HOWDENS
JOINERY CO.
MAKING SPACE MORE VALUABLE

Howden Joinery Group Plc

Annual Report and Accounts 2016

"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... ...and to provide the builder's customer with enough choice, advice and aftersales to make a home to be proud of"

HOWDENS
JOINERY CO.

Howdens Joinery is the UK's leading manufacturer and supplier of fitted kitchens, appliances and joinery products.

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Why Howdens?

The growth and success of Howdens since the business started trading in 1995 have been based on three key aspects of its business model, which have set it apart from other kitchen suppliers.

1.

Delivering better service to the builder

Howdens' business has been built through recommendation and reputation. It is based on supplying trade customers, principally small builders, with a range of rigid kitchens and joinery products that are always available from local stock, and fitting in with the world in which they work.

2.

Entrepreneurial depots

We want staff in our depots to be entrepreneurial and to focus on growing their business and serving their customers. To achieve this, we allow our managers to run their depot as if it was their own business, with managers and their staff sharing in the depot's profitability.

3.

Focused supply chain

Our supply function has one customer, the depot. It is completely focused on ensuring that all aspects of the products we sell are right for everyone involved in their purchase and installation. Commercial considerations underpin all our decisions as to whether products should be manufactured in our own UK factories.

£1.3bn Sales

642 Depots

8,900 Employees

Strategic report

Chairman's statement

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.

BUILDING FOR THE FUTURE

This is my first year as Chairman of Howdens, having succeeded Will Samuel in May, and I am pleased to report that 2016 saw solid progress for the Group. Sales increased by 7% compared to 2015, with an almost unchanged gross margin of 64.2%, despite the impact of a weaker exchange rate, combined with strong cash generation.

Since its inception in 1995, Howdens has grown to become the leading supplier of kitchens in the UK, by focussing on providing a high level of service to local builders and value to all concerned. Its business model has enabled the Group to navigate and develop through varying market conditions, providing a strong platform for expansion.

Your Board believes that there are considerable opportunities for long term growth of the core business, and that in order to fulfil that potential we must continue to invest in both capacity and capability through this economic cycle.

A three-year programme of investment across the Group was initiated in 2015 in areas including manufacturing capability and warehousing capacity. During 2016, we invested in further cabinet manufacturing capacity at our site in Howden, Yorkshire, a new cabinet component line at our site in Runcorn, Cheshire and a new warehouse in Raunds, Northamptonshire. All of these projects are well on track.

This programme of investment resulted in capital expenditure of around £45m in 2015, £65m in 2016, and an anticipated £60m in 2017.

HOWDENS' CULTURE AND BUSINESS MODEL

The business was designed from the start to work around the needs of the small builder, who knows that we are always in stock in our local depots, which are run by experienced and knowledgeable staff. The builder knows that our depot managers are empowered fully to run their depot as they see fit, creating an environment where the individual can flourish, and performance is recognised and rewarded. At the same time, we also look to deal with our suppliers with integrity, fairness and respect, in order to build long-term relationships.

While we continue to invest to grow the business, cash alone does not create success. As a Board, we understand that the Howdens culture and way of doing business is different from many companies. Your Board believes it is the principal reason for our continued success and that retaining the culture is vitally important.

We are therefore delighted that Howdens has been chosen, for the third time, as one of The Sunday Times "30 Best Big Companies to Work For" in 2017. This award is a reflection of the very strong ethos of the business, built over many years, that its activities should be worthwhile for all concerned.

RETURNS TO SHAREHOLDERS

Earnings for the year were 29.5p per ordinary share, an increase of 8.0% on the prior year (2015: 27.3p). In line with our stated dividend policy, which is set out in detail in the Review of Operations and Finance on page 14, the Board is recommending a final dividend of 7.4p, resulting in a dividend for the full year 2016 of 10.7p, an increase of 8% on the prior year (2015: 9.9p). The increase reflects both the earnings per share performance and the Board's confidence in the prospects for the business.

As a Board we are mindful of the changing economic landscape, which during 2016 saw movements in foreign exchange rates and a change in consumer sentiment. In particular, the pound deteriorated against the US dollar and the Euro, increasing our input costs, and we also saw a slowdown in the kitchen market in the second half of 2016.

Whilst mindful of current economic conditions, given our cash position of £227m at the end of the year, the Board has approved a share repurchase programme of up to £80m to take place during the next two years. This follows similar programmes of £70m and £55m in 2015 and 2016, respectively.

Chairman's statement continued

During 2016, we repurchased £80m of shares, buying £25m remaining from the February 2015 programme and concluded the February 2016 programme. Together with £65m in dividend payments, Howdens returned £145m to shareholders in the year.

BOARD CHANGES

Will Samuel retired from the Board in May 2016, after ten years as Chairman. On behalf of all at Howdens, I would like to thank Will for his significant contribution to this unique business and in particular, for his clear insights after the divestiture of MFI in 2006 and helping steer the Group through the difficult times following the financial crisis of 2008 and 2009.

I would also like to thank our Senior Independent Director, Michael Wemms, who will be retiring at our AGM in May this year. Michael joined the Board in November 2006 and during his tenure, he has been Chairman of our Remuneration Committee and Senior Independent Director. The depth of experience he has brought to Howdens has been valued by all.

