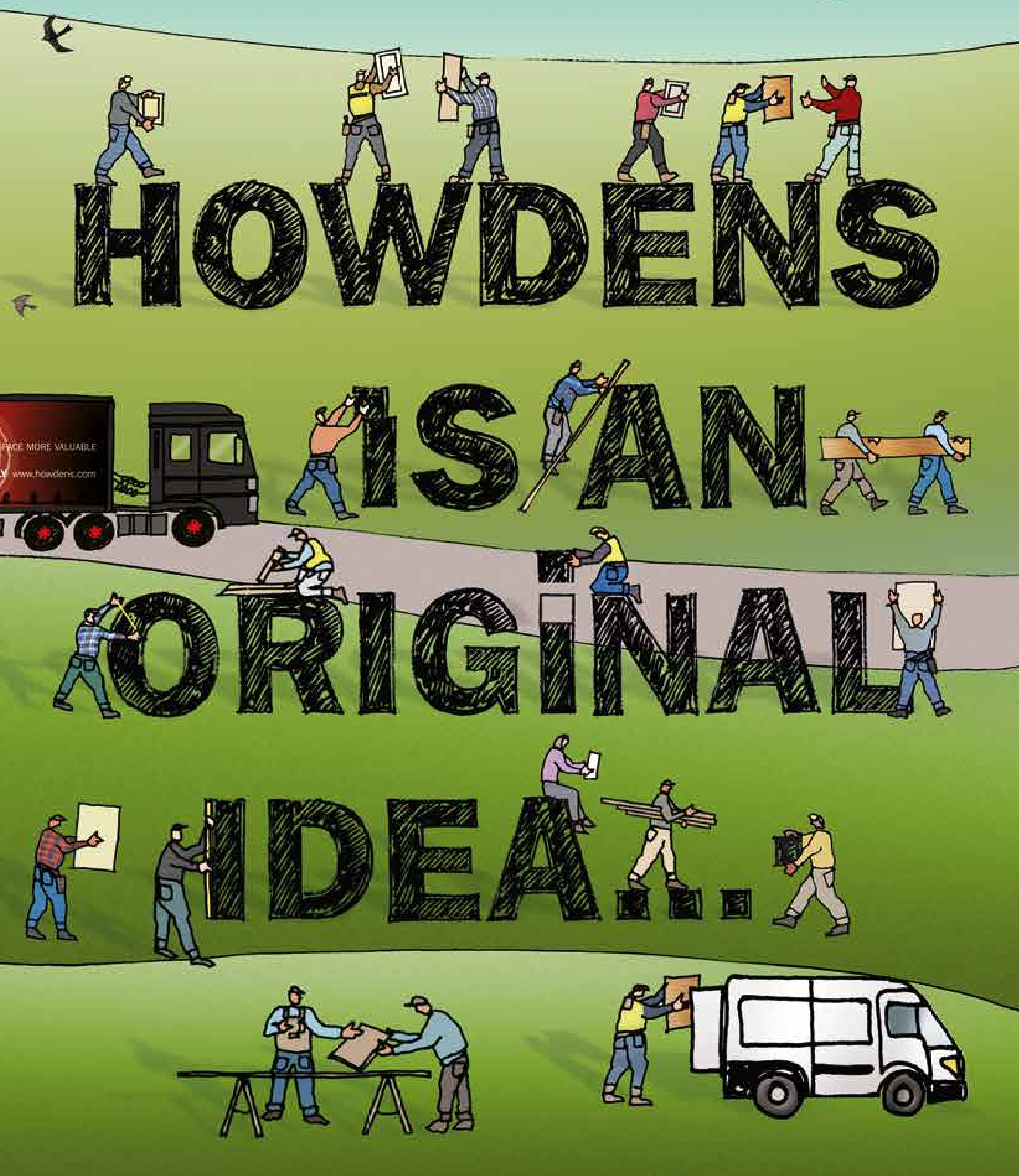
Howden Joinery Group Plc

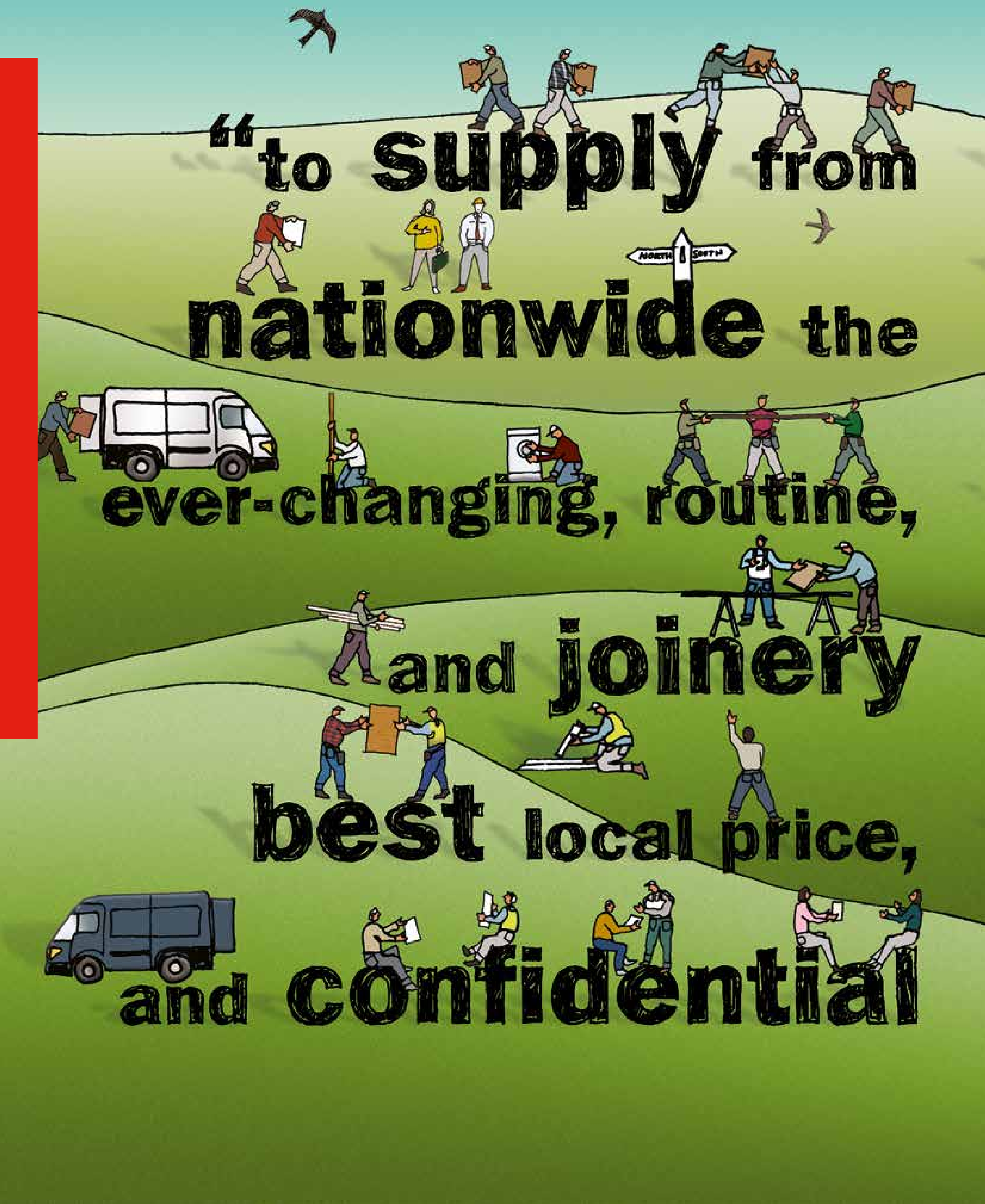
HOWDENS
JOINERY CO.
MAKING SPACE MORE VALUABLE

# Annual Report and Accounts 2015

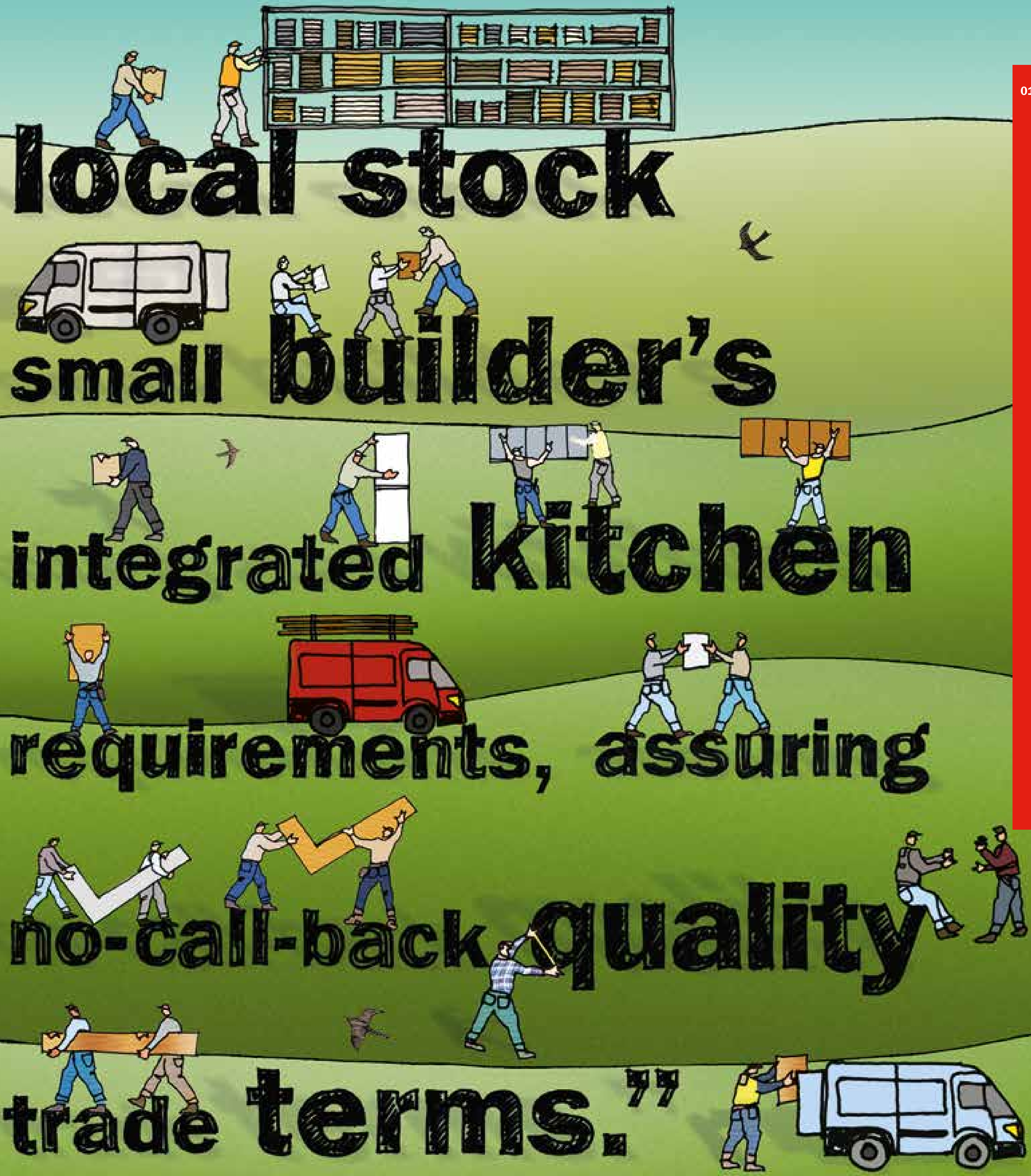


HOWDENS JOINERY CO.

## ...that has remained unchanged in good times



## and bad since we started the business in 1995:



# The strategic report, directors' report and governance statements



## The financial statements



**REVENUE (UK)**
**£1,203.8m**
(2014: £1,075.5m)

**OPERATING PROFIT**
**£221.9m**
(2014: £189.8m)

**GROSS MARGIN**
**64.3%**
(2014: 63.7%)

**YEAR END CASH**
**£226.1m**
(2014: £217.7m)

**EARNINGS PER SHARE**
**27.3p PER SHARE**
(2014: 24.6p)

**FULL YEAR DIVIDEND**
**9.9p PER SHARE**
(2014: 8.4p)

HOWDENS JOINERY CO.

# Chairman's statement



## CONTINUING STRONG PERFORMANCE

Over the last two decades Howdens has evolved and grown to become the leading supplier of kitchens in the UK, focused on providing good service to small builders and value to all concerned. By following the precepts of a sound business model the company has survived and thrived in widely varying market conditions and created an excellent platform for further growth.

I am pleased to report that your company had another very good year. Following an outstanding performance in 2014, we reported a sales increase of 12%, together with a further increase in gross margin to 64.3% and continuing strong cash generation.

Our goal as a Board has always been to make the right decisions based on the long-term opportunities for the business. We are clear that, in order to fulfil its considerable potential, Howdens must continue to invest in both capacity and capability through the economic cycle. A programme of ongoing investment is under way across the Group, including in manufacturing, warehousing, distribution, depot operations and organisational development. While the phasing of this programme will take into account prevailing economic conditions, we view it as an essential strategic undertaking that will support sustained growth and value creation in the years ahead.

In light of our performance and of our confidence in the prospects of the business, the Board is recommending a final dividend of 7.1p, bringing the dividend for the year to 9.9p (2014: 8.4p). This is in line with our stated dividend policy, which is set out in detail in the Review of Operations and Finance on page 13.

In addition, we have decided to return a further £55m of cash to shareholders by way of a share repurchase programme to be implemented over the course of the next two years. This is in addition to the £70m share repurchase programme announced in February 2015, which has already returned £45m to shareholders.

## THE IMPORTANCE OF HOWDENS' CULTURE

The principal reason for Howdens' continuing success is its unwavering adherence to its fundamental values of integrity, fairness and respect for others. The business has a strong and distinctive culture – local, personal and entrepreneurial – that allows the individual to flourish and encourages exceptional performance. This culture of service and opportunity has stood Howdens in good stead and will continue to do so as the business grows.

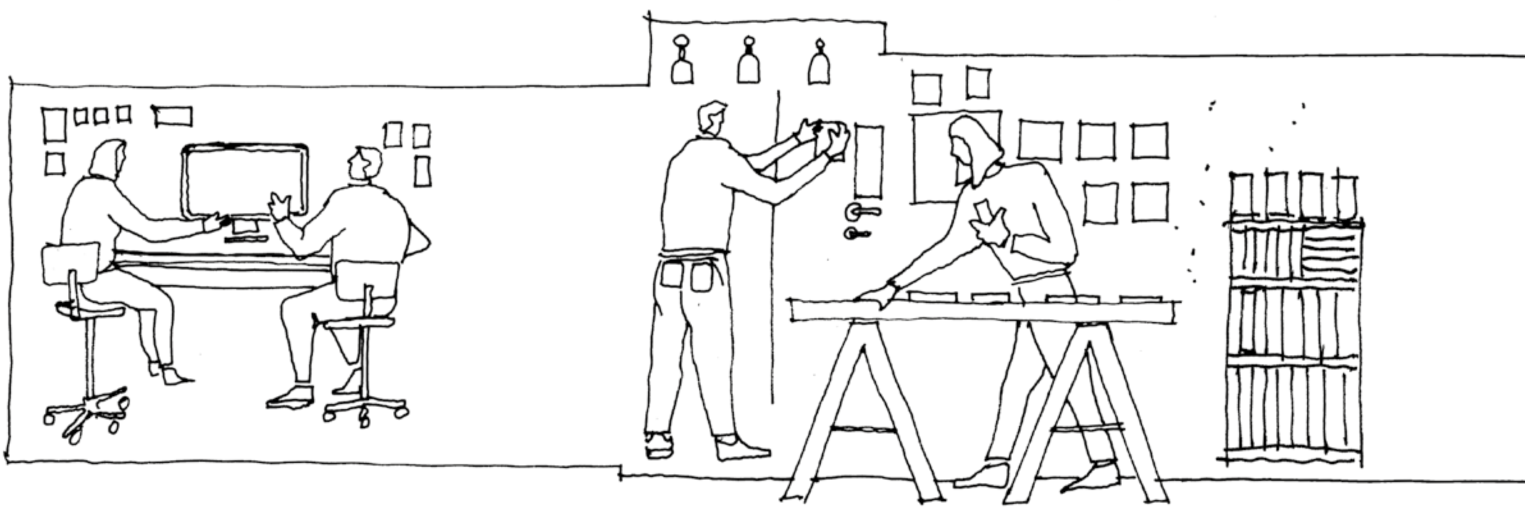
Howdens' character and culture, which set the business apart from its competitors, have been ably nurtured by a strong executive management team under the leadership of Matthew Ingle. Their stewardship of Matthew's original vision and their collective commitment to the continuing evolution of the business mean that Howdens is well placed to go forward with confidence.

## BOARD CHANGES

After nearly ten years as Chairman of Howdens I will be retiring from the Board in May 2016. It has been a great privilege to chair the Board of this unique business and to be involved in its remarkable story.

In Richard Pennycook the Board has chosen an extremely able and experienced Chairman as my successor. Richard already knows Howdens and its culture, and shares both the commercial acuity and the values that underpin its past, present and future performance. I wish him every success in his new role.

In July 2015 we were pleased to welcome Geoff Drabble to the Board as a Non-Executive Director. Geoff is Chief Executive Officer of the international equipment rental company Ashtead



Group plc, and his experience of a business where local, timely, personal service is of prime importance brings a directly relevant perspective to the Board.

In December 2015 we were also pleased to appoint Andrew Cripps as a Non-Executive Director. Andrew is a Non-Executive Director of Booker plc, and Chairman of its Audit Committee. His extensive Board experience, and audit committee expertise in particular, will make a strong contribution to Howdens as it grows in reach and scale. Andrew will take over as Chairman of the Audit Committee from Richard Pennycook at the Annual General Meeting in May 2016.

Michael Wemms, who has given over nine years of unstinting service to the Board, has overseen the process of the appointment of a new Chairman. Given the extent of changes to the Board, and in the interests of continuity, he has agreed to serve as a Non-Executive Director for one more year. We will endeavour to use the opportunity of Michael's retirement from the Board to increase the diversity of our membership and further enhance the mix and balance of background, skills and experience that are represented.

## GOVERNANCE

We aim to uphold high standards of governance in a constantly changing environment where perceptions, as well as regulations, continue to evolve. Our Corporate Governance Report on page 41 sets out our procedures and reports on our compliance record throughout the year.

## PEOPLE AND RESPONSIBILITY

Howdens' people embody the idea of local service, both for our customers and for the wider community. They have maintained this ethos under pressure and in the context of a rapidly growing business that makes more demands on individuals, and confers more responsibility on them, than ever before. On behalf of you all I would like to thank them for their outstanding efforts on all fronts in 2015.

The generosity of spirit they display beyond the workplace makes a tremendous difference to the lives of many people. In 2015 our employees across the business were responsible for over 3,600 donations, in cash and in kind, amounting to a value of £1.9 million. The full extent of our involvement in local communities is detailed in the Corporate Social Responsibility Report, beginning on page 23.

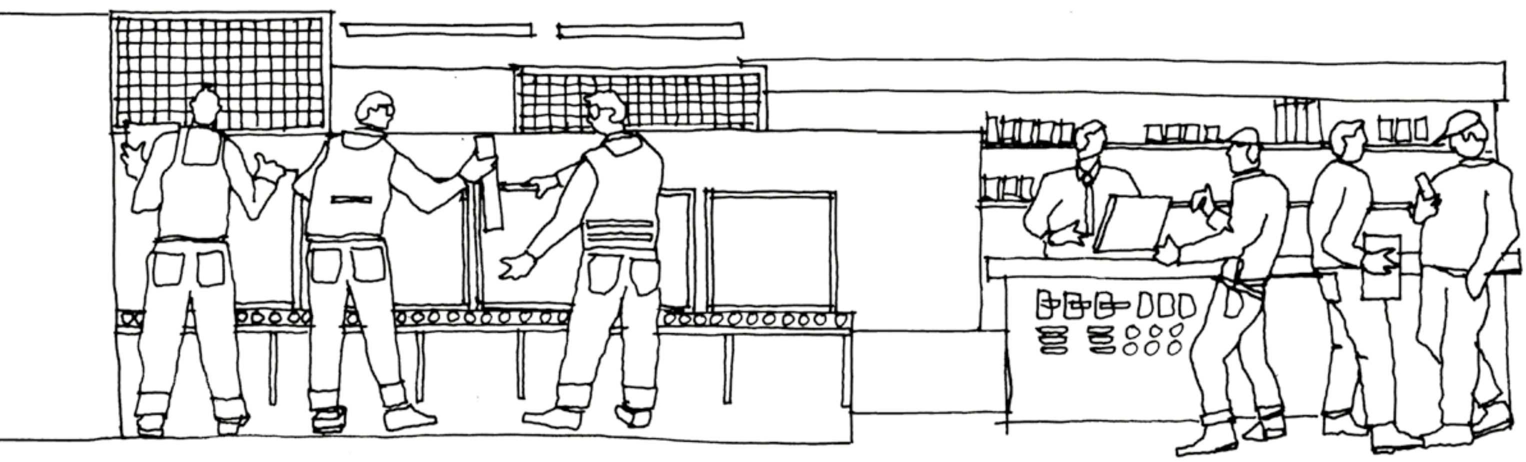
In the same Report we describe what we have done and are doing to fulfil our responsibilities as corporate citizens in the broadest sense. Howdens aims to promote safety, energy-efficiency and environmental awareness, and recognises the importance of training, development and opportunities for young people, because all of these things directly reflect our own values.

## LOOKING AHEAD

Howdens is facing the future from a position of stability and strength. It has a capable and experienced management team who are implementing a proven strategy that will deliver further growth. We remain watchful, given the increased uncertainty surrounding the economic outlook. The path Howdens is following is one which allows both continuity and change. The business has the resources, the culture, the skills and the strategic flexibility to allow it to take advantage of the many opportunities that lie ahead.

**Will Samuel**
**Chairman**

24 February 2016



# Chief Executive's statement



## OUR MODEL

### Wanting everyone to do well

Howdens is a highly successful business, with 623 local depots, over 360,000 active customer accounts and over 8,000 employees who are looking forward to a future of opportunities for themselves and their families as well as for the business.

Looking back, it may appear that Howdens was always destined to get to this point and beyond. But in 1995, when the business started, nothing was predetermined. Howdens' success did not happen by accident, and it was neither obvious nor easy.

The growth and development of Howdens have been driven by its model, culture and values, which remain as relevant as they have always been. The central idea of the business is that it should be worthwhile for all concerned. Putting this into practice – wanting others to do well, not just ourselves – is what sets Howdens apart, and what will guarantee its future.

### Wholly focused on the small builder

Howdens is the leading supplier of kitchens to small builders across the country. From the outset, our business model was designed around their needs.

### Builders have busy lives

Local builders are entrepreneurs running small businesses. They need to remain profitable while juggling several jobs at once. Their plans change from week to week and from day to day, depending on whether their customers change their minds, whether something unexpected has been discovered behind a partition wall, whether everything required for the job has been delivered as promised, whether anyone is off sick, and of course whether frost or rain mean they have to reschedule the work they had originally planned to do.

### We're always ready

Howdens is a trade-only business, offering nearly 60 kitchen ranges from local stock, together with accessories, appliances, sinks and taps, worktops, flooring, lighting and hardware, and a range of joinery including internal and external doors, skirting and stair parts. Howdens is always in stock locally, and everything can be picked up from our local depot – there's no waiting for items to be ordered, or replaced, or swapped, or brought back.

### We help builders make money

Howdens' in-stock model allows the small builder to plan and sell a kitchen and fit it when he wants to do so. Our skilled planners help the builder to secure the job in the first place. An expert, accurate plan ensures that everything will look good and fit, saving the builder time and supporting his margin.

When a builder comes into our depot for the first time, we open a nett monthly account for him, which gives him the ability to manage his cash flow. The builder can complete the job and get paid long before he has to pay Howdens.

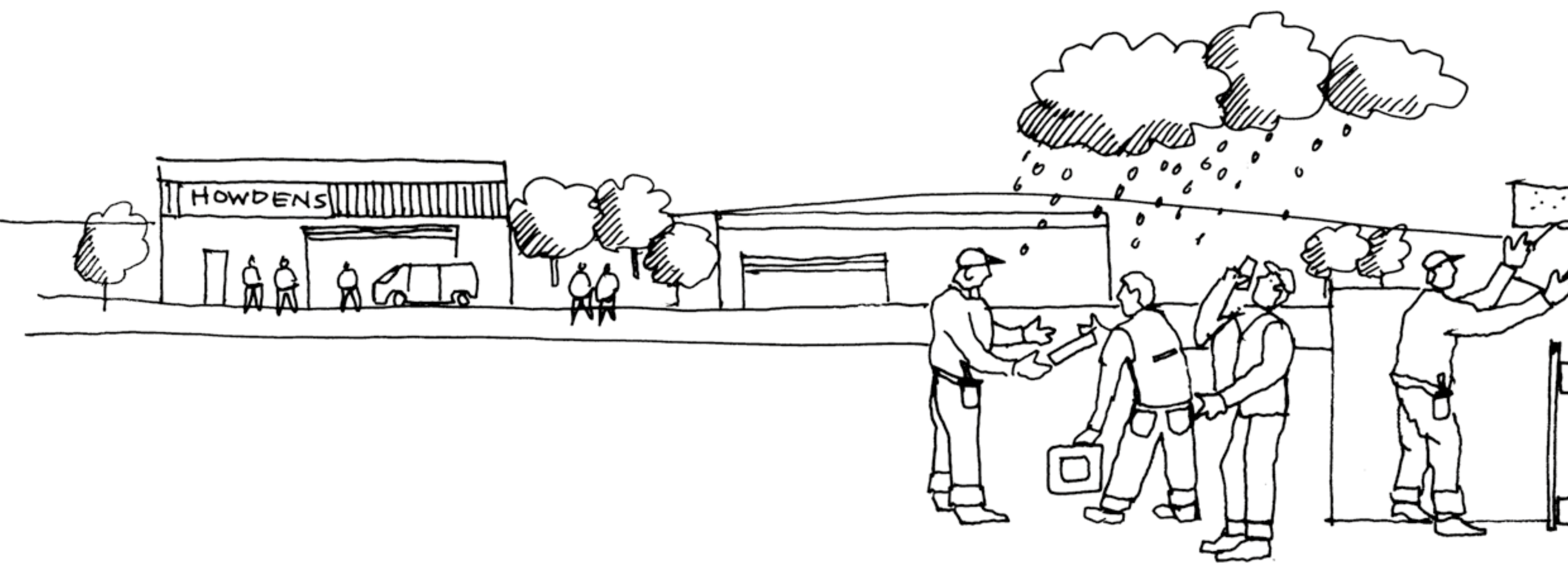
The local depot manager is authorised to give the builder a personal, confidential discount, which gives him the freedom to manage his own margin.

### Many skills

The builder is a project manager, in charge of assembling and coordinating many skills in order to achieve a satisfactory kitchen installation. These include joinery, tiling, plastering, painting, glazing, electrical work, plumbing and heating as well as other more specialist skills.

### Saving time and money

Howdens sells pre-assembled cabinets, increasingly with pre-fitted elements, which saves the builder hours, if not



days, on site. Our cabinets are designed to be robust and easy to install. They are manufactured to high standards of consistency and they do not break. This is what we call no-call-back quality – and it saves the builder even more time.

Howdens buys raw material and product in volume, and manufactures efficiently, so we can offer our customers quality at an affordable price. For example, we sell granite from stock, cutting out unnecessary costs as well as long lead times.

## Trusted managers

Builders know us personally, not as a corporation but as individual managers in their local area who understand the way they work and can provide practical help. Builders buy from Howdens because our managers are authorised to discount prices, swap items, take decisions and give advice.

## Running their own depots

Managers hire their own staff locally and develop relationships with local builders. They do their own marketing to existing and potential customers. They adjust their pricing to suit local conditions.

Managers manage their own stock. They work out where to put everything they can sell – old favourites and new introductions. Every day, they balance the needs of builders, end-users, staff and everyone in their local area who has an interest in the success of their depot.

## Shared goals

Managers are in charge of their own margin, and effectively of their own business. Both managers and staff are strongly incentivised on a share of their local profit less any stock loss, which results in a common aim to improve service, and consequently profit, with virtually no stock loss.

"Do what you say" is a principle that extends right across the business. Builders depend on it – and so do our factories and our suppliers.

## Being important to our suppliers

A shared understanding of what is expected ensures the smooth operation of our flexible, reactive supply chain and the support functions on which the depots depend. In our peak autumn trading period in 2015, our supply division made 9,800 deliveries to our depots, and of the 7 million items received only 160 were incorrect, which equates to a success rate of 99.998%. It is very hard to achieve service of that order without shared values and personal relationships at every level, both within the business and with our 200 UK and international suppliers of bought-in product and raw materials.

## Efficient manufacturing

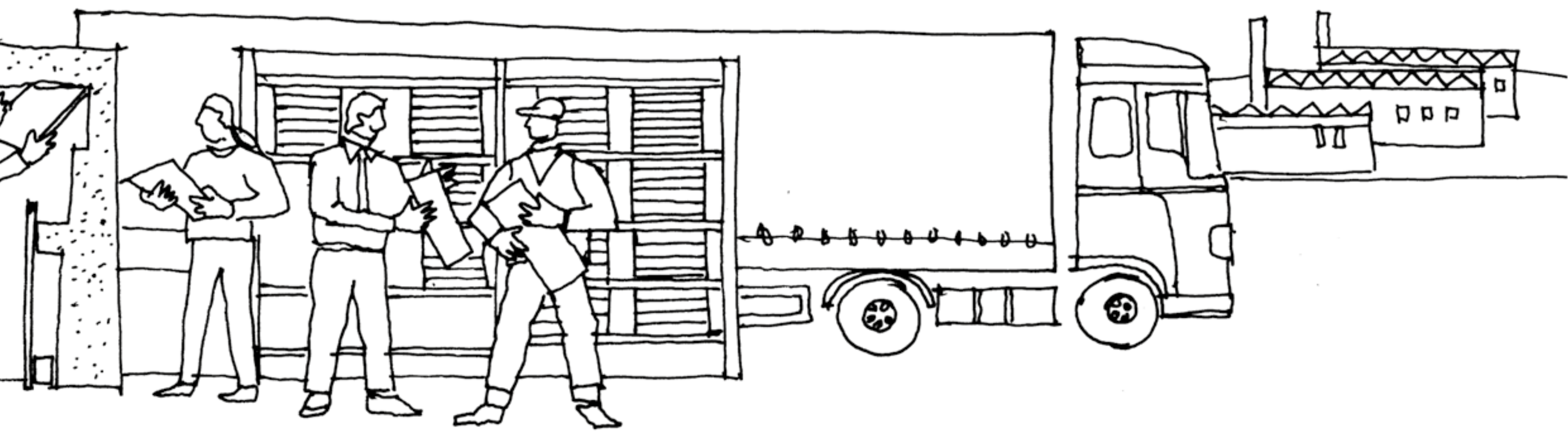
Our two factories in Yorkshire and Cheshire are configured to the precise requirements of our model.

They serve only one customer – Howdens – and do not supply anyone else. Everything in the factories is arranged to suit our requirements and we use only the space we need. The machinery is bespoke to Howdens. The staff know our specifications. There are no special orders. Working practices are agreed on the basis of known quantities, phasing and predictability. There is no unnecessary waste anywhere, whether of time, space, or product.

## Lowest cost of supply

We have our own warehouses and distribution operations, and our trucks deliver our product only to Howdens depots. We manage our fleet efficiently so that wherever possible trucks do not return to base empty.

This allows us to keep Howdens' depots replenished with the right stock at the lowest cost. We are committed to maintaining and increasing our investment in supply to support significant further growth.



# Chief Executive's statement continued



## Scalable systems

We have also invested in robust, stable, scalable systems capable of supporting our current and future requirements. These systems include manufacturing, warehouse management, transport monitoring, depot stock and sales reporting, payment processing and management information as well as industry-leading design tools for kitchen planning. During our peak trading period in October 2015, we processed nearly £146,000 in one minute, and we have plenty of capacity to trade at an even faster pace.

## Low-cost depots

At depot level, Howdens has none of the costs usually associated with kitchen retailers such as expensive showrooms, installation services and national advertising campaigns. A typical Howdens depot occupies around 10,000 square feet, costs approximately £250,000 to fit out and breaks even once it has achieved sales of £650,000.

## Builders pay promptly for Howdens' service

Howdens extends a significant amount of working capital to our trade account holders on a continuous basis. Last year this amounted to nearly £2.5bn. At the same time, we have a highly efficient collection operation and the total cost of credit control, including bad debts, decreased to less than 1% of Group revenue. In other words, builders are prepared to pay, and pay promptly, for the Howdens proposition.

## An integrated model

The Howdens model works because we implement it as a whole, not piecemeal.

For example, we could not satisfy the builder's day-to-day needs without giving our depot managers the autonomy to make decisions on the spot.

Nor could we collect prompt payment without keeping every item required by the builder in stock and making sure it is, as our mission statement promises, of no-call-back quality.

## OUR MARKET

## Life is in the kitchen

Every home has a kitchen, and the kitchen is fundamental to the home. Our daily lives are played out in the kitchen. We celebrate, commiserate, plan, argue, agree, make lists, mend things, cook, eat, clean, work, shop, watch television and feed the dog in the kitchen.

## The pace of change is accelerating

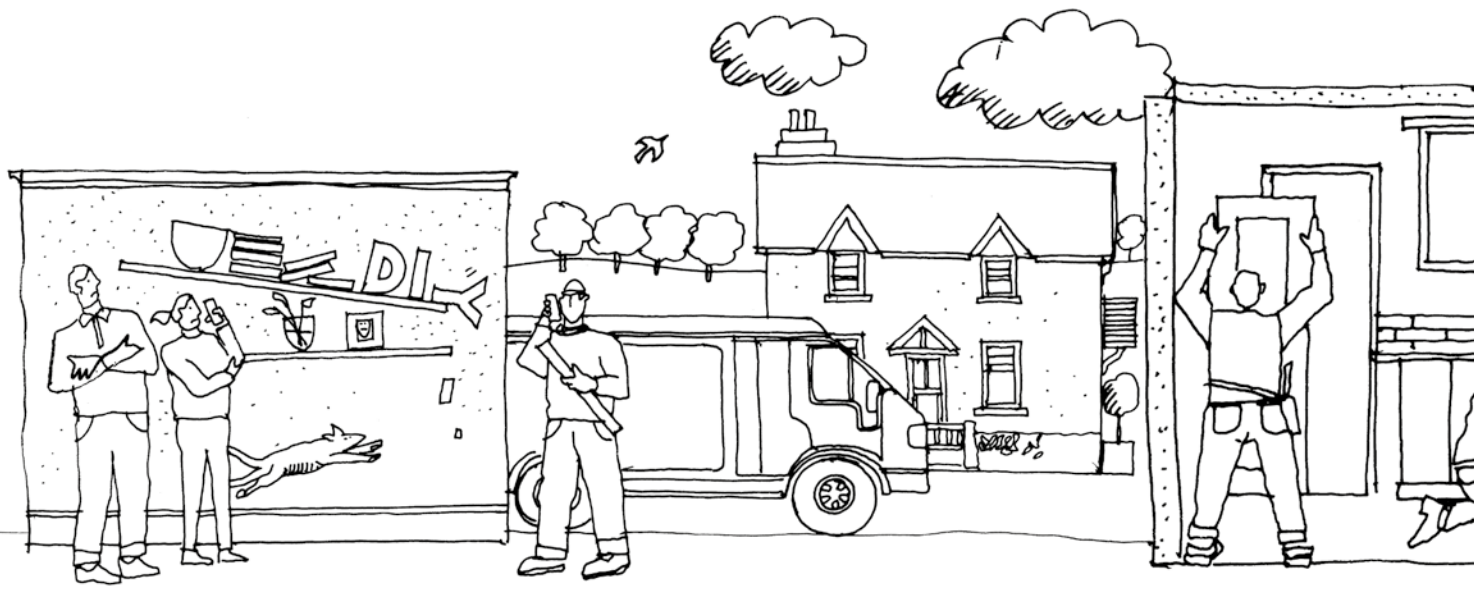
Twenty years ago, DIY was still viewed as a reasonable way of tackling a range of household repair jobs. Today, we cannot manage the simplest of tasks. Putting up a shelf is challenging for many, let alone fitting a kitchen.

## No time, no tolerance

Our lives are changing rapidly and in many ways. We don't have time to visit lots of showrooms or stay at home all day for delivery. We have no tolerance for mistakes or breakdowns. And we want things sorted out – just fix it, right now, is the cry.

## Reliable information

Not enough time and too much information. For ideas and advice on any aspect of domestic life, we turn to the internet. The only snag is how to make sense of the avalanche of information released by a few clicks.  Is it comment, advertisement or fact? To sort things out quickly, most of us welcome some help.



## Higher expectations

We expect our kitchens, and everything in them, to be better designed, to include more functions, to perform better, to have more robust surfaces, to use less energy, to be child-friendly – at all price points.

## We all need a local builder

At Howdens we have always believed that the best way to get a kitchen installed and working is to have it fitted by a small builder. This is truer than ever before.

The small builder serves a variety of customers including landlords, tenants, homeowners, housing associations and local authorities. The builder goes where the work is, which is why he needs to know that Howdens keep everything in stock.

