made available to shareholders when voting has been completed. The notice of the AGM is sent to shareholders at least twenty working days before the meeting.

RISK AND INTERNAL CONTROL

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness, whilst the role of management is to implement Board policies on risk and control. Such a system is, however, designed to manage rather than eliminate the risks of failure to achieve business objectives. In pursuing these objectives, internal controls can only provide reasonable assurance against misstatement or loss. The UK Corporate Governance Code recommends that the Board at least annually reviews the effectiveness of the Group's system of internal controls, including financial, operational and compliance controls and risk management. The Board has conducted reviews of the effectiveness of the system of internal controls through the

processes described below and is satisfied that it accords both with the Code and with the Turnbull Guidance. In accordance with IAA recommendations, a comprehensive external review of the effectiveness of the Internal Audit function was undertaken by PricewaterhouseCoopers during the year. Subject to this review and during the course of its own review of the system of internal control, the Board has not identified or been advised of any failings or weaknesses which it has determined to be significant, therefore a confirmation in respect of necessary actions has not been considered appropriate.

A description of the Group's principal risk and uncertainties can be found on pages 21 to 24 of the Review of Operations and Finance.

Risk management

The Board can confirm that, for the 2012 financial year and up to the date of approval of the Annual Report and financial statements, there has been an ongoing process for identifying, evaluating and managing the significant risks faced by the Group which is reviewed regularly by the Board and accords with the Turnbull Guidance. Under the guidance of the Chief Financial Officer, it is the responsibility of the Executive Committee to review the effectiveness of the risk management process and internal controls on behalf of the Board. The Executive Committee regularly reports to the Board on how risks are being managed. In addition, there is a mechanism in place to report significant control breakdowns or risk occurrences to the Executive Committee.

An ongoing process for the effective management of risk has been defined by the Board and is embedded throughout the various tiers of the organisation. It is operated in the following stages:

- Each operating division and central function identifies key risks through the adoption of both a "bottom-up" and "top-down" process. These key risks are regularly reviewed by the senior management team in each division. The key risks to each business area's objectives are identified and scored for probability and impact. The key controls to manage the risks to the desired level are identified.
- A local database of risks and controls is maintained within each operating division and central service function. This is consolidated into a central register which becomes the key risk register for the Group. The Group Risk department facilitates the identification of these risks and provides an independent appraisal of the interpretation of the scoring mechanism, to ensure that the key risks are brought forward to the Executive Committee. The Executive Committee then reviews the key risks to assess the effectiveness of the risk management strategies.
- The senior management team within each division and within the central functions are responsible for the ongoing review of their functions' risk registers. Regular reporting on internal and external changes that affect

the risks or their importance to the business, and any risk occurrences, are reported upwards through their register to the Executive Committee.

- Key risks and their management and any areas for improvement are regularly reported to and discussed at the Executive Committee.
- A review of the risk process and risk management systems is undertaken by the Audit Committee annually.
- Key risks arising within the business are formally discussed by the Group Board every six months given that overall risk is a matter reserved for the Board as a whole.
- In order to gain assurance that the Group's risk process is effective a periodic review of both the Audit and Risk Process is conducted by an appropriately qualified and experienced external assurance service provider. This is conducted every five years and was undertaken during 2012. The Audit Committee were satisfied with the conclusions of the review.

Internal control

The Group has an established framework of internal controls, which includes the following key elements:

- The Board reviews Group strategy and the executive management are accountable for their performance within the agreed strategy.

- The Group and its subsidiaries operate control procedures designed to ensure complete and accurate accounting of financial transactions, and to limit exposure to loss of assets or fraud. Measures taken include physical controls, segregation of duties in key areas and periodic Internal Audit reviews.
- The Audit Committee meets regularly and its responsibilities are set out in the Audit Committee Report. It receives reports from the Internal Audit function on the results of work carried out under an annually agreed audit programme. The Audit Committee has full and independent access to the internal and external auditors.
- Internal Audit facilitates a process whereby operating entities provide certified statements of compliance with specified and appropriate key financial controls. These controls are then cyclically tested by the Internal Audit Department to ensure they remain effective, and are being consistently applied.
- The Audit Committee will annually assess the effectiveness of the assurance provided by the internal and external auditors. Every five years, an external assessment will be undertaken with regard to the assurance provided by the Internal Audit department. An external review was undertaken by PricewaterhouseCoopers in 2012.

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 Chairman's statement on pages 8 to 9, the Chief Executive's statement on pages 10 to 16 and the Review of Operations and Finance on pages 17 to 24. The Review of Operations and Finance describes the financial position of the Group, its cash flows, liquidity position, borrowing facilities, and the Group's objectives, policies and processes for managing its commercial and financial risks. The Group's financial risk management objectives and its exposures to credit risk and liquidity risk in relation to financial instruments are described in note 29 to the financial statements.

The Group meets its day to day working capital requirements through cash generated from operations, and, when required, by utilising an asset-backed lending facility of £160m. The facility has been extended during 2012 and now runs to July 2016, having previously run to May 2014. The current economic conditions create uncertainty, particularly over (a) the level of demand for the Group's products and, (b) the exchange rate between Sterling and both the Euro and the US Dollar which would affect the cost of the Group's operations.

The Group's forecasts and projections have been stress-tested for reasonably possible adverse variations in trading performance. The results of this testing show that

the Group should be able to operate within the level of its current facility and covenants.

After making due enquiries the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have chosen to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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,
- state whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements, and
- 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, International Accounting Standard 1 requires that directors

- properly select and apply accounting policies,
- 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 IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and

- 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 also responsible for safeguarding the assets of the Company and hence 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 in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm to the best of our 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 Company and the undertakings including the consolidation taken as a whole, and

- the review of operations and finance along with other documents which are incorporated into the Directors' Report, together include a fair review of the development and performance of the business and the position of the Company and the undertakings including the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face

By order of the Board

Matthew Ingle
Chief Executive

Mark Robson
Chief Financial Officer

27 February 2013

Report of the Audit Committee

To view the Audit Committee terms of reference please refer to the Company website at <http://www.howdenjoinerygroupplc.com/investors/governance/audit/>

The Board is dependent on the Audit Committee to review the Group's internal financial controls, to assess the work and independence of the external auditor, the effectiveness of the internal audit function and risk management processes, and to ensure integrity of the financial reporting. As such it is crucial that the Committee conducts itself in an informed and efficient way. This Report of the Audit Committee provides an overview of the make-up of the Committee and the matters it considered during the year.

ROLE OF THE CHAIRMAN OF THE COMMITTEE

As Chairman of the Audit Committee I have ultimate responsibility for approving the Committee's agenda, ensuring that key audit issues are reported to the Board in an effective and timely manner and maintaining key relationships with the Group's senior management, Head of Risk and Internal Audit, the Company Secretary and senior representatives of the external auditors.

I have been a member of the Audit Committee since my appointment as a non-executive director in October 2006 and have chaired the Committee since March 2007. I am a qualified chartered accountant and Chief Financial Officer at Aggreko plc and as such the Board considers that I have the requisite recent and relevant financial experience to satisfy Provision C 3.1 of the UK

Corporate Governance Code. The Board also considers that I have the commercial, financial and audit experience necessary to address any complex accounting, audit and risk issues which may arise.

COMPOSITION

In compliance with the Code and the Committee's terms of reference, during the year the Audit Committee comprised wholly of independent non-executive directors: Angus Cockburn, Michael Wemms, Tiffany Hall, and Mark Allen. The quorum for business is two members. Subject to successful annual re-election to the Board as provided by the UK Corporate Governance Code, appointments to the Audit Committee are for a period of three years and are extendable by two additional three year periods. An induction programme is provided for new Audit Committee members as part of the wider induction to the Board.

We review membership of the Committee as part of the review of Board effectiveness. This year's review concluded that the current mix of financial and commercial experience of the Audit Committee, and that of its advisors, is such that the Committee can effectively exercise its responsibilities to the Group in relation to risk and controls. The Committee is permitted by its terms of reference to obtain independent external advice at the Group's expense.

The Audit Committee's terms of reference include all matters indicated by Disclosure and Transparency Rule 7.1 and the Code. A new iteration of the Committee's

terms of reference was approved at our meeting in November 2012 which had been updated in line with the FRC's revised version of the UK Corporate Governance Code and its Guidance on Audit Committees both published in September 2012.

MEETINGS

The Audit Committee met three times during 2012. Our agenda is predominately linked to events in the Group's financial calendar but, as in previous years, we sought to ensure the agenda in 2012 was as fresh and relevant as possible incorporating elements of training and professional development for the Committee as well as reviewing specific areas of the business where appropriate. The agenda is ultimately approved by me as the Committee Chairman but each Committee member retains right to require reports on matters of interest in addition to the annually recurring items.

The Chairman of the Board along with the Chief Executive, Finance Director, the Head of Risk and Internal Audit, representatives from the Finance function and senior representatives of the external auditors are regularly invited to attend all or part of meeting as and when appropriate. The Audit Committee reserves the right to request any non-members to withdraw from any meeting.

SUMMARY OF THE ROLE OF THE AUDIT COMMITTEE

The Audit Committee is responsible for ensuring that the Group's financial systems provide accurate and up-to-date information, that

the Group's published financial statements represent a true and fair reflection of this position and for ensuring the effectiveness and rigorousness of the internal control framework on behalf of the Board

Specifically, the Audit Committee is responsible for

- monitoring the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance and reviewing significant financial reporting judgements contained therein,
- reviewing the Group's internal financial controls and the Group's internal control systems,

- reviewing the Group's risk management processes and systems (although the Board as a whole remains responsible for overseeing the overall risk profile of the business),

- ensuring that information flows from the senior management and external auditors are such that the information the Committee receives is complete, accurate, timely and robust,

- monitoring and reviewing the effectiveness of the Group's internal audit function,

- making recommendations to the Board in relation to the appointment of the external auditor and approving the remuneration and terms of engagement of the external auditor,

- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements, and

- developing and implementing a policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm

We are also responsible for reporting to the Board, identifying any matters in respect of which action or improvement is needed, making recommendations as to the steps to be taken and monitoring the effectiveness of any resulting activity

OVERVIEW OF THE ACTIONS TAKEN BY THE AUDIT COMMITTEE TO DISCHARGE ITS DUTIES

During the year, the Committee discharged its responsibilities through the following activities

Financial Reporting and External Audit

- reviewing the Group's 2011 annual report and financial statements, the half yearly financial report published in July 2012 and the interim management statements. As part of this review we received a report from the external auditor on their audit of the annual report and financial statements and review of the half yearly financial report which took into account the Group's key risks and going concern considerations,
- considering the processes in place to generate forecasts of cash flow and accounting valuation information, including the choice and consistent use of key assumptions. A description of the Group's significant accounting policies can be found in note 2 of the consolidated financial statements on page 68,
- reviewing the effectiveness of the Group's internal financial controls (with specific reference to controls in place on a divisional basis) and reviewing the disclosures made in the annual report and financial statements on this matter,
- receiving reports from the external auditors on the conduct of their audit, their review of accounting policies, areas of judgement and their comments on the effectiveness of internal controls,
- reviewing the proposed plan of work presented by the external auditors, including terms of engagement and fees,

Report of the Audit Committee continued

Financial Reporting and External Audit continued	<ul style="list-style-type: none"> • undertaking an assessment of the qualification, expertise and resources, and independence of the external auditor and the effectiveness of the audit process. This included consideration of a report on the audit firm's own quality control procedures and the audit firm's annual transparency report. This report included the results of the AQRT's (formerly AIU) annual inspections in respect of the auditor's overall performance in the market over a period of four years, • assessing the risk of a possible withdrawal of the external auditors from the market, and • holding confidential sessions with the independent auditors and the head of internal audit in the absence of executive directors and Company executives
Internal Audit and Control	<ul style="list-style-type: none"> • reviewing the processes used by the Group for identifying, evaluating and mitigating risks, • evaluating the performance of the Internal Audit function, which this year included an independent report of the function by PricewaterhouseCoopers, and agreeing a programme of work, • receiving reports from the Internal Audit function on its work and monitoring the status of actions taken in response to its findings, • receiving reports from our divisional Finance Directors in respect of the control environment within their divisions, and • reviewing activity reported under the Group's whistleblowing policy
Governance	<ul style="list-style-type: none"> • reviewing our own effectiveness as an Audit Committee as part of the Board's evaluation process, • reviewing the Group's policy on the employment of ex-audit firm personnel, • reviewing the Group's policy for the allocation of non-audit work, • considering the revised Guidance on Audit Committees and relevant provisions of the UK Corporate Governance Code as issued by the Financial Reporting Council, and • reviewing the Committee's terms of reference and recommending that a version updated in line with the FRC's amended version of the UK Corporate Governance Code and Guidance on Audit Committees be approved by the Board

We invite senior management from the business to come and talk about the financial controls in their business areas. During 2012, the Finance Directors of the two divisions made presentations on the control environments in their areas.

As in previous years, experts from Deloitte were invited to update the Committee on recent developments in the areas of governance, accounting and reporting. All members of the Committee are members of the Deloitte Academy which provides in depth updates on financial and reporting matters.

EXTERNAL AUDITOR

As a Committee we are responsible for the development, implementation and monitoring of the Group's policy on external audit in line with relevant ethical standards and guidance. The current policy sets out the categories of non-audit services which the external auditors will and will not be allowed to provide to the Group, subject to de minimis levels. All relevant fees proposed by the external auditors must be reported to and approved by the Audit Committee. No services were provided by the external auditor pursuant to contingent fee arrangements.

During the year, the external auditors continued to provide tax advice relating to the Group's obligations in respect of former MFI properties and its overseas subsidiaries. We reviewed the ongoing nature and cost of this work during the year. The Committee approved the continued involvement of Deloitte LLP in this regard as it was concluded they were best placed to supply such tax services in a cost effective manner due to the experience and qualifications of the individuals providing such services, their knowledge of the Group and its tax affairs and the best interests of the Group were served by engaging them.

Details of Deloitte LLP's fees for audit and non-audit work during 2012 are included in note 7 to the financial statements on page 78.

The Board recognises that the fees relating to non-audit services are in excess of the total audit fee. This is in part due to the audit related assurance review of the interim accounts (c 25% of the total non-audit fee) but in the main due to fees charged in respect of the aforementioned tax advice (c 50% of the total non-audit fee). Given the specific nature of the fees incurred, and having reviewed the safeguards Deloitte LLP has in place to protect their independence as auditors, we are satisfied this work has not impaired their independence.

The Audit Committee also has a policy in relation to the employment of former members of the external audit team, which was reviewed during the year. This policy states that, whilst the Group would not normally employ a former member of the external audit team, if appropriate, individual cases may be considered by the Chairman of the Committee and Chief Financial Officer.

