HOWDENS
JOINERY CO.
MAKING SPACE MORE VALUABLE

Annual Report and Accounts 2013

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

Welcome to Howdens

HOWDENS
JOINERY CO.
MAKING SPACE MORE VALUABLE

The strategic report, directors' report and governance statements

The strategic report

Directors' report

Governance statements

The financial statements

Revenue (UK)
£940.7m
(2012: £872.5m)

Operating profit
£142.5m
(2012: £119.8m)

Year end cash
£140.5m
(2012: £96.4m)

Full year dividend
5.5p per share
(2012: 3p)

FINANCIAL HIGHLIGHTS

- *Gross margin further improved to 61.7% (2012: 61.5%)*
- *Strong cash flow enabling substantial increase in dividend*
- *Basic earnings per share, pre exceptional items, up from 14.0p to 16.3p*
- *7 legacy properties exited, plus one since year end, leaving only 8 remaining*

OPERATIONAL HIGHLIGHTS

- *30 new depots opened in 2013, bringing total to 559*
- *Two-year programme of investment in our two manufacturing sites completed: £20m new cabinet production lines fully operational*
- *Continued focus on new product development – 6 new kitchens introduced*
- *'Virtual showroom' implemented in over half of depots; rollout continues*

Our lives

The kitchen occupies a special place at the centre of our daily lives. It is where our day starts, and often where it ends. The kitchen is where we cook, eat and wash up but it is also, increasingly, where we talk, work, play, make plans and manage much of day-to-day life.

The demands we place on our kitchens are growing. Every year, we expect everything we use to look better, be smarter and last longer – and still be competitively priced. We also have less time in which to make decisions and are less tolerant of mistakes or poor service.

So the kitchen must work, all the time, every day.

At Howdens we believe the best and most efficient way to make sure this happens is for the kitchen to be installed by a small builder who has the right skills and experience, knows his local area and has direct relationships with his customers.

That is why our business is centred on the manufacture and sale of kitchens and joinery to small builders who fit them in local homes.

The builder

For the small builder, time is money, and there are new challenges to face every day.

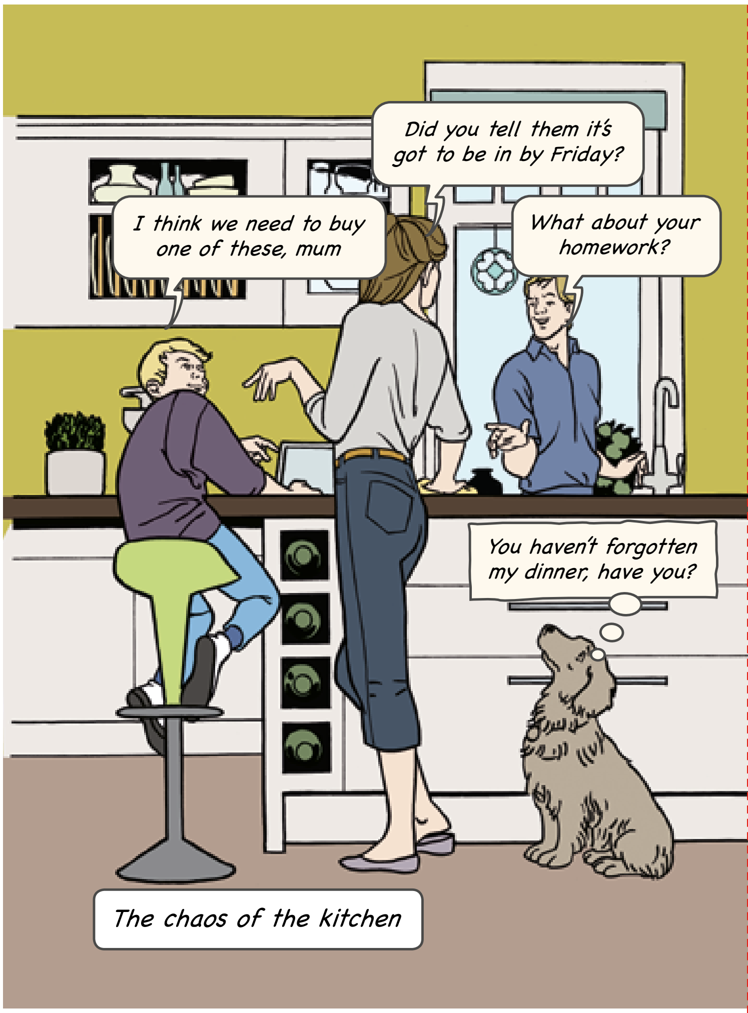
The builder goes where the work is: in any one year he may serve all parts of the market, including private landlords, small developers, local authorities and housing associations as well as owner-occupiers.

So the 290,000 local builders who hold credit accounts with Howdens rely on us to provide them with a complete, reliable, local service, every day. We offer them a confidential discount and nett monthly terms, allowing them to manage their cash flow and decide on an appropriate margin for each job.

Our customer proposition is all about peace of mind. We help builders to sell, plan and fit kitchens that are well-designed, well-made, easy to install and don't break.

We keep all our products in stock at all our depots so the builder can pick up an entire kitchen at a moment's notice. And our local managers have the authority to swap unsuitable items, on the spot, at any time.

Howdens supports the builder's reputation as well as his livelihood.



The chaos of the kitchen

In the site office

The depot

By the end of 2013 there were 559 local Howdens depots located across the country.

A typical depot occupies around 10,000 square feet, most of which is warehousing so that we can hold our complete product range in stock.

A depot opens with around six staff and will take on more people as its sales grow. The depot manager is responsible for his or her own business – hiring staff, choosing which product to display, marketing in the local area, recruiting new accounts, increasing sales and managing margin.

Depot managers and their staff share in their own depot's profitability and are highly incentivised to open accounts and grow business.

Most depots have at least two experienced designers who play a pivotal role in the kitchen sale. The designer plans the kitchen, supporting the builder's relationship with the end-user, and delivers detailed technical drawings to the builder to help him fit the product as quickly and easily as possible.

Our product

Howdens' manufacturing and supply operations are solely focused on meeting the needs of our depots.

We design and manufacture all our own kitchen cabinets and most of our worktops at two factories in Yorkshire and Cheshire. We source kitchen frontals, joinery, flooring, lighting, hardware, appliances and other products from suppliers who can meet our exacting requirements in terms of design, build quality, consistency, cost and availability.

Howdens' own appliance brand, Lamona, includes ovens, range cookers, microwaves, hobs, extractors, dishwashers, refrigeration, laundry, sinks and taps. Since its launch in 2009, Lamona has established itself as the UK's best-selling brand in several of these categories.

Control of manufacturing and supply is supported by a robust, well-invested systems infrastructure that extends to every aspect of production, warehousing, distribution and sales.

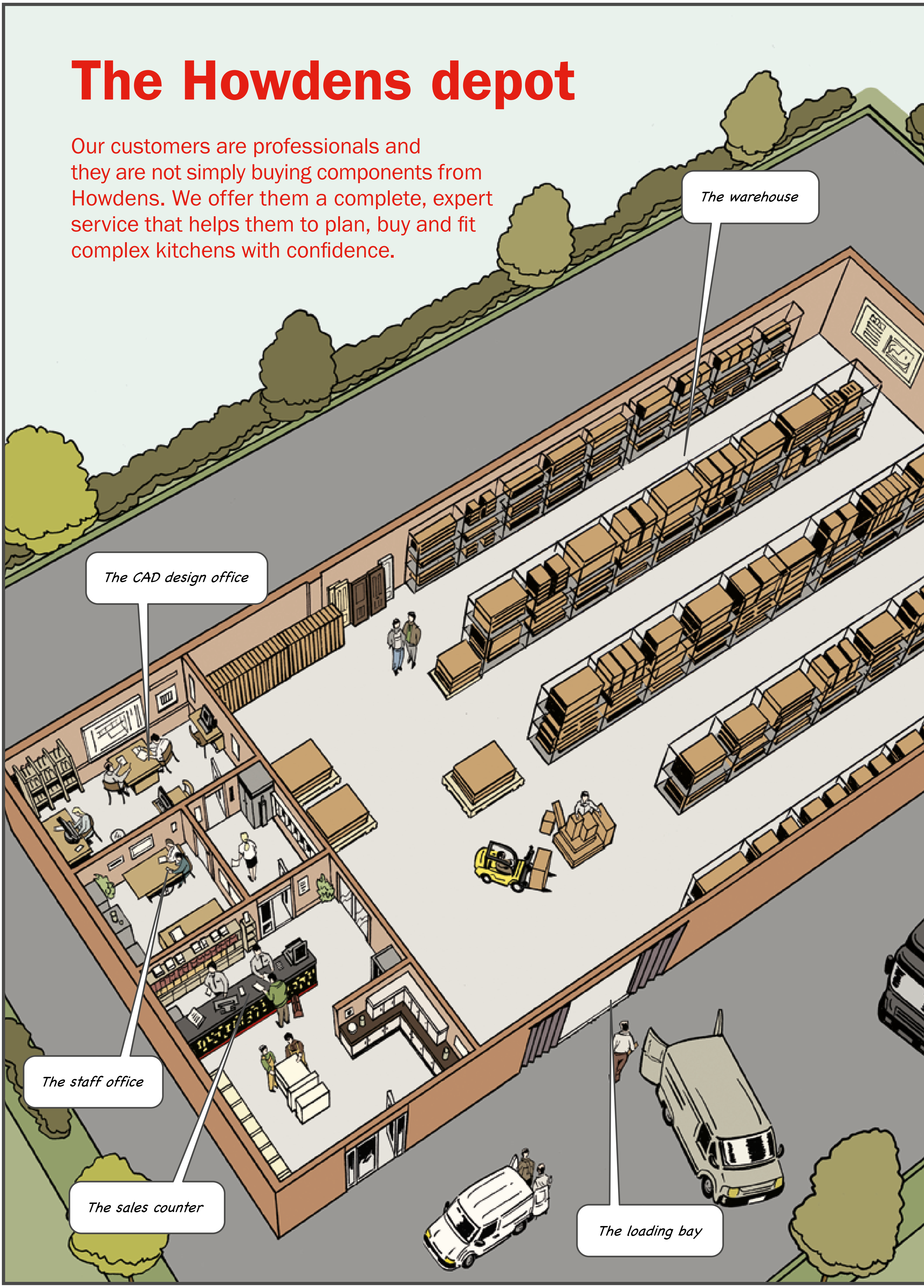
Product from our factories and our main distribution warehouse in Northampton is delivered by our transport fleet to each one of our Howdens depots across the country, ensuring that they are always in stock and will never let the builder down.

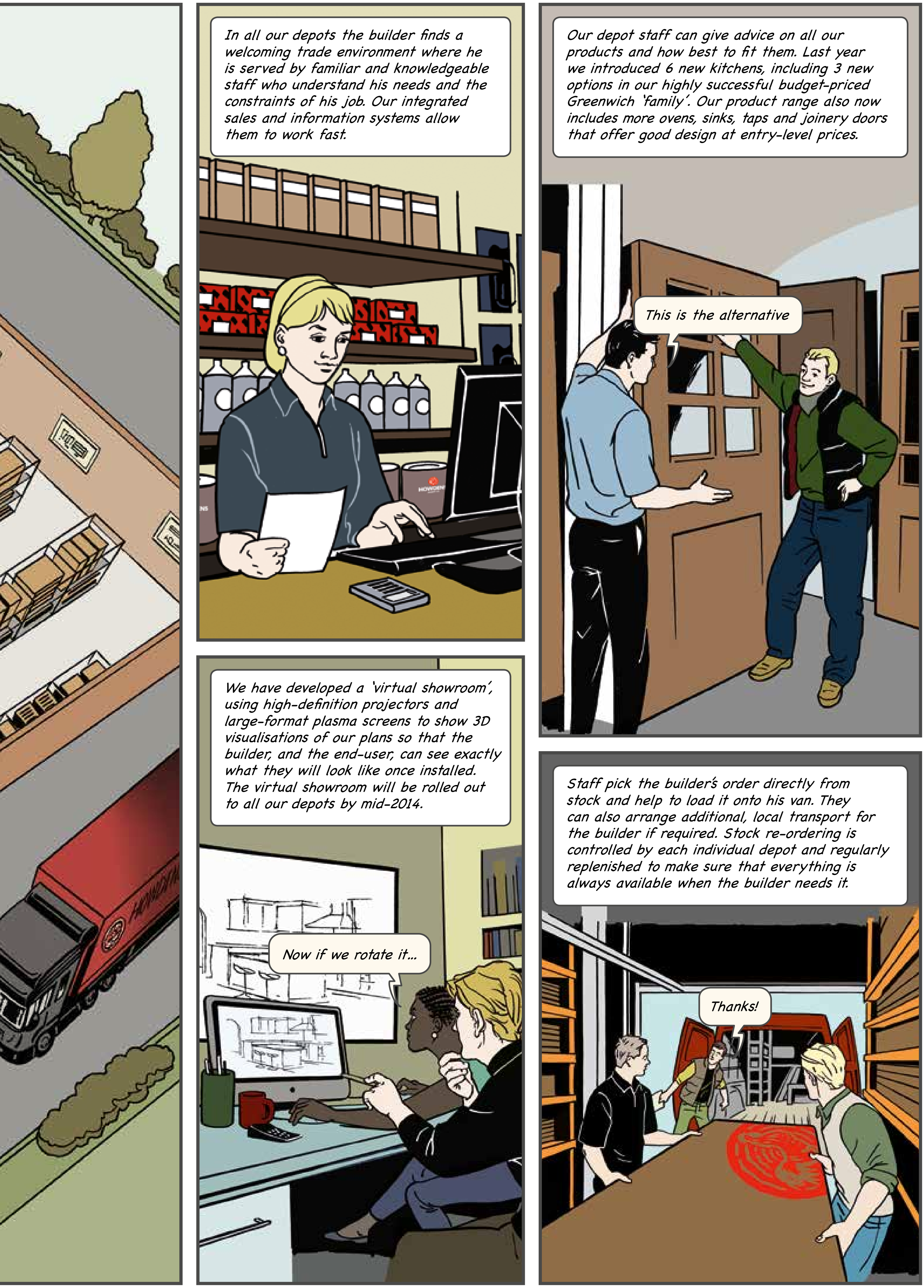
At the Howdens depot counter

In the Howdens design studio

The Howdens depot

Our customers are professionals and they are not simply buying components from Howdens. We offer them a complete, expert service that helps them to plan, buy and fit complex kitchens with confidence.

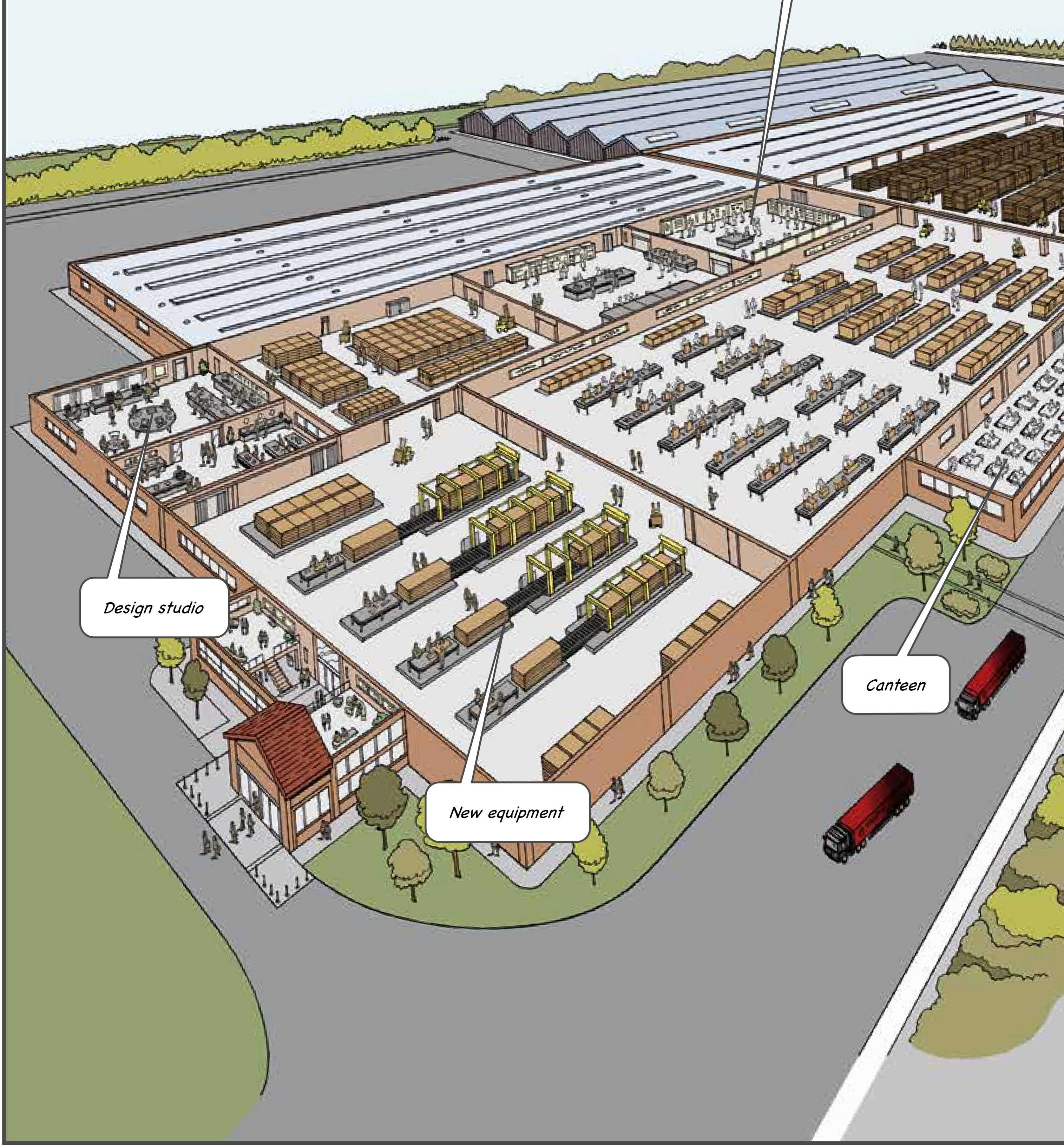


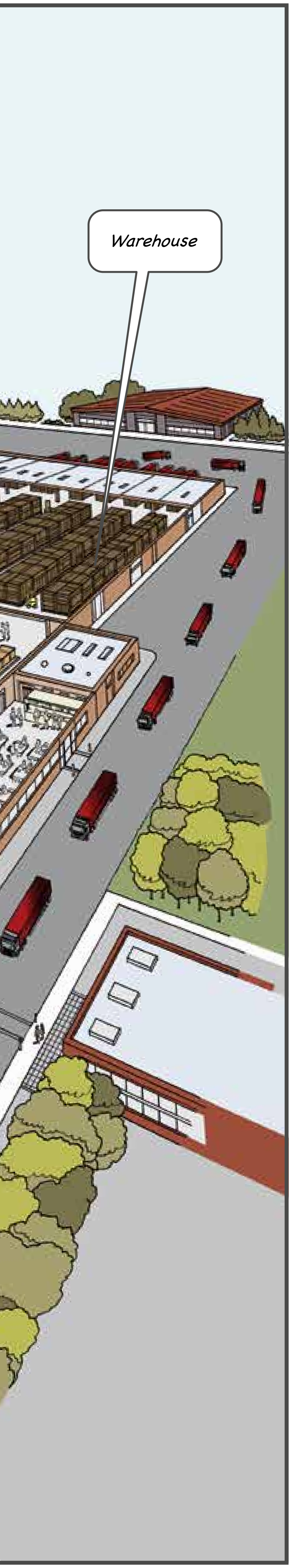


In all our depots the builder finds a welcoming trade environment where he is served by familiar and knowledgeable staff who understand his needs and the constraints of his job. Our integrated sales and information systems allow them to work fast.
Our depot staff can give advice on all our products and how best to fit them. Last year we introduced 6 new kitchens, including 3 new options in our highly successful budget-priced Greenwich 'family'. Our product range also now includes more ovens, sinks, taps and joinery doors that offer good design at entry-level prices.
This is the alternative
We have developed a 'virtual showroom', using high-definition projectors and large-format plasma screens to show 3D visualisations of our plans so that the builder, and the end-user, can see exactly what they will look like once installed. The virtual showroom will be rolled out to all our depots by mid-2014.
Now if we rotate it...
Staff pick the builder's order directly from stock and help to load it onto his van. They can also arrange additional, local transport for the builder if required. Stock re-ordering is controlled by each individual depot and regularly replenished to make sure that everything is always available when the builder needs it.
Thanks!

The Howdens factory

Howdens' promise to the builder is of guaranteed quality, availability, range and price. Because we have control of our manufacturing and supply operations, and good relationships with external suppliers, we can keep this promise.



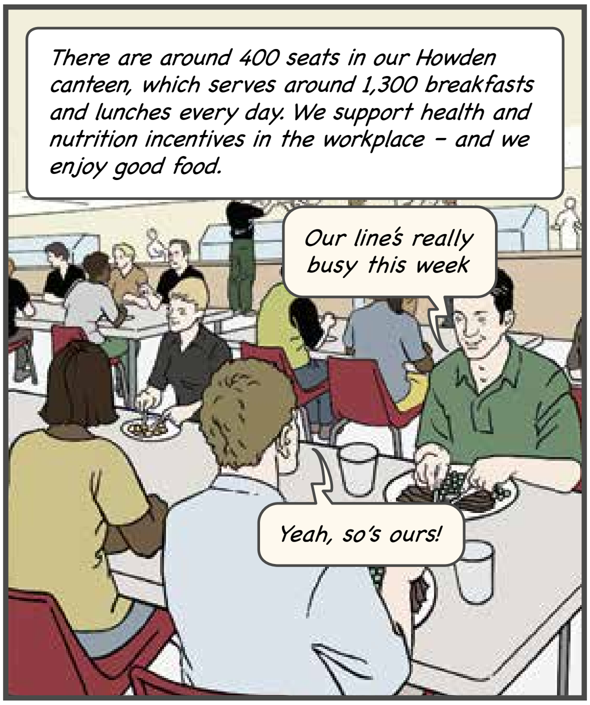

Warehouse


We need to ensure that our products are not only attractive and functional but capable of being produced efficiently in large volumes. 28 staff based at Howden work on the design, development and prototyping of products.
Is that the new gloss?


Howdens standards are more exacting than British and European standards. Last year our 20 experienced quality control staff carried out 4,800 inspections and 1,200 laboratory tests to make sure our products meet our customers' needs.


Howdens is a local business, so each of our 559 depots requires an individualised delivery at a specific time. In 2013, our fleet of 90 trucks delivered over 90,000 loads to our depots across the country – approximately 1 million items per week.


Last year we consumed around 195,000 cubic metres of chipboard and produced around 3.5 million cabinets, 2 million frontals, 800,000 worktops and breakfast bars and 1.4 million painted skirting boards.


There are around 400 seats in our Howden canteen, which serves around 1,300 breakfasts and lunches every day. We support health and nutrition incentives in the workplace – and we enjoy good food.
Our line's really busy this week
Yeah, so's ours!

Chairman's statement

The Group continued to outperform in 2013, achieving a further increase in gross margin in a competitive market and generating significantly higher levels of profit and cash

STRATEGY AND PROGRESS

Howdens is the UK's leading trade supplier of kitchens and joinery, serving nearly 290,000 credit account customers from a network of 559 local depots across the country.

This position has been achieved thanks to the consistent, disciplined implementation of the Howdens' model since the business started trading in 1995. The Group continued to outperform in 2013, achieving a further increase in gross margin in a competitive market and generating significantly higher levels of profit and cash.

The purpose of our business is simply expressed in our mission statement: "To provide from local stock nationwide the small builder's routine, integrated kitchen and joinery requirements, assuring no-call-back quality and best local price". The successful fulfilment of this mission is extremely demanding, requiring excellent execution every day in all parts of the business, and a holistic understanding of the model by management and staff at all levels. This subject is discussed in detail in the Chief Executive's statement on pages 10 to 17.

Our overarching strategic objective is to ensure the sustainability of the business in the long-term. Naturally this will require continuing focus on the highly profitable, customer-centred model that has served Howdens so well. As the business grows and the market evolves, it will also mean further management and organisational development and continuing good governance, in line with the principles of responsible behaviour on which Howdens is founded.

DIVIDEND

As we explained last year, 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 forms of return of capital. Our stated intention is an earnings per share based dividend cover of between 2.5 and 3.0 times, with one-third of the previous year's dividend being paid as an interim dividend for the following year. The Board believes it is appropriate for the Group to be able to operate throughout the working capital cycle without incurring bank debt.