## A changing housing market

As house prices have risen, the private rental sector has expanded to meet demand. Of the 25 million homes in the UK, nearly 20% are now privately rented. More people are renting from private landlords than from local authorities or housing associations. 156,000 new homes were built last year – but that doesn't change the fact that there is still a lot of old housing stock needing more frequent repairs.

## New technology in the home

Technological developments are changing our expectations in the home, and in the kitchen in particular.

Howdens already sells a growing range of programmable appliances. The connected home, with systems that allow the householder to control everything remotely, from cooking and washing to heating, lighting, security and more, is no longer a distant dream.

## Making life easier for the builder

Our aim is to help the builder save time and make money. Innovation has led to the use of new materials and the continuing introduction of new products that make life easier for him. For example, Howdens' offer now includes pre-primed, pre-glazed doors, kitchen cabinets with pre-fitted elements, premium screws and a 'smart latch' that can be fitted in five minutes, a quarter of the time required for a traditional latch.

## Sophisticating kitchens

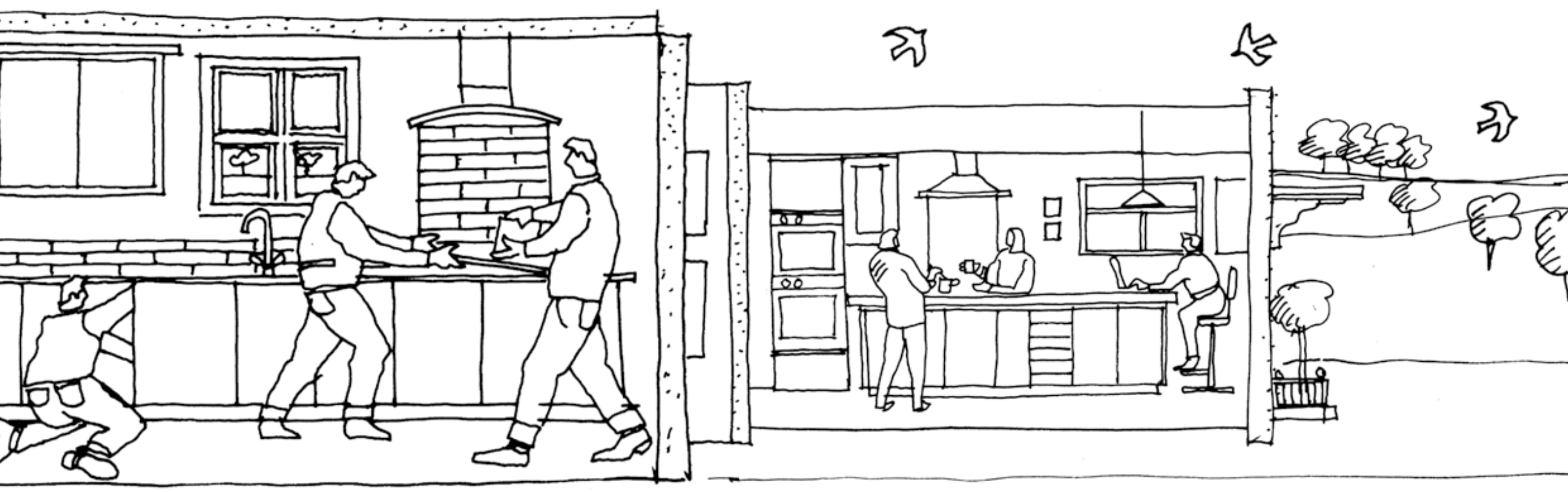
Kitchens are continually sophisticating. This does not mean they are becoming more expensive. On the contrary, they are now expected to do more for less. Kitchens are far from being commoditised, and the need for them to be properly installed is growing all the time.

Builders need sound advice and good training in order to do a proper job. That is why we make sure our depot staff are trained to the highest standards, and why we are increasing our focus on apprenticeships and the learning of new and traditional skills.

## Helping the builder to be responsible

Builders also need to know the products they are using are entirely reliable, and comply with an increasing number of regulations governing safety, data security, energy use, sustainability, the use of labour and waste management – to name but a few.

You can read more about how we address regulations and expectations in our Corporate Social Responsibility Report beginning page 23.



# Chief Executive's statement continued



## OUR STRATEGY

### Choices and opportunities

Howdens has done well, and continues to do well. The success of the business has created more choices and opportunities than we could possibly have imagined when we opened our first depots in 1995.

Our horizons are both wider and further away than they used to be, which means we face more complex challenges along with richer opportunities.

### Personal vs. digital

Howdens is about people and development. In an increasingly digital-dependent world, the Howdens depot is a hub of humanity and physicality, providing personal service in response to real, physical problems that require immediate fixing. This in itself represents a tremendous opportunity for us.

### Looking after our customers

The first job of a new depot is to open accounts. An account is a personal relationship to be looked after for the long term. As life in general and kitchens in particular become more complex, it seems reasonable to expect that we will need more people with specific skills – designers, salespeople, experienced managers – to look after our builders and increase sales per account as well as the volume of accounts.

### Proper service

So we plan to continue to recruit good people who understand our values and culture, and to support our staff with more training, more targeted incentives, even better systems, improved planning tools and everything we can do to allow them to offer proper service to the small builder.

### More new depots

As far as new depot openings are concerned, we are still a long way from saturation coverage of the country. The small builder's need for a truly local, convenient service is growing all the time. When we open new depots in a city or area where we are already present, the net effect is to increase sales from that area, usually by the second year of operation.

### People and organisation

We have always invested in upgrading all parts of our business, including product design, manufacturing, logistics, warehousing, systems and offices as well as people and incentives. Over the past two years we have devoted considerable energy and effort to organisational development to make sure we have the right structure, as well as the right people, to support a bigger future. Here again, we are fortunate. Howdens prospects, coupled with its philosophy and culture, strike a chord with many people's values and vision for the years ahead.

### Securing the future

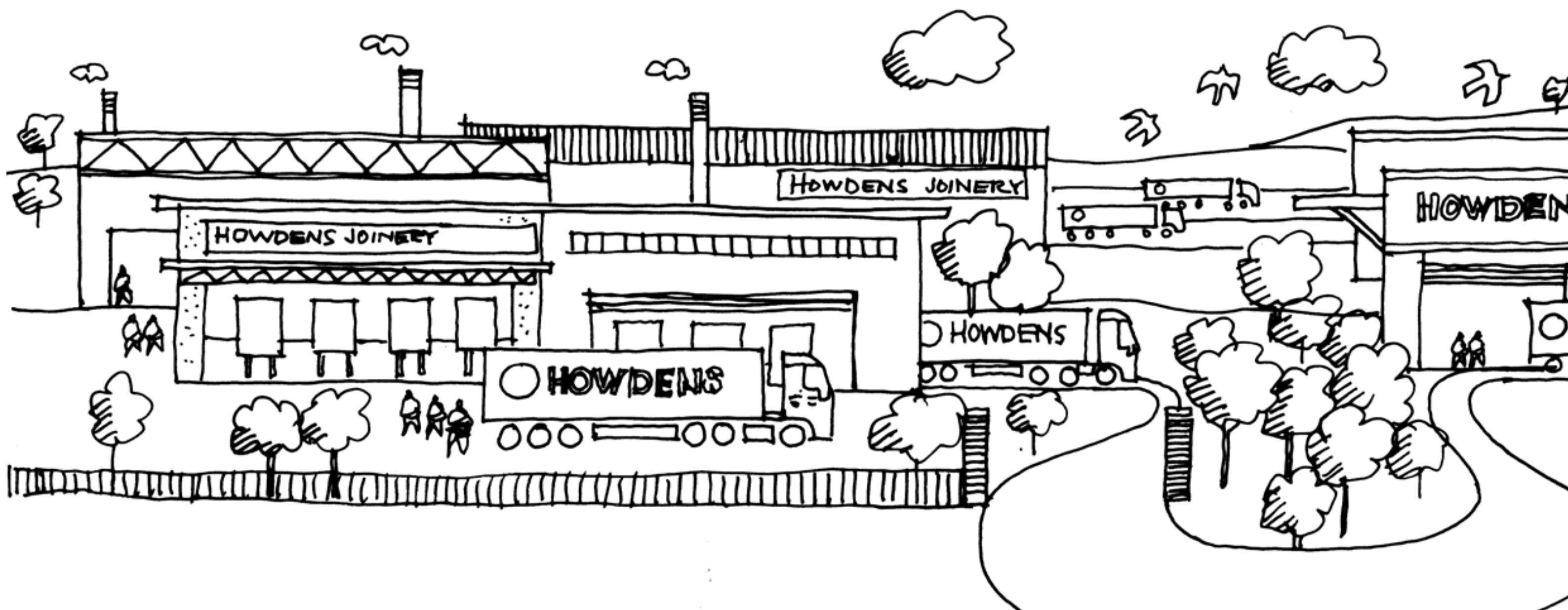
Howdens has to continue to invest simply in order to stand still. We have no choice if we are to continue to support the essential ingredients of our offer – range, quality, availability and price – at speed and at scale.

The business is performing well, and has prospects. So we are able to invest in its future as well as its present needs.

### Manufacturing investment

With this in mind, we have decided to make significant investments in our manufacturing and warehousing capacity to meet planned demand to 2020 and beyond.

When making this investment, we have to take into account the size and complexity of our prospects and how we should support them. There are four main areas to consider.



First, there are things that become old or need to be retired. This includes everything from equipment in our factories to our distribution centre in Northampton which is approaching the end of its viable life.

Second, there is brand new technology: there is always a better mousetrap – and there is evolution too.

Third is disaster recovery. Now that the business is so much more valuable, we have to pay attention to our disaster recovery capability and the need for dual running if necessary.

Finally, do we have enough capacity to serve our aspirations for the future? This involves long-term property decisions as well as planning for production and logistics.

## Continuous testing

We also continue to carry out tests of all descriptions in all areas. These include testing the market for products new to Howdens such as granite worktops and branded appliances, and developing an exclusive, premium cabinet – all available from stock. This naturally makes demands on space within depots, but it also opens up new opportunities to open accounts, increase sales per account, improve margin, increase stock turn and attract new people to the business.

## Experimenting beyond the UK

Another area in which we continue to test the Howdens proposition is continental Europe. Later this year we will have a total of 24 depots outside the UK: 20 in France (with two different formats), two in Belgium, one in the Netherlands and one in Germany. So sooner or later we will be looking at two formats and four countries.

We are still at the trial stage outside the UK. We continue to make interesting and sometimes surprising discoveries in these different markets – for example, about the levels of discount that motivate builders, which formats are the most attractive to most customers, and the complex relationships between the various parties involved in installing a kitchen. By the end of 2016, we will have a better view of the strategic options.

## Worthwhile for all concerned

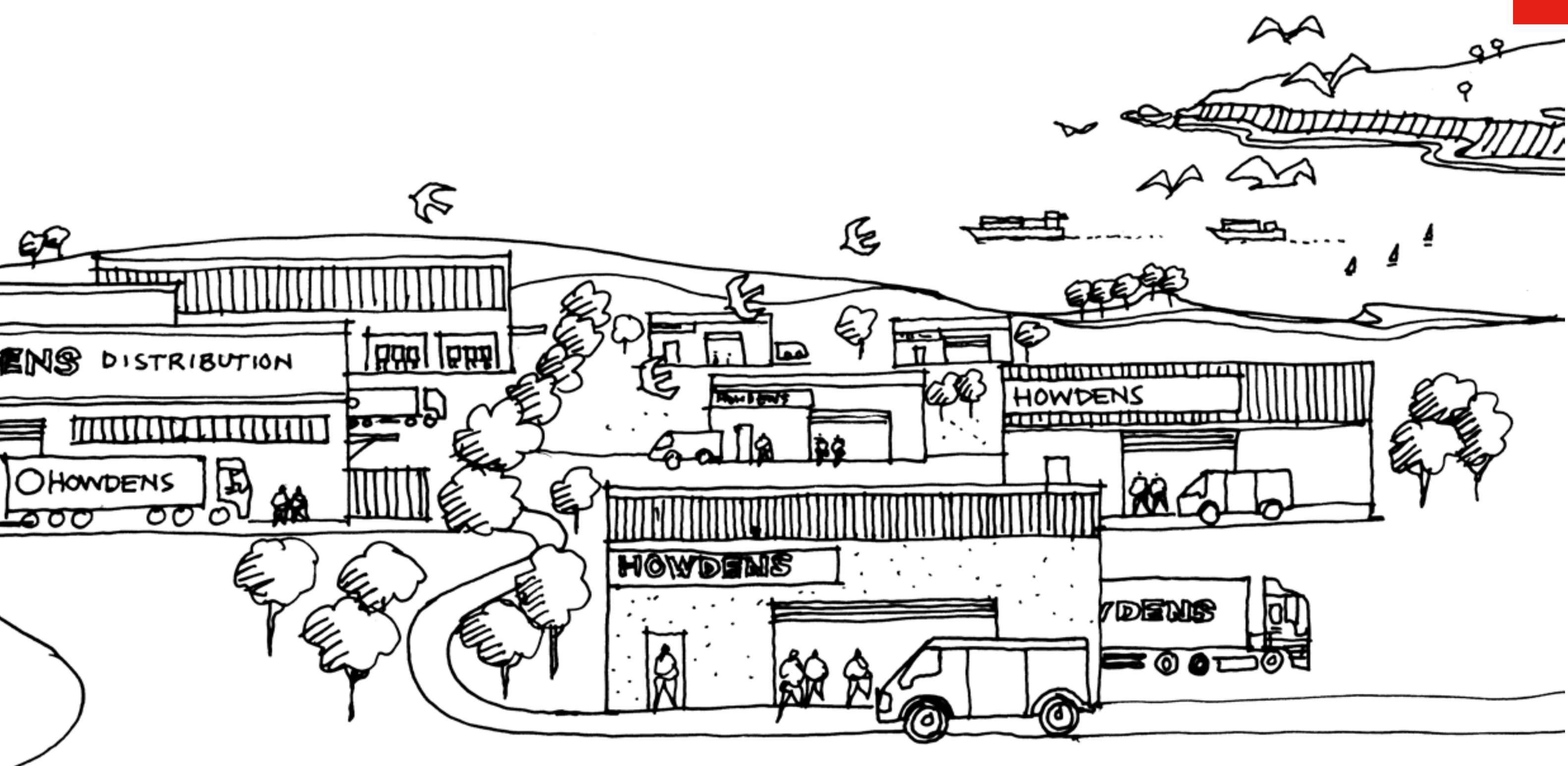
The overriding aim of Howdens is to create a lasting business that is worthwhile for all concerned – customers, prospective customers, homeowners, tenants, local communities, local, national and international suppliers, investors, existing staff, their families, apprentices and those yet to join the business or be touched by it. We have no intention of letting them down.

Ultimately, it comes down to this. The builder is our brand. Our job is to resource the builder, and to resource our staff, so that they can help the builder in the best way they can.

Howdens is a successful, balanced business, investing in sensible things and prepared for opportunities as well as threats. The key to this is that we have lowest cost of production, flexible production and a low break even point in our depots, which are focused on the repair, maintenance and improvement market and have a growing trade account base.

**Matthew Ingle**
**Chief Executive Officer**

24 February 2016



# Review of operations and finance

## FINANCIAL REVIEW

### Financial results for 2015

The information presented here relates to the 52 weeks to 26 December 2015 and the 52 weeks to 27 December 2014 (continuing operations), unless otherwise stated[1].

The financial performance of the Group during 2015 benefited from our strong competitive position and continuing focus on improving operational performance.

| Revenue £m | 2015 | 2014 |
|---|---|---|
| Group | 1,220.2 | 1,090.8 |
| comprising: | | |
| Howden Joinery UK depots | 1,203.8 | 1,075.5 |
| Howden Joinery continental Europe depots | 16.4 | 15.3 |

Total Group revenue increased by £129.4m to £1,220.2m. Howden Joinery UK depot revenue rose by 11.9% to £1,203.8m, increasing by 9.2% on a same depot basis.

This growth reflects the active development of the business and is a testament to the strength of the Howdens business model. In particular, we have continued to open new depots and further increased the number of customer accounts, which enabled us to grow turnover in existing depots of all ages.

Sales from our depots in continental Europe rose by £1.1m to £16.4m. Within this, underlying sales from our original depots in France increased by 4% in constant currency terms.

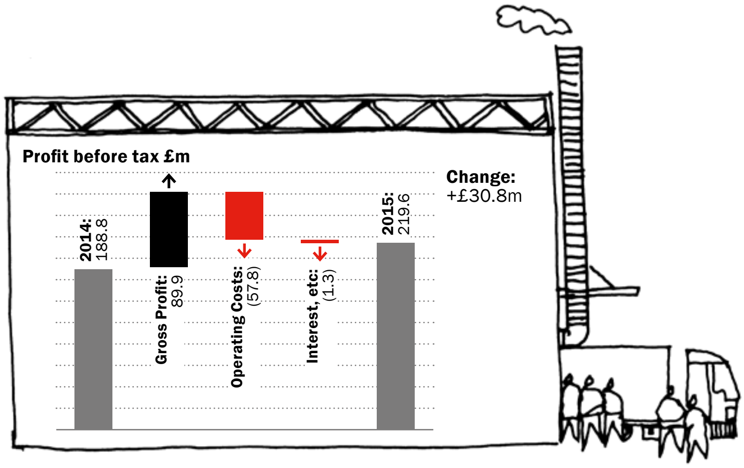
Gross profit rose by £89.9m to £784.4m. The gross profit margin for the year increased to 64.3% (2014: 63.7%). This included a benefit from the strengthening of the pound against the euro. It also reflected our continuing focus on reducing the cost of manufactured and bought-in products, and the success of our depots in increasing margin throughout the depot network. Excluding the currency gain, the gross profit margin would have been 63.5%, a slight decline versus 2014, reflecting the cost of testing, i.e. the impact of sales of discontinued product, and the cost of promoting granite worktops.

1 There were no discontinued operations in 2015. In 2014, there was an exceptional profit after tax on discontinued operations of £9.1m.

Selling and distribution costs and administrative expenses increased by £57.8m to £562.5m. This increase reflects the costs of new depots, investment in both short- and longer-term growth. It also reflects the impact of inflation, including on payroll costs, as well as an increase in pension costs.

Operating profit increased by £32.1m to £221.9m.

The net interest charge rose by £1.3m to £2.3m, reflecting a higher finance expense in respect of pensions. The net result was that profit before tax increased by £30.8m to £219.6m.




The tax charge on profit before tax was £44.2m, an effective rate of tax of 20.1%.

Basic earnings per share were 27.3p (2014: 23.2p).

At 26 December 2015, the pension deficit shown on the balance sheet was £49.2m (27 December 2014: £142.6m). The decrease in the deficit was due to lower liabilities arising primarily from an increase in the discount rate and the Group's £45m contribution to fund the deficit, partly offset by less than expected asset returns.

We saw strong cash flow in 2015, with a net cash inflow from operating activities of £158.3m. This was after the £45m cash contribution to the Group's defined benefit pension scheme.

Working capital increased by £19.2m. An increase in stock was partly offset by an increase in trade creditors and a decrease in trade debtors. This reflected the rise in the number of builders opening accounts with Howdens and their willingness to pay promptly for the service we offer them.

Also included within net cash flows from operating activities was tax paid totalling £35.3m.

Payments to acquire fixed and intangible assets totalled £45.9m (2014: £32.8m), reflecting increased investment in our supply operations, which we discuss in the Operational Review below.

In line with the announcement of a £70m share repurchase programme made in February 2015, £45.3m was spent acquiring the Group's own shares. These shares, totalling 9,152,000, are held in treasury, to use for future obligations for company share schemes.

Reflecting the above, there was a net cash inflow of £8.4m in 2015, the Group having net cash at the year-end of £226.1m (27 December 2014: £217.7m net cash).

## Dividend and return of surplus cash to shareholders

The Group's dividend policy is to target 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.

In light of this policy, and given the operational performance of the business in 2015, the Board has decided to recommend to shareholders a final dividend of 7.1p, giving a total dividend for the year of 9.9p (2014: 8.4p). This equates to a dividend cover of 2.75x.

As previously stated, the Board intends to target a capital structure that is both prudent and recognises the benefits of operational and financial leverage, and, after considering our capital requirements, to return surplus cash to shareholders as appropriate. The Group has significant property leases for the depot network, and continues to have 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 through the annual working capital cycle without incurring bank debt.

The Board has reviewed the cash balances in light of the Group's future investment opportunities, expected peak working capital requirements and trading outlook. As a result, it has decided to return an additional £55m of cash to shareholders by way of a further share repurchase programme. This will be implemented over the course of the next two years.

Shares that are bought in the market by our brokers will either be held in treasury, to use for future obligations for company share schemes, or cancelled.

# OPERATIONAL REVIEW

The mission of Howdens is "To supply from local stock nationwide the small builder's ever-changing, routine, integrated kitchen and joinery requirements, assuring best local price, no-call-back quality and confidential trade terms".

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 600 depots across the UK, we continue to see the opportunity to transform the scale of the business, seeing scope for up to 800 depots. We continue to invest in all aspects of the growth and performance of the business, including new depots and depot operations, existing and new employees, product development, and manufacturing and distribution.

## UK depot network and operations

During the course of 2015, 30 new depots were opened, bringing the total number of depots trading at the end of the year to 619. In addition, seven depots were relocated and seventeen were extended.

Our account base continued to grow, increasing by 35,000 net new accounts in 2015. While there has been a significant increase in accounts, our debt collection performance continues to be robust.

Growth was seen in depots of all ages. To enable us to deliver this growth while maintaining the level of service that our small builder customers expect, employee numbers in existing depots were increased by more than 500.

## Product and marketing

We continue to enhance our product offering with the introduction of a number of new products during the year across all product categories. Among the 20 new kitchens launched during the year were 'tongue and groove' options within our popular Burford family, more stone-coloured options within our existing kitchen 'families' and the introduction of ivory-coloured options to a number of our kitchen ranges.

In autumn 2014, we experimented with offering affordable granite worktops from stock in a small number of depots. During 2015, the trial was extended, and granite is now sold in all of our depots.

Since its launch in 2009, our Lamona-branded range of kitchen appliances has been very successful. We continue to invest in Lamona and to develop it further. Following on from the success of the premium, touch-control pyrolytic oven that we introduced in 2014, we launched two premium, touch-control double multi-function ovens during 2015.

# Review of operations and finance continued



Supporting our offering of Lamona premium ovens, after an initial trial of additional branded appliances, we are selling a selection of AEG and Neff cooking, refrigeration, dishwashing and laundry appliances throughout our depot network.

We continue to invest in our marketing communications and brand advertising.

- In our kitchen collection brochure, we have introduced a new format to highlight each kitchen 'family' and have added a flooring section. We have redesigned our appliance literature, introducing lifestyle photographs to make it more appealing and aspirational for end-consumers.
- To further raise awareness of the Howdens brand, we attended 15 county shows and agricultural fairs throughout the UK during the summer.

Where appropriate, our branding now includes the Royal Arms, following the award to Howden Joinery of a Royal Warrant By Appointment to Her Majesty the Queen in 2015. This features on our websites and on our vehicle fleet livery, and in our marketing material.

## Manufacturing and logistics operations

Our UK-based manufacturing and logistics operations play a vital role in guaranteeing an uninterrupted supply of product to our small builder customers from local stock nationwide. This requires us to have the space and the flexibility to respond to each depot's individual needs, even during our peak October trading period, when sales are more than double the level seen in other periods.

In February 2015, we said that we had undertaken a review of the medium- and longer-term growth prospects for the business and had identified more opportunities than previously foreseen. With this in mind, we said that we had considered how to ensure that we are best placed to deal with and take advantage of what the future might bring. One outcome of this work was the identification of a programme of investment in our supply operations that would prepare them for future growth while also improving the resilience of our cabinet manufacturing operations.

During the course of 2015, we carried out or started work on a number of projects, the most significant of which were as follows:

**Manufacturing operations**

We embarked on projects to replace two aging cabinet panel production lines at our Howden site and increase production capacity of the cabinet component lines at our Runcorn site.

We also started work on a number of projects that will increase the resilience of our cabinet manufacturing operations by reducing risk and increasing back-up, including the ability to engage in dual running if required. These include the development of a new production facility at Howden.

The existing obsolete boiler and associated heating infrastructure at Runcorn has been replaced by a state-of-the-art biomass heating system. Like the system installed at our Howden site in 2014, the heat generated attracts payments provided by the Renewable Heat Incentive programme. More detail of the benefits of this new system can be found in the CSR Report on page 27.

**Logistics**

Our national distribution centre near Northampton is nearly forty years old and the end of its viable life is in sight. Having examined various possibilities we have entered in to a long-term agreement to occupy a new 650,000 sq ft warehouse that is being built near Raunds, to the east of our existing national distribution centre. We expect this facility to be ready for us to begin occupation before the end of 2016. While this major construction project is under way we have taken short-term leases on a number of warehouses in order to support our planned capacity requirements.

During the year, we replaced our fleet of 460 trailer units for our fleet of lorries. These have been custom-designed and built to meet our requirements, and have a revised livery designed to improve brand awareness. This follows the replacement of the fleet's 100 tractor units in 2014.

## Continental Europe

At the end of 2014, we said that we intended to add a second phase of seven depots to our existing operations in northern France. Five of these depots were opened in 2015 and the remaining two opened following the year end. Elsewhere, we opened an outlet in Amsterdam and are planning to open a similar outlet in Hamburg, Germany, in the course of 2016. The purpose of these trials is to allow us to learn about different markets. They complement a larger outlet in Lyon, France and two depots in Belgium, which were opened in late 2014, and a further outlet in Marseille, France that started trading in February 2016.

## GROUP DEVELOPMENTS

## Banking arrangements

The Group has reached agreement to extend its existing £140m committed bank facility from its present term of July 2016 to July 2019.

## Pension scheme funding

In July 2015, we announced that agreement had been reached with the Trustees of the Group's defined benefit pension scheme in relation to the schedule of payments towards the funding of the scheme's deficit from April 2015. As a result, the Group will continue to make deficit contributions equivalent to £35m per annum until 30 June 2017.

Payments until then, along with those made since 6 April 2014, will fund the deficit calculated as at the actuarial valuation date of 5 April 2014.

The extent to which any further contributions are required beyond 30 June 2017 will be assessed as part of the next formal actuarial valuation of the scheme.

## CURRENT TRADING AND OUTLOOK FOR 2016

Howdens Joinery UK depot sales in the first two periods of 2016 (to 20 February) were up 7.1% on the same period last year (this excludes the first week, which had two fewer trading days in 2016 than in 2015), in line with our expectations. Along with the evidence we have of trading prospects, this would suggest that market conditions remain stable.

We believe there is considerable scope for further expansion of the UK depot network and see the opportunity for up to 800 depots. We are currently planning to open around 30 depots in the UK in 2016, four of which are already open and trading. In continental Europe, we plan to open our first outlet in Germany as we continue to trial.

As already mentioned, 2015 saw us take the first steps to increase our warehousing capacity, invest in our manufacturing operations and expand our trial in continental Europe. Clearly, this activity affected operating costs in 2015 and we expect it to continue to do so in 2016, with an anticipated increase in operating costs of around £15m. This is in addition to the higher costs that will arise from the ongoing growth of the business and the effect of inflation. Our investment in the resilience and capacity of our supply operations means that capital expenditure for 2016 is expected to be around £75m.

Howdens is well-founded and strongly positioned, and we look forward to continued growth in 2016. However, we are watchful for the increased risks to the UK economy from a less predictable global picture and the uncertainty that an EU referendum might bring, together with the currently weaker exchange rate. As always, we will act quickly to adapt our business 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 23 to 35.

### 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 around 30 depots in 2016, although it should be noted that we have the ability to adjust the rhythm of the opening programme in line with economic conditions.

## 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 using cash flows from operations, and it has access to an asset-backed loan facility if additional financing is required. Treasury operations are managed within policies and procedures approved by the Board.

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

# Review of operations and finance continued

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, the returns of capital to shareholders, the level of capital expenditure, or by issuing new shares.

The Group has an asset-backed bank facility which allows borrowing of up to a maximum of £140m, dependent on the actual levels of stock and trade debtors held at any time. The facility has been renewed in 2015 and is now due to expire in July 2019. The facility was not used at any point during 2015.

The Group's committed borrowing facility contains certain financial covenants which have been met throughout 2015. 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.

At the 2015 year end, the Group had £166m of cash, £60m of short term investments, and £118m of funds available to borrow under the committed borrowing facility (in line with the levels of stock and trade debtors at the year end).

## Interest rate risk

The Group has not had any borrowings during 2015 and does not consider interest rate risk to be significant at present.

## Counterparty risk

Group Treasury policy on investment restricts counterparties to those with a short-term credit rating at least equivalent to Standard and Poor's A-1 or Moody's 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. 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 the Group's current policy 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 £9.9m. The Group does not have many overseas assets/liabilities, so the impact of currency translation on these items is not material.

The principal exchange rates affecting the profits of the Group are set out in the table below.

## NEW ACCOUNTING STANDARDS

None of the new accounting standards that came into effect during 2015 had a material implication for the Group.

## CAUTIONARY STATEMENT

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

By order of the Board

**Mark Robson**
**Deputy Chief Executive and Chief Financial Officer**
24 February 2016

| **Principal exchange rates versus UK pound (£)** | **2015 Average** | **2015 Year-end** | **2014 Average** | **2014 Year-end** |
|---|---|---|---|---|
| United States dollar (US$) | 1.53 | 1.49 | 1.65 | 1.56 |
| Euro (€) | 1.38 | 1.36 | 1.24 | 1.27 |

# Going Concern, Viability Statement and other Statements of the Directors in connection with this Annual Report and Accounts

## GOING CONCERN

The Group meets its day-to-day working capital requirements through cash generated from operations. If required, the Group also has access to an asset-backed lending facility of £140m which expires in July 2019.

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 net cash balances and its committed bank facility, and that it would not breach the facility 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 financial statements.

## VIABILITY STATEMENT

In accordance with Provisions C2.1 and C2.2 of the UK Corporate Governance Code, the Directors have assessed the viability of the Company over a period longer than the period of twelve months from the date of the approval of the financial statements as provided in the Going Concern statement above. The Directors have assessed whether the Company will continue to operate and will be able to meet its liabilities as they fall due during the three-year period to December 2018. A three-year period was agreed to be the most appropriate time period to ensure alignment with the Company's existing rolling three-year strategic planning process, as detailed below.

The review of the Company's long-term viability was undertaken with reference to the Company's work on strategic planning in 2015 which covered the three year period to December 2018. This included sensitivity analysis of the Company's strategic plans and considered scenarios with reduced sales, margin and cash flow. This analysis was modelled on the most severe downturn in sales and margin that the Company has experienced over a three-year period. The Directors also considered that the Company's strong cash position, plus the availability of the £140m committed banking facility, the operational flexibility afforded by the depot opening programme, the certainty afforded from long-term supply agreements and the robust disaster recovery and business continuity management frameworks supported the prospect of long-term viability.

The Directors also undertook a robust assessment of the Company's principal risks. These risks are set out on pages 19 to 22. This assessment followed the implementation of a number of enhancements to the risk management processes during 2015. Specifically, we changed our risk reporting to include a risk appetite statement and to emphasise the details of certain inherent risks identified as key to the business. These enhancements to the monitoring of principal risks have helped to increase visibility of the risks which the Company is most reliant on the internal control environment to mitigate.

Having taken into account the Company's current position, strategic plans and principal risks in their evaluation of the prospects of the business, the Directors confirm that they have a reasonable expectation that the Company will continue to operate and will be able to meet its liabilities as they fall due during the three-year period to December 2018.

## 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.

# Going Concern, Viability Statement and other Statements of the Directors in connection with this Annual Report and Accounts continued



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 and Accounts 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 Directors have taken all the steps that they ought to have taken as Directors in order to make themselves 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 24 February 2016 and is signed on its behalf by:

**Matthew Ingle**
**Chief Executive**

**Mark Robson**
**Deputy Chief Executive and Chief Financial Officer**

24 February 2016

# Principal risks and uncertainties

Howdens operates in an environment that includes different types of risk. Our approach to risk is adaptive, and is designed to ensure that we are protecting what we have while also responding to opportunities to grow and create value.

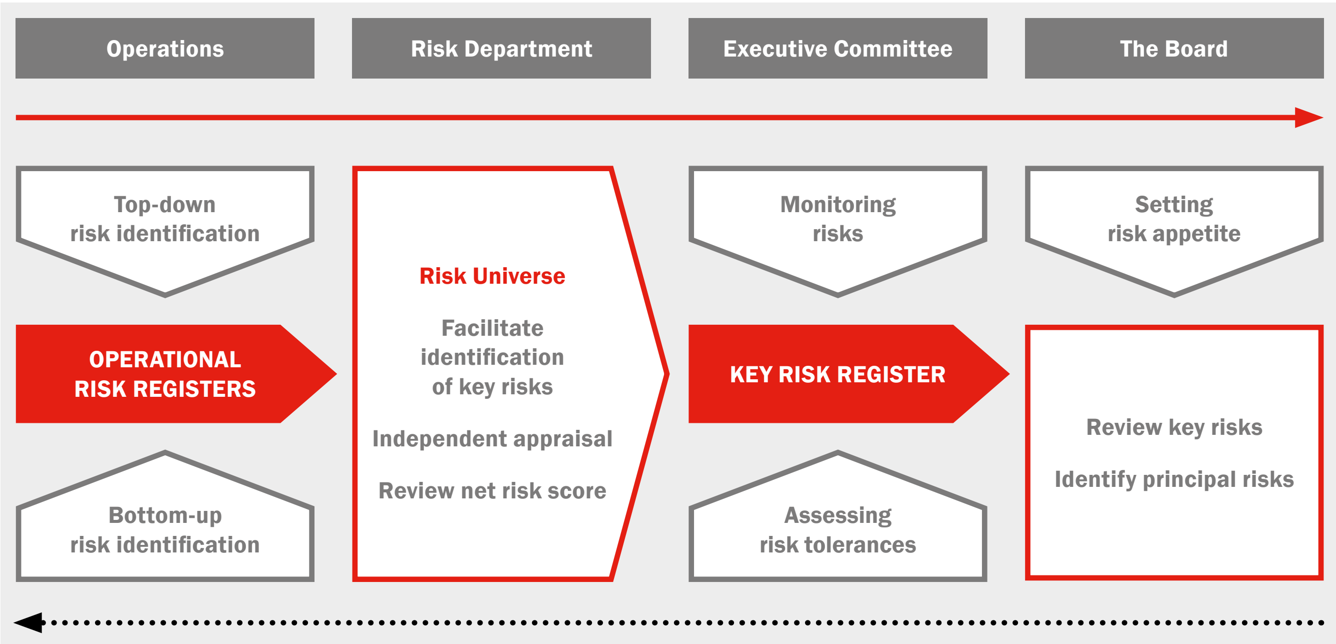
## OUR APPROACH TO RISK

Howdens' operating model of an in-stock business, with dedicated supply systems, supportive suppliers and loyal, committed staff who understand the business ethos of service and help for other people underpins the need to protect what we have worked hard to create. The numbers tell a compelling story, future opportunities are apparent and the marketplace is evolving.

Our approach to risk reflects both the success of the business and its prospects. Opportunity risk is managed closely and depends on our ability to understand and manage the key drivers of success and maintain the delicate balance between them. To support this, our approach considers both short and long term risks within a timeframe of up to three years.

Our local builders rely on us to support their needs. They expect us to be flexible so that they can meet the ever-changing needs of their customers. A culture of personal integrity, stock availability, business resilience and excellent levels of customer service are all strategically important factors that we take into account in the risk management process embedded across the Group.

## RISK MANAGEMENT PROCESS




Our risk management process reflects the Group's business model of decentralised local autonomy, and it benefits from the openness and honesty of our culture. Each division identifies risks through both 'bottom-up' and 'top-down' risk identification processes.

Risks are reviewed quarterly by the senior management team in each division. The risk management process looks at each potential risk to the division's objectives, assigning probability and impact scores in the absence of any mitigating controls. This results in a "gross risk score". The next step involves identifying the mitigating controls already in place within the business to manage risks. Once these controls have been considered, risk scores are reassessed and we arrive at a "net risk score" for each risk. If the net risk score is considered to be above our level of appetite for that risk, as determined by the Board, we implement further mitigation to reduce the score to a tolerable level.

A Key Risk Register is produced, prioritised by net risk scores. This is reviewed by the Executive Committee every quarter, together with qualitative summaries of any significant changes to the risk profile. The outcome of this review is then fed back to the divisions for consideration of any changes.

In addition to these key risks, other risks that have the highest gross scores but which have been mitigated, via a robust system of controls, to a tolerable net score are reported to the Executive Committee and Board. This helps the business to monitor those risks where we have the greatest reliance on the controls in place to manage them. As a result of these additional risks being reviewed by the Executive Committee and Board, key risks with a high gross score but low net score have been agreed as new principal risks (Cyber Security Incident and Credit Control Failure).

# Principal risks and uncertainties continued



During the year increased emphasis has been placed on the quality of risk reporting to the Executive Committee and the Board, with greater focus on principal risks, ensuring clear visibility of the full risk profile of the business.

The Audit Committee conducts an annual review of the entire process to help confirm that our risk management approach is monitoring risk appropriately and that risk appetite is being set at the right level.

Ultimately, risk is the responsibility of the Board, and therefore key risks are formally considered by the Board every six months. As part of this process the Board reviews the key risks and identifies the principal risks. To that end, the Directors confirm they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its buisness model, future performance, solvency or liquidity.