We recognise that auditor independence is an essential part of the audit framework and the assurance it provides. To fulfil our responsibilities regarding the independence of the external auditors, we undertook a comprehensive review during 2012 encompassing the following:

- review of the independence of the external auditors and the arrangements which Deloitte LLP have in place to identify, report and manage conflicts of interest,
- review of the changes in key external audit staff for the current year and the arrangements for the day to day management of the audit relationship. In accordance with the ethical standards, having held office for five years the lead statutory audit partner changed in March 2012 at the end of the 2011 year end audit,
- consideration of the effectiveness of the external auditors through a review of their plan of work and the outputs arising from the audit,

- consideration of the overall extent of non-audit services provided by the external auditors, in addition to case by case approval of the provision of non-audit services as appropriate, and
- consideration of the likelihood of a withdrawal of the auditor from the market and note taken of the fact that there are no contractual obligations to restrict the choice of external auditors.

To assess the effectiveness of the external auditor, we reviewed:

- the arrangements for ensuring the external auditor's independence and objectivity,
- the external auditor's fulfilment of the agreed audit plan and any variations from the plan,
- the robustness and perceptiveness of the auditor in their handling of the key accounting and audit judgements, and
- the content of the external auditor's report on internal control.

The external audit was last tendered in 2002. This resulted in a change to the Group's external auditor, with Deloitte LLP replacing the previous incumbent audit firm. As reported above, the Audit Committee has noted the changes to the UK Corporate Governance Code, introduced by the FRC in September 2012, and in particular the requirement contained in the Guidance on Audit Committees to put the external audit contract out

to tender at least every ten years. Although the updated version of the Code is applicable to accounting periods beginning on or after 1 October 2012, the FRC has set out transitional arrangements which propose that tendering should normally fit the five year cycle of lead audit partner rotation. Whilst being mindful of the revised guidance of the FRC, but also taking into account the rotation of the lead audit partner and as a result of our work above, we concluded that the independence criteria under the relative standards continued to be met and accordingly it was not necessary to tender for the audit work at this time. The Committee has therefore unanimously recommended to the Board that a proposal be put to the shareholders at the Annual General Meeting that Deloitte LLP be reappointed as external auditors and that the directors be authorised to fix their remuneration. At the year end the independent auditors formally confirmed their independence and objectivity had been maintained.

INTERNAL AUDIT

We are also required to assist the Board to fulfil its responsibilities relating to the adequacy of the resourcing and plans of the Internal Audit department. During the year, we reviewed

Internal Audit's programme of work and progress made against planned activity,

- results of key audits and other significant findings including the adequacy and timeliness of management's response,
- the level and nature of non-audit activity performed by Internal Audit, and
- staffing, reporting and effectiveness of divisional audits

As previously stated, an independent review of the Internal Audit function was undertaken by PricewaterhouseCoopers who presented their findings to the Audit Committee during the year. Their report concluded that Internal Audit was an effective and well-led function with a well-defined remit. An external review of this function is conducted every five years.

The Group's whistleblowing policy contains arrangements for the Head of Internal Audit to receive, in confidence, complaints on accounting, risk issues, internal controls, auditing issues and related matters for reporting to the Audit Committee as appropriate. Issues raised and investigated under this policy were formally reviewed during the year. The Committee reviewed and approved the Group's whistleblowing policy during the year.

OVERVIEW

As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its terms of reference and has ensured the independence and objectivity of the external auditors.

I will be available at the Annual General Meeting to answer any questions about the work of the Audit Committee.

Angus Cockburn
Chairman of the Audit Committee

27 February 2013

Consolidated income statement

		53 weeks to 29 December 2012	52 weeks to 24 December 2011
	Notes	£m	£m
Continuing operations			
Revenue – sale of goods	4	887.1	853.8
Cost of sales		(341.8)	(344.5)
Gross profit		545.3	509.3
Selling & distribution costs		(359.1)	(333.2)
Administrative expenses		(66.4)	(60.6)
Other operating expenses		–	(0.2)
Operating profit	7	119.8	115.3
Finance income	9	0.2	–
Finance expense	10	(0.6)	(1.2)
Other finance expense – pensions	10	(7.3)	(3.1)
Profit before tax		112.1	111.0
Tax on profit	11	(24.1)	(29.2)
Profit after tax		88.0	81.8
Discontinued operations*			
Loss on discontinued operations		(4.4)	(9.3)
Tax on loss		0.6	0.8
Loss after tax on discontinued operations	6	(3.8)	(8.5)
Profit for the period attributable to the equity holders of the parent		84.2	73.3
Earnings per share			
From continuing operations			
Basic earnings per 10p share	12	14.0p	13.5p
Diluted earnings per 10p share	12	13.9p	13.1p
From continuing and discontinued operations			
Basic earnings per 10p share	12	13.4p	12.1p
Diluted earnings per 10p share	12	13.3p	11.8p

Consolidated statement of comprehensive income

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	£m	£m
Profit for the period	84.2	73.3
Items of other comprehensive income		
Actuarial losses on defined benefit pension scheme	(52.0)	(31.4)
Deferred tax on actuarial losses on defined benefit pension scheme	13.0	8.5
Effect of change in UK tax rate on deferred tax on cumulative actuarial loss	(7.5)	(6.5)
Current tax on share schemes	2.0	-
Deferred tax on share schemes	1.9	0.3
Effect of change in UK tax rate on deferred tax on cumulative balance on share schemes	(0.4)	-
Currency translation differences	(0.3)	(0.3)
Other comprehensive income for the period	(43.3)	(29.4)
Total comprehensive income for the period attributable to equity holders of the parent	40.9	43.9

Consolidated balance sheet

		29 December 2012	24 December 2011
	Notes	£m	£m
Non-current assets			
Goodwill	14	–	2.5
Other intangible assets	15	4.0	4.7
Property, plant and equipment	16	89.3	81.7
Deferred tax asset	17	46.1	43.4
Bank borrowings net of prepaid fees	21	1.0	–
		140.4	132.3
Current assets			
Inventories	18	115.9	118.5
Trade and other receivables	19	96.0	95.3
Cash at bank and in hand	19	96.7	59.4
		308.6	273.2
Total assets		449.0	405.5
Current liabilities			
Trade and other payables	20	(137.1)	(139.1)
Current tax liability		(16.9)	(16.9)
Current borrowings	21	(1.2)	(1.1)
		(155.2)	(157.1)
Non-current liabilities			
Non-current borrowings	21	(0.1)	(1.2)
Pension liability	22	(154.5)	(136.9)
Deferred tax liability	17	(4.3)	(4.8)
Provisions	23	(22.1)	(35.3)
		(181.0)	(178.2)
Total liabilities		(336.2)	(335.3)
Net assets		112.8	70.2
Equity			
Called up share capital	24	64.2	63.4
Share premium account		87.2	85.1
ESOP reserve		(19.0)	(22.8)
Other reserves		28.1	28.1
Retained loss		(47.7)	(83.6)
Total equity		112.8	70.2

The financial statements were approved by the Board on 27 February 2013 and were signed on its behalf by

Mark Robson
Chief Financial Officer



Consolidated statement of changes in equity

	Called up share capital £m	Share premium account £m	ESOP reserve £m	Other reserve £m	Retained loss £m	Total £m
At 25 December 2010	63.4	85.1	(26.0)	28.1	(127.5)	23.1
Accumulated profit for the period	-	-	-	-	73.3	73.3
Net actuarial loss on defined benefit scheme	-	-	-	-	(22.9)	(22.9)
Effect of change in UK tax rate on deferred tax on cumulative actuarial loss	-	-	-	-	(6.5)	(6.5)
Currency translation differences	-	-	-	-	(0.3)	(0.3)
Net movement in ESOP	-	-	3.2	-	-	3.2
Deferred tax on share schemes	-	-	-	-	0.3	0.3
At 24 December 2011	63.4	85.1	(22.8)	28.1	(83.6)	70.2
Accumulated profit for the period	-	-	-	-	84.2	84.2
Net actuarial loss on defined benefit scheme	-	-	-	-	(39.0)	(39.0)
Effect of change in UK tax rate on deferred tax on cumulative actuarial loss	-	-	-	-	(7.5)	(7.5)
Current tax on share schemes	-	-	-	-	2.0	2.0
Deferred tax on share schemes	-	-	-	-	1.9	1.9
Effect of change in UK tax rate on deferred tax on cumulative balance on share schemes	-	-	-	-	(0.4)	(0.4)
Currency translation differences	-	-	-	-	(0.3)	(0.3)
Net movement in ESOP	-	-	3.8	-	-	3.8
Issue of new shares	0.8	2.1	-	-	-	2.9
Dividends declared and paid	-	-	-	-	(5.0)	(5.0)
At 29 December 2012	64.2	87.2	(19.0)	28.1	(47.7)	112.8

The ESOP reserve includes shares in Howden Joinery Group Plc with a market value on the balance sheet date of £37.8m (2011: £25.3m), which have been purchased in the open market and which are held by the Group's Employee Share Trusts in order to satisfy share options and awards made under the Group's various share-based payment schemes.

The Other reserve was created in the period to 30 April 1994, following a Group reconstruction.

Consolidated cash flow statement

		53 weeks to 29 December 2012	52 weeks to 24 December 2011
	Notes	£m	£m
Group operating profit before tax and interest			
Continuing operations		119.8	114.3
Discontinued operations	6	(4.4)	(8.3)
Group operating profit before tax and interest		115.4	106.0
Adjustments for			
Depreciation and amortisation included in operating profit		16.9	17.6
Share-based payments charge		2.7	2.7
Loss on disposal of property, plant and equipment and intangible assets		–	0.2
Discontinued exceptional items (before tax)		3.3	8.3
Operating cash flows before movements in working capital		138.3	134.8
Movements in working capital and exceptional items			
Decrease/(increase) in stock		2.6	(13.0)
Increase in trade and other receivables		(0.7)	(0.3)
Decrease in trade and other payables and provisions		(16.2)	(25.5)
Difference between pensions operating charge and cash paid		(41.7)	(33.3)
Net cash flow – discontinued exceptional items		(0.5)	–
		(56.5)	(72.1)
Cash generated from operations		81.8	62.7
Tax paid		(16.9)	(22.5)
Net cash flow from operating activities	25	64.9	40.2
Cash flows used in investing activities			
Payments to acquire property, plant and equipment and intangible assets		(24.2)	(19.6)
Interest received		0.2	–
Receipts from sale of property, plant and equipment and intangible assets		0.3	–
Redemption of investment		–	2.0
Net cash used in investing activities		(23.7)	(17.6)
Cash flows used in financing activities			
Interest paid		(0.6)	(1.0)
Receipts from issue of share capital		2.9	–
Receipts from release of shares from share trust		1.1	0.5
Decrease in loans		(2.2)	(1.1)
Repayment of capital element of obligations under finance leases		(0.1)	(0.4)
Decrease in other assets		–	0.2
Dividends paid to Group shareholders		(5.0)	–
Net cash used in financing activities		(3.9)	(1.8)
Net increase in cash and cash equivalents		37.3	20.8
Cash and cash equivalents at beginning of period		59.4	38.6
Cash and cash equivalents at end of period	25	96.7	59.4

For the purpose of the cash flow statement, cash and cash equivalents are included net of any overdrafts payable on demand. These overdrafts are excluded from the definition of cash at bank and in hand disclosed on the balance sheet. There were no such overdrafts at the current or prior period end.

Cash flows from discontinued operating activities are shown in note 25. There are no cash flows from discontinued investing or financing activities.

Notes to the consolidated financial statements

1 GENERAL INFORMATION

Howden Joinery Group Plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 119. The nature of the Group's operations and principal activities are set out in the Directors' Report on pages 32 to 34.

These financial statements are presented in UK pounds sterling, being the currency of the primary economic environment in which the Group operates.

Foreign operations are included in accordance with the policies set out in note 2.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Group's accounting period covers the 53 weeks to 29 December 2012. The comparative period covered the 52 weeks to 24 December 2011.

Statement of compliance and basis of accounting

The Group's financial statements have been prepared in accordance with the IFRSs adopted for use in the European Union and International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. They therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, and on the going concern basis, as described in the going concern statement in the Corporate Governance Report on pages 50 to 57. The principal accounting policies are set out below.

At the date of authorisation of these financial statements, the following standards, amendments to standards, and interpretations,

which have not been applied in these financial statements, were in issue but not yet effective for the Group.

IFRS 9 Financial Instruments

IFRS 10 Consolidated Statements

IFRS 11 Joint Arrangements

IFRS 12 Disclosure of interests in other entities

IFRS 13 Fair Value Measurement

IAS 1 (June 2011) Presentation of items of other comprehensive income

IAS 12 Deferred tax – Recovery of Underlying Assets

IAS 19 Employee Benefits

IAS 28 (revised May 2011) Investments in associates and joint ventures

IAS 27 (revised May 2011) Separate financial statements

IAS 32 Offsetting Financial Assets and Financial Liabilities

Once the revisions to IAS 19 become effective, they will have the result that the expected return on pension scheme assets will have to be calculated with reference to the discount rate rather than (as at present) the expected return on assets. This is expected to result in a reduction of the expected return on assets and therefore an increase in the net pensions finance charge. The materiality of this effect will depend upon the difference between the discount rate and the expected return on assets at the time when the revised IAS 19 becomes applicable. The discount rates and return on assets assumptions used in the current and prior periods are shown in note 22.

The directors anticipate that the adoption of the other standards and interpretations mentioned above will have no material impact

on the Group's financial statements when the relevant standards come into effect.

Basis of consolidation Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. Subsidiaries are fully consolidated from the date on which control is transferred until the date that control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services, based on despatch of goods or services provided to customers outside the Group, excluding sales taxes and discounts. Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income from investments is recognised when the right to receive payment has been established.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes an attributable proportion of manufacturing overheads based on budgeted levels of activity. Cost is calculated using a standard cost which is regularly updated to reflect average actual costs. Provision is made for obsolete, slow-moving, or defective items where appropriate.