I am delighted that Debbie White joined the Board as an independent Non-Executive Director in February 2017, and on joining, became a member of the Audit, Remuneration and Nominations Committees. Debbie brings a wealth of experience to the Board and is currently Global Chief Executive Officer of Sodexo Healthcare, Defence and Justice Services. She is a trustee of the charity Wellbeing of Women and is Chair of its Audit Committee.

As a consequence of me taking up my new role as Chairman, in May 2016, Andrew Cripps has taken over as Chairman of the Audit Committee. Andrew joined the Board in December 2015, brings a wealth of experience to the role, and is currently a Non-Executive Director of Booker Group plc and was Chairman of its Audit Committee.

GOVERNANCE

Having a clear governance framework and operating with integrity in all we do is vital to maintain the trust of investors, customers, our colleagues and other stakeholders. We aim to uphold high standards of governance in a constantly changing environment, where expectations, as well as regulations, continue to evolve. Our Corporate Governance Report, beginning on page 43, sets out our procedures and reports on our compliance record throughout the year.

MARKET ENVIRONMENT

Howdens has a strong track record of dealing with change and facing the challenges of the evolving marketplace. The Board is mindful of the challenges that lie ahead and we continue to evaluate the potential risks that could impact the Group. We address these matters in more detail on pages 22 to 26. In particular, we monitor our market situation closely, in order to ensure timely responses to potential changing conditions.

PEOPLE AND RESPONSIBILITY

Howdens' is a local company and our people embody the idea of local service, both for our customers and for the wider community. In 2016, the Group donated around £2.5m to good causes, including doubling our commitment to Leonard Cheshire Disability.

Our approach to corporate responsibility takes into account our values and our wish to fulfil our responsibilities, and is shaped by our engagement with a wide range of stakeholders, including our customers, colleagues and local communities. Reflecting these aims, Howdens looks to promote safety, energy efficiency and environmental awareness, and recognises the importance of training, development and opportunities for young people. More detail can be seen in the Corporate Social Responsibility Report, beginning on page 27.

On behalf of the Board, I would like to thank everyone in Howdens for their contribution to the business and their local communities throughout the year.

LOOKING AHEAD

2016 saw Howdens grow and continue to invest for the future. We remain confident in the Group's potential. At the same time, we continue to be watchful, given the uncertainty surrounding the economic outlook. We believe that the business has the financial capability, the culture and the skills, to enable us to look to the future from a position of stability and strength.

Richard Pennycook
Chairman

22 February 2017

Chief Executive's statement

Since we started in 1995, Howdens has grown to become the leading supplier of kitchens in the UK. When we began with our first fourteen depots, selling directly to the builder wasn't as obvious as it seems today.

I am pleased to report that Howdens has seen another successful year, ending 2016 with 642 depots, more than 450,000 customer accounts and 8,900 employees. We continue to expand and are laying down the foundations for the next phase of growth, providing further opportunities for our people, their families as well as the business.

OUR MODEL

Since we started in 1995, Howdens has grown to become the leading supplier of kitchens in the UK. When we began with our first fourteen depots, selling directly to the builder wasn't as obvious as it seems today.

From the outset, our business model has been to make the builder the centre of what we do. We supply kitchens directly to them from local depots, run by managers who understand their needs and can make decisions on the spot. Importantly, we ensure that our depot managers have no worries about the price, quality, or style of the kitchens we supply to them.

It remains crucial to me that the business should be also worthwhile for all concerned – for the people who work for Howdens, buy from Howdens, who supply Howdens, as well as our local communities. By doing so, I believe we can create a virtuous circle, securing a long-term sustainable future for the Group.

Local supply

The key to our trade-only business model is our local depots, who supply small builder customers, with more than fifty kitchen ranges in stock, together with sinks and taps, appliances, flooring and hardware. Our depots also have a range of joinery including internal and external doors, skirting and stair parts.

Importantly, we do not tell the depot manager how to run their depot. Each manager is empowered to make the key decisions – set discounts for individual account holders, develop new accounts, market their products, and set stock and staffing levels. Our managers are authorised to swap items, take decisions and give advice. 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. No two geographic areas are the same and this allows managers to create a business that is tailored to the local builder.

Local incentives

So that managers run their depot as if it were their own business, all the people in the depot receive a monthly bonus based on profitability measures, which can represent a significant percentage of their total compensation. This means that they are focussed on serving their builder customers and growing their business. And I am pleased to note that at the end of 2016, we had more than 450,000 customer accounts, up from 430,000 the previous year.

Local service for builders

Our aim is simple. It is to make a builder's life as easy as we can, so they can attract customers, secure work and run a profitable business.

When a builder comes into one of our depots for the first time, we open a nett monthly account for them, enabling the management of cash flow, so they can complete the job before paying Howdens. The local depot manager is authorised to give each builder a personal, confidential discount, giving builders the freedom to manage their own margin.