## PRINCIPAL RISKS

Below we describe our principal risks and what we do to mitigate them. The table summarises the nature of the risks and the 'risk trend', which indicates how gross risk has changed over the year.

| Principal risk | Gross risk trend in 2015 |
|---|---|
| Changes in market conditions | No change |
| Deterioration of business model and culture | No change |
| Failure to maximise growth potential of the business | No change |
| Interruption to continuity of supply | No change |
| Loss of key personnel | No change |
| Credit control failure *NEW | No change |
| Cyber security incident *NEW | Increased |

Principal risk can have a serious impact on the position, performance, development and prospects of the Group.

## CHANGES IN MARKET CONDITIONS

### Description, impact and link to strategy

The Group's products are sold from stock to local builders, most of whom run small businesses, 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 affected by many factors including general economic conditions, consumer confidence, interest rates and credit availability, unemployment, demographic trends and, in the short term, weather.

A change in market conditions could affect our ability to achieve our sales and profit forecasts, which in turn could put pressure on our cash availability and banking covenants. On the other hand changed market conditions could also provide opportunities to exploit new markets and create value.

Whilst there was no reported change to the gross risk trend in relation to change in market conditions during 2015, we anticipate that the increased uncertainty in global markets observed this year may cause this particular gross risk to increase in 2016.

### Mitigating factors

We monitor and identify key market drivers and trends as well as maintaining close relationships with customers who may give an early warning of slowing demand. We can take swift management action to change cost levels and inventory in a measured way to mitigate the effects of a change in market conditions, consequently helping to ensure that we have sufficient cash and borrowing facilities for business needs and adequate covenant headroom.

## DETERIORATION OF BUSINESS MODEL AND CULTURE

### Description, impact and link to strategy

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

Our local managers provide excellent service to local business people who trust us to support them, and to local communities who rely on us to behave responsibly. If the Group fails to implement its business model in the locally-enabled, decentralised manner envisaged, there may be an adverse impact on the Group's future financial condition and profitability.

### Mitigating factors

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

## FAILURE TO MAXIMISE THE GROWTH POTENTIAL OF THE BUSINESS

### Description, impact and link to strategy

Customers' changing expectations and demands, new market opportunities, the extent and configuration of the depot network and the performance of existing depots all present Howdens with significant opportunities for growth. Failure to recognise, understand and exploit the potential these offer, in line with our business model and risk appetite, or failure to align current structures and skills to meet the challenges they present, could affect our ability to obtain maximum benefit from our growth opportunities.

### Mitigating factors

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. Existing structures and skills are reviewed in the context of growth and adjusted where necessary.

## INTERRUPTION TO CONTINUITY OF SUPPLY

### Description, impact and link to strategy

The Group's business model requires every depot to be able to supply product from local stock. Any disruption to our relationship with key suppliers or interruption to manufacturing operations could adversely affect the Group's ability to implement the business model.

### Mitigating factors

With suppliers, the Group implements multiple sourcing strategies wherever possible in order to mitigate the effect of a key supplier being unable to deliver goods or services. We also enter into long-term contracts to secure supply of our key materials. Good supplier relationships are maintained by prompt settlement of invoices, regular communication, and an annual supplier conference. We adopt best practice health & safety and fire prevention procedures. Business continuity plans are in place for key production processes, and significant investment in disaster recovery capability is in place. The Group has announced a major programme of investment in its manufacturing facilities to ensure that manufacturing capacity is sufficient to match our expected growth, as well as in further cabinet production capacity to provide additional cover in the event of an interruption to manufacturing operations.

# Principal risks and uncertainties continued



## LOSS OF KEY PERSONNEL

### Description, impact and link to strategy

Howdens' model relies upon people to behave in a way which reflects the culture and values of the business: this is critical to the success of the decentralised business model. The skills, experience and performance of key members of the Group's management team make a major contribution to the success of the business. The loss of a key member of the Group's management team could adversely affect the Group's operations.

### Mitigating factors

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.

## CREDIT CONTROL FAILURE

### Description, impact and link to strategy

Our customers rely on our trade account facilities to enable them to get paid for completed projects before they have to pay for the products and materials they have used. Cash flow is critical to their business. To help support them, Howdens provides each account holder with an account on nett monthly terms. Failure to provide, or service, these facilities could affect our ability to continue to support our customers, and potentially our ability to collect debt.

### Mitigating factors

Howdens has an effective trade account policy used to agree terms with our customers and efficient processes for the collection of debt which are closely and regularly monitored. These are supported by robust systems and tested business continuity plans. Good personal relationships are maintained with builders, both at depot level and within the credit control department. In addition, concentration of debt is limited, as debt exposure is spread across over 360,000 customer accounts.

## CYBER SECURITY INCIDENT

### Description, impact and link to strategy

The Group depends on a core set of critical IT systems which are fundamental to the day-to-day running of the business. These systems are at risk from increasingly sophisticated security threats. Should a security breach occur, this could cause a system and/or sensitive data to be compromised.

### Mitigating factors

Sophisticated security measures are in place across the business including security policies developed by our Information Systems team, laptop encryption, anti-virus and anti-malware protection, e-mail scanning and IT perimeter and firewall monitoring. External specialists are used to test system vulnerabilities via penetration tests. Disaster recovery capability and business continuity plans are in place, these are tested periodically.

# Corporate social responsibility

## OUR APPROACH TO DOING BUSINESS

A typical Howdens depot employs about a dozen people and brings economic and social benefits to many times that number. Each depot runs an average of around 500 customer accounts, so it directly supports the activity of 500 local small businesses. They depend on Howdens not only for products but also for trade terms, margin opportunity and business planning tools.

The depots and their customers, together with Howdens' manufacturing and distribution sites, also generate employment for other local tradespeople and service providers, including plumbers, electricians, drivers, stationery suppliers, caterers, cleaners and childminders.

The builder's reputation, as well as his livelihood, depends on Howdens. Our product looks good, is easy to fit, does not break and meets constantly evolving standards. Kitchen users expect us to source raw materials in a way that is sustainable, to treat our environment with care and to make sure our appliances are not only safe but energy-efficient.

As a trade business with local accounts, Howdens' employees see the same customers, day in, day out. Those customers expect to see familiar faces in their depot too. At Howdens, the job is to try to solve problems for others – whether small builders, kitchen users, suppliers, staff, neighbours or young people seeking skills, apprenticeships and training opportunities.

In short, an enormous number of people have come to rely on Howdens in a huge variety of ways. Each of these people has a local and personal relationship with Howdens, not a corporate one. That means a lot, especially in uncertain times. They trust Howdens not to let them down.

Howdens is committed to repaying their trust with demonstrable good service, fair dealing and opportunities for all involved. Because real success, for Howdens, is about growing a great business that can create wealth, as well as profit.

### Worthwhile for all concerned

# Corporate social responsibility continued



## RAW MATERIALS AND BOUGHT-IN PRODUCT

### Overview

In this section we discuss the importance of the quality, environmental, Health & Safety and ethical standards of our suppliers, as well as our work to reduce the energy and water consumption of our own-brand appliances.

Approximately one-third of the costs of goods sold by Howdens is accounted for by products we manufacture ourselves within our two UK factories. These are items such as kitchen cabinets, worktops and skirting boards. The remaining two-thirds are the products which are bought in from our national and international supply base. These products include items such as internal and external joinery doors, hardware, cabinet doors, sinks and taps, flooring, lighting and, of course, a wide range of kitchen appliances.

### Our suppliers

We work closely with our suppliers to ensure that not only do they meet our specifications in terms of quality, volume, availability and cost but also that the manner in which they operate and produce these goods is ethical and sustainable.

It is important to Howdens that our suppliers respect their employees' health, safety and welfare in terms of working conditions and rights. We also expect them to care for the environment by sourcing and using their raw materials in a responsible manner and encourage them to look for opportunities to improve the safety and energy efficiency of the products or materials that they provide to us.

We have built strong relationships with our suppliers, which creates an environment conducive to positive change. We work closely with them to identify improvement opportunities within their operation which will bring benefits to all concerned, for example in operational efficiencies, waste reduction and quality improvements.

We employ processes for continuous monitoring, regular assessment and audit to ensure that suppliers share our own business values and ethics.

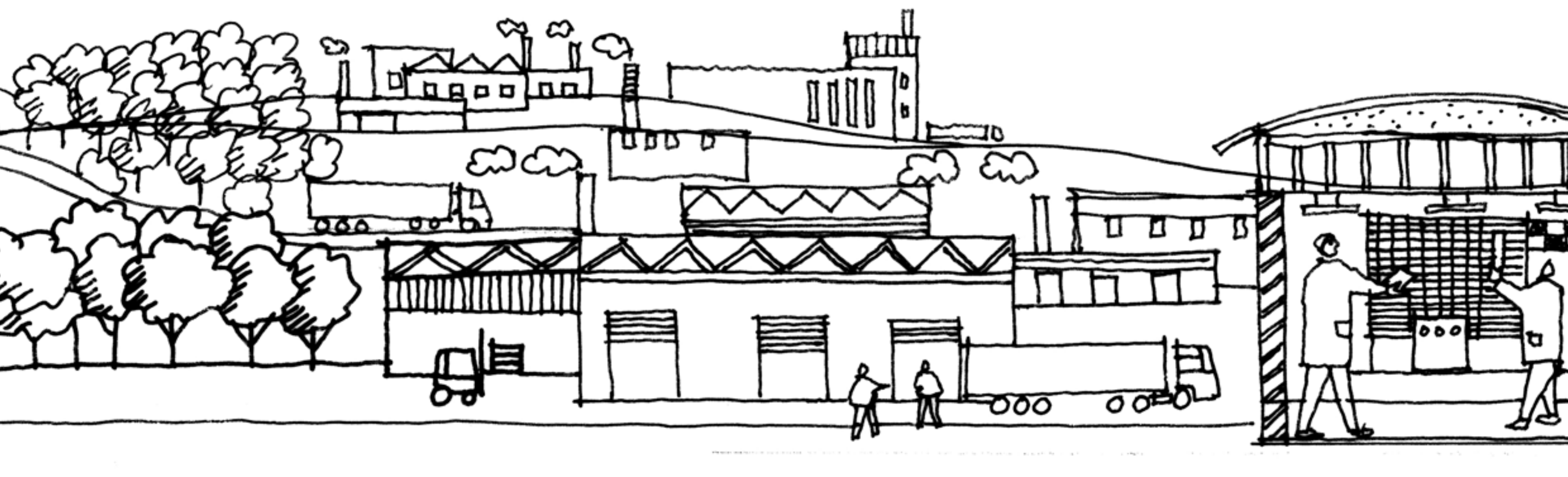
### Responsible use of timber

Over 75% of the products we supply to the builder are timber or timber-based products. It is our responsibility to make sure that the timber used has come from legally harvested and sustainable sources, whether in the raw materials used in our manufacturing processes or contained within our bought-in products.

The introduction of the European Timber Regulations in 2013 has raised the profile of the global issue of illegal logging and deforestation and provided the industry with very clear guidelines for due diligence during the procurement process. We constantly review our due diligence system in line with evolving standards and stakeholder expectations. Howdens has been approved by the Timber Trade Federation as having an environmental due diligence system in place which is equivalent to their Responsible Purchasing Policy.

We strive to source our timber-based products from either FSC® (the UK Forestry Stewardship Council) or PEFC™ (Programme for the Endorsement of Forest Certification) certified sources. All of the kitchen ranges which are manufactured in our own factories are FSC® certified. This is in line with our rolling KPI:

**"To ensure that 100% of the wood-based material used in our manufacturing processes comes from FSC® certified sources."**



In 2015, we used 220,000 cubic metres of chipboard and 30,000 cubic metres of MDF in our manufacturing process. As has been the case since 2006, all of this material came from FSC® certified sources. All of our manufactured products hold the FSC® chain of custody certification.

We aim to source our bought-in products to the same standard. One of the metrics we use to monitor our progress in this area is the percentage of kitchen ranges which we can market as being collectively FSC® compliant. A typical kitchen range will consist of a combination of items which we have manufactured ourselves and other items which we have bought in. We only market a range as FSC® compliant if all individual product parts in that range are certified. At the end of 2015, 72% of our kitchen ranges met this standard compared to 68% in 2014 and 64% in 2013.

## Eco-Design within our appliances

As part of our ongoing programme of energy and water use reduction, we introduced a KPI in 2013 in relation to our bestselling cooling products:

**"To reduce the energy consumption on our bestselling Lamona fridge freezers by 5% over the three years 2014–2016 (on a kWh basis)."**

We have made a cumulative reduction of 2% since 2013, and we continue to work towards achieving this KPI by the end of 2016.

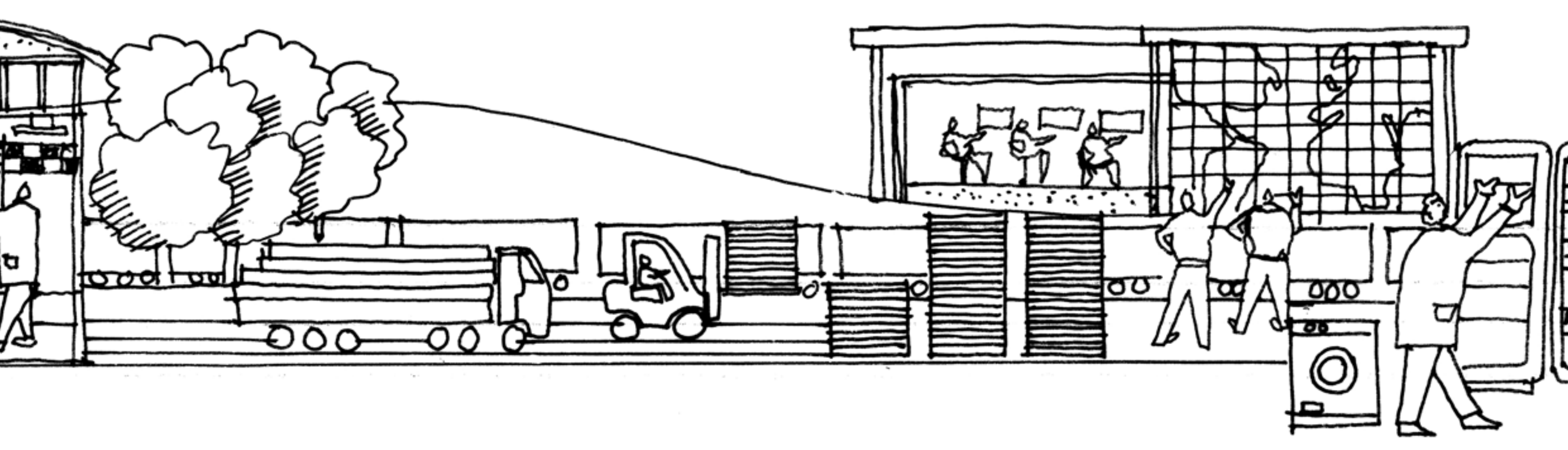
In 2015 we devoted significant effort to the introduction of other branded appliances into our product portfolio. This included the introduction of three products with an A++ energy efficiency rating: a fridge freezer, an integrated washing machine, and a dishwasher. In addition to the increased energy efficiency, the dishwasher also offered customers a reduction in water consumption of 25% compared to our previous best performer.

We also made improvements to our extractors in 2015 in line with evolving eco-design legislation, and we are undertaking a number of projects through 2016 and 2017 that will deliver further improvements in the energy efficiency performance of this range.

We continue to introduce new, more energy-efficient products in our own-brand Lamona range. For instance, in 2014 we introduced a pyrolytic, self-cleaning oven with increased insulation that makes it more efficient in operation. Pyrolytic ovens also remove the need to use chemicals to clean the oven. We have continued with development work in 2015 to further increase the efficiency of this product, and we expect to introduce the first A+ rated model in our cooking range in 2016.

## "Road to rail" transport initiative

During 2015 we have taken a proactive approach to reducing our carbon footprint on the majority of our freight routes from Europe. Prior to 2015, the majority of our European freight was transported by road and delivered directly to us by our suppliers. In 2015 we took control of the freight from these suppliers and transferred a substantial proportion of the freight to rail transport.



# Corporate social responsibility continued



## MANUFACTURING AND LOGISTICS OPERATIONS

### Overview
Our manufacturing and logistics operations account for approximately two thirds of total Group $CO_2$ emissions. Our main areas of focus are operating in a responsible manner, managing our energy usage, managing waste and packaging and the health, safety, and development of our 1,350 employees.

In 2015, our factories manufactured approximately 4.1 million cabinets, 0.9 million worktops and breakfast bars, 1.4 million frontals and 2.3 million painted skirting boards. Within our logistics operation, our truck fleet made over 90,000 deliveries to our depots, equating to approximately 14.5 million road miles.

### Responsible operations
All of our manufacturing, warehousing and transport activities are certified to the ISO 14001 standard for Environmental Management. This not only gives us some assurance that we have good environmental management processes in place, but it also supports our drive for continuous improvement in areas such as sustainable energy, waste and material management.

### Energy usage
One of our key metrics for energy usage in the factories is the electricity we consume per cabinet produced (kWh per cabinet). We started measuring this in 2008 and we are pleased that this figure has significantly decreased during this time. During 2015, we continued to make improvements in our energy management through the efforts of our employees and the application of new technology. Our achievements in 2015 resulted in the usage dropping from 2.49kWh per cabinet in 2014 to 2.41kWh per cabinet in 2015, a 3% reduction from the previous year and a 33% reduction since our baseline year, 2008. Extraction, lighting and compressed air optimisation have been the largest contributors to this energy reduction but we have also gained benefits from soft controls such as reporting leaks, energy awareness training, and the initiatives of our Energy Action Team who have been instrumental in workforce engagement and behavioural improvements. Given the progress made over the last few years, our target for 2016 is to at least maintain the consumption per cabinet level achieved in 2015.

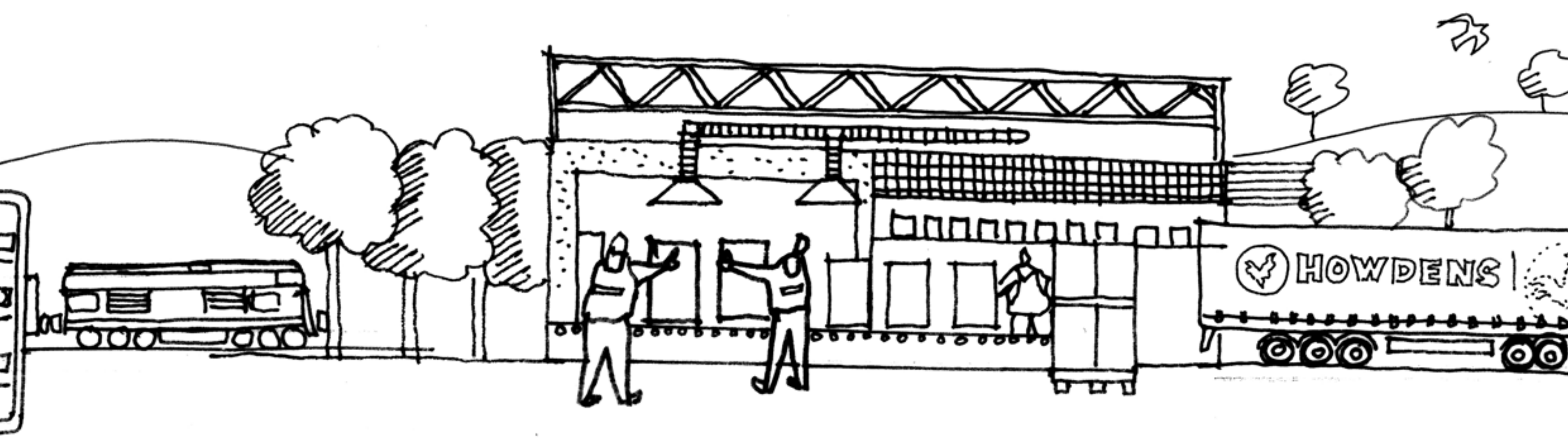
### Waste
Our employees are encouraged to consider how we can improve our environmental performance in all areas by reducing consumption, reusing materials and recycling wherever possible. This ethos is at the centre of our culture, and links to our strategic objective of lowest-cost supply.

We have a rolling KPI for waste, which is:

**“To reuse or recycle more than 95% of all manufacturing waste produced.”**

In 2015, we reused or recycled 98% of our manufacturing waste (2014: 97%). This includes the factory sawdust waste which was burnt in our biomass heating system and which is discussed below.

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 136,000 pallets, which is slightly fewer than the 2014 figure of 143,000. However, this is because we have begun to introduce the use of a more robust design of pallet, which lasts longer and requires less repair work.



**Biomass Factory Heating System**

In 2014, we invested £5m and replaced ageing boilers at our Howden factory with state of the art biomass boiler and heating systems, which are fully compliant with the UK Government's Renewable Heat Incentive scheme. The system utilises the waste sawdust produced from our manufacturing processes on site and therefore has a positive effect on our waste management activities whilst also reducing $CO_2$ emissions and saving us the cost of the equivalent bought-in fuel. In 2015, we converted over 12,000 tonnes of sawdust into energy at our Howden and Runcorn sites which equates to approximately 34,000 MWh of energy generated from sawdust during the year, enough energy to provide heat and hot water for around 1,900 average households for a year.

## Packaging

Our challenge with packaging the products that we manufacture ourselves is to select environmentally appropriate packaging, to reduce the amount of packaging used, wherever possible, and at the same time to protect our products so that they reach our customers undamaged and in line with the premise of no-call-back quality which is central to our mission.

We have a KPI as follows:

**"All cardboard packaging for our manufactured products should be sourced from recycled or certified sources".**

In 2015 we used 2,227 tonnes of cardboard packaging, all of which came from recycled sources.

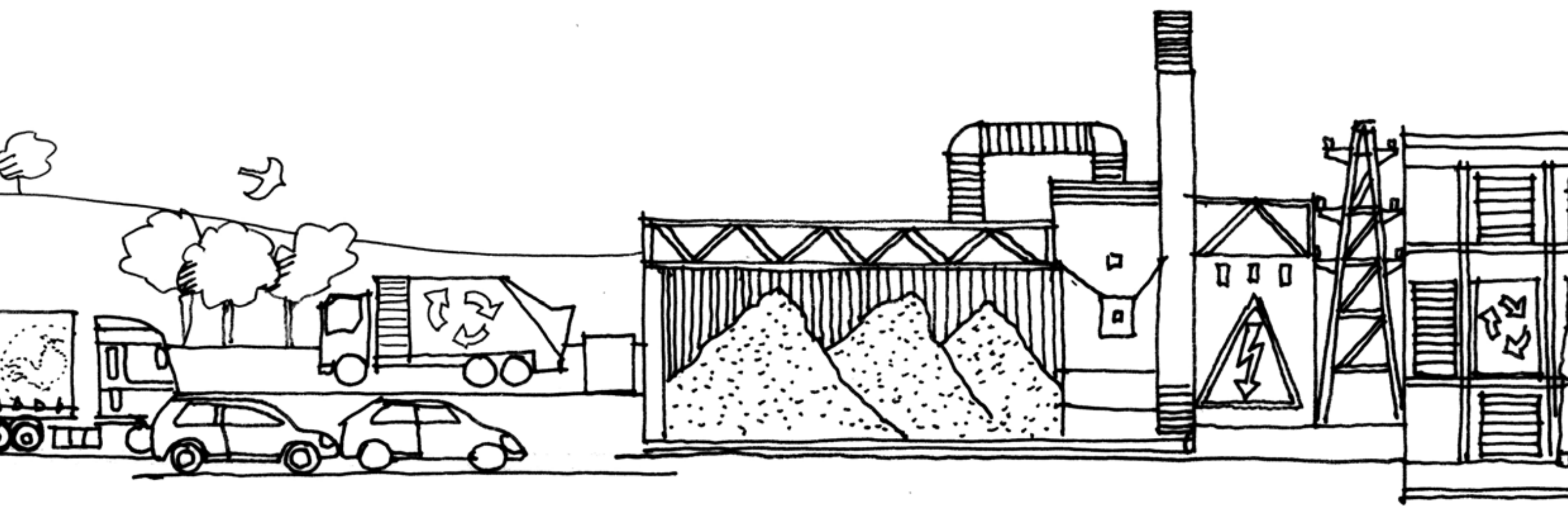
## Truck fleet

During 2015, despite handling an 11% increase in product volume delivered, we kept the increase in number of miles driven by our trucks to 9%. Our programme to replace the existing tractor fleet was completed in January 2015, and all our core fleet is now Euro 6 compliant. We have also begun trialling the use of "tall boy" taller trailers for cabinet distribution from our Runcorn factory, resulting in an annual reduction in trailer loads equivalent to 784 standard trailers.

Responsible behaviour, in terms of both fuel usage and safety, is a main area of focus for our truck fleet. We make use of advanced in-cab telemetry to measure and benchmark driver performance. We debrief our drivers at regular intervals, and work with any drivers who are not driving to the highest efficiency and safety benchmarks in order to improve their performance. This has delivered a 6% improvement in mpg in 2015 compared to last year.

Where possible our trucks try to avoid returning to base empty, and so we will contract to carry loads for other companies where this suits our schedule. In this way we contribute to a reduction in the total number of lorries on the road and the associated emissions.

Sadly, one of our trucks was involved in a fatal road traffic accident in December. Investigations into the incident are in progress at the time of writing this report and therefore it is inappropriate to comment further.



# Corporate social responsibility continued



## MANUFACTURING AND LOGISTICS OPERATIONS CONTINUED

### Health & safety

All of our manufacturing, warehousing and transport activities are certified to the OHSAS BS18001 standard for Health and Safety Management. We also invite the British Safety Council to audit our operations to "5 Star" Best Practice criteria. For the last five years, since we first invited this scrutiny and assessment, we have continued to achieve the maximum rating of 5 stars, demonstrating our commitment to providing a safe and healthy working environment and culture.

In addition, all of our sites have once again been awarded the prestigious "International Safety Award" given by the British Safety Council. All three sites achieved Distinctions. It is worth noting that world-wide there were only 29 Distinctions awarded (from 545 applicants), with Howdens receiving three of them.

The legislation called the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations is known as RIDDOR. During 2015, there was one RIDDOR-reportable injury accident, which represents a reduction from the six reported in 2014, and a reduction of 83% over the last five years. The average time lost for all incidents has fallen by 71% over the same five-year period to 16.9 hours per 100,000 hours worked in 2015.

### Employee development

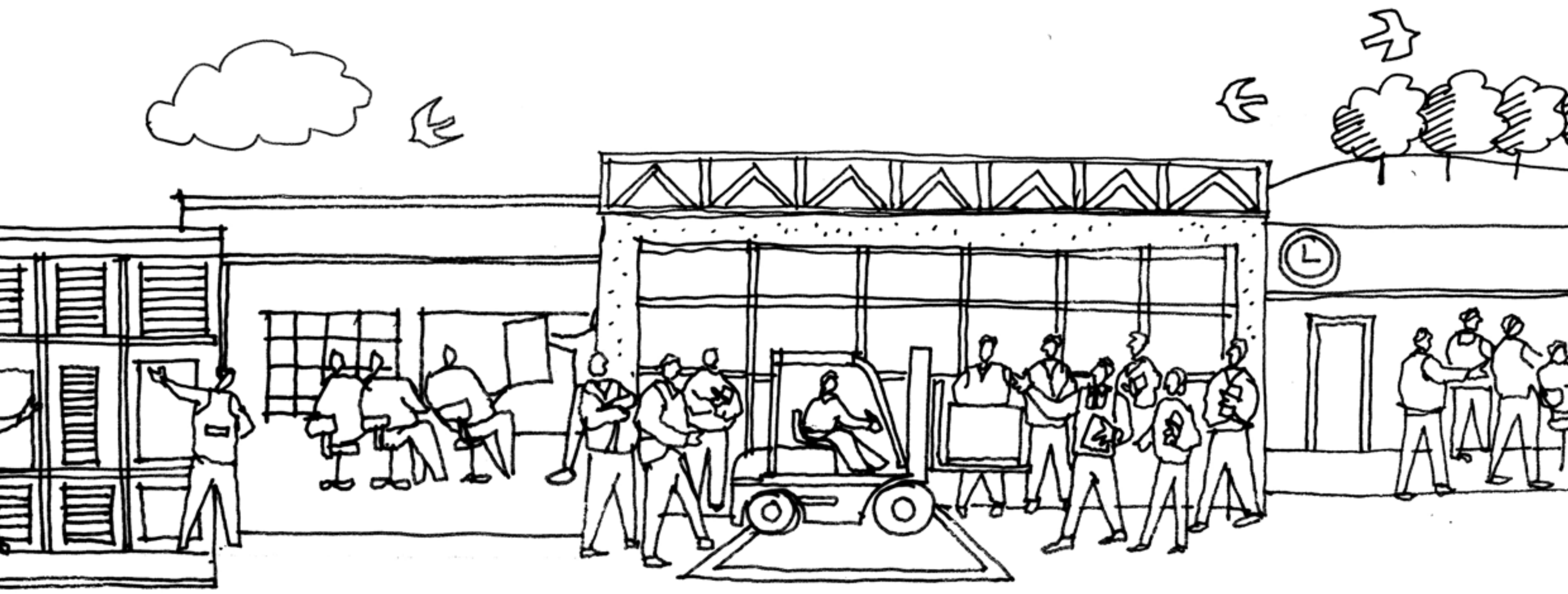
Our supply division has held Accredited Centre status with the Institute of Leadership Management since 2012. We also deliver management and leadership development to support the future growth of the business.

As well as supporting staff to gain externally-recognised qualifications, our staff have also benefitted from our investment in a range of development, with over 14,000 training hours completed during the year, an increase of 30% over 2014. Formal training courses are offered in a range of subjects from compliance and Health and Safety to Management and Leadership skills. We plan to continue to invest in learning and development throughout 2016, maintaining a strong in-house delivery capability balanced with relevant external qualifications.

**Developing apprenticeships in-house**

During 2015, we continued to further promote the use of apprenticeships within the workplace. We currently employ 29 modern apprentices in our supply division, whose apprenticeship disciplines are in various areas of our business. During 2015 we introduced a Manufacturing Operations apprenticeship programme in order to develop multi-skilled machine operators with the potential to be promoted into future leadership roles. A further 6 apprentices are currently being recruited.

We have also started work on a project to develop new drivers for our truck fleet. Recognising the shortage of suitably qualified drivers, and the benefits of being able to train our own drivers to our own high standards, our objective is to support drivers to become qualified so that they can go on to enjoy rewarding careers with Howdens.



# IN THE DEPOTS

## Overview

Our trade division operates from a network of 623 UK depots, plus central offices which provide support services such as marketing, HR and finance. The trade division employs around 6,800 people, which represents around 80% of the total Group workforce.

Our aim is to deliver the best possible standards of customer service, and to create the best possible working environments for our employees. We place great importance on Health & Safety, the professional development of our employees, and the management of our resources, including energy usage and recycling to minimise waste. The division is responsible for around a third of the Group's total $CO_2$ emissions.

## Health & Safety

Safety in our depot network is of prime importance to us. To that end, we have a KPI as follows:

**KPI: RIDDOR Accidents per 100,000 hours worked is 0.09% this year compared to 0.13% in 2014.**

The number of RIDDOR-reportable accidents in our depots and offices in 2015 has reduced to 14 compared to 18 in 2014. This improvement is against a background of an additional 30 depots, increased average headcount across all of our depots, and increased turnover across the whole business. This reduction is a result of: increased focus on accident awareness, further training initiatives, better information and feedback on the causes of any accidents that have occurred, and analysis of trends in both reportable accidents and near misses.

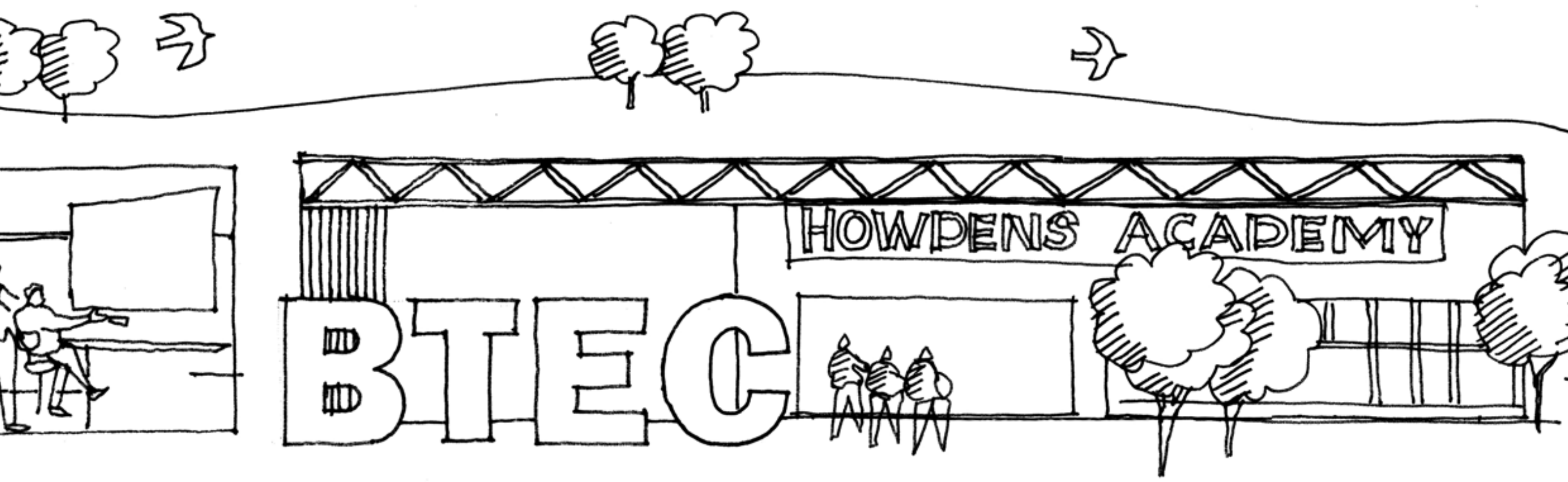
Another way of monitoring safety performance is to track the total hours lost across all accidents. This gives us an indication of the severity of accidents, coupled with how effective we are at rehabilitating our people back into the workplace. We have seen a positive trend this year, with hours lost reducing from 7,619 to 4,270.

Additional Health & Safety information and training initiatives have been implemented throughout the year as part of a plan of continuous improvement. In particular, in 2015 we launched several initiatives designed to make our policies and procedures more engaging and accessible, including the development of the "Your Safety, Your Depot" initiative, in which we extracted key "Safe Systems Of Work" into pictorial form, and supported them with a film and a questionnaire-style test.

Other developments are the commissioning of a cloud-based system to simplify our existing safety-management system, providing an improved management dashboard and online audit and incident-tracking capability, and the commissioning of a bespoke £1m failsafe alert system to provide an additional aid to our network of forklift truck drivers in supporting their safe decisions.

To encourage and maintain a strong Health & Safety culture, we ran numerous training and refresher courses during the year. 534 depot managers and assistant managers, together with other staff at all levels, attended these courses, covering a range of topics, including Managing Safety for Executives, defensive driving, fire safety training, manual handling and our handyman safety and tool training course.

The Health & Safety team within the trade division has been further strengthened in 2015 to support the Group's growth agenda and to ensure more locally delivered training and advisor visits. This has resulted in a 56% increase in advisor visits to individual depots, to reinforce the culture of Health & Safety and to assist local depot managers and their teams.



# Corporate social responsibility continued



## IN THE DEPOTS CONTINUED

### Employee training, development and retention

In addition to the Health & Safety training referred to previously, our divisional training team continue to deliver personal and professional training to staff across the entire division in order to ensure that they are able to provide the best possible standards of service to our customers, and to have fulfilling and rewarding careers. The team delivered over 175,000 training hours during the year. Courses are offered in many subjects including: kitchen design, sales and product training, EPOS system training, fork-lift-truck driving, leading people, recruiting and selection, diversity and inclusion, and training sessions which reinforce the Howdens culture and business model. We plan to continue to invest in learning and development in 2016 in line with our strategic business objectives.

In 2015 we also continued to deliver the BTEC Level 2 Award in Trade Business Services through internal job-related training. This course is unique to Howdens. During the year, 712 employees were successful in gaining certificates through this programme.

In order to support the future growth of the business and our strategic objectives, we have increased our focus on management and leadership development. In 2015 we started to build on the range of existing training programmes that we offer at all levels of the business so that these include an additional focus on the development of our current and future leaders.

We have laid the foundations of the Howdens Academy which will focus on ensuring that our staff have the skills to perform to the highest standards in their current role and can take opportunities for further development in readiness for future roles. The Howdens Academy will operate as a new brand for the division, through which all learning and development programmes will be designed and delivered.

Developing worthwhile careers and retaining skilled staff is very important to us, and we are delighted that 1,800 of them were promoted into new roles during the course of the year.