Given the Group's strong cash generation in 2013, the Board is proposing a final dividend in respect of the year of 4.5p per share, giving a total dividend of 5.5p per share for 2013 (2012: 3.0p). The Board will continue to monitor the Group's cash balances, having regard to future investment opportunities, anticipated peak working capital requirements and the trading outlook.

BOARD COMPOSITION

We seek to ensure that we have a balanced and effective Board with the appropriate mix of background and skills to allow constructive debate and informed decision-making.

In September 2013 we were delighted to welcome Richard Pennycook to the Board as a non-executive Director. Richard was recently appointed Group Finance Director of The Co-operative Group, following nearly eight years as Group Finance Director of the national supermarket group Morrisons. He has a distinguished track record in a number of leading UK companies and will bring valuable experience to Howdens. As Chair of the Audit Committee, Richard succeeds Angus Cockburn, who made a significant contribution to the Board over a number of years, for which we are very grateful.

BOARD EVALUATION

Our policy continues to be to conduct a thorough review of Board process, practice and culture on an annual basis, with the input of an external facilitator every three years.

At the end of 2012 we appointed Independent Audit Limited to conduct an external review. The process concluded that the Board operates in an effective manner and that no major modifications are required. Looking forward, we will continue to work together to support the strategic development of Howdens' rapidly growing business.

MANAGEMENT AND ORGANISATIONAL DEVELOPMENT

Last year I reported that we were reviewing the roles of the Executive Committee in order to understand where there may be opportunities to improve the organisation to support our growth trajectory. This work has progressed well and has now been extended to include a number of senior managers. Our aim is to develop our existing talent, to create opportunities for senior executives, to take on broader roles and to ensure we have the right people in place to continue to deliver sustainable, profitable growth.

OUR WIDER RESPONSIBILITIES

Howdens is a local business, in which local autonomy prevails and individual effort is valued and rewarded. At the same time the company has now grown to a size that confers considerable responsibilities with regard to our customers, our product, our environment, our people and the communities in which we operate. We are conscious of the need to ensure that we exercise these responsibilities with thought and care.

Our heritage and culture means we place a high value on the whole range of skills practised by local tradespeople. We are keen to encourage the use of these skills in the workplace and interest in them in the wider community, and we actively promote training, education, accreditation from professional bodies and the use of apprenticeships in the workplace.

We are committed to providing our customers with exceptional, individual service and it follows that we have an ongoing commitment to making Howdens a good place to work. I am pleased to report that our efforts were rewarded in the Sunday Times Best Companies Awards 2014, in which we were ranked 12th in the top 25 big companies category. I am also pleased that our outstanding health & safety record in UK manufacturing continues, with all three of our manufacturing and distribution sites again achieving distinction in the British Safety Council's prestigious international award scheme.

A detailed report on our progress with regard to our corporate responsibilities can be found on pages 25 to 32.

OUR PEOPLE

We employ over 6,600 people working in many locations and in varied environments which include our trade depots, factory production lines, distribution warehouses, offices, design studios, testing laboratories and, in the case of sales reps and drivers, their vehicles.

Yet again our outperformance in 2013 has reflected the skill, commitment and hard work of management and staff throughout the business. On your behalf and that of the Board, I would like to thank them all.

Will Samuel
Chairman

26 February 2014

Chief Executive's statement

> *What makes Howdens unique is the way the model is executed and the importance of individuals in every part of the business*

INTRODUCTION

The first point I would like to make this year is that Howdens' strategy is proven. The business has grown precisely because the model has worked, so we are not about to change it or reinvent it.

In recent years we have faced a series of interconnected hurdles which finally seem to be thinning out. Throughout this time, Howdens' business has gone on generating profit and cash and that is why we have been able to survive and thrive, despite both MFI and a lengthy recession.

So we intend to stick to our principles and do more of what we do well. Growth will be around what works. It's not about extraordinary depots or upmarket kitchens. It's about solid, no-nonsense, local service at good prices for product that works, looks good, is easy to install, won't break and makes money on a repeat basis.

Our model is not a mystery. We do what it says in our mission statement. What makes Howdens unique, however, is the way the model is executed and the importance of individuals in every part of the business – and that is what I will discuss in this review.

IN THE KITCHEN

Let me begin in the kitchen. All human life is here. We do just about everything in the kitchen. Preparing food, cooking it, eating it, washing up, storing the leftovers, throwing things away, washing clothes, mending things, decorating, teaching, reading, looking up things on the computer, making plans, booking tickets, watching television, listening to music, agreeing, disagreeing and making decisions.

So the kitchen is where real life happens, and in order to make it work as smoothly as possible we all need all the help we can get.

It is fundamental for us to understand not only the functionality of the kitchen but also the emotion of it: what it feels like when it works, and when it doesn't work.

If we cannot understand, or we're not interested in what it feels like to need help, we will never understand what it means to give help, and to deliver products and services that people can rely on. And that in turn means that we will never fully realise the promise of our mission statement and the huge potential of our business. I will come back to this theme later.

SERVING THE BUILDER'S NEEDS

Howdens sells only to builders. Today, in 2014, it is no longer possible to have a kitchen that both looks good and works properly installed without the help of a professional fitter.

That's why we sell only to professionals. We don't have national contracts with large firms. We sell directly to small, local builders who in our view are best placed to fit kitchens on the spot in their local area.

Every day, the local builder has to juggle with a whole set of unknowns. Will everyone be on time this morning? Have you got another set of keys? Is someone sick? How's the traffic? Are the trains running? Is the weather that bad? What's behind that wall? Have they changed their minds – again? Can I finish the job today?

All of these questions, and dozens more, directly affect how much money the builder makes and whether or not he can stay in business. That is where Howdens comes in.

It's how we sell to builders that makes the difference as well as what we sell to them. We have 559 local depots, and because they are so local to the builder he can save precious driving time. Howdens' depots are not shops but trade counters: a familiar environment for professionals, where the builder can get served quickly by a knowledgeable person who recognises his face, understands what he needs, and can do something to help.

We keep all our products in stock. So the builder can pick up a complete kitchen now, today – all of it. He doesn't have to factor in lead times, or worry about where he's going to store the kitchen until he can fit it. Our kitchen cabinets are already assembled, which saves the builder a lot of time on site – in other words, money.

We also know the builder needs quality products that he can fit as efficiently as possible, which means they look good, they don't break, they're quick and easy to install and they're built to last. The same goes for our Lamona appliances, as well as for all our kitchens and joinery.

We also offer the builder a free kitchen planning service. We have over 1,000 experienced designers who use the latest software to make detailed plans to suit the needs of the builder and of his customer, the end-user of the kitchen.

Howdens' designers save the builder time and money and give him peace of mind. First, they make home visits to take accurate measurements. Then, they work out the best layout, give help with product selection and produce revised plans if end-users want to make changes – which they often do. The quality of Howdens' planning service sets the builder apart from his competitors.

Our purpose is not just to sell kitchens to the builder but to provide him with a service of value, which means he can rely on us to help him through every job.

So if the builder needs help with deliveries to site, his local depot will organise a local van. If he wants fitting advice he can pick up the phone to a local expert, not struggle with a call centre. If he needs to change any item, for any reason, our local managers are authorised to swap things immediately without reference to head office.

Our purpose is not just to sell kitchens to the builder but to provide him with a service of value

Chief Executive's statement continued

It's about the person representing the stock, and the fact that that person can do something about it. Service that's as good as it ever was

And finally, the builder relies on Howdens for terms of business that underpin his livelihood.

We offer a personal, confidential discount so that the builder can control his margin for each job, and a nett monthly credit account, which means he can pick up a complete kitchen from local stock and not have to pay for it for up to 60 days. That allows him to complete the job and get paid for it by his customer before he has to pay us.

Today, as daily life becomes ever more complex and frustrating, reliable service from trusted individuals is valued more and more highly.

So it's not just about product, or even about stock. It's about the person representing the stock, and the fact that that person can do something about it. Service that's as good as it ever was.

This is what I mean when I say that individuals make a difference – in fact, all the difference – to the successful execution of our model.

HOW THE HOWDENS' DEPOT WORKS

Local autonomy is key to the success of our depots. Our managers are effectively running their own businesses and are highly incentivised to make sure they work well.

We have always had local profit-sharing for all depot managers and their staff. We also run local, regional and national incentives which relate to account openings, depot margin, door sales, oven sales and so on. There are lots of possibilities and we can switch them on whenever we want.

These incentives are mirrored right across the business. Staff in product development, manufacturing, logistics, IT, finance and all our support functions are all incentivised to offer better service to the builder. The alignment of incentives is critical to our business, and so is the continuing focus required to make sure they remain relevant and effective.

The core depot model is one that we have tried and tested, so we keep replicating it. The typical Howdens' depot is about 10,000 square feet in size, about 80% of which is warehousing because we are an in-stock business.

The rest of the space is occupied by the product displays, the trade counter and the CAD planning office, which now benefits from high-definition projectors or large plasma screens (and will shortly have A3 printers as well) so that the end-user can see their new kitchen taking shape in a highly realistic way.

FURTHER IMPROVEMENT IN DEPOT PERFORMANCE

The first task of a new depot is to open new accounts, because accounts are the lifeblood of sales. Last year, we opened 20,000 net new accounts, bringing the total account base to nearly 290,000.

It is hard to overstate the importance of accounts to our business. New accounts opened in 2013 generated over £100m of sales. The value of an individual account grows over the years, and as well as bringing us sales and margin it helps us to grow via reputation and recommendation.

We actively manage our account base, closing inactive accounts after 15 months and exercising tight credit control. The total cost of our credit control operation, including bad debts, has decreased to just 1% of sales, which suggests that builders are even more prepared to pay promptly for the service offered by Howdens.

We opened 30 new depots in 2013, bringing the total at the year end to 559. Given the success of recent depot openings, we plan to open another 30 in 2014.

Our average depot rent across the whole portfolio is around £5.50 per square foot, and we can still fit out a depot for a reasonable cost, which is usually between £180,000 and £300,000 – even though we are now including a mezzanine level, better racking and a new CAD office in the fit-out. This is not about doing up showrooms year in, year out – these are one-off capital costs.

A depot breaks even with sales of around £650,000 per year, so it will come as no surprise to know that all our depots are profitable, and some are very profitable.

We continue to focus on improving the performance of individual depots. We use something we call BDP, or "best demonstrated practice", which is a way of allowing depots to measure their own performance, not against an average but against the best in terms of sales, margin, sales per head, account openings, sales per account, appliance penetration and cost recovery, to mention just some of the relevant indicators.

I want to emphasise that BDP is not theory-driven. It depends on every individual in every depot understanding what they have achieved and what they are capable of achieving.

The best way we have found of ensuring that happens is by holding regular local meetings where we discuss the profit and loss account of each depot, line by line, face to face, in small groups, with the managers responsible for depots in towns and cities of similar size.

As we have explained in previous years, we are not suffering from cannibalisation. When we open new depots in areas where we are already present, the effect is to increase the overall sales we achieve in that area. So it would appear that there is a lot more latent, local demand for the Howdens' offer than we had originally realised.

So it would appear that there is a lot more latent, local demand for the Howdens' offer than we had originally realised

Chief Executive's statement continued

> *Lots of good, profitable depots providing good product from reliable sources from stock every day*

Let me give you an example. This time last year, I described our progress in the Watford area where we opened our first depot in 1995 right at the start of Howdens, and we added another depot just over four miles away, in North Watford, in 2011.

We have now had two full years of trading both depots and the picture is even more encouraging than it was a year ago. Sales from the Watford area are now 54% up on 2010 with profit contribution from the two depots ahead by 45% over the same period.

Watford is a representative case, not an outstanding one. In the Cambridge area, for example, we have seen both sales and profit contribution virtually double after two full years of trading two depots in the same town.

As far as the future is concerned, we plan to go on opening local depots wherever we see good opportunities for them to become profitable. And let me reiterate: we want to go on doing what we do well.

It is important to remember that BDP is about staying focused on what works, not about over-performance. Over the years, we have developed depots that achieve exceptional levels of sales but they are, and are likely to remain, outliers. As we grow, we want to de-risk execution, so growth is not about trying to replicate top performers (although that is a nice thought). For the same reason it's not about having ground-breaking designs (although we do try). No: it's about having lots of good, profitable depots providing good product from reliable sources from stock every day.

While we are on the subject of depots, we are pleased with the performance of our eleven depots in France, which are now profitable at depot level.

Although we do not expect them to become as profitable as UK depots owing to the higher costs of doing business in France, we hope to improve the profits of our French depots still further over the coming year following a change in the price / discount structure. We continue to learn more about the French market, and will report again on progress at the half-year.

A CONSTANT FLOW OF NEW PRODUCT

Meanwhile, back in the UK, all our depots need a constant flow of relevant new product, which means product they know they can sell. That is why we continue to invest in the depth of our product range, building on winning designs, and doing more of what we do well, so that we can meet the needs of builders and their customers at all price points.

Just one figure serves to underline the importance of new product introduction. Last year, 17% of our sales came from product launched since January 2012.

In order to minimise new product risk, we run large-scale product roadshows twice a year. In these roadshows we take new products which we have developed in our own design studios (or sourced from our network of suppliers) around the country, and we discuss these products with all of our 1,000 designers and our 559 depot managers so that we get direct feedback about what they need and what they can sell.

The most notable current trend in kitchens is the increasing popularity of gloss finishes, which now account for over 40% of our kitchen sales by value and 35% by volume.

Our Greenwich Gloss family in particular continues to be extremely successful. This is a well-designed product at a highly competitive price that nonetheless allows us to sustain margin growth.

As a result of its success, and reflecting the continuing trend to solid colours (which now represent 75% of all our kitchen sales), we are now introducing more colours for the Greenwich Gloss family which will be rolled out across the business in the first half of this year.

We are also making good progress with joinery doors. In this important category, just as we did with kitchens, we have introduced a lower-priced alternative to a successful design. Our Genoa door offers customers an alternative to the hugely popular Dordogne door, again ensuring that the builder can continue to serve all parts of the market at all price points.

Lamona is Howdens' own appliance brand, and we have built it from scratch over the last 6 years.

Lamona appliances include a full range of ovens, hobs, extractors, dishwashers, refrigeration, laundry and sinks and taps.

All of these are manufactured to our design and to our specifications, which are extremely demanding. Lamona products must achieve outstanding reliability, otherwise we are not prepared to put our brand on them. All our Lamona appliances come with a two-year warranty as standard.

Lamona has now become a notable brand in its own right. It is already a UK best-seller in several categories: for example, we sell 70,000 conventional Lamona ovens every year, and we see significant potential for further growth.

We are supporting the growth of Lamona and of Howdens as increasingly well-known names with a new series of cookbooks, and are developing other items in association with like-minded brands such as Emma Bridgewater, with whom we have produced a set of specially designed Howdens mugs, to be shortly followed by other items that make the kitchen feel like home.

AN EFFICIENT, LOW-COST SUPPLY OPERATION

Underpinning all of the activity I have described is Howdens' supply operation, which includes sourcing both of raw materials and of bought-in product, product development, manufacturing, logistics, warehousing and distribution on a daily basis to every one of our 559 depots.

Lamona has now become a notable brand in its own right. It is already a UK best-seller in several categories

Chief Executive's statement continued

Control of manufacturing means we can actually control service, and service underpins margin

One factor that often gets overlooked is the importance of lowest cost production. At Howdens we can achieve this – because we both make and buy product in very large volumes. When we put in a purchase order, our suppliers benefit from efficiencies on their production lines, and we get service and supply.

Meanwhile, back at the depot, the builder is not just paying for our product. He is also paying for a differentiated service – and because he knows he can finish a job on time Howdens will always be his lowest cost supplier.

Last year we completed the commissioning of new manufacturing equipment in our factories at Runcorn and Howden. We are now seeing real benefits from our investment and from the improvements we have made throughout our supply chain.

The combination of more capacity, greater accuracy, improved quality and less waste is delivering reduced costs, while at the same time allowing us to plan more efficiently, so that deliveries can be tailored precisely to the individual requirements of each depot, ensuring absolute availability of all product at all times.

Continuing control of our own manufacturing and that of our suppliers is at the heart of our promise to the builder, which is not only of guaranteed availability but also of quality, range and price.

And of course it goes even further than that. Control of manufacturing means we can actually control service, and service underpins margin – and will continue to do so.

CONTINUING INVESTMENT FOR FURTHER GROWTH

The actions we have taken and the investments we have made over the past few years mean we are well prepared for the further growth of Howdens.

We have supplier agreements, design capability, manufacturing efficiency, and systems capacity to support a substantial increase in volumes, and the flexibility to cope with greatly increased demand at peak trading periods.

But I would also emphasise that in order to reach its full potential the business also has ongoing needs. We must continue to invest in product, property, processes and people.

And some of the things that have made Howdens so successful will require investment in things that could appear almost perverse in many other businesses. For example, stock. The kitchen is constantly sophisticating, so it is likely to have more things in it, and fashions are changing more quickly, so we are facing more complexity. But we know that builders rely on Howdens to keep everything always in stock.

So our job is not only to continue to invest in stock, but to manage it even better, and to deliver products that we know we can sell. Not having stock means not delivering service.

And as I said earlier, it is not only a question of stock – and that means the right stock – but of the person representing the stock.

As well as investing in the right stock and in guaranteed availability, we will continue to invest in more product, which will mean more depots, more warehousing, more transport, and further investment in managing complexity at even greater scale in a market with ever-changing and ever-growing demands.

In respect of warehousing and distribution, we are already making arrangements to secure suitable capacity for the future beyond 2019, when we will have outgrown our current distribution centre. National distribution is important to us, and as we confirmed last year it is naturally weighted to South rather than North, so we expect to stay in the Northampton area. As you would expect with a major infrastructure project, this will involve serious thought and a lot of effort as well as investment, and we will report in more detail on this subject when our plans are more advanced.

THE IMPORTANCE OF INDIVIDUALS

Another area we will keep investing in is our people. Local service delivered directly by individuals who take responsibility for their actions is a powerful source of competitive advantage, so we have no intention of reducing headcount or automating customer relationships as the business grows. On the contrary: we plan to invest in people throughout the business and in their development in order to make sure we can manage and anticipate the requirements of operating on an even larger scale. Investment in our people is also an investment in what Howdens means – the essence of our brand – people you can rely on to make things work.

It is interesting to reflect that, far from being old-fashioned, "as good as it ever was" or, put another way, "as good as done" has proven to be a highly innovative concept that has struck a chord, and in appealing to a deep-seated human value has created a large and attractive market that keeps on growing.

As you have seen, we are recommending a substantial increase in the dividend, which reflects not only our continuing good performance and our stated dividend policy but also the underlying principle of our entire business, which is that it should be worthwhile for all concerned.

What we mean by that is that there must be something in it for everyone: small builders, their customers, our suppliers, our investors, our staff, and everyone who has a stake in Howdens.

In fact, if we were to lose sight of this principle the business would simply not be allowed to continue. It would no longer have a licence to operate.

THE ROAD AHEAD

So, in summary, we are reporting an encouraging performance. Howdens is growing because its strategy works. The original idea and values have been tested through thick and thin.

2014 has started well. We are opening more accounts, planning more kitchens, converting more leads, opening more depots and giving better local service to more customers.

We are preparing for further growth: and on the basis of our experience over the past few years, we expect to be able to deliver an improving performance without having to rely on a favourable economic environment.

We are well placed for the year ahead, although clearly uncertainties remain out there, so we will continue to manage the business carefully, and we will remain focused on the delivery of a complete, thorough service, to every individual builder, every day, no matter what.

Howdens is looking forward to the future – a future that has been created because we have stuck to our strategy and values, and are vigilant about execution and continuity; a future in which we go on doing what we do well, and doing it even better, in order to sustain a business of worth and value for all concerned.

Matthew Ingle
Chief Executive

26 February 2014

Review of operations and finance

FINANCIAL RESULTS FOR 2013 (CONTINUING OPERATIONS[1])

The information presented here relates to the 52 weeks to 28 December 2013 and the 53 weeks to 29 December 2012, unless otherwise stated. The inclusion of a 53rd week in 2012 (23–29 December) had no impact on revenue, as the business did not trade that week. It is estimated to have increased operating costs by around £5m, reducing 2012 operating profit and profit before tax by the same amount, and reducing profit after tax by around £4m.

The financial performance of the Group during 2013 benefited from the Group's competitive position and the continuing focus on improving performance. The second half of the year saw an improvement in trading conditions.

Total Group revenue increased by £69.4m to £956.5m.

Revenue	2013 £m	2012 £m
Group	956.5	887.1
comprising:		
Howden Joinery UK depots	940.7	872.5
Howden Joinery French depots	15.8	14.6

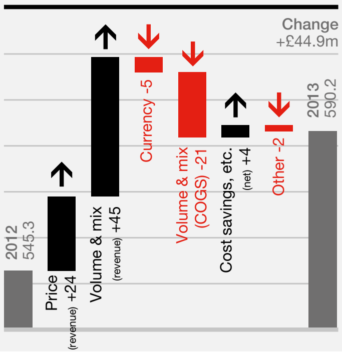
Howden Joinery UK depot revenue rose by 7.8% to £940.7m, increasing by 5.6% on a same depot basis. Having seen underlying revenue[2] in the first half of the year grow in line with the 4% to 5% seen since late 2009, it grew by around 10% in the second half of the year as volumes increased.

This growth was achieved through a number of factors and is a testament to the strength of the business model. As well as seeing an increase in revenue growth in the second half of the year, the business continued to focus on price discipline and margin (see below). In addition, we have continued to see an increase in the number of customer accounts.

Sales by our French depots of £15.8m saw a small increase on a same depot basis in constant currency terms.

Gross profit rose by £44.9m to £590.2m. The gross profit margin for the year increased slightly to 61.7% (2012: 61.5%). This reflected the continuing focus on price discipline and margin achievement across all depots.

Gross profit £m

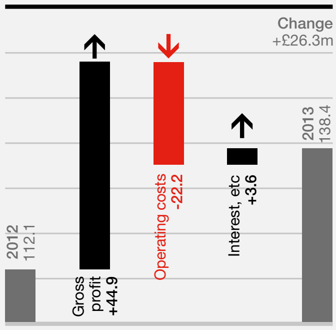


Selling and distribution costs, and administrative and other operating expenses (before exceptional items) increased by £22.2m to £447.7m. The increase reflects the costs of new depots, investment in growth, and the impact of inflation, particularly on payroll costs.

Operating profit before exceptional items increased by £22.7m to £142.5m.

The net interest charge fell by £3.6m to £4.1m, due to a lower finance expense in respect of pensions. The net result was profit before tax and exceptional items rose by £26.3m to £138.4m.

Profit before tax £m



The tax charge on profit before tax and exceptional items was £34.6m, an effective rate of tax of 25.0%.

Basic earnings per share from continuing operations excluding exceptional items were 16.3p (2012: 14.0p).

1 Discontinued operations in 2013 were immaterial and have therefore been included within continuing operations. In 2012, there was a loss before tax from discontinued operations of £4.4m, arising from the closure of two non-core support businesses.

2 Excluding the impact of the different number of trading weeks in the first half and second half of 2013 compared with the same periods in 2012.

As previously reported, an exceptional operating cost before tax of £4.5m was incurred. This was in relation to the reconfiguration of our transport operations to better reflect the geographical mix of our sales in the UK and improve service to our depots. This restructuring involved one-off closure, relocation and reorganisation costs.

Basic earnings per share were 15.7p (2012: 14.0p).

We saw strong cash flow in 2013.

There was a net cash inflow from operating activities of £87.2m. This was after payments relating to legacy properties totalling £10.4m and a cash contribution to the Group's pension scheme, in excess of the operating charge, of £34.7m.

Excluding the legacy property payments, underlying working capital increased by £11.8m. Increases in stock and debtors were partly offset by an increase in trade creditors. The increase in debtors arose from the last two days of period 11 falling into November in 2013, the due date being after the year-end.

Also included within net cash flows from operating activities was tax paid totalling £21.0m.

Payments to acquire fixed and intangible assets totalled £24.7m (2012: £24.2m).

Reflecting the above, there was a net cash inflow of £44.1m in 2013, the Group having net cash of £140.5m at the end of the year (29 December 2012: £96.4m net cash).

At 28 December 2013, the pension deficit shown on the balance sheet was £54.3m (29 December 2012: £154.5m). The reduction in the deficit partly reflected an increase in the scheme's assets, arising from the Group's contribution to fund the deficit and better than expected asset returns. In addition, an increase in the net discount rate (the difference between the discount rate and inflation rate assumptions used to calculate liabilities) reduced the scheme's liabilities.

Dividend

As previously stated, 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 reviewed the Group's dividend policy and has decided that it will move to an earnings per share dividend cover of between 2.5x and 3x, with one third of the previous year's dividend being paid as an interim dividend each year.