Once the builder has been contacted regarding installing a new kitchen, a designer will go to the prospective customer's property. The designer will create an expert, accurate plan, ensuring that everything will look good and fit properly. This saves the builder time, which helps their profitability. Both builder and their customer can come into the local depot and see the kitchen displayed on a large screen via our bespoke computer aided display software, enabling any final changes to be made before signing off on the job.

Saving time for the builder

Once the kitchen and price have been agreed on, importantly, a Howdens depot is always in stock and is a normally a short drive away. There's no waiting for items to be ordered, or replaced, or swapped, or brought back. This allows the builder to plan and start the job when they are ready to do so, ensuring there are no delays. In turn, this allows us to collect payments efficiently, as all of the builder's requirements can be fully supplied and signed off by our depots.

We also save time by selling pre-assembled cabinets, increasingly with pre-fitted elements, which saves builders time on site. Our cabinets are built to high standards of consistency, are rigorously tested and do not break, ensuring that the builder does not have to go back to the depot, again saving time and ensuring that the building job does not get delayed.

Changing tastes and new demands

It is important for the builder when they show Howdens' kitchens to their customer, that our kitchens look good. Kitchen technology and design do not stand still, and there should be no worries at the depot about the suitability of our product lines. We recognise that kitchens are an area in which taste and fashion are moving faster than before.

We ensure that our range of kitchens and appliances are regularly refreshed to meet the builders' and their customer's expectations for price, look and feel. A number of new products were introduced during the year across all categories.

Notable amongst these were three new Burford ranges with a textured wood grain finish, as a lower priced option to the Tewkesbury family. We also introduced three new grey kitchens in our Greenwich and Clerkenwell families, and an ivory Greenwich Shaker door, following the growth of this colourway. We have seen positive developments with our range of granite worktops.

We have also successfully tested pre-finished doors to make the builders' life easier, which will be rolled out to all depots during 2017.

Given the increasing demand for new kitchen designs, during 2017, we will accelerate product introductions, bringing to market around twenty new kitchen ranges, an upgraded cabinet platform, a refreshed design for our Lamona range of appliances, as well a new collection of sinks, taps, worktops and joinery.

Our suppliers and supply chain

We have our own warehouses and distribution operations, and our trucks deliver our product only to Howdens depots. During the peak autumn trading period in 2016 (period 11), our supply division made 9,500 deliveries to our depots, and of the 7.4 million items received, all were correctly delivered. This is only possible if there is a shared understanding of what is expected, ensuring a smooth operation of our supply chain and the support functions on which the depots depend.

We were able to have 100% availability of products to our depots during period 11, demonstrating the strength of our supply chain. Achieving this level of service demonstrates to me our shared values and positive personal relationships, both within Howdens and with our suppliers of bought-in product and raw materials.

Our manufacturing

We have two manufacturing facilities, one in Howden, Yorkshire and one in Runcorn, Cheshire, which are configured to meet our exact requirements. Our site in Runcorn specialises in standard cabinet boxes, while the site in Howden also deals with shorter-run products.

Both only serve one customer – Howdens – and so their working practices and scheduling exactly match the requirements of our depots. Within our factories, the machinery is bespoke to us and work is done to our specifications. The result is an efficient system with no unnecessary waste, whether of time, space, or product. We believe that our cabinets cost much less than we could source externally, providing Howdens with a significant cost advantage.

Chief Executive's statement continued

Support systems

In order to meet current and future requirements, we continue to invest in robust, stable and scalable systems. These include manufacturing, warehouse management, transport monitoring, depot stock and sales reporting, payment processing, cyber-security and management information, as well as industry-leading design tools for kitchen planning.

Depots and costs

Howdens has chosen to serve trade-only, and as such, does not have to bear the costs associated with kitchen retailers, such as high-street showrooms, installation services and national advertising campaigns. A typical Howdens depot occupies around 10,000 square feet on an industrial estate and costs a fraction of high-street retail properties.

On average, a depot costs approximately £300,000 to fit out and breaks even once it has achieved annual sales of £650,000. This is typically two years after we first open the depot. In general, a depot reaches maturity after approximately seven years of trading.

Working capital

We extend a significant amount of working capital to builders who have a trade account with Howdens, which in 2016 during period 11 peaked at around £220m. At the same time, we have a highly efficient collection operation and the total cost of credit control, including bad debts, remains less than 1% of Group revenue.

Market conditions

We saw a number of developments in the market during 2016. In April 2016, there were changes to UK Stamp Duty on house purchases, which brought forward market activity to the first half of the year. In the second half of the year, we saw a shift in both the foreign exchange markets and consumer confidence.

While we saw positive volume growth for the market in the first half of the year, we saw negative volume growth in the second half. In the second half, we also saw a decline in the pound against the US dollar and the Euro. Howdens sells a mixture of its own manufactured product and bought-in goods, much from international manufacturers and the direct impact of the decline in the pound during 2016 will result in extra costs going forward.

This, as well as increases in costs in areas such as salaries, will require Howdens to increase prices at greater pace than in the previous few years. We have already acted on this and implemented a range of price increases - earlier than our usual annual pattern – at the end of 2016.

OUR MARKET

In Great Britain, there are around 26m households, of which approximately two-thirds are owner-occupied and one-third is rented. Regardless of ownership, all of these properties are likely to need a new kitchen at some time.