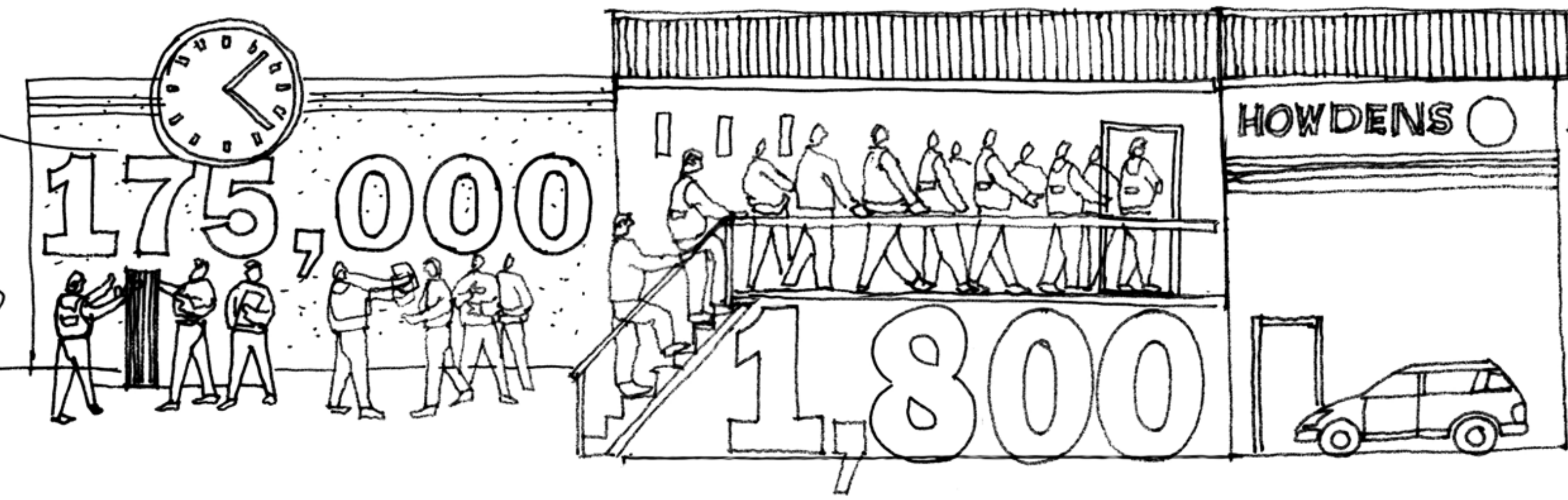
**Developing apprenticeships**

Our successful partnership with The Real Apprenticeship Company to promote the use of apprenticeships within the workplace continued throughout 2015. By the end of the year, we employed 296 modern apprentices within the depot network who are practising a broad range of skills. A further 63 apprentices are currently being recruited.

During the year, the business saw 234 apprentices gain their apprenticeship qualification, and 201 apprentices became full-time employees, some of whom achieved this status prior to the completion of their qualification.

We have recently embarked on two further apprenticeship initiatives on which we plan to report more fully once they are up and running.

First, we are working on the design of a specific in-house three year apprenticeship programme which will see apprentices gain a nationally-recognised qualification in their first year, before continuing their development in the second and third years through Howdens-specific courses which will support and develop them into specific roles within the business.



Second, as part of the ongoing government reform of the apprenticeship framework in England, we have been accepted to chair the "Trailblazer" group for Trade Business Services, through which we are working with a group of other business-to-business employers and the Department of Business, Innovation and Skills to develop a specific apprenticeship programme for our sector.

## Energy usage

**Car Fleet**

Rolling replacement of depot manager and sales representatives' vehicles with cleaner and more energy-efficient models has continued as planned. At the end of 2015, 82% of our core fleet has $CO_2$ emissions of 99g/km or less.

**Waste**

The depot recycling programme was introduced in 2012 and continues to be implemented in new depots as they open. We are working with our waste contractor to identify further recycling opportunities in the depots.

## IN THE WIDER COMMUNITY

## Overview

Each Howdens depot, manufacturing site, distribution and support centre, fulfils an important role in the life of the immediate area in which it is located. Each of our sites depends on its local community for its success and growth. Howdens' culture places great importance on personal relationships and individual accountability, and we encourage staff at each of our sites to support and engage with local community activities and charitable initiatives.

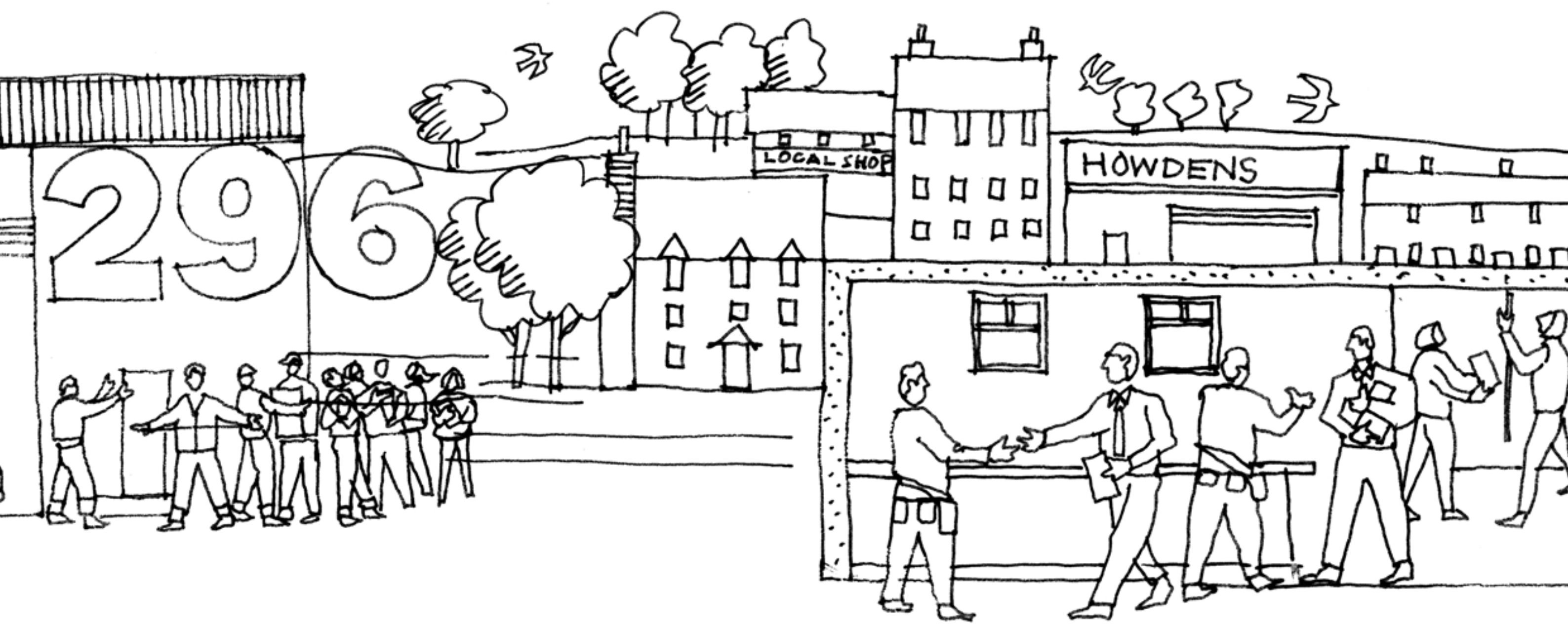
Howdens also has a long-standing partnership with Leonard Cheshire Disability, with whom we share many values and especially our belief in the importance of the individual and of a society where every person is equally valued.

We are also active in sponsoring apprentice joiners in the community.

## Local community charitable initiatives

We continue to help and encourage each of our operating and support sites to contribute to local good causes. This year our staff were responsible for over 3,600 cash and stock donations to local good causes amounting to £1.9m across the Group.

These donations typically supported a broad cross-section of local causes including schools, colleges, sports clubs, care homes, hospices, scouts, guides and youth groups, village halls, and many other community activities and projects. For example, this year we supplied and fitted 75 complete kitchens in response to requests from local good causes.



# Corporate social responsibility continued

## IN THE WIDER COMMUNITY CONTINUED

During 2014 we extended our charitable support to supporting homeless charities. We have continued this work in 2015 and the generosity of our employees across the business, augmented by contributions from customers and the Company, meant that we were able to raise over £30,000 (with donations from staff, customers and the Company) for 36 homeless charities located across the whole of the UK.

More details about our charitable activities, together with examples of some of the individual efforts that our employees have made to support both local and national charities can be found online at www.howdens.com/about-us/a-truly-local-business/

### Leonard Cheshire Disability

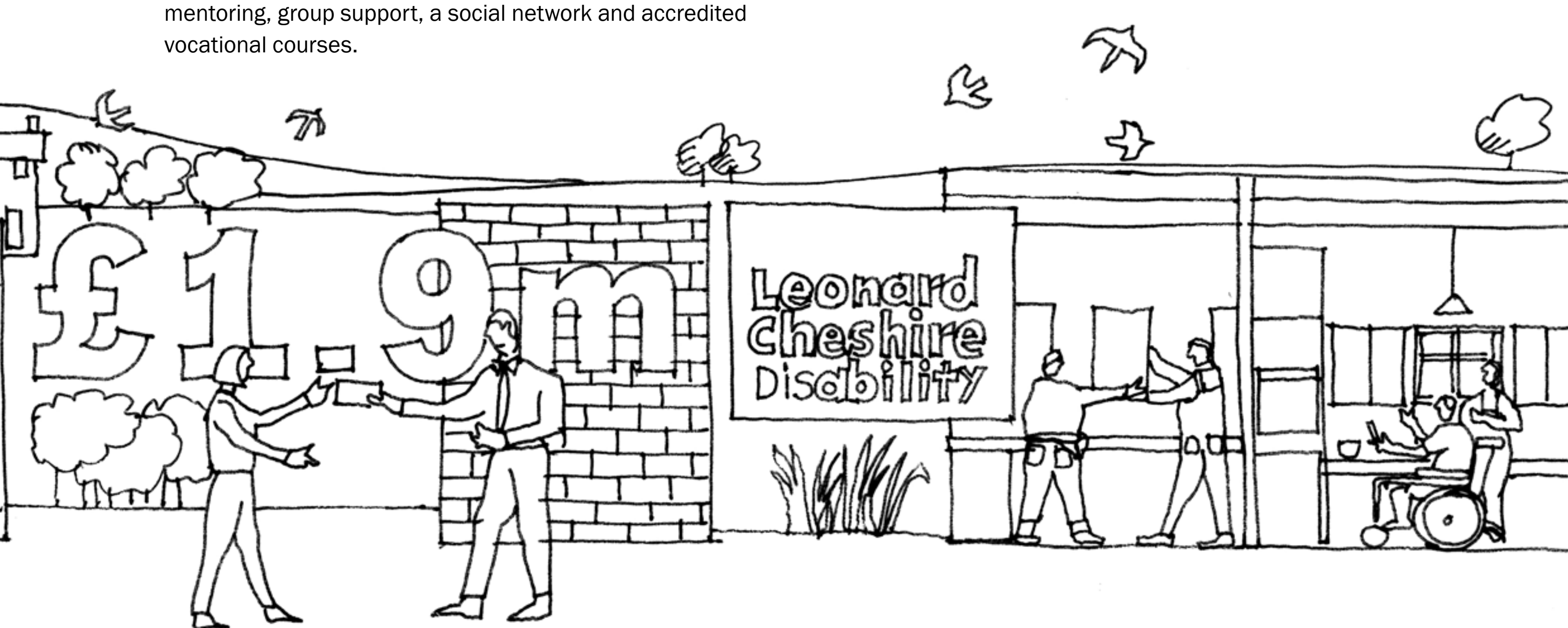
Over ten years ago we formed a corporate/charity partnership with Leonard Cheshire Disability (LCD). Like Howdens, they put local communities at the heart of their work. Founded in 1948, with over 200 services across the UK, this outstanding and inspirational charity supports thousands of disabled people every year, both in the UK and through an international network covering over 50 countries worldwide. More details of our involvement with LCD are available online at www.howdens.com/about-us/leonard-cheshire-disability and more information about LCD can be found at www.leonardcheshire.org.

Volunteers play a vital role in helping LCD to provide their services to over 6,500 people across the UK. Over the years Howdens have helped to fund many areas of volunteer training and recruitment. Just over three years ago we began to support an innovative LCD project called “Can Do”. This project gives young disabled adults the chance to find long-term employment or volunteering positions within their own communities as well as providing them with individual mentoring, group support, a social network and accredited vocational courses.

In its first few years of operation “Can Do” expanded into four regions covering approximately a third of the country. In 2014 we doubled the level of our support for this project, which together with matched funding from the National Lottery, has meant that “Can Do” the project now covers the entire UK mainland with huge potential for expansion, particularly in the inner city areas. We continued our funding for the project in 2015 at the same level. In 2015 the project gave direct assistance to over 1,000 young disabled adults, finding over 3,500 volunteering opportunities for them, which in turn generated over 10,000 hours of volunteering by these individuals.

Many “Can Do” participants continue to benefit from the facilities and healthy eating courses at the joint Howdens-LCD training kitchen project at LCD Bell’s Piece, Farnham, Surrey. Carers and support workers from across the country also attend courses at the centre, learning how they can better support their clients and residents in the preparation of food and the development of general cooking skills. Due to the success of this training kitchen, we are planning to install another similar kitchen for LCD in Inverness in the next few months.

We are committed to the installation of activity and training kitchens in other LCD homes across the country. We take on projects as prioritised by LCD and when convenient for each home. This year we have completed 11 installations. We have also agreed to step up our involvement in future years, and have pledged to supply and fit kitchens from our range wherever they are needed in any of LCD’s homes and kitchen training facilities across the country.



Over the past few years we have shared our accumulated experience and learning in the field of inclusive kitchens with other related charities, both with regard to design understanding and kitchen installations. Two inclusive kitchens were donated this year. We also make our innovative inclusive kitchen design features and solutions available to our own kitchen designers in the form of in-depth case studies which are made available to them on the Company intranet.

Inspired by working with LCD residents and carers, our inclusive kitchen research continues to enable us to offer affordable kitchen solutions to people of all abilities. This year, we exhibited in partnership with LCD at NAIDEX, the UK's largest disability, rehabilitation and homecare event. Howdens designs and makes kitchens which are available to users of all abilities, and exhibiting at this event allows us to demonstrate our commitment to a wider audience.

## 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. Since 2010 we have worked in partnership with CITB (the Sector Skills Council and Industry Training Board for the construction industry) to provide 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.

At the end of 2015, Howdens had provided funding for 40 apprenticeship placements. 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. Out of the 40 employers who have participated in the project, 18 have taken on further apprentices.

## Queen Elizabeth Scholarship Trust ("QEST")

2015 saw Howdens' first donation to QEST, the charitable arm of the Royal Warrant Holders' Association. Our donation will be used to support QEST's scholarship and apprentice programmes in traditional and contemporary crafts, and thereby make a vital contribution to the British craft industry. More information about QEST can be found at www.qest.org.uk/about-qest/

## E-ACT

In May, Howdens also engaged with E-ACT, a leading independent academy sponsor, responsible for managing, maintaining and developing academies, to fund three students to complete a three-year full-time apprenticeship programme. In addition, Howdens committed to £20,000 per year funding for three years to assist with developing community engagement, which will include both the apprenticeship programme and wider enrichment work.

# Corporate social responsibility continued

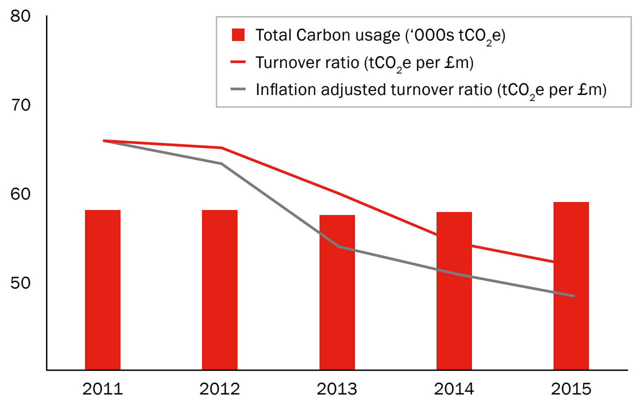


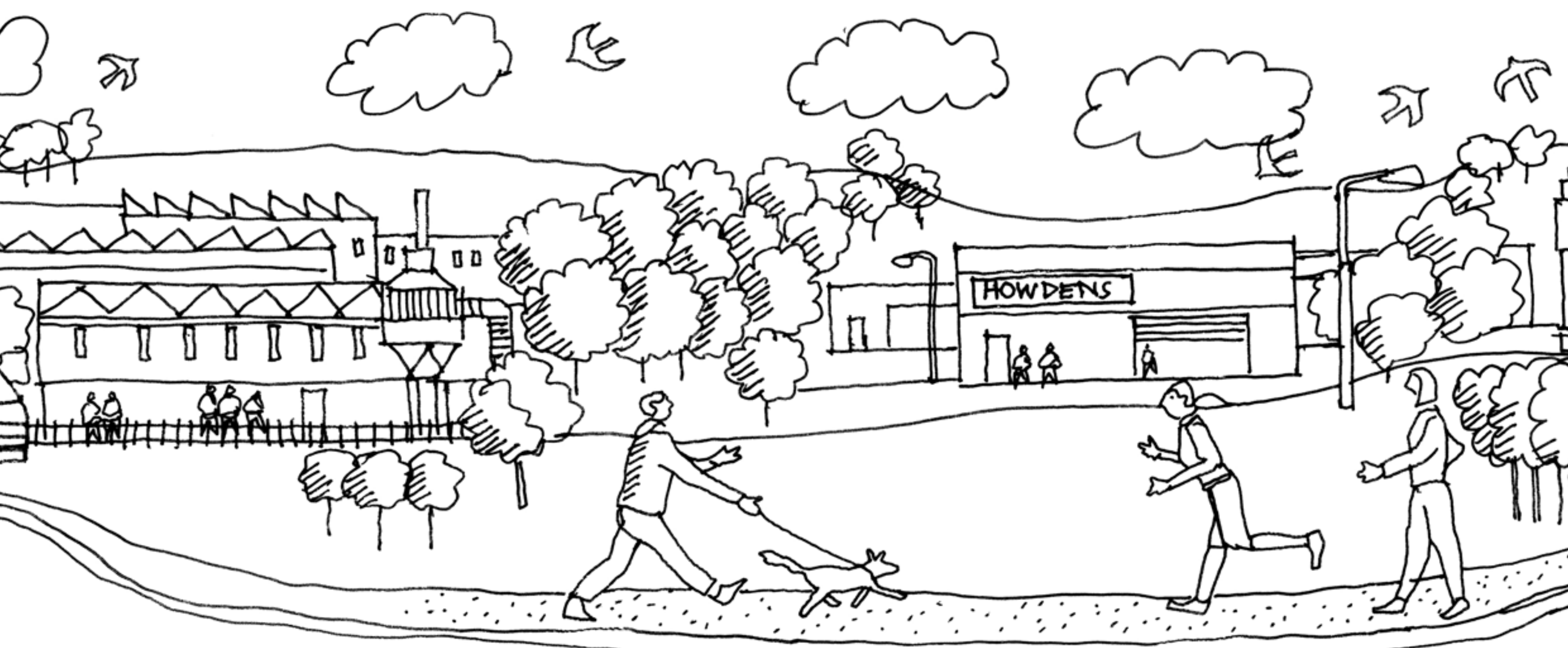
## GREENHOUSE GAS AND EMISSIONS

| | Total $CO_2$ Emissions (Tonnes) 2015 | Total $CO_2$ Emissions (Tonnes) 2014 |
|---|---|---|
| Scope 1 – Direct: Gas | 2,544 | 1,836 |
| Scope 1 – Direct: Diesel | 25,427 | 25,522 |
| Scope 1 – Direct: Other fuels | 1,516 | 1,158 |
| **SCOPE 1 – DIRECT: TOTAL** | 29,487 | 28,516 |
| Scope 2 – Indirect: Electricity | 29,578 | 26,999 |
| **SCOPE 2 – INDIRECT: TOTAL** | 29,578 | 26,999 |
| **TOTAL (Scope 1 and 2)** | 59,065 | 55,515 |
| **Turnover (£m)** | 1,220.2 | 1,090.8 |
| **Turnover ratio ($tCO_2e$ per £m)** | 48.4 | 50.9 |
| **Inflation adjusted turnover ratio ($tCO_2e$ per £m)** | 51.8 | 54.4 |

We are pleased to report that our turnover ratio (tonnes of $CO_2$ per £m) continued its downward trend, both in absolute terms and when adjusted for inflation. Both of these measures reduced by 5% between 2014 and 2015, despite a 12% increase in turnover.

We will continue to adopt measures aimed at reducing both total $CO_2$ outputs and as a percentage of turnover.



## EXTERNAL ACCREDITATION RELATING TO THE WHOLE BUSINESS

### Carbon Trust

In 2015 the Group retained its accreditation under the Carbon Trust Standard, which requires a reduction in total energy use across the whole business over a three-year period. This reduction was particularly pleasing given the 28% increase in turnover between 2013 and 2015.

### The Energy Saving Opportunity Scheme (ESOS)

ESOS is a Government-regulated scheme which requires large companies to complete an energy audit every four years. Companies have to calculate their total energy consumption and identify their areas of significant energy consumption. Independent external assessors then verify the work that the Company has done, carry out an audit of these areas and come up with suggestions for possible energy-reduction initiatives. The assessors carried out work at our factories and with our logistics team, as well as at a sample of depots.

The ESOS audit requirements applied to Howdens for the first time in 2015. We have worked with our external assessors to complete our audit in advance of the December 2015 deadline, and we are currently reviewing the findings in order to determine which of the suggested possible energy-reduction initiatives is likely to yield the best returns.

## HUMAN RIGHTS AND MODERN SLAVERY

### Human rights

Howdens promotes the observance of internationally recognised labour standards, with particular regard to human rights. Our employment contracts and policies provide that the Company 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.

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

### Modern slavery

The Modern Slavery Act 2015 requires larger companies to produce a slavery and human trafficking statement, setting out the steps that they have taken to ensure that there is no modern slavery within their business and in their supply chains. This will be applicable to Howdens for the first time in our 2016 Annual Report & Accounts.

We have begun our assessment of the requirements of the Modern Slavery Act and are developing a workplan to ensure that we are in a position to report the relevant information. We look forward to sharing this information with you in our 2016 Annual Report.

# Board of Directors

## EXECUTIVE DIRECTORS

### MATTHEW INGLE
**Chief Executive Officer**

Matthew was appointed Chief Executive Officer in October 2005.

He set up Howdens in 1995 and has been responsible for its growth into a successful business today.

Prior to joining the Company he had been Managing Director of the Magnet Trade operation. He was elected to the Board of the Company in 1998.

Matthew has no external appointments.

**Committee membership:**
None

### MARK ROBSON
**Deputy Chief Executive and Chief Financial Officer**

Mark was appointed Deputy Chief Executive in May 2014, having joined the Board in April 2005 as Chief Financial Officer.

Mark spent the previous six years as Group Finance Director at Delta plc. Prior to this, he had held a number of senior financial positions with ICI between 1985 and 1998.

He is a Chartered Accountant and qualified with Price Waterhouse.

Mark has no external appointments.

**Committee membership:**
None

## NON-EXECUTIVE CHAIRMAN

### WILL SAMUEL
**Chairman***

Will was appointed Non-Executive Director in July 2006 and became Non-Executive Chairman in October 2006.

He is Chairman of TSB Bank Plc, and Chairman of Ecclesiastical Insurance Group plc. Prior to this he was a Senior Advisor to Lazard & Co, Senior Advisor to the Prudential Regulation Authority (PRA, formerly the Financial Services Authority), Director of Schroders plc, Co-Chief Executive Officer at Schroder Salomon Smith Barney (a division of Citigroup Inc).

He has also served as Vice Chairman, European Investment Bank of Citigroup Inc, Chairman of H P Bulmer plc, Deputy Chairman of Inchcape plc, a Non-Executive Director of the Edinburgh Investment Trust plc and on the Board of Trustees and Honorary Treasurer of International Alert.

He is a Chartered Accountant.

**Committee membership:**
- Nominations (Chairman)

* As announced by the Company on 2 December 2015, Will Samuel will step down from the Board with effect from the AGM on 5 May 2016. Richard Pennycook will take over the role of Non-Executive Chairman from that date.

## NON-EXECUTIVE DIRECTORS

### MARK ALLEN

Mark was appointed Non-Executive Director in May 2011.

He is Chief Executive Officer of Dairy Crest Group plc.

After a period at Shell, Mark joined Dairy Crest in 1991 as a general manager and, after being promoted through a variety of roles including Sales & Operations Director and two divisional Managing Director roles, he was appointed to Dairy Crest's main Board in 2002, becoming Chief Executive in 2006.

He is a Trustee for The Prince's Countryside Fund and a Non-Executive Director of Dairy UK. He is also a Director for The GLF Schools Board.

**Committee membership:**

- Audit
- Remuneration
- Nominations

### ANDREW CRIPPS

Andrew was appointed Non-Executive Director in December 2015.

He is Deputy Chairman of Swedish Match AB, Chairman of the Audit Committee of Booker Group plc and Senior Independent Director and Chairman of the Audit Committee at the 2 Sisters Food Group and Stock Spirits Group plc.

Having qualified as a Chartered Accountant with KPMG, his consumer product experience included Executive Director roles in the UK and Europe with Rothmans International, where he was Corporate Finance Director.

More recently, Andrew has been Non-Executive Director of a number of public companies with consumer-facing and manufacturing businesses.

**Committee membership:**

- Audit
- Remuneration
- Nominations

### GEOFF DRABBLE

Geoff was appointed Non-Executive Director in July 2015.

He is the current Chief Executive Officer of Ashtead Group Plc, the FTSE100 international equipment rental company. He was appointed as Chief Executive in January 2007, having served as Chief Executive Designate from October 2006 and as a Non-Executive Director since April 2005.

Geoff was previously an Executive Director of The Laird Group plc where he was responsible for its Building Products division. Prior to joining The Laird Group, he held a number of senior management positions at Black & Decker.

**Committee membership:**

- Audit
- Remuneration
- Nominations

# Board of Directors continued



## NON-EXECUTIVE DIRECTORS CONTINUED

### TIFFANY HALL

Tiffany was appointed Non-Executive Director in May 2010.

She is currently Managing Director at BUPA Home Healthcare. Tiffany was previously UK Marketing Director at BUPA and Head of Marketing at British Airways. She was also Chairman of Airmiles and BA Holidays. Prior to that, she held various positions at British Airways including Head of Global Sales and Distribution and Head of UK Sales and Marketing. Tiffany was previously a Non-Executive Director of Think London.

**Committee membership:**

- Audit
- Remuneration (Chairman)
- Nominations

### RICHARD PENNYCOOK

Richard was appointed Non-Executive Director in September 2013.

He is a fellow of the Institute of Chartered Accountants in England and Wales and has been a public company director for over 20 years. He is currently Group Chief Executive of The Co-operative Group, having previously been Group Finance Director.

He is also Non-Executive Chairman of The Hut Group Limited and is currently Senior Independent Director and Chairman of the Audit Committee of Persimmon plc, though he has announced his intention to retire from the Board of Persimmon at their AGM in April 2016. Richard also serves as Chairman of the Institute For Turnaround.

His previous Finance Director roles include Wm Morrison Supermarkets plc, RAC Group plc, H P Bulmer Holdings plc, Laura Ashley Holdings plc and J D Wetherspoon plc.

Richard's other past roles include President of Allders International North America, Chief Executive Officer of Welcome Break Holdings Ltd and a Non-Executive Director of Richer Sounds plc.

**Committee membership:**

- Audit (Chairman)
- Remuneration
- Nominations

### MICHAEL WEMMS

**Senior Independent Director**

Michael was appointed Non-Executive Director in November 2006.

He was Chairman of House of Fraser plc from 2001 until November 2006 and was an Executive Director of Tesco plc from 1989 to 2000. He was Chairman of the British Retail Consortium from 2004 until 2006 and has also held Non-Executive Director positions with Moneysupermarket.com plc, Majid al Futtaim, A&D Pharma and Coles Myer Ltd.

He is currently Chairman of the Board of Trustees of E-ACT, the independent academy sponsor.

**Committee membership:**

- Audit
- Remuneration
- Nominations

# Directors' report

The Directors have pleasure in submitting their report and the audited financial statements for the 52 week period ended 26 December 2015. Comparative figures relate to the 52 weeks ended 27 December 2014.

In order to make our Annual Report and Accounts more accessible a number 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. The Directors' Report comprises the sections detailed below together with the Business Review and statement on political contributions on page 40.

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 activities of Howden Joinery Group Plc and its subsidiaries can be found on pages 4 to 35.

**Dividend:** Information about the final dividend can be found in the Chairman's Statement on page 4 and the Review of Operations and Finance on page 13.

**Going Concern, Viability and other Statements of the Directors:** These statements may be found on page 17.

*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 on page 34.

*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 44 and 45.

**Employees:** Information about the Group's employees is located on page 45.

**Directors:** Details of Directors and their interests are on page 45 and details of Directors' Indemnity and Insurance on page 43.

**Annual General Meeting:** Information about the Annual General Meeting, including reappointment of the Group's Auditors, can be found on page 44. A copy of the UK Corporate Governance Code can be accessed at www.frc.org.uk.

*Located in the Nominations Committee Report:*

**Directors:** Information with regard to the appointment and replacement of Directors is located on page 75.

**Employees:** Information about the total number of employees and gender diversity statistics are located on page 77. The average number of employees and their remuneration are shown in note 7 to the financial statements.

# Directors' report continued



## BUSINESS REVIEW

The Company is required by the Companies Act 2006 to include a business review in this report.

The information that fulfils the requirements of the business review can be found in the following sections which are incorporated in this report by reference:

- Chairman's statement on pages 4 and 5;
- Chief Executive's statement which includes a review of our model, our market and strategy on pages 6 to 11;
- Review of operations and finance (which includes key performance indicators) on pages 12 to 16;
- Going Concern and Viability statements on pages 17 to 18;
- Review of principal risks and uncertainties on pages 19 to 22;
- Corporate social responsibility report on pages 23 to 35 containing environmental matters, social & community issues and additional information on employees.
- Corporate governance report on pages 41 to 46; and
- Remuneration, Audit and Nomination Committee Report on pages 47 to 77.

The full results for the period are shown in the financial statements on pages 78 to 131.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 27 to the financial statements.

The subsidiary undertakings affecting the profits or net assets of the Group in the year are listed in the table of parent company and subsidiary undertakings on page 132. There have been no significant events since the balance sheet date.

## POLITICAL DONATIONS

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

By order of the Board

**Forbes McNaughton**
**Secretary**
24 February 2016

# Corporate Governance Report



## BOARD MEMBERSHIP

| | |
|---|---|
| Will Samuel | (Chairman) |
| Mark Allen | |
| Andrew Cripps | (From 1 December 2015) |
| Geoff Drabble | (From 3 July 2015) |
| Tiffany Hall | |
| Matthew Ingle | |
| Richard Pennycook | |
| Mark Robson | |
| Michael Wemms | |

In compliance with Provision B.1.2 of the UK Corporate Governance Code, at least half of the Directors were independent throughout the year.

## MEETING ATTENDANCE

The Board held regular meetings during 2015 and received accurate and timely information. Only the attendance of Directors is shown in the table below, although members of the Executive Committee have also attended at the invitation of the Chairman and Chief Executive.

| | Attendance | No. of meetings |
|---|---|---|
| Will Samuel | 7 | 7 |
| Mark Allen | 7 | 7 |
| Geoff Drabble | 3 | 3 |
| Tiffany Hall | 7 | 7 |
| Matthew Ingle | 7 | 7 |
| Richard Pennycook | 7 | 7 |
| Mark Robson | 7 | 7 |
| Michael Wemms | 7 | 7 |

This table and the attendance tables in the Committee reports show the number of meetings individual Directors could have attended (taking account of eligibility, appointment and retirement dates during the year) and their actual attendance.

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 encouraged 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.

There were no Board meetings following Andrew Cripps' appointment on 1 December and therefore he did not attend any meetings during the year.

## 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 26 December 2015, the Company has been in compliance with the provisions, including the main and supporting principles, as set out in the Code applicable to accounting periods commencing on or after 1 October 2014.

It should be noted that from November 2015, Michael Wemms has served as Non-Executive Director for more than nine years. The Board are aware of Code Provision B.1.1 which provides that tenure in excess of nine years is one factor boards should consider when determining whether a non-executive director is independent. However, following a recommendation from the Nominations Committee, the Board are satisfied that Michael remains independent in both character and judgement. The Board will keep the independence of all Non-Executive Directors under close review.

Examples of how the main and supporting principles have been applied are set out below and in the Remuneration report and Committee reports.

# Corporate Governance Report continued



## INTRODUCTION FROM THE CHAIRMAN

The continuing success of Howdens' business is dependent on its ability to sustain its strong and distinctive culture, which from the outset has been based on personal accountability and respect for the individual.

Our corporate governance framework is designed to safeguard the interests of shareholders and to help ensure the successful development of the business over the long-term. With these objectives in mind, the Board is committed to upholding the highest standards of corporate governance and making sure that the procedures and practices of the business continue to be fair, appropriate, effective and compliant with both the spirit and the letter of the UK Corporate Governance Code.

## 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 provisions 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 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 Board is 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 shareholders' interests and ensuring its own effectiveness. The Board is also responsible for protecting the culture and values of the business, a role particularly pertinent to Howdens where integrity, respect and recognition are fundamental tenets of the business.

Decisions reserved for consideration by the Board are detailed in a schedule which is reviewed annually and was last reviewed and approved in January 2016. These key 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 six Non-Executive Directors. Details of the individual Directors can be found on pages 36 to 38.

Will Samuel was the Non-Executive Chairman during the whole period. As announced on 2 December, having served as Non-Executive Chairman of the Company since 2006, Will Samuel will step down from the Board from the Annual General Meeting in May 2016 and Richard Pennycook will assume the role of Non-Executive Chairman from that date. An overview of the Chairman succession process can be found on page 74 of the Nominations Committee report. The Board considers that Richard Pennycook will be independent upon his appointment as Chairman.

### Executive Directors

Matthew Ingle and Mark Robson continued in their respective roles throughout the year as Chief Executive and Deputy 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
- Andrew Cripps
- Geoff Drabble
- Tiffany Hall
- Richard Pennycook
- Michael Wemms (Senior Independent Director)

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

The Board is proposing that all of the Directors, with the exception of Will Samuel who will stand down, will be subject to election or re-election at the 2016 AGM dependent on whether they were appointed prior to or after the 2015 AGM.

## Company Secretary

The Company Secretary provides the Board with guidance on various governance matters, under the direction of the Chairman, and ensures that effective and timely information flows between the Board and the Senior Management as well as within the Board and between the Board's Committees. All of the Directors have direct and unfettered access to the Company Secretary.

There is a formal procedure to allow all Directors to take independent, external advice if and when necessary at the Company's expense. In addition, working with the Chairman, the Company Secretary is responsible for ensuring that Board procedures are followed and that all Directors have access to his advice and services.

## Executive development and succession

Executive succession and development are matters reserved for the Board. During the year the Board received two presentations from the Group HR Director on the succession and development of Howdens' senior management, which included members of the Executive Committee. In addition, the Directors received organisational development updates as part of the standard Board reports.

There were three appointments to the Executive Committee during 2015. Gareth Hopkins was appointed interim HR Director in April 2015. Gareth had previously worked in the business as a HR consultant for 15 months and was previously Group HR Director at Dairy Crest Group plc and Whitworths. Kevin Barrett was appointed as Group Development Director in September 2015. Prior to joining Howdens, Kevin spent 10 years at Sainsbury's where he held a variety of roles including Director of Strategy. At the end of 2015, Clive Cockburn was appointed Chief Information Officer, replacing David Hallett who stood down after 10 years in the role. Clive joined Howdens in 2002 as Head of IT Infrastructure and Service Delivery.

## 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 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 of the Committees and their terms of reference are reviewed annually and are available on the Group's website, www.howdenjoinerygroupplc.com. The work of each of the Committees is considered in individual reports below.

The Group has an Executive Committee comprising those members detailed on page 135. 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.

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

## 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.

## Conflicts of interest

The Companies Act 2006 places a duty upon Directors to ensure that they do not, without the Company's prior consent, place themselves in a position where there is a conflict, or possible conflict, between the duties they owe the Company and either their personal interests or other duties they owe to a third party.

If any Director becomes aware that they, or any party connected to them, have an interest in an existing or proposed transaction with the Company, they must notify the Board as soon as practicable. The Board has the authority to authorise a conflict if it is determined that to do so would be in the best interests of the Company.

# Corporate Governance Report continued



## Board evaluation

In line with its stated policy of externally facilitating the Board evaluation process every three years in line with Provision B.6.2 of the Code, the Board agreed that the 2015 evaluation would be undertaken by the Senior Independent Director, with support from the Company Secretary. The evaluation was undertaken following the September Board meeting and was conducted within a methodology previously agreed with the Board. This comprised a series of interviews with all Board members and focused on the following areas:

- the size, balance and dynamics of the Board;
- an overview of protocol, debate and decision-making at Board and Committee meetings;
- the performance of individual Directors, including the Chairman;
- the Chairman succession process and Non-Executive Director rotation;
- organisational succession and development at Board and senior management level;
- 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; and
- shareholder focus.

The evaluation report was presented to the Board by the Senior Independent Director in January 2016 and the Board accepted its findings. Further to the review, the Chairman and Company Secretary began to implement a number of recommendations to better facilitate and safeguard effective behaviours at Board level.

The 2016 Board evaluation exercise will be undertaken by an external facilitator.

## 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 2015 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 Remuneration Committee Chairman 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 corporate website, www.howdenjoinerygroupplc.com, includes a dedicated investor relations section and provides an effective channel for communication with existing and potential investors. The Board receives regular reports from the Deputy Chief Executive and Chief Financial Officer 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 Numis.