Given the operational performance of the business and the cash generation in the year, in light of this policy, the Board has decided to recommend to shareholders a final dividend of 4.5p, giving a total dividend for the year of 5.5p (2012: 3p). This equates to a dividend cover of just under 3x.

The Board continues to 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.

Review of operations and finance continued

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".

Since it started in autumn 1995, the business has opened new depots and increased turnover continuously, except for a 12-month period in 2008–9.

Even today, with over 550 depots across the UK, we continue to see the opportunity to transform the scale of the business, seeing scope for at least 700 depots. We continue to invest in all aspects of the growth and performance of the business, including new depots and depot operations, new and existing employees, product development, and manufacturing and distribution.

Depot network and operations

During the course of 2013, 30 new depots were opened in the UK, bringing the total trading at the end of the year to 559. In addition, seven depots were extended and one depot was relocated.

In the summer of 2012, we began trials of a "virtual showroom" that is designed to support our 1,000 depot-based kitchen designers. When working with our builder–customers' clients in our depots, this allows kitchen designs to be shown on a large HD television screen or projected on to a wall in the depot in a large high definition format, as well as showing other material designed to support product sales. Often, this will be accompanied by a refurbishment of the office in which the designers work. These are now being rolled-out across our depots, around 350 having been completed so far, with the remainder due for completion by the middle of 2014.

Our account base continues to grow, having increased by over 20,000 net new accounts in 2013. 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 2013 across all our product categories. Notable amongst these were: six new kitchens – three shaker options in our Greenwich family, a gloss graphite option in our Glendevon and Integrated Handle families, and a stone option in our Tewkesbury family, which has been further enhanced as our premium range by a number of additional decorative elements and glazed wall units; and black and white single fan Lamona ovens, with matching hobs and extractors. To ensure we cater for all budgets and price points, a number of lower priced accessories, sinks, taps and joinery door options, based on already successful designs, have been introduced. To support our builder-customers, we introduced a range of cabinets that have pre-fitted accessories. Reflecting our confidence in the quality of our products, we enhanced the guarantee on our kitchen cabinets to 25 years and extended our two-year Lamona appliance guarantee to include lighting products.

Supporting our sales effort, as well as regularly updating our collection of product literature, we have introduced a flooring catalogue to further promote this product category. With the builder in mind, we have also introduced two smaller format kitchen brochures: a quick reference guide and a pocket guide.

A new version of the Howdens product website (www.howdens.com) was launched. Major improvements to this included the automatic resizing of the website to suit the device on which it is being viewed and improved navigation around the site, making it easier for users to use. The content has also been enhanced, with the addition of further product movies designed to help bring the kitchen to life. The new website coincided with the launch of the Howden App.

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's 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 new production facilities at our two manufacturing sites has been completed. The new cabinet production lines at our Howden and Runcorn factories have been installed and commissioned, and are fully operational.

The new £1.5m painted skirting board and architrave production facility at our Howden factory is also fully operational.

We have reconfigured our transport operations to better reflect the geographical mix of our sales in the UK and improve service to our depots.

We are currently undertaking a two-year project to replace obsolete boilers and the associated heating infrastructure at our Howden site. This will ensure that we continue to be compliant with environmental emissions legislation. The costs of this will be offset by renewable energy incentives.

GROUP DEVELOPMENTS

Legacy properties

The Group continues to reduce its legacy property portfolio.

Six leases were terminated in 2013, at a cost of £7.5m. In addition, the lease of one property expired during the year. Since the end of the year, a property, with less than six months of the lease remaining, was released early.

This means that there are now eight legacy properties remaining, with net annual rent and rates of less than £2m.

CURRENT TRADING AND OUTLOOK FOR 2014

Howden Joinery UK depot sales in the first two periods of 2014 (to 22 February) were up 7.3% on the same periods last year, in line with our expectations. While fewer trading days and other one-off factors contributed to this being lower than the underlying 10% sales growth seen in the second half of last year, taking these factors and the evidence we have of trading prospects into account would suggest that market conditions remain unchanged.

We will continue to invest in the long-term growth and development of the business.

The Group remains committed to its view that the number of depots in the UK can be increased from its current level of 559 and believes that this number could be at least 700. During the course of 2014, we are currently planning to open up to 30 depots as part of our investment in the next stage of Howdens' longer-term growth and development.

We are well positioned and look forward to continued growth. As in recent years, we will act quickly and appropriately adapt our business model to the market and economic conditions we encounter.

KEY FINANCIAL PERFORMANCE INDICATORS

The Group uses a number of financial performance indicators to measure operational and financial activity in the business. These are shown in the financial highlights on the first page of this Annual Report. Non-financial indicators are discussed further in the corporate social responsibility report on pages 25 to 32.

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 2014: 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 and borrowing 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.

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 has recently made significant investment in its manufacturing facilities, to enable manufacturing capacity to match our expected growth as well as providing further cabinet production capacity which now provides 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.

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 loan facilities 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 2013, the Group had a £160m asset-backed bank facility which is due reduce to £140m in May 2014, and to expire in July 2016.

The Group's committed borrowing facility contains certain financial covenants which have been met throughout 2013. 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 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 £0.4m and, after taking into account other utilisation of the facilities for terminable indemnities, the Group was left with £123.4m 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. It also places limits on the maximum amount which can be invested with a single counterparty. Investments mainly consist of bank deposits, UK Treasury bills and liquidity funds.

Review of operations and finance continued

The Group continuously reviews the credit quality of counterparties, the limits placed on individual credit exposures and categories of investments.

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 FRS 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 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 below are the principal exchange rates versus the UK pound affecting the profits of the Group.

Principal exchange rates versus UK pound (£)	2013 Average	2013 Year-end	2012 Average	2012 Year-end
United States dollar (US$)	1.56	1.64	1.58	1.61
Euro (€)	1.18	1.19	1.23	1.22

NEW ACCOUNTING STANDARDS

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

GENDER METRICS, ENVIRONMENTAL MATTERS, EMPLOYEES, SOCIAL AND COMMUNITY MATTERS, AND HUMAN RIGHTS

As stated in the Directors' report, our annual report and accounts have been drafted in order to make them as accessible as possible. Some information has therefore been disseminated from this report when we have determined that it would be presented in a more connected way.

To that end, information in relation to our employees can be found in the Corporate Governance report on pages 58 to 64 and our gender diversity statistics are located in the Nominations Committee report on pages 71 to 74. All information in relation to environmental, social, community and human rights matters are contained in the CSR report on pages 25 to 32.

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.

The strategic report is approved by order of the Board

Mark Robson
Chief Financial Officer

26 February 2014

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 559 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 supply 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 6,600 employees, we recognise the importance of our business to our staff and their families.
- Responsibility to customers and suppliers
  - Our more than 300,000 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, we have to be mindful that we act to minimise the impact of our actions. To that end, the 2013 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, 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 2013. In July 2011 we announced that we would be investing some £20m in new facilities at these locations over a two year period. We completed these investment projects during 2013 which means that we can maintain the quality of our product, protect the long-term competitiveness of our business, improve the technical skills of our employees and benefit our communities. During 2013, in addition to our other investment projects, new lines for the production of painted skirting board, a product previously bought in, came into operation.

During 2013, our UK-based manufacturing teams produced around:

- 3.5 million cabinets;
- 800,000 kitchen worktops and breakfast bars;
- 2 million kitchen frontals; and
- 1.4 million painted skirting boards.

Corporate social responsibility report continued

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 these 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 2013, we used 195,000 cubic metres of chipboard and 22,000 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 2013 we used 2,500 tonnes of cardboard packaging all of which came from recycled sources. The reduction in our cardboard packaging (circa 20% from the 2012 figure) was largely due to a complete redesign of our corrugation cartons, which now utilise less paper. It is our intention to continue to look for design improvements and 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 (2012: 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 18 countries and incorporates measures relating to Quality, Environment, Health & Safety, Employment and Business Continuity. Our audits also test the human rights credentials of all of our suppliers in relation to their employees. To date, there have been no reported instances where audited suppliers failed to satisfy, or have been in contravention of, our strict requirements.
- The EU Timber Regulations in March 2013 were introduced to reduce the risk of illegally harvested timber entering the EU marketplace. Our internal processes in this regard have been verified by the Timber Trade Federation under their Responsible Purchasing Policy.
- 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 2013, 25 of our 39 kitchen ranges (64% of our kitchens) were fully compliant with FSC requirements (compared to 55% in 2012 and 50% in 2011). We aim to maintain a similar proportion in 2014.

Energy

Our efforts to reduce energy use across the business are recognised by our accreditation under the Carbon Trust Standard, which we have held for three years. 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.

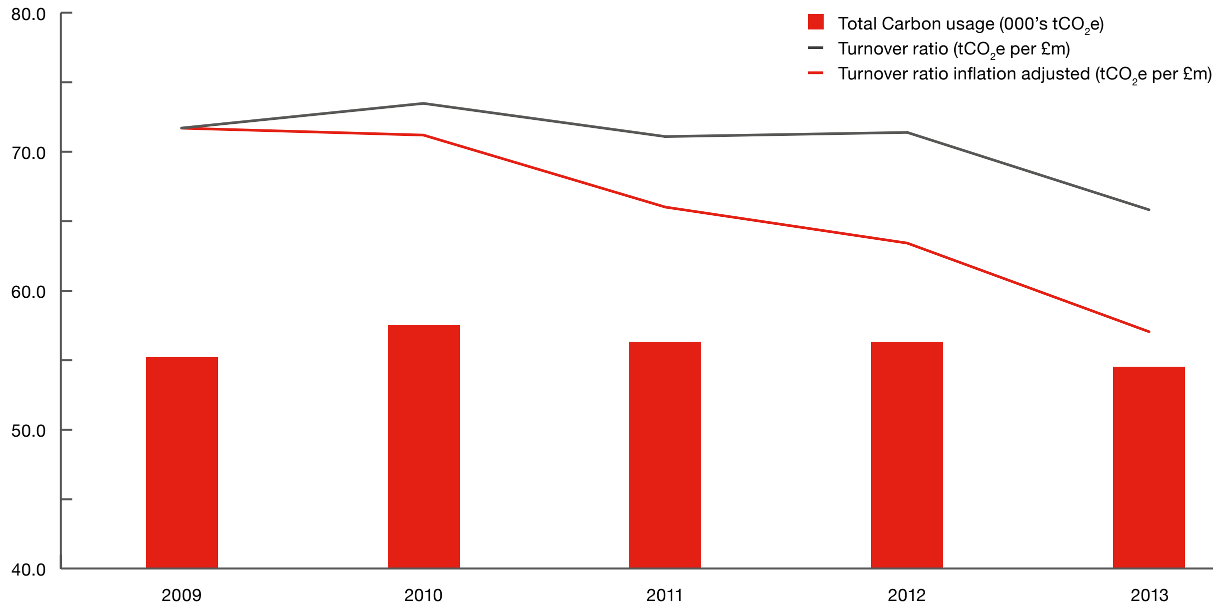
Our Greenhouse Gas emissions data is set out on the next page. We are pleased to report that our total Scope 1 and Scope 2 emissions* reduced year-on-year, as did our turnover ratio (total CO_2 emissions/ tCO_2e per £m) which continued its downward trend. We will continue to adopt measures aimed at reducing both total CO_2 outputs and as a percentage of turnover.

Greenhouse Gas (GHG) Emissions:

	Total CO_2 Emissions (Tonnes) 2013	Total CO_2 Emissions (Tonnes) 2012
Scope 1 – Direct: Gas	2,110	2,019
Scope 1 – Direct: Diesel	23,790	25,414
Scope 1 – Direct: Other fuels	1,250	1,073
Scope 1 – Direct: Total	27,150	28,506
Scope 2 – Indirect: Electricity	27,357	27,780
Scope 2 – Indirect: Total	27,357	27,780
Total (Scope 1 and 2)	54,507	56,286
Turnover (£m)	956.5	887.1
Turnover ratio (tCO_2e per £m)	57.0	63.4

* Scope 1 relates to direct emissions released into the atmosphere from activities owned or controlled by the Group. This includes the consumption of gas and vehicle fuel. Scope 2 relates to indirect emissions associated with the consumption of purchased electricity. These emissions are a consequence of the Group's activities but occur at sources which the Group does not own or control.

The methodology used follows the principles of the GHG Protocol and/or ISO 14064.



Corporate social responsibility report continued

Manufacturing

- One of our key metrics for energy usage in the factories is the electricity we consume per cabinet produced. We started measuring this in 2008 and we are pleased that this figure has significantly decreased over the last five years. During 2013, we continued to make significant improvements in our energy management through the efforts of our employees and the application of new technology. Our achievements in 2013 resulted in the figure dropping from 2.84kWh per cabinet in 2012 to 2.65kWh per cabinet in 2013, a 7% reduction from the previous year. We managed to achieve this reduction in our consumption per cabinet by implementing controls that ensure energy is used upon demand within our processing lines, continuing our programme of lighting system upgrades in the factories and the national distribution centre, implementing further compressor efficiency improvements and continuing energy saving awareness campaigns being delivered on all sites to further raise employee awareness of reducing energy consumption. We have also benefited from the commissioning of the new manufacturing lines at both Howden and Runcorn.

  Given the progress made in 2013, our target for 2014 is to maintain the consumption per cabinet level achieved in 2013.

- 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

In 2013, we reduced the number of trailers in our fleet from 104 to 90 following a network reconfiguration. Post-reconfiguration, we reduced the number of kilometres travelled by 6% and as a result both diesel consumption and CO_2 emissions were also reduced.

We continued to see improvements in miles per gallon (MPG) following the implementation of a new tracking system across the truck fleet in 2012. All of our trucks remain Euro 5 compliant.

Car Fleet

In our Trade division, the latest fuel efficient models continue to be introduced and we have agreed a new contract with our vehicle supplier to replace 65% of our fleet with vehicles with CO_2 emissions below 99g. This contract will be rolled out over two years.

Products

As part of our ongoing programme of energy and water reducing KPIs, in last year's report we stated that:

"Over a two-year period we would reduce the electricity consumption of our own-brand Lamona dishwashers by 5% (on a kWh basis)."

To that end, in Q4 we launched the latest version of our bestselling dishwasher with a 6% reduction in both energy and water usage. We will continue to work towards achieving this KPI for our other own-brand dishwashers as well as extending this KPI to look for a further 5% improvement in water consumption over the next three years. In addition, we have also introduced an additional KPI in relation to our bestselling cooling products:

"To reduce the energy consumption on our bestselling Lamona fridge-freezers by 5% over the next three years (on a kWh basis)."

In previous years, we have also stated our commitment to gaining Energy Savings Trust (EST) certification for some of our appliances. Unfortunately this scheme came to an end in 2013, at which point we had 19 certified appliances. Despite the withdrawal of the scheme, we remain committed to improving the design and efficiency of our products.

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 2013, our Supply division reduced overall waste by 18% 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 28,100 tonnes of waste produced (2012: 33,000), 98% was recycled (2012: 98%).

- Our focus on absolute waste in our Supply division has delivered a 2.5% improvement in yield, through the optimisation of our cutting patterns and board sizes. This has resulted in more board being turned into product rather than sawdust. Any sawdust that has been produced is either converted into energy or recycled into animal bedding.

- In 2013, we initiated a multi-million pound project to replace the five ageing wood combustion burners that provide factory heating on the Howden site with new wood burners that are highly efficient and will have lower emissions. The first stage of this upgrade came on-line in January 2014 and all factory heating burners will be upgraded during 2014. As we are midway through this project, the sawdust we consumed declined dramatically compared to 2012. In 2013, we converted 4,853 tonnes of sawdust into energy at our Howden and Runcorn sites (2012: 14,700 tonnes) to heat our factories. This equates to approx. 26,000 MWh of energy generated from sawdust in 2013. We expect our consumption of sawdust to increase once our new burners are online.

- The remaining 11,823 tonnes of milled sawdust went to a local manufacturer of animal bedding where the sawdust is recycled for use in bedding for horses, cattle and other livestock (2012: 4,700 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 130,000 pallets (2012: 125,000).

- During the year, our recycling programme in our Trade division, introduced in 2012, has now rolled out to all depots and is being introduced to new depots as they open. The results were better than anticipated with waste being sent to landfill being reduced by more than 60%. We will continue to work with our waste contractor to identify further recycling opportunities in the depots.

HUMAN RIGHTS

Howden Joinery promotes the observance of internationally recognised labour standards, in particular human rights. Our employment contracts and CSR policy provide that the Group will promote these standards and all our employees must adhere to a code of ethics in order to achieve the highest possible standard of integrity in our business relationships.

Given the number of international suppliers with which we do business, the Group also considers the impact of its activities on human rights throughout its supply chain. All suppliers are subject to rigorous audits prior to commencing business with us. Details of which can be found on page 26.

The Howdens board will keep the need for a specific human rights policy under review.

SUPPORTING OUR WORKFORCE TO ACQUIRE AND PRACTISE 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.

Corporate social responsibility report continued

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 2013, we continued our partnership with The Real Apprenticeship Company to further promote the use of apprenticeships within the workplace. The Group currently employs 12 modern apprentices in our Supply division, all of which are apprenticed in engineering, and 293 modern apprentices within the depot network who are practising a broad range of skills within the depot network. A further 110 apprentices are currently being recruited. During 2013, the business saw 98 apprentices gain their apprenticeship qualification.

At the end of 2013, as well as ongoing BTEC (see below), we saw the launch of the Apprenticeship in Trade Business Services. Our training team were instrumental in driving the development of this new framework, designed specifically for the trade sector.

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 (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 schools and 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. In 2009, 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.

We have continued to cultivate strong relationships with local schools and colleges and have provided various work experience placements in both office and operational environments. Our Supply division has recently linked up with CREATE Studio Goole, a school established by the Studio Schools Trust, a Government initiative which sets up "Studio Schools". These schools seek to teach through enterprise projects and real work. We have committed to provide work placements and work projects for students in this area.

Training at Howdens

Our commitment to training does not stop with apprenticeships. Our training team in our Trade division continue to deliver the BTEC Level 2 Award in Trade Business Services and the BTEC Level 3 Certificate in Trade Business Management through internal job-related training. This course is unique to Howden Joinery. During 2013, 518 employees were successfully awarded certificates through the programmes. We also deliver management and leadership development to support the future growth of the business, with our

Supply division having achieved accredited centre status with the Institute of Leadership Management during 2012.

As well as supporting staff to gain accreditations, our staff have also benefited from our investment in internal courses, with over 127,500 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 2014 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 32 reportable health & safety incidents in our 559 depots during 2013 (2012: 23). Whilst this represents an increase on the previous year the overall trend over a five year period remains downward. With the majority of accidents due to manual handling, in 2013 a specific training programme was put in place to further reduce the number of injuries and remind staff of best practice in this area.

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

- Our defensive driving course, Driving for Safety and Economy, 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 376 drivers completed this course. Car accidents were reduced by 8% during 2013.
- Management of safety in a depot, where managers continue to be trained every three years. During 2013, 173 managers and 157 assistant managers completed this course.
- Handyman safety and tool training course, which was completed by all 34 handymen.
- IOSH Managing Safety for Executives course, which was completed by 25 senior managers, ensuring their skills are kept up-to-date every three years.

In our manufacturing, warehouse and distribution sites

All three sites have again achieved the prestigious “International Safety Award” given by the British Safety Council all with distinctions. World-wide there were 38 distinctions awarded in 2013, Howdens received three of them.

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 90% compliance.

During 2013, there were four reportable health & safety incidents (2012: 7). This continues a downward trend in reportable accidents which have declined by 92% over the past five years. With average time lost per incident falling by 74% 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

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. Cash and stock donations together with employee fund raising activities typically supported a broad cross section of local causes including: sports clubs, schools, colleges, scouts/guides, youth groups, hospices, care homes, village halls and many other community activities. This year our staff were responsible for over 1,990 donations to local good causes (2012: 2,126), amounting to some £704k across the Group (2012: £817k). Given the reduction in spend during the year, we have increased the capacity of each depot to make contributions to its local community.

Corporate social responsibility report continued

Ten years ago we formed a partnership with Leonard Cheshire Disability (LCD). Like Howdens, they put local communities at the heart of their work. Founded in 1948, with over 200 services across the UK, this inspirational charity supports thousands of disabled people every year, both in the UK and internationally. They work for a society in which every person is equally valued, believing that disabled people should have the freedom to choose the way they live their lives.

Volunteers play a vital role in helping LCD to provide their services and over the years we have funded many areas of their work to recruit and train them. In 2011, we began supporting and funding LCD's innovative "Can Do" project as a continuation of this policy. The project gives young adults who have disabilities themselves the chance to volunteer in their own communities, as well as providing group support and individual mentoring.

In many cases individuals take on relevant accredited courses and for some this can even lead to employment. Last year "Can Do" helped over 1,300 young people to take on volunteering positions across their four existing regions: London & the South East, Leeds & West Yorkshire, Bristol and the North West of England. The initiative continues to grow in these regions and into other areas of the country, helping more young adults with disabilities to realise their full potential.

Our joint training kitchen project with LCD at their care home, Bell's Piece, in Farnham, Surrey opened last year, and has continued to provide healthy eating and cooking courses to many participants from the "Can Do" project. The success of this concept has opened up the possibility of developing similar centres in several other locations over the next few years. Such is the interest in this area that 34 carers from LCD services across the country attended courses at Bell's Piece last year.

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 2013, we installed and donated three further activity kitchens and revisited three from previous years to carry out modifications and/or improvements following feedback from residents and staff.

In 2013, we also decided to take on a joint LCD/Howdens exhibition stand at Naidex 2013 to showcase our partnership and product.

Every year our staff take-up various fundraising challenges to benefit LCD. This year, these activities included:

- Entry in the Great North Run, with 27 runners from across the business taking part; and
- the Dambusters' 700 mile relay marathon, a fundraising event; marking the 70th anniversary of 617 Squadron's bombing raids during World War II, under the leadership of the charity's founder, Leonard Cheshire.

More of our charitable activities can be found in our "Truly Local" book, which is available online at http://www.howdens.com/about-us/atruly-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

26 February 2014

Board of directors

WILL SAMUEL
Non-executive Chairman

Appointed non-executive director July 2006. Appointed Chairman October 2006

Committees:
Nominations (Chairman)

Current appointments:
- Chairman of TSB Bank Plc
- Chairman of Ecclesiastical Insurance Group plc
- Trustee and Honorary Treasurer of International Alert

Previous experience:
- Senior Advisor to Lazard & Co
- Senior advisor to the Prudential Regulation Authority (PRA, formerly the Financial Services Authority)
- Director, Schroders plc
- Co-Chief Executive Officer at Schroder Salomon Smith Barney (a division of Citigroup Inc)
- Vice Chairman, European Investment Bank of Citigroup Inc
- Chairman of H P Bulmer plc
- Deputy Chairman of Inchcape plc
- Non-executive director of the Edinburgh Investment Trust plc
- Qualified chartered accountant

MATTHEW INGLE
Chief Executive

Appointed director April 1998. Appointed CEO October 2005

Current appointments:
- None

Previous experience:
- MD Magnet Trade
- Set up Howden Joinery in 1995

MARK ROBSON
Chief Financial Officer

Appointed director and CFO April 2005

Current appointments:
- None

Previous experience:
- Group FD, Delta plc
- Qualified chartered accountant with Price Waterhouse

MARK ALLEN
Non-executive director

Appointed May 2011

Committees:
Audit, Nominations, Remuneration

Current appointments:
- CEO of Dairy Crest Group plc
- Chairman of The Prince's Rural Action Programme and Trustee for The Prince's Countryside Fund
- Vice Chairman of Dairy UK

Previous experience:
- Sales & Operations Director and divisional Managing Director roles (Dairy Crest Group plc)

Board of directors continued

ANGUS COCKBURN **Non-executive director** Appointed October 2006, resigned September 2013 **Committees:** Audit (Chairman until 18 September 2013), Nominations, Remuneration	**Current appointments:** • Chief Financial Officer of Aggreko plc • Non-executive director of GKN plc	**Previous experience:** • Managing Director of Pringle of Scotland • Regional Finance Director Central Europe for Pepsico Foods • Qualified chartered accountant with KPMG Peat Marwick
TIFFANY HALL **Non-executive director** Appointed May 2010 **Committees:** Audit, Nominations, Remuneration	**Current appointments:** • Managing Director at BUPA Home Healthcare	**Previous experience:** • UK Marketing Director BUPA • Head of Marketing at British Airways • Chairman of Airmiles and BA Holidays • Head of Global Sales and Distribution and Head of UK Sales and Marketing (BA) • Non-executive director of Think London
RICHARD PENNYCOOK **Non-executive director** Appointed September 2013 **Committees:** Audit (Chairman from 18 September 2013), Nominations, Remuneration	**Current appointments:** • Group Finance Director of The Co-operative Group • Senior Independent Director and Chairman of the Audit Committee of Persimmon plc • Non-executive Chairman of The Hut Group Limited	**Previous experience:** • Group Finance Director at WM Morrison Supermarkets plc, RAC Group plc, JD Wetherspoon plc, HP Bulmer Holdings plc and Laura Ashley Holdings plc • Chief Executive Officer at Welcome Break Holdings Ltd • President of Allders International North America • Non-executive director of Richer Sounds plc • Qualified chartered accountant
MICHAEL WEMMS **Non-executive director** Appointed November 2006 **Committees:** Audit, Nominations, Remuneration (Chairman)	**Current appointments:** • Non-executive director of Moneysupermarket.com plc	**Previous experience:** • Executive director of Tesco plc • Chairman of House of Fraser plc • Chairman of the British Retail Consortium • Non-executive director of Majid al Futtaim, A&D Pharma and Coles Myer Ltd.