Property, plant and equipment

On adopting IFRS, the Group adopted the transitional provisions of IFRS 1 to use previous revaluations of freehold properties as the new deemed cost at the date of transition to IFRSs

All property, plant and equipment is stated at cost (or deemed cost, as applicable) less accumulated depreciation, and less any provision for impairment

Depreciation of property, plant and equipment, excluding freehold land, is provided to write off the difference between the cost and their residual value over their estimated lives on a straight-line basis. The current range of useful lives is as follows

Freehold property	50 yrs
Long leasehold property	The period of the lease
Short leasehold property	The period of the lease
Fixtures & fittings	2–10 years
Plant & machinery	3–10 years

Residual values, remaining useful economic lives and depreciation periods and methods are reviewed annually and adjusted if appropriate

Capital work in progress is not depreciated

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement

Intangible assets – software

Where computer software is not an integral part of a related item of computer hardware, the software is classified as an intangible asset. The capitalised costs of software for internal use include external direct costs of materials and services consumed in developing or obtaining the software and payroll and payroll-related costs for employees who are directly associated with and who devote substantial time to the project. Capitalisation of these costs ceases

no later than the point at which the software is substantially complete and ready for its intended internal use. These costs are amortised over their expected useful lives, which are reviewed annually. The expected useful life is four years

Impairment of assets

The carrying amount of the Group's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated

For goodwill assets that have an indefinite life and intangible assets not yet available for use, the recoverable amounts are estimated at each balance sheet date

Apart from in the case of trade and other receivables, an impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognised in the income statement

For trade and other receivables which are considered to be impaired, the carrying amount is reduced through the use of an allowance for estimated irrecoverable amounts. Changes in the carrying value of this allowance are recognised in the income statement

Current tax

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

The tax currently payable is based on taxable profit for the financial period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other financial years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been

enacted or substantively enacted by the balance sheet date

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend

Deferred tax

Deferred tax is provided in full using the balance sheet liability method. It is the tax expected to be payable or recoverable on the temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets and liabilities other than in a business combination that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries, to the extent that they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amounts of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered

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

Foreign currencies

Foreign currency transactions

Transactions in foreign currency are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at the date. Foreign exchange gains and losses are recognised in the income statement.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, where applicable, are translated into sterling at foreign exchange rates ruling at the balance sheet date. The results and cash flows of overseas subsidiaries and the results of joint ventures are translated into sterling on an average exchange rate basis, weighted by the actual results of each month.

Exchange differences arising from the translation of the results and net assets of overseas subsidiaries are taken to equity via the statement of comprehensive income.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation, and are discounted to present value where the effect is material.

Pensions

Payments to defined contribution retirement benefit scheme are charged to the income statement as they fall due.

The Group operates a defined benefit pension scheme. The

Group's net obligation in respect of the defined benefit pension scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is then discounted to determine its present value, and the fair value of any scheme assets is deducted. The discount rate used is selected so as to closely approximate the yield at the balance sheet date on AA rated bonds that have maturity dates approximating to the terms of the Group's obligations. Because there are no AA rated bonds with maturity dates which are as long as those of the Group's retirement benefit obligations, the discount rate is derived using the rate of return of zero-coupon Gilts which have the same maturity as the Group's obligations, to which is added a premium which is calculated to account for the difference in risk between Gilts and AA rated bonds. The calculation is performed by a qualified actuary using the projected unit method. Scheme assets are valued at bid price.

Current and past service costs are recognised in operating profit and net financing costs include interest on pension scheme liabilities and expected return on assets.

All actuarial gains and losses as at 25 December 2004, the date of transition to IFRSs, were recognised. Actuarial gains and losses that arise subsequent to 25 December 2004 in calculating the Group's obligation in respect of a scheme are recognised immediately in reserves and reported in the statement of comprehensive income.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured

at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units which is expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquired company. The acquired company's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the

identifiable assets, liabilities and contingent liabilities recognised. If after reassessment, the Group's interest in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is immediately recognised in the income statement.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases. For property leases, the land and building elements are treated separately to determine the appropriate lease classification.

Finance leases

Assets funded through finance leases are capitalised as property, plant and equipment, and depreciated over their estimated useful lives or the lease term, whichever is shorter. The amount capitalised is the lower of the fair value of the asset or the present value of the minimum lease payments during the lease term at the inception of the lease. The resulting lease obligations are included in liabilities net of finance charges. Finance costs on finance leases are charged directly to the income statement.

Operating leases

Assets leased under operating leases are not recorded on the balance sheet. Rental payments are charged directly to the income statement.

Lease incentives

Lease incentives primarily include up-front cash payments or rent-free periods. Lease incentives are capitalised and spread over the period of the lease term.

Leases with predetermined fixed rental increases

The Group has some leases with predetermined fixed rental increases. These rental increases are accounted for on a straight-line basis over the period of the lease term.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Investments

Investments are stated at cost less any provision for impairment.

Other payables

Other payables are stated at their fair value.

Share-based payments

The Group has applied the requirements of IFRS 2 Share-based payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at the date of the Group's transition to IFRS.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of a binomial model or a Black-Scholes model, according to the relative complexity of the type of share-based payment to be measured. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value, as reduced by appropriate allowances for estimated irrecoverable amounts. Such allowances are raised based on an assessment of debtor ageing, past experience, or known customer circumstances.

Cash at bank and in hand and Cash and cash equivalents

Cash at bank and in hand, which is the term used in the balance sheet, comprises cash on hand together with demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents, which is the term used in the cash flow statement, comprises cash at bank and in hand, as defined immediately above, together with any overdrafts repayable on demand.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded as the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest rate method and are added to the

carrying amount of the instrument to the extent that they are not settled in the period in which they arise

Trade payables

Trade payables are not interest bearing and are stated at their nominal value

Derivative financial instruments

The Group does not currently use derivative financial instruments to reduce its exposure to interest or exchange rate movements. The Group does not hold or issue derivatives for speculative or trading purposes

Derivative financial instruments are recognised as assets and liabilities measured at their fair values at the balance sheet date. Changes in their fair values are recognised in the income statement and this is likely to cause volatility in situations where the carrying value of the hedged item is either not adjusted to reflect the fair value changes arising from the hedged risk or is so adjusted but that adjustment is not recognised in this income statement. Provided the conditions specified by IAS 39 are met, hedge accounting may be used to mitigate this income statement volatility

The Company expects that hedge accounting will not generally be applied to transactional hedging relationships, such as hedges of forecast or committed transactions

Where the hedging relationship is classified as a cash flow hedge, to the extent the hedge is effective, changes in the fair value of the hedging instrument will be recognised directly in equity rather than in the income statement. When the hedged item is recognised in the financial statements, the accumulated gains and losses recognised in equity will be either recycled to the income statement or, if the hedged item results in a non-financial asset, will be recognised as adjustments to its initial carrying amount

Exceptional items

Certain items do not reflect the Group's underlying trading performance. If such items are significant in terms of size or nature, they would be classified as exceptional. Gains and losses on these discrete items, such as profits on disposal of assets, operations, and property interests, restructuring costs, and other non-operating items can have a material impact on the absolute amount of and trend in profit from operations and the result for the period. Therefore any material gains and losses on such items are analysed as exceptional in note 6. Where there are any immaterial amounts arising from such items during a period, they are not presented as exceptional items

Discontinued operations

Cash flows, income and expenses that relate to a major component of the business or geographical region that has been sold or is classified as held for sale are shown separately from continuing operations, together with any related tax

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes judgements and assumptions concerning the future that impact the application of policies and reported amounts. The resulting accounting estimates calculated using these judgements and assumptions will, by definition, seldom equal the related actual results but are based on historical experience and expectations of future events. The judgements and key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are discussed below

Impairment of assets

Financial and non-financial assets are subject to impairment reviews based on whether current or future events and circumstances suggest that their recoverable amount may be less than their carrying value

Recoverable amount is based on a calculation of expected future cash flows which includes management assumptions and estimates of future performance

Post-employment benefits

The Group operates a defined benefit scheme for its employees. The present value of the scheme's liabilities recognised at the balance sheet date is dependent on interest rates of high quality corporate bonds. The net financing charge recognised in the income statement is dependent on the interest rate of high quality corporate bonds and an expectation of the weighted average returns on the assets within the scheme. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 22

Provisions

Descriptions of the provisions held at period end are given at note 23. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability is accounted for in the period when such determination is made

The property provisions require judgement and estimation in determining management's best estimate of the following main areas: the length of time it might take to find a tenant for a vacant property, the likely rent which could be achieved from letting a vacant property, the amount which the landlord of a property may accept as a lump sum in order to release the Group from its future obligations, the amount and timing of likely future increases in rent and other property costs, the extent, and hence the likely cost, of any associated legal and professional advice which will be required, future maintenance costs and dilapidations, and an estimate of future costs of capital in order to arrive at a suitable discount rate

Income taxes

The Group recognises expected liabilities for tax based on an estimation of the likely taxes due, which requires significant judgement as to the ultimate tax determination of certain items. Where the actual liability arising from these issues differs from these estimates, such differences will have an impact on income tax and deferred tax provisions in the period when such determination is made.

Allowances against the carrying value of inventories

The Group reviews the market value of and demand for its inventories on a periodic basis to ensure that recorded inventory is stated at the lower of cost and net realisable value. In assessing the ultimate realisation of inventories, the Group is required to make judgements as to future demand requirements and to compare these with the current or committed inventory levels. Factors that could impact estimated demand and selling prices are the timing and success of product ranges.

Allowances against the carrying value of trade receivables

Using information available at the balance sheet date, the Group reviews its accounts receivable balances and makes judgements based on an assessment of debt ageing, past experience, or known customer circumstances in order to determine the appropriate level of allowance required to account for potential uncollectable trade receivables.

4 REVENUE

An analysis of the Group's revenue is as follows:

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	£m	£m
Continuing operations		
Sales of goods	887.1	853.8
Finance income	0.2	–
Total revenue	887.3	853.8

There is no revenue disclosed from discontinued operations. Discontinued operations, which are explained in more detail at note 6, were 100% owned subsidiaries which had no significant external income.

5 SEGMENTAL REPORTING

(a) Basis of segmentation, and other general information

Information reported to the Group's Executive Committee is focused on one operating segment, Howden Joinery. Thus, the information required in respect of profit or loss, assets and liabilities, can all be found in the relevant primary statements and notes of these consolidated financial statements.

The Howden Joinery business derives its revenue from the sale of kitchens and joinery products, along with the associated procurement, manufacture and distribution of these products.

(b) Other information

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	£m	£m
Capital additions	24.2	18.7
Depreciation and amortisation	(16.9)	(17.6)

(c) Geographical information

The Group's operations are located in the UK and France. The Group has depots located in both the UK and France. The Group's manufacturing is located in the UK.

The following table analyses the Group's revenues from external customers by geographical market, irrespective of the origin of the goods.

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	£m	£m
Revenues from external customers		
UK	872.5	838.7
France	14.6	15.1
	887.1	853.8

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located.

	29 December 2012	24 December 2011
	£m	£m
Carrying amount of segment assets		
UK	441.4	397.3
France	7.6	8.2
	449.0	405.5

	29 December 2012	24 December 2011
	£m	£m
Non-current assets (excluding deferred tax assets)		
UK	93.5	88.2
France	0.8	0.7
	94.3	88.9

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	£m	£m
Additions to property, plant and equipment and intangible assets		
UK	23.8	18.4
France	0.4	0.3
	24.2	18.7

6 DISCONTINUED OPERATIONS AND EXCEPTIONAL ITEMS

(a) Discontinued operations and exceptional items for current and prior periods

		53 weeks to 29 December 2012	52 weeks to 24 December 2011
	Note	£m	£m
Discontinued operating loss			
Relating to the closure of Howden Joinery Supply Division (Asia) Ltd			
Expenses		(1 1)	(1 0)
Pre-tax loss of discontinued operations		(1 1)	(1 0)
Tax thereon		0 3	0 3
Post-tax loss of discontinued operations		(0 8)	(0 7)
Discontinued exceptional items			
Relating to the closure of Howden Joinery Supply Division (Asia) Ltd:			
Loss on closure of operation	6(b)	(3 5)	-
Tax thereon	6(b)	0 4	-
Loss for the period on closure of discontinued operation		(3 1)	-
Relating to the closure of Southon Insurance Company Ltd			
Profit on closure of operation	6(b)	0 4	-
Tax thereon	6(b)	(0 1)	-
Profit for the period on closure of discontinued operation	6(b)	0 3	-
Accrual for potential interest			
Accrual for potential interest	6(b), 6(c)	(0 2)	(0 6)
Tax thereon	6(b), 6(c)	-	0 2
		(0 2)	(0 4)
Increase to property provision			
Increase to property provision	6(c)	-	(7 7)
Tax thereon	6(c)	-	0 3
		-	(7 4)
Total pre-tax loss for the period from discontinued operations		(4 4)	(9 3)
Total tax on discontinued operations		0 6	0 8
Post-tax loss for the period from discontinued operations		(3 8)	(8 5)

(b) Exceptional items for the 53 weeks to 29 December 2012

	£m	£m
Closure of Howden Joinery Supply Division (Asia) Ltd		
Impairment of goodwill	(2.5)	
Other costs of closure	(1.0)	(3.5)
Closure of Southon Insurance Company Ltd		
Value of liabilities commuted	0.8	
Commutation premium	(0.4)	0.4
Accrual for potential interest		
Interest accrual		(0.2)
Total discontinued exceptional items before tax		(3.3)
Tax credit on discontinued exceptional items		0.3
Total discontinued exceptional item after tax		(3.0)

Cash flows from discontinued operations are shown in note 25

Closure of Howden Joinery Supply Division (Asia) Ltd:

During the current period, the Group made the decision to close the Hong Kong registered 100% owned Group subsidiary company Howden Joinery Supply Division (Asia) Ltd, which had previously carried out sourcing operations for the Group in Asia. By the end of the period, the management of all sourcing from Asia had been transferred to the Group's UK sourcing team.

Prior to the decision to close the company, the Group was recognising associated goodwill with a carrying value of £2.5m. Once the decision had been made to close the company, this goodwill was written off in full, as shown above and in note 14.

Closure of the company had begun by the end of the current period, and it is anticipated that the company will be placed into administration during 2013. A provision for closure costs has been set up in the current period, and utilisation of the provision has begun. More details of the provision are given in note 23.

The company did not have any external customers. The cost of the goods which it sourced were recharged within the Group and accordingly were eliminated on consolidation. Thus there is no revenue shown for this discontinued operation. The only expenses which are shown in both current and prior periods are the incremental costs which the Group incurred as a result of carrying out business through this company (e.g. the salaries, office rent, and other similar administrative costs of running the sourcing operation in Asia).

Closure of Southon Insurance Company Ltd

Southon Insurance Company Ltd was a 100% owned Group subsidiary company, registered and licensed to carry on insurance business in Guernsey. In the past, the company had reinsured potential liabilities under certain product guarantees issued by former Group companies. It had also reinsured certain legacy Group employers' liabilities and public liability. The company ceased underwriting in December 2007, and during the current period it has terminated all residual liabilities. As part of the process of terminating these liabilities, it paid a commutation premium of £0.4m to dispose of liabilities with a book value of £0.8m, as shown above.

By the end of the current period, the company had received approval from the Guernsey Financial Services Commission to surrender its insurance licence, and the company had been put into the hands of liquidators.

The company did not have any external customers in either the current or prior period. Its only income and expenses in both periods were insignificant amounts of investment income and administration expenses, therefore there is no significant revenue, costs, or pre-tax or post-tax profit or loss to disclose in either period.

Accrual for potential interest:

The accrual for potential interest relates to interest which would be payable if the Group lost a tax dispute with HM Revenue & Customs, relating to the Group's legacy properties. The tax which is in dispute has already been provided for in prior periods.