### Substantial shareholdings

As at 24 February 2016, the Company had been notified in accordance with Rule 5 of the Disclosure and Transparency Rules, of the following voting rights as a shareholder of the Company:

| Shareholder | % of voting rights | Date of last notification |
|---|---|---|
| BlackRock, Inc | 9.99 | Feb 2014 |
| Standard Life Investments Limited | 6.99 | Nov 2015 |
| FMR LLC (Fidelity Management and Research) | 5.07 | Oct 2015 |
| Jupiter Asset Management Limited | 4.55 | Nov 2014 |
| Legal and General Group Plc | 3.97 | July 2013 |

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

### Annual General Meeting

The 2016 Annual General Meeting (AGM) is to be held at UBS Investment Bank, 1 Finsbury Avenue, London, EC2M 2PP on 5 May 2016 at 11:00am.

The 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-one clear days before the meeting.

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming AGM. Details of when the Company will next re-tender the audit can be found on pages 70 to 71 of the Audit Committee Report.

## 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 22. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, both of which are 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 25. 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.

As at 26 December 2015, the Company held 9,152,000 ordinary shares in Treasury following the commencement of the on-market share repurchase programme in 2015. These shares have no voting rights and will be used solely for the satisfaction of employee share awards.

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 19), 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

As at 26 December 2015, the Directors had authority under the shareholders' resolutions of 6 May 2015 to purchase through the market 65,158,082 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 within 18 months from the date of passing.

## Directors and their interests

Details of the Directors in office on 26 December 2015 are shown on pages 36 to 38.

# EMPLOYEES

The average number of employees and their remuneration are shown in note 7 to the financial statements.

At the year end, the Group had 8,271 employees (2014: 7,506) 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.

# Corporate Governance Report continued



## RISK AND INTERNAL CONTROL

The Board is responsible for the Group's systems 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 reviews the effectiveness of the Group's system of internal controls at least annually, 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 within the principal risks and uncertainties section of the Strategic Report on pages 19 and 20 and are 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.

### Risk management

The Group's risk assessment process and the way in which significant business risks are managed is a key area of focus for the Board. The Group's assessment of the principal risks and uncertainties, as described within the Strategic Report on pages 19 to 22, outlines the ongoing process for identifying, evaluating and managing the significant risks faced by the Group. The Board can confirm that it has conducted a robust assessment of the principal risks and identified two additional risks that they consider to be principal. These have therefore been disclosed as part of the principal risks disclosure in line with the 2014 Corporate Governance Code.

### 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.
- 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 unfettered 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.

By order of the Board

**Will Samuel**
**Chairman**

24 February 2016

# Report of the Remuneration Committee

## COMMITTEE MEMBERSHIP

| | |
|---|---|
| Tiffany Hall | (Chairman) |
| Mark Allen | |
| Andrew Cripps | (From 1 December 2015) |
| Geoff Drabble | (From 3 July 2015) |
| Richard Pennycook | |
| Michael Wemms | |

In compliance with the UK Corporate Governance Code and the Committee's terms of reference, during the year the Remuneration Committee comprised wholly of independent Non-Executive Directors. Subject to successful annual re-election to the Board, appointments to the Remuneration Committee are for a period of three years which may be extended by the Committee provided the Director remains independent.

## MEETING ATTENDANCE

The Committee meets at least three times a year and at any other such time as the Chairman of the Committee requires. Only the attendance of members of this Committee is shown in the table below, although other Directors, where appropriate, have often also attended at the invitation of the Committee Chair.

| | Attendance | No. of meetings |
|---|---|---|
| Tiffany Hall | 4 | 4 |
| Mark Allen | 4 | 4 |
| Geoff Drabble | 2 | 2 |
| Richard Pennycook | 4 | 4 |
| Michael Wemms | 4 | 4 |

There were no Remuneration Committee meetings following Andrew Cripps' appointment on 1 December and therefore he did not attend any meetings during the year.

## TERMS OF REFERENCE

To view the Remuneration Committee full terms of reference please refer to the Company's website: www.howdenjoinerygroupplc.com

## INTRODUCTION BY THE COMMITTEE CHAIRMAN

On behalf of the Board, I am pleased to present the Report of the Remuneration Committee for 2015, prepared in compliance with the reporting requirements of the Large and Medium-sized Companies and Groups Regulations 2013.

Alongside approval of the Annual Report on Remuneration, at the AGM on 5 May 2016 we will also be seeking shareholder approval for a revised Executive Director Remuneration Policy, which we set out in full on pages 49 to 57.

Our existing policy was approved by shareholders at the 2014 AGM and therefore would ordinarily expire at our AGM in 2017. However, the Committee wishes to ensure that our remuneration framework retains maximum alignment with the strategic needs of the Company, and supports succession planning and recruitment at the Executive Committee level. As such, we believe that the introduction of a revised policy one year ahead of the normal cycle is appropriate.

### 2015 reward outcomes

2015 was another successful year for Howdens. The executive team continue to implement our strategic plans, delivering improvements in the depot network and investing in our capacity and capabilities across manufacturing, distribution and infrastructure – as well as continuing to explore the international development potential of the Company.

Another year of strong cash generation has enabled us to meet our stated intention of an earnings per share dividend cover of 2.5 – 3.0 times, with one-third of the previous year's dividend being paid as an interim dividend in the following year.

Howdens has also achieved another year of strong profit growth. Stretching PBT and cash flow targets were set under the bonus, against which the business has delivered exceptional performance (2015 PBT of £220m and cash flow of £234m). Bonus outcomes reflect this, with payouts of 112% of salary.

This performance is mirrored by that achieved over the last three-year period with share price growth of 28% per annum (a total of 207%) and PBT growth of 17% per annum. In light of this very strong performance, the Co-Investment Plan shares awarded under the 2013 grant will vest at their maximum potential – two matching shares for each one invested.

### Our revised policy from 2016

The Committee has undertaken a comprehensive review of the remuneration framework used for Executive Directors and the Executive Committee (who share a common incentive structure). The outcome of this review is a number of revisions to our remuneration policy, better aligning the way we reward our leaders with the future needs of the business and its strategic ambitions.

# Report of the Remuneration Committee continued



The core change in our revised policy is a shift from the use of a Co-Investment Plan, which supported and incentivised our business well through the rapid growth of the last few years, to a Performance Share Plan (PSP).

The maximum opportunity for our Executive Directors under the PSP will be 270% of salary compared to the historic maximum of 300% available under the Co-Investment Plan. Whilst we recognise that this maximum opportunity under the PSP is positioned at upper quartile when compared to the market, our remuneration policy is (and has historically been) one of above-market levels of reward for above-market levels of performance. The 20% per annum PBT growth requirement, which will operate for 2016 awards, exceeds brokers forecasts and represents a very stretching PBT growth ambition when considered against market expectations and long-term incentive target ranges for profit and earnings measures across the FTSE 250. Targets will be reviewed annually to ensure that the level of performance required to achieve the maximum level of opportunity continues to require this level of strong performance by the business.

The new PSP will have an additional two year post-vest holding period, increasing the total time from grant to final release to five years. This is in line with emerging market practice, and supports the continued strength of shareholder alignment that was delivered through significant levels of shareholding under the co-investment structure.

We have also reduced the maximum opportunity under the bonus to 150% of salary to support alignment with market practice. The Committee will, however, retain the flexibility in exceptional circumstances to use the historic maximum of 200% - although we do not currently expect to use this flexibility over the life of this policy, and would consult with shareholders before doing so. For the avoidance of doubt, this additional flexibility would never be used retrospectively.

## Performance measures

The Committee does not consider any change in performance measures to be appropriate at this time. Sustainable profit growth is at the heart of the Howdens entrepreneurial culture. It is a simple metric that is easily understood by our employees from depot managers to the senior managers, and we believe by having a profit sharing approach that extends deep into the organisation we are able to support the motivation and well-being of our workforce. PBT is also a key performance indicator for the Company, and is directly correlated to the value we are able to deliver to our shareholders. Therefore for 2016 the PSP will (in line with the previous Co -Investment Plan) be based on PBT growth, with the bonus based on a combination of PBT and cash flow performance.

However, we do recognise feedback from our shareholders around the variety of measures we use, and are comitted to an annual review of the measures used under incentive plans to ensure these remain appropiate for the business as it evolves. As such, we have introduced increased flexibility with regards to our ability to change the performance measures under our policy to enable us to make these changes as required in the future.

To ensure shareholders are comfortable with the level of rigour in the assessment of performance over time, all measures under the PSP, and at least 70% of measures under the Annual Bonus, will be based on financial targets. If the Committee believes that changes to measures are appropriate, we will discuss the proposed new measures to be used with our largest shareholders in advance of implementation.

## Shareholder views

As part of the development of this policy, I wrote to our largest shareholders together with the Investment Association and ISS in order to seek their views on our proposals. We received strong positive feedback, with particular praise around the simplicity of our arrangements, the consistency of our cascade through the business and the reduction in quantum in both the short and long-term incentives.

During consultation, our investors also indicated that they were keen to see an increased shareholding requirement for our Deputy CEO and CFO, and we have therefore amended our shareholding guidelines such that all Executive Directors are required to hold at least 200% of salary in the Company's shares (note that the CEO and Deputy CEO and CFO hold 3,537% and 2,246% of salary respectively in the Company's shares).

## Salary and fee changes

Executive Directors will not receive a salary increase for 2016.

The Board has also reviewed the fees paid to the Chairman and Non-Executive Directors through consideration of FTSE 250 market benchmarks, and the increased size of the Company and time commitment required for these roles since fees were last revised in 2013. The fee paid to the Company Chairman will rise to £250,000 (from £190,000). This will take effect when Richard Pennycook takes over as Chairman from the AGM. The NED base fee and Committee Chairmanship fees will rise to £55,000 and £10,000 (from £45,000 and £8,000) respectively. The Senior Independent Director fee will increase from £3,000 to £10,000.

I would like to thank my fellow Committee members and the other individuals who have supported the Committee through the year, and particularly with the remuneration review process. The Committee is committed to an open and transparent dialogue with our investors, and therefore I would welcome your views on any part of this report or our revised policy.

## DIRECTORS' REMUNERATION POLICY

Howdens' Remuneration Policy, as set out in our 2013 Annual Report and Accounts, was approved by shareholders at our 2014 AGM with the intention that it apply for 3 years from that date. It is also available in full on our website, at www.howdenjoinerygroupplc.com.

In order to ensure continued alignment between remuneration and the evolving strategic direction of our business, the Committee has deemed it appropriate that a new policy be proposed to shareholders for approval. This policy is set out below, with the intention that it apply for three years from the date of the 2016 AGM.

### Future policy table – Executive Directors

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.

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.

| Element and how it supports our strategy | Operation | Opportunity | Performance Measures |
|---|---|---|---|
| **Base salary**<br>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.<br>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.<br>Reviews will also take into account the performance of the individuals, any changes in their responsibilities, pay increases for the wider workforce and internal relativities.<br>2015 and 2016 salary levels are detailed in the "Statement of implementation of remuneration policy in 2016" section on page 64. | None. |

# Report of the Remuneration Committee continued



| Element and how it supports our strategy | Operation | Opportunity | Performance Measures |
|---|---|---|---|
| **Benefits**<br>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**<br>Incentivises annual performance over the financial year.<br>Deferral links bonus payout to share price performance over the medium term. | Performance is assessed annually against cash flow and PBT targets.<br>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.<br>Malus provisions apply for the duration of the performance period and to shares held under deferral.<br>Clawback provisions apply to cash amounts paid for two years following payment, and to vested deferred shares under the first tranche for one year following vesting. Therefore clawback and/or malus will operate on the award for a total period of up to two years after the performance period.<br>Clawback may be applied in the following scenarios:<br>– material misstatement of accounts;<br>– erroneous assessment of a performance target;<br>– where the number of plan shares under an award was incorrectly determined; or<br>– gross misconduct by a Director.<br>No dividend equivalents accrue on deferred shares. | The maximum opportunity under the annual bonus is 150% of salary.<br>The Committee has the flexibility to apply a maximum opportunity of up to 200% of salary in exceptional circumstances.<br>If the Committee considers it appropriate to use a maximum opportunity of over 150% of salary, we will notify our largest shareholders in advance, and discuss with them the rationale for such an exceptional award. The exceptional maximum would not be used on a retrospective basis, and would be based on pre-determined and stretching performance targets. | For 2016 the annual bonus will be based on PBT and cash flow measures.<br>The Committee retains the flexibility to use alternative measures during the life of this policy, subject to at least 70% of the bonus being based on financial metrics. |

| **Element and how it supports our strategy** | **Operation** | **Opportunity** | **Performance Measures** |
|---|---|---|---|
| **Performance Share Plan (PSP)**<br>Focuses management on longer-term financial growth than addressed by the annual bonus. Long-term financial growth is key to the generation of shareholder value. | Executives have the opportunity to participate in the PSP on an annual basis. The PSP operates over a three-year cycle.<br>Under the PSP, awards will be granted towards the beginning of the performance period and vest based on performance over the following three-year performance period. Malus provisions apply for the duration of the vesting period.<br>Vested awards are subject to a two-year holding period following vesting, during which no performance measures apply.<br>Clawback provisions apply for the duration of the holding period, through which vested awards may be reclaimed in the event of:<br>– material misstatement of accounts;<br>– erroneous assessment of a performance target;<br>– where the number of plan shares under an award was incorrectly determined; or<br>– gross misconduct by a Director.<br>No dividends accrue on unvested shares. | The maximum opportunity under the PSP is 270% of salary. | 2016 awards will be based in full on PBT growth.<br>The Committee retains the flexibility to use alternative financial performance measures during the life of this policy. |
| **Pension**<br>Provides competitive long-term savings opportunities. | The Howden Joinery Group Pension Plan is a hybrid defined benefit, occupational pension plan.<br>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 £144,000; the cap increases annually in line with CPI).<br>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.<br>A pension supplement system operates concurrently with the Plan which recognises that pension entitlement in respect of the CARE part of the Plan is capped. This supplement is 30% of basic salary above the Plan Cap to reflect competitive market practice.<br>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.<br>This plan is now closed to new entrants. If an Executive Director joins who is not already a member of the Plan, they will be able to participate in the new auto-enrolment defined contribution scheme or to receive a supplement payment of 30% of total basic salary. | | None. |

# Report of the Remuneration Committee continued



| Element and how it supports our strategy | Operation | Opportunity | Performance Measures |
|---|---|---|---|
| **All-employee share incentive scheme**<br>To encourage share ownership across the Company. | Executive Directors are able to participate in HMRC approved share plans available to all employees of the Company. | The maximum participation levels will be set based on the applicable limits set by HMRC. | None. |
| **Shareholding Requirement**<br>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.<br>Unvested deferred bonus and long-term incentive shares are not taken into account. PSP shares within a holding period are counted towards the requirement. | Executive Directors are expected to build up a holding of 200% of base salary. | None. |

| Elements of previous policy under which unvested awards are still outstanding | | | |
|---|---|---|---|
| **Co-Investment Plan (CIP)**<br>Previous long-term incentive plan. Awards under the CIP were granted in 2014 and 2015 and these vest in 2017 and 2018 respectively.<br>No awards will be made under this plan in future. | Executives had the opportunity to participate in the CIP on an annual basis. The CIP operates over a three-year cycle. The investment was funded by Executive Directors themselves from their personal shareholding. The matching shares vest after a three-year vesting period subject to performance against PBT growth targets.<br>The Company has 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.<br>No dividend equivalents accrue on matching shares. | The CEO could invest up to the lesser of 650,000 shares or 150% of salary.<br>The Deputy CEO and CFO was able to invest an equivalent proportion of salary.<br>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. | PBT performance measured over a three-year period. |

## Performance measures and targets

As part of the Committee's review of our remuneration arrangements, we have considered the appropriateness of the performance measures we have historically used, as well as the potential merits of incorporating measures which deliver increased focus on other elements of our financial performance. The Committee believes that the current measures continue to be appropriate for our business, and therefore no change in performance measures will be made for 2016 awards, which are cascaded across the Executive Directors, Executive Committee and senior management.

Sustainable profit growth is at the heart of the Howdens' entrepreneurial culture. It is a simple metric that is easily understood by our employees from depot managers to the CEO, and we believe that by having a profit-sharing approach that extends deep into the organisation we are able to support the motivation and wellbeing of our workforce. PBT is also a key performance indicator for the Company, and is directly correlated to the value we are able to deliver to our shareholders.

Cash flow also continues to be a key internal metric for Howdens. We believe that the incorporation of this measure in the bonus focuses our leadership on strong working capital management, supports strong sustainable profit growth and the delivery of returns to our shareholders.

Reflecting shareholder feedback, we recognise that during the life of this policy it may become appropriate to amend the performance measures used for our incentives. It is for this reason that we have added the flexibility into our policy to change performance measures, subject to 70% of the bonus and 100% of the PSP being based on financial metrics. Each year we will carefully consider our strategy and the challenges facing the business, and will review measures to ensure that they continue to drive strong alignment with the delivery of value to shareholders.

## Annual bonus – 2016

The table below sets out additional information on performance conditions relating to the 2016 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. |

Commercial sensitivity precludes the advance publication of bonus targets but targets will be disclosed retrospectively in the Annual Report on Remuneration. For 2015 targets please see the annual bonus targets and outcomes table on page 59.

## Performance Share Plan – 2016

The PSP has replaced the Co-Investment Plan and will also be based solely on nominal PBT performance for the 2016 award. 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 to ensure that the use of nominal targets is appropriate.

The intended targets for 2016 PSP grants are detailed in the "Statement of implementation of remuneration policy in 2016" section on page 64.

# Report of the Remuneration Committee continued



## 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 reward received by senior management 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 participate in a PSP, which vests dependent on the same performance measures as the PSP 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.

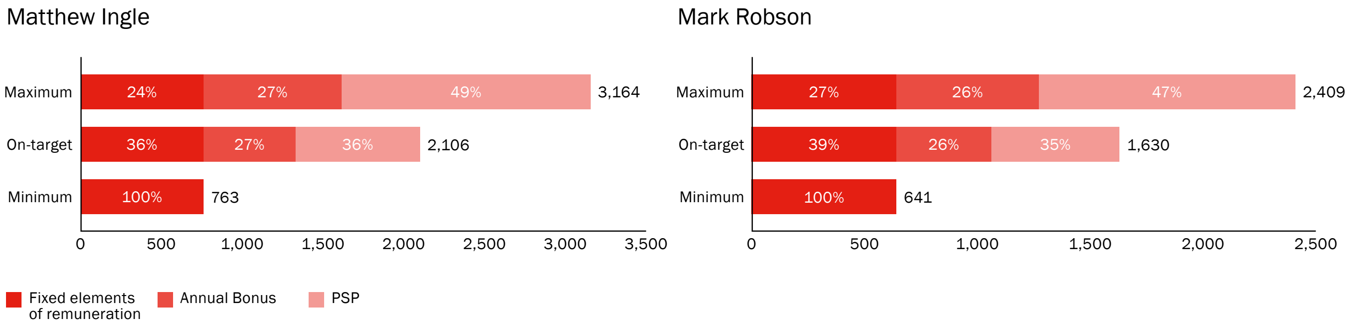
| Element and how it supports our strategy | Operation | Opportunity | Performance Measures |
|---|---|---|---|
| Fees for Non-Executive Directors<br><br>To attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy. | The fees for the Non-Executive Directors are determined by the Chairman and Chief Executive.<br><br>The fee for the Chairman is determined by the Remuneration Committee while the Chairman is absent.<br><br>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 64.<br><br>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.<br><br>Fees may be reviewed every year, and are set within a range defined by a market benchmark of comparably sized companies. Benchmarking is typically undertaken every three years. | NEDs are not eligible to participate in any performance related arrangements. |

## 2016 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 packages 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.

**Value of package (£'000)**




## 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 2016, salary increases for the wider 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. This Executive remuneration policy was shared with our major shareholders and shareholder representation bodies in advance of the publication of this report, and the Chair met with key representatives from each in order to invite comment.

Feedback received was carefully considered by the Committee and incorporated where appropriate into the proposed policy.

# Report of the Remuneration Committee continued



## 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.<br><br>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.<br><br>The Executive Director will be eligible to receive benefits in line with Howdens' benefits policy as set out in the remuneration policy table.<br><br>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-transferable 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 basic salary. |
| **Annual bonus** | The Executive Director will be eligible to participate in the annual bonus scheme as set out in the remuneration policy table.<br><br>The maximum potential opportunity under this scheme is 150% of salary, although in exceptional circumstances the Committee may choose to apply a maximum of up to 200% of salary. |
| **Long-term incentives** | The Executive Director will be eligible to participate in the PSP set out in the remuneration policy table.<br><br>Accordingly, the Executive Director may be offered a maximum opportunity under the PSP of the 270% of salary in performance shares. |
| **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. |

## 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

Non-Executive Director appointments are for an initial period of three years. They are subject to re-appointment annually in accordance with the UK Corporate Governance Code. Non-Executive Directors 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.<br><br>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.<br><br>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.<br><br>If an individual is a bad leaver then all awards to which they are conditionally entitled will lapse in full. |

# Report of the Remuneration Committee continued



## DIRECTORS' REMUNERATION REPORT

This annual report on remuneration outlines remuneration-related activities and outcomes over the past year. The report represents the implementation of the Company's remuneration policy, with historic information based on the policy approved at the 2013 AGM and forward-looking information on that set out in the policy section of this report (subject to approval by shareholders at the 2016 AGM).

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 2014 and 2015. Further details on the pension, annual bonus and Co-Investment Plan figures are contained in following sections.

| £000 | Base salary/fees | | Taxable benefits | | Bonus | | Long-term incentive awards | | Pension | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Year** | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** | **2015 (CIP)** | **2014 (CIP)** | **2015** | **2014** | **2015** | **2014** |
| **Chairman** | | | | | | | | | | | | |
| Will Samuel | 190 | 190 | – | – | – | – | – | – | – | – | 190 | 190 |
| **Executive Directors** | | | | | | | | | | | | |
| Matthew Ingle | 572 | 572 | 216[1] | 19 | 640 | 728 | 3,625 | 4,732 | 172 | 172 | 5,225 | 6,223 |
| Mark Robson | 421 | 413 | 76[2] | 49 | 471 | 513 | 2,543 | 3,319 | 175 | 171 | 3,686 | 4,465 |
| Sub-total | 1,183 | 1,175 | 292 | 68 | 1,111 | 1,241 | 6,168 | 8,051 | 347 | 343 | 9,101 | 10,878 |
| **Non-Executive Directors** | | | | | | | | | | | | |
| Mark Allen | 45 | 45 | – | – | – | – | – | – | – | – | 45 | 45 |
| Tiffany Hall | 53 | 50 | – | – | – | – | – | – | – | – | 53 | 50 |
| Richard Pennycook | 53 | 53 | – | – | – | – | – | – | – | – | 53 | 53 |
| Geoff Drabble | 22 | – | – | – | – | – | – | – | – | – | 22 | – |
| Andrew Cripps | 4 | – | – | – | – | – | – | – | – | – | 4 | – |
| Michael Wemms | 48 | 51 | – | – | – | – | – | – | – | – | 48 | 51 |
| **Total** | 1,408 | 1,374 | 292 | 68 | 1,111 | 1,241 | 6,168 | 8,051 | 347 | 343 | 9,326 | 11,077 |

Notes

1. During the year, the Remuneration Committee agreed that the permanent place of work for tax purposes for the Chief Executive should be changed to reflect the increased requirement on him to attend the Company's London office on a more regular basis. As a result of this, the Committee agreed that the costs of travel between his home and the London office, as well as related subsistence, would continue to be met by the Company as a taxable benefit.

2. As reported in the 2014 Remuneration Report, due to a clerical payroll error Mr Robson was not paid a component of his benefits package in 2012 or 2013. The amounts not paid to Mr Robson in 2012 or 2013, which totalled £27k were paid to him as part of his 2015 benefits package to ensure that his overall remuneration position was up to date.

The aggregate Directors' remuneration, including salary, bonus, benefits and cash pension allowances is £3,100k.

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

### Annual bonus targets and outcomes

The table below sets out the 2015 annual bonus targets and performance outcomes which underlie the bonus figures shown in the single total figure of remuneration table for 2015.

These targets were set in February 2015 in line with the policy on annual bonus. 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 2015.

| | PBT | | | | Cash flow | | | | Overall | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Threshold | Target | Above target | Achieved | Threshold | Target | Maximum | Achieved | Total | Cash | Deferred |
| **Performance** | £188.8m | £212.5m | Profit share | £219.6m | £194m | £218m | £249m | £233.6m | | | |
| **Payment** (% of salary unless otherwise stated) | 10% | 85% | 0.246% of PBT (CEO) 0.181% of PBT (Deputy CEO and CFO) | 94% | 8% | 15% | 20% | 18% | 112% | 100% | 12% |
| | | | | Outcomes for Executive Directors (£000) | | | Matthew Ingle | | 640 | 572 | 68 |
| | | | | | | | Mark Robson | | 471 | 421 | 50 |

### 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 2015. These awards vest on 26 March 2016.

| | 3 year PBT growth | | |
|---|---|---|---|
| | Threshold | Maximum | Achieved |
| Performance | 6% p.a. | 12% p.a. | 17% |
| Vesting (matching shares per invested share) | 0.5 | 2 | 2 |

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 £5.03, being the three-month average share price to 26 December 2015.

| | | Number of awards vesting ('000) | Total value at £5.03 per share (£000) |
|---|---|---|---|
| Outcomes for Executive Directors | Matthew Ingle | 721 | 3,625 |
| | Mark Robson | 506 | 2,543 |

# Report of the Remuneration Committee 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 51. 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 (£172k) in 2015.

| Name | Accrued pension at 28 Dec 2015 £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 | 54 | 28/09/2014 | – | – | 172 | 172 |
| Mark Robson | 32 | 16/01/2019 | 58 | 34 | 83 | 175 |

## 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 2015, 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 2014, 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 185,416 shares (based on a closing share price of £4.63 on the day prior to grant).
- The Deputy CEO and CFO was able to invest up to the same proportion of salary as the CEO.
- Both the CEO and Deputy 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 | 185,416 | 370,832 | £1,716,952 |
| | Deputy CEO | 136,541 | 273,081 | £1,264,365 |
| 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 | | Straight-line vesting between these points | |
| | 8% p.a. | | 0.3 | |
| | Less than 8% p.a. | | – | |
| Performance period | Performance measured from FY2015 to FY2017 inclusive | | | |
| Vesting date | 26 March 2018 | | | |

*Based on a share price of £4.63, being the closing price on the 25 March 2015 (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.

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% | 227,316 | 4,020,583 | 28,372 | 1,544,593 | – | – | 3,537% | Y |
| Mark Robson | 100% | 83,698 | 1,879,589 | 18,967 | 1,096,377 | – | – | 2,246% | Y |
| Will Samuel | n/a | n/a | 40,000 | | | | | | |
| Mark Allen | n/a | n/a | 3,000 | | | | | | |
| Andrew Cripps | n/a | n/a | – | | | | | | |
| Geoff Drabble | n/a | n/a | – | | | | | | |
| Tiffany Hall | n/a | n/a | 3,000 | | | | | | |
| Richard Pennycook | n/a | n/a | 3,000 | | | | | | |
| Michael Wemms | n/a | n/a | 42,000 | | | | | | |

*Based on a share price of £5.03, being the three-month average share price to 26 December 2015 (source: Datastream). This is calculated using those shares owned outright by the Executive Directors only.

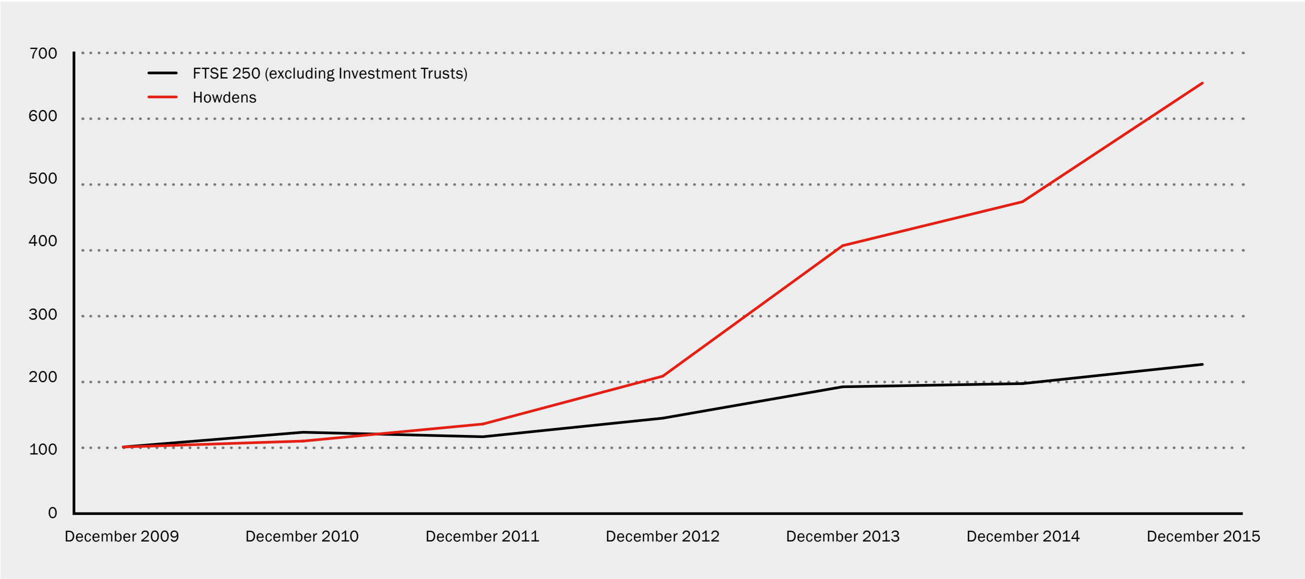
The table above highlights the significant investment held by Executive Directors in the shares of Howden Joinery Group plc, which is well in excess of that required under their shareholding guidelines. Neither of the Executive Directors exercised any options in the Company during the period under review and nor did they have any vested but unexercised options at 26 December 2015.

# Report of the Remuneration Committee continued



## Performance graph and table

| Year | 2009[2] | 2010[2] | 2011[3] | 2012[4] | 2013[5] | 2014[6] | 2015[7] |
|---|---|---|---|---|---|---|---|
| CEO single figure[1] (£000's) | 1,399 | 1,458 | 6,083 | 3,401 | 5,168 | 6,223 | 5,225 |
| Annual bonus – % of maximum | 63% | 69% | 66% | 51% | 63% | 64% | 56% |
| LTI vest – % of maximum | – | – | 100% | 100% | 89% | 100% | 100% |




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 six years Howden Joinery Group has generated significantly higher returns than the FTSE 250 (excluding Investment Trusts).

Above 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 incentive 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.
6. The 2014 CEO single figure includes the full vesting of the 2012 CIP award. 100% of the matching shares vested as the Group's 2014 PBT had grown at 20% p.a. on 2011 PBT. The value shown in the single figure reflects the significant share price over the period to £3.64 (the 3 month average to 27 December 2014, source: Datastream) from £1.31, a growth of 41% p.a.
7. The 2015 CEO single figure includes the full vesting of the 2013 CIP award. 100% of the matching shares vested as the Group's 2015 PBT had grown at 17% p.a. on 2012 PBT. The value shown in the single figure reflects the significant share price over the period to £5.01 (the 3 month average to 26 December 2015, source: Datastream) from £2.42, a growth of 28% p.a.

## 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 2014 to 2015 of the CEO compared to all employees (on a per capita basis).

| | Salary | | | Taxable Benefits | | | Bonus | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2015 £000's** | **2014 £000's** | **% increase** | **2015 £000's** | **2014 £000's** | **% inc/ (dec)** | **2015 £000's** | **2014 £000's** | **% inc/ (dec)** |
| CEO | 572 | 572 | – | 216 | 19 | 1,137% | 640 | 728 | (14)% |
| All full time employees (per capita) | 23 | 23 | 2.46% | 1 | 1 | (1.76)% | 8 | 8 | 2.71% |

As previously reported in the notes to the single total figure of remuneration table on page 58, the significant increase in relation to the CEO's taxable benefits is exclusively the result of the decision of the Remuneration Committee during the year to agree to change his place of work to the Company's London office.

The decrease in the average taxable benefits of all full time employees reflects the impact of a significant number of new recruitments during the year. These recruitments were typically into roles that do not attract a high level of taxable benefits.

For 2016, the CEO will receive no salary increase, compared to a typical wider workforce increase of c. 3% of salary.

## Relative importance of spend on pay

The table below sets out the change in total remuneration spend of the Group from 2014 to 2015 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 shareholder returns £m** | **Total remuneration spend as a % of revenue** | **PBT £m** | **Cash flow* £m** |
|---|---|---|---|---|---|
| 2014 | 286.5 | 40.3 | 26% | 189 | 218 |
| 2015 | 323.4 | 105.0 | 27% | 220 | 234 |
| % increase | 13% | 161% | 4% | 16% | 7% |

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

The figures above reflect continuing growth in terms of financial performance, progression of the Company's dividend policy and a significant increase in our workforce. It is pleasing to note that despite the fact that new recruits have typically been at more junior roles in the business, total remuneration as a percentage of revenue has increased.

## 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.

# Report of the Remuneration Committee continued



## Statement of implementation of remuneration policy in 2016

Remuneration policy will be implemented from 2016 as follows.

### Base salaries and fees

Base salary increases from 2015 are set out in the table below.

| | 2015 | | 2016 | |
|---|---|---|---|---|
| | Salary | Percentage increase from 2014 | Salary | Percentage increase from 2015 |
| Matthew Ingle | 572 | – | 572 | – |
| Mark Robson | 421 | 5%* | 421 | – |

*Increase applied from 30 May 2014, being the date Mr Robson took on the responsibilities of his new role as Deputy CEO and CFO.

### Non-Executive Director fees

As provided in the Chairman's letter, the Board has reviewed the fees paid to the Chairman and Non-Executive Directors through consideration of FTSE 250 market benchmarks, and the increased size of the Company and time commitment required for these roles since fees were last revised in 2013. The fee paid to the Company Chairman will rise to £250,000 (from £190,000). This will take effect when Richard Pennycook takes over as Chairman at the AGM in May 2016.

| | 2015 | | 2016 | |
|---|---|---|---|---|
| | Fee | Percentage increase from 2014 | Fee | Percentage increase from 2015 |
| Chairman fee | £190,000 | – | £225,000 | 18% |
| Basic NED fee | £45,000 | – | £55,000 | 22% |
| Additional SID fee | £3,000 | – | £10,000 | 333% |
| Committee Chair fee | £8,000 | – | £10,000 | 25% |

### Annual bonus measures

The table below sets out annual bonus measures for 2016, which are the same measures as for 2015. 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 Deputy CEO have been reduced from 0.246% and 0.181% respectively to reflect increased performance expectations for 2016. Performance targets, together with achievement against them, will be set out in full in the 2016 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: 0.210% of PBT<br>Profit share for the Deputy CFO: 0.155% of PBT<br>Subject to aggregate bonus payout cap of 150% of salary |
| Cash flow | 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 |

**Performance Share Plan measure and targets**

The table below sets out PSP performance measures and targets for awards to be made in 2016.

| PBT component vesting schedule | PBT growth performance condition | Payout level |
|---|---|---|
| | 20% p.a. | 270% of salary (100% of maximum) |
| | Straight-line vesting between these points | |
| | 8% p.a. | 40.5% of salary (15% of maximum) |
| | Less than 8% p.a. | – |

## Consideration by the directors of matters relating to directors' remuneration

**Membership of the Committee**

The Remuneration Committee comprises six independent Non-Executive Directors who are listed at the beginning of this report and who have no personal financial interest, other than as shareholders, in the matters to be decided.

Under its terms of reference, which are 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 four times during 2015. The meetings covered the following key areas:

- Review of executive remuneration and development of the revised policy proposed in this report.
- 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, including the provisions of the revised Corporate Governance Code.
- 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 2015, including determining the appropriate performance targets.
- Review and approval of annual bonus payouts and share based awards vesting in 2015.
- 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 2015.
- 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.

# Report of the Remuneration Committee continued



**Advice to the Committee**

The Committee regularly consults with the Chief Executive on matters concerning remuneration, although he is never present when his own reward is under discussion. The Company Chairman attends the Remuneration Committee by invitation except when his own remuneration is determined. The Company Secretary acts as secretary to the Committee but is never present when his 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 2015 totalled £177,400, with fee levels based on the quantity and complexity of work undertaken. PwC also provided internal audit advice to the Company during 2015.

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 2015 AGM for the approval of the 2015 Remuneration Report and Policy.

| | Remuneration Report[1] | |
|---|---|---|
| | For | Against |
| Votes | 97.46% | 2.54% |

Note 1: 221,756 votes (<1% of all votes) were withheld.

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

## THE REMUNERATION COMMITTEE IN 2016

The Remuneration Committee is scheduled to meet at least three times during 2016. It will continue to consider the ongoing appropriateness of executive remuneration; review developments in corporate governance best practice and competitive market practice trends; review and approve the remuneration report to shareholders; review and approve the terms and conditions of the annual bonus and long-term incentives, including determining the appropriate performance targets; and review the balance between risk and reward to ensure that the incentives are compatible with the Company's risk policies and systems.

By order of the Board

**Tiffany Hall**
**Remuneration Committee Chairman**

24 February 2016

# Audit Committee Report

## COMMITTEE MEMBERSHIP

| | |
|---|---|
| Richard Pennycook | (Chairman) |
| Mark Allen | |
| Andrew Cripps | (From 1 December 2015) |
| Geoff Drabble | (From 3 July 2015) |
| Tiffany Hall | |
| Michael Wemms | |

In compliance with the UK Corporate Governance Code and the Committee's terms of reference, during the year the Audit Committee consisted wholly of independent Non-Executive Directors. Subject to successful annual re-election to the Board, appointments to the Audit Committee are for a period of three years, which may be extended by the Committee provided the Director remains independent.