The terms and conditions of appointment of all directors are available upon request at the Company's registered office address during normal business hours and at the AGM.

Directors' report

The directors have pleasure in submitting their report and the audited financial statements for the 52 week period ended 28 December 2013. Comparative figures relate to the 53 weeks ended 29 December 2012.

The directors have restructured this year's directors' report in response to the changes in reporting legislation and guidance in order to make our Annual Report and Accounts more accessible. Therefore many of the sections traditionally found in this report can now be found in other sections of this Annual Report and Accounts where it was deemed that the information would be presented in a more connected and accessible way.

Any sections that have been moved have been cross-referenced below for ease of reference:

Located in the Strategic Report:

Principal Group activities, business review and results: The principal activity of Howden Joinery Group Plc and its subsidiaries can be found in the Strategic Report on pages 2 to 32.

Dividend: Information about the final dividend can be found in the Chairman's introduction on page 8 and the Review of operations and finance on page 19.

Located in the Corporate Social Responsibility Report:

Greenhouse Gas Emissions: Details of the Group's greenhouse gas emissions, as required by Schedule 7 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulation 2008 (SI 2008/410) as amended by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (SI 2013/1970), are set out in the CSR report on page 27.

Located in the Corporate Governance Report:

Share capital, substantial shareholdings and acquisition of the Company's own shares: Information in this regard can be found on pages 61 to 62.

Employees: Information about the Group's employees is located in the Corporate Governance Report on page 62.

Directors: Details of directors and their interests are on page 52.

Annual General Meeting: Information about the timing and business of the Annual General Meeting, including reappointment of the Group's Auditors, can be found on page 62.

Located in the Nominations Committee Report:

Directors: Information with regard to the appointment and replacement of directors is located on pages 73 to 74.

Employees: Information about the total number of employees and gender diversity statistics are located in the Nominations Committee Report on pages 72 to 73. The average number of employees and their remuneration are shown in note 8 to the financial statements.

Directors' report continued

Financial instruments
Information about the use of financial instruments by the Company and its subsidiaries is given in note 28 to the financial statements.

Subsidiaries and associated undertakings
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 133. There have been no significant events since the balance sheet date.

Corporate Governance Code
The Company is subject to the UK Corporate Governance code, which can be accessed at https://www.frc.org.uk/our-work/codes-standards/corporate-governance.aspx

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

By order of the Board

Caroline Bishop
Secretary

26 February 2014

Directors' remuneration report

Annual statement

STATEMENT TO SHAREHOLDERS FROM THE CHAIR OF THE REMUNERATION COMMITTEE

Dear Shareholder

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for 2013, prepared in compliance with the new reporting requirements. We will be seeking approval for both the Directors' remuneration policy and the Annual report on remuneration at our AGM on 8 May 2014.

Remuneration Committee's actions in year

The Remuneration Committee met more frequently in 2013 than in recent years (five times rather than three times). The additional meetings were to help facilitate a thorough review of our remuneration policy ahead of the binding shareholder vote on policy being held at the 2014 AGM, and a review of remuneration packages following revisions to Executive Committee roles.

As part of the review of remuneration policy I met with a number of our key investors, and am pleased that they remain supportive of executive remuneration at Howdens.

The composition of the Committee changed during the year, with Angus Cockburn retiring and Richard Pennycook replacing him. I would like to thank Angus for his invaluable and involved contribution to our work over the last seven years.

Remuneration philosophy

The Committee believes its remuneration policy should support the strategic and financial ambitions of the Company, specifically:

- The remuneration package should be simple and support the continuing growth of Howdens while encouraging an entrepreneurial culture.
- As far as possible, 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).

Context to reward outcomes

As set out elsewhere in this Annual Report and Accounts, 2013 has been another successful year for the business. Our focus on delivering on the proven Howdens' model has seen us outperform the market, taking market share and increasing both our sales and margin figures. This is in spite of varying trading conditions throughout 2013.

Our incentive schemes are designed to reward participants only if the performance of the business justifies it. This year the executive directors have earned payouts under the bonus at above target level and seen their Co-Investment Plan shares vest at 89% of the maximum potential. The Committee believes these payout levels are justified with profit before tax (pre-exceptionals) growth over the last year of 23%, PBT growth over the last three years averaging 11% p.a. and strong cash generation in 2013. This performance was reflected in a share price increase over the year from £1.73 to £3.34.

In light of the overall opportunity under the package, executive director salary levels have been frozen for 2014. We will continue to keep these salaries under review.

Directors' remuneration report continued

Summary of changes and key committee decisions

Following our review of remuneration policy the Remuneration Committee believes the remuneration package adopted in recent years remains the most appropriate for the business. It is a simple structure based on our core strategic measures of profit and cash. Accordingly no significant changes to remuneration policy are proposed.

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.

The key decisions made by the Remuneration Committee are as follows:

- Approval of 2013 annual bonus payouts at 127% of salary, following a year of very strong profit and cash flow performance.
- Approval of the vesting of the 2011 Co-Investment Plan at 89% of the maximum opportunity in light of substantial profit growth over the last three years.
- The annual bonus structure to be used again, with revised performance targets (which reflect the improved prospects of the business).
- Annual awards under the Co-Investment Plan will continue to be made. For 2014 the PBT targets applying to the Co-Investment Plan are to be increased from 6% – 12% p.a. growth to 8% – 20% p.a. growth, with a reduced threshold vesting of 0.3 shares per invested share.

Adoption of BIS regulations

It is intended that the remuneration policy presented in this report will apply for a three year period from the point of approval at the AGM. However if for whatever reason the remuneration policy ceases to be appropriate the Committee will look to amend the policy, putting any amended policy to shareholder vote at the relevant time.

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

On behalf of the Board

Michael Wemms
Chairman of the Remuneration Committee

26 February 2014

Directors' remuneration policy

This policy is intended to apply for the three years beginning on the date of the 2014 AGM, subject to its approval by shareholders.

Future policy table – executive directors

Remuneration is benchmarked against rewards available for equivalent roles in a suitable comparator group. In addition to benchmarking, the Committee considers general pay and employment conditions of all employees within the Group and is sensitive to these, to prevailing market conditions, and to governance requirements. The table below sets out the key components of executive directors' pay packages, including why they are used and how they are operated in practice.

Element and how it supports our strategy	Operation	Opportunity	Performance measures
Base salary Recognises the market value of the executive's role, skill, responsibilities, performance and experience.	Salaries are reviewed annually, and are effective from 1 January each year. Salaries will not be changed outside of the annual review, except for in exceptional circumstances, such as a mid-year change in role.	Increases will normally be only for inflation and/or in line with the wider employee population. Salaries are set within a range defined by a market benchmark derived from companies of a comparable size operating in a similar sector (policy is to pay median). The peer group used is reviewed whenever benchmarking is performed, and the Committee applies judgement in identifying appropriate peer group constituent companies. The individual's level of total remuneration against the market is considered at the same time. Reviews will take also into account the performance of the individuals, any changes in their responsibilities, pay increases for the wider workforce and internal relativities. 2013 and 2014 salary levels are detailed in the "Statement of implementation of remuneration policy in 2014" section on page 55.	None
Benefits Provides a competitive level of benefits.	Howdens pays the cost of providing the benefits on a monthly basis or as required for one-off events.	Benefits are based upon market rates and include receipt of a car allowance; non-exclusive use of a driver; health insurance and death-in-service insurance payable by the Company.	None
Annual bonus Incentivises annual profit and cash flow performance over the financial year. Deferral links bonus payout to share price performance over the medium-term.	Performance is assessed annually against cash flow and PBT targets. Any bonus earned in excess of 100% of salary is deferred into shares. Shares are paid out in equal tranches on the first and second anniversary of deferral date. Payment is subject to continued employment. The Company does not have a formal claw-back policy but it does have the ability to withhold payment of part or all of the bonus if it does not believe the vesting outcome is a fair reflection of individual or Company performance.	Threshold performance under both PBT and cash flow components will result in a payout of 18% of salary for 2014. The Committee may change the threshold payout levels over the life of the policy. The cash flow element can result in a payout of up to 20% of salary. Achievement against PBT targets can result in a payout of 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 maximum bonus potential of 200% of salary represents a notional cap on the profit share component and the Committee does not envisage this level of payout being attained.	Performance is measured over the financial year. If an event occurs which causes the Committee to consider that the performance targets are no longer appropriate, the Committee may substitute or vary the targets in such manner as is reasonable in the circumstances and produces a fairer measure of performance and is not materially more or less challenging to satisfy. The Committee may change the weightings of the performance measures over the life of the policy.

Directors' remuneration report continued

Element and how it supports our strategy	Operation	Opportunity	Performance measures
Co-Investment Plan (CIP) Focuses management on longer-term PBT growth than addressed by the annual bonus. Long-term PBT growth is key to the generation of shareholder value.	Executives have the opportunity to participate in the CIP on an annual basis. The CIP operates over a three-year cycle. The investment is funded by executive directors themselves from their personal shareholding (deferred annual bonus shares are not allowable for investment purposes). The matching shares vest after a three-year vesting period subject to performance against PBT growth targets. The Company does not have a formal claw-back policy but it does have the ability to vary the performance conditions if events happen which cause the Committee to consider that they have ceased to be a fair measure of individual or Company performance. No dividend equivalents accrue on matching shares.	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 up to two shares, subject to performance. For threshold performance, 0.3 matching shares vest per invested share. Note that the maximum matching opportunity allowable under this policy is set below the limit allowable under the scheme rules of five matching shares per invested share. The Company does not intend to make awards above the policy maximum of two shares per invested share.	PBT performance is measured over a three-year period. The targets are set at the start of each three-year performance period.
Long-Term Incentive Plan (LTIP) An alternative to the CIP.	Awards of restricted shares or share options may be made under the LTIP. Awards are not currently being granted under the plan but the Committee retains the flexibility to use it in future years as an alternative to the CIP. The shares or options would vest after a three-year vesting period subject to performance against PBT growth targets. The Company does not have a formal claw-back policy but it does have the ability to vary the performance conditions if events happen which cause the Committee to consider that they have ceased to be a fair measure of performance.	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, with threshold performance delivering 15% percent of maximum. Awards under this plan have not been granted to executive directors since 2009 and will not be granted in years when executive directors also receive CIP awards.	PBT performance would be measured over a three-year period. The targets would be set at the start of the three-year performance period.

Element and how it supports our strategy	Operation	Opportunity	Performance measures
Pension Provides competitive long-term savings opportunities.	The Howden Joinery Group Pension 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 £138,000, the cap increases annually in line with CPI). 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. 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 base 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. 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 base salary.		None
Shareholding requirement Strengthens alignment of interests between participants and shareholders.	Executive directors are expected to retain vested shares from deferred bonus and long-term incentive awards (net of income tax and national insurance contributions) until they reach the minimum requirements. Unvested deferred bonus and long-term incentive shares are not taken into account.	The CEO is expected to build up a holding of 200% of base salary. Other executive directors are required to hold 100% of base salary.	None

Notes to the policy table
There are two changes to this policy compared to 2013:

- The level of vesting at threshold under the Co-Investment Plan has been reduced from 0.5 to 0.3 matching shares per invested share for 2014.
- The addition of the provision that executive directors' deferred annual bonus shares are not allowable for investment purposes under the Co-Investment Plan. This change was made in response to shareholder feedback and to align with best practice.

In addition updated performance targets have been set for the annual bonus and CIP for 2014 – see page 55 for further details.

Directors' remuneration report continued

Performance Measures and Targets

Annual bonus

The table below sets out additional information on performance conditions relating to the annual bonus:

Measure	Definition	How targets are set
PBT	Pre-exceptional profit before tax from continuing operations.	Set by the Remuneration Committee in light of Howdens' budget, brokers' forecasts and prior year PBT.
Cash flow	Net cash flow from operating activities, taking into account the efficiency with which working capital is used, and adjusted for exceptional items.	Cash flow targets generated by Howdens' financial model, based on modelled scenarios under which threshold, target and outperformance levels of PBT are achieved.

The annual bonus has been based on PBT and cash flow performance since 2008. These two measures continue to represent the two most important factors in creating value for shareholders in Howdens' business model. In addition, the use of two measures supports the Committee's principle of simplicity of remuneration arrangements. Other potential measures have been considered by the Remuneration Committee but none were felt to provide a benefit outweighing the complexity they would add.

Commercial sensitivity precludes the advance publication of bonus targets but targets will be disclosed retrospectively in the Annual Report on Remuneration. For 2013 targets please see the annual bonus targets and outcomes table on page 49.

Co-Investment Plan

The CIP has been based solely on nominal PBT performance since 2010. Targets are considered by the Remuneration Committee to provide a range which represents long-term success for Howdens, and are kept under review in light of brokers' forecasts and inflation forecasts. In the event that inflation significantly increases the Committee will reconsider the operation of this measure.

The Remuneration Committee keeps the performance measures used under review. Secondary measures for the CIP have been considered but it has been decided that the PBT measure on its own is most appropriate due to its significance for the long-term success of Howdens and the ability for Howdens to identify a robust target range.

Remuneration policy for other employees

The remuneration policy described above applies specifically to executive directors 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 (a further six individuals) 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 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.

NED fee policy

The Group's policy on non-executive director (NED) and Chairman fees is set out below. During 2013, changes were made to NED and Chairman fee levels, as set out in the "Statement of implementation of remuneration policy in 2014" section on page 55.

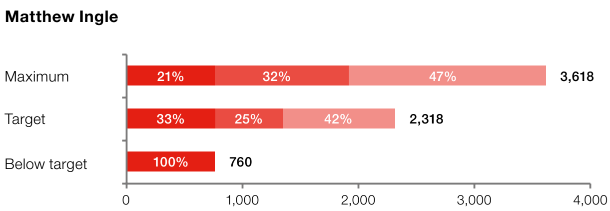
Element and how it supports our strategy	Operation	Opportunity	Performance measures
Fees for non-executive directors To attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy.	The fee for the Chairman is determined by the Remuneration Committee while the Chairman is absent. The fees for the non-executives are determined by the Chairman and Chief Executive. No other services are provided to the Group by non-executive directors.	Fees for non-executive directors are set out in the statement of implementation of policy in the following financial year section on page 55. The fees reflect the time commitment and responsibilities of the roles. Accordingly committee chairmanship and Senior Independent Director (SID) fees are paid in addition to the NEDs' basic fee. Committee chairmanship fees apply only to the Audit and Remuneration Committees. The Chairman receives no fees in addition to the Chairman's fee. Fees may be reviewed every year, and are set within a range defined by a market benchmark of FTSE 250 companies. Benchmarking is typically undertaken every three years.	NEDs are not eligible to participate in any performance related arrangements.

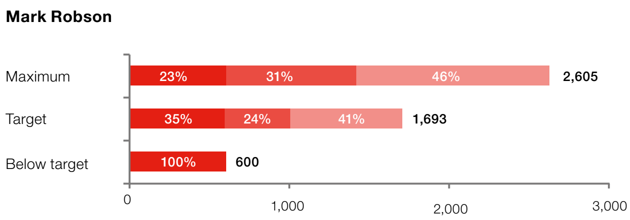
Directors' remuneration report continued

2014 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, clearly supports the Company's strategic ambitions 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.





Fixed remuneration consists of base salary, benefits and pension. Base salary corresponds to 2014 salary. Benefits figure uses 2013 actual benefits as per the single figure table as an indication for 2014 benefits. Pension represents 2014 salary supplement for CEO and 2013 actual benefits as per the single figure table as an indication for 2014 pensions.

Bonus is 100% of salary for the target scenario and 200% of salary for the maximum scenario. Note that although the 200% bonus level represents maximum award achievable, the Committee does not envisage this level of payout being attained under normal circumstances. The CIP 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.

Statement of consideration of employment 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 for the wider workforce when reviewing base salaries for executive directors. For 2014 salary increases for the workforce are around 3% of salary. The Company considers no further remuneration comparison measurements.

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. Notwithstanding that the Committee does not specifically invite employees to comment on the directors' remuneration policy, it does take any comments made by employees into account.

Statement of 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, and the Committee Chairman met with a number of the Group's largest investors in the preparation of this new Remuneration Report.

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, allowing them to raise any issues or concerns they may have had in advance of the final publication date. Shareholders were supportive of Howdens' approach.

Approach to recruitment remuneration

The treatment and design of the various elements of remuneration paid to new recruits is set out in the table below. The Committee's policy is to pay no more than is necessary to attract appropriate candidates to the role. However, in unusual circumstances, an arrangement may be established specifically to facilitate recruitment of a particular individual. Any such arrangement would be made only where critical to the recruitment of an exceptional candidate, and within the context of minimising the cost to the Company.

Component	Policy
General	The Committee's approach to recruitment remuneration is to pay no more than is necessary to attract appropriate candidates to the role. Any new executive director's ongoing package would be consistent with our remuneration policy as set out in this report.
Base salary and benefits	The salary level will be set taking into account the responsibilities of the individual and the salaries paid to similar roles in comparable companies (policy is to pay median). In certain circumstances the Committee may initially position the executive director's salary below the market level and increase it to market levels through exceptional increases over an appropriate period of time. The executive director will be eligible to receive benefits in line with Howdens' benefits policy as set out in the remuneration policy table. Should relocation of a newly recruited executive director be required, reasonable costs associated with this relocation will be met by the Company. Such relocation support could include but not be limited to payment of legal fees, removal costs, temporary accommodation/hotel cost, a contribution to stamp duty, replacement of non-transferrable household items and related taxes incurred. In addition, and in appropriate circumstances, the Committee may grant additional support in relation to the payment of school fees and provision of tax advice.
Pension	The executive director will be able to participate in the new auto-enrolment defined contribution scheme or to receive a supplement payment of up to a maximum of 30% of base salary.
Annual bonus	The executive director will be eligible to participate in the annual bonus scheme as set out in the remuneration policy table. The maximum potential opportunity under this scheme is 200% of salary.
Long-term incentives	The executive director will be eligible to participate in the long-term incentive schemes set out in the remuneration policy table. This allows for awards to be made under either the CIP or the LTIP (but not both). Accordingly the executive director may be offered a maximum investment opportunity under the CIP of the lesser of 650,000 shares and 150% of salary, with each invested share being matched by up to 2 matching shares. Alternatively awards may be made under the LTIP to a maximum of 100% of salary in restricted shares or 200% of salary in options.
Replacement awards	The Committee may grant the executive director awards to replace awards from a previous employment that are forfeited. Should replacement awards be made, any awards granted would be no more generous overall in terms of quantum or vesting period than the awards due to be forfeited. In determining the quantum and structure of these commitments, the Committee will take into account the fair value and, as far as practicable, the timing and performance requirements of remuneration foregone.

Directors' remuneration report continued

Service contracts and letters of appointment

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.

NED appointments are for an initial period of three years. They are subject to re-appointment annually in accordance with the UK Corporate Governance Code. NEDs do not have contracts of service or notice periods and are not entitled to any form of compensation in the event of early termination for whatever reason.

Policy on payment for loss of office

The treatment of the various elements of remuneration payable to executive directors in a loss of office scenario is set out in the table below. In exceptional circumstances an arrangement may be established specifically to facilitate the exit of a particular individual, however any such arrangement would be made within the context of minimising the cost to the Company. The Committee will only take such a course of action where it considers it to be in the best interests of shareholders. Full disclosure of any payments will be made in accordance with the new Remuneration Reporting regulations.

Component	Policy
General	When determining any loss of office payment for a departing individual the Committee will always seek to minimise cost to the Company whilst seeking to reflect the circumstances in place at the time. As an overriding principle there should be no element of reward for failure.
Base salary and benefits	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.
Pension	An enhanced pension is payable in the event of retirement through ill health. There is no scope for enhancements to individuals' accrued pension entitlements for other loss of office scenarios.
Annual bonus	Where an executive director's employment is terminated after the end of a performance year but before the payment is made, the executive may be eligible for an annual bonus award for that performance year subject to an assessment based on performance achieved over the period. No award will be made in the event of gross misconduct. Where an executive director's employment is terminated during a performance year, a pro-rata annual incentive award for the period worked in that performance year may be payable subject to an assessment based on performance achieved over the period.
Long-term incentives and deferred annual bonus	The treatment of outstanding deferred annual bonus is governed by written agreements with individuals and the treatment of long-term incentive awards by the rules of the relevant plan. Individuals are defined as either a good or bad leaver for the purposes of outstanding incentive awards. Good leavers are those leaving under pre-specified circumstances (such as retirement, ill health or disability) or those deemed by the Committee at its absolute discretion as a good leaver given the circumstances surrounding the loss of office. All other leavers are bad leavers. If an individual is a good leaver or dies then they will either continue to hold the award which will vest on the normal vesting date based on Howdens' performance (where applicable), or the Committee may exercise discretion to accelerate vesting of the award, pro-rated to reflect the extent to which the performance targets have been met (allowing for the curtailed performance period). In both scenarios the amount vesting is pro-rated for the proportion of the period elapsed when the individual leaves. If an individual is a bad leaver then all awards to which they are conditionally entitled will lapse in full.

Directors' remuneration report continued

Annual report on remuneration

This annual report on remuneration outlines remuneration related activities and outcomes over the past year. The report represents the implementation of the remuneration philosophy of the Committee as set out in the Annual Statement on page 37 to 38, and a remuneration policy which is broadly consistent with the future policy being put to shareholders in the Directors' Remuneration Policy section.

Those sections of this report which have been audited are indicated in the title to the section.

Single total figure of remuneration (subject to audit)

The table below sets out the aggregate remuneration received by directors for 2013. Further details on the pension, annual bonus and Co-Investment Plan figures are contained in following sections.

	Base salary/fees		Taxable benefits[1]		Bonus		Long-term incentive awards		Pension		Total	
All figures in £000	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013 (CIP[2])**	**2012 (Options[3])**	**2013**	**2012**	**2013**	**2012**
Chairman												
Will Samuel	180	170	–	–	–	–	–	–	–	–	180	170
Executive directors												
Matthew Ingle	572	555	18	18	723	573	3,685	2,097	170	165	5,168	3,408
Mark Robson	401	389	33	32	509	402	2,589	1,403	166	162	3,698	2,388
Sub-total	1,153	1,114	51	50	1,232	975	6,274	3,500	336	327	9,046	5,966
Non-executive directors												
Mark Allen	43	40	–	–	–	–	–	–	–	–	43	40
Angus Cockburn[4]	36	48	–	–	–	–	–	–	–	–	36	48
Tiffany Hall	43	40	–	–	–	–	–	–	–	–	43	40
Richard Pennycook[4]	15	–	–	–	–	–	–	–	–	–	15	–
Michael Wemms	54	51	–	–	–	–	–	–	–	–	54	51
Total	1,344	1,293	51	50	1,232	975	6,274	3,500	336	327	9,237	6,145

Note 1 The benefits figure comprises receipt of a car allowance; non-exclusive use of a driver; health insurance and death-in-service insurance payable by the Company.

Note 2 CIP matching awards valued at a share price of £3.19, being the Group's three-month average share price to 28 December 2013.

Note 3 Options valued at a share price of £2.38, being the Group's closing share price on 25 March 2013, the day the options vested.

Note 4 On 18 September 2013 Angus Cockburn stood down from the Board and Richard Pennycook was appointed to the Board.

The aggregate executive directors' remuneration, including salary, bonus, benefits and cash pension allowances is £2,876k.

Additional requirements in respect of single figure table (subject to audit)

Annual bonus targets and outcomes

The table below sets out the 2013 annual bonus targets and performance outcomes which underlie the bonus figures shown in the single total figure of remuneration table for 2013.

These targets were set in February 2013 in line with the approach set out on page 39. As incentive targets they are designed to be stretching for participants, and do not represent the Group's budget figures for last year.