Every home has a kitchen and this is the centre of the home. As our way of life and expectations change, so does the kitchen, which is becoming more complex and has greater functionality. As a result, the types of kitchens demanded by today's lifestyle means that DIY is a not a reasonable option for most people. The level of skill required to fit today's kitchens, due to the types of cabinets, finishes, appliances and interior work within the cabinet, is beyond many of us, and we simply don't have the time to do the work involved.

The connected home

One change we see impacting the kitchen, are more and more devices connected together in the home, such as heating, lighting, and security. These are being controlled from a mobile or tablet and as the home gets more screen-led, this means that a kitchen will steadily become a much more complex product than before. At Howdens, we are actively investigating how customers use their screens to interact with the devices in their kitchen.

The growth in complexity of the kitchen means that builders want sound advice to meet increased customer expectations. This is why we ensure that our depot staff are trained to the highest standards and are increasing our focus on apprenticeships. And as kitchens become more complex, we are also increasing our investment in people with specific skills, such as designers, salespeople and managers.

More for the builder

The products we sell have to meet the requirements of an increasingly demanding regulatory environment. Builders need to know that they comply in areas such as safety, data security, energy use, sustainability, and waste management. We discuss how we address regulations and expectations in the Corporate Social Responsibility Report beginning on page 27.

OUR STRATEGY

Our strategy has been to do things well – first time. For a builder, this means that they can open an account quickly and simply with us, start doing business, receive the support they need to help win customers, while knowing the product they want will be in stock and of the right quality.

As Howdens continues to expand, this brings both opportunities and challenges to the business. In order to meet the potential for growth, we continue to invest in areas including people, new depots, systems, manufacturing and distribution capabilities. We believe that the additional expenditure programme is crucial to provide the platform for the continued sustainable expansion of Howdens.

Depot expansion

We believe that there is some way to go before we have saturated the UK market and continue to see significant opportunities to grow our business. We expect to open around 30 new depots during 2017.

While we take account of market conditions in planning our roll-out of new depots, we continue to see untapped requirement by builders for a local and convenient service in much of the country. This need is shown by the fact that when we add a new depot near to an existing one, we see overall sales increase in the area within a short time.

Manufacturing investment

In order to deliver the potential we see in our market and ensure supply as we expand, we are undertaking significant investment in our supply chain. This involves replacing aging machinery, increasing production capacity where necessary and ensuring adequate disaster recovery capability.

Distribution

We currently have a one million square feet warehouse in Northampton which is nearly forty years old. In order to migrate from this older facility and meet our future requirements for warehousing capacity, we are looking to expand into two new warehouses, both of which will be more efficient than Northampton due to their roof height and ability to stack product.

This first warehouse comprises 650,000 square feet of distribution capabilities in Raunds, Northampton, which is to the east of our existing national distribution centre in Northampton. The warehouse was handed over to us in July, fit-out has been completed and IT systems integration is underway.

International expansion

We continue to investigate the opportunities for Howdens in Europe. At the end of 2016, we had twenty four depots outside the UK: twenty in France, two in Belgium, one in the Netherlands and one in Germany. We have been in mainland Europe for eleven years and continue to learn. We intend to thoroughly understand these markets before any decision is made to expand in them.

Aftercare

The key to our business is service. In an increasingly digital world, Howdens provides an alternative way of working, with local people providing our products mostly via face-to-face communication. It is vital, as we move towards an increasingly complex and connected kitchen that we expand our aftercare service, so that builders and their customers can call us to explain and sort out any issues with their kitchen.

In order to do that, we continue to recruit good people who understand our values and culture, and we support our staff with increased levels of training, targeted incentives, better systems and improved planning tools.

People and service

The home is becoming more complex and digital technology is becoming more pervasive. In order to reflect the changes to the market and our increasing focus on aftercare, we have expanded our mission statement, which now reads:

"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, and to provide the builder's customer with enough choice, advice and aftersales to make a home to be proud of."

I believe that including service directly into our mission statement will enable Howdens to continue to stand out from the crowd.

Worthwhile for all

It is worth reiterating that the key aim of Howdens is to create a business that is worthwhile for all concerned – customers, prospective customers, homeowners, tenants, local communities, our suppliers, investors, staff and their families, and our apprentices.