## MEETING ATTENDANCE

The Committee meets at least three times a year and at any other such time as the Chairman of the Committee requires. Only the attendance of members of this committee is shown in the table below, although other Directors, where appropriate, have often also attended at the invitation of the Committee Chair.

| | Attendance | No. of meetings |
|---|---|---|
| Richard Pennycook | 3 | 3 |
| Mark Allen | 3 | 3 |
| Geoff Drabble | 1 | 2 |
| Tiffany Hall | 3 | 3 |
| Michael Wemms | 3 | 3 |

There were no Audit Committee meetings following Andrew Cripps' appointment on 1 December and therefore he did not attend any meetings during the year.

The Chairman of the Board, along with the Chief Executive, Deputy Chief Executive and Chief Financial Officer, Group Finance Director, 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.

## TERMS OF REFERENCE

To view the Audit Committee terms of reference please refer to the Company's website: www.howdenjoinerygroupplc.com

## INTRODUCTION BY THE COMMITTEE CHAIRMAN

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 the integrity of financial reporting.

The 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.

It is has primary responsibility 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 Reports and Accounts as a whole are fair, balanced and understandable);
- Reviewing the Group's internal financial controls and 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);
- Ensuring that information flows from the senior management and external auditors are such that the information received by the Committee is complete, accurate, timely and robust;
- 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;
- 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;
- Reviewing the going concern report and the report on the longer-term viability of the business, prior to consideration by the Board; and
- Monitoring and reviewing the effectiveness of the Group's Internal Audit function.

# Audit Committee Report continued



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 during the period and has ensured the independence and objectivity of the external auditors.

## OVERVIEW OF ACTIONS TAKEN BY THE AUDIT COMMITTEE DURING THE YEAR

### Financial reporting and external audit

During the year the Committee considered:

- The proposed plan of work presented by the external auditors, including audit risks, terms of engagement and fees;
- The Group's annual report and financial statements, the half-yearly financial report published in July 2015 and the interim management statements. As part of this review, the Committee received a report from Deloitte on their audit of the Annual Report and Accounts and review of the half-yearly financial report which took into account the Group's key risks, going concern considerations and longer-term viability;
- The 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;
- The processes in place to generate forecasts of cash flow and accounting valuation information, including the choice and consistent use of key assumptions. A description of the Group's significant accounting policies can be found in note 2 of the consolidated financial statements on page 83;
- 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 Accounts on this matter;
- Whether the Annual Report and Accounts were 'fair, balanced and understandable'.
- An assessment of the qualification, expertise, 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; and
- The risk of a possible withdrawal of the external auditors from the market.

The Committee also held confidential sessions with the independent auditors and the Head of Risk and Internal Audit in the absence of Executive Directors and representatives from the Finance function.

### Internal audit and control

Following the appointment of a new Head of Risk and Internal Audit during the year, the Committee extended meetings in order to allow additional consideration of internal audit reviews and plan. This work included:

- Receiving reports from the Internal Audit function on its work and monitoring the status of actions taken in response to its findings;
- Consideration of the controls in place to mitigate fraud risk;
- Receiving presentations from divisional Finance Directors in respect of the control environment within their divisions, including an IT control update from PricewaterhouseCoopers;
- Assessing the coverage of independent assurance by reviewing the Group assurance map;
- Reviewing business continuity management provisions; and
- Reviewing activity reported under the Group's whistleblowing policy.

### Governance

In order to discharge its governance duties, the Committee:

- Received updates from the external auditor on latest governance practices for Audit Committees and changes in statutory reporting requirements;
- Was subject to an effectiveness review as part of the Board's evaluation process;
- Considered the results of the BIS Cyber Governance Health Check Tracker Report;
- Received an update on the changes in legislation in relation to audit tendering;
- Reviewed the Directors' conflicts of interest; and
- Reviewed the Committee's terms of reference.

Senior management from the business were invited to discuss the financial controls in their business areas. During 2015, the Director of Commercial Finance and Head of Compliance of the Trade division gave presentations 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, audit tendering, 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 judgement to be exercised. In relation to the Group, the principal areas of judgement relate to recoverability of trade debtors, inventory obsolescence, and actuarial assumptions. It is the policy of the Board that a conservative approach is taken in all areas requiring judgement.

**Recoverability of trade debtors**

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.

**Valuation of inventory**

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.

**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.

All of the matters considered above were discussed with the Deputy Chief Executive and Chief Financial Officer, Group Finance Director 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

The Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit in line with relevant legislation, 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. The Committee is aware of the regulatory restrictions on non-audit services that will be applicable to the Company from the financial year end 2017 and has put in place transitional arrangements to take effect during 2016 in order to ensure compliance with the regulations.

All relevant fees proposed by the external auditors must be reported to and approved by the Audit Committee.

## Auditor independence and fees

The Committee recognises that auditor independence is an essential part of the audit framework and the assurance it provides. To fulfil its responsibilities regarding the independence of the external auditors, the Committee undertook a comprehensive review during 2015 encompassing the following:

- A review of the independence of the external auditors and the arrangements which they have in place to identify, report and manage conflicts of interest;
- Consideration of the effectiveness of the external auditors through a review of their plan of work and the outputs arising from the audit;
- A 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 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 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
- Deliberation 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.

# Audit Committee Report continued



To assess the effectiveness of the external auditor, the Committee 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.

At the year end, the external auditor formally confirmed that their independence and objectivity had been maintained.

Details of Deloitte LLP's fees for audit and non-audit work during 2015 are set out below and are included in note 6 to the financial statements on page 90. No services were provided by the external auditor pursuant to contingent fee arrangements. Given the specific nature of the fees incurred, and having reviewed the safeguards Deloitte LLP has in place to protect their independence as auditors, the Committee was satisfied the non-audit work has not impaired their independence.

| | **2015 (£000)** | **2014 (£000)** |
|---|---|---|
| Audit Fees | 383 | 383 |
| Non-Audit Fees | 224 | 325 |
| Ratio | 58% | 89% |

## Policy for non-audit services

The main aims of this Policy are to ensure the independence of the auditors in performing the statutory audit and to avoid any conflict of interest by clearly detailing the types of work that the auditors can and cannot undertake.

The policy specifies the type of non-audit work for which the auditors can be engaged without referral to the Audit Committee for which a case-by-case decision is necessary or from which the auditors are excluded.

The policy aims to ensure that in providing non-audit services the auditors do not audit their own work or make management decisions for the Company or any of its subsidiaries. The Policy also clarifies responsibilities for the agreement of fees payable for non-audit work.

The Audit Committee also has a policy in relation to the employment of former members of the external audit team.

## Audit tender

Following the completion of the 2015 audit, the Audit Committee considered whether it was in the best interests of the Company to re-tender the external audit at the end of the current lead audit partner rotation cycle. The current lead audit partner, Ed Hanson, has completed four years of a five year cycle. The external audit was last tendered in 2002 which resulted in a change to the Group's external auditor, with Deloitte LLP being appointed.

In reaching its conclusion, the Committee considered the transitional arrangements for mandatory audit tendering and auditor rotation published by the Department for Business, Innovation and Skills in March 2015 which provided that the Company could not enter into or renew its engagement for audit services with Deloitte LLP beyond June 2023, having been engaged as external auditor for over eleven but for less than twenty years. The Committee was also 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 and that audit tendering should normally fit the five-year cycle of lead audit partner rotation.

After careful consideration, and in compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (the "CMA Order"), the Audit Committee determined that it was not in the best interests of the Company to re-tender the external audit at the end of the current lead audit partner cycle on the basis that there remained sufficient auditor independence and effectiveness to ensure a robust audit process and it would provide the continuity of the external auditor during the handover of the Chairmanship of the Audit Committee during 2016.

Therefore the Committee concluded that the Company would re-tender the external audit and change auditor no later than the conclusion of the subsequent five-year lead audit partner cycle in 2021. However, the Committee agreed to keep the need to re-tender and change auditor under review during this cycle.

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 in 2016 and that the Directors be authorised to fix their remuneration.

## INTERNAL AUDIT

The Committee also helps the Board to fulfil of 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 employees to have access to a confidential outsourced service, which allows calls and emails to be received in multiple languages, 24 hours a day. Complaints on accounting, risk issues, internal controls, auditing issues and related matters are reported to the Audit Committee as appropriate. Issues raised and investigated under this policy were formally reviewed during the year.

## COMMITTEE MEMBERSHIP

### Committee Chairman

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.

Richard Pennycook was Chairman of the Committee throughout the year. Richard is a Fellow of the Institute of Chartered Accountants in England and Wales. He is currently the Group CEO of The Cooperative Group and was a Finance Director for over 20 years, most of that time as a Public Company Finance Director. Richard is also Chairman of the Audit Committee at Persimmon PLC, the FTSE 100 house builder. As such, the Board considers that he had the requisite recent and relevant financial experience during the year to satisfy Provision C.3.1 of the UK Corporate Governance Code.

# Audit Committee Report continued



## Membership

Committee membership and effectiveness is reviewed as part of the annual review of Board effectiveness. In addition, the Committee reviewed its own effectiveness by completing an Audit Committee effectiveness tool. The review encompassed a mix of qualitative and regulatory considerations as well as reviewing Committee structure, responsibilities and reporting. Both reviews concluded that the current mix of financial and commercial experience of the Audit Committee, and that of its advisors, is such that the Committee can effectively exercise its responsibilities to the Group in relation to risk and controls.

The Committee is permitted by its terms of reference to obtain independent external advice at the Group's expense.

## THE AUDIT COMMITTEE IN 2016

The Audit Committee is scheduled to meet at least three times during 2016 in conjunction with the annual reporting cycle. It will continue to consider all of the matters set out above for which it has primary responsibility in relation to financial statements, reporting and controls, the work of the external auditor and the Internal Audit function. It will continue to consider the Company's governance arrangements and review the Committee's terms of reference.

Andrew Cripps will become Chairman of the Audit Committee in May 2016.

By order of the Board

**Richard Pennycook**
**Audit Committee Chairman**

24 February 2016

# Nominations Committee Report

## COMMITTEE MEMBERSHIP

| | |
|---|---|
| Will Samuel | (Chairman) |
| Mark Allen | |
| Andrew Cripps | (From 1 December 2015) |
| Geoff Drabble | (From 3 July 2015) |
| Tiffany Hall | |
| Richard Pennycook | |
| Michael Wemms | |

In compliance with the UK Corporate Governance Code and the Committee's terms of reference, during the year the Nominations Committee consisted wholly of independent Non-Executive Directors. Subject to successful annual re-election to the Board, appointments to the Nominations Committee are for a period of three years, which may be extended by the Committee provided the Director remains independent.

## MEETING ATTENDANCE

The Committee meets at least twice a year and at any other such time as the Chairman of the Committee requires. Only the attendance of members of this committee is shown in the table below, although other Directors, where appropriate, have often also attended at the invitation of the Committee Chair.

| | Attendance | No. of meetings |
|---|---|---|
| Will Samuel | 3 | 4 |
| Mark Allen | 4 | 4 |
| Geoff Drabble | 2 | 3 |
| Tiffany Hall | 4 | 4 |
| Richard Pennycook | 3 | 4 |
| Michael Wemms | 4 | 4 |

Mr Samuel and Mr Pennycook absented themselves for all matters concerning the Chairman succession process.

There were no Nominations Committee meetings following Andrew Cripps' appointment on 1 December and therefore he did not attend any meetings during the year.

## TERMS OF REFERENCE

To view the Nominations Committee full terms of reference please refer to the Company's website: www.howdenjoinerygroupplc.com

## INTRODUCTION BY THE COMMITTEE CHAIRMAN

The primary function of a Nominations Committee is to ensure that the Company's people agenda is aligned to its underlying purpose and its strategic objectives. In the first instance, this involves building a board of directors with the requisite balance of skills, experience and diversity of mindset to achieve this.

To that end, the Howdens Nominations Committee keeps under review the size, composition and structure of the Board and makes recommendations to the Board for all new appointments and reappointments. Given the uniqueness of the Howdens business model, this requires the Nominations Committee, on behalf of the Board, to identify individuals not only with the requisite skill set but who also subscribe to a common set of values, who have an inherent understanding of and sympathy with Howdens' entrepreneurial culture and who continually strive for improvement across all parts of the business.

In support of the primary function of continually assessing the needs of the Board in relation to the Company, the Committee oversees the Director induction programme and determines the Company's policies on Boardroom diversity and Board effectiveness.

During the year, the Committee met on four occasions in order to consider:

- Non-Executive succession planning and management, in particular in relation to the appointment of a new Chairman and two Non-Executive Directors;
- The renewal of Michael Wemms' letter of appointment;
- The Board's policy on diversity;
- The form and scope of the 2015 Board evaluation exercise;
- The reappointment of Directors at the 2015 Annual General Meeting; and
- The ongoing appropriateness of the Committee's terms of reference.

# Nominations Committee Report continued



## BOARD COMPOSITION

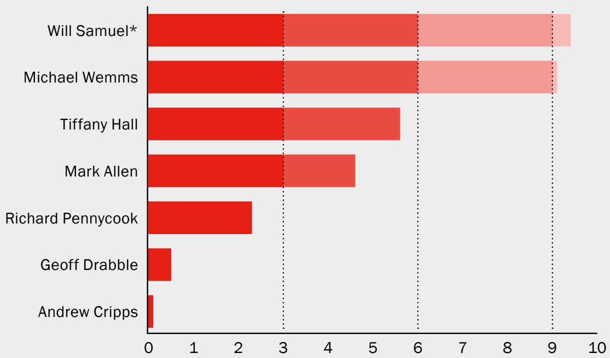
### Board Succession

An effective Nominations Committee will establish a stable leadership framework. Part of its work must also be to proactively manage change to reassess the future leadership needs of the Company. As detailed in the report below, the Howdens Nominations Committee has successfully managed a Board succession programme in recent years which has ensured a smooth introduction of new Directors to the Board.

The Nominations Committee remains committed to a programme of reviewing and refreshing the Non-Executive membership of the Board to ensure there is sufficient balance between the introduction of fresh perspectives and the maintenance of 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.

Executive succession planning is a matter which is explicitly reserved for the Board as a whole and is considered in the Corporate Governance Report on page 43.

### Non-Executive Tenure as at 26 December 2015:




* Will Samuel was appointed Non-Executive Director in July 2006 and appointed Chairman of the Company in October 2006. He was independent upon appointment.

### Chairman Succession

The Company announced on 2 December that, having served as Non-Executive Chairman of the Company since 2006, Will Samuel would step down from the Board with effect from the Annual General Meeting in May 2016 and that Richard Pennycook, who has been a Non-Executive Director of Howdens since September 2013, would assume the role of Non-Executive Chairman from that date.

In order to help ensure a rigorous process the Nominations Committee agreed to engage executive search firm Zygos Partnership (Zygos) to facilitate the Chairman selection process. The Nominations Committee also agreed that the Senior Independent Director would lead the selection process, and whilst Mr Samuel's opinion would be sought at each stage, he would absent himself from wider discussion and would not be involved in decision-making.

Subsequent to the appointment of Zygos, the Committee agreed the terms upon which the process would be undertaken. Initially, a role specification, including appropriate candidate profile and necessary personal characteristics, was decided. On that basis, Zygos produced a long-list of candidates on behalf of the Committee which the Committee subsequently reviewed and refined to a shortlist of four candidates. Profiles for shortlisted candidates were submitted to the Committee and all prospective candidates met with the Senior Independent Director, with most candidates meeting with all members of the Committee. After careful consideration, and having ensured the requisite availability of the preferred candidate and that the Committee were satisfied that he would be able to meet the time demands of the role, the Committee recommended the appointment of Richard Pennycook as Chairman to the Board. This recommendation was subsequently approved.

Zygos Partnership has no other connection with the Company.

## Appointments

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. On that basis, in early 2015, the Nominations Committee executed its long-term succession plans and began a search for a new Non-Executive Director. This was to ensure that a continuous transition process could take place between new and long-serving Non-Executives. Zygos was engaged by the Committee to assist with the identification of suitable candidates. The shortlisted candidates met with all Executive and Non-Executive Directors prior to the deliberations of the Nominations Committee and, having considered the merits of all of the candidates, including relevant experience and diversity of perspective, the Committee made its recommendation to the Board and Geoff Drabble was appointed Non-Executive Director on 3 July.

Concurrent to the Chairman succession process, in recognition of the fact that the current Audit Committee Chairman was a candidate for the Chairman role, a process to appoint a Non-Executive Director who could ultimately become Audit Committee Chairman was undertaken. Once again, Zygos was engaged by the Committee to assist with the identification of candidates with the requisite financial experience to replace Richard Pennycook should it become necessary. As with the recruitment of Geoff Drabble, short listed candidates met with all Executive and Non-Executive Directors. The Nominations Committee then deliberated, taking into account all of the requisite considerations set out previously and made its recommendation to the Board. Pursuant to this recommendation, Andrew Cripps was appointed as Non-Executive Director on 1 December. Andrew will take over from Richard as Audit Committee Chairman with effect from the 2016 AGM. Both Geoff Drabble and Andrew Cripps bring a wealth of commercial, executive and non-executive experience and have proven track records in leadership in their respective fields.

## Reappointments

Upon the recommendation of the Nominations Committee, and after careful consideration, the Board agreed to reappoint Michael Wemms as Non-Executive Director and Senior Independent Director in November 2015. Michael was appointed as Non-Executive Director in November 2006 and, whilst it was noted that the UK Corporate Governance Code identifies non-executive tenure in excess of nine years as being one circumstance which may impede a director's ongoing independence, the Board was satisfied that Michael remained independent in character and judgement and therefore approved a one-year extension to his letter of appointment.

The Board also recognised of the importance of the role of the Senior Independent Director in facilitating a smooth transition process between the outgoing and incoming Chairmen, ensuring a continuing clear division of responsibilities in the period before the changeover took place, while also assisting in the development of the working relationship between the new Chairman and the Chief Executive in the months following the Annual General Meeting.

## Annual General Meeting (AGM) elections and re-elections

As stated in the Corporate Governance Report, and with the exception of Will Samuel who will retire immediately following the AGM, all of the Directors not appointed since the last AGM will retire 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 at the 2016 AGM. Geoff Drabble and Andrew Cripps, having been appointed since the last AGM, will offer themselves for election in accordance with Article 117 of the Articles of Association.

In proposing their re-election, the Chairman confirms that the Nominations Committee has considered the formal performance evaluation in respect of those Directors seeking re-election, and the contribution and commitment of the Directors that are required to offer themselves for re-election. He has confirmed to the Board that their performance and commitment is such that the Company should support their re-election.

# Nominations Committee Report continued



No Director was able to vote in respect of their own re-election when consideration was given to Director re-election at the AGM.

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 Report of Remuneration Committee on pages 47 to 66. Details of indemnity provisions made for the benefit of Directors are given in the Corporate Governance report on page 43.

## DIRECTOR INDUCTION AND TRAINING

All new Directors undertake an induction programme upon joining the Board. Whilst each induction programme is tailored to the specific needs of the individual, we strive to provide a dynamic introduction to the real nature of the business through the provision of specifically selected information, by meeting with individuals (both internal and external) who are central to the ongoing success of the business and by visiting key sites such as depots, manufacturing sites and distribution centres.

The Nominations Committee recognises that regular reacquaintance with the culture of the business underpins the effectiveness of Non-Executive Directors. Therefore, Non-Executive Directors are invited to attend Howdens' events and locations and meet with employees at any time following their initial induction.

The individual training and development needs of Directors are considered as part of the annual Board evaluation process. Ongoing training and development for the Directors includes attendance at formal conferences and internal events as well as briefings from external advisers. All members of the Board are members of the Deloitte Academy which provides in-depth updates on financial reporting and corporate governance matters.

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 view of the business.

## 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 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 2017, and it will continue to review this policy on an annual basis to ensure it remains appropriate.

More widely, we are committed to developing a long-term pipeline of executive talent that reflects the diversity of Howdens' business and its stakeholders.

As at 26 December 2015, 11% of Board members were women. Both of the Executive Directors were male.

### Group 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. The Group 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.

## Group Gender Diversity Statistics as at 26 December 2015:

| | 2015 | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Female** | **Male** | **Total** | **% of Female** | **Female** | **Male** | **Total** | **% of Female** |
| Board | 1 | 8 | 9 | 11.1% | 1 | 6 | 7 | 14.3% |
| Executive Committee Members (including Executive Directors) | 1 | 7 | 8 | 12.5% | 2 | 5 | 7 | 28.6% |
| Senior Management Group* | 25 | 96 | 121 | 20.5% | 19 | 85 | 104 | 18.3% |
| Group (Total) | 2,306 | 5,965 | 8,271 | 27.9% | 1,983 | 5,523 | 7,506 | 26.4% |

(*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.)

The Nominations Committee reviews these gender statistics against Office for National Statistics (ONS) averages each year and, in relation to gender diversity in the Board, against other FTSE250 company averages. Similarly, where other data is available, this is presented to the Committee in order to determine whether there are any implicit diversity issues.

## THE NOMINATIONS COMMITTEE IN 2016

The Nominations Committee is scheduled to meet at least twice during 2016. It will continue to consider Board succession and review the balance of skills on the Board. In addition, it will also assess the time commitment and performance of Non-Executive Directors, plan the external board evaluation process, discuss boardroom diversity, and review the Committee's terms of reference.

Richard Pennycook will become Chairman of the Nominations Committee in May 2016.

By order of the Board

**Will Samuel**
**Nominations Committee Chairman**

24 February 2016

HOWDENS JOINERY CO.



# Consolidated income statement

| | Notes | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|---|
| **Continuing operations:** | | | |
| Revenue – sale of goods | 4 | 1,220.2 | 1,090.8 |
| Cost of sales | | (435.8) | (396.3) |
| **Gross profit** | | 784.4 | 694.5 |
| Selling & distribution costs | | (475.0) | (423.9) |
| Administrative expenses | | (87.5) | (80.8) |
| **Operating profit** | 6 | 221.9 | 189.8 |
| Finance income | 8 | 1.8 | 0.6 |
| Finance expense | 9 | – | (0.1) |
| Other finance expense – pensions | 9 | (4.1) | (1.5) |
| **Profit before tax** | | 219.6 | 188.8 |
| Tax on profit | 10 | (44.2) | (40.1) |
| **Profit after tax** | | 175.4 | 148.7 |
| **Discontinued operations:** | | | |
| Exceptional item – loss on discontinued operations | | – | (2.1) |
| Exceptional item – tax on discontinued operations | | – | 11.2 |
| **Profit after tax on discontinued operations** | 28 | – | 9.1 |
| **Profit for the period attributable to the equity holders of the parent** | | 175.4 | 157.8 |
| **Earnings per share:** | | | |
| **From continuing operations** | | | |
| Basic earnings per 10p share | 11 | 27.3p | 23.2p |
| Diluted earnings per 10p share | 11 | 27.2p | 23.0p |
| **From continuing and discontinued operations** | | | |
| Basic earnings per 10p share | 11 | 27.3p | 24.6p |
| Diluted earnings per 10p share | 11 | 27.2p | 24.4p |

# Consolidated statement of comprehensive income

| | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|
| Profit for the period | 175.4 | 157.8 |
| **Items of other comprehensive income:** | | |
| Items that will not be reclassified subsequently to profit or loss: | | |
| Actuarial gains/(losses) on defined benefit pension scheme | 58.4 | (119.6) |
| Deferred tax on actuarial (gains)/losses on defined benefit pension scheme | (11.7) | 23.9 |
| Deferred tax on pension contributions | – | (6.3) |
| Current tax on pension contributions | – | 6.8 |
| Items that may be reclassified subsequently to profit or loss: | | |
| Currency translation differences | (0.9) | (0.2) |
| Other comprehensive income for the period | 45.8 | (95.4) |
| **Total comprehensive income for the period attributable to equity holders of the parent** | 221.2 | 62.4 |

HOWDENS JOINERY CO.

# Consolidated balance sheet

| | Notes | 26 December 2015 £m | 27 December 2014 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 13 | 4.6 | 3.4 |
| Property, plant and equipment | 14 | 129.2 | 107.1 |
| Deferred tax asset | 15 | 18.6 | 40.3 |
| Long-term prepayments | 19 | 0.6 | – |
| Bank borrowings net of prepaid fees | 19 | – | 0.3 |
| | | 153.0 | 151.1 |
| **Current assets** | | | |
| Bank borrowings net of prepaid fees | 19 | – | 0.6 |
| Inventories | 16 | 177.1 | 143.1 |
| Trade and other receivables | 17 | 129.5 | 133.1 |
| Investments | 17 | 60.0 | 85.0 |
| Cash at bank and in hand | 23 | 166.1 | 131.9 |
| | | 532.7 | 493.7 |
| **Total assets** | | 685.7 | 644.8 |
| **Current liabilities** | | | |
| Trade and other payables | 18 | (197.7) | (186.1) |
| Current tax liability | | (5.2) | (7.9) |
| Current borrowings | 19 | – | – |
| | | (202.9) | (194.0) |
| **Non-current liabilities** | | | |
| Non-current borrowings | 19 | – | (0.1) |
| Pension liability | 20 | (49.2) | (142.6) |
| Deferred tax liability | 15 | (2.0) | (2.6) |
| Provisions | 21 | (9.9) | (10.6) |
| | | (61.1) | (155.9) |
| **Total liabilities** | | (264.0) | (349.9) |
| **Net assets** | | 421.7 | 294.9 |
| **Equity** | | | |
| Share capital | 22 | 65.2 | 64.7 |
| Share premium account | | 87.5 | 87.5 |
| ESOP reserve | | 11.0 | 2.4 |
| Treasury shares | | (45.3) | – |
| Other reserves | | 28.1 | 28.1 |
| Retained earnings | | 275.2 | 112.2 |
| **Total equity** | | 421.7 | 294.9 |

The financial statements were approved by the Board and authorised for issue on 24 February 2016 and were signed on its behalf by:

**Mark Robson**
**Deputy Chief Executive and Chief Financial Officer**

# Consolidated statement of changes in equity

| | Called up share capital £m | Share premium account £m | ESOP reserve £m | Treasury shares £m | Other reserve £m | Retained profit £m | Total £m |
|---|---|---|---|---|---|---|---|
| At 28 December 2013 | 64.3 | 87.5 | (6.3) | - | 28.1 | 88.1 | 261.7 |
| Accumulated profit for the period | – | – | – | – | – | 157.8 | 157.8 |
| Net actuarial loss on defined benefit scheme | – | – | – | – | – | (95.7) | (95.7) |
| Deferred tax on pension contributions | – | – | – | – | – | (6.3) | (6.3) |
| Current tax on pension contributions | – | – | – | – | – | 6.8 | 6.8 |
| Current tax on share schemes | – | – | – | – | – | 5.0 | 5.0 |
| Deferred tax on share schemes | – | – | – | – | – | (1.9) | (1.9) |
| Currency translation differences | – | – | – | – | – | (0.2) | (0.2) |
| Net movement in ESOP | – | – | 8.7 | – | – | – | 8.7 |
| Issue of new shares | 0.4 | – | – | – | – | (0.4) | – |
| Dividends declared and paid | – | – | – | – | – | (41.0) | (41.0) |
| At 27 December 2014 | 64.7 | 87.5 | 2.4 | – | 28.1 | 112.2 | 294.9 |
| Accumulated profit for the period | – | – | – | – | – | 175.4 | 175.4 |
| Net actuarial gain on defined benefit scheme | – | – | – | – | – | 46.7 | 46.7 |
| Current tax on share schemes | – | – | – | – | – | 3.8 | 3.8 |
| Deferred tax on share schemes | – | – | – | – | – | (1.6) | (1.6) |
| Currency translation differences | – | – | – | – | – | (0.9) | (0.9) |
| Net movement in ESOP | – | – | 8.6 | – | – | – | 8.6 |
| Issue of new shares | 0.5 | – | – | – | – | (0.5) | – |
| Purchase of shares into treasury | – | – | – | (45.3) | – | – | (45.3) |
| Dividends declared and paid | – | – | – | – | – | (59.9) | (59.9) |
| At 26 December 2015 | 65.2 | 87.5 | 11.0 | (45.3) | 28.1 | 275.2 | 421.7 |

The ESOP reserve includes shares in Howden Joinery Group Plc with a market value on the balance sheet date of £29.2m (2014: £23.8m), 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 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|---|
| **Group operating profit before tax and interest** | | | |
| Continuing operations | | 221.9 | 189.8 |
| Discontinued operations | 28 | – | (2.1) |
| Group operating profit before tax and interest | | 221.9 | 187.7 |
| Adjustments for: | | | |
| Depreciation and amortisation included in operating profit | | 21.6 | 20.8 |
| Share-based payments charge | | 7.5 | 6.4 |
| Loss on disposal of property, plant and equipment and intangible assets | | 0.9 | 0.4 |
| Exceptional items (before tax) | | – | 2.1 |
| **Operating cash flows before movements in working capital** | | 251.9 | 217.4 |
| **Movements in working capital and exceptional items** | | | |
| Increase in stock | | (34.0) | (19.7) |
| Decrease/(increase) in trade and other receivables | | 3.6 | (10.7) |
| Increase in trade and other payables and provisions | | 11.2 | 23.9 |
| Difference between pensions operating charge and cash paid | | (39.1) | (32.8) |
| | | (58.3) | (39.3) |
| **Cash generated from operations** | | 193.6 | 178.1 |
| Tax paid | | (35.3) | (30.3) |
| **Net cash flow from operating activities** | | 158.3 | 147.8 |
| **Cash flows used in investing activities** | | | |
| Payments to acquire property, plant and equipment and intangible assets | | (45.9) | (32.8) |
| Interest received | | 0.7 | 0.6 |
| Receipts from sale of property, plant and equipment and intangible assets | | – | 0.3 |
| **Net cash used in investing activities** | | (45.2) | (31.9) |
| **Cash flows used in financing activities** | | | |
| Interest paid | | – | (0.1) |
| Payments to acquire own shares | | (45.3) | – |
| Receipts from release of shares from share trust | | 1.1 | 2.3 |
| Decrease in prepaid loan fees & loans | 19, 23 | 0.9 | 0.1 |
| Increase in long-term prepayments | | (0.6) | – |
| Repayment of capital element of obligations under finance leases | | (0.1) | – |
| Dividends paid to Group shareholders | | (59.9) | (41.0) |
| **Net cash used in financing activities** | | (103.9) | (38.7) |
| **Net increase in cash and cash equivalents** | | 9.2 | 77.2 |
| Cash and cash equivalents at beginning of period | | 216.9 | 139.7 |
| **Cash and cash equivalents at end of period** | 23 | 226.1 | 216.9 |

There are no cash flows from discontinued operating, investing, or financing activities.

# Notes to the consolidated financial statements

## 1 GENERAL INFORMATION

Howden Joinery Group Plc is a company incorporated in England and Wales under the Companies Act 1985. The registered office address is 40 Portman Square, London, W1H 6LT. The nature of the Group's operations are set out in the Strategic Report, and the Group's principal activity is the sale of kitchens and joinery products, along with the associated manufacture, sourcing, 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 26 December 2015. The comparative period covered the 52 weeks to 27 December 2014.

### Statement of compliance and basis of preparation

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 Strategic Report on page 17. The principal accounting policies are set out below.

### Standards in issue but not yet effective

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:

Annual Improvements to IFRSs: 2010 – 2012 Cycle

Annual Improvements to IFRSs: 2011 – 2013 Cycle

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

Amendments to IAS 1: Disclosure Initiative

Annual Improvements to IFRSs: 2012 – 2014 Cycle

Amendments to IAS 16 and IAS 41: Bearer Plants

Amendments to IFRS 11: Acounting for interests in Joint Operations

Amendments to IAS 16 and IAS 38: Acceptable Methods of Depreciation and Amortisation

Amendments to IAS 27: Equity Method in Separate Financial Statements

IFRS 15: Revenue from Contracts with Customers

IFRS 9: Financial Instruments

IFRS 16: Leases

IFRS 14: Regulatory Deferral Accounts

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, other than in the case of IFRS 15 and IFRS 16, which are discussed below.

**IFRS 15: Revenue from Contracts with Customers**

IFRS 15 requires companies to look at their contracts with customers and, where relevant, to break these contracts down into separate performance obligations, allocating a price to each performance obligation and recognising the revenue related to each obligation at a point in time or over a period of time which reflects the completion of that obligation. Its effect is expected to be most significant for companies which, for example, sell combined bundles of both goods and services, and companies who have long-term contracts. The Group's business model does not include any such transactions, and, as stated below, the Group recognises revenue on despatch from our depots, so we do not anticipate that the new IFRS will bring about any significant change to our current revenue recognition processes.

Another change which IFRS 15 will bring about is that it will require companies to adjust the amount of revenue they recognise by deducting from each period's turnover an amount representing any sales for which they estimate they will not receive payment and any goods or services which they estimate may be faulty at the point of sale. At present, any costs relating to bad debts are charged as costs in the period in which they are incurred, whereas IFRS 15 requires that an estimate of these costs is deducted from revenue in the same period as the related sales are recognised. If any items are found to be faulty at the point of sale, they are typically returned to the selling depot within a few days and the sale is reversed, so it is not anticipated that we will have to adjust turnover for these items as a result of adopting IFRS 15. Although the Group does not have a history of incurring significant bad debt costs, or significant costs related to goods which are faulty at the point of sale, it is anticipated that the introduction of the new IFRS

# Notes to the consolidated financial statements continued



will result in a small amount of costs being deducted from revenue at the time of sale rather than being charged as costs when incurred. IFRS 15 has been issued with an effective date of 1 January 2018, but it has not yet been adopted by the EU. If it is adopted by the EU with the same effective date, it would be applicable to the Group for the first time in its financial statements for the period to December 2019.

**IFRS 16: Leases**
IFRS 16 will remove the present distinction between operating leases and finance leases, and will bring all leases onto the balance sheet and see them treated in a way which is broadly similar to the treatment of finance leases under IAS 17, the current leasing standard. Lessees will recognise both an asset and a liability for each lease, and will have to recognise an element of each lease payment as an interest charge.

IFRS 16's most significant effect on the Group will be in the area of leased depot and office properties, although the Group also leases other assets such as mechanical handling equipment, commercial vehicles and cars. Under the current leasing standard, these leases fall to be treated as operating leases. This means that these leases are currently not represented on the balance sheet, and that the associated lease payments are charged to income on a straight-line basis over the course of the lease. When IFRS 16 comes into effect, the Group will have to bring these leases onto the balance sheet and to recognise a notional interest charge on its lease payments.

The effect of this will be that the Group's gross assets and gross liabilities will each increase by a broadly equal and opposite amount, to reflect the additional assets represented by the right to use the leased assets and the related liabilities to make future lease payments. There will also be a timing effect in the income statement, as interest on leases will have to be charged in a similar way to that in which interest is charged on a loan. This will result in more interest being charged in the early periods of each lease and less interest being charged on the later payments.

IFRS 16 has been issued, with an effective date of 1 January 2019, but it has not yet been adopted by the EU. If it is adopted by the EU with the same effective date, it will be applicable to the Group for the first time in its financial statements for the year to December 2020. The Group has not yet carried out a detailed assessment of the possible range of effects on its balance sheet and income statement at the date of approval of these financial statements.

## Basis of consolidation

**Subsidiaries**
Subsidiaries are all entities over which the Group has control. "Control" is defined in this case as the power to govern financial and operating policies so as to obtain benefits from the subsidiaries' activities. Subsidiaries are fully consolidated from the date on which control is established 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.

**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.

## 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 is provided to write off the difference between their cost and their residual value over their estimated lives on a straight-line basis. The current range of useful lives is as follows:

| | |
|---|---|
| Freehold property | 50 yrs |
| Short leasehold property | The period of the lease, or the individual asset's life if shorter |
| Plant, machinery & vehicles | 3 – 20 years |
| Fixtures & fittings | 2 – 15 years |

Capital work in progress and freehold land are not depreciated.

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

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

## Intangible assets

Our intangible assets represent computer 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 lives range between four and seven years, depending on the nature of the software.

## 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.

Apart from in the case of trade and other receivables, and inventories, 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 and inventories 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.

# Notes to the consolidated financial statements continued



## 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 also 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 assets.

## 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.

### 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 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.

## 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, and any current asset investments with a maturity date of less than three months from the balance sheet date.

**Net cash**

Net cash, as shown in note 23, comprises cash and cash equivalents plus any bank borrowings/prepaid loan fees, and any finance leases.

**Current asset investments**

From time to time, the Group uses short-term investments in UK Gilts as part of its cash management activities. The Group reviews these investments before entering into them, and, after establishing that the Group has both the intention and the ability to hold these investments to maturity, they are classified as held-to-maturity and are initially recognised at cost, including any transaction fees.

Subsequent to initial recognition, these investments are carried at amortised cost using the effective interest method. Income from these investments is recognised in the income statement on an effective yield basis.

**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 at 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. Where there are any net 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.

# Notes to the consolidated financial statements continued



### 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. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in the relevant note to these financial statements.

### 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 product lifecycles of different ranges, and the extent to which they meet builder's and end user's requirements.

### Allowances against the carrying value of trade receivables

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

## 4 REVENUE

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

| | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|
| **Continuing operations** | | |
| Sales of goods | 1,220.2 | 1,090.8 |
| Finance income | 1.8 | 0.6 |
| **Total revenue** | 1,222.0 | 1,091.4 |

All revenue was from continuing operations.