All of the above items relate to discontinued operations. There are no exceptional items relating to continuing operations.

(c) Exceptional items for the 52 weeks to 24 December 2011

The exceptional items for the prior period relate to operations which had been discontinued in 2008, as detailed below.

	£m
Increase to property provision	(7.7)
Interest	(0.6)
Total exceptional items before tax	(8.3)
Tax on exceptional items	0.5
Total exceptional items after tax	(7.8)

The increase to the property provision in the prior period relates to future rent, rates, surrender fees and associated costs in respect of legacy properties. More details of the provision itself can be found at note 23 of this Annual Report. The original provision was created as a discontinued exceptional item in the 52 weeks to December 2008, and the events surrounding its creation are described in more detail on page 55 of the Annual Report for that period.

Interest relates to interest which would be payable if the Group lost a tax dispute with HM Revenue & Customs, relating to the legacy properties. The tax which is in dispute has already been provided for in prior periods.

Both of the above items relate to discontinued operations. There are no exceptional items in the prior period relating to continuing operations.

7 OPERATING PROFIT

Operating profit has been arrived at after (charging)/crediting

	53 weeks to 29 December 2012 £m	52 weeks to 24 December 2011 £m
Net foreign exchange gain	5.0	–
Depreciation of property, plant and equipment		
– on owned assets	(15.6)	(16.2)
– on assets held under finance lease	(0.1)	(0.1)
Amortisation of intangible assets (included in administrative expenses)		
– on owned assets	(1.2)	(1.3)
Cost of inventories recognised as an expense	(345.3)	(344.1)
Write down of inventories	(1.5)	(0.4)
Loss on disposal of fixed assets	–	(0.2)
Decrease in allowance for doubtful debts (note 19)	0.6	0.5
Staff costs (note 8)	(241.4)	(223.9)
Minimum lease payments under operating leases	(55.6)	(50.3)
Auditor's remuneration for audit services (see page 78)	(0.3)	(0.3)

All of the items above relate to continuing operations.

A more detailed analysis of auditor's total remuneration is given below

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	£m	£m
Audit services		
Fees paid to the Company's auditor for the audit of the Company's annual accounts	(0 1)	(0 1)
Fees paid to the Company's auditor and their associates for other services to the Group		
– the audit of the subsidiary companies pursuant to legislation	(0 2)	(0 2)
Total audit fees	(0 3)	(0 3)
Other services		
Audit related assurance services	(0 1)	(0 1)
Tax compliance services	(0 1)	(0 1)
Tax advisory services	(0 2)	(0 2)
Total non-audit fees	(0 4)	(0 4)

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis

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 Corporate Governance Report. No services were provided pursuant to contingent fee arrangements

8 STAFF COSTS

The aggregate payroll costs of employees, including executive directors, were

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	£m	£m
Wages and salaries	208 4	195 9
Social security costs	20 8	17 8
Pension operating costs (note 22)	12 2	10 2
	241 4	223 9

Wages and salaries includes a charge in respect of share-based payments of £2 7m (2011 £2 7m)

The average monthly number of persons (full time equivalent, including executive directors) employed by the Group during the period was as follows

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	Number	Number
	6,441	6,276

9 FINANCE INCOME

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	£m	£m
Bank interest receivable	0 2	–
Total finance income	0 2	–

10 FINANCE EXPENSES AND OTHER FINANCE EXPENSE – PENSIONS

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	£m	£m
Finance expenses		
Interest payable on bank loans	(0.4)	(1.0)
Finance charge on remeasuring creditors to fair value	(0.2)	(0.2)
Total finance expenses	(0.6)	(1.2)

Further details of the finance charge on remeasuring creditors to fair value in the current period are given in note 23

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	£m	£m
Other finance expense – pensions	(7.3)	(3.1)

11 TAX

(a) Tax in the income statement

	Continuing operations		Discontinued operations		Total	
	53 weeks to 29 December 2012	52 weeks to 24 December 2011	53 weeks to 29 December 2012	52 weeks to 24 December 2011	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	£m	£m	£m	£m	£m	£m
Current tax						
Current period	21.4	22.3	(0.6)	(0.6)	20.8	21.7
Adjustments in respect of previous periods	(1.1)	(1.8)	–	–	(1.1)	(1.8)
Total current tax	20.3	20.5	(0.6)	(0.6)	19.7	19.9
Deferred tax						
Current period	4.0	6.1	–	(0.2)	4.0	5.9
Adjustments in respect of previous periods	(0.2)	2.6	–	–	(0.2)	2.6
Total deferred tax	3.8	8.7	–	(0.2)	3.8	8.5
Total tax charged/(credited) in the income statement	24.1	29.2	(0.6)	(0.8)	23.5	28.4

UK Corporation tax is calculated at 24.5% (2011: 26.5%) of the estimated assessable profit for the period. Tax for other countries is calculated at the rates prevailing in the respective jurisdictions.

(b) Tax relating to items credited to equity

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	£m	£m
Deferred tax credit to equity on actuarial loss on pension scheme	(13 0)	(8 5)
Deferred tax credit to equity on share schemes	(1 9)	(0 3)
Current tax credit to equity on share schemes	(2 0)	-
Charge to equity re tax rate change*	7 9	6 5
	(9 0)	(2 3)

The tax relating to items credited to equity all relates to continuing operations

(c) Reconciliation of the total tax charge

The total tax charge for the period can be reconciled to the result per the income statement as follows

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	£m	£m
Profit before tax		
Continuing operations	112 1	111 0
Discontinued operations	(4 4)	(9 3)
	107 7	101 7

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	£m	£m
Tax at the UK Corporation tax rate of 24.5% (2011: 26.5%)	26 4	26 9
IFRS 2 share scheme charge**	(0 6)	(0 1)
Expenses not deductible for tax purposes***	2 0	2 4
Reassessment of deferred tax asset on general provisions	0 3	0 9
Change of tax rate*	(3 9)	(3 4)
Non-qualifying depreciation	0 6	0 8
Tax adjustments in respect of previous years	(1 3)	0 9
Total tax charged in the income statement	23 5	28 4

* On 17 July 2012 Parliament approved the Finance Bill which reduces the UK Standard rate of Corporation tax from 26% to 24% with effect from 1 April 2012 and 23% from 1 April 2013. All deferred tax assets and liabilities have been recognised at 23% (2011: 25%).

** Permanent differences arise in relation to share schemes resulting from a difference between the accounting and tax treatments. In accordance with IAS 12 the excess of current and deferred tax over and above the related cumulative remuneration expense under IFRS 2 has been recognised directly in equity.

*** This arises mainly due to the Group assuming no tax relief for the payments and provisions made in association with the legacy properties until the tax position is agreed with HMRC.

12 EARNINGS PER SHARE

	53 weeks to 29 December 2012			52 weeks to 24 December 2011		
	Earnings	Weighted average number of shares	Earnings per share	Earnings	Weighted average number of shares	Earnings per share
	£m	m	p	£m	m	p
From continuing operations						
Basic earnings per share	88.0	627.0	14.0	81.8	606.3	13.5
Effect of dilutive share options	-	4.2	(0.1)	-	16.7	(0.4)
Diluted earnings per share	88.0	631.2	13.9	81.8	623.0	13.1
From discontinued operations						
Basic loss per share	(3.8)	627.0	(0.6)	(8.5)	606.3	(1.4)
Effect of dilutive share options	-	4.2	-	-	16.7	-
Diluted loss per share	(3.8)	631.2	(0.6)	(8.5)	623.0	(1.4)
From continuing and discontinued operations						
Basic earnings per share	84.2	627.0	13.4	73.3	606.3	12.1
Effect of dilutive share options	-	4.2	(0.1)	-	16.7	(0.3)
Diluted earnings per share	84.2	631.2	13.3	73.3	623.0	11.8

13 DIVIDENDS

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
Amounts recognised as distributions to equity holders in the period	£m	£m
Final dividend for the 52 weeks to 24 December 2011 – 0.5p/share	3.1	-
Interim dividend for the 53 weeks to 29 December 2012 – 0.3p/share	1.9	-
	5.0	-

The final dividend for the 52 weeks to 24 December 2011 was paid on 22 June 2012. The interim dividend for the 53 weeks to 29 December 2012 was paid on 30 November 2012.

Dividends proposed at the end of the period (but not recognised in the period)

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	£m	£m
Proposed final dividend for the 53 weeks to 29 December 2012 – 2.7p per share	16.7	n/a
Proposed final dividend for the 52 weeks to 24 December 2011 – 0.5p per share	n/a	3.1

The directors propose a final dividend in respect of the 53 weeks to 29 December 2012 of 2.7p per share, payable to ordinary shareholders who are on the register of shareholders at 24 May 2013, and payable on 21 June 2013.

Dividends have been waived indefinitely on all shares held by the Group's employee share trusts, which have not yet been awarded to employees.

The proposed final dividend for the current period is subject to the approval of the shareholders at the 2013 Annual General Meeting, and has not been included as a liability in these financial statements.

14 GOODWILL

	£m
Cost	
At 25 December 2010 and 24 December 2011	2.5
Derecognised on closure of subsidiary	(2.5)
At 29 December 2012	–
Accumulated impairment losses	
At 25 December 2010, 24 December 2011 and 29 December 2012	–
Carrying value	
At 29 December 2012	–
At 25 December 2010 and 24 December 2011	2.5

The goodwill was originally recognised on the acquisition of the remaining 50% of Howden Joinery Supply Division (Asia) Limited ("HJ Asia"), during the period ended 27 December 2008. Prior to that, HJ Asia was a 50% owned joint venture, with no associated goodwill.

During the current period, the Group has made the decision to close the operations of HJ Asia, and has accordingly derecognised the associated goodwill. The derecognition of goodwill, together with other costs related to the closure of HJ Asia, have been treated as a discontinued exceptional item in the current period (see note 6 for further details).

15 OTHER INTANGIBLE ASSETS

The other intangible assets shown below all relate to software, as detailed further in the accounting policies note.

	£m
Cost	
At 25 December 2010	14.4
Additions	1.2
At 24 December 2011	15.6
Additions	0.5
At 29 December 2012	16.1
Amortisation	
At 25 December 2010	9.6
Charge for the period	1.3
At 24 December 2011	10.9
Charge for the period	1.2
At 29 December 2012	12.1
Net book value at 29 December 2012	4.0
Net book value at 24 December 2011	4.7

There are no intangible assets held under finance leases.

16 PROPERTY, PLANT AND EQUIPMENT

	Freehold property £m	Short-term leasehold property £m	Plant, machinery & vehicles £m	Fixtures & fittings £m	Capital WIP £m	TOTAL £m
Cost						
At 25 December 2010	21.3	28.0	164.9	70.3	0.8	285.3
Additions	0.1	3.2	5.3	4.5	4.4	17.5
Disposals	–	(0.4)	(6.2)	(0.2)	–	(6.8)
Reclassifications	–	0.1	0.6	–	(0.7)	–
At 24 December 2011	21.4	30.9	164.6	74.6	4.5	296.0
Additions	0.2	4.9	4.1	5.2	9.2	23.6
Disposals	–	(0.7)	(2.1)	(1.1)	–	(3.9)
Reclassifications	–	0.1	1.9	0.1	(2.1)	–
At 29 December 2012	21.6	35.2	168.5	78.8	11.6	315.7
Accumulated depreciation						
At 25 December 2010	1.9	9.0	137.2	56.4	–	204.5
Charge for the period	–	2.0	9.1	5.2	–	16.3
Disposals	–	(0.1)	(6.2)	(0.2)	–	(6.5)
At 24 December 2011	1.9	10.9	140.1	61.4	–	214.3
Charge for the period	0.3	2.3	7.9	5.2	–	15.7
Disposals	–	(0.4)	(2.1)	(1.1)	–	(3.6)
At 29 December 2012	2.2	12.8	145.9	65.5	–	226.4
Net book value at 29 December 2012	19.4	22.4	22.6	13.3	11.6	89.3
Net book value at 24 December 2011	19.5	20.0	24.5	13.2	4.5	81.7

The Group has pledged its property, plant and equipment to secure bank borrowings. More details are given in note 21.

At 29 December 2012, the Group had entered into contractual commitments to acquire property, plant and equipment amounting to £5.2m (2011: £11.6m).

Analysis of assets held under finance leases

	29 December 2012		24 December 2011	
	Plant, machinery & vehicles £m	Total £m	Plant, machinery & vehicles £m	Total £m
Cost	0.5	0.5	0.7	0.7
Accumulated depreciation	(0.2)	(0.2)	(0.6)	(0.6)
Net book value	0.3	0.3	0.1	0.1

17 DEFERRED TAX

The following are the major deferred tax assets and liabilities recognised by the Group, and the movements on them during the current and prior reporting periods

	Retirement benefit obligations	Accelerated capital allowances	Company share schemes	Other timing differences	Total
	£m	£m	£m	£m	£m
At 25 December 2010	36.6	(0.2)	4.5	3.9	44.8
(Charge)/credit to income	(8.2)	0.4	(1.0)	(3.1)	(11.9)
Credit to equity	8.5	-	0.3	-	8.8
Effect of tax rate change – Income statement	3.8	-	(0.3)	(0.1)	3.4
– Equity	(6.5)	-	-	-	(6.5)
At 24 December 2011	34.2	0.2	3.5	0.7	38.6
(Charge)/credit to income	(8.6)	0.3	0.5	(0.1)	(7.9)
Credit to equity	13.0	-	1.9	-	14.9
Effect of tax rate change – Income statement	4.4	-	(0.1)	(0.2)	4.1
– Equity	(7.5)	-	(0.4)	-	(7.9)
At 29 December 2012	35.5	0.5	5.4	0.4	41.8

Deferred tax arising from accelerated capital allowances, Company share schemes and short-term timing differences can be further analysed as a £10.6m asset and a £4.3m liability (2011 £9.2m asset and £4.8m liability)

The presentation in the balance sheet is as follows

	29 December 2012	24 December 2011
	£m	£m
Deferred tax assets	46.1	43.4
Deferred tax liabilities	(4.3)	(4.8)
	41.8	38.6

At the balance sheet date the Group had unused trading tax losses with a potential value of £12.1m (2011 £13.2m). No deferred tax asset has been recognised as it is not considered probable that future taxable profits will be available against which the unused tax losses can be utilised. The Group also has carried forward capital losses and the related potential deferred tax asset of £19.6m (2011 £21.3m) which has not been recognised. Both of these losses may be carried forward indefinitely.

18 INVENTORIES

	29 December 2012	24 December 2011
	£m	£m
Raw materials	3 0	3 7
Work in progress	2 6	2 8
Finished goods and goods for resale	121 0	123 5
Allowance against carrying value of inventories	(10 7)	(11 5)
	115 9	118 5

The Group has pledged its inventories to secure bank borrowings. More details are given in note 21.