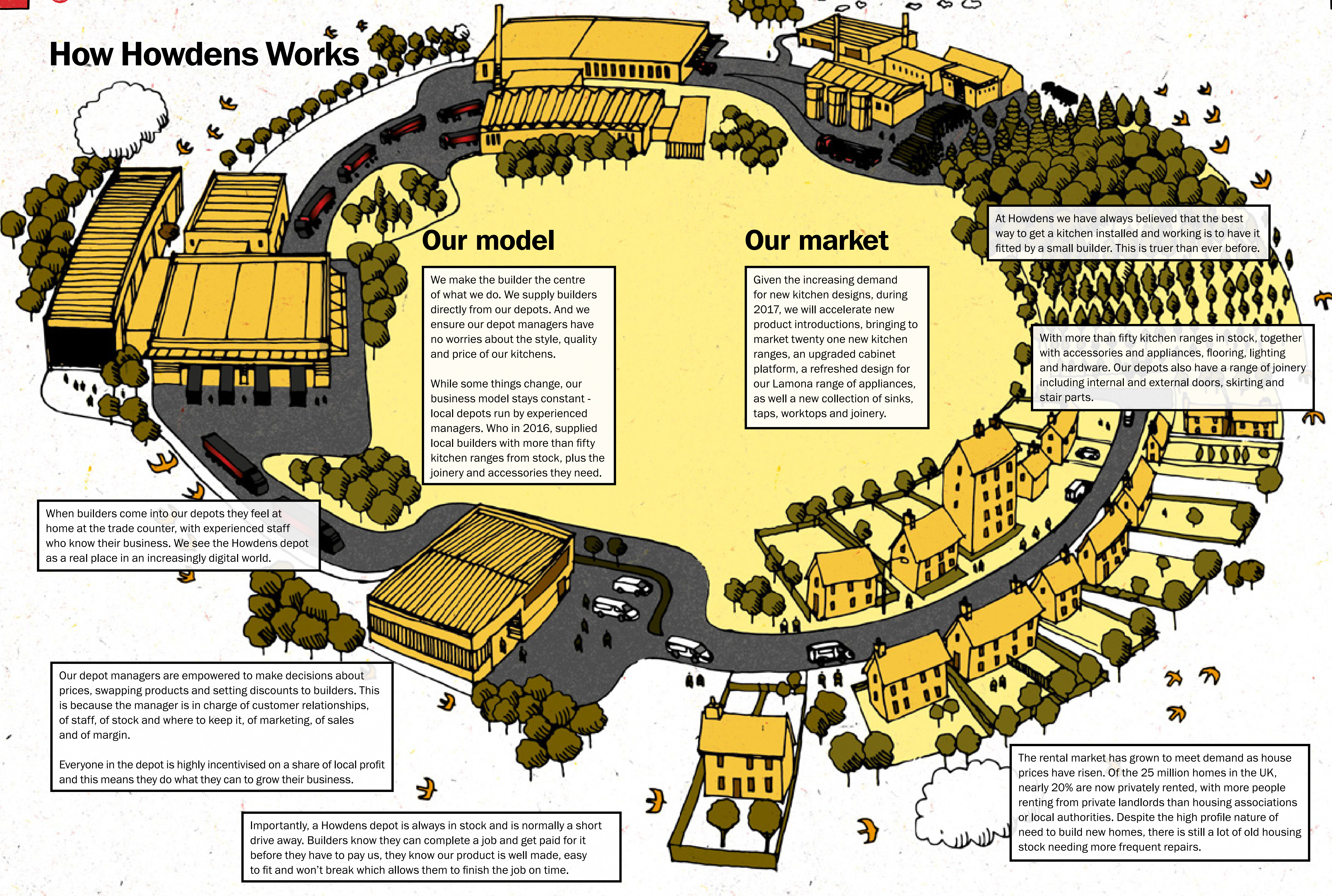
Since 1995, we have grown in a balanced way, investing in sensible things and being prepared for all market conditions. Underlying our success has been the lowest cost and a flexible approach to our production, a low break-even point for our depots and an entrepreneurial spirit.

I look forward to the next phase of our growth with confidence.

Matthew Ingle
Chief Executive Officer

22 February 2017

How Howdens Works



Our model

We make the builder the centre of what we do. We supply builders directly from our depots. And we ensure our depot managers have no worries about the style, quality and price of our kitchens.

While some things change, our business model stays constant - local depots run by experienced managers. Who in 2016, supplied local builders with more than fifty kitchen ranges from stock, plus the joinery and accessories they need.

When builders come into our depots they feel at home at the trade counter, with experienced staff who know their business. We see the Howdens depot as a real place in an increasingly digital world.

Our depot managers are empowered to make decisions about prices, swapping products and setting discounts to builders. This is because the manager is in charge of customer relationships, of staff, of stock and where to keep it, of marketing, of sales and of margin.

Everyone in the depot is highly incentivised on a share of local profit and this means they do what they can to grow their business.

Importantly, a Howdens depot is always in stock and is normally a short drive away. Builders know they can complete a job and get paid for it before they have to pay us, they know our product is well made, easy to fit and won't break which allows them to finish the job on time.

Our market

Given the increasing demand for new kitchen designs, during 2017, we will accelerate new product introductions, bringing to market twenty one new kitchen ranges, an upgraded cabinet platform, a refreshed design for our Lamona range of appliances, as well a new collection of sinks, taps, worktops and joinery.

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.

With more than fifty kitchen ranges in stock, together with accessories and appliances, flooring, lighting and hardware. Our depots also have a range of joinery including internal and external doors, skirting and stair parts.

The rental market has grown to meet demand as house prices have risen. Of the 25 million homes in the UK, nearly 20% are now privately rented, with more people renting from private landlords than housing associations or local authorities. Despite the high profile nature of need to build new homes, there is still a lot of old housing stock needing more frequent repairs.