## 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 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|
| Capital additions | 45.9 | 32.9 |
| Depreciation and amortisation | (21.6) | (20.8) |

## (c) Geographical information

The Group's operations are mainly located in the UK, with a small presence in France, Belgium, the Netherlands, and Germany. The Group has depots located in the UK, France, Belgium, and the Netherlands, and is in the process of establishing a depot in Germany. The number of depots in each location at the current and prior period ends is shown in the five year record which is located towards the back of this Annual Report. The Group's manufacturing and sourcing operations are 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 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|
| **Revenues from external customers** | | |
| UK | 1,203.8 | 1,075.5 |
| Continental Europe | 16.4 | 15.3 |
| | 1,220.2 | 1,090.8 |

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

| | 26 December 2015 £m | 27 December 2014 £m |
|---|---|---|
| **Carrying amount of segment assets** | | |
| UK | 671.9 | 634.2 |
| Continental Europe | 13.8 | 10.6 |
| | 685.7 | 644.8 |

| | 26 December 2015 £m | 27 December 2014 £m |
|---|---|---|
| **Non-current assets (excluding deferred tax assets)** | | |
| UK | 128.8 | 109.5 |
| Continental Europe | 5.6 | 1.3 |
| | 134.4 | 110.8 |

| | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|
| **Additions to property, plant and equipment and intangible assets** | | |
| UK | 44.2 | 32.1 |
| Continental Europe | 1.7 | 0.8 |
| | 45.9 | 32.9 |

# Notes to the consolidated financial statements continued



## 6 OPERATING PROFIT

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

| | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|
| Net foreign exchange gain/(loss) | 9.9 | 8.0 |
| Depreciation of property, plant and equipment: | | |
| – on owned assets | (19.7) | (19.1) |
| – on assets held under finance lease | (0.1) | (0.1) |
| Amortisation of intangible assets (included in administrative expenses): | | |
| – on owned assets | (1.8) | (1.6) |
| Cost of inventories recognised as an expense | (429.4) | (399.8) |
| Write down of inventories | (6.6) | (4.5) |
| Loss on disposal of fixed assets | (0.9) | (0.4) |
| Increase in allowance for doubtful debts (note 17) | (1.0) | (0.5) |
| Staff costs (note 7) | (323.4) | (286.5) |
| Minimum lease payments under operating leases | (66.0) | (55.7) |
| Auditor's remuneration for audit services (see below) | (0.4) | (0.4) |

All of the items above relate to continuing operations.

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

| | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|
| **Audit services:** | | |
| Fees paid to the Company's auditor for the audit of the Company's annual financial statements | (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 | (0.3) | (0.3) |
| Total audit fees | (0.4) | (0.4) |
| **Other services:** | | |
| Audit related assurance services | (0.1) | (0.1) |
| Tax compliance services | (0.1) | (0.1) |
| Tax advisory services | (0.1) | (0.1) |
| Total non-audit fees | (0.3) | (0.3) |

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 Audit Commitee Report. No services were provided pursuant to contingent fee arrangements.

## 7 STAFF COSTS

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

| | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|
| Wages and salaries | (275.6) | (244.6) |
| Social security costs | (25.8) | (24.3) |
| Pension operating costs (note 20) | (22.0) | (17.6) |
| | (323.4) | (286.5) |

Wages and salaries includes a charge in respect of share-based payments of £7.5m (2014: £6.4m).

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 26 December 2015 Number | 52 weeks to 27 December 2014 Number |
|---|---|---|
| | 8,037 | 7,210 |

## 8 FINANCE INCOME

| | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|
| Bank interest receivable | 0.8 | 0.6 |
| Other interest receivable | 1.0 | – |
| Total finance income | 1.8 | 0.6 |

The other interest relates to the release of an accrual for potential interest payable to HM Revenue & Customs regarding a corporation tax dispute. We received a partial judgement in our favour in the year to 27 December 2014, and some of the accrued interest was released in that period, as described in note 29 (b) of the 2014 financial statements.

During the current period, we have received notice of a final settlement which means that the remainder of the interest accrual is no longer required. Accordingly, it has now been released in full.

## 9 FINANCE EXPENSES AND OTHER FINANCE EXPENSE – PENSIONS

| | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|
| **Finance expenses** | | |
| Interest payable on bank loans | – | (0.1) |
| Other interest | – | – |
| Total finance expenses | – | (0.1) |

| | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|
| **Other finance expense – pensions** | | |
| Pensions finance expense | (4.1) | (1.5) |

# Notes to the consolidated financial statements continued



## 10 TAX

### (a) Tax in the income statement

| | Continuing operations | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|
| | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
| **Current tax:** | | | | | | |
| Current year | 41.1 | 44.1 | – | – | 41.1 | 44.1 |
| Adjustments in respect of previous periods | (4.6) | (1.7) | – | (11.2) | (4.6) | (12.9) |
| Total current tax | 36.5 | 42.4 | – | (11.2) | 36.5 | 31.2 |
| **Deferred tax:** | | | | | | |
| Current year | 7.3 | (0.6) | – | – | 7.3 | (0.6) |
| Adjustments in respect of previous periods | 0.4 | (1.7) | – | – | 0.4 | (1.7) |
| Total deferred tax | 7.7 | (2.3) | – | – | 7.7 | (2.3) |
| Total tax charged/(credited) in the income statement | 44.2 | 40.1 | – | (11.2) | 44.2 | 28.9 |

UK Corporation tax is calculated at 20.25% (2014: 21.5%) 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 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|
| Deferred tax charge/(credit) to other comprehensive income on actuarial gain/loss on pension scheme | 11.7 | (23.9) |
| Deferred tax charge to other comprehensive income on pension contributions | – | 6.3 |
| Current tax credit to other comprehensive income on pension contributions | – | (6.8) |
| Deferred tax charge to equity on share schemes | 1.6 | 1.9 |
| Current tax credit to equity on share schemes | (3.8) | (5.0) |
| | 9.5 | (27.5) |

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

### (c) Reconciliation of the total tax charge

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

| | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|
| **Profit before tax:** | | |
| Continuing operations | 219.6 | 188.8 |
| Discontinued operations | – | (2.1) |
| | 219.6 | 186.7 |

| | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|
| Tax at the UK corporation tax rate of 20.25% (2014: 21.5%) | 44.5 | 40.1 |
| IFRS 2 share scheme (charge)/credit | (0.3) | 0.2 |
| Expenses not deductible for tax purposes | 1.5 | 2.1 |
| Overseas losses not utilised | 1.1 | 0.2 |
| Change of tax rate * | 0.7 | 0.1 |
| Non-qualifying depreciation | 0.9 | 0.7 |
| Tax adjustments in respect of previous years in relation to legacy properties ** | – | (11.1) |
| Other tax adjustments in respect of previous years | (4.2) | (3.4) |
| Total tax charged in the income statement | 44.2 | 28.9 |

* In November 2015 Parliament approved the Finance Bill which reduces the UK Standard rate of corporation tax from 20% to 19% with effect from 1 April 2017 and 19% to 18% from 1 April 2020. All deferred tax assets and liabilities have been recognised at 18% with the exception of items expected to reverse before the tax rate reduces to 18%.

** See note 28(c)

## 11 EARNINGS PER SHARE

| | 52 weeks to 26 December 2015 | | | 52 weeks to 27 December 2014 | | |
|---|---|---|---|---|---|---|
| | 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 | 175.4 | 642.8 | 27.3 | 148.7 | 640.7 | 23.2 |
| Effect of dilutive share options | – | 1.6 | (0.1) | – | 6.2 | (0.2) |
| Diluted earnings per share | 175.4 | 644.4 | 27.2 | 148.7 | 646.9 | 23.0 |
| **From discontinued operations:** | | | | | | |
| Basic earnings per share | | | | 9.1 | 640.7 | 1.4 |
| Effect of dilutive share options | | | | – | 6.2 | – |
| Diluted earnings per share | | | | 9.1 | 646.9 | 1.4 |
| **From continuing and discontinued operations:** | | | | | | |
| Basic earnings per share | 175.4 | 642.8 | 27.3 | 157.8 | 640.7 | 24.6 |
| Effect of dilutive share options | – | 1.6 | (0.1) | – | 6.2 | (0.2) |
| Diluted earnings per share | 175.4 | 644.4 | 27.2 | 157.8 | 646.9 | 24.4 |

# Notes to the consolidated financial statements continued



## 12 DIVIDENDS

| | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|
| **Amounts recognised as distributions to equity holders in the period:** | | |
| Interim dividend for the 52 weeks to 26 December 2015 – 2.8p per share | 17.9 | – |
| Final dividend for the 52 weeks to 27 December 2014 – 6.5p per share | 42.0 | – |
| Interim dividend for the 52 weeks to 27 December 2014 – 1.9p per share | – | 12.2 |
| Final dividend for the 52 weeks to 28 December 2013 – 4.5p per share | – | 28.8 |
| | 59.9 | 41.0 |

| | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|
| **Dividends proposed at the end of the period (but not recognised in the period):** | | |
| Proposed final dividend for the 52 weeks to 26 December 2015 – (7.1p per share) | 45.2 | |
| Proposed final dividend for the 52 weeks to 27 December 2014 – (6.5p per share) | | 41.6 |

The directors propose a final dividend in respect of the 52 weeks to 26 December 2015 of 7.1p per share, payable to ordinary shareholders who are on the register of shareholders at 20 May 2016, and payable on 17 June 2016.

Dividends have been waived indefinitely on all shares held by the Group's employee share trusts, which have not yet been awarded to employees, other than shares awarded under the Share Incentive Scheme (see note 25(d)).

The proposed final dividend for the current period is subject to the approval of the shareholders at the 2016 Annual General Meeting, and has not been included as a liability in these financial statements.

## 13 INTANGIBLE ASSETS

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

| | £m |
|---|---|
| **Cost** | |
| At 28 December 2013 | 17.2 |
| Exchange adjustments | (0.1) |
| Additions | 1.3 |
| Disposals | (6.1) |
| At 27 December 2014 | 12.3 |
| Exchange adjustments | (0.1) |
| Additions | 3.0 |
| Disposals | – |
| At 26 December 2015 | 15.2 |
| **Amortisation** | |
| At 28 December 2013 | 13.5 |
| Exchange adjustments | (0.1) |
| Charge for the period | 1.6 |
| Disposals | (6.1) |
| At 27 December 2014 | 8.9 |
| Exchange adjustments | (0.1) |
| Charge for the period | 1.8 |
| Disposals | – |
| At 26 December 2015 | 10.6 |
| Net book value at 26 December 2015 | 4.6 |
| Net book value at 27 December 2014 | 3.4 |

# Notes to the consolidated financial statements continued



## 14 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 28 December 2013 | 21.7 | 39.7 | 186.6 | 85.0 | 4.5 | 337.5 |
| Exchange adjustments | – | – | – | (0.1) | – | (0.1) |
| Additions | 0.3 | 4.4 | 10.5 | 8.3 | 8.1 | 31.6 |
| Disposals | – | (3.1) | (61.1) | (6.2) | – | (70.4) |
| Reclassifications | 0.1 | 0.9 | 3.5 | – | (4.5) | – |
| At 27 December 2014 | 22.1 | 41.9 | 139.5 | 87.0 | 8.1 | 298.6 |
| Exchange adjustments | – | – | – | (0.1) | – | (0.1) |
| Additions | 0.5 | 8.3 | 5.3 | 8.8 | 20.0 | 42.9 |
| Disposals | – | (2.3) | (11.8) | (2.2) | – | (16.3) |
| Reclassifications | 0.1 | 1.0 | 4.3 | 0.6 | (6.0) | – |
| At 26 December 2015 | 22.7 | 48.9 | 137.3 | 94.1 | 22.1 | 325.1 |
| **Accumulated depreciation** | | | | | | |
| At 28 December 2013 | 2.5 | 15.6 | 153.7 | 70.2 | – | 242.0 |
| Exchange adjustments | – | – | – | (0.1) | – | (0.1) |
| Charge for the period | 0.3 | 2.9 | 10.7 | 5.3 | – | 19.2 |
| Disposals | – | (2.9) | (60.6) | (6.1) | – | (69.6) |
| At 27 December 2014 | 2.8 | 15.6 | 103.8 | 69.3 | – | 191.5 |
| Exchange adjustments | – | – | – | (0.1) | – | (0.1) |
| Charge for the period | 0.3 | 4.3 | 9.7 | 5.5 | – | 19.8 |
| Disposals | – | (1.4) | (11.7) | (2.2) | – | (15.3) |
| At 26 December 2015 | 3.1 | 18.5 | 101.8 | 72.5 | – | 195.9 |
| Net book value at 26 December 2015 | 19.6 | 30.4 | 35.5 | 21.6 | 22.1 | 129.2 |
| Net book value at 27 December 2014 | 19.3 | 26.3 | 35.7 | 17.7 | 8.1 | 107.1 |

At 26 December 2015, the Group had entered into contractual commitments to acquire property, plant and equipment amounting to £21.2m (2014: £4.3m).

### Analysis of assets held under finance leases

| | 26 December 2015 | | 27 December 2014 | |
|---|---|---|---|---|
| | Plant, machinery & vehicles £m | Total £m | Plant, machinery & vehicles £m | Total £m |
| Cost | 0.5 | 0.5 | 0.5 | 0.5 |
| Accumulated depreciation | (0.4) | (0.4) | (0.3) | (0.3) |
| Net book value | 0.1 | 0.1 | 0.2 | 0.2 |

## 15 DEFERRED TAX

The following are the 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 28 December 2013 | 10.9 | 0.2 | 8.3 | 0.2 | 19.6 |
| Credit to income statement | – | 1.6 | – | 0.7 | 2.3 |
| Credit/(charge) outside income statement | 17.6 | – | (1.9) | – | 15.7 |
| At 27 December 2014 | 28.5 | 1.8 | 6.4 | 0.9 | 37.6 |
| (Charge)/credit to income statement | (7.0) | (0.8) | – | 0.1 | (7.7) |
| (Charge)/credit outside income statement | (11.7) | – | (1.6) | – | (13.3) |
| At 26 December 2015 | 9.8 | 1.0 | 4.8 | 1.0 | 16.6 |

Deferred tax arising from accelerated capital allowances, Company share schemes and other timing differences can be further analysed as an £8.8m asset and a £2.0m liability (2014: £11.7m asset and £2.6m liability).

The presentation in the balance sheet is as follows:

| | 26 December 2015 £m | 27 December 2014 £m |
|---|---|---|
| Deferred tax assets | 18.6 | 40.3 |
| Deferred tax liabilities | (2.0) | (2.6) |
| | 16.6 | 37.6 |

At the balance sheet date the Group had unused trading tax losses with a potential value of £10.9m (2014: £10.1m), of which £0.2m (2014: £nil) will expire by 2024. 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 £15.5m (2014: £17.2m) which has not been recognised. These capital losses may be carried forward indefinitely.

## 16 INVENTORIES

| | 26 December 2015 £m | 27 December 2014 £m |
|---|---|---|
| Raw materials | 5.0 | 4.2 |
| Work in progress | 4.5 | 4.1 |
| Finished goods and goods for resale | 184.4 | 147.2 |
| Allowance against carrying value of inventories | (16.8) | (12.4) |
| | 177.1 | 143.1 |

In the event that the Group were to use its bank facility, it has pledged its inventories as security for any borrowing under the facility. More details are given in note 19.

# Notes to the consolidated financial statements continued



## 17 OTHER FINANCIAL ASSETS

### Trade and other receivables

| | 26 December 2015 £m | 27 December 2014 £m |
|---|---|---|
| Trade receivables (net of allowance) | 97.1 | 102.9 |
| Prepayments and accrued income | 30.5 | 28.7 |
| Other receivables | 1.9 | 1.5 |
| | 129.5 | 133.1 |

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:

| | 26 December 2015 £m | 27 December 2014 £m |
|---|---|---|
| Balance at start of period | 7.3 | 6.8 |
| Increase in allowance recognised in the income statement | 1.0 | 0.5 |
| Balance at end of period | 8.3 | 7.3 |

The Group's exposure to the credit risk inherent in its trade receivables is discussed in note 27. 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 period 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. Regular contact is maintained with all such customers and, where necessary, legal action is taken to recover the receivable. An allowance for impairment is made for any specific amounts which are considered irrecoverable or only partly recoverable. There is also a separate allowance, which is calculated as a percentage of sales. At the period end, the total bad debt provision of £8.3m (2014: £7.3m) consists of a specific provision of £3.3m (2014: £2.9m) which has been made against specific debts with a gross carrying value of £4.2m (2014: £3.7m), and a provision of £5.0m (2014: £4.4m) 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.

£4.7m of debts were written off in the period (2014: £4.6m). Included within the Group's aggregate trade receivables balance are specific debtor balances with customers totalling £19.4m before bad debt provision (2014: £16.5m before provision) which are past due as at the reporting date. The Group has assessed these balances for recoverability and believes that their credit quality remains intact.

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

| | 26 December 2015 £m | 27 December 2014 £m |
|---|---|---|
| 1–30 days past due | 10.5 | 8.9 |
| 31–60 days past due | 1.9 | 1.7 |
| 61–90 days past due | 1.3 | 1.0 |
| 90+ days past due | 5.7 | 4.9 |
| Total overdue amounts, excluding allowance for doubtful receivables | 19.4 | 16.5 |

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, and is available on demand. Interest on short-term deposits is paid at prevailing money market rates. The carrying amount of these assets approximates to their fair value.

### Current asset investments

Current asset investments comprise investments in short-term UK Gilts. They have maturity dates ranging between 1 and 3 months from the balance sheet date. They return a fixed rate of interest. The weighted average effective interest rate on the Gilts held at the balance sheet date is 0.3% pa.

These investments are classified as held-to-maturity, and are held at amortised cost.

The directors estimate that the fair value of these investments at the current period end is equal to their carrying value.

### Assets pledged as security

In the event that the Group were to use its bank facility, it has pledged its trade receivables as security for any borrowing under the facility. More details are given in note 19.

## 18 OTHER FINANCIAL LIABILITIES

### Trade and other payables

| | 26 December 2015 £m | 27 December 2014 £m |
|---|---|---|
| **Current liabilities** | | |
| Trade payables | 85.7 | 80.1 |
| Other tax and social security | 55.9 | 51.7 |
| Other payables | 8.2 | 6.9 |
| Accruals and deferred income | 47.9 | 47.4 |
| | 197.7 | 186.1 |

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

The average credit taken for trade purchases during the period, based on total operations, was 46 days (2014: 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.

## 19 BORROWINGS

### Total borrowings

| | 26 December 2015 £m | 27 December 2014 £m |
|---|---|---|
| **Current assets** | | |
| Bank borrowings (net of prepaid fees) | – | (0.6) |
| **Current borrowings** | | |
| Current portion of finance lease obligations | – | – |
| | – | – |
| **Non-current assets** | | |
| Bank borrowings (net of prepaid fees) | – | (0.3) |
| **Non-current borrowings** | | |
| Non-current portion of finance lease obligations | – | 0.1 |
| **Total net borrowings** | – | (0.8) |

### Bank borrowings

The bank borrowings are repayable as follows:

| | 26 December 2015 £m | 27 December 2014 £m |
|---|---|---|
| **Disclosed under current assets:** | | |
| On demand or within one year | – | – |
| Less: prepaid issue fees set against borrowings | – | (0.6) |
| | – | (0.6) |
| **Disclosed under non-current assets:** | | |
| Prepaid issue fees | – | (0.3) |
| | – | (0.3) |
| **Total bank borrowings, net of prepaid fees** | – | (0.9) |

During the current period the Group replaced its previous £140m committed borrowing facility, which on inception had contained a small loan element as well as an asset-backed lending facility, with a new £140m committed asset-backed lending facility which contains no loan element. The previous facility had been due to expire in July 2016, and the new facility expires in July 2019.

Because the previous facility contained a loan element, the prepaid issue fees for that facility fell to be capitalised, set against the related borrowings, and amortised over the life of the facility. These prepaid loan fees were disclosed in the Balance Sheet as part of borrowings, and were analysed into amounts falling due in less than and more than one year from the Balance Sheet date. On replacement of this facility during the current period, these prepaid fees were written off.

As the new facility contains no element of a loan, the arrangement fees for the new facility fall to be treated as prepayments rather than as borrowings, and to be written back to the profit and loss account over the life of the new facility. They are included under prepayments in the Balance Sheet, with the element due over one year from the balance sheet date being shown as a non-current prepayment.

At the prior period end, there were no borrowings under the facility, and so the only amounts shown under the heading of borrowings were the debit balances relating to the prepaid fees, as shown above.

As with the previous facility, the new facility is secured on the trade receivables and stock 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 £140m. There were no borrowings under any facility at either the current or previous year end. As at 26 December 2015, the Group had available £118m of undrawn committed borrowing facilities, in respect of which all conditions precedent had been met (27 December 2014: £112m), in addition to the Group's cash and short-term investments as shown on the Balance Sheet.

If the Group were to use the facility, it would carry interest at a rate of LIBOR plus a margin of 125 basis points.

## 20 RETIREMENT BENEFIT OBLIGATIONS

### (a) Overview of all retirement benefit arrangements

**Defined contribution: auto-enrolment plan**

The Group operates an auto-enrolment defined contribution plan 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 total cost charged to income in respect of this plan in the current period of £3.3m (2014: £2.7m) represents the Group's contributions due and payable in respect of the period. Due to the timing of payments, £0.2m (2014: £0.3m) of this amount was unpaid at the period end, but was paid shortly afterwards.

**Defined contribution: other plan**

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

The total cost charged to income in respect of this plan in the current period of £0.9m (2014: £0.8m) represents the Group's contributions due and paid in respect of the period.

**Defined benefit plan**

**Characteristics and risks of the plan:**

The Group operates a funded pension plan which provides benefits based on the career average pensionable pay of participating employees. This plan was closed to new entrants from April 2013.

The assets of the plan are held separately from those of the Group, being held in a trustee-administered pension plan and invested with independent fund managers. The trustee directors of the plan comprise three member-elected trustees, two independent trustees, and three Group-appointed trustees. All trustees are required to act in the best interests of the plan beneficiaries.

The plan exposes the Group to actuarial risks, such as longevity risk, interest rate risk, and market (investment) risk.

**Accounting and actuarial valuation**

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 2014 by the plan actuary. The actuary advising the Group has subsequently rolled forward the results of the 5 April 2014 valuation to 26 December 2015, and has restated the results onto a basis consistent with market conditions at that date.

**Funding and estimated contributions**

The Group has an agreement with the pension plan trustees to make additional deficit contributions to the plan over and above the normal level of contributions of £35m per year until 30 June 2017.

The Group's estimated total cash contributions to the defined benefit plan in the 52 weeks ending 24 December 2016 are £47m. This assumes that our payment to the Pension Protection Fund remains at a comparable level to 2015.

# 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 IAS19 basis. As shown below, the IAS19 deficit at the current period end is £49.2m. On a funding basis (also known as a "Technical Provisions basis", being the basis on which the triennial actuarial valuations are carried out), the funding deficit at the current period end is estimated at £167.6m, this estimate being based on an approximate roll-forward of the 2014 triennial funding valuation, updated for market conditions.

**French post-employment benefits**
As explained in more detail in note 21, we recognised a provision in 2014 for a post-employment benefit which is payable to employees in our French subsidiaries under French law on retirement. It is a lump sum payable on retirement, not a recurring pension. As such, there is no underlying pension plan. There is no additional liability to recognise in 2015.

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

| | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|
| **Charged to the income statement:** | | |
| Defined benefit plan – current service cost | 16.2 | 12.4 |
| Defined benefit plan – administration costs | 1.6 | 1.7 |
| Defined benefit plan – total operating charge | 17.8 | 14.1 |
| Defined benefit plan – net finance charge | 4.1 | 1.5 |
| Defined contribution plans – total operating charge | 4.2 | 3.5 |
| French post-employment benefits – charge in period | – | 0.2 |
| Total net amount charged to profit before tax | 26.1 | 19.3 |
| **(Credited)/charged to equity:** | | |
| Defined benefit plan – net actuarial (gains)/losses, net of deferred tax | (46.7) | 95.7 |
| Total (credit)/charge | (20.6) | 115.0 |

## (c) Other information – defined benefit pension plan

| **Key assumptions used in the valuation of the plan** | 52 weeks to 26 December 2015 | 52 weeks to 27 December 2014 |
|---|---|---|
| Rate of increase of pensions in deferment capped at lower of CPI and 5% | 2.05% | 2.15% |
| Rate of CARE revaluation capped at lower of RPI and 3% | 2.40% | 2.45% |
| Rate of increase of pensions in payment: | | |
| – pensions with increases capped at lower of CPI and 5% | 2.50% | 2.45% |
| – pensions with increases capped at lower of CPI and 5%, with a 3% minimum | 3.65% | 3.55% |
| – pensions with increases capped at the lower of LPI and 2.5% | 2.25% | 2.25% |
| Rate of increase in salaries | 4.50% | 4.45% |
| Inflation assumption – RPI | 3.50% | 3.45% |
| Inflation assumption – CPI | 2.50% | 2.45% |
| Discount rate | 3.75% | 3.50% |

The following mortality tables were used:

| | |
|---|---|
| Mortality before retirement – 2014 and 2015: | Males AMC00 Ultimate<br>Females AFC00 Ultimate |
| Mortality in retirement for current and future pensioners – 2015: | S2PFA (females)/S2PMA (males), with an application of scaling factors dependent on members' socio-economic information and an allowance for future improvements in line with CMI 2013 core projections with a long-term rate of 1.75% |
| Mortality in retirement for current and future pensioners – 2014: | S1PFA (females)/S1PMA (males), with an application of scaling factors dependent on members' socio-economic information and an allowance for future improvements in line with CMI 2010 core projections with a long-term rate of 1.5% |

The mortality assumption adopted by the Group in 2014 and 2015 is equivalent to the following life expectancies:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Male (yrs)** | **Female (yrs)** | **Male (yrs)** | **Female (yrs)** |
| Non-pensioner (age 45) | 89.4 | 92.2 | 89.5 | 91.8 |
| Pensioner (age 65) | 87.8 | 89.3 | 88.6 | 89.6 |

**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 £50m, and a decrease/increase in the total service cost of around 5.4% or £0.9m.

An increase of 0.25% to the inflation rate would increase scheme liabilities by around £27m, or 2.6%, and would increase total service cost by around £0.4m or 2.4%. A decrease of 0.25% to the inflation rate would decrease scheme liabilities by around £28m, or 2.7%, and would decrease total service cost by around £0.4m or 2.4%. The effect of an increase in inflation is not the exact equal and opposite of the effect of a decrease in inflation because of the effect of various caps and collars on various tranches of pension benefits (for instance, some pension increases are capped at the lower of LPI and 2.5%, as noted above).

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% or £21m, and would increase total service cost by around £0.3m or 1.8%.

The sensitivities above are applied to the defined benefit obligation at the end of the reporting period. Whilst the analysis does not take account of the full distribution of cash flows expected under the scheme, it does provide an approximation to the sensitivity of the assumptions shown.

**Analysis of plan assets**

| | 26 December 2015 | | 27 December 2014 | |
|---|---|---|---|---|
| | **Quoted market price in an active market £m** | **No quoted market price in an active market £m** | **Quoted market price in an active market £m** | **No quoted market price in an active market £m** |
| Government bonds | 348.8 | – | 335.2 | – |
| Equities | | | | |
| – passive equities | 107.3 | – | 85.2 | – |
| – low volatility equities | 191.0 | – | 176.9 | – |
| Private equity | – | 42.0 | – | 58.7 |
| Alternative growth assets | | | | |
| – fund of hedge funds | 82.2 | – | 78.3 | – |
| – absolute return fund | 70.0 | – | 59.3 | – |
| Corporate bonds | 90.4 | – | 92.7 | – |
| Commerical property fund | 51.8 | – | 45.5 | – |
| Cash and cash equivalents | 9.6 | – | 11.7 | – |
| Total | 951.1 | 42.0 | 884.8 | 58.7 |

The plan assets do not include any of the Group's own financial instruments nor any property occupied by, or other assets used by, the Group.

**Asset allocation**

The trustees' current chosen long-term asset allocation strategy for the plan, as noted in the plan's most recent audited accounts (for the year to 5 April 2015), is to target an allocation of 55% in return-seeking assets (such as equities, alternative growth assets, and the commercial property fund), and 45% in risk-reducing assets (such as government bonds, corporate bonds, and cash and cash equivalents).

# Notes to the consolidated financial statements continued

### Analysis of plan liabilities

| | 26 December 2015[1] | | 27 December 2014[2] | |
|---|---|---|---|---|
| | Number of members | Duration (yrs) | Number of members | Duration (yrs) |
| Active members | 1,872 | 32 | 2,021 | 31 |
| Deferred members | 6,448 | 24 | 6,561 | 24 |
| Pensioners | 3,035 | 15 | 2,890 | 14 |
| Total no./average duration | 11,355 | 21 | 11,472 | 21 |

1 The number of members is as per the 5 April 2015 trustees' report, and the duration is as at 5 April 2014 (being the date of the most recent triennial valuation).

2 The number of members is as per the 5 April 2014 trustees' report, and the duration is as at 5 April 2014 (being the date of the triennial valuation which was in progress at that time).

### Balance sheet

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

| | 26 December 2015 £m | 27 December 2014 £m |
|---|---|---|
| Present value of defined benefit obligations | (1,042.3) | (1,086.1) |
| Fair value of scheme assets | 993.1 | 943.5 |
| Deficit in the scheme, recognised in the balance sheet | (49.2) | (142.6) |

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

| | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|
| Present value at start of period | 1,086.1 | 857.4 |
| Current service cost | 16.2 | 12.4 |
| Administration cost | 1.6 | 1.7 |
| Interest on obligation | 37.6 | 40.6 |
| Contributions from scheme members | 0.1 | 0.2 |
| Actuarial losses/(gains): | | |
| – changes in demographic assumptions | 10.1 | – |
| – changes in financial assumptions | (55.4) | 212.5 |
| – experience | (19.2) | (12.0) |
| Benefits paid, including expenses | (34.8) | (26.7) |
| Present value at end of period | 1,042.3 | 1,086.1 |

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

| | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|
| Fair value at start of period | 943.5 | 803.1 |
| Interest income on plan assets | 33.5 | 39.1 |
| Contributions from plan members | 0.1 | 0.2 |
| Contributions from the Group | 56.9 | 46.9 |
| Actuarial (loss)/gain | (6.1) | 80.9 |
| Benefits paid, including expenses | (34.8) | (26.7) |
| Fair value at end of period | 993.1 | 943.5 |

Movements in the deficit during the period are as follows:

| | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|
| Deficit at start of period | (142.6) | (54.3) |
| Current service cost | (16.2) | (12.4) |
| Administration cost | (1.6) | (1.7) |
| Employer contributions | 56.9 | 46.9 |
| Other finance charge | (4.1) | (1.5) |
| Actuarial gain/(loss) gross of deferred tax | 58.4 | (119.6) |
| Deficit at end of period | (49.2) | (142.6) |

**Income statement**

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

Amount charged to operating profit:

| | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|
| Current service cost | 16.2 | 12.4 |
| Administration cost | 1.6 | 1.7 |
| Net cost | 17.8 | 14.1 |

The current service cost is included in Staff Costs.

# Notes to the consolidated financial statements continued



Amount credited to other finance charges:

| | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|
| Interest income on plan assets | (33.5) | (39.1) |
| Interest cost on defined benefit obligation | 37.6 | 40.6 |
| Net charge | 4.1 | 1.5 |

The actual return on plan assets was £27.4m (52 weeks to 27 December 2014, £120.0m).

**Statement of comprehensive income**
Amounts taken to equity via the statement of comprehensive income in respect of the Group's defined benefit plan are shown below:

| | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|
| Actuarial (loss)/gain on plan assets | (6.1) | 80.9 |
| Actuarial gain/(loss) on plan liabilities | 64.5 | (200.5) |
| Net actuarial gain/(loss), before associated deferred tax | 58.4 | (119.6) |

## 21 PROVISIONS

| | Property £m | Warranty £m | French post-retirement benefits £m | Business closure £m | Total £m |
|---|---|---|---|---|---|
| At 28 December 2013 | 9.0 | 2.9 | – | 0.1 | 12.0 |
| Additional provision in the period | 3.3 | 3.6 | 0.2 | – | 7.1 |
| Provision released in the period | (0.2) | – | – | (0.1) | (0.3) |
| Utilisation of provision in the period | (5.3) | (2.9) | – | – | (8.2) |
| At 27 December 2014 | 6.8 | 3.6 | 0.2 | – | 10.6 |
| Additional provision in the period | 2.4 | 4.1 | – | – | 6.5 |
| Provision released in the period | (1.9) | – | – | – | (1.9) |
| Utilisation of provision in the period | (1.8) | (3.5) | – | – | (5.3) |
| At 26 December 2015 | 5.5 | 4.2 | 0.2 | – | 9.9 |

### Property provision
The property provision covers two main areas: (i) onerous leases on any non-trading leased properties, and (ii) obligations to make dilapidations payments to landlords of leased properties.

There is a discussion of the main sources of estimation and uncertainty which apply to this provision at note 3. The amount of the expected future cash flows has been adjusted to reflect the expected range of possibilities.

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

### 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 historical data to periodically revise the basis on which it makes further provision.

### French post-employment benefits

This provision relates to a benefit which is payable to employees in our French subsidiaries under French law on retirement. It is a lump sum payable on retirement, not a recurring pension. It will only be payable if any of the eligible employees are employed by our French subsidiaries immediately before their retirement.

The provision represents our best estimate of the potential liability and it is calculated based on several factors, mainly the age profile and salary details of the current workforce in France, and the current rate of staff turnover.

## 22 SHARE CAPITAL

| Ordinary shares of 10p each | 52 weeks to 26 December 2015 Number | 52 weeks to 27 December 2014 Number | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|---|---|
| Allotted, called up and fully paid | | | | |
| Balance at the beginning of the period | 646,541,496 | 642,782,361 | 64.7 | 64.3 |
| Issued during the period | 5,289,319 | 3,759,135 | 0.5 | 0.4 |
| Balance at the end of the period | 651,830,815 | 646,541,496 | 65.2 | 64.7 |

# Notes to the consolidated financial statements continued



## 23 NOTES TO THE CASH FLOW STATEMENT

### (a) Reconciliation of net cash

| | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|
| **Net cash at start of period** | 217.7 | 140.5 |
| Increase/(decrease) in cash | 34.2 | (7.8) |
| (Decrease)/increase in short-term investments | (25.0) | 85.0 |
| Decrease in bank loans/prepaid loan fees | (0.9) | (0.1) |
| Decrease in finance leases | 0.1 | 0.1 |
| **Net cash at end of the period** | 226.1 | 217.7 |
| Represented by: | | |
| Cash | 166.1 | 131.9 |
| Short-term investments | 60.0 | 85.0 |
| Bank loans/prepaid loan fees | – | 0.9 |
| Finance leases | – | (0.1) |
| | 226.1 | 217.7 |

### (b) Analysis of net cash

| | Cash at bank and in hand £m | Short-term investments £m | SUBTOTAL Cash and cash equivalents £m | Bank loans/ prepaid loan fees (note 20) £m | Finance leases £m | TOTAL Net cash £m |
|---|---|---|---|---|---|---|
| At 27 December 2014 | 131.9 | 85.0 | 216.9 | 0.9 | (0.1) | 217.7 |
| Cash flow | 34.2 | (25.0) | 9.2 | (0.9) | 0.1 | 8.4 |
| At 26 December 2015 | 166.1 | 60.0 | 226.1 | – | – | 226.1 |

The short-term investments have a maturity of less than three months, and as such are considered to be cash equivalents for the purposes of the cash flow statement.

## 24 FINANCIAL COMMITMENTS

### Capital commitments

| | 26 December 2015 £m | 27 December 2014 £m |
|---|---|---|
| Contracted for, but not provided for in the financial statements | 21.2 | 4.3 |

### Operating lease commitments

**The Group as lessee:**

Payments under operating leases during the period are shown at note 6. 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 | |
|---|---|---|---|---|---|---|
| | 26 December 2015 £m | 27 December 2014 £m | 26 December 2015 £m | 27 December 2014 £m | 26 December 2015 £m | 27 December 2014 £m |
| **Payments falling due:** | | | | | | |
| Within one year | 54.3 | 46.3 | 13.3 | 11.7 | 67.6 | 56.5 |
| In the second to fifth year inclusive | 164.1 | 140.1 | 31.3 | 27.8 | 195.4 | 158.2 |
| After five years | 81.1 | 75.1 | 10.7 | 10.9 | 91.8 | 77.8 |
| | 299.5 | 261.5 | 55.3 | 50.4 | 354.8 | 292.5 |

**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:

| | 26 December 2015 £m | 27 December 2014 £m |
|---|---|---|
| Payments receivable: | £m | £m |
| Within one year | 0.8 | 0.7 |
| In the second to fifth year inclusive | 1.7 | 2.5 |
| After five years | 1.1 | 1.3 |
| | 3.6 | 4.5 |

Finance lease commitments are analysed in note 19.

# Notes to the consolidated financial statements continued



## 25 SHARE-BASED PAYMENTS

### 1) Details of each scheme

The Group recognised a charge of £7.5m (2014: charge of £6.4m) 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.

2012 award: 25% of the award will vest if PBT growth at the end of the 2014 financial year is at a rate of 6% p.a., based on the December 2011 accounts. 100% of the award will vest if PBT growth on the same basis is 12% or above.

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% or above.

2014 award: 15% of the award will vest if PBT growth at the end of the 2016 financial year is at a rate of 8% p.a., based on the December 2013 accounts. 100% of the award will vest if PBT growth on the same basis is 20% or above.