19 OTHER FINANCIAL ASSETS

Trade and other receivables

	29 December 2012	24 December 2011
	£m	£m
Trade receivables (net of allowance)	71 2	73 0
Prepayments and accrued income	23 1	21 0
Other receivables	1 7	1 3
	96 0	95 3

Trade and other receivables are not interest-bearing, and are on commercial terms. Their carrying value approximates to their fair value.

An analysis of the Group's allowance for doubtful receivables is as follows:

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	£m	£m
Balance at start of period	8 7	9 2
Decrease in allowance recognised in the Income Statement	(0 6)	(0 5)
Balance at end of period	8 1	8 7

The Group's exposure to the credit risk inherent in its trade receivables is discussed in note 29. The Group has no significant concentration of credit risk, with exposure spread over a large number of customers. Interest is charged at appropriate market rates on balances which are in litigation.

Before accepting any new credit customer, the Group obtains a credit check from an external agency to assess the potential customer's credit quality, and then sets credit limits on a customer-by-customer basis. These credit limits are reviewed regularly. In the case of one-off customers, the Group's policy is to require immediate payment at the point of sale, and not to offer credit terms.

The historical level of customer default is low, and as a result the "credit quality" of year end trade receivables is considered to be high. The Group reviews trade receivables past due but not impaired on a regular basis and considers, based on past experience, whether the credit quality of these amounts at the balance sheet date has deteriorated since the transaction was entered into and therefore whether the amounts are recoverable or require provision. Regular contact is maintained with all such customers and, where necessary, legal action is taken to recover the receivable. An allowance for impairment is made for any specific amounts which are considered irrecoverable or only partly recoverable. There is also a separate allowance, which is calculated as a percentage of sales. At the period end, the total bad debt provision of £8.1m (2011: £8.7m) consists of a specific provision of £3.8m (2011: £4.2m) which has been made against specific debts with a gross carrying value of £4.8m (2011: £4.8m), and a provision of £4.3m (2011: £4.5m) based on sales and on the historic default rate. To the extent that recoverable amounts are estimated to be less than their associated carrying values, impairment charges have been recorded in the consolidated income statement and the carrying values have been written down to their recoverable amounts.

£5.6m debts were written off in the period (2011: £5.9m). Included within the Group's aggregate trade receivables balance are specific debtor balances with customers totalling £13.6m before bad debt provision (2011: £13.7m before provision) which are past due as at the reporting date. The Group has assessed these balances for recoverability and believes that their credit quality remains intact.

An ageing analysis of these past due trade receivables is provided as follows:

	29 December 2012	24 December 2011
	£m	£m
1-30 days past due	7.3	6.9
31-60 days past due	1.0	1.3
61-90 days past due	0.8	0.7
90+ days past due	4.5	4.8
Total overdue amounts, excluding allowance for doubtful receivables	13.6	13.7

There were no trade receivables which would have been impaired at either period end were it not for the fact that their credit terms were renegotiated. The Group does not renegotiate credit terms.

Cash at bank and in hand

Cash at bank and in hand, which is the term used in the balance sheet, comprises cash on hand together with demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash at bank is either in current accounts, or is placed on short-term deposit with maturity periods of less than three months. Interest on short-term deposits is paid at prevailing money market rates. The carrying amount of these assets approximates to their fair value. As explained in the accounting policy note, and as noted at the foot of the consolidated cash flow statement, this definition differs slightly from the definition of cash and cash equivalents, which is used in the cash flow statement, and which includes overdrafts repayable on demand.

Assets pledged as security

The Group has pledged its other financial assets to secure bank borrowings. More details are given in note 21.

20 OTHER FINANCIAL LIABILITIES

Trade and other payables

	29 December 2012	24 December 2011
	£m	£m
Current liabilities		
Trade payables	60.4	68.1
Other tax and social security	37.7	38.2
Other payables	2.1	2.6
Accruals and deferred income	36.9	30.2
	137.1	139.1

Trade payables, other payables, and accruals principally comprise amounts due in respect of trade purchases and ongoing costs. Their carrying value in both periods approximates to their fair value.

The average credit taken for trade purchases during the period, based on total operations, was 46 days (2011: 48 days).

The Group's policy on payment of creditors is to agree terms of payment prior to commencing trade with a supplier, and to abide by those terms on the timely submission of satisfactory invoices.

21 BORROWINGS

Total borrowings

	29 December 2012	24 December 2011
	£m	£m
Current borrowings		
Bank borrowings (net of prepaid fees)	1.1	1.1
Current portion of finance lease obligations	0.1	–
	1.2	1.1
Non-current assets		
Bank borrowings (net of prepaid fees)	(1.0)	–
Non-current borrowings		
Bank borrowings (net of prepaid fees)	–	1.2
Non-current portion of finance lease obligations	0.1	–
	0.1	1.2
Total borrowings	0.3	2.3

Bank borrowings

The bank borrowings are repayable as follows

	29 December 2012	24 December 2011
	£m	£m
Disclosed under current liabilities		
On demand or within one year	17	17
Less prepaid issue fees set against borrowings	(0.6)	(0.6)
	11	11
Disclosed under non-current assets		
In the second year	0.4	-
Less prepaid issue fees set against borrowings	(1.4)	-
	(1.0)	-
Disclosed under non-current liabilities		
In the second year	-	17
In the third to fifth years inclusive	-	0.4
Less prepaid issue fees set against borrowings	-	(0.9)
	-	12
Total bank borrowings	0.1	2.3

The Group's accounting policy is to capitalise prepaid loan facility fees and to set them against the related borrowings. The fees are then amortised over the life of the facility. During the current period, the Group extended its facility, which had previously been due to expire in May 2014, to July 2016. The additional fees payable on extension were capitalised, together with the unamortised portion of the existing fees, and these fees are being amortised over the period to July 2016. At the current period end, the amount of fees relating to the period in excess of one year from the balance sheet date were greater than the corresponding amounts drawn down under the facility, thereby creating a net debit balance as shown above.

All bank borrowings are in sterling, and are drawn under the £160m (2011: £160m) committed bank facility. The terms of this facility are explained further in the final paragraph of note 29(a).

This facility is secured on the property, other assets, and investments of the Group. The carrying values of each of these classes of assets are as presented in the balance sheet and notes to these consolidated financial statements.

The available facility limit is calculated every week, based on the asset backing at the time and can never exceed £160m. In accordance with the terms of the facility agreement this limit will be reduced to £140m in May 2014. As at 29 December 2012, the Group had available £126m of undrawn committed borrowing facilities, in respect of which all conditions precedent had been met (24 December 2011: £145m).

In June 2012 the facility was extended until July 2016. The loan carries interest at a rate of LIBOR plus a margin. From March 2011 to maturity, the margin will vary between 200 and 250 basis points and will be determined by the Group's rolling Adjusted Profit Before Tax.

Finance lease obligations

The finance lease obligations are repayable as follows

	29 December 2012	24 December 2011
	£m	£m
Current liabilities		
Within one year	0.1	–
Non-current liabilities		
In the second year	0.1	–
In the third to fifth years inclusive	0.1	–
Total finance lease obligations	0.2	–

At the previous period end, there were no finance lease obligations. All of the finance lease obligations are in sterling. Each lease contract is at a fixed interest rate. The finance lease obligations were unsecured, and the average remaining lease term at the period end was 3 years and 3 months.

The reconciliation items between the total future minimum lease payments and their present value is as follows

	Minimum lease payments		Present value of minimum lease payments	
	29 December 2012	24 December 2011	29 December 2012	24 December 2011
	£m	£m	£m	£m
Amounts payable under finance leases				
Within one year	0.1	–	0.1	–
In the second year	0.1	–	0.1	–
In the third to fifth years inclusive	0.1	–	0.1	–
	0.3	–	0.2	–
Less: future finance charges	(0.1)	–		
Present value of lease obligations	0.2	–		
Disclosed as				
Current	0.1	–		
Non-current	0.1	–		
	0.2	–		

Interest rate and fair value information for bank borrowings and finance lease obligations

The weighted average interest rates paid were as follows

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	%	%
Finance lease obligations	5.0	N/A
Bank borrowings	2.9	3.4

The directors estimate the fair value of the Group's borrowings is as follows

	29 December 2012	24 December 2011
	£m	£m
Finance lease obligations	0.2	-
Bank borrowings	0.1	2.3

22 RETIREMENT BENEFIT OBLIGATIONS**Defined contribution auto-enrolment plan**

From July 2013, the Group will be required to operate an auto-enrolment defined contribution scheme for employees, in line with recent UK Government legislation. Under the terms of this scheme, employees will make pension contributions out of their salaries, and the Group will also make additional contributions. The Group decided to give employees the option to enter this scheme earlier than the mandatory start date, and so the auto-enrolment scheme was open to employees from November 2012 on a voluntary, opt-in, basis.

The total cost charged to income in respect of this scheme in the current period of £0.1m (2011: £nil) represents the Group's contributions due and paid in respect of the period.

The Group operates a defined contribution scheme for its employees. The assets of this scheme are held separately from those of the Group, and are under the control of the scheme trustees. This scheme began operation during 2006.

The total cost charged to income in respect of this scheme in the current period of £0.9m (2011: £1.1m) represents the Group's contributions due and paid in respect of the period.

The Group operates a funded pension scheme which provides benefits based on the pensionable pay of participating employees. This scheme will be closed to new entrants from April 2013. The assets of the scheme are held separately from those of the Group, being invested with independent fund managers. Contributions are charged to the consolidated income statement so as to spread the cost of pensions over the employees' working lives with the Group. The present value of the defined benefit obligation, the related current service cost, and past service cost are determined by a qualified actuary using the projected unit method. The most recent completed actuarial valuation was carried out at 5 April 2011 by the scheme actuary. The actuary advising the Group has subsequently rolled forward the results of the 5 April 2011 valuation to 29 December 2012, and has restated the results onto a basis consistent with market conditions at that date.

Total amounts charged in respect of pensions in the period

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	£m	£m
Charged to the income statement		
Defined benefit scheme – total operating charge	11.2	9.1
Defined benefit scheme – net finance charge	7.3	3.1
Defined contribution scheme – total operating charge	1.0	1.1
Total net amount charged to profit before tax	19.5	13.3
Charged to equity		
Defined benefit scheme – net actuarial losses, net of deferred tax	39.0	22.9
Total pension charge	58.5	36.2

Key assumptions used in the valuation of the scheme

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
Rate of increase of pensions in deferment capped at lower of CPI and 5%	2.25%	2.95%
Rate of CARE revaluation capped at lower of RPI and 3%	2.30%	2.55%
Rate of increase of pensions in payment		
– pensions with increases capped at lower of CPI and 5%	3.05%	2.95%
– pensions with increases capped at lower of CPI and 5%, with a 3% minimum	3.75%	3.50%
– pensions with increases capped at the lower of LPI and 2.5%	2.15%	2.15%
Rate of increase in salaries	4.15%	4.35%
Inflation assumption – RPI	3.15%	3.35%
Inflation assumption – CPI	2.45%	2.65%
Expected return on scheme assets (weighted average)	4.93%	5.07%
Discount rate	4.45%	5.05%

The following mortality tables were used

Mortality before retirement – 2011 and 2012	Males AM00 Ultimate Females AF00 Ultimate
Mortality in retirement for current and future pensioners – 2011 and 2012	Males S1PMA, CMI 2010 core projections with a long-term improvement rate of 1.5% p a Females S1PFA, CMI 2010 core projections with a long-term improvement rate of 1.5% p a

Note

*The underlying S1PMA and S1PFA tables are also adjusted by scaling factors. Separate scaling factors apply to males and females and to the different categories of members.

The mortality assumption adopted by the Group in 2012 and 2011 is equivalent to the following life expectancies

	2012		2011	
	Male (yrs)	Female (yrs)	Male (yrs)	Female (yrs)
Non-pensioner (age 45)	89.2	91.6	89.1	91.5
Pensioner (age 65)	88.4	89.4	88.2	89.2

If there was an increase/decrease in the discount rate of 0.25%, there would be a corresponding decrease/increase in the scheme liabilities of around 4.7%, or £41m, and a decrease/increase in the current service cost of around 6% or £0.7m.

An increase of 0.25% to the inflation rate would increase scheme liabilities by around £18m, or 2%, and would increase current service cost by around £0.6m or 5%. A decrease of 0.25% to the inflation rate would decrease scheme liabilities by around £13m, or 1.5%, and would reduce current service cost by around £0.4m, or 3%.

The effect of changing the assumption regarding life expectancy by one year longer than shown above would be to increase the assessed value of liabilities by around 3% or £25m, and would increase current service cost by around £0.3m or 2%.

Analysis of scheme assets and the expected rates of return

	Expected rate of return		Fair value of scheme assets	
	53 weeks to 29 December 2012 %	52 weeks to 24 December 2011 %	29 December 2012 £m	24 December 2011 £m
Equities	6.20	6.25	314.2	272.3
Government bonds	2.50	2.55	175.6	172.4
Corporate bonds	4.45	5.05	91.5	84.6
Cash	2.50	2.60	29.2	5.1
Alternative growth assets	6.20	6.30	78.6	75.6
Property	6.20	6.30	31.3	30.8
Weighted average	4.93	5.07	720.4	640.8

The Group establishes the long-term expected rate of return on scheme assets by developing a forward-looking long-term return assumption for each asset class, taking into account factors such as market yield on bond investments of appropriate duration, and the expected outperformance for other asset classes based on analysis of long-term historical trends. A single long-term assumption is then calculated as the weighted average of the actual asset allocation and the long-term assumption for each asset class.