Review of finance and operations

FINANCIAL REVIEW

Financial results for 2016

The information presented here relates to the 52 weeks to 24 December 2016 and the 52 weeks to 26 December 2015, unless otherwise stated.

The financial performance of the Group during 2016 benefited from the Group's competitive position and the continuing focus on improving operational performance.

Total Group revenue increased by £87.1m to £1,307.3m.

Revenue £m	2016	2015
Group	1,307.3	1,220.2
comprising:		
Howden Joinery UK depots	1,281.7	1,203.8
Howden Joinery continental Europe depots	25.6	16.4

Howden Joinery UK depot revenue rose by 6.5% to £1,281.7m, increasing by 4.2% on a same depot basis (excludes depots opened in 2015 and 2016).

This growth was achieved through several factors and is a testament to the strength of the Howdens business model. In particular, we have continued to open new depots and increased the number of customer accounts, while maintaining focus on pricing discipline, which enabled us to grow turnover in existing depots of all ages.

Sales in continental Europe rose by £9.2m to £25.6m, primarily reflecting the expansion of the trial in France.

Gross profit rose by £55.5m to £839.9m. The gross profit margin for the year of 64.2% was virtually unchanged (2015: 64.3%). This was despite an increase in costs of goods sold of £23m that arose from the weakening of the pound against the euro and US dollar.

Selling and distribution costs, and administrative expenses increased by £40.2m to £602.7m. The increase reflects the costs of new depots, investment in both short and longer term growth, and the impact of inflation, including on payroll costs.

Operating profit increased by £15.3m to £237.2m.

The net interest charge fell by £2.1m to £0.2m, reflecting a lower finance expense in respect of pensions. The net result was profit before tax rose by £17.4m to £237.0m.

The tax charge on profit before tax was £51.4m, an effective rate of tax of 21.7%.

Basic earnings per share were 29.5p (2015: 27.3p).

At 24 December 2016, the pension deficit shown on the balance sheet was £106.0m (26 December 2015: £49.2m). The increase in the deficit was due to higher liabilities arising primarily from a decrease in the discount rate, partly offset by the Group's contribution to fund the deficit (£35m) and higher than expected asset returns.

We saw strong cash flow in 2016, with a net cash inflow from operating activities of £207.2m, after the cash contribution to the Group's defined benefit pension scheme.

Within this, working capital decreased by £1.5m. Increases in stock and trade debtors were more than offset by an increase in trade creditors. In addition, net tax paid totalled £28.8m.

Payments to acquire fixed assets totalled £63.5m (2015: £45.9m), reflecting increased investment in our supply operations (see Operational Review).

In line with the announcements of a £70m share repurchase programme made in February 2015, of which £45m was returned in 2015, and a £55m share repurchase programme made in February 2016, £80.0m was spent acquiring the Group's own shares during 2016, concluding both programmes.

Reflecting the above, there was a net cash inflow of £0.5m in 2016, the Group having net cash of £226.6m at the end of the year (26 December 2015: £226.1m 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, given the operational performance of the business in 2016, the Board has decided to recommend to shareholders a final dividend of 7.4p, giving a total dividend for the year of 10.7p (2015: 9.9p). 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 up to £80m of cash to shareholders by way of a share repurchase programme. This is expected 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 to satisfy future obligations for company share schemes, or cancelled.

OPERATIONAL REVIEW

The mission statement of Howden Joinery 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 … and to provide the builder's customer with enough choice, advice and aftersales to make a home to be proud of".

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. At the end of 2016, the business had 642 depots across the UK and has small operations in continental Europe, where it has 24 depots. Around one-third of the products the business sells are made in its own UK factories.

Even today, we continue to see the opportunity to transform the scale of the business, seeing scope for up to 800 UK 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 2016, 23 new depots were opened, bringing the total number of depots trading at the end of the year to 642. In addition, five depots were relocated and 22 were extended.

It is important that we have the optimal number of regional and area managers leading and supporting our UK depot operations. The continuing growth of the number of depots has led us to introduce a new region, which consists of five areas, bringing the number of regions to nine.

Our account base continued to grow, increasing by over 30,000 net new accounts in 2016. While there has been a significant increase in accounts, our debt collection performance continues to be robust.

Review of finance and operations continued

Product and marketing

Continuing to enhance our product offering is crucial to our competitive position. In 2016, we introduced a number of new products across all product categories, albeit the programme was less intensive than in recent years. Notable amongst these were:

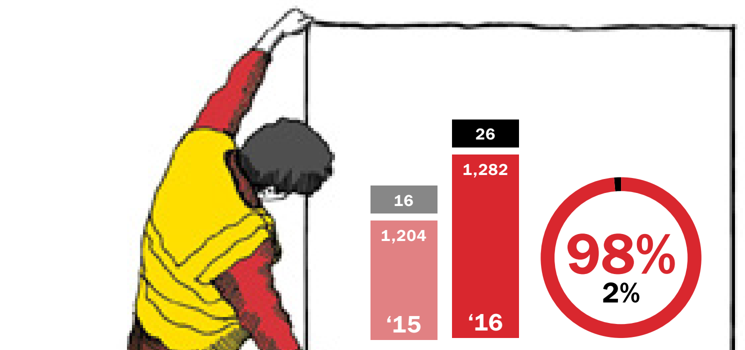
- three new Burford ranges with textured wood grain finish, as a lower priced option to the Tewkesbury family;
- three new grey kitchens in our Greenwich and Clerkenwell families and an ivory Greenwich Shaker door, following the growing popularity of these colourways.