2015 award: 15% of the award will vest if PBT growth at the end of the 2017 financial year is at a rate of 8% p.a., based on the December 2014 accounts. 100% of the award will vest if PBT growth on the same basis is 20% or above.

**b) Executive Share Options**

This was a discretionary share option plan which was granted in 2005. The options were granted with an exercise price equal to market value at the date of grant. The vesting period was three years from the date of grant with an exercise period of seven years (i.e. a total life of ten years). The performance conditions were that EPS had to grow by at least RPI + 9%. If this was achieved, the options vested fully. If this was 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) Market value options:
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.

2014 award: 15% of the award will vest if PBT growth at the end of the 2016 financial year is at a rate of 8% p.a., based on the December 2013 accounts. 100% of the award will vest if PBT growth on the same basis is 20% p.a. or above.

(v) Performance share plan. This is a conditional share award. The 2015 performance conditions are as follows: if PBT growth at the end of the 2017 financial year is below 8% p.a., based on the December 2014 accounts, there will be no vesting. If PBT growth is 8% on the same basis, 15% of the award will vest . If PBT growth on the same basis is 20% or above, 100% of the award will vest. If PBT growth is between 8% and 20%, the shares will vest on a sliding scale.

**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. The 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: 2012 – 2015 awards.**

| | 52 weeks to 26 December 2015 Number | 52 weeks to 26 December 2015 WAEP (£) | 52 weeks to 27 December 2014 Number | 52 weeks to 27 December 2014 WAEP (£) |
|---|---|---|---|---|
| In issue at start of period | 7,983,287 | – | 10,926,262 | – |
| Granted in period | 1,035,181 | – | 1,433,043 | – |
| Lapsed in period | (285,245) | – | (713,677) | – |
| Exercised in period | (4,459,691) | – | (3,662,341) | – |
| In issue at end of period | 4,273,532 | – | 7,983,287 | – |
| 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 | | 4.44 | | 3.46 |
| Weighted average contractual life remaining for share options outstanding at the period end (years) | 1.02 | | 0.89 | |
| Weighted average fair value of options granted during the period (£) | 4.38 | | 3.62 | |
| Range of exercise prices for options outstanding at the period end (£): | | | | |
| – from | – | | – | |
| – to | – | | – | |

# Notes to the consolidated financial statements continued



**b) Executive Share Options**

**Full vesting if EPS increases by RPI + 9%**

| | 52 weeks to 26 December 2015 Number | 52 weeks to 26 December 2015 WAEP (£) | 52 weeks to 27 December 2014 Number | 52 weeks to 27 December 2014 WAEP (£) |
|---|---|---|---|---|
| In issue at start of period | 101,000 | 1.00 | 148,383 | 1.00 |
| Granted in period | – | N/A | – | N/A |
| Lapsed in period | – | N/A | (5,000) | 1.00 |
| Exercised in period | (101,000) | 1.00 | (42,383) | 1.00 |
| In issue at end of period | – | N/A | 101,000 | 1.00 |
| Exercisable at end of period | – | N/A | 101,000 | 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 | | 4.59 | | 3.48 |
| Weighted average contractual life remaining for share options outstanding at the period end (years) | N/A | | – | |
| 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 | N/A | | 1.00 | |
| – to | N/A | | 1.00 | |

**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 26 December 2015 Number | 52 weeks to 26 December 2015 WAEP (£) | 52 weeks to 27 December 2014 Number | 52 weeks to 27 December 2014 WAEP (£) |
|---|---|---|---|---|
| In issue at beginning of period | 211,063 | 0.36 | 469,263 | 0.36 |
| Granted in period | – | N/A | – | N/A |
| Lapsed in period | – | N/A | – | N/A |
| Exercised in period | (16,650) | 0.36 | (258,200) | 0.36 |
| In issue at end of period | 194,413 | 0.36 | 211,063 | 0.36 |
| Exercisable at end of period | 194,413 | 0.36 | 211,063 | 0.36 |
| Number of options in the closing balance that were granted before 7 November 2002 | – | | – | |
| Weighted average share price for options exercised during the period | | 4.88 | | 3.79 |
| 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 | | 0.36 | |

**c) Howden Joinery Group Long-term Incentive Plan**

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

| | 52 weeks to 26 December 2015 Number | 52 weeks to 26 December 2015 WAEP (£) | 52 weeks to 27 December 2014 Number | 52 weeks to 27 December 2014 WAEP (£) |
|---|---|---|---|---|
| In issue at beginning of period | 334,665 | 0.81 | 1,908,156 | 0.81 |
| Granted in period | – | N/A | – | N/A |
| Lapsed in period | – | N/A | – | N/A |
| Exercised in period | (122,709) | 0.81 | (1,573,491) | 0.81 |
| In issue at end of period | 211,956 | 0.81 | 334,665 | 0.81 |
| Exercisable at end of period | 211,956 | 0.81 | 334,665 | 0.81 |
| Number of options in the closing balance that were granted before 7 November 2002 | – | | – | |
| Weighted average share price for options exercised during the period | | 4.78 | | 3.69 |
| 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 | 0.81 | | 0.81 | |
| – to | 0.81 | | 0.81 | |

**c) Howden Joinery Group Long-term Incentive Plan**

**iii) Conditional Share Award – subject to continuing employment**

| | 52 weeks to 26 December 2015 Number | 52 weeks to 26 December 2015 WAEP (£) | 52 weeks to 27 December 2014 Number | 52 weeks to 27 December 2014 WAEP (£) |
|---|---|---|---|---|
| In issue at beginning of period | 1,565,700 | – | 1,558,100 | – |
| Granted in period | 9,500 | – | 630,800 | – |
| Lapsed in period | (83,300) | – | (148,600) | – |
| Exercised in period | (482,400) | – | (474,600) | – |
| In issue at end of period | 1,009,500 | – | 1,565,700 | – |
| 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 | | 4.48 | | 3.74 |
| Weighted average contractual life remaining for share options outstanding at the period end (years) | 0.82 | | 1.31 | |
| Weighted average fair value of options granted during the period (£) | 4.29 | | 3.47 | |
| Range of exercise prices for options outstanding at the period end (£): | | | | |
| – from | – | | – | |
| – to | – | | – | |

# Notes to the consolidated financial statements continued



### iv) 2011, 2012, 2013 and 2014 grants – PBT to increase by between 6% – 12%

| | 52 weeks to 26 December 2015 Number | 52 weeks to 26 December 2015 WAEP (£) | 52 weeks to 27 December 2014 Number | 52 weeks to 27 December 2014 WAEP (£) |
|---|---|---|---|---|
| In issue at beginning of period | 3,147,253 | 2.47 | 2,728,400 | 1.55 |
| Granted in period | – | N/A | 1,199,454 | 3.79 |
| Lapsed in period | (60,825) | 2.66 | (206,704) | 1.62 |
| Exercised in period | (705,649) | 1.27 | (573,897) | 1.13 |
| In issue at end of period | 2,380,779 | 2.83 | 3,147,253 | 2.47 |
| Exercisable at end of period | 476,907 | 1.20 | 347,821 | 1.09 |
| Number of options in the closing balance that were granted before 7 November 2002 | – | | – | |
| Weighted average share price for options exercised during the period | | 4.78 | | 3.60 |
| Weighted average contractual life remaining for share options outstanding at the period end (years) | 0.85 | | 1.38 | |
| Weighted average fair value of options granted during the period (£) | N/A | | 1.70 | |
| Range of exercise prices for options outstanding at the period end (£): | | | | |
| – from | 1.08 | | 1.08 | |
| – to | 3.78 | | 3.78 | |

### (v) 2015 performance share plan. PBT to increase by between 8% – 20%

| | 52 weeks to 26 December 2015 Number | 52 weeks to 26 December 2015 WAEP (£) |
|---|---|---|
| In issue at beginning of period | – | N/A |
| Granted in period | 595,200 | – |
| Lapsed in period | (7,134) | – |
| Exercised in period | – | N/A |
| In issue at end of period | 588,066 | – |
| 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) | 2.25 | |
| Weighted average fair value of options granted during the period (£) | 4.38 | |
| Range of exercise prices for options outstanding at the period end (£): | | |
| – from | – | |
| – to | – | |

### d) Share incentive scheme (Freeshares)

| | 52 weeks to 26 December 2015 Number | 52 weeks to 26 December 2015 WAEP (£) | 52 weeks to 27 December 2014 Number | 52 weeks to 27 December 2014 WAEP (£) |
|---|---|---|---|---|
| In issue at start of period | 120,449 | – | 152,515 | – |
| Granted in period | 757,100 | – | – | N/A |
| Lapsed in period | (51,300) | – | – | N/A |
| Exercised in period | (33,420) | – | (32,066) | – |
| In issue at end of period | 792,829 | – | 120,449 | – |
| Exercisable at end of period | 89,229 | – | 120,449 | – |
| Number of options in the closing balance that were granted before 7 November 2002 | 89,229 | | 120,449 | |
| Weighted average share price for options exercised during the period | | 4.75 | | 3.43 |
| Weighted average contractual life remaining for share options outstanding at the period end (years) | 2.44 | | – | |
| Weighted average fair value of options granted during the period (£) | 5.18 | | N/A | |
| Range of exercise prices for options outstanding at the period end (£): | | | | |
| – from | – | | – | |
| – to | – | | – | |

### e) Share Award Plan – subject to continuing employment

| | 52 weeks to 26 December 2015 Number | 52 weeks to 26 December 2015 WAEP (£) | 52 weeks to 27 December 2014 Number | 52 weeks to 27 December 2014 WAEP (£) |
|---|---|---|---|---|
| In issue at start of period | 69,009 | – | 69,009 | – |
| Granted in period | – | N/A | – | N/A |
| Lapsed in period | – | N/A | – | N/A |
| Exercised in period | (46,866) | N/A | – | N/A |
| In issue at end of period | 22,143 | – | 69,009 | – |
| 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 | | 4.41 | | N/A |
| Weighted average contractual life remaining for share options outstanding at the period end (years) | 2.25 | | 3.25 | |
| 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



### 3) Fair value of options granted

The fair value of all options granted is estimated on the date of grant using a binomial option valuation model.
The key assumptions used in the model were:

| | 52 weeks to 26 December 2015 | 52 weeks to 27 December 2014 |
|---|---|---|
| Dividend yield (%) | 1.8 | 1.5 |
| Expected share price volatility (%) | N/A | 51 |
| Historical volatility (%) | N/A | 51 |
| Risk-free interest rate (%) | N/A | 2.2 |
| Expected life of options (years) | 3.0 | 4.2 |

## 26 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 20.

### 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 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|
| Short-term employment benefits | 6.2 | 6.6 |
| Share-based payments | 17.8 | 26.9 |
| | 24.0 | 33.5 |

### Other transactions with key management personnel

There were no other transactions with key management personnel.

## 27 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 cash and short-term investments, the committed borrowing facility discussed further in note 19 – if needed – 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 22).

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 £140m committed bank facility secured against the assets of the Group and based on two sub-facilities (stock and trade receivables). The facility limit is the lower of £140m and the sum of the sub-facilities. 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 period the maturity of the facility was extended from July 2016 to July 2019.

### (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

| | 26 December 2015 £m | 27 December 2014 £m |
|---|---|---|
| **Financial assets (current and non-current)** | | |
| Trade receivables | 97.1 | 102.9 |
| Cash and cash equivalents | 166.1 | 131.9 |
| Current asset investments | 60.0 | 85.0 |
| **Financial liabilities (current and non-current)** | | |
| Trade payables | 85.7 | 80.1 |
| Borrowings | – | (0.8) |

# Notes to the consolidated financial statements continued



## (d) Financial risk management

**General**

The Group is exposed in varying degrees to a variety of financial instrument related risks. The Board has approved and monitors the risk management processes, including documented treasury policies, counterparty limits, controlling and reporting structures. The types of risk exposure, the way in which such exposure is managed, and the quantification of the level of exposure in the balance sheet is shown below (subcategorised into credit risk, liquidity risk and market risk). The Group is actively engaged in the management of all of these financial risks in order to minimise their potential adverse impact on the Group's financial performance.

The principles, practices and procedures governing the Group-wide financial risk management process have been approved by the Board and are overseen by the Executive Committee. In turn, the Executive Committee delegates authority to a central treasury function ('Group Treasury') for the practical implementation of the financial risk management process across the Group and for ensuring that the Group's entities adhere to specified financial risk management policies. Group Treasury regularly reassesses and reports on the financial risk environment, identifying and evaluating financial risks. The Group does not take positions on derivative contracts and only enters into contractual bank deposit or lending arrangements with counterparties that have appropriate credit ratings, as detailed in section (e) below.

**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 and current asset investments.

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.

Current asset investments consist of UK Government Treasury Bills with an initial term to maturity of up to three months. These investments are held to maturity and, whilst of lower liquidity than cash, will ensure that the primary Group policy objective of asset security is met.

Management of trade receivables is discussed in note 17.

## (e) Credit risk

The Group's principal financial assets are cash, investments, 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 17. 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 and investments through adherence to a policy of minimum short-term counterparty credit ratings assigned by international credit-rating agencies (Standard & Poor's A-1 and Moody's P-1). However, when accounts are opened in new territories there may be instances where there is no appropriate partner which meets the Group's credit rating conditions. In such circumstances, arrangements with a counterparty which does not meet the Group's credit rating criteria can be made only at the specific approval of the Board and is subject to a maximum cash holding limit.

In addition, Group Treasury monitors counterparty risk through regular assesments which take account of counterparties' key financial ratios, corporate bond and equity prices together with agency credit ratings.

Full disclosure of the Group's maximum exposure to credit risk is presented in the following table:

| | 26 December 2015 £m | 27 December 2014 £m |
|---|---|---|
| Trade receivables (net of allowance) | 97.1 | 102.9 |
| Cash | 166.1 | 131.9 |
| Current asset investments | 60.0 | 85.0 |
| Total credit risk exposure | 323.2 | 319.8 |

## (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 cash and investment 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 19 is a description of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk. In addition, the Financial Review contains a section describing the interaction of liquidity risk and the going concern review.

**Maturity profile of outstanding financial liabilities**

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The Group has no derivative financial liabilities. The tables have been drawn up on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

| | Within 1 year | | | 2–3 years | | | |
|---|---|---|---|---|---|---|---|
| At 26 December 2015 | Capital £m | Floating interest £m | Fixed interest £m | Capital £m | Floating interest £m | Fixed interest £m | Total £m |
| Trade payables | 85.7 | – | – | – | – | – | 85.7 |

| | Within 1 year | | | 2–3 years | | | |
|---|---|---|---|---|---|---|---|
| At 27 December 2014 | Capital £m | Floating interest £m | Fixed interest £m | Capital £m | Floating interest £m | Fixed interest £m | Total £m |
| Trade payables | 80.1 | – | – | – | – | – | 80.1 |
| Finance leases | – | – | – | 0.1 | – | – | 0.1 |
| | 80.1 | – | – | 0.1 | – | – | 80.2 |

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.

# Notes to the consolidated financial statements continued



## (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 foreign exchange risk, 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:

| | 26 December 2015 £m | 27 December 2014 £m |
|---|---|---|
| **Euro** | | |
| Trade receivables | 1.8 | 1.6 |
| Other receivables | 1.4 | 0.8 |
| Cash and cash equivalents | 4.2 | 4.4 |
| Trade payables | (13.2) | (16.5) |
| Other payables | (0.8) | (0.8) |
| | (6.6) | (10.5) |
| **US Dollar** | | |
| Cash and cash equivalents | 0.1 | – |
| Trade payables | (0.7) | (0.8) |
| | (0.6) | (0.8) |
| **TOTAL** | (7.2) | (11.3) |

**Interest rate risk**

The Group does not have any significant exposure to interest rate risk.

## (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 (2014: remain the same).

For a decrease of 50 basis points, the current year figures would remain the same (2014: remain the same).

**Foreign exchange sensitivity**

As noted above, the Group is mainly exposed to movements in Euro, and US dollar exchange rates. 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.

| | 26 December 2015<br>£m | 27 December 2014<br>£m |
|---|---|---|
| 10% weakening of Sterling to Euro | (0.8) | (1.2) |
| 10% strengthening of Sterling to Euro | 0.6 | 1.0 |
| 10% weakening of Sterling to US dollar | (0.1) | (0.1) |
| 10% strengthening of Sterling to US dollar | 0.1 | 0.1 |

# Notes to the consolidated financial statements continued



## 28 DISCONTINUED OPERATIONS

There were no discontinued operations in the current period.

All discontinued operations in the prior period are discontinued exceptional items, and are analysed as follows:

| | Note | 52 weeks to 27 December 2014 £m |
|---|---|---|
| Increase to discontinued operations property provision | (a) | (2.2) |
| Release of discontinued interest accrual | (b) | 0.1 |
| Exceptional item – loss on discontinued operations | | (2.1) |
| Release of tax creditor for discontinued operations | (c) | 11.1 |
| Tax credit on increase to discontinued operations property provision | (a) | 0.1 |
| Exceptional profit after tax | | 9.1 |

### (a) Increase to discontinued property provisions

During 2014, we increased the provision for our remaining legacy properties.

### (b) Release of discontinued interest accrual

In periods prior to 2014, the Group had been accruing for possible interest which would be due in relation to overdue tax in the event that we were unsuccessful in our dispute with HMRC relating to discontinued operations (see (c) below). Following the partial resolution of this dispute in the period, we had certainty that some of this accrual would no longer be needed. We therefore released this amount.

### (c) Release of tax creditor for discontinued operations

During 2014, we received a First Tier Tribunal judgement which gave a partial resolution of a dispute with HMRC, regarding the tax treatment of certain expenses relating to our legacy properties which had been incurred in prior periods.

In prior years, we had prepared our tax computations for accounts purposes on the basis that the disputed expense items would not be deductible for tax, and we provided for tax on that basis. Since the judgement gave us certainty that particular expenses may be treated as deductible for tax, we recognised a credit of £11.1m of tax in 2014.

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

| | |
|---|---|
| **Opinion on financial statements of Howden Joinery Group plc** | **In our opinion:**<br>• **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 26 December 2015 and of the group's profit for the 52 weeks then ended;**<br>• **the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**<br>• **the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and**<br>• **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.**<br>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 28. 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 and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the group** | As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 2 to the financial statements and the directors' statement on the longer-term viability of the group contained on page 17.<br>We have nothing material to add or draw attention to in relation to:<br>• the directors' confirmation on page 17 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;<br>• the disclosures on pages 19 to 22 that describe those risks and explain how they are being managed or mitigated;<br>• the directors' statement in the Strategic Report to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;<br>• the director's explanation on page 17 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.<br>We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. 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. |
| **Independence** | We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards. |
| **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. There have been no changes in the risks of material misstatement identified compared to the prior year. |

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



| Risk | How the scope of our audit responded to the risk |
|---|---|
| **The recoverability of trade debtors and appropriateness of the bad debt provision**<br>The Group supplies a large number of small businesses and the year end trade debtors balance consists of a high number of relatively small accounts. Management judgement is required in determining the completeness of the trade receivables provision and in assessing its adequacy through considering the expected recoverability of the year-end trade receivables. At the year end the Group held trade receivables of £105.4m gross of a £8.3m provision. Further information is included in notes 2, 3 and note 17. | We have challenged management's assumptions in calculating the bad debt provision. This includes reviewing the ageing of receivables in comparison to previous years, testing the integrity of ageing by recalculating the due date for a sample of invoices and reviewing the level of bad debt write offs in the current year and against the prior year. We also checked the recoverability of outstanding debtors through examination of subsequent cash receipts and tested the operating effectiveness of the relevant control procedures management has in place. |
| **The appropriateness of the stock obsolescence provision**<br>Management judgement is required in determining the accuracy of the stock obsolescence provision and in making an assessment of its adequacy. In particular, there is judgement involved in determining the appropriate provision percentage based on the age of discontinued kitchen and non-kitchen stock lines at both depots and manufacturing sites and the level of forecast sales. At the year end the Group held stock of £193.9m gross of a £16.8m provision. Further information is included in notes 2, 3 and note 16. | We have tested that the book value of stock does not exceed its net realisable value by comparing the actual sales value to the book value for a sample of lines. We have challenged the assumptions used to calculate the obsolescence provision and specifically with respect to the discontinued lines. We have checked the dates they were discontinued and assessed the appropriateness of the provision percentages applied through reviewing the sales of those lines post discontinuation. For other lines we have assessed the forecast sales demand with comparison to prior periods. |
| **The appropriateness of the actuarial assumptions used in determining the defined benefit deficit**<br>The Group operates a funded defined benefit scheme which was closed to new entrants from April 2013. Management judgement is required in determining the key actuarial assumptions that underpin the calculation of the defined benefit deficit (£49.2m). In particular, the discount rate, inflation rate and mortality assumptions. Further information is included in notes 2, 3 and note 20. | We have used our pension specialists to assist us in assessing the appropriateness of the assumptions underlying the valuation of the pension deficit by reviewing the actuarial report and challenging each of the key assumptions by comparison to available market data. We have also benchmarked the key assumptions against a population of other companies as at the end of December. We have also assessed the competence and independence of the external actuaries used by management in determining the actuarial assumptions. Competence has been assessed by confirming the actuaries have sufficient experience and are Fellows of the Institute and Faculty of Actuaries. |

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 69.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| | |
|---|---|
| **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.<br><br>We determined materiality for the group to be £10 million (2014: £8 million), which is approximately 5% (2014: 5%) of pre-tax profit. Pre-tax profit has been used as it continues to be a key driver of business value and an area of focus for stakeholders. This basis is consistent with the prior year. Our audit work at the entities was executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged between 50% and 95% of group materiality.<br><br>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £200,000 (2014: £160,000), 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 was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, we focused our audit scope on the UK, French and Belgian trading entities and each of the Head Office companies. All of these were subject to a full audit. These locations represent the principal business units and account for 99% (2014: 100%) of the group's net assets, group's revenue and of the group's profit before tax for the 52 weeks ended 26 December 2015. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. The UK trading entities and Head Office Companies together account for 98% (2014: 98%) of Group revenue and were audited by the group team. This audit approach is consistent with the prior year.<br><br>At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit. |
| **Opinion on other matters prescribed by the Companies Act 2006** | In our opinion:<br><br>• the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and<br><br>• 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:<br><br>• we have not received all the information and explanations we require for our audit; or<br><br>• 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<br><br>• the parent company financial statements are not in agreement with the accounting records and returns.<br><br>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 part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review. |

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



| | |
|---|---|
| *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:<br>• materially inconsistent with the information in the audited financial statements; or<br>• apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or<br>• otherwise misleading.<br>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. |
| **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). 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.<br>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

24 February 2016

# Company balance sheet

| | Notes | 26 December 2015 £m | 27 December 2014 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | 4 | 699.0 | 699.0 |
| Deferred tax | | – | 0.2 |
| Long-term prepayments | 8 | 0.6 | – |
| Prepaid loan fees | 8 | – | 0.3 |
| | | 699.6 | 699.5 |
| **Current assets** | | | |
| Prepaid loan fees | 8 | – | 0.6 |
| Debtors | 5 | 41.9 | 33.4 |
| Current asset investments | 6 | 60.0 | 85.0 |
| Cash at bank and in hand | | 155.4 | 119.9 |
| | | 257.3 | 238.9 |
| **Current liabilities** | | | |
| Creditors: amounts falling due within one year | 7 | (383.5) | (580.1) |
| Net current liabilities | | (126.2) | (341.2) |
| Total assets less current liabilities | | 573.4 | 358.3 |
| **Non-current liabilities** | | | |
| Provisions | | – | – |
| Net assets | | 573.4 | 358.3 |
| **Equity** | | | |
| Called up share capital | 9 | 65.2 | 64.7 |
| Share premium account | 10 | 87.5 | 87.5 |
| Retained earnings reserve | 10 | 466.0 | 206.1 |
| Treasury shares | 10 | (45.3) | – |
| **Total equity** | | 573.4 | 358.3 |

These financial statements were approved by the Board on 24 February 2016 and were signed on its behalf by

**Mark Robson**
**Deputy Chief Executive and 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 England and Wales under the Companies Act 1985.

### Basis of presentation

The Company's accounting period covers the 52 weeks to 26 December 2015. The comparative period covered the 52 weeks to 27 December 2014.

### 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 Strategic Report.

### Investments in subsidiaries

These investments are shown at cost less any provision for impairment.

### Current asset investments

From time to time, the Company uses short-term investments in UK Gilts as part of its cash management activities. The Company reviews these investments before entering into them, and, after establishing that the Company has both the intention and the ability to hold these investments to maturity, they are classified as held-to-maturity and are initially recognised at cost, including any transaction fees.

Subsequent to initial recognition, these investments are carried at amortised cost using the effective interest method. Income from these investments is recognised in the Income Statement on an effective yield basis.

### 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 CHANGE IN ACCOUNTING POLICIES

The Company has not applied any accounting standards for the first time in the current period.

At present, the Group accounts are prepared under IFRS and the Company accounts are prepared under UK GAAP. UK GAAP is changing, and the Company is required to make a choice and prepare its 2016 financial statements under one of the two new UK Financial Reporting Standards, FRS 101 or FRS 102.

The Company intends to adopt FRS 101 in 2016. FRS 101 allows the Company to apply the same IFRS recognition and measurement principles as the Group, with the benefit of reduced disclosure.

A shareholder or shareholders holding in aggregate 5% or more of the total allotted shares in Howden Joinery Group plc may serve objections to the use of the disclosure exemptions in writing to the Company's registered address (40 Portman Square, London, W1H 6LT) no later than 4 May 2016.

Further details of FRS 101 and 102 can be found at www.frc.org.uk.

## 3 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 profit after tax for the 52 weeks to 26 December 2015 was £320.3m (52 weeks to 27 December 2014: profit after tax of £104.2m).

The Company has no employees (2014: none), did not pay directors' emoluments (2014: £nil), and the fees payable to the Company's auditor for the audit of the Company's annual accounts were £10,000 in both current and prior periods.

## 4 INVESTMENTS IN SUBSIDIARIES

| Cost and carrying value: | Shares in subsidiary undertakings £m | Long-term loans to subsidiary undertakings £m | Total £m |
|---|---|---|---|
| At 27 December 2014 and 26 December 2015 | 262.1 | 436.9 | 699.0 |

Details of subsidiary undertakings are given on page 132.

## 5 DEBTORS

| | 26 December 2015 £m | 27 December 2014 £m |
|---|---|---|
| Other debtors | 0.4 | 0.1 |
| Corporation tax | 41.4 | 33.3 |
| Other tax and social security | 0.1 | – |
| | 41.9 | 33.4 |

## 6 CURRENT ASSET INVESTMENTS

Current asset investments comprise investments in short-term UK Gilts. They have maturity dates ranging between 1 and 3 months from the balance sheet date. They return a fixed rate of interest. The weighted average effective interest rate on the Gilts held at the balance sheet date is 0.3% pa.

These investments are classified as held-to-maturity, and are held at amortised cost.

The directors estimate that the fair value of these investments at the current period end is equal to their carrying value.

## 7 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 26 December 2015 £m | 27 December 2014 £m |
|---|---|---|
| Other tax and social security | – | (0.2) |
| Owed to subsidiaries | (382.8) | (578.7) |
| Accruals and deferred income | (0.7) | (1.2) |
| | (383.5) | (580.1) |

# Notes to the Company balance sheet continued



## 8 ANALYSIS OF BORROWINGS

### Analysis of total borrowings

| | 26 December 2015 £m | 27 December 2014 £m |
|---|---|---|
| The borrowings are repayable as follows: | | |
| Disclosed under current assets: | | |
| On demand or within one year | – | – |
| Bank borrowings net of prepaid fees | – | (0.6) |
| | – | (0.6) |
| Disclosed under non-current assets: | | |
| Bank borrowings net of prepaid fees | – | (0.3) |
| | – | (0.3) |
| Total borrowings | – | (0.9) |

During the current period the Group replaced its previous £140m committed borrowing facility, which on inception had contained a small loan element as well as an asset-backed lending facility, with a new £140m committed asset-backed lending facility which contains no loan element. The previous facility had been due to expire in July 2016, and the new facility expires in July 2019.

Because the previous facility contained a loan element, the prepaid issue fees for that facility fell to be capitalised, set against the related borrowings, and amortised over the life of the facility. These prepaid loan fees were disclosed in the Balance Sheet as part of borrowings, and were analysed into amounts falling due in less than and more than one year from the Balance Sheet date. On replacement of this facility during the current period, these prepaid fees were written off.

As the new facility contains no element of a loan, the arrangement fees for the new facility fall to be treated as prepayments rather than as borrowings, and to be written back to the profit and loss account over the life of the new facility. They are included under prepayments in the Balance Sheet, with the element due over one year from the balance sheet date being shown as a non-current prepayment.

At the prior period end, there were no borrowings under the facility, and so the only amounts shown under the heading of borrowings were the debit balances relating to the prepaid fees, as shown above.

As with the previous facility, the new facility is secured on the trade receivables and stock 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 £140m. There were no borrowings under any facility at either the current or previous year end. As at 26 December 2015, the Group had available £118m of undrawn committed borrowing facilities, in respect of which all conditions precedent had been met (27 December 2014: £112m), in addition to the Group's cash and short term investments as shown on the Balance Sheet.

If the Group were to use the facility, it would carry interest at a rate of LIBOR plus a margin of 125 basis points.

All borrowings are in sterling.

The Company did not incur any interest on borrowings in either period. The directors estimate that their fair value is equal to their carrying value.

## 9 SHARE CAPITAL

| ORDINARY SHARES OF 10p EACH | 52 weeks to 26 December 2015 No. | 52 weeks to 27 December 2014 No. | 52 weeks to 26 December 2015 £m | 52 weeks to 27 December 2014 £m |
|---|---|---|---|---|
| Allotted, called up and fully paid | | | | |
| Balance at the beginning of the period | 646,541,496 | 642,782,361 | 64.7 | 64.3 |
| Issued during the period | 5,289,319 | 3,759,135 | 0.5 | 0.4 |
| Balance at the beginning and end of the period | 651,830,815 | 646,541,496 | 65.2 | 64.7 |

## 10 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

| | Called up share capital £m | Share premium account £m | Retained earnings £m | Treasury shares £m | Total £m |
|---|---|---|---|---|---|
| At 27 December 2014 | 64.7 | 87.5 | 206.1 | – | 358.3 |
| Retained profit for the period | – | – | 320.3 | – | 320.3 |
| Dividend paid | – | – | (59.9) | – | (59.9) |
| Shares issued | 0.5 | – | (0.5) | – | – |
| Purchase of shares into treasury | – | – | – | (45.3) | (45.3) |
| **At 26 December 2015** | 65.2 | 87.5 | 466.0 | (45.3) | 573.4 |

HOWDENS JOINERY CO.



# Parent company and all subsidiary undertakings as at 26 December 2015

| | COUNTRY OF REGISTRATION OR INCORPORATION | REGISTERED OFFICE |
|---|---|---|
| **PARENT COMPANY** | | |
| Howden Joinery Group plc | England and Wales | 40 Portman Square, London, W1H 6LT |
| **ALL SUBSIDIARY UNDERTAKINGS** | | |
| **Intermediate Holding Companies:** | | |
| Howden Joinery Holdings Limited | England and Wales | 40 Portman Square, London, W1H 6LT |
| Howden Joinery International Holdings Limited | England and Wales | 40 Portman Square, London, W1H 6LT |
| **Trading:** | | |
| Howden Joinery Limited | England and Wales | 40 Portman Square, London, W1H 6LT |
| Houdan Cuisines SAS | France | 1 Rue Calmette, ZA Du Bois Rigault Nord, 62880 Vendin-Le-Vieil |
| Lamona Cuisines SAS | France | 1 Rue Calmette, ZA Du Bois Rigault Nord, 62880 Vendin-Le-Vieil |
| Houdan Cuisines SPRL | Belgium | Rue Des Emailleries 4, 6041 Gosselies |
| Howden Keukens BV | The Netherlands | Van Der Madeweg 55, 1114AM Amsterdam-Duivendrecht |
| Howden Küchen GmbH | Germany | c/o Vistra (Germany) GmbH, Westendstraße 28, 60325 Frankfurt |
| **Property management:** | | |
| Howden Joinery Properties Limited | England and Wales | 40 Portman Square, London, W1H 6LT |
| Howden Kitchens Properties Limited | England and Wales | 40 Portman Square, London, W1H 6LT |
| **Administration and employee services:** | | |
| Howden Joinery Corporate Services Limited | England and Wales | 40 Portman Square, London, W1H 6LT |
| Howden Joinery People Services Limited | England and Wales | 40 Portman Square, London, W1H 6LT |
| **Dormant:** | | |
| Howden Kitchens Limited | England and Wales | 40 Portman Square, London, W1H 6LT |
| Galiform Limited | England and Wales | 40 Portman Square, London, W1H 6LT |

The Company ultimately owns 100% of the ordinary share capital of all of the companies listed above.

# Five year record

| | Dec 2015 52 weeks £m | Dec 2014 52 weeks £m | Dec 2013 52 weeks £m | Dec 2012 53 weeks £m | Dec 2011 52 weeks £m |
|---|---|---|---|---|---|
| **Summarised Income Statement** | | | | | |
| Revenue – continuing operations | 1,220.2 | 1,090.8 | 956.5 | 887.1 | 853.8 |
| Operating profit – continuing operations | 221.9 | 189.8 | 138.0 | 119.8 | 115.3 |
| Loss from discontinued operations | – | (2.1) | – | (4.4) | (9.3) |
| | 221.9 | 187.7 | 138.0 | 115.4 | 106.0 |
| Profit on continuing ordinary activities before tax | 219.6 | 188.8 | 133.9 | 112.1 | 111.0 |
| Full year dividend per share (pence) | 9.9 | 8.4 | 5.5 | 3.0 | 0.5 |
| Basic EPS – continuing operations (pence) | 27.3 | 23.2 | 15.7 | 15.3 | 13.5 |
| **Summarised Balance Sheet** | | | | | |
| Total non-current assets | 153.0 | 151.1 | 123.3 | 140.4 | 132.3 |
| Inventories | 177.1 | 143.1 | 123.4 | 115.9 | 118.5 |
| Receivables | 129.5 | 133.1 | 122.4 | 96.0 | 95.3 |
| Payables and provisions | (214.8) | (207.2) | (192.6) | (180.4) | (196.1) |
| Pension liability | (49.2) | (142.6) | (54.3) | (154.5) | (136.9) |
| | 42.6 | (73.6) | (1.1) | (123.0) | (119.2) |
| Net cash, short-term investments, and borrowings | 226.1 | 217.4 | 139.5 | 95.4 | 57.1 |
| Total net assets | 421.7 | 294.9 | 261.7 | 112.8 | 70.2 |

| | | | | | |
|---|---|---|---|---|---|
| **Number of depots at end of year** | | | | | |
| UK | 619 | 589 | 559 | 529 | 509 |
| France | 17 | 12 | 11 | 11 | 10 |
| Belgium | 2 | 2 | | | |
| Netherlands | 1 | | | | |
| Capital expenditure | 46 | 33 | 25 | 24 | 20 |

# Shareholder ranges as at 26 December 2015

| | Number of holders | Percentage of holders | Number of shares | Percentage of shares |
|---|---|---|---|---|
| **Corporate holders** | | | | |
| 0 to 1,000 | 176 | 2.00 | 85,565 | 0.01 |
| 1,001 to 5,000 | 223 | 2.54 | 551,056 | 0.08 |
| 5,001 to 10,000 | 71 | 0.81 | 518,114 | 0.08 |
| 10,001 to 50,000 | 146 | 1.66 | 3,805,602 | 0.58 |
| 50,001 to 100,000 | 74 | 0.84 | 5,430,843 | 0.83 |
| 100,001 to 250,000 | 99 | 1.13 | 16,228,181 | 2.49 |
| 250,001 to max | 257 | 2.92 | 613,007,184 | 94.04 |
| | 1,046 | 11.9 | 639,626,545 | 98.1 |
| **Individual holders** | | | | |
| 0 to 1,000 | 6,146 | 69.93 | 2,423,803 | 0.37 |
| 1,001 to 5,000 | 1,332 | 15.16 | 3,159,337 | 0.48 |
| 5,001 to 10,000 | 160 | 1.82 | 1,171,581 | 0.18 |
| 10,001 to 50,000 | 90 | 1.02 | 1,830,450 | 0.28 |
| 50,001 to 100,000 | 7 | 0.08 | 492,463 | 0.08 |
| 100,001 to 250,000 | 3 | 0.03 | 491,329 | 0.08 |
| 250,001 to max | 5 | 0.06 | 2,635,307 | 0.40 |
| | 7,743 | 88.1 | 12,204,270 | 1.9 |
| Total | 8,789 | 100 | 651,830,815 | 100 |

# Advisors and committees

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Mark Robson
Kevin Barrett
Clive Cockburn
Rob Fenwick
Gareth Hopkins
Theresa Keating
Andy Witts

## REMUNERATION COMMITTEE

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Geoff Drabble
Richard Pennycook
Michael Wemms

## NOMINATIONS COMMITTEE

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Geoff Drabble
Tiffany Hall
Richard Pennycook
Michael Wemms

## AUDIT COMMITTEE

Richard Pennycook (Chair)
Mark Allen
Andrew Cripps
Geoff Drabble
Tiffany Hall
Michael Wemms

# Corporate timetable



| 2016 | |
|---|---|
| Trading update | 28 April |
| Half-Yearly Report | 21 July |
| Trading update | 3 November |
| End of financial year | 24 December |

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