The Remuneration Committee was satisfied that the payments fairly reflected Group performance for 2013.

	PBT				Cash flow				Overall		
	Threshold	**Target**	**Above target**	**Achieved**	**Threshold**	**Target**	**Maximum**	**Achieved**	**Total**	**Cash**	**Deferred**
Performance	£105.4m	£125.0m	£137.5m	£138.4m	£124m	£145m	£157m	£158m			
Payment (% of salary unless otherwise stated)	10%	85%	Share of PBT: CEO 0.44% CFO 0.31%	CEO **107%** CFO **107%**	8%	15%	20%	20%	CEO **127%** CFO **127%**	CEO **100%** CFO **100%**	CEO **27%** CFO **27%**
				Outcomes for executive directors (£000)			Matthew Ingle		723	572	152
							Mark Robson		509	401	108

Co-Investment Plan

The table below sets out the details of the Co-Investment Plan targets and performance outcomes which underlie the Co-Investment Plan figures shown in the single total figure of remuneration table for 2013. These awards will vest on 5 April 2014.

	3 year PBT growth		
	Threshold	**Maximum**	**Achieved**
Performance	6% p.a.	12% p.a.	11% p.a.
Vesting (matching shares per invested share)	0.50	2.00	1.78

Given the performance achieved as set out above, the table below sets out the value of this award for participants. This is based on a share price of £3.19, being the three-month average share price to 28 December 2013.

		Number of awards vesting ('000)	Total value at £3.19 per share (£000)
Outcomes for executive directors	Matthew Ingle	1,155	3,685
	Mark Robson	812	2,589

Directors' remuneration report continued

Total pension entitlements (subject to audit)

Executive directors are eligible to participate in the Howden Joinery Group Pension Plan (the Plan), details of which are provided in the future policy table on page 41. The Plan is not open to new joiners.

The table below sets out the accrued pension for both executive directors, with pension values calculated using the HMRC method. No additional benefits become receivable if executive directors retire early. Matthew Ingle had a fully funded pension position in 2006 and hence has chosen to opt out of membership of the Plan. Mr Ingle therefore receives a salary supplement of 30% of salary in lieu of pension (£165,000 in 2012).

Name	Accrued pension at 28 Dec 2013 £000	Normal retirement date	Pension value in the year from defined benefit component £000	Pension value in the year from defined contribution component £000	Pension value in year from cash allowance £000	Total £000
Matthew Ingle	49	28/09/2014	–	–	170	170
Mark Robson	25	16/01/2019	55	32	79	166

Loss of office payment or payments to past directors (subject to audit)

No loss of office payments or payments to past directors were made in the year under review.

Scheme interests awarded during the financial year (subject to audit)

During 2013, 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 2012, 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, 150% of salary equated to 360,315 shares (based on a closing share price of £2.38 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 the Group's 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	360,315	720,630	£1,715,099
	CFO	252,731	505,462	£1,203,000
PBT component vesting schedule	**PBT growth performance condition**		**Number of matching shares that would vest per invested share**	
	12% p.a.		2.0	
	Straight-line vesting between these points		Straight-line vesting between these points	
	6%p.a.		0.5	
	Less than 6% p.a.		–	
Performance period	Performance measured from FY2013 to FY2015			
Vesting date	26 March 2016			

* Based on a share price of £2.38, being the closing price on the 25 March 2013 (source: Datastream). Represents matching shares only.

Statement of directors' shareholding and share interests (subject to audit)

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. Shares deferred under the deferred bonus plan and unvested incentive shares are not counted towards this requirement.

There are no shareholding guidelines for non-executive directors.

Directors' remuneration report continued

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.

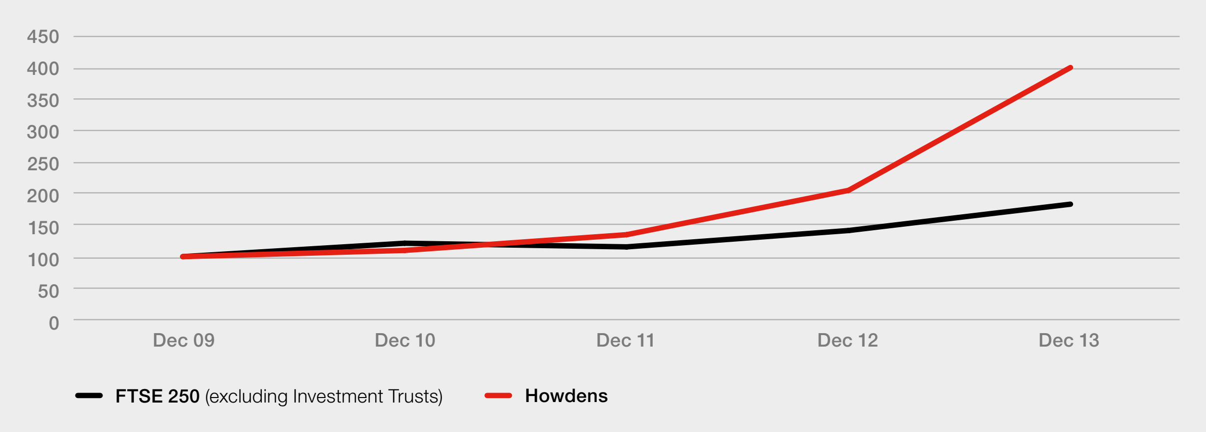
Director	Shareholding requirement %	Shareholding requirement (number of shares)*	Owned outright (including connected persons)	Subject to deferral	Share awards subject to performance conditions	Options subject to performance conditions	Vested but unexercised options	Current shareholding (% of salary)*	Guideline met?
Matthew Ingle	200	358,433	3,361,756	34,910	3,321,630	–	3,756,045	1,876	Y
Mark Robson	100	125,705	1,486,368	23,287	2,330,718	–	–	1,182	Y
Will Samuel	n/a	n/a	40,000						
Mark Allen	n/a	n/a	3,000						
Angus Cockburn	n/a	n/a	3,000						
Tiffany Hall	n/a	n/a	3,000						
Richard Pennycook	n/a	n/a	–						
Michael Wemms	n/a	n/a	42,000						

* Based on a share price of £3.19, being the 3 month average share price to 28 December 2013 (source: Datastream). This is calculated using those shares owned outright by the executive director only.

The table above highlights the significant investment held by executive directors in Howdens' shares, which is well in excess of that required under their shareholding guidelines. The table below sets out options exercised by the executive directors in the year, following the full vesting of option awards in both 2012 and 2013.

Director	No of options exercised	Average exercise price	Average market value at exercise date	Average gain on exercise of share options
Matthew Ingle	2,147,229	£0.25	£2.47	£2.22
Mark Robson	4,915,067	£0.48	£2.22	£1.74

Performance graph and table



Year	2009[2]	2010[2]	2011[3]	2012[4]	2013[5]
CEO single figure[1] (£000's)	1,399	1,458	6,083	3,401	5,168
Annual bonus – % of maximum	63%	69%	66%	51%	63%
LTIP vest – % of maximum	0%	0%	100%	100%	89%

The graph above illustrates the Company's TSR performance relative to the constituents of the FTSE 250 index (excluding investment companies) 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).

Beneath the graph is a history of the CEO single figure and incentive payout levels. It shows that the bonus has recognised consistently strong annual performance, and that long-term incentives have reflected the challenges that faced the Company after 2008 and recognised the turnaround delivered by the Group since then. These figures are buoyed by significant share price increases over the periods, as illustrated by the graph.

Notes

1. Each CEO single figure has been prepared as per the prescribed methodology, and includes base salary, benefits, pension and annual bonus payments. The figures also include long-term incentive vests where relevant.
2. No long-term incentives vested which relate to the 2009 and 2010 CEO single figures.
3. The 2011 CEO single figure includes the vesting of the 2009 premium priced option awards. This comprised two equal tranches of options, one with a premium exercise price of 25p and the other with a premium exercise price of 50p (share price at grant was 18.75p). The awards vested in full as cumulative PBT in the 3 financial years ending in 2009, 2010 and 2011 exceeded the target set of £90 million. The value shown in the single figure reflects the significant increase in share price over the period to £1.188 at the date of vest (a growth of 81% p.a.).
4. The 2012 CEO single figure includes the vesting of the 2010 market priced option award, which had an exercise price of 87p. The share options vested in full as the Group's 2012 PBT exceeded the maximum growth target of RPI + 8% p.a. on 2009 PBT. The value shown in the single figure reflects the significant increase in share price over the period to £2.38 at the date of vest (a growth of 43% p.a.).
5. The 2013 CEO single figure includes the partial vesting of the 2011 CIP award. 89% of the matching shares vested as the Group's 2013 PBT had grown at 11% p.a. on 2010 PBT. The value shown in the single figure reflects the significant increase in share price over the period to £3.19 (the 3 month average to 28 December 2013, source: Datastream) from £1.10, a growth of 43% p.a.

Directors' remuneration report continued

Percentage change in remuneration of director undertaking the role of chief executive officer

The table below sets out the change in short-term pay from 2012 to 2013 of the CEO compared to all employees (on a per capita basis):

	Salary			Taxable benefits			Bonus		
	£000's	£000's	% increase	£000's	£000's	% increase	£000's	£000's	% increase
	2013	2012		2013	2012		2013	2012	
CEO	572	555	3%	18	18	0.5%	723	573	26%
All full-time employees (per capita)	23	22	3%	1	1	6%	7	7	2%

Pay increases to the wider workforce were 3% in 2013, the same as the increase provided to the CEO. The difference in increase in bonus payments reflects the greater dependence of the CEO's package on performance related pay than for all employees generally.

For 2014, the CEO's salary increase is going to be 0%, compared to a typical wider workforce increase of c3% of salary.

Relative importance of spend on pay

The table below sets out the change in total remuneration spend of the Group from 2012 to 2013 compared to: the total dividend paid by the Group; the total remuneration spend of the Group as a percentage of revenue; and the two incentive performance measures PBT and cash flow. The figures are shown in £m, unless otherwise specified.

Year	Total remuneration spend £m	Total dividend £m	Total remuneration spend as a % of revenue	PBT £m	Cash flow* £m
2012	241	5	27%	112	97
2013	256	23	27%	138	158
% increase	6%	360%	0%	23%	63%

* Net cash flow from operating activities, being the definition used for the annual bonus scheme.

The figures above reflect the continuing growth of Howdens, both in terms of financial performance and progression of Howdens' dividend policy, and an increasing workforce (from an average monthly number of full-time equivalent employees of 6,441 in 2012 to 6,499 in 2013).

External appointments

It is recognised that executive directors may be invited to become non-executive directors of other companies and that exposure to such duties can broaden their experience and skills, which will benefit the Company. Howden Joinery Group allows executive directors and other appropriate senior employees to accept a maximum of one non-executive appointment outside the Company, subject to permission from the Committee, provided this is not with a competing company nor likely to lead to conflicts of interest. No such appointments are currently in place. Executive directors may retain the fees paid to them in respect of their non-executive duties.

Statement of implementation of remuneration policy in 2014

Remuneration policy will be implemented from 2014 as follows:

Base salaries and fees

Base salary increases for 2014 are set out in the table below.

	2013		2014	
	Salary	Percentage increase from 2012	Salary	Percentage increase from 2013
Matthew Ingle	572	3%	572	0%
Mark Robson	401	3%	401	0%

NED fees were increased during 2013, and the fee structure simplified with the removal of Committee membership fees. These increases were the first for non-executive directors since 2007.

	2013			2014	
	Pre increase	Post increase	Percentage increase from 2012	Fee	Percentage increase from 2013
Chairman fee	£170,000	£190,000	12%	£190,000	0%
Basic NED fee	£35,000	£45,000	29%	£45,000	0%
Additional SID fee	£3,000	£3,000	0%	£3,000	0%
Committee Chair fee	£8,000	£8,000	0%	£8,000	0%
Committee member fee	£2,500	£0	0%	£0	0%

Annual Bonus Measures

The table below sets out annual bonus measures for 2014. This is the same structure as used in 2013. As set out in the policy section of this report, targets for these measures are considered commercially sensitive by the Committee and so are not disclosed here. The profit share percentages for CEO and CFO have been reduced from 0.44% and 0.31% respectively to reflect increased performance expectations for 2014. Performance targets, together with achievement against them, will be set out in full in the 2014 Annual Report on Remuneration.

	Definition	Performance level	Payout level
PBT	Pre-exceptional profit before tax from continuing operations	Threshold	**10%** of salary
		Target	**85%** of salary
		Above target	Profit share for the CEO: **0.325%** of PBT Profit share for the CFO: **0.228%** of PBT Subject to aggregate bonus payout cap of 200% of salary
Cashflow	Net cash flow from operating activities, taking into account the efficiency with which working capital is used, and adjusted for exceptional items	Threshold	**8%** of salary
		Target	**15%** of salary
		Maximum	**20%** of salary

Co-Investment Plan measure and targets

The table below sets out CIP performance measures and targets for awards to be made in 2014. The targets have been increased for 2014 to reflect increased performance expectations. In addition, the level of vesting at threshold has been reduced from 0.5 matching shares per invested shares to 0.3 matching shares per invested share.

PBT component vesting schedule	PBT growth performance condition	Number of matching shares that would vest per invested share
	20% p.a.	2.0
	Straight-line vesting between these points	
	8% p.a.	0.3
	Less than 8% p.a.	0

Consideration by the directors of matters relating to directors' remuneration

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 (retired from the Board on 18 September 2013)
- Tiffany Hall
- Richard Pennycook (joined the Board on 18 September 2013)

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.

The Committee met five times during 2013 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 in 2013, including determining the appropriate performance targets.

- Review and approval of annual bonus payouts and share-based awards vesting in 2013.
- 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.

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 advisor and provided advice to the Committee during the year. PwC has been independent advisor to the Committee since 2007, and was appointed by the Committee as the result of a tender process. Work undertaken by PwC for the Committee included updating the Committee on trends in compensation and governance matters and advising the Committee in connection with benchmarking of the total reward packages for the executive directors and other senior members of staff. A representative from PwC attends each meeting of the Remuneration Committee. Fees paid to PwC in relation to remuneration services provided to the Committee in 2013 totalled £101,000, with fee levels based on the quantity and complexity of work undertaken. PwC also provided tax advice to the Company during 2013.

The Committee reviews the objectivity and independence of the advice it receives from PwC at a private meeting each year. It is satisfied that PwC is providing robust and professional advice. PwC is a member of the Remuneration Consultants' Group which operates a code of conduct in relation to executive remuneration consulting in the UK.

Statement of voting at general meeting
The table below shows the voting outcome at the May 2013 AGM for the approval of the 2012 Remuneration Report:

	For	Against
Votes	98.5%	1.5%

23,301,040 votes (4.8% of all votes) were withheld.

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

Michael Wemms
Remuneration Committee Chairman

26 February 2014

Corporate governance report

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 52 weeks ended 28 December 2013, the Company has been in compliance with the provisions set out in the Code applicable to accounting periods commencing on or after 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.

INTRODUCTION FROM THE CHAIRMAN

"Worthwhile for all concerned"

Howdens approach to all our key stakeholders, who include our shareholders, our customers, our business partners, our employees, our pensioners, their families and the communities in which we work, is that Howdens should be a worthwhile enterprise – worthwhile for all concerned. This fundamental principle underpins the way we run our business. A detailed review of how we operate in our local communities is set out in the CSR report on pages 25 to 32. It is on this basis, and for the protection of the interests of all of our stakeholders, that our corporate governance structures are established.

It is also a primary responsibility of the Board, through the proper exercise of its corporate governance responsibilities, to promote the long-term success of the Company. The Board must remain vigilant in ensuring that the requisite structural safeguards are in place to protect the interests of our shareholders and realise the full potential of the business.

We have stated previously that, as a locally empowered, entrepreneurial business, Howden Joinery is reliant on a strong, effective and consistent governance culture throughout the business, and this remains the case. The Board is responsible for leading the corporate governance agenda and ensuring that the values and standards which characterise our culture and are the foundation of our success are understood and shared throughout the business. The day-to-day application of these values and standards is to the benefit of all who have a stake in Howdens.

This report sets out in detail the structure of the current Board, the Group's approach to risk and internal control and, for the first time, it provides some detail on our shareholder base and share capital structure. The purpose of this is to provide a more holistic view of the Company structure in a governance context.

Each of the Board's formal Committees has a dedicated report and therefore any information relating to Audit, Remuneration or Nominations Committee matters can be found therein.

THE BOARD

Role

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.

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.

This schedule was last reviewed and approved in January 2014 having been updated taking into account the ICSA's revised schedule of matters best practice example. These matters 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 pages 33 to 34.

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 (resigned 18 September 2013)
- Tiffany Hall
- Richard Pennycook (appointed 18 September 2013)
- 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 relating 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 2014 AGM, with the exception of Richard Pennycook who was appointed by the Board during the year and will therefore offer himself for election at the AGM in accordance with Article 117 of the Company's articles of association.

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 individual reports below.

The Board has also established a Pensions Committee dealing with matters associated with the Group's pension scheme (more detail on the work of this Committee can be found on page 75 and a Disclosure Committee which considers matters which could give rise to an obligation to make a market announcement under the FCA Listing Rules.

Corporate governance report continued

In addition to these standing committees, the Group has an Executive Committee comprising those members detailed on page 136. 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 2013, 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.

	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	2	3	3	3	2	2
Angus Cockburn	6	6	2*	2*	2	2	2	2
Tiffany Hall	7	7	3	3	3	3	2	2
Richard Pennycook	2	2	1*	1*	1	1	1	1
Michael Wemms	7	7	3	3	3	3	2	2

Denotes Chairman.

* Angus Cockburn was Audit Committee Chairman for the February and July Audit Committee meetings and until 18 September 2013. Richard Pennycook was Audit Committee Chairman thereafter and was Chairman of the December Audit Committee meeting.

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.

Board evaluation

A formal review of the Board's effectiveness was conducted by an external consultant, Independent Audit Limited, following the September Board meeting in accordance provision B.6.2 of the Code which requires an external facilitation every three years.

The review was conducted within a methodology previously agreed by the Board and comprised:

- a review of Board and Committee papers;
- a series of interviews with all Board members, members of management, external advisors and shareholders; and
- observation of the Board and Committee meetings on 12 November and 3 December 2013.

The evaluation addressed key topics which included:

- the size, balance and dynamics of the Board;
- an overview of protocol, debate and decision making at Board and Committee meetings;
- the performance of the Chairman, Senior Independent Director, Board Committees and of individual directors;
- the Board's approach to strategy and to risk governance;
- the oversight by the Board of financial and operational performance, and of the issues around resources, people, behaviour and culture;
- company secretarial support and Board information;
- the quality of external advisors; and
- shareholder focus.

The report of the evaluation was presented to the Board in January 2014 and the Board accepted its findings. Subsequent to the review, the Chairman and Company Secretary implemented a number of recommendations to better facilitate and safeguard effective behaviours at Board level.

It should be noted that 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.

Independent Audit Limited has no other connection with the Company.

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.

SHAREHOLDERS AND SHARE CAPITAL

Relations with shareholders

The Board considers its relationship with both institutional and private investors to be important and readily enters into dialogue with investors. On behalf of the Board, the Company has consulted extensively with its principal shareholders during the course of 2013 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, the Senior Independent Director and a number of non-executive directors met with shareholders during the year and all of the directors make themselves available for meetings with shareholders as required.

The Company's updated corporate 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.

Substantial shareholdings

As at 26 February 2014, 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	10.94%
Blackrock Inc	9.99%
Legal & General Group Plc	5.78%
Jupiter Asset Management Ltd	5.28%
Schroders Plc (formerly Cazenove Capital Management Ltd)	4.86%
Old Mutual Asset Managers (UK) Ltd	4.11%

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

Corporate governance report continued

Annual General Meeting

The Annual General Meeting is to be held at UBS Investment Bank, 1 Finsbury Avenue, London, EC2M 2PP on 8 May 2014.

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.

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.

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 23. The Company has one class of ordinary share which carries 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 Articles may be amended by special resolution of the shareholders.

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 26. 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.

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 20) 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.

Acquisition of the Company's own shares

At the end of the year, the directors had authority under the shareholders' resolutions of 9 May 2013 to purchase through the market 64,201,606 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.

Directors and their interests

Details of the directors in office on 28 December 2013 are shown on page 52.

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 6,601 employees (2012: 6,300) 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.

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. 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 22 to 24 of the Strategy Report.

Risk management

The Board can confirm that, for the 2013 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 last undertaken during 2012 by PricewaterhouseCoopers.

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 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.
- The Internal Audit function 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 Internal Audit 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 is undertaken with regard to the assurance provided by the Internal Audit department. An external review was last undertaken by PricewaterhouseCoopers in 2012.

Will Samuel
Chairman of the Board

26 February 2014

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 and function of the Committee. It also details the significant audit issues and any other matters it considered during the year.

ROLE OF THE CHAIRMAN OF THE COMMITTEE

The Chairman of the Audit Committee is responsible for determining the Committee's agenda and for maintaining the key relationships between the Group's senior management, Head of Risk and Internal Audit, the Company Secretary and senior representatives of the external auditor. To that end, he is also responsible for ensuring that key audit issues are reported to the Board in an effective and timely manner and that they are reported to shareholders via this report.

During the year, the Audit Committee has had two Chairmen. Until 18 September, Angus Cockburn was Chairman of the Committee and as such had responsibility for the Committee during the assessment of the 2012 audit and report and accounts, as well as the 2013 half-yearly report and accounts and associated audit opinions. Following Angus' resignation as a director of the Company, I was appointed Chairman and assumed responsibility for the Committee prior to the year-end audit planning process and review of the 2013 Annual Report and Accounts.

Angus Cockburn is a qualified chartered accountant and is Chief Financial Officer at Aggreko plc. I am a Fellow of the Institute of Chartered Accountants in England and Wales, completing my accounting qualifications in 1987. I have been a Finance Director for over 20 years, most of that time as a Public Company Finance Director, and am currently the Group CFO of The Co-operative Group as well as Chairman of the Audit Committee at Persimmon PLC, the FTSE 100 house builder. As such the Board considers that Angus and I both had the requisite recent and relevant financial experience during the year to satisfy Provision C.3.1 of the UK Corporate Governance Code. The Board also considers that, during the year, we had the commercial, financial and audit experience necessary to address any complex accounting, audit and risk issues which may arise.

As Chairman, it is also my role to engage through the year in individual conversations with senior members of the finance function, the internal audit team, the company secretarial department and the external auditors in order to gain an assessment of the issues arising which should be considered by the Committee.

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 (resigned 18 September), Richard Pennycook (appointed 18 September), 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. Upon appointment to the Committee, Richard Pennycook attended meetings with key members of the finance, governance and audit teams, including the Head of Internal Audit and Risk, the external lead audit partner, the Group Financial Controller and the Company Secretary.

We review membership of the Committee as part of the review of Board effectiveness. This year's external independent 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.

Report of the Audit Committee continued

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 December 2013 which had been updated having taken into account the ICSA's best practice revised Terms of Reference for Audit Committees.

MEETINGS

The Audit Committee met three times during 2013, in conjunction with the annual reporting cycle. The agenda was predominantly linked to events in the Group's financial calendar but, as in previous years, we sought to ensure the agenda in 2013 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. Each Committee member retains the right to require reports on matters of interest in addition to the agenda approved by the Committee Chairman as well as the annually recurring items.

The Chairman of the Board along with the Chief Executive, Chief Financial Officer, 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 our meetings 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 (although the Board as a whole remains responsible for determining whether the Annual Report and Accounts as a whole are fair, balanced and understandable);
- reviewing the Group's internal financial controls and the Group's internal control systems;
- reviewing the Group's risk management processes, systems and reports (although the Board as a whole remains responsible for overseeing the overall risk profile of the business);
- reviewing the Going Concern report prior to consideration by the Board;
- 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;
- reviewing the external auditor's audit risks and Audit Committee reports; 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 annual report and financial statements, the half-yearly financial report published in July 2013 and the interim management statements. As part of this review we received a report from Deloitte 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; • reviewing the processes necessary to ensure that the Board is able to confirm that the Annual Report and Accounts are 'fair, balanced and understandable'; • 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 pages 83 to 87; • 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 risk and the effectiveness of internal controls; • reviewing the proposed plan of work presented by the external auditors, including audit risks, terms of engagement and fees; • 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; • 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	• reviewing the processes used by the Group for identifying, evaluating and mitigating risks; • 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 internal audit on the controls in place to mitigate fraud risk; • receiving reports from our divisional Finance Directors in respect of the control environment within their divisions, including an IS control update from external consultants; • receiving a presentation from the Head of Risk on the risk environment; • assessing the coverage of independent assurance by reviewing the Group assurance map; • review of business continuity management provisions; and • reviewing activity reported under the Group's whistleblowing policy.
Governance	• external review of effectiveness as an Audit Committee as part of the Board's evaluation process; • receiving updates from the external auditor on latest governance practices for Audit Committees and changes in statutory reporting requirements; and • reviewing the Committee's terms of reference and recommending that an updated version taking into account the ICSA's Terms of Reference for Audit Committees be approved by the Board.