In addition, a number of successful tests were undertaken, including pre-finished doors which make the builders life more time-efficient.

It is planned that 2017 will see a larger new product introduction programme, including around 20 new kitchen ranges and a number of products that were tested in 2016.

We continued to invest in our marketing communications and brand advertising with a number of initiatives. These included:

- a series of Rooster News flyers distributed to our small builder customers, which have been used to help drive footfall and sales in our depots; and
- to further raise awareness of the Howdens brand, we attended eight county shows and agricultural fairs throughout the UK during the summer.



Revenue £m
- Howden Joinery UK depots
- Howden Joinery continental Europe depots

Manufacturing and logistics operations

Our UK-based manufacturing and logistics operations play a vital role in ensuring that we are able to supply our small builder customers from local stock nationwide at all times. This requires us to have the space and the flexibility to respond to each depot's individual needs, even during our critical 'period 11', 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. On the basis of this, 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.

During 2016, a number of projects were progressed as follows.

Manufacturing operations

At our Howden site, the refurbishment phase of a new cabinet production facility has been completed, assembly lines have been installed and the installation of machining lines has commenced. When complete, this will improve our cabinet manufacturing capability.

At our Runcorn site, installation of a new cabinet component line is complete and this has been commissioned. Production on the line is now being ramped up.

Logistics

A new 650,000 sq ft warehouse that has been built near Raunds, which is to the east of our existing national distribution centre in Northampton, was handed over to us in July. Fit-out has been completed and IT systems integration is underway.

Continental Europe

In France, we opened two new depots in the north and one in the south, meaning that we now have 20 depots in the country. In Germany, we opened one depot, our first in the country, which will allow us to learn about the market.

GROUP DEVELOPMENTS

Pension scheme funding

In July 2015, we announced that agreement had been reached in relation to the schedule of payments towards the funding of the Group's defined benefit pension scheme's deficit from April 2015. At that time, it was agreed that the Group would continue to make deficit contributions equivalent to £35m per annum until 30 June 2017. However, in light of movements seen in discount rates since this agreement was reached, it has been agreed that the Group will also make an 'interim' payment of £25m over the period June 2017 to March 2018. This will mean a deficit contribution of £30m in 2017.

CURRENT TRADING AND OUTLOOK FOR 2017

Our 2017 financial year will include a 53rd week, which will increase operating costs by around £10m but will not contribute to revenue.

Current trading

Howden Joinery UK depot sales in the first two periods of 2017 (to 18 February) were up 3.6% on the same period last year (this excludes the first trading week, which had one fewer trading days in 2017 than in 2016). Along with the evidence we have of trading prospects, this would suggest that the softer market conditions seen in the second half of 2016 have continued, with volumes having weakened slightly in the early part of this year. To offset cost pressures, a price increase was put through towards the end of 2016, and the early signs are encouraging.

Outlook

The Group remains committed to its view that the number of depots in the UK can be increased from the 642 operating at the end of 2016, seeing the opportunity for up to 800 depots. During the course of 2017, we are currently planning to open around 30 depots in the UK, one already having been opened.

As already mentioned, 2016 saw us take possession of a new warehouse and invest in our manufacturing operations. As well as impacting operating costs in 2016, we anticipate that operating costs will rise by around £15m in 2017 as a result of these developments and a larger new product introduction programme. In addition, the pension cost charged to the P&L account will increase by around £5m, around half of this relating to the pension interest expense.

2016 also saw the pound weaken against both the euro and US dollar. At rates of €1.15 and $1.25 to the £, this would increase our costs of goods sold in 2017 by around £20m (relative to 2016), other things being equal.

These cost increases, the larger proportion of which will affect the first half of 2017, are in addition to higher costs that will arise from the on-going growth of the business and inflation.

Our supply operations encompass our own UK manufacturing of around one third of the products that we sell, primarily cabinets and worktops, and warehousing and delivery to our depots of manufactured and bought-in products. Investment in the resilience and capacity of manufacturing and warehousing means that capital expenditure is expected to be around £65m in 2017. Thereafter, given the opportunities we see ahead, we expect to continue to invest in the profitable growth of the business and will provide more detail in due course.

CONCLUSION

As we sit today, market conditions seen so far in 2017 appear broadly unchanged from the softer ones seen in the second half of 2016, with volumes having weakened slightly. We are seeing weakness in London being offset by performance elsewhere. At this early stage, we are encouraged by the progress our price increase has made.

While we are on track with our plans and our expectations are unchanged, we are mindful of the risks to the UK economy and we are well positioned to respond to changing conditions.

KEY FINANCIAL PERFORMANCE INDICATORS

We measure the Group's performance and progress of our strategic priorities against four key performance indicators (KPIs) as we aim to deliver growth, profitability, cash and depot expansion. As we execute our strategic priorities, we look to create sustainable value for the Group and its stakeholders. Our financial highlights are shown on the inside cover of this Annual Report, while our non-financial indicators are discussed in the corporate social responsibility report.