Balance sheet

The amount included in the balance sheet arising from the Group's obligations in respect of the defined benefit retirement benefit scheme is as follows:

	29 December 2012 £m	24 December 2011 £m
Present value of defined benefit obligations	(874.9)	(777.7)
Fair value of scheme assets	720.4	640.8
Deficit in the scheme, recognised in the balance sheet	(154.5)	(136.9)

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

	53 weeks to 29 December 2012 £m	52 weeks to 24 December 2011 £m
Present value at start of period	777.7	730.6
Current service cost	11.2	9.1
Interest on obligation	39.2	40.0
Contributions from scheme members	0.2	0.2
Actuarial losses	66.9	12.9
Benefits paid	(20.3)	(15.1)
Present value at end of period	874.9	777.7

Movements in the fair value of the scheme's assets is as follows

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	£m	£m
Fair value at start of period	640.8	594.9
Expected return on assets	31.9	36.9
Contributions from scheme members	0.2	0.2
Contributions from the Group	52.9	42.4
Actuarial gains/(losses)	14.9	(18.5)
Benefits paid	(20.3)	(15.1)
Fair value at end of period	720.4	640.8

Movements in the deficit during the period are as follows

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	£m	£m
Deficit at start of period	(136.9)	(135.7)
Current service cost	(11.2)	(9.1)
Employer contributions	52.9	42.4
Other finance charge	(7.3)	(3.1)
Actuarial losses gross of deferred tax	(52.0)	(31.4)
Deficit at end of period	(154.5)	(136.9)

Income statement

Amounts recognised in the income statement arising from the Group's obligations in respect of the defined benefit scheme are shown below

Amount charged to operating profit

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	£m	£m
Current service cost	11.2	9.1
Net cost	11.2	9.1

The current service cost is included in the statutory accounts heading Staff costs

Amount credited to other finance charges

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	£m	£m
Expected return on pension scheme assets	(31.9)	(36.9)
Expected charge on pension scheme liabilities	39.2	40.0
Net charge	7.3	3.1

The actual return on scheme assets was £46.8m (52 weeks to 24 December 2011 £18.4m)

Statement of recognised income and expense

Amounts taken to equity via the statement of recognised income and expense in respect of the Group's defined benefit scheme are shown below

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	£m	£m
Actuarial gain/(loss) on scheme assets	14.9	(18.5)
Actuarial loss on scheme liabilities	(66.9)	(12.9)
Net actuarial loss	(52.0)	(31.4)

History of scheme deficit and experience adjustments

	29 December 2012	24 December 2011	25 December 2010	26 December 2009	27 December 2008
	£m	£m	£m	£m	£m
Present value of defined benefit obligations	(874.9)	(777.7)	(730.6)	(737.6)	(568.5)
Fair value of scheme assets	720.4	640.8	594.9	541.3	446.3
Deficit in the scheme	(154.5)	(136.9)	(135.7)	(196.3)	(122.2)

Experience adjustments on scheme liabilities – difference between actual and expected returns

	29 December 2012	24 December 2011	25 December 2010	26 December 2009	27 December 2008	Cumulative since adoption of IFRS
Amount of experience (loss)/gain on scheme liabilities (£m)	(66.9)	(12.9)	38.6	(149.1)	73.8	(80.4)
Percentage of scheme liabilities (%)	(1.5)%	1.7%	5.3%	20.2%	13.0%	

Experience adjustments on scheme assets – difference between actual and expected returns

	29 December 2012	24 December 2011	25 December 2010	26 December 2009	27 December 2008	Cumulative since adoption of IFRS
Amount of experience gain/(loss) on scheme assets (£m)	14.9	(18.5)	1.9	62.1	(140.1)	(8.5)
Percentage of scheme assets (%)	2.1%	2.9%	0.3%	11.5%	31.4%	
Total cumulative actuarial loss since adoption of IFRS – all recognised through the SOCIE (£m)						(88.9)

In accordance with the transitional provisions for adopting the amendments to IAS 19 issued in December 2004, the disclosures above relating to experience adjustments are shown prospectively from the period ended 24 December 2005, being the first annual period in which the Group adopted the IAS 19 amendments

Expected future contributions

The Group's estimated contributions to the defined benefit scheme in the 52 weeks ending 28 December 2013 are £49m

23 PROVISIONS

	Property provision £m	Other provision £m	Business closure £m	Total £m
At 25 December 2010	54.4	1.5	–	55.9
Additional provision in the period	8.0	3.3	–	11.3
Utilisation of provision in the period	(29.4)	(2.5)	–	(31.9)
At 24 December 2011	33.0	2.3	–	35.3
Additional provision in the period	1.3	3.2	1.0	5.5
Provision released in the period	(0.1)	–	–	(0.1)
Utilisation of provision in the period	(16.4)	(2.1)	(0.1)	(18.6)
At 29 December 2012	17.8	3.4	0.9	22.1

Property provision

The property provision covers onerous leases on any non-trading leased properties. For some properties, the provision is based on the shortfall between rent payable and rent receivable. For other properties, where negotiations to surrender the lease are in progress, the provision is based on the amount which the landlord has indicated that they are willing to take as a premium in order for the Group to surrender the lease. The provision is based on the period until the end of the lease, or until the Group considers that it can cover the shortfall by subletting, assigning, or surrendering the lease. Throughout the course of the period the Group reviews the range of options for unused properties, and maintains ongoing discussions with landlords and external agents, with a view to identifying possible lease surrenders and finding tenants. The property provision also includes amounts for any related shortfalls in business rates on these properties, and for dilapidations, agents' fees and other professional fees.

During the current period, the property provision has been increased by £0.2m arising from an unwinding of the discount rate over time. None of this amount relates to a change in the discount rate. This amount is shown as a finance charge in note 10. There is a discussion of the main sources of estimation and uncertainty which apply to this provision at note 3. The amount of the expected future cash flows has been adjusted to reflect the expected range of possibilities and, as the outflows under this provision are expected to take place over a number of years, the provision has been discounted to its present value.

The timing of outflows from the provision is variable, and is dependent on property lease expiry dates and on opportunities to surrender leases.

Other provision

The other provision relates to amounts due in respect of product warranties. As products are sold, the Group makes provision for claims under warranties. As claims are made, the Group utilises the provision and then uses this data to periodically revise the basis on which it makes further provision.

Business closure provision

The provision for business closure relates to the costs of closure of the Group subsidiary company Howden Joinery Supply Division (Asia) Ltd. More details of this are provided in note 6.

The provision represents management's best estimate of the costs of closing the business, which are mainly staff costs and the costs of closing the Company's office in Hong Kong.

The decision to close the business was made in the current period, and some expenses related to the closure have already been incurred in the current period and set against the provision, as shown above. The timing of the remaining outflows from the provision is expected to occur within the next 12 months.

24 SHARE CAPITAL

	53 weeks to 29 December 2012	52 weeks to 24 December 2011	53 weeks to 29 December 2012	52 weeks to 24 December 2011
Ordinary shares of 10p each	Number	Number	£m	£m
Allotted, called up and fully paid				
Balance at the beginning of the period	633,915,329	633,915,329	63.4	63.4
Issued during the period	8,100,734	-	0.8	-
Balance at the end of the period	642,016,063	633,915,329	64.2	63.4

25 NOTES TO THE CASH FLOW STATEMENT

(a) Net cash flows from operating activities

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	£m	£m
Net cash flow from operating activities comprises		
Continuing operating activities	66.5	41.2
Discontinued operating activities	(1.1)	(1.0)
Discontinued operations – exceptional items	(0.5)	-
	64.9	40.2

(b) Reconciliation of net cash

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	£m	£m
Net cash at start of period	57.1	35.0
Net increase in cash and cash equivalents	37.3	20.8
Net decrease in current asset investments	-	(0.2)
Decrease in bank borrowings	2.2	1.1
(Increase)/decrease in finance leases	(0.2)	0.4
Net cash at end of period	96.4	57.1
Represented by		
Cash and cash equivalents	96.7	59.4
Bank loans	(0.1)	(2.3)
Finance leases	(0.2)	-
	96.4	57.1

(c) Analysis of net cash

	Cash and cash equivalents	Bank loans	Finance leases	Net cash
	£m	£m	£m	£m
At 24 December 2011	59.4	(2.3)	–	57.1
Cash flow	37.3	2.2	(0.2)	39.3
At 29 December 2012	96.7	(0.1)	(0.2)	96.4

26 FINANCIAL COMMITMENTS

Capital commitments

	29 December 2012	24 December 2011
	£m	£m
Contracted for, but not provided for in the accounts	5.2	11.6

Operating lease commitments

The Group as lessee

Payments under operating leases during the period are shown at note 7. At the balance sheet date, the Group had outstanding lease commitments for future minimum lease payments under non-cancellable operating leases which fall due as shown below.

	Properties		Other leases		Total	
	29 December 2012	24 December 2011	29 December 2012	24 December 2011	29 December 2012	24 December 2011
	£m	£m	£m	£m	£m	£m
Payments falling due						
Within one year	45.0	43.0	11.8	11.7	56.8	54.7
In the second to fifth year inclusive	148.8	145.1	15.6	22.3	164.4	167.4
After five years	87.8	99.2	0.6	1.0	88.4	100.2
	281.6	287.3	28.0	35.0	309.6	322.3

The Group as lessor

The Group sublets certain leased properties to third parties. At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	29 December 2012	24 December 2011
	£m	£m
Payments receivable		
Within one year	0.8	1.1
In the second to fifth year inclusive	2.5	2.6
After five years	0.6	0.7
	3.9	4.4

Finance lease commitments are analysed in note 21.

27 SHARE-BASED PAYMENTS

1) Details of each scheme

The Group recognised a charge of £2.7m (2011: charge of £2.7m) in respect of share-based payments during the period. The Group has various share-based payment schemes, which are all equity-settled. The main details of all schemes which existed during the period are given below.

a) Co-Investment Plan

This is a co-investment plan where each participant is permitted to invest a limited amount of shares on an annual basis for the purposes of the Plan.

2011 award: 25% of the award will vest if PBT growth at the end of the 2013 financial year is at a rate of 6% p.a., based on the December 2010 accounts. 100% of the award will vest if PBT growth on the same basis is 12% p.a. or above.
2012 award: 25% of the award will vest if PBT growth at the end of the 2014 financial year is at a rate of 6% p.a., based on the December 2011 accounts. 100% of the award will vest if PBT growth on the same basis is 12% or above.

b) Executive Share Options

This is a discretionary share option plan. These options are granted with an exercise price equal to market value.

The vesting period is three years from the date of grant with an exercise period of seven years (i.e. a total life of ten years). In the information below, these options have been further subdivided according to their different performance conditions, in order to give more meaningful information. The different subdivisions and performance conditions are as follows:

- (i) 40% vesting if EPS growth equals RPI + 40%, rising to 100% vesting for EPS growth of RPI + 100%.
- (ii) EPS growth must equal RPI + 9%. If this is achieved there will be full vesting. If this is not achieved there will be no vesting.
- (iii) Full vesting will occur if the Group's cumulative profit before tax is at least £90m over the three financial years ending December 2009, 2010, and 2011. If this is not achieved there will be no vesting.

c) Howden Joinery Group Long-Term Incentive Plan

This is a discretionary plan under which the Group may grant different types of share award including market value and nil cost options, conditional awards of shares and restricted shares (where the employee is the owner of the shares from the date of award but subject to forfeiture). Unless otherwise specified all awards have substantially the same terms:

- (i) Market value options, the vesting period for which is three years from the date of grant with an exercise period of seven years (i.e. a total life of ten years). Options will vest if cumulative PBT of £90m is achieved over the three financial years ending 2009, 2010 and 2011.
- (ii) Market value options which vest after a three year period from the date of grant. 15% of the options will vest if the Group achieves growth in pre-exceptional PBT equivalent to RPI over the performance period. 100% will vest if pre-exceptional PBT growth equivalent to RPI + 8% is achieved.
- (iii) Conditional Share Award – shares will vest at the end of a three year period commencing on the date of grant subject to continuing employment.
- (iv) 2011 Grant: 25% of the award will vest if PBT growth at the end of the 2013 financial year is at a rate of 6% p.a., based on the December 2010 accounts. 100% of the award will vest if PBT growth on the same basis is 12% p.a. or above.
2012 Grant: 25% of the award will vest if PBT growth at the end of the 2014 financial year is at a rate of 6% p.a., based on the December 2011 accounts. 100% of the award will vest if PBT growth on the same basis is 12% p.a. or above.

d) Share Incentive Scheme (Freeshares)

This is an 'all-employee' share incentive plan whereby participants receive a grant of free shares in the Group. If the employees are still employed by the Group three years after the grant, then the shares vest. Dividends are paid out on the shares between award date and vesting date. There are no other performance conditions attached to these awards.

2) Movements in the period

a) Executive Co-Investment Plan: 2011 & 2012 awards

	53 weeks to 29 December 2012	53 weeks to 29 December 2012	52 weeks to 24 December 2011	52 weeks to 24 December 2011
	Number	WAEP (£)	Number	WAEP (£)
In issue at start of period	4,121,495	–	–	N/A
Granted in period	4,382,287	–	4,121,495	–
Lapsed in period	–	N/A	–	N/A
Exercised in period	–	N/A	–	N/A
In issue at end of period	8,503,782	–	4,121,495	–
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		N/A		N/A
Weighted average contractual life remaining for share options outstanding at the period end (years)	1.75		2.25	
Weighted average fair value of options granted during the period (£)	1.22		1.05	
Range of exercise prices for options outstanding at the period end (£)				
– from	–		–	
– to	–		–	

b) Executive Share Options

(i) 40% vesting if EPS growth = RPI + 40% rising to 100% vesting if EPS growth = RPI + 100%

	53 weeks to 29 December 2012	53 weeks to 29 December 2012	52 weeks to 24 December 2011	52 weeks to 24 December 2011
	Number	WAEP (£)	Number	WAEP (£)
In issue at beginning of period	803,425	1.07	803,425	1.07
Granted in period	–	N/A	–	N/A
Lapsed in period	–	N/A	–	N/A
Exercised in period	(119,473)	1.07	–	N/A
In issue at end of period	683,952	1.07	803,425	1.07
Exercisable at end of period	683,952	1.07	803,425	1.07
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		1.37		N/A
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		–	
Weighted average fair value of options granted during the period (£)	N/A		N/A	
Range of exercise prices for options outstanding at the period end (£)				
– from	1.07		1.07	
– to	1.07		1.07	

b) Executive Share Options

(ii) Full vesting if EPS increases by RPI + 9%

	53 weeks to 29 December 2012	53 weeks to 29 December 2012	52 weeks to 24 December 2011	52 weeks to 24 December 2011
	Number	WAEP (£)	Number	WAEP (£)
In issue at beginning of period	751,193	1 00	2,107,273	1 03
Granted in period	-	N/A	5,000	1 03
Lapsed in period	(25,000)	1 00	(813,190)	1 08
Exercised in period	(124,500)	1 00	(547,890)	1 02
In issue at end of period	601,693	1 00	751,193	1 00
Exercisable at end of period	601,693	1 00	751,193	1 00
Number of options in the closing balance that were granted before 7 November 2002	-		-	
Weighted average share price for options exercised during the period		1 44		1 12
Weighted average contractual life remaining for share options outstanding at the period end (years)	-		-	
Weighted average fair value of options granted during the period (£)	N/A		N/A	
Range of exercise prices for options outstanding at the period end (£)				
- from	1 00		1 00	
- to	1 00		1 06	

b) Executive Share Options

(iii) Cumulative PBT of £90m over three financial years ending 2009, 2010 and 2011