Report of the Audit Committee continued

We invite senior management from the business to come and talk about the financial controls in their business areas. During 2013, the Finance Director and Head of Compliance of the Trade division presented on the control environments in their area.

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.

AREAS OF SIGNIFICANT FINANCIAL JUDGEMENT CONSIDERED BY THE AUDIT COMMITTEE DURING THE YEAR

The Committee recognises that some areas of accounting require judgements to be exercised. In relation to the Group, the principle areas of judgement relate to recoverability of trade debtors, inventory obsolescence, legacy property provisions and actuarial assumptions. It is the policy of the Board that a conservative approach be taken in all areas requiring judgement.

The Audit Committee considered the following key areas of significant financial judgement during the year:

Recoverability of trade debtors	Given the make-up of the receivables ledger being a high number of relatively small accounts, the recoverability of trade debtors and the level of provisioning for bad and doubtful debts were regularly reviewed by the Board. The Committee received updates from management on the ageing debtor profile, provisioning levels and the level of bad-debt write-off. They received reports from the Head of Internal Audit and Risk in relation to management's treatment of credit control and the collection of outstanding debts. The Committee also reviewed the work done by the external auditor on trade receivables to confirm both existence and recoverability. These matters were also discussed with the Chief Financial Officer and the external auditor.
Valuation of inventory	The valuation of inventory, including the existence of obsolete and excess stock and the appropriateness of the judgements applied within the obsolescence provision were regularly considered by the Board. The Committee reviewed the management reports used to value and confirm the existence of inventory. They also received reports from the external auditor on inventory in considering the appropriateness of provisions held against the carrying value of inventory, having regard to the age of discontinued lines and volumes of continuing lines relative to the expected usage. These matters were also discussed with the Chief Financial Officer and the external auditor.
Vacant property provisions	The Committee assessed the judgements around future costs including dilapidations and closure costs and the timing of potential future landlord settlements on the remaining leases on the guaranteed and excluded properties. Both the Board and Audit Committee received regular updates on the remaining vacant properties, concluding that the strategy to exit leases early where possible continued to be appropriate.
Actuarial assumptions	The Committee considered and approved the appropriateness of the actuarial valuations for the defined benefit pension scheme prepared for compliance with the relevant accounting and disclosure requirements and the assessment of the appropriateness of the assumptions used. The Committee reviewed reports from the Pensions Sub-Committee and external auditor which considered the appropriateness of the assumptions. These matters were also discussed with the Chief Financial Officer and the external auditor.

The Committee was satisfied that each of the matters set out above have been fully and adequately addressed by the Executive Committee, appropriately tested and reviewed by the external auditor and the disclosures made in the Annual Report and Accounts were appropriate.

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.

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 2013 are included in note 7 to the financial statements on page 90. No services were provided by the external auditor pursuant to contingent fee arrangements.

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 (c8% of the total non-audit fee) but in the main due to fees charged in respect of the aforementioned tax advice (c58% 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. 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 2013 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. The lead statutory audit partner last changed in March 2012 at the end of the 2011 year end audit in accordance with the ethical standards;
- 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 perceptions of the auditor and audit process from key management personnel in the finance function;
- 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.

Report of the Audit Committee continued

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. The Audit Committee is mindful of the provisions relating to audit tendering in the UK Corporate Governance Code and the FRC's Guidance on Audit Committees to put the external audit contract out to tender at least every ten years.

The FRC guidelines provide that audit tendering should normally fit the five year cycle of lead audit partner rotation. Our current lead audit partner has now completed two years of a five year cycle. Taking this into account, and on the basis 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 auditor and that the directors be authorised to fix their remuneration. At the year end the external auditor 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 assurance activity performed by Internal Audit; and
- staffing, reporting and effectiveness of divisional audits.

During the year, the Committee considered the effectiveness of the Internal Audit function and the Internal Audit three-year plan. The Committee concluded that the function remained effective, well-led and had a well-defined remit. An independent review of the Internal Audit function was last undertaken by PricewaterhouseCoopers in 2012. 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.

Richard Pennycook
Chairman of the Audit Committee

26 February 2014

Report of the 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/.

The Nominations Committee played an active role during 2013. During the year, the Committee met three times to consider:

- non-executive succession planning and management;
- the Board's current policy on diversity;
- the renewal of Tiffany Hall's non-executive director contract;
- the re-appointment of directors at the 2013 AGM; and
- the performance of the Committee and the appropriateness of the Committee's terms of reference.

Most notably perhaps, the Committee's selection and recommendation to the Board for Richard Pennycook to be appointed as director and Chairman of the Audit Committee demonstrated the execution of the Board's strategy for non-executive succession planning and the refreshing of the Board. In replacing Angus Cockburn, the Committee needed to identify a non-executive director with the requisite financial experience and gravitas to become both a non-executive director and Chairman of the Audit Committee. Richard has a wealth of executive and non-executive experience as well as his demonstrable financial and strategic skills. The process for Richard's appointment is set out below in accordance with Code Provision B.2.4.

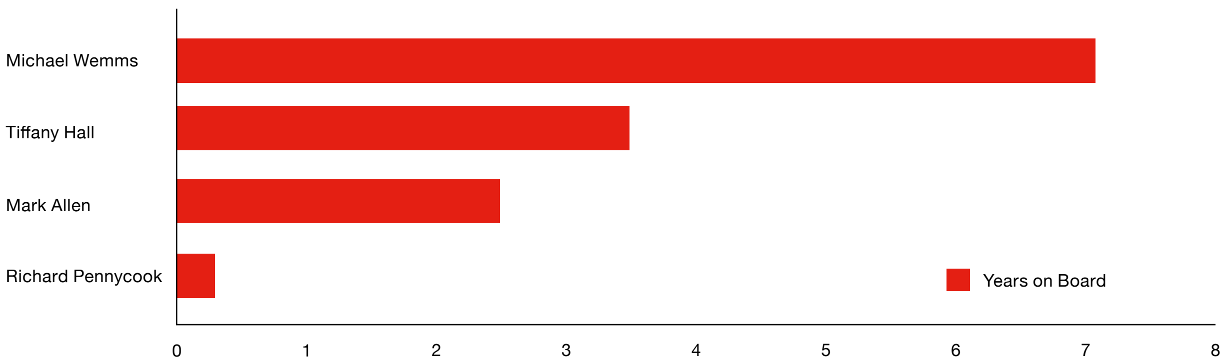
In light of the changes to the UK Corporate Governance Code regarding gender targets, the Committee revisited the diversity policy on behalf of the Board which had been codified in 2011 in response to the first iteration of the Davies Report. The Committee concluded and recommended to the Board that the existing policy remained appropriate for the Company given the size and structure of the Board. The diversity policy is set out in more detail below.

COMPOSITION AND FUNCTION OF THE COMMITTEE

Composition of the Committee	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.2.1 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.
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 executive succession planning rather than delegate it to the Nominations Committee. During the year, the Board engaged leadership consulting firm Heidrick and Struggles to undertake a detailed talent management evaluation programme on the members of the Executive Committee. The Board remain committed to ensuring there are no skills gaps at Executive level and that there is a robust talent pipeline in support of the Executive. Heidrick and Struggles has no other connection with the Company.

Report of the Nominations Committee continued

NON-EXECUTIVE TENURE (STATED FIGURES ARE TO 28 DECEMBER 2013)



As stated previously, the Nominations Committee remains committed to a programme of reviewing and refreshing the make-up of the non-executive membership of the Board to ensure that there is sufficient balance between the introduction of fresh perspective and ensuring continuity and stability. Where possible, the Board will ensure a phased transition of non-executives in order to avoid wholesale changes to the make-up of the Board to the possible detriment of the Company.

With this in mind and given the length of Michael Wemms' tenure on the Board, with effect from the end of the 2014 AGM, I am pleased to announced that Tiffany Hall will take over from Michael Wemms as Chair of the Remuneration Committee. We are extremely grateful to Michael for his excellent work in this role over the years and are delighted that he will remain on the Board as a director supporting Tiffany in this transition. Towards the end of next year, the Board will look for a candidate to replace Michael as he comes to the end of his third three-year term as a non-executive director.

DIVERSITY

Boardroom 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 two male directors 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. Whilst the setting of targets on particular aspects of diversity may be relevant in many cases, we feel that this could be given inappropriate focus within the context of a smaller board resulting in the possible overlooking of certain well-qualified candidates. 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.

Employee diversity policy

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.

Gender statistics

A Group-wide breakdown of gender statistics for all employees as at year end is as follows (see Strategic Report on page 24):

	Total	Female employees	Male employees	% of Female employees
Board	7	1	6	14.3%
Executive Committee members (including directors of the main Board)	8	3	5	37.5%
Executive Committee members (excluding directors of the main Board)	6	3	3	50.0%
Senior Management group*	104	21	83	20.2%
Group (Total)	6,601	1,705	4,896	25.8%

* The Senior Management group includes employee Grades 1–3 (on the Hays evaluation basis) and divisional, regional and area sales managers. It does not include members of the Board or the Executive Committee.

APPOINTMENT PROCESS

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.

During the year, the Company engaged Russell Reynolds Associates, an executive search agency, to assist with the identification of candidates with the requisite financial experience to replace Angus Cockburn. Short-listed candidates met with all executive and non-executive directors prior to the deliberations of the Nominations Committee. Having considered the merits of all of the candidates including relevant experience and diversity of perspective, the Committee made its recommendation to the Board.

Russell Reynolds has no other connection with the Company.

Report of the Nominations Committee continued

DIRECTOR INDUCTION

New appointments to the Board undertake an induction programme tailored to the needs of the individual. Richard Pennycook's induction programme consisted of two parts: first, provision of a mixture of documentation including company publications, Board materials and some formal information for Company directors. Secondly, he was invited to a number of site visits and meetings with members of the Executive Committee, key employees and advisors. During the induction, Richard visited our manufacturing sites, our distribution centre and a depot.

The Group's induction programme for newly appointed directors will continue to be centred on familiarisation with the Group's operations, key individuals and external advisers.

ONGOING TRAINING

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.

RE-ELECTION OF DIRECTORS

As stated in the Corporate Governance report, all of the directors will retire at the Annual General Meeting (AGM) in accordance with the UK Corporate Governance Code and each will offer themself for re-election in accordance with Article 118 of the Articles of Association, with the exception of Richard Pennycook who was appointed during the year and will offer himself for election at the AGM in accordance with Article 117.

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.

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 37 to 57. Details of indemnity provisions made for the benefit of directors are given in the Corporate Governance report on pages 58 to 64.

Will Samuel
Chairman of the Nominations Committee

26 February 2014

Report of the Pension sub-committee

The Board established the Pension Sub-Committee to consider all matters relating to the defined benefit pension scheme operated by the Company and other group members, and any other pension related matter referred to it by the Board.

The Committee comprises the Chairman, the Chairman of the Audit Committee, the Chief Financial Officer and the Company Secretary. However, all Board members have a standing invitation to the Committee and are encouraged to attend. The Company's actuary, Hymans Robertson, is also invited to attend and brief the Committee. The Chairman of the Committee is the Chief Financial Officer.

As set out in its terms of reference, the Committee meets a minimum of twice a year. During 2013, the Committee met three times at which all members of the Committee were present.

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

Risk appetite	Consideration of what would constitute an appropriate level of risk for the Company to take in respect of the pension deficit and recommendations to the Board in this regard.
Funding summary and market updates	Review of funding and market updates from the Company's actuaries.
Dialogue with the Trustees	The Chairman of the Trustee Board and the Chair of the Trustee Board's Investment Committee were invited to present an update on the Trustee Board's activity and an analysis of its own performance over the previous two years. Given the relative immaturity of the defined benefit scheme, the Trustees consequently hold a relatively large proportion of return seeking assets. Volatility is a key risk for both the Trustees and the Company to consider. During the year, the Committee therefore engaged in dialogue with the Trustee Board and its advisers in respect of hedging and de-risking activity with the Trustees taking the decision to purchase matching assets over the course of the year at a steady rate given the external economic environment.
IAS19	The Committee considered the impact of IAS19 on the Group's Income Statement.
PPF	Consideration was given to the PPF levy payable during the year.
"At retirement" options	The Committee considered a number of "at retirement" options for members.

Mark Robson
Chairman of the Pension Sub-Committee

26 February 2014

Statements of the directors in connection with this Annual Report and Accounts

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 17 and the Review of Operations and Finance on pages 18 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 28 to the financial statements.

The Group meets its day to day working capital requirements through cash generated from operations, and, if required, by utilising an asset-backed lending facility of £160m until May 2014, and £140m thereafter until the facility expires in July 2016.

The Group's forecasts and projections have been stress-tested for reasonably possible adverse variations in economic conditions and 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.

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.

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 Group and Company, and the undertakings including the consolidation taken as a whole;
- the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Group and Company and the undertakings including the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face; and
- the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 26 February 2014 and is signed on its behalf by:

Matthew Ingle
Chief Executive

Mark Robson
Chief Financial Officer

26 February 2014

Consolidated income statement

Continuing operations:	Notes	52 weeks to 28 December 2013 Before exceptional items £m	Exceptional items (note 6) £m	Total £m	53 weeks to 29 December 2012 £m
Revenue – sale of goods	4	956.5	–	956.5	887.1
Cost of sales		(366.3)	–	(366.3)	(341.8)
Gross profit		590.2	–	590.2	545.3
Selling & distribution costs		(375.5)	–	(375.5)	(359.1)
Administrative expenses		(72.2)	(4.5)	(76.7)	(66.4)
Operating profit	7	142.5	(4.5)	138.0	119.8
Finance income	9	0.4	–	0.4	0.2
Finance expense	10	(0.4)	–	(0.4)	(0.6)
Other finance expense – pensions	10	(4.1)	–	(4.1)	(7.3)
Profit before tax		138.4	(4.5)	133.9	112.1
Tax on profit	11	(34.6)	0.5	(34.1)	(24.1)
Profit after tax		103.8	(4.0)	99.8	88.0
Discontinued operations:					
Loss on discontinued operations		–	–	–	(4.4)
Tax on loss		–	–	–	0.6
Loss after tax on discontinued operations	29	–	–	–	(3.8)
Profit for the period attributable to the equity holders of the parent		103.8	(4.0)	99.8	84.2
Earnings per share:					
From continuing operations					
Basic earnings per 10p share	12			15.7p	14.0p
Diluted earnings per 10p share	12			15.5p	13.9p
From continuing and discontinued operations					
Basic earnings per 10p share	12			15.7p	13.4p
Diluted earnings per 10p share	12			15.5p	13.3p

Consolidated statement of comprehensive income

	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Profit for the period	99.8	84.2
Items of other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gains/(losses) on defined benefit pension scheme	69.6	(52.0)
Deferred tax on actuarial (gains)/losses on defined benefit pension scheme	(15.9)	13.0
Effect of change in UK tax rate on deferred tax on cumulative actuarial loss	(1.6)	(7.5)
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	0.5	(0.3)
Other comprehensive income for the period	52.6	(46.8)
Total comprehensive income for the period attributable to equity holders of the parent	152.4	37.4

Consolidated balance sheet

	Notes	28 December 2013 £m	29 December 2012 £m
Non-current assets			
Other intangible assets	14	3.7	4.0
Property, plant and equipment	15	95.5	89.3
Deferred tax asset	16	23.2	46.1
Bank borrowings net of prepaid fees	20	0.9	1.0
		123.3	140.4
Current assets			
Bank borrowings net of prepaid fees	20	0.1	–
Inventories	17	123.4	115.9
Trade and other receivables	18	122.4	96.0
Cash at bank and in hand	24	139.7	96.7
		385.6	308.6
Total assets		508.9	449.0
Current liabilities			
Trade and other payables	19	(158.4)	(137.1)
Current tax liability		(18.7)	(16.9)
Current borrowings	20	(0.1)	(1.2)
		(177.2)	(155.2)
Non-current liabilities			
Non-current borrowings	20	(0.1)	(0.1)
Pension liability	21	(54.3)	(154.5)
Deferred tax liability	16	(3.6)	(4.3)
Provisions	22	(12.0)	(22.1)
		(70.0)	(181.0)
Total liabilities		(247.2)	(336.2)
Net assets		261.7	112.8
Equity			
Called up share capital	23	64.3	64.2
Share premium account		87.5	87.2
ESOP reserve		(6.3)	(19.0)
Other reserves		28.1	28.1
Retained earnings		88.1	(47.7)
Total equity		261.7	112.8

The financial statements were approved by the Board on 26 February 2014 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 profit £m	Total £m
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
Accumulated profit for the period	–	–	–	–	99.8	99.8
Net actuarial gain on defined benefit scheme	–	–	–	–	53.7	53.7
Effect of change in UK tax rate on deferred tax on cumulative actuarial loss	–	–	–	–	(1.6)	(1.6)
Current tax on share schemes	–	–	–	–	4.6	4.6
Deferred tax on share schemes	–	–	–	–	3.1	3.1
Effect of change in UK tax rate on deferred tax on cumulative balance on share schemes	–	–	–	–	(1.0)	(1.0)
Currency translation differences	–	–	–	–	0.5	0.5
Net movement in ESOP	–	–	12.7	–	–	12.7
Issue of new shares	0.1	0.3	–	–	–	0.4
Dividends declared and paid	–	–	–	–	(23.3)	(23.3)
At 28 December 2013	64.3	87.5	(6.3)	28.1	88.1	261.7

The ESOP reserve includes shares in Howden Joinery Group Plc with a market value on the balance sheet date of £36.2m (2012: £37.8m), 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 year to 30 April 1994, following a Group reconstruction.

Consolidated cash flow statement

	Notes	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Group operating profit before tax and interest			
Continuing operations		138.0	119.8
Discontinued operations	29	–	(4.4)
Group operating profit before tax and interest		138.0	115.4
Adjustments for:			
Depreciation and amortisation included in operating profit		18.7	16.9
Share-based payments charge		8.4	2.7
Exceptional items (before tax)		4.5	3.3
Operating cash flows before movements in working capital		169.6	138.3
Movements in working capital and exceptional items			
(Increase)/decrease in stock		(7.5)	2.6
Increase in trade and other receivables		(26.4)	(0.7)
Increase/(decrease) in trade and other payables and provisions		11.7	(16.2)
Difference between pensions operating charge and cash paid		(34.7)	(41.7)
Net cash flow – exceptional items		(4.5)	(0.5)
		(61.4)	(56.5)
Cash generated from operations		108.2	81.8
Tax paid		(21.0)	(16.9)
Net cash flow from operating activities	24	87.2	64.9
Cash flows used in investing activities			
Payments to acquire property, plant and equipment and intangible assets		(24.7)	(24.2)
Interest received		0.4	0.2
Receipts from sale of property, plant and equipment and intangible assets		–	0.3
Net cash used in investing activities		(24.3)	(23.7)
Cash flows used in financing activities			
Interest paid		(0.1)	(0.6)
Receipts from issue of share capital		0.4	2.9
Receipts from release of shares from share trust		4.3	1.1
Decrease in loans		(1.1)	(2.2)
Repayment of capital element of obligations under finance leases		(0.1)	(0.1)
Dividends paid to Group shareholders		(23.3)	(5.0)
Net cash used in financing activities		(19.9)	(3.9)
Net increase in cash and cash equivalents		43.0	37.3
Cash and cash equivalents at beginning of period		96.7	59.4
Cash and cash equivalents at end of period	24	139.7	96.7

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 24. 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 40 Portman Square, London, W1H 6LT. The nature of the Group's operations are set out in the Strategic Review, and the Group's principal activity is the sale of kitchens and joinery products, along with the associated manufacture and distribution of these products.

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 52 weeks to 28 December 2013. The comparative period covered the 53 weeks to 29 December 2012.

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 Statement of the directors is connection with this Annual Report and Accounts on page 76. 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, were in issue but not yet effective for the Group in these financial statements:

IAS 19 (revised June 2011): Employee Benefits *

Annual Improvements to IFRSs: 2009 – 2011 Cycle (May 2012) **

IFRS 13: Fair Value Measurement **

IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine **

Amendments to IAS 1 (March 2012): Treatment of Government loans **

Amendments to IFRS 7 (Dec 2011): Disclosures – Offsetting Financial Assets and Financial Liabilities **

Amendments to IAS 12 (Dec 2010): Deferred Tax – Recovery of Underlying Assets **

Amendments to IFRS 1 (Dec 2010): Severe Hyperinflation and Removal of Fixed Dates for First Time adopters **

Amendments to IAS 19 (Nov 2013): Defined Benefit Plans – Employee Contributions

Annual Improvements to IFRSs: 2011 – 2013 Cycle (Dec 2013)

Annual Improvements to IFRSs: 2010 – 2012 Cycle (Dec 2013)

Amendments to IAS 19 (Nov 2013): Defined Benefit Plans – Employee Contributions

Amendments to IAS 36 (May 2013): Recoverable Amount Disclosures for Non-Financial Assets

Amendments to IAS 39 (Jun 2013): Novation of Derivatives and Continuation of Hedge Accounting

Amendments to IFRS 10, IFRS 11, IFRS 12, IAS 27, and IAS 28: Investment Entities

Amendments to IAS 32 (Dec 2011): Offsetting Financial Assets and Financial Liabilities

IFRIC 21: Levies

IFRS 9: Financial Instruments

Other than the June 2011 revisions to IAS 19, which are discussed above, 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.

Joint ventures

Joint ventures are accounted for in the financial statements of the Group under the equity method of accounting. Any losses in joint ventures in excess of the Group's interest in those joint ventures are not recognised.

* The June 2011 revisions to IAS 19 become effective for the Group for the first time in its 2014 financial year. The two main effects on the Group of these revisions are that: (i) the expected return on defined benefit pension scheme assets will have to be calculated with reference to the discount rate rather than the rate of expected return on those assets (as is the case in the former version of IAS 19, which is used in these financial statements). This results in a reduction of the expected return on assets and therefore an increase in the net pensions finance charge compared to the former version of IAS 19; (ii) the scheme administration costs, which were previously deducted from return on assets, will now form an additional part of the total service cost. By way of illustration, the 2013 total defined benefit charge to the income statement is £16.3m, whereas it would have been £19.7m under these IAS19 revisions.

** As well as the June 2011 revisions to IAS 19, which are discussed above, these additional standards, amendments, and interpretations are applicable to the Group for the first time in its 2014 financial year.

Notes to the consolidated financial statements continued

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 years
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 schemes 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.

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.

Notes to the consolidated financial statements continued

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. In the case of prepaid loan facility fees, they are capitalised and set against the related borrowings, and then amortised over the life of the related loan facility.

Investments
Investments are stated at cost less any provision for impairment.

Non-current assets held for sale
Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of fair value, less costs to sell, and carrying amount. No depreciation is charged on non-current assets classified as held for sale.

Impairment losses on initial classification as held for sale are included in profit or loss. Gains or losses on subsequent re-measurements are also included in profit or loss.

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.

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.

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.

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 21.

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.

Provisions

Descriptions of the provisions held at period end are given at note 22. 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.

Notes to the consolidated financial statements continued

4 REVENUE

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

	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Continuing operations		
Sales of goods	956.5	887.1
Finance income	0.4	0.2
Total revenue	956.9	887.3

There were no discontinued operations in the current period. There were discontinued operations in the prior period, which are explained in more detail at note 29. The entities which were discontinued in the prior period were 100% owned subsidiaries which had no significant external revenue.

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.

(b) Other information

	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Capital additions	24.7	24.2
Depreciation and amortisation	(18.7)	(16.9)

(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:

	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Revenues from external customers		
UK	940.7	872.5
France	15.8	14.6
	956.5	887.1

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:

	28 December 2013 £m	29 December 2012 £m
Carrying amount of segment assets		
UK	498.1	441.4
France	10.8	7.6
	508.9	449.0

	28 December 2013 £m	29 December 2012 £m
Non-current assets (excluding deferred tax assets)		
UK	99.4	93.5
France	0.7	0.8
	100.1	94.3

	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Additions to property, plant and equipment and intangible assets		
UK	24.5	23.8
France	0.2	0.4
	24.7	24.2

6 CONTINUING OPERATIONS – EXCEPTIONAL ITEMS

Exceptional items for the 52 weeks to 28 December 2013

During the current period, the Group reconfigured its transport operations to better reflect the geographical mix of its sales in the UK, and to improve service to depots. This restructuring involved closure, relocation and reorganisation costs.

The costs are shown below, together with the associated tax credit.

The restructuring was completed by the end of the current period. £4.5m of the expenses were paid in the period, and are shown in the consolidated cashflow statement.

	52 weeks to 28 December 2013 £m
Exceptional costs before tax	(4.5)
Tax on exceptional costs	0.5
Exceptional costs after tax	(4.0)

There were no continuing exceptional items in the comparative period.

There were discontinued exceptional items in the 53 weeks to 29 December 2012, and these are analysed in note 29.

Notes to the consolidated financial statements continued

7 OPERATING PROFIT

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

	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Net foreign exchange (loss)/gain	(5.2)	5.0
Depreciation of property, plant and equipment:		
– on owned assets	(17.2)	(15.6)
– on assets held under finance lease	(0.1)	(0.1)
Amortisation of intangible assets (included in administrative expenses):		
– on owned assets	(1.4)	(1.2)
– on assets held under finance lease	–	–
Cost of inventories recognised as an expense	(357.9)	(345.3)
Write down of inventories	(3.2)	(1.5)
Decrease in allowance for doubtful debts (note 18)	1.3	0.6
Staff costs (note 8)	(256.2)	(241.4)
Minimum lease payments under operating leases	(55.0)	(55.6)
Auditor's remuneration for audit services (see below)	(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:

	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £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 Report of the Audit Committee. No services were provided pursuant to contingent fee arrangements.

8 STAFF COSTS

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

	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Wages and salaries	217.1	208.4
Social security costs	24.5	20.8
Pension operating costs (note 21)	14.6	12.2
	256.2	241.4

Wages and salaries includes a charge in respect of share-based payments of £8.4m (2012: £2.7m).

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

	52 weeks to 28 December 2013 Number	53 weeks to 29 December 2012 Number
	6,499	6,441

9 FINANCE INCOME

	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Bank interest receivable	0.4	0.2
Total finance income	0.4	0.2

10 FINANCE EXPENSES AND OTHER FINANCE EXPENSE – PENSIONS

	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Finance expenses		
Interest payable on bank loans	(0.1)	(0.4)
Finance charge on remeasuring creditors to fair value	(0.1)	(0.2)
Other interest	(0.2)	–
Total finance expenses	(0.4)	(0.6)

Further details of the finance charge on remeasuring creditors to fair value in the current period are given in note 22.

	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Other finance expense – pensions		
Pensions finance expense	(4.1)	(7.3)

Notes to the consolidated financial statements continued

11 TAX

(a) Tax in the income statement

	Continuing operations		Discontinued operations		Total	
	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Current tax						
Current year	28.1	21.4	–	(0.6)	28.1	20.8
Adjustments in respect of previous years	(0.8)	(1.1)	–	–	(0.8)	(1.1)
Total current tax	27.3	20.3	–	(0.6)	27.3	19.7
Deferred tax						
Current year	6.4	4.0	–	–	6.4	4.0
Adjustments in respect of previous years	0.4	(0.2)	–	–	0.4	(0.2)
Total deferred tax	6.8	3.8	–	–	6.8	3.8
Total tax charged/(credited) in the income statement	34.1	24.1	–	(0.6)	34.1	23.5

UK Corporation tax is calculated at 23.25% (2012: 24.5%) 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

	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Deferred tax charge/(credit) to equity on actuarial gain/(loss) on pension scheme	15.9	(13.0)
Deferred tax credit to equity on share schemes	(3.1)	(1.9)
Current tax credit to equity on share schemes	(4.6)	(2.0)
Charge to equity re tax rate change*	2.6	7.9
	10.8	(9.0)

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 year can be reconciled to the result per the income statement as follows:

	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Profit before tax		
Continuing operations	133.9	112.1
Discontinued operations	–	(4.4)
	133.9	107.7

	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Tax at the UK Corporation tax rate of 23.25% (2012: 24.5%)	31.1	26.4
IFRS 2 share scheme charge**	–	(0.6)
Expenses not deductible for tax purposes***	2.2	2.0
Reassessment of deferred tax asset on general provisions	–	0.3
Change of tax rate*	0.5	(3.9)
Non-qualifying depreciation	0.7	0.6
Tax adjustments in respect of previous years	(0.4)	(1.3)
Total tax charged in the income statement	34.1	23.5

* In July 2013 Parliament approved the Finance Bill which reduces the UK Standard rate of Corporation tax from 23% to 21% with effect from 1 April 2014 and 21% to 20% from 1 April 2015. All deferred tax assets and liabilities have been recognised at 20% (2012: 23%).

** 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, as well as other expenses permanently disallowed.

12 EARNINGS PER SHARE

	52 weeks to 28 December 2013			53 weeks to 29 December 2012		
	Earnings £m	Weighted average number of shares m	Earnings per share p	Earnings £m	Weighted average number of shares m	Earnings per share p
From continuing operations						
Basic earnings per share	99.8	636.6	15.7	88.0	627.0	14.0
Effect of dilutive share options	–	5.6	(0.2)	–	4.2	(0.1)
Diluted earnings per share	99.8	642.2	15.5	88.0	631.2	13.9
From discontinued operations						
Basic loss per share				(3.8)	627.0	(0.6)
Effect of dilutive share options				–	4.2	–
Diluted loss per share				(3.8)	631.2	(0.6)
From continuing and discontinued operations						
Basic earnings per share	99.8	636.6	15.7	84.2	627.0	13.4
Effect of dilutive share options	–	5.6	(0.2)	–	4.2	(0.1)
Diluted earnings per share	99.8	642.2	15.5	84.2	631.2	13.3

Notes to the consolidated financial statements continued

13 DIVIDENDS

Amounts recognised as distributions to equity holders in the period	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Interim dividend for the 52 weeks to 28 December 2013 – 1.0p per share	6.3	–
Final dividend for the 53 weeks to 29 December 2012 – 2.7p per share	17.0	–
Interim dividend for the 53 weeks to 29 December 2012 – 0.3p per share	–	1.9
Final dividend for the 52 weeks to 24 December 2011 – 0.5p per share	–	3.1
	23.3	5.0

Dividends proposed at the end of the period (but not recognised in the period)	28 December 2013 £m	29 December 2012 £m
Proposed final dividend for the 52 weeks to 28 December 2013 – (4.5p per share)	28.4	
Proposed final dividend for the 53 weeks to 29 December 2012 – (2.7p per share)		16.7

The directors propose a final dividend in respect of the 52 weeks to 28 December 2013 of 4.5p per share, payable to ordinary shareholders who are on the register of shareholders at 23 May 2014, and payable on 20 June 2014.

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 2014 Annual General Meeting, and has not been included as a liability in these financial statements.

14 OTHER INTANGIBLE ASSETS

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

	£m
Cost	
At 24 December 2011	15.6
Additions	0.5
At 29 December 2012	16.1
Additions	1.1
At 28 December 2013	17.2
Amortisation	
At 24 December 2011	10.9
Charge for the period	1.2
At 29 December 2012	12.1
Charge for the period	1.4
At 28 December 2013	13.5
Net book value at 28 December 2013	3.7
Net book value at 29 December 2012	4.0

15 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 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
Additions	0.1	4.3	8.4	6.5	4.3	23.6
Disposals	–	–	(1.5)	(0.3)	–	(1.8)
Reclassifications	–	0.2	11.2	–	(11.4)	–
At 28 December 2013	21.7	39.7	186.6	85.0	4.5	337.5
Accumulated depreciation						
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
Charge for the period	0.3	2.8	9.2	5.0	–	17.3
Disposals	–	–	(1.4)	(0.3)	–	(1.7)
At 28 December 2013	2.5	15.6	153.7	70.2	–	242.0
Net book value at 28 December 2013	19.2	24.1	32.9	14.8	4.5	95.5
Net book value at 29 December 2012	19.4	22.4	22.6	13.3	11.6	89.3

The Group has pledged its property, plant and equipment to secure bank borrowings. More details are given in note 20.

At 28 December 2013, the Group had entered into contractual commitments to acquire property, plant and equipment amounting to £6.5m (2012: £5.2m).

Analysis of assets held under finance leases

	28 December 2013		29 December 2012	
	Plant, machinery & vehicles £m	Total £m	Plant, machinery & vehicles £m	Total £m
Cost	0.5	0.5	0.5	0.5
Accumulated depreciation	(0.2)	(0.2)	(0.2)	(0.2)
Net book value	0.3	0.3	0.3	0.3

Notes to the consolidated financial statements continued

16 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 £m	Accelerated capital allowances £m	Company share schemes £m	Other timing differences £m	Total £m
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
(Charge)/credit to income	(7.1)	(0.1)	1.1	(0.2)	(6.3)
(Charge)/credit to equity	(15.9)	–	3.1	–	(12.8)
Effect of tax rate change – Income statement	–	(0.2)	(0.3)	–	(0.5)
– Equity	(1.6)	–	(1.0)	–	(2.6)
At 28 December 2013	10.9	0.2	8.3	0.2	19.6

Deferred tax arising from accelerated capital allowances, company share schemes and other timing differences can be further analysed as a £12.3m asset and a £3.6m liability (2012: £10.6m asset and £4.3m liability).

The presentation in the balance sheet is as follows:

	28 December 2013 £m	29 December 2012 £m
Deferred tax assets	23.2	46.1
Deferred tax liabilities	(3.6)	(4.3)
	19.6	41.8

At the balance sheet date the Group had unused trading tax losses with a potential value of £10.5m (2012: £12.1m). 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 £17.0m (2012: £19.6m) which has not been recognised. Both of these losses may be carried forward indefinitely.

17 INVENTORIES

	28 December 2013 £m	29 December 2012 £m
Raw materials	3.4	3.0
Work in progress	2.7	2.6
Finished goods and goods for resale	129.3	121.0
Allowance against carrying value of inventories	(12.0)	(10.7)
	123.4	115.9

The Group has pledged its inventories to secure bank borrowings. More details are given in note 20.

18 OTHER FINANCIAL ASSETS

Trade and other receivables

	28 December 2013 £m	29 December 2012 £m
Trade receivables (net of allowance)	96.3	71.2
Prepayments and accrued income	24.6	23.1
Other receivables	1.5	1.7
	122.4	96.0

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:

	28 December 2013 £m	29 December 2012 £m
Balance at start of period	8.1	8.7
Decrease in allowance recognised in the income statement	(1.3)	(0.6)
Balance at end of period	6.8	8.1

The Group's exposure to the credit risk inherent in its trade receivables is discussed in note 28. 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 £6.8m (2012: £8.1m) consists of a specific provision of £3.3m (2012: £3.8m) which has been made against specific debts with a gross carrying value of £4.1m (2012: £4.8m), and a provision of £3.5m (2012: £4.3m) 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.

£5.0m debts were written off in the period (2012: £5.6m). Included within the Group's aggregate trade receivables balance are specific debtor balances with customers totalling £13.0m before bad debt provision (2012: £13.6m 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.

Notes to the consolidated financial statements continued

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

	28 December 2013 £m	29 December 2012 £m
1–30 days past due	6.1	7.3
31–60 days past due	1.4	1.0
61–90 days past due	1.0	0.8
90+ days past due	4.5	4.5
Total overdue amounts, excluding allowance for doubtful receivables	13.0	13.6

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 20.

19 OTHER FINANCIAL LIABILITIES

Trade and other payables

	28 December 2013 £m	29 December 2012 £m
Current liabilities		
Trade payables	70.4	60.4
Other tax and social security	40.4	37.7
Other payables	5.5	2.1
Accruals and deferred income	42.1	36.9
	158.4	137.1

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 44 days (2012: 46 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.

20 BORROWINGS

Total borrowings

	28 December 2013 £m	29 December 2012 £m
Current assets		
Bank borrowings (net of prepaid fees)	(0.1)	–
Current borrowings		
Bank borrowings (net of prepaid fees)	–	1.1
Current portion of finance lease obligations	0.1	0.1
	0.1	1.2
Non-current assets		
Bank borrowings (net of prepaid fees)	(0.9)	(1.0)
Non-current borrowings		
Non-current portion of finance lease obligations	0.1	0.1
Total net borrowings	(0.8)	0.3

Bank borrowings

The bank borrowings are repayable as follows:

	28 December 2013 £m	29 December 2012 £m
Disclosed under current assets		
On demand or within one year	0.4	–
Less prepaid issue fees set against borrowings	(0.5)	–
	(0.1)	–
Disclosed under current liabilities		
On demand or within one year	–	1.7
Less prepaid issue fees set against borrowings	–	(0.6)
	–	1.1
Disclosed under non-current assets		
In the second year	–	0.4
In the third to fifth years inclusive	–	–
Less prepaid issue fees set against borrowings	(0.9)	(1.4)
	(0.9)	(1.0)
Total bank borrowings, net of prepaid fees	(1.0)	0.1

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. The Group's current facility expires in July 2016. At the current and prior period ends, 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. At the current period end, the amount of fees relating to the period less than one year from the balance sheet date was also greater than the corresponding amount drawn down, creating a further net debit balance.

Notes to the consolidated financial statements continued

All bank borrowings are in sterling, and are drawn under the £160m (2012: £160m) committed bank facility. The terms of this facility are explained further in the final paragraph of note 28(a).

This facility is secured on the property and other assets of the Group. The carrying values of each of these classes of assets is 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 28 December 2013, the Group had available £123m of undrawn committed borrowing facilities, in respect of which all conditions precedent had been met (29 December 2012: £126m).

The loan carries interest at a rate of LIBOR plus a margin. 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:

	28 December 2013 £m	29 December 2012 £m
Current liabilities		
Within one year	0.1	0.1
Non-current liabilities		
In the second year	–	0.1
In the third to fifth years inclusive	0.1	0.1
Total finance lease obligations	0.2	0.2

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 2 years and 3 months (2012: 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	
	28 December 2013 £m	29 December 2012 £m	28 December 2013 £m	29 December 2012 £m
Amounts payable under finance leases				
Within one year	0.1	0.1	0.1	0.1
In the second year	–	0.1	–	0.1
In the third to fifth years inclusive	0.1	0.1	0.1	0.1
	0.2	0.3	0.2	0.2
Less future finance charges	–	(0.1)		
Present value of lease obligations	0.2	0.2		
Disclosed as:				
Current	0.1	0.1		
Non-current	0.1	0.1		
	0.2	0.2		

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

The weighted average interest rates paid were as follows:

	52 weeks to 28 December 2013 %	53 weeks to 29 December 2012 %
Finance lease obligations	5.0	5.0
Bank borrowings	2.5	2.9

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

	28 December 2013 £m	29 December 2012 £m
Finance lease obligations	0.2	0.2
Bank borrowings	(1.0)	0.1

21 RETIREMENT BENEFIT OBLIGATIONS

Defined contribution: auto-enrolment plan

The Group operates an auto-enrolment defined contribution scheme for employees, in line with recent UK Government legislation. Under the terms of this scheme, employees make pension contributions out of their salaries, and the Group also makes 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, although it was not mandatory to enrol employees into this scheme until July 2013.

The total cost charged to income in respect of this scheme in the current period of £1.4m (2012: £0.1m) represents the Group's contributions due and payable in respect of the period. Due to the timing of payments, £0.2m (2012: £nil) of this amount was unpaid at the period end, but was paid shortly afterwards.

Defined contribution: other plan

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 £1.0m (2012: £0.9m) represents the Group's contributions due and paid in respect of the period.

Defined benefit plan

The Group operates a funded pension scheme which provides benefits based on the pensionable pay of participating employees. This scheme was 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 28 December 2013, and has restated the results onto a basis consistent with market conditions at that date.

Notes to the consolidated financial statements continued

Differences between the defined benefit pension deficit on an IAS 19 basis and on a funding basis

As is mandatory under International Financial Reporting Standards, the Group values its pension deficit in these accounts on an IAS 19 basis. As shown below, the IAS 19 deficit at the current period end is £54m. On a funding basis (also know as a "Technical Provisions basis", being the basis on which the triennial actuarial valuations are carried out), the funding deficit at the current year end is estimated at £150m. The Group currently has an agreement with the pension scheme trustees to make additional deficit contributions to the scheme of £35m per year over and above the normal level of contributions.

Total amounts charged/(credited) in respect of pensions in the period

	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Charged to the income statement		
Defined benefit scheme – total operating charge	12.2	11.2
Defined benefit scheme – net finance charge	4.1	7.3
Defined contribution schemes – total operating charge	2.4	1.0
Total net amount charged to profit before tax	18.7	19.5
Charged to equity		
Defined benefit scheme – net actuarial (gains)/losses, net of deferred tax	(53.7)	39.0
Total pension (credit)/charge	(35.0)	58.5

Key assumptions used in the valuation of the scheme

	52 weeks to 28 December 2013	53 weeks to 29 December 2012
Rate of increase of pensions in deferment capped at lower of CPI and 5%	2.60%	2.25%
Rate of CARE revaluation capped at lower of RPI and 3%	2.60%	2.30%
Rate of increase of pensions in payment:		
– pensions with increases capped at lower of CPI and 5%	2.70%	3.05%
– pensions with increases capped at lower of CPI and 5%, with a 3% minimum	3.65%	3.75%
– pensions with increases capped at the lower of LPI and 2.5%	2.30%	2.15%
Rate of increase in salaries	4.70%	4.15%
Inflation assumption – RPI	3.70%	3.15%
Inflation assumption – CPI	2.70%	2.45%
Expected return on scheme assets (weighted average)	4.93%	4.93%
Discount rate	4.80%	4.45%

The following mortality tables were used:

Mortality before retirement – 2012 and 2013:	Males AM00 Ultimate Females AF00 Ultimate
Mortality in retirement for current and future pensioners – 2012 and 2013:	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 2013 and 2012 is equivalent to the following life expectancies:

	2013		2012	
	Male (yrs)	**Female (yrs)**	**Male (yrs)**	**Female (yrs)**
Non-pensioner (age 45)	89.3	91.7	89.2	91.6
Pensioner (age 65)	88.5	89.5	88.4	89.4

Sensitivities

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 £40m, and a decrease/increase in the current service cost of around 5.7% or £0.7m.

An increase/decrease of 0.25% to the inflation rate would increase/decrease scheme liabilities by around £28m, or 3.2%, and would increase/decrease current service cost by around £0.6m or 4.9%.

The effect of increasing the assumption regarding life expectancy by one year longer than shown above would be to increase the assessed value of liabilities by around 2.1% or £18m, and would increase current service cost by around £0.2m or 1.6%.

Analysis of scheme assets and the expected rates of return

	Expected rate of return		Fair value of scheme assets	
	52 weeks to 28 December 2013	**53 weeks to 29 December 2012**	**28 December 2013**	**29 December 2012**
	%	**%**	**£m**	**£m**
Equities	6.20	6.20	317.3	314.2
Government bonds	2.50	2.50	227.3	175.6
Corporate bonds	4.45	4.45	85.9	91.5
Cash	2.50	2.50	23.3	29.2
Alternative growth assets	6.20	6.20	114.0	78.6
Property	6.20	6.20	35.3	31.3
Weighted average/total	4.93	4.93	803.1	720.4

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.

Notes to the consolidated financial statements continued

Balance sheet

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

	28 December 2013 £m	29 December 2012 £m
Present value of defined benefit obligations	(857.4)	(874.9)
Fair value of scheme assets	803.1	720.4
Deficit in the scheme, recognised in the balance sheet	(54.3)	(154.5)

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

	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Present value at start of period	874.9	777.7
Current service cost	12.2	11.2
Interest on obligation	38.7	39.2
Contributions from scheme members	0.2	0.2
Actuarial (gains)/losses	(47.3)	66.9
Benefits paid	(21.3)	(20.3)
Present value at end of period	857.4	874.9

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

	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Fair value at start of period	720.4	640.8
Expected return on assets	34.6	31.9
Contributions from scheme members	0.2	0.2
Contributions from the Group	46.9	52.9
Actuarial gains	22.3	14.9
Benefits paid	(21.3)	(20.3)
Fair value at end of period	803.1	720.4

Movements in the deficit during the period are as follows:

	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Deficit at start of period	(154.5)	(136.9)
Current service cost	(12.2)	(11.2)
Employer contributions	46.9	52.9
Other finance charge	(4.1)	(7.3)
Actuarial gains/(losses) gross of deferred tax	69.6	(52.0)
Deficit at end of period	(54.3)	(154.5)

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:

	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Current service cost	12.2	11.2
Net cost	12.2	11.2

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

Amount credited to other finance charges:

	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Expected return on pension scheme assets	(34.6)	(31.9)
Expected charge on pension scheme liabilities	38.7	39.2
Net charge	4.1	7.3

The actual return on scheme assets was £56.9m (53 weeks to 29 December 2012: £46.8m).

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:

	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Actuarial gain on scheme assets	22.3	14.9
Actuarial gain/(loss) on scheme liabilities	47.3	(66.9)
Net actuarial gain/(loss)	69.6	(52.0)

Notes to the consolidated financial statements continued

History of scheme deficit and experience adjustments

	28 December 2013 £m	29 December 2012 £m	24 December 2011 £m	25 December 2010 £m	26 December 2009 £m
Present value of defined benefit obligations	(857.4)	(874.9)	(777.7)	(730.6)	(737.6)
Fair value of scheme assets	803.1	720.4	640.8	594.9	541.3
Deficit in the scheme	(54.3)	(154.5)	(136.9)	(135.7)	(196.3)

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

	28 December 2013	29 December 2012	24 December 2011	25 December 2010	26 December 2009	Cumulative since adoption of IFRS
Amount of experience (loss)/ gain on scheme liabilities (£m)	47.3	(66.9)	(12.9)	38.6	(149.1)	(33.1)
Percentage of scheme liabilities (%)	5.5%	7.6%	1.7%	5.3%	20.2%	

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

	28 December 2013	29 December 2012	24 December 2011	25 December 2010	26 December 2009	Cumulative since adoption of IFRS
Amount of experience gain/ (loss) on scheme assets (£m)	22.3	14.9	(18.5)	1.9	62.1	13.8
Percentage of scheme assets (%)	2.1%	2.1%	2.9%	0.3%	11.5%	
Total cumulative actuarial loss since adoption of IFRS – all recognised through the SOCIE (£m)						(19.3)

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 27 December 2014 are £47m.

22 PROVISIONS

	Property £m	Warranty £m	Business closure £m	Total £m
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
Additional provision in the period	1.8	2.8	–	4.6
Provision released in the period	(0.2)	(0.3)	–	(0.5)
Utilisation of provision in the period	(10.4)	(3.0)	(0.8)	(14.2)
At 28 December 2013	9.0	2.9	0.1	12.0

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 year 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 related costs of these properties.

During the current period, the property provision has been increased by £0.1m 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 in 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 or 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.

Warranty provision

The warranty 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 29.

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 remaining outflows from the provision are expected to occur in 2014.

Notes to the consolidated financial statements continued

23 SHARE CAPITAL

Ordinary shares of 10p each	52 weeks to 28 December 2013 Number	53 weeks to 29 December 2012 Number	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Allotted, called up and fully paid				
Balance at the beginning of the period	642,016,063	633,915,329	64.2	63.4
Issued during the period	766,298	8,100,734	0.1	0.8
Balance at the end of the period	642,782,361	642,016,063	64.3	64.2

24 NOTES TO THE CASH FLOW STATEMENT

(a) Net cash flows from operating activities

	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Net cash flow from operating activities comprises:		
Continuing operating activities	87.2	66.5
Discontinued operating activities	–	(1.1)
Discontinued operations – exceptional items	–	(0.5)
	87.2	64.9

(b) Reconciliation of net cash

	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Net cash at start of period	96.4	57.1
Net increase in cash and cash equivalents	43.0	37.3
Decrease in bank borrowings	1.1	2.2
(Increase)/decrease in finance leases	–	(0.2)
Net cash at end of period	140.5	96.4
Represented by:		
Cash and cash equivalents	139.7	96.7
Bank loans	1.0	(0.1)
Finance leases	(0.2)	(0.2)
	140.5	96.4

(c) Analysis of net cash

	Cash and cash equivalents £m	Bank loans £m	Finance leases £m	Net cash £m
At 29 December 2012	96.7	(0.1)	(0.2)	96.4
Cash flow	43.0	1.1	–	44.1
At 28 December 2013	139.7	1.0	(0.2)	140.5

25 FINANCIAL COMMITMENTS

Capital commitments

	28 December 2013 £m	29 December 2012 £m
Contracted for, but not provided for in the accounts	3.6	5.2

Operating lease commitments

The Group as lessee

Payments under operating leases during the period are shown in 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	
	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Payments falling due						
Within one year	46.0	45.0	10.5	11.8	56.5	56.8
In the second to fifth year inclusive	146.0	148.8	12.2	15.6	158.2	164.4
After five years	75.4	87.8	2.4	0.6	77.8	88.4
	267.4	281.6	25.1	28.0	292.5	309.6

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:

	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Payments receivable		
Within one year	0.8	0.8
In the second to fifth year inclusive	2.3	2.5
After five years	0.5	0.6
	3.6	3.9

Finance lease commitments are analysed in note 20.