	53 weeks to 29 December 2012	53 weeks to 29 December 2012	52 weeks to 24 December 2011	52 weeks to 24 December 2011
	Number	WAEP (£)	Number	WAEP (£)
In issue at beginning of period	9,557,430	0 38	9,557,430	0 38
Granted in period	-	N/A	-	N/A
Lapsed in period	-	N/A	-	N/A
Exercised in period	(1,431,486)	0 38	-	N/A
In issue at end of period	8,125,944	0 38	9,557,430	0 38
Exercisable at end of period	8,125,944	0 38	-	N/A
Number of options in the closing balance that were granted before 7 November 2002	-		-	
Weighted average share price for options exercised during the period		1 37		N/A
Weighted average contractual life remaining for share options outstanding at the period end (years)	-		0 33	
Weighted average fair value of options granted during the period (£)	N/A		N/A	
Range of exercise prices for options outstanding at the period end (£)				
- from	0 25		0 25	
- to	0 50		0 50	

c) Howden Joinery Group Long-Term Incentive Plan

(i) Cumulative PBT of £90m over three financial years ending 2009, 2010 and 2011

	53 weeks to 29 December 2012	53 weeks to 29 December 2012	52 weeks to 24 December 2011	52 weeks to 24 December 2011
	Number	WAEP (£)	Number	WAEP (£)
In issue at beginning of period	12,192,032	0.37	12,412,032	0.37
Granted in period	-	N/A	-	N/A
Lapsed in period	(70,000)	0.36	(220,000)	0.37
Exercised in period	(10,290,067)	0.36	-	N/A
In issue at end of period	1,831,965	0.42	12,192,032	0.37
Exercisable at end of period	1,831,965	0.42	-	N/A
Number of options in the closing balance that were granted before 7 November 2002	-		-	
Weighted average share price for options exercised during the period		1.25		N/A
Weighted average contractual life remaining for share options outstanding at the period end (years)	-		0.33	
Weighted average fair value of options granted during the period (£)	N/A		N/A	
Range of exercise prices for options outstanding at the period end (£)				
- from	0.36		0.25	
- to	0.50		0.50	

c) Howden Joinery Group Long-Term Incentive Plan

(ii) 2012 PBT increase by between RPI and RPI + 8%

	53 weeks to 29 December 2012	53 weeks to 29 December 2012	52 weeks to 24 December 2011	52 weeks to 24 December 2011
	Number	WAEP (£)	Number	WAEP (£)
In issue at beginning of period	5,885,738	0.81	6,015,106	0.81
Granted in period	-	N/A	-	N/A
Lapsed in period	(68,215)	0.81	(129,368)	0.81
Exercised in period	(25,466)	0.81	-	N/A
In issue at end of period	5,792,057	0.81	5,885,738	0.81
Exercisable at end of period	-	N/A	-	N/A
Number of options in the closing balance that were granted before 7 November 2002	-		-	
Weighted average share price for options exercised during the period		1.45		N/A
Weighted average contractual life remaining for share options outstanding at the period end (years)	0.33		1.33	
Weighted average fair value of options granted during the period (£)	N/A		N/A	
Range of exercise prices for options outstanding at the period end (£)				
- from	0.81		0.81	
- to	0.81		0.81	

(e) Credit risk

The Group's principal financial assets are cash and cash equivalents, other assets, and trade and other receivables. The Group's credit risk is mainly confined to the risk of customers defaulting on sales invoices raised. The Group has adopted a policy of only dealing with creditworthy counterparties as a way of mitigating the risk of financial loss from defaults.

The Group's policy on dealing with trade customers is described in the accounting policies and in note 19. Trade receivables consist of a large number of customers. Ongoing credit evaluation is performed on the financial condition of accounts receivable. The Group does not have any significant credit risk exposure to any single counterparty.

The Group limits exposure to credit risk on liquid funds through adherence to a policy of minimum long-term counterparty credit ratings assigned by international credit-rating agencies (Standard & Poor's A and Moody's A2).

Full disclosure of the Group's maximum exposure to credit risk is presented in the following table.

	29 December 2012	24 December 2011
	£m	£m
Trade receivables (net of allowance)	71.2	73.0
Cash and cash equivalents	96.7	59.4
Total credit risk exposure	167.9	132.4

(f) Liquidity risk

Liquidity risk is the risk that the Group could experience difficulties in meeting its commitments to creditors as financial liabilities fall due for payment. The Group manages its liquidity risk by using reasonable and retrospectively-assessed assumptions to forecast the future cash-generative capabilities and working capital requirements of the businesses it operates and by maintaining sufficient reserves, committed borrowing facilities and other credit lines as appropriate. Ultimate responsibility for liquidity risk management rests with the Board of directors, which has agreed an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities as far as is possible. Included in note 21 is a description of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk. In addition, the Financial Review contains a section describing the interaction of liquidity risk and the going concern review.

d) Share incentive scheme (Freeshares)

	53 weeks to 29 December 2012	53 weeks to 29 December 2012	52 weeks to 24 December 2011	52 weeks to 24 December 2011
	Number	WAEP (£)	Number	WAEP (£)
In issue at beginning of period	218,394	–	244,169	–
Granted in period	–	N/A	–	N/A
Lapsed in period	–	N/A	–	N/A
Exercised in period	(23,755)	–	(25,775)	–
In issue at end of period	194,639	–	218,394	–
Exercisable at end of period	194,639	–	218,394	–
Number of options in the closing balance that were granted before 7 November 2002	194,639		218,394	
Weighted average share price for options exercised during the period		1.34		1.09
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		–	
Weighted average fair value of options granted during the period (£)	N/A		N/A	
Range of exercise prices for options outstanding at the period end (£)				
– from	–		–	
– to	–		–	

3) Fair value of options granted

The fair value of all options granted is estimated on the date of grant using either a binomial option valuation model or a Black Scholes model depending on the complexity of the option

The key assumptions used in the models were

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
Dividend yield (%)	1.5	1.5
Expected share price volatility (%)	54	54
Historical volatility (%)	54	54
Risk-free interest rate (%)	1.6	3.0
Expected life of options (years)	4.75	4.75

Historical volatility is measured for each scheme over the period equal to the vesting period of the scheme. The figure arrived at is then used as the best estimate of expected future volatility

28 RELATED PARTY TRANSACTIONS

Companies which are related parties

Transactions between Group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note. All transactions between the Group and the Group's pension schemes have been disclosed in note 22.

Remuneration of key management personnel

Key management personnel comprise the Board of directors (including non-executive directors) and the Executive Committee. Details of the aggregate remuneration to these personnel is set out below. The figure disclosed for share-based payments represents the gain realised on the exercise of share options in the year, albeit that those options will have been granted in previous periods. All figures include employer's National Insurance.

	53 weeks to 29 December 2012	52 weeks to 24 December 2011
	£m	£m
Short-term employment benefits	7.1	6.4
Share-based payments	9.7	–
	16.8	6.4

Other transactions with key management personnel

There were no other transactions with key management personnel.

29 FINANCIAL RISK MANAGEMENT

(a) Capital risk management

The Group manages its capital structure to maximise the return to shareholders through the optimisation of its debt and equity balance, trading-off the benefits of financial leverage with the expected future costs of financial distress.

The capital structure of the Group consists of debt (including the borrowings disclosed in note 21 offset by cash and cash equivalents) and equity attributable to equity holders of the parent (including issued share capital and reserves as disclosed in the Consolidated Statement of Changes in Equity, and in note 24).

The Board of directors reviews the capital structure regularly, including, but not limited to, at the time of preparing annual budgets, preparing three year corporate plans, and considering corporate transactions. As part of this review, the Board reviews the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs, as well as the issue of new debt or the repayment of existing debt.

At the period end, the Group had a £160m committed bank facility secured against the assets of the Group and based on four sub-facilities (stock, trade receivables, property and a cash flow facility). The facility limit was the lower of £160m and the sum of the four sub-facilities. The property component (initially £17.4m) amortises at the rate of £141,667 each month, whereas the other components act as a revolving credit facility with no amortisation. Under the terms of the facility, none of the Group's principal subsidiary companies can sign up to additional secured borrowings, other than those expressly permitted within the terms of the facility. The facility (i) permits normal trade credit granted to it in the ordinary course of business, (ii) allows up to £20m of additional secured borrowings, and (iii) allows up to £10m of finance lease borrowing. During the period the maturity of the facility was extended from May 2014 to July 2016. As part of that extension the facility was reduced from £160m to £140m in May 2014. The Group's overall strategy remains unchanged from 2011.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements

(c) Categories of financial instruments

	29 December 2012	24 December 2011
	£m	£m
Financial assets (current and non-current)		
Trade receivables	71.2	73.0
Cash and cash equivalents	96.7	59.4
Financial liabilities (current and non-current)		
Trade payables	60.4	68.1
Borrowings	0.3	2.3

(d) Financial risk management**General**

The Group is exposed in varying degrees to a variety of financial instrument related risks. The Board has approved and monitors the risk management processes, including documented treasury policies, counterparty limits, controlling and reporting structures. The types of risk exposure, the way in which such exposure is managed, and the quantification of the level of exposure in the balance sheet is shown below (subcategorised into credit risk, liquidity risk and market risk). The Group is actively engaged in the management of all of these financial risks in order to minimise their potential adverse impact on the Group's financial performance.

The principles, practices and procedures governing the Group-wide financial risk management process have been approved by the Board and are overseen by the Executive Committee. In turn, the Executive Committee delegates authority to a central treasury function ("Group Treasury") for the practical implementation of the financial risk management process across the Group and for ensuring that the Group's entities adhere to specified financial risk management policies. Group Treasury regularly reassesses and reports on the financial risk environment, identifying and evaluating financial risks. The Group does not take positions on derivative contracts and only enters into contractual bank deposit or lending arrangements with counterparties that have investment grade credit ratings.

Cash and cash equivalents

Cash at bank and in hand, which is the term used in the balance sheet, comprises cash on hand together with demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents, which is the term used in the cash flow statement, comprises cash at bank and in hand, as defined immediately above, together with any overdrafts repayable on demand.

Arrangements are in place to ensure that cash is utilised most efficiently for the ongoing working capital needs of the Group's operating units and to ensure that the Group earns the most advantageous rates of interest available. The prime consideration in the investment of cash balances is the security of the asset, followed by liquidity and then yield.

Management of trade receivables is discussed in note 19.

(e) Credit risk

The Group's principal financial assets are cash and cash equivalents, other assets, and trade and other receivables. The Group's credit risk is mainly confined to the risk of customers defaulting on sales invoices raised. The Group has adopted a policy of only dealing with creditworthy counterparties as a way of mitigating the risk of financial loss from defaults.

The Group's policy on dealing with trade customers is described in the accounting policies and in note 19. Trade receivables consist of a large number of customers. Ongoing credit evaluation is performed on the financial condition of accounts receivable. The Group does not have any significant credit risk exposure to any single counterparty.

The Group limits exposure to credit risk on liquid funds through adherence to a policy of minimum long-term counterparty credit ratings assigned by international credit-rating agencies (Standard & Poor's A and Moody's A2).

Full disclosure of the Group's maximum exposure to credit risk is presented in the following table.

	29 December 2012	24 December 2011
	£m	£m
Trade receivables (net of allowance)	71.2	73.0
Cash and cash equivalents	96.7	59.4
Total credit risk exposure	167.9	132.4

(f) Liquidity risk

Liquidity risk is the risk that the Group could experience difficulties in meeting its commitments to creditors as financial liabilities fall due for payment. The Group manages its liquidity risk by using reasonable and retrospectively-assessed assumptions to forecast the future cash-generative capabilities and working capital requirements of the businesses it operates and by maintaining sufficient reserves, committed borrowing facilities and other credit lines as appropriate. Ultimate responsibility for liquidity risk management rests with the Board of directors, which has agreed an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities as far as is possible. Included in note 21 is a description of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk. In addition, the Financial Review contains a section describing the interaction of liquidity risk and the going concern review.

Maturity profile of outstanding financial liabilities

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The Group has no derivative financial liabilities. The tables have been drawn up on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Within 1 year			2-3 years			Total
	Capital	Floating interest	Fixed interest	Capital	Floating interest	Fixed interest	
At 29 December 2012	£m	£m	£m	£m	£m	£m	£m
Trade payables	60.4	-	-	-	-	-	60.4
Finance leases	0.1	-	-	0.2	-	0.1	0.4
Bank loan	1.7	-	-	0.4	-	-	2.1
	62.2	-	-	0.6	-	0.1	62.9

	Within 1 year			2-3 years			Total
	Capital	Floating interest	Fixed interest	Capital	Floating interest	Fixed interest	
At 24 December 2011	£m	£m	£m	£m	£m	£m	£m
Trade payables	68.1	-	-	-	-	-	68.1
Bank loan	1.7	0.1	-	2.1	0.1	-	4.0
	69.8	0.1	-	2.1	0.1	-	72.1

Note: It has been assumed that, where applicable, interest and foreign currency exchange rates prevailing at the reporting balance sheet date will not vary over the time periods remaining for future cash flows.

(g) Market risk

This is the risk that financial instrument fair values will fluctuate owing to changes in market prices. The significant market risks to which the Group is exposed are foreign exchange risk and interest rate risk. These are discussed further below.

Foreign exchange risk

The Group is exposed to several currencies, principally as a result of operating costs incurred in foreign currencies, and to a lesser extent, from non-Sterling revenues. The Group's policy is generally not to hedge such exposures. The exposure of the Group's financial assets and liabilities to currency risk is as follows.

	29 December 2012	24 December 2011
	£m	£m
Euro		
Trade receivables	1.5	2.6
Cash and cash equivalents	2.8	2.4
Trade payables	(12.6)	(8.9)
	(8.3)	(3.9)
US Dollar		
Trade receivables	–	–
Cash and cash equivalents	4.0	3.7
Trade payables	(1.8)	(1.9)
	2.2	1.8
Hong Kong Dollar		
Trade receivables	–	–
Cash and cash equivalents	0.1	0.1
Trade payables	–	–
	0.1	0.1
Chinese Yuan		
Trade receivables	–	–
Cash and cash equivalents	–	0.1
Trade payables	–	–
	–	0.1
Japanese Yen		
Trade receivables	–	–
Cash and cash equivalents	–	–
Trade payables	(0.1)	0.1
	(0.1)	0.1
Total	(6.1)	(1.8)

Interest rate risk

The Group is exposed to interest rate risk as the parent company has borrowed funds at floating interest rates. The Board has reviewed this risk of interest rate increases causing financial distress and concluded that hedging protection should only be considered if net borrowings or cash surpluses were to exceed £150m. The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Payments on the Group's finance leases are fixed on inception of the lease contract, and as such are regarded as fixed rate borrowings.

(h) Financial instrument sensitivities

Financial instruments affected by market risk include borrowings, deposits, trade receivables and trade payables. The following analysis, required by IFRS 7, is intended to illustrate the sensitivity of the Group's financial instruments as at its period end to changes in market variables, being exchange rates and interest rates. The sensitivity analysis has been prepared on the basis that the components of net debt and the proportion of financial instruments in foreign currencies are all constant. For floating rate liabilities, the analysis is prepared assuming that the amount of liability outstanding at the period end date was outstanding for the whole period. As a consequence, this sensitivity analysis relates to the position as at the balance sheet date. The following assumptions were made in calculating the sensitivity analysis:

- Debt and other deposits are carried at amortised cost and therefore carrying value does not change as interest rates move
- No sensitivity is provided for accrued interest as accruals are based on pre-agreed interest rates and therefore are not susceptible to further rate movements
- Finance lease interest payments are fixed at the inception of the contract and are not subject to repricing. They have therefore been excluded from this analysis
- Translation of foreign subsidiaries and operations into the Group's presentation currency have been excluded from the sensitivity

Using the above assumptions, the following analyses show the illustrative effect on the income statement and equity that would result from reasonably possible changes in the relevant foreign currency or interest rates.