Notes to the consolidated financial statements continued

26 SHARE-BASED PAYMENTS

1) Details of each scheme

The Group recognised a charge of £8.4m (2012: 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% p.a. or above.
2013 award: 25% of the award will vest if PBT growth at the end of the 2015 financial year is at a rate of 6% p.a., based on the December 2012 accounts. 100% of the award will vest if PBT growth on the same basis is 12% p.a. 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 sub-divided according to their different performance conditions, in order to give more meaningful information. The different sub-divisions 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.
2013 grant: 25% of the award will vest if PBT growth at the end of the 2015 financial year is at a rate of 6% p.a., based on the December 2012 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.

e) Share Award Plan
This is a discretionary plan under which the Group may grant nil cost options subject to conditions as determined by the Group.

2013 award: shares will vest at the end of a five year period commencing on the date of grant, subject to continuing employment.

2) Movements in the period

a) Executive Co-investment Plan: 2011, 2012 & 2013 awards

	52 weeks to 28 December 2013 Number	52 weeks to 28 December 2013 WAEP (£)	53 weeks to 29 December 2012 Number	53 weeks to 29 December 2012 WAEP (£)
In issue at start of period	8,503,782	–	4,121,495	–
Granted in period	2,422,480	–	4,382,287	–
Lapsed in period	–	N/A	–	N/A
Exercised in period	–	N/A	–	N/A
In issue at end of period	10,926,262	–	8,503,782	–
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		N/A		N/A
Weighted average contractual life remaining for share options outstanding at the period end (years)	1.09		1.75	
Weighted average fair value of options granted during the period (£)	2.24		1.22	
Range of exercise prices for options outstanding at the period end (£):				
– from	–		–	
– to	–		–	

Notes to the consolidated financial statements continued

b) Executive Share Options

(i) 40% vesting if EPS growth = RPI + 40% rising to 100% vesting if EPS growth = RPI + 100%

	52 weeks to 28 December 2013 Number	52 weeks to 28 December 2013 WAEP (£)	53 weeks to 29 December 2012 Number	53 weeks to 29 December 2012 WAEP (£)
In issue at beginning of period	683,952	1.07	803,425	1.07
Granted in period	–	N/A	–	N/A
Lapsed in period	–	N/A	–	N/A
Exercised in period	(408,469)	1.07	(119,473)	1.07
In issue at end of period	275,483	1.07	683,952	1.07
Exercisable at end of period	275,483	1.07	683,952	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		2.32		1.37
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	

(ii) Full vesting if EPS increases by RPI + 9%

	52 weeks to 28 December 2013 Number	52 weeks to 28 December 2013 WAEP (£)	53 weeks to 29 December 2012 Number	53 weeks to 29 December 2012 WAEP (£)
In issue at beginning of period	601,693	1.00	751,193	1.00
Granted in period	–	N/A	–	N/A
Lapsed in period	(11,000)	1.00	(25,000)	1.00
Exercised in period	(442,310)	1.00	(124,500)	1.00
In issue at end of period	148,383	1.00	601,693	1.00
Exercisable at end of period	148,383	1.00	601,693	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		2.30		1.44
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		1.00	

(iii) Cumulative PBT of £90m over three financial years ending 2009, 2010 and 2011

	52 weeks to 28 December 2013 Number	52 weeks to 28 December 2013 WAEP (£)	53 weeks to 29 December 2012 Number	53 weeks to 29 December 2012 WAEP (£)
In issue at beginning of period	8,125,944	0.38	9,557,430	0.38
Granted in period	–	N/A	–	N/A
Lapsed in period	–	N/A	–	N/A
Exercised in period	(5,978,715)	0.33	(1,431,486)	0.38
In issue at end of period	2,147,229	0.50	8,125,944	0.38
Exercisable at end of period	2,147,229	0.50	8,125,944	0.38
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		2.31		1.37
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	0.50		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

	52 weeks to 28 December 2013 Number	52 weeks to 28 December 2013 WAEP (£)	53 weeks to 29 December 2012 Number	53 weeks to 29 December 2012 WAEP (£)
In issue at beginning of period	1,831,965	0.42	12,192,032	0.37
Granted in period	–	N/A	–	N/A
Lapsed in period	–	N/A	(70,000)	0.36
Exercised in period	(1,362,702)	0.44	(10,290,067)	0.36
In issue at end of period	469,263	0.36	1,831,965	0.42
Exercisable at end of period	469,263	0.36	1,831,965	0.42
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		2.32		1.25
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	0.36		0.36	
– to	0.36		0.50	

Notes to the consolidated financial statements continued

(ii) 2012 PBT increase by between RPI and RPI + 8%

	52 weeks to 28 December 2013 Number	52 weeks to 28 December 2013 WAEP (£)	53 weeks to 29 December 2012 Number	53 weeks to 29 December 2012 WAEP (£)
In issue at beginning of period	5,792,057	0.81	5,885,738	0.81
Granted in period	–	N/A	–	N/A
Lapsed in period	(11,152)	0.81	(68,215)	0.81
Exercised in period	(3,872,749)	0.81	(25,466)	0.81
In issue at end of period	1,908,156	0.81	5,792,057	0.81
Exercisable at end of period	1,908,156	0.81	–	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		2.36		1.45
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	0.81		0.81	
– to	0.81		0.81	

(iii) Conditional Share Award – subject to continuing employment

	52 weeks to 28 December 2013 Number	52 weeks to 28 December 2013 WAEP (£)	53 weeks to 29 December 2012 Number	53 weeks to 29 December 2012 WAEP (£)
In issue at beginning of period	1,542,800	–	1,041,100	–
Granted in period	617,000	–	631,100	–
Lapsed in period	(142,800)	–	(109,900)	–
Exercised in period	(458,900)	–	(19,500)	–
In issue at end of period	1,558,100	–	1,542,800	–
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		2.38		1.44
Weighted average contractual life remaining for share options outstanding at the period end (years)	1.23		1.33	
Weighted average fair value of options granted during the period (£)	2.14		1.22	
Range of exercise prices for options outstanding at the period end (£):				
– from	–		–	
– to	–		–	

(iv) 2011, 2012, and 2013 grants – PBT to increase by between 6% – 12%

	52 weeks to 28 December 2013 Number	52 weeks to 28 December 2013 WAEP (£)	53 weeks to 29 December 2012 Number	53 weeks to 29 December 2012 WAEP (£)
In issue at beginning of period	1,972,342	1.18	1,099,845	1.09
Granted in period	867,602	2.38	988,334	1.28
Lapsed in period	(97,363)	1.40	(110,900)	1.16
Exercised in period	(14,181)	1.58	(4,937)	1.12
In issue at end of period	2,728,400	1.55	1,972,342	1.18
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		2.81		1.45
Weighted average contractual life remaining for share options outstanding at the period end (years)	1.21		1.73	
Weighted average fair value of options granted during the period (£)	1.00		0.59	
Range of exercise prices for options outstanding at the period end (£):				
– from	1.09		1.09	
– to	2.38		1.28	

d) Share incentive scheme (Freeshares)

	52 weeks to 28 December 2013 Number	52 weeks to 28 December 2013 WAEP (£)	53 weeks to 29 December 2012 Number	53 weeks to 29 December 2012 WAEP (£)
In issue at beginning of period	194,639	–	218,394	–
Granted in period	–	N/A	–	N/A
Lapsed in period	–	N/A	–	N/A
Exercised in period	(42,124)	–	(23,755)	–
In issue at end of period	152,515	–	194,639	–
Exercisable at end of period	152,515	–	194,639	–
Number of options in the closing balance that were granted before 7 November 2002	152,515		194,639	
Weighted average share price for options exercised during the period		2.61		1.34
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	–		–	

Notes to the consolidated financial statements continued

e) Share Award Plan – subject to continuing employment

	52 weeks to 28 December 2013 Number	52 weeks to 28 December 2013 WAEP (£)
In issue at beginning of period	–	N/A
Granted in period	69,009	–
Lapsed in period	–	N/A
Exercised in period	–	N/A
In issue at end of period	69,009	N/A
Exercisable at end of period	–	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		N/A
Weighted average contractual life remaining for share options outstanding at the period end (years)	4.25	
Weighted average fair value of options granted during the period (£)	1.00	
Range of exercise prices for options outstanding at the period end (£):		
– from	1.00	
– to	1.00	

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:

	52 weeks to 28 December 2013	53 weeks to 29 December 2012
Dividend yield (%)	2.5	1.5
Expected share price volatility (%)	52	54
Historical volatility (%)	52	54
Risk-free interest rate (%)	1.1	3.0
Expected life of options (years)	4.40	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.

27 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 21.

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 any related employer's National Insurance.

	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Short-term employment benefits	6.7	7.1
Share-based payments	21.1	9.7
	27.8	16.8

Other transactions with key management personnel

There were no other transactions with key management personnel.

28 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 20 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 23).

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, taking on or issuing new debt or repaying any 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 £10m of additional secured borrowings, and (iii) allows up to £20m of finance lease borrowing. During the previous period the maturity of the facility was extended from May 2014 to July 2016. As part of that extension the facility will reduce from £160m to £140m with effect from May 2014. The Group's overall strategy remains unchanged from 2012.

Notes to the consolidated financial statements continued

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

	28 December 2013 £m	29 December 2012 £m
Financial assets (current and non-current)		
Trade receivables	96.3	71.2
Cash and cash equivalents	139.7	96.7
Financial liabilities (current and non-current)		
Trade payables	70.4	60.4
Borrowings	(0.8)	0.3

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 (sub-categorised 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 18.

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 18. 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:

	28 December 2013 £m	29 December 2012 £m
Trade receivables (net of allowance)	96.3	71.2
Cash and cash equivalents	139.7	96.7
Total credit risk exposure	236.0	167.9

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 20 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.

Notes to the consolidated financial statements continued

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			
At 28 December 2013	Capital £m	Floating interest £m	Fixed interest £m	Capital £m	Floating interest £m	Fixed interest £m	Total £m
Trade payables	70.4	–	–	–	–	–	70.4
Finance leases	0.1	–	–	0.1	–	–	0.2
Bank loan	0.4	–	–	–	–	–	0.4
	70.9	–	–	0.1	–	–	71.0

	Within 1 year			2–3 years			
At 29 December 2012	Capital £m	Floating interest £m	Fixed interest £m	Capital £m	Floating interest £m	Fixed interest £m	Total
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

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:

	28 December 2013 £m	29 December 2012 £m
Euro		
Trade receivables	1.7	1.5
Cash and cash equivalents	5.5	2.8
Trade payables	(16.4)	(12.6)
	(9.2)	(8.3)
US Dollar		
Cash and cash equivalents	3.9	4.0
Trade payables	(3.8)	(1.8)
	0.1	2.2
Hong Kong Dollar		
Cash and cash equivalents	0.3	0.1
	0.3	0.1
Japanese Yen		
Trade payables	–	(0.1)
	–	(0.1)
Total	(8.8)	(6.1)

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.

Notes to the consolidated financial statements continued

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 year 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 year end date was outstanding for the whole year. 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 (2012: remain the same).

For a decrease of 50 basis points, the current year figures would remain the same (2012: 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, and the US Dollar. 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 end of the financial period, and based on the outstanding foreign currency balances at the period end.

	28 December 2013 £m	29 December 2012 £m
10% weakening of Sterling to Euro	(1.0)	(0.9)
10% strengthening of Sterling to Euro	0.8	0.7
10% weakening of Sterling to US dollar	–	0.2
10% strengthening of Sterling to US dollar	–	(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, or the Japanese Yen was less than £0.1m at both the current and prior period ends.

29 DISCONTINUED OPERATIONS

Discontinued operations in 2013 were immaterial and have therefore been included within continuing operations.

In 2012, there was a loss before tax from discontinued operations of £4.4m, arising from the closure of two non-core support businesses, comprising of both discontinued operations and discontinued exceptional items. These items are summarised below. Additional detail is given at note 6 to the Group's 2012 Annual Report and Accounts.

Cash flows from discontinued operations are shown at note 24.

	53 weeks to 29 December 2012 £m
a) Discontinued operating loss	
Relating to the closure of Howden Joinery Supply Division (Asia) Ltd	
Expenses	(1.1)
Pre-tax loss of discontinued operations	(1.1)
Tax thereon	0.3
Post-tax loss of discontinued operations	(0.8)
b) Discontinued exceptional items	
Relating to the closure of Howden Joinery Supply Division (Asia) Ltd	
Pre-tax loss on closure of operation	(3.5)
Tax thereon	0.4
Post-tax loss for the period on closure of discontinued operation	(3.1)
Relating to the closure of Southon Insurance Company Ltd	
Pre-tax profit on closure of discontinued operations	0.4
Tax thereon	(0.1)
Post-tax profit for the period on closure of discontinued operation	0.3
Accrual for potential interest	
Accrual for potential interest – both pre and post-tax	(0.2)
Discontinued exceptional items sub-total	
Pre-tax discontinued exceptional items	(3.3)
Tax thereon	0.3
Post-tax discontinued exceptional items	(3.0)
c) Total discontinued operations	
Total pre-tax loss for the period from discontinued operations	(4.4)
Total tax on discontinued operations	0.6
Post-tax loss for the period from discontinued operations	(3.8)

Company balance sheet

	Notes	28 December 2013 £m	29 December 2012 £m
Non-current assets			
Investments	3	699.0	699.0
Deferred tax	4	0.2	0.2
Bank borrowings net of prepaid fees	7	0.9	1.0
		700.1	700.2
Current assets			
Bank borrowings net of prepaid fees	7	0.1	–
Debtors	5	16.1	14.2
Cash at bank and in hand		126.1	85.6
		142.3	99.8
Current liabilities			
Creditors: amounts falling due within one year	6	(544.8)	(574.9)
Net current liabilities		(402.5)	(475.1)
Total assets less current liabilities		297.6	225.1
Non-current liabilities			
Provisions	8	(2.5)	(8.9)
Net assets		295.1	216.2
Equity			
Called up share capital	9	64.3	64.2
Share premium account	10	87.5	87.2
Retained earnings reserve	10	143.3	64.8
Total equity		295.1	216.2

These financial statements were approved by the Board on 26 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 52 weeks to 28 December 2013. The comparative period covered the 53 weeks to 29 December 2012.

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 Statement of the directors in connection with this Annual Report and Accounts on page 76.

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 52 weeks to 28 December 2013 was a profit of £101.8m (53 weeks to 29 December 2012: loss after tax for the period of £34.2m).

The Company has no employees (2012: none), did not pay directors' emoluments (2012: £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.

Notes to the Company balance sheet continued

3 INVESTMENTS

Cost and carrying value	Shares in subsidiary undertakings £m	Long-term loans to subsidiary undertakings £m	Total £m
At 29 December 2012 and 28 December 2013	262.1	436.9	699.0

Details of principal subsidiary undertakings are given on page 133.

4 DEFERRED TAX

The deferred tax all relates to short-term timing differences.

5 DEBTORS

	28 December 2013 £m	29 December 2012 £m
Other debtors	0.7	2.3
Corporation tax	15.1	11.3
Other tax and social security	0.3	0.6
	16.1	14.2

6 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	28 December 2013 £m	29 December 2012 £m
Current portion of long-term bank loan	–	1.1
Owed to subsidiaries	543.6	572.8
Accruals and deferred income	1.2	1.0
	544.8	574.9

7 ANALYSIS OF BORROWINGS

Analysis of total borrowings

	28 December 2013 £m	29 December 2012 £m
The borrowings are repayable as follows:		
Disclosed under current assets		
On demand or within one year	0.4	–
Less prepaid issue fees set against borrowings	(0.5)	–
	(0.1)	–
Disclosed under current liabilities		
On demand or within one year	–	1.7
Less prepaid issue fees set against borrowings	–	(0.6)
On demand or within one year	–	1.1
Disclosed under non-current assets		
In the second year	–	0.4
Less prepaid issue fees set against borrowings	(0.9)	(1.4)
	(0.9)	(1.0)
Total borrowings	(1.0)	0.1

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. The Group's current facility expires in July 2016. At the current and prior period ends, 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. At the current period end, the amount of fees relating to the period less than one year from the balance sheet date was also greater than the corresponding amount drawn down, creating a further net debit balance.

All borrowings are in sterling.

The weighted average interest rates paid on the borrowings were as follows:

52 weeks to 28 December 2013 %	53 weeks to 29 December 2012 %
2.5	2.9

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

28 December 2013 £m	29 December 2012 £m
(1.0)	0.1

Notes to the Company balance sheet continued

8 PROVISIONS

	Property provision £m	Total £m
At 29 December 2012	8.9	8.9
Additional provision in the period	1.7	1.7
Utilisation of provision in the period	(8.1)	(8.1)
At 28 December 2013	2.5	2.5

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 year 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 £0.1m 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 or 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

Ordinary shares of 10p each	52 weeks to 28 December 2013 Number	53 weeks to 29 December 2012 Number	52 weeks to 28 December 2013 £m	53 weeks to 29 December 2012 £m
Allotted, called up and fully paid				
Balance at the beginning of the period	642,016,063	633,915,329	64.2	63.4
Issued during the period	766,298	8,100,734	0.1	0.8
Balance at the end of the period	642,782,361	642,016,063	64.3	64.2

10 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	Called up share capital £m	Share premium account £m	Retained earnings £m	Total £m
At 29 December 2012	64.2	87.2	64.8	216.2
Retained profit for the period	–	–	101.8	101.8
Dividend paid	–	–	(23.3)	(23.3)
Shares issued	0.1	0.3	–	0.4
At 28 December 2013	64.3	87.5	143.3	295.1

Independent auditor's report to the members of Howden Joinery Group Plc

Opinion on financial statements of Howden Joinery Group Plc	In our opinion: • the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 28 December 2013 and of the Group's profit for the 52 weeks then ended; • the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; • the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and • the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes 1 to 29. This also comprises the parent company Balance Sheet and related notes 1 to 10. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).
Going concern	As required by the Listing Rules we have reviewed the directors' statement on page 76 that the Group is a going concern. We confirm that: • we have not identified material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern which we believe would need to be disclosed in accordance with IFRSs as adopted by the European Union; and • we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independent auditor's report to the members of Howden Joinery Group Plc

continued

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
The recoverability of trade debtors and appropriateness of the bad debt provision	*We have challenged Management's assumptions in calculating the bad debt provision, including reviewing the ageing of receivables in comparison to previous years, reviewing the level of bad debt write offs in the current year and against the prior year, checking the recoverability of outstanding debtors through examination of subsequent cash receipts, testing the integrity of ageing and testing the operating effectiveness of the relevant credit control procedures Management has in place.*
The valuation of the inventory including the appropriateness of the judgements applied within the obsolescence provision	*We tested the existence of stocks through observation of annual and perpetual stock counts including completion of our own sample of counts. We have tested that the book value of stocks does not exceed their net realisable value by comparing the actual sales value to the book value for a sample of lines. We have challenged the assumptions used in arriving at management's inventory provision. Specifically we have checked the discontinued dates of those relevant stock lines to ensure they have been aged correctly. We have also reviewed the actual and forecast sales of those provisioned stock lines to check that the provision percentage applied is still appropriate.*
The review of actuarial valuations used in respect of the defined benefit scheme prepared for compliance with the relevant accounting and disclosure requirements and the assessment of the appropriateness of the assumptions used	*We have assessed the appropriateness of the assumptions underlying the valuation of the pension deficit by reviewing the actuarial report and challenging each of the assumptions by comparison to available market data. We have confirmed the year end pension asset values to third party confirmations and checked the integrity of those confirmations by agreeing a sample back to independent data.*
The provision for vacant properties	*We have challenged Management's assumptions in arriving at the provision for vacant properties. We have checked and verified the inputs used to calculate the provision and reviewed the discussions held with the Group's independent property advisers to ensure these expert's views have been reflected within the provision calculations.*

The Audit Committee's consideration of these risks is set out on page 68.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined planning materiality for the Group to be £6 million, which is approximately 5% of profit before tax.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £120,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit	Our Group audit scope focused on the UK and French trading entities and each of the Head Office companies. All of these entities were subject to a full scope audit and this gave us coverage of 100% of the Group's revenues and 100% of the Group's profit before tax for the 52 weeks ended 28 December 2013. Audits of all locations are performed at a materiality level calculated by reference to a proportion of Group materiality appropriate to the relative scale of the business concerned.
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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
Matters on which we are required to report by exception	
Adequacy of explanations received and accounting records	Under the Companies Act 2006 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or • the parent company financial statements are not in agreement with the accounting records and returns. We have nothing to report in respect of these matters.
Directors' remuneration	Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.
Corporate Governance Statement	Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.
Our duty to read other information in the Annual Report	Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Independent auditor's report to the members of Howden Joinery Group Plc

continued

Respective responsibilities of directors and auditor	As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the 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. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews. 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.
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 and 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Edward Hanson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London
United Kingdom

26 February 2014

Parent company and principal subsidiary undertakings at 28 December 2013

	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 Menuiseries 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
In liquidation	
*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 2013 52 weeks £m	Dec 2012 53 weeks £m	Dec 2011 52 weeks £m	Dec 2010 52 weeks £m	Dec 2009 52 weeks £m
Summarised income statement					
Revenue – continuing operations	956.5	887.1	853.8	807.9	769.5
Operating profit – continuing operations	138.0	119.8	115.3	107.4	79.4
Loss from discontinued operations	–	(4.4)	(9.3)	–	(4.4)
	138.0	115.4	106.0	107.4	75.0
Profit on continuing ordinary activities before tax	133.9	112.1	111.0	100.9	68.7
Dividend per share (pence)	4.5	3.0	0.5	–	–
Basic EPS – continuing operations (pence)	15.7	14.0	13.5	11.1	8.3
Summarised balance sheet					
Total non-current assets	123.3	140.4	132.3	140.2	163.0
Inventories	123.4	115.9	118.5	105.5	86.3
Receivables	122.4	96.0	95.3	95.0	95.4
Payables and provisions	(192.6)	(180.4)	(196.1)	(216.9)	(224.5)
Pension liability	(54.3)	(154.5)	(136.9)	(135.7)	(196.3)
	(1.1)	(123.0)	(119.2)	(152.1)	(239.1)
Net cash	139.5	95.4	57.1	35.0	2.4
Total net assets/(liabilities)	261.7	112.8	70.2	23.1	(73.7)

Number of outlets at end of year					
Howden Joinery	559	529	509	489	462
Houdan France	11	11	10	10	10
Capital expenditure	25	24	20	18	8

Shareholder ranges as at 28 December 2013

	Number of holders	Percentage of holders	Number of shares	Percentage of shares
Corporate holders				
0 to 1,000	126	1.4	59,764	–
1,001 to 5,000	235	2.5	598,194	0.1
5,001 to 10,000	71	0.8	531,963	0.1
10,001 to 50,000	116	1.3	3,106,924	0.5
50,001 to 100,000	61	0.7	4,493,407	0.7
100,001 to 250,000	79	0.9	12,902,656	2.0
250,001 to max	225	2.4	603,125,436	93.8
	913	10.0	624,818,344	97.2
Individual holders				
0 to 1,000	6,467	70.5	2,613,878	0.4
1,001 to 5,000	1,483	16.2	3,555,797	0.6
5,001 to 10,000	183	2.0	1,347,875	0.2
10,001 to 50,000	100	1.1	1,989,499	0.3
50,001 to 100,000	9	0.1	600,366	0.1
100,001 to 250,000	4	–	807,358	0.1
250,001 to max	10	0.1	7,049,244	1.1
	8,256	90.0	17,964,017	2.8
Total	9,169	100.0	642,782,361	100.0

Advisers and committees

PRINCIPAL BANKER

Lloyds TSB plc
10 Gresham Street
London
EC2V 7AE

JOINT FINANCIAL ADVISERS AND STOCKBROKERS

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AUDITOR

Deloitte LLP
2 New St Square
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EC4A 3BZ

REGISTRAR

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BS13 8AE

REGISTERED OFFICE

40 Portman Square
London
W1H 6LT

REMUNERATION COMMITTEE

Michael Wemms (Chairman)
Mark Allen
Tiffany Hall
Richard Pennycook

NOMINATIONS COMMITTEE

Will Samuel (Chairman)
Mark Allen
Tiffany Hall
Richard Pennycook
Michael Wemms

AUDIT COMMITTEE

Richard Pennycook (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

Corporate timetable

2014	
Interim Management Statement	1 May
Half Yearly Report	24 July
Interim Management Statement	13 November
End of financial year	27 December

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Worthwhile for all concerned