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for floating rate non-derivative instruments at the balance sheet date. The Group holds no derivative financial instruments. Fixed rate liabilities are not susceptible to changes in interest rates, and are omitted from the analysis below. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis points increase is used as this represents management's assessment of the possible change in interest rates.

At the reporting date, if interest rates had been 50 basis points higher and all other variables were held constant, the Group's net profit and profit and loss reserve would remain the same (2011 remain the same).

For a decrease of 50 basis points, the current year figures would remain the same (2011 remain the same).

Foreign exchange sensitivity

As noted above, the Group is mainly exposed to movements in Euro, US dollar, Chinese Yuan, and Japanese Yen exchange rates (the Hong Kong dollar being effectively pegged to the US dollar). The following information details the Group's sensitivity to a 10% weakening or strengthening in pounds Sterling against the Euro, the US Dollar, the Hong Kong dollar, the Chinese Yuan, and the Japanese Yen. These percentages are the rates used by management when assessing sensitivities internally and represent management's assessment of the possible change in foreign currency rates. The sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial period and held constant throughout the reporting period.

	29 December 2012	24 December 2011
	£m	£m
10% weakening of Sterling to Euro	(0.9)	(0.4)
10% strengthening of Sterling to Euro	0.7	0.4
10% weakening of Sterling to US dollar	0.2	0.2
10% strengthening of Sterling to US dollar	(0.2)	(0.2)

The Group's sensitivity, on the basis above, to a strengthening or weakening of Sterling to the Hong Kong Dollar, the Chinese Yuan and the Japanese Yen was less than £0.1m at both the current and prior period ends.

Independent auditor's report to the members of Howden Joinery Group Plc

We have audited the Group financial statements of Howden Joinery Group Plc for the 53 weeks ended 29 December 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the Group financial statements

- give a true and fair view of the state of the Group's affairs as at 29 December 2012 and of its profit for the 53 weeks then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

OTHER MATTER

We have reported separately on the parent company financial statements of Howden Joinery Group Plc for the 53 weeks ended 29 December 2012 and on the information in the Directors' Remuneration Report that is described as having been audited.

Edward Hanson (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor

London, United Kingdom
27 February 2013

Company balance sheet

	Notes	29 December 2012 £m	24 December 2011 £m
Non-current assets			
Investments	3	699 0	708 6
Deferred tax	4	0 2	0 2
Bank borrowings net of prepaid fees	7	1 0	–
		700 2	708 8
Current assets			
Debtors	5	14 2	13 9
Cash at bank and in hand		85 6	40 0
		99 8	53 9
Current liabilities			
Creditors amounts falling due within one year	6	(574 9)	(490 0)
Net current liabilities		(475 1)	(436 1)
Total assets less current liabilities		225 1	272 7
Non-current liabilities			
Creditors amounts falling due after more than one year	7	–	(1 2)
Provisions	8	(8 9)	(19 0)
Net assets		216 2	252 5
Equity			
Called up share capital	9	64 2	63 4
Share premium account	10	87 2	85 1
Retained earnings reserve	10	64 8	104 0
Total equity		216 2	252 5

These financial statements were approved by the Board on 27 February 2013 and were signed on its behalf by

Mark Robson
Chief Financial Officer



For and on behalf of Howden Joinery Group Plc, registered number 02128710

Notes to the Company balance sheet

1 SIGNIFICANT COMPANY ACCOUNTING POLICIES

General information

Howden Joinery Group Plc is a company incorporated in the United Kingdom under the Companies Act 2006

Basis of presentation

The Company's accounting period covers the 53 weeks to 29 December 2012. The comparative period covered the 52 weeks to 24 December 2011.

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Standards. The principal accounting policies are presented below and have been applied consistently throughout the current and prior periods. They have also been prepared on the going concern basis as described in the going concern statement in the Corporate Governance Report on page 56 of the Group's Annual Report.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Cash flow statement

The Company is exempt from the requirement of FRS 1 (revised) to include a cash flow statement as part of its Company financial statements because it prepares a consolidated cash flow statement which is shown as part of the consolidated Group accounts.

Related parties

The Company has taken advantage of paragraph 3(c) of Financial Reporting Standard 8 ("Related Party Disclosures") not to disclose transactions with Group entities or investees of the Group qualifying as related parties.

2 PROFIT AND LOSS ACCOUNT

As permitted by section 408 of the Companies Act 2006, no separate profit and loss account is presented for the Company. The Company result after tax for the 53 weeks to 29 December 2012 was a loss of £34.2m (52 weeks to 24 December 2011: loss after tax for the period of £25.2m).

The Company has no employees (2011: none), did not pay directors' emoluments (2011: £nil), and the fees payable to the Company's auditor for the audit of the Company's annual accounts (£10,000 in both current and prior periods) were borne by a fellow Group undertaking.

3 INVESTMENTS

	Shares in subsidiary undertakings	Long-term loans to subsidiary undertakings	Total
Cost and carrying value	£m	£m	£m
At 24 December 2011	271.7	436.9	708.6
Disposal/write down of investments	(9.6)	–	(9.6)
At 29 December 2012	262.1	436.9	699.0

During the period, the Company wrote down the full carrying value of its investment in Southon Insurance Company Ltd and Howden Joinery Supply Division (Asia) Ltd. Both these companies were 100% owned subsidiaries, whose businesses were closed during the period.

More detail about the closure of these companies is given in note 6 to the consolidated Group accounts.

Details of principal subsidiary undertakings are given on page 116.

4 DEFERRED TAX

The deferred tax all relates to short-term timing differences.

5 DEBTORS

	29 December 2012 £m	24 December 2011 £m
Other debtors	2.3	0.9
Corporation tax	11.3	12.5
Other tax and social security	0.6	0.5
	14.2	13.9

6 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	29 December 2012 £m	24 December 2011 £m
Current portion of long-term bank loan	1.1	1.1
Owed to subsidiaries	572.8	488.6
Accruals and deferred income	1.0	0.3
	574.9	490.0

7 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	29 December 2012 £m	24 December 2011 £m
Long-term portion of bank loan	–	1.2

Analysis of total borrowings

	29 December 2012 £m	24 December 2011 £m
The borrowings are repayable as follows		
Disclosed under current liabilities		
On demand or within one year	1.7	1.7
Less prepaid issue fees set against borrowings	(0.6)	(0.6)
On demand or within one year	1.1	1.1
Disclosed under non-current assets		
In the second year	0.4	–
Less prepaid issue fees set against borrowings	(1.4)	–
	(1.0)	–
Disclosed under non-current liabilities		
In the second year	–	1.7
In the third to fifth years inclusive	–	0.4
Less prepaid issue fees set against cost of loan	–	(0.9)
	–	1.2
Total borrowings	0.1	2.3

All borrowings are in sterling

The weighted average interest rates paid on the borrowings were as follows

53 weeks to 29 December 2012	52 weeks to 24 December 2011
%	%
2.9	3.4

Notes to the Company balance sheet continued

The directors estimate the fair value of the Group's borrowings are as follows

29 December 2012	24 December 2011
£m	£m
0.1	2.3

8 PROVISIONS

	Property provision	Total
	£m	£m
At 24 December 2011	19.0	19.0
Additional provision in the period	0.2	0.2
Utilisation of provision in the period	(10.3)	(10.3)
At 29 December 2012	8.9	8.9

The property provision covers onerous leases on any non-trading leased properties. For some properties, the provision is based on the shortfall between rent payable and rent receivable. For other properties, where negotiations to surrender the lease are in progress, the provision is based on the amount which the landlord has indicated that they are willing to take as a premium in order for the Group to surrender the lease. The provision is based on the period until the end of the lease, or until the Group considers that it can cover the shortfall by subletting, assigning, or surrendering the lease. Throughout the course of the period the Group reviews the range of options for unused properties, and maintains ongoing discussions with landlords and external agents, with a view to identifying possible lease surrenders and finding tenants. The property provision also includes amounts for any related shortfalls in business rates on these properties, and for dilapidations, agents' fees and other professional fees.

During the current period, the property provision has been increased by £0.2m arising from an unwinding of the discount rate over time. None of this amount relates to a change in the discount rate. The amount of the expected future cash flows has been adjusted to reflect the expected range of possibilities and, as the outflows under this provision are expected to take place over a number of years, the provision has been discounted to its present value.

The timing of outflows from the provision is variable dependent on property lease expiry dates and also on opportunities to surrender leases.

9 SHARE CAPITAL

	53 weeks to 29 December 2012	52 weeks to 24 December 2011	53 weeks to 29 December 2012	52 weeks to 24 December 2011
Ordinary shares of 10p each	Number	Number	£m	£m
Allotted, called up and fully paid				
Balance at the beginning of the period	633,915,329	633,915,329	63.4	63.4
Issued during the period	8,100,734	–	0.8	–
Balance at the end of the period	642,016,063	633,915,329	64.2	63.4

10 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	Called up share capital	Share premium account	Retained earnings	Total
	£m	£m	£m	£m
At 24 December 2011	63.4	85.1	104.0	252.5
Retained loss for the period	–	–	(34.2)	(34.2)
Dividend paid	–	–	(5.0)	(5.0)
Shares issued	0.8	2.1	–	2.9
At 29 December 2012	64.2	87.2	64.8	216.2

Independent auditor's report to the members of Howden Joinery Group Plc

We have audited the parent company financial statements of Howden Joinery Group Plc for the 53 weeks ended 29 December 2012 which comprise the Company Balance Sheet and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the parent company financial statements

- give a true and fair view of the state of the Company's affairs as at 29 December 2012,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION 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, and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- 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 and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

OTHER MATTER

We have reported separately on the Group financial statements of Howden Joinery Group Plc for the 53 weeks ended 29 December 2012.

Edward Hanson (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor

London, UK
27 February 2013

Parent company and principal subsidiary undertakings at 29 December 2012

	Country of registration or incorporation
PARENT COMPANY	
Howden Joinery Group Plc	England and Wales
PRINCIPAL SUBSIDIARY UNDERTAKINGS	
Intermediate holding company	
*Howden Joinery Holdings Limited	England and Wales
Trading	
Howden Joinery Limited	England and Wales
Houdan Menuiserie SA	France
Property management	
Howden Joinery Properties Limited	England and Wales
Howden Kitchens Properties Limited	England and Wales
Administration and Employee Services	
Howden Joinery Corporate Services Limited	England and Wales
Howden Joinery People Services Limited	England and Wales
Dormant	
Howden Kitchens Limited	England and Wales
Galiform Limited	England and Wales
*Howden Joinery Supply Division (Asia) Limited	Hong Kong

The Company ultimately owns 100% of the ordinary share capital of all of the above mentioned companies

*The investment in the companies marked with an asterisk are owned directly by the Company

Five year record

	Dec 2012 53 weeks £m	Dec 2011 52 weeks £m	Dec 2010 52 weeks £m	Dec 2009 52 weeks £m	Dec 2008 52 weeks £m
Summarised Income Statement					
Revenue – continuing operations	887.1	853.8	807.9	769.5	805.7
Operating profit – continuing operations	119.8	115.3	107.4	79.4	80.6
Loss from discontinued operations	(4.4)	(9.3)	–	(4.4)	(108.8)
Share of joint venture operating profit	–	–	–	–	0.1
	115.4	106.0	107.4	75.0	(28.1)
Profit on continuing ordinary activities before tax	112.1	111.0	100.9	68.7	74.3
Dividend per share (pence)	3.0	0.5	–	–	–
Basic EPS – continuing operations (pence)	14.0	13.5	11.1	8.3	9.2
Summarised Balance Sheet					
Total non-current assets*	140.4	132.3	140.2	163.0	155.7
Inventories	115.9	118.5	105.5	86.3	121.3
Receivables	96.0	95.3	95.0	95.4	99.2
Payables and provisions	(180.4)	(196.1)	(216.9)	(224.5)	(250.6)
Pension liability	(154.5)	(136.9)	(135.7)	(196.3)	(122.2)
	(123.0)	(119.2)	(152.1)	(239.1)	(152.3)
Net cash/(borrowings)	95.4	57.1	35.0	2.4	(61.2)
Total net assets/(liabilities)	112.8	70.2	23.1	(73.7)	(57.8)
* In 2008, the balance sheet included a small amount of assets held for resale which were held in the Balance Sheet as part of current assets					
Number of outlets at end of year					
Howden Joinery	529	509	489	462	454
Houdan France	11	10	10	10	11
Capital expenditure	24	20	18	8	19

Shareholder ranges as at 29 December 2012

	Number of holders	Percentage of holders	Number of shares	Percentage of shares
Corporate holders				
0 to 1,000	70	0.8	24,685	—
1,001 to 5,000	121	1.3	359,346	—
5,001 to 10,000	58	0.6	418,778	—
10,001 to 50,000	117	1.3	2,892,831	0.5
50,001 to 100,000	37	0.4	2,622,151	0.4
100,001 to 250,000	58	0.6	9,626,020	1.5
250,001 to max	191	2.0	606,488,384	94.5
	652	7.0	622,432,195	96.9
Individual holders				
0 to 1,000	6,708	71.9	2,741,587	0.5
1,001 to 5,000	1,601	17.2	3,852,259	0.6
5,001 to 10,000	215	2.3	1,581,770	0.3
10,001 to 50,000	127	1.4	2,494,605	0.4
50,001 to 100,000	13	0.1	879,249	0.1
100,001 to 250,000	4	—	826,638	0.1
250,001 to max	7	0.1	7,207,760	1.1
	8,675	93.0	19,583,868	3.1
Total	9,327	100.0	642,016,063	100.0

Advisers and committees

PRINCIPAL BANKER

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REGISTRAR

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REMUNERATION COMMITTEE

Michael Wemms (Chairman)
Mark Allen
Angus Cockburn
Tiffany Hall

NOMINATIONS COMMITTEE

Will Samuel (Chairman)
Mark Allen
Angus Cockburn
Tiffany Hall
Michael Wemms

AUDIT COMMITTEE

Angus Cockburn (Chairman)
Mark Allen
Tiffany Hall
Michael Wemms

EXECUTIVE COMMITTEE

Matthew Ingle
Mark Robson
Caroline Bishop
Rob Fenwick
Julie French
David Hallett
Theresa Keating
Andy Witts
Chris Youell

Corporate timetable

2013

Interim Management Statement	2 May
Annual General Meeting	9 May
Half Yearly Report	25 July
Interim Management Statement	8 November
End of financial year	28 December