Total sales growth

Growth in sales of the UK Howden Joinery depots is key to enhancing shareholder value. We believe that there remain considerable opportunities to grow the Company based on the long-term opportunities for the business. In addition, we believe there are economies of scale in the business which will allow us to grow long-term profitability as we grow sales. This measure, along with monitoring our programme of depot openings, tracks our ability to grow the business. We saw total sales of £1,307m in 2016, representing a growth of 7% compared to 2015.

Review of finance and operations continued

Profit before tax
We target profit before tax as it captures how much profit we have generated after taking account of major expenditure items such as costs of sales, selling and distribution costs, administrative expenses and finance costs. We grew profits before tax from £219.6m in 2015 to £237.0m in 2016, representing a growth of 7.9%.

Cash
We are committed to generating cash flow performance through the operating cycle. Our aim is to retain at least one year's requirement for working capital after capital expenditures and after paying a dividend in line with our stated dividend policy, which is outlined in more detail on page 14. We ended 2016 with £226.6m of cash and cash equivalents, in line with this KPI.

Depot openings
Our business model is based on individual depots providing kitchens to small builders within a local community. We believe that there is some way to go before the UK market is saturated and therefore the continuing drive to open new depots in new localities is a key driver to the Group's prospects. We opened 23 new UK depots in 2016 and continue take account of economic conditions in order to phase our growth taking account of our other KPIs.

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 foreign currency risk, counterparty risk, funding and liquidity risk and interest rate risk, which are discussed below.

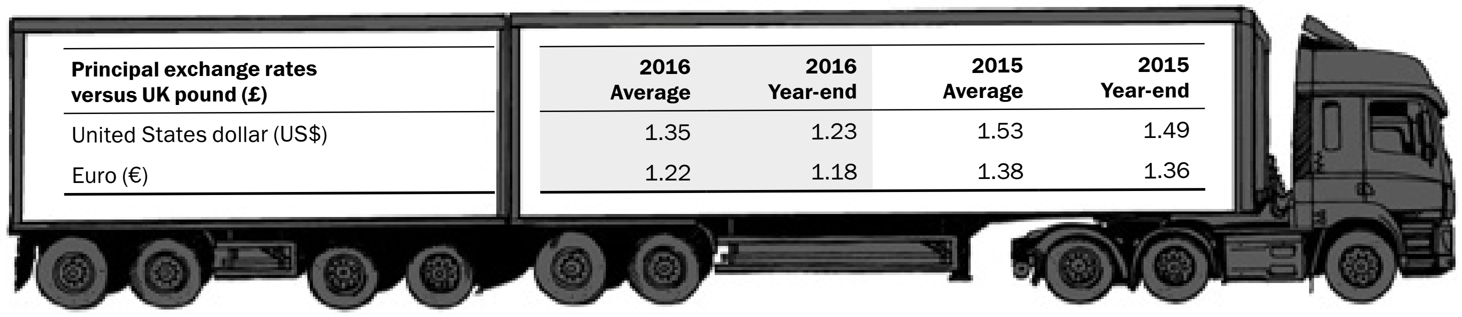
No speculative use of derivatives, currency or other instruments is permitted. The Treasury function does not operate as a profit centre and transacts only in relation to the underlying business requirements.

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 £22.9m. 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 on the next page.

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.



Principal exchange rates versus UK pound (£)	2016 Average	2016 Year-end	2015 Average	2015 Year-end
United States dollar (US$)	1.35	1.23	1.53	1.49
Euro (€)	1.22	1.18	1.38	1.36

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 was not used at any point during 2016 and is due to expire in July 2019.

The Group's committed borrowing facility contains certain financial covenants which have been met throughout 2016. 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 2016 year end, the Group had £139m of cash, £87m of short term investments, and £138m 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 2016 and does not consider interest rate risk to be significant at present.

NEW ACCOUNTING STANDARDS
None of the new accounting standards that came into effect during 2016 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

22 February 2017

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 provision 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 to meet its liabilities as they fall due during the three year period to December 2019. 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 2016 which covered the three year period to December 2019. This included sensitivity analysis of the Company's strategic plans and considered downside income, margin and cash flow scenarios. This analysis was modelled on the biggest 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 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 and the potential impacts these risks would have on the Group's business model, future performance, solvency and liquidity over the assessment period. These risks are set out on pages 24 to 26.

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 concluded that they have a reasonable expectation that the Company will continue to operate and to meet its liabilities as they fall due during the three year period to December 2019.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have chosen to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires t hat 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 and is signed on its behalf by:

Matthew Ingle
Chief Executive Officer

Mark Robson
Deputy Chief Executive and Chief Financial Officer

22 February 2017

Principal risks and uncertainties

Howdens operates in an environment that creates 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.

This section outlines our approach to risk, our risk management process and our principal risks. At the heart of all of these is our analysis of our business model and culture, our strategy, and our markets, which we present in detail on pages 8 to 13. We would encourage you to read this section in conjunction with that analysis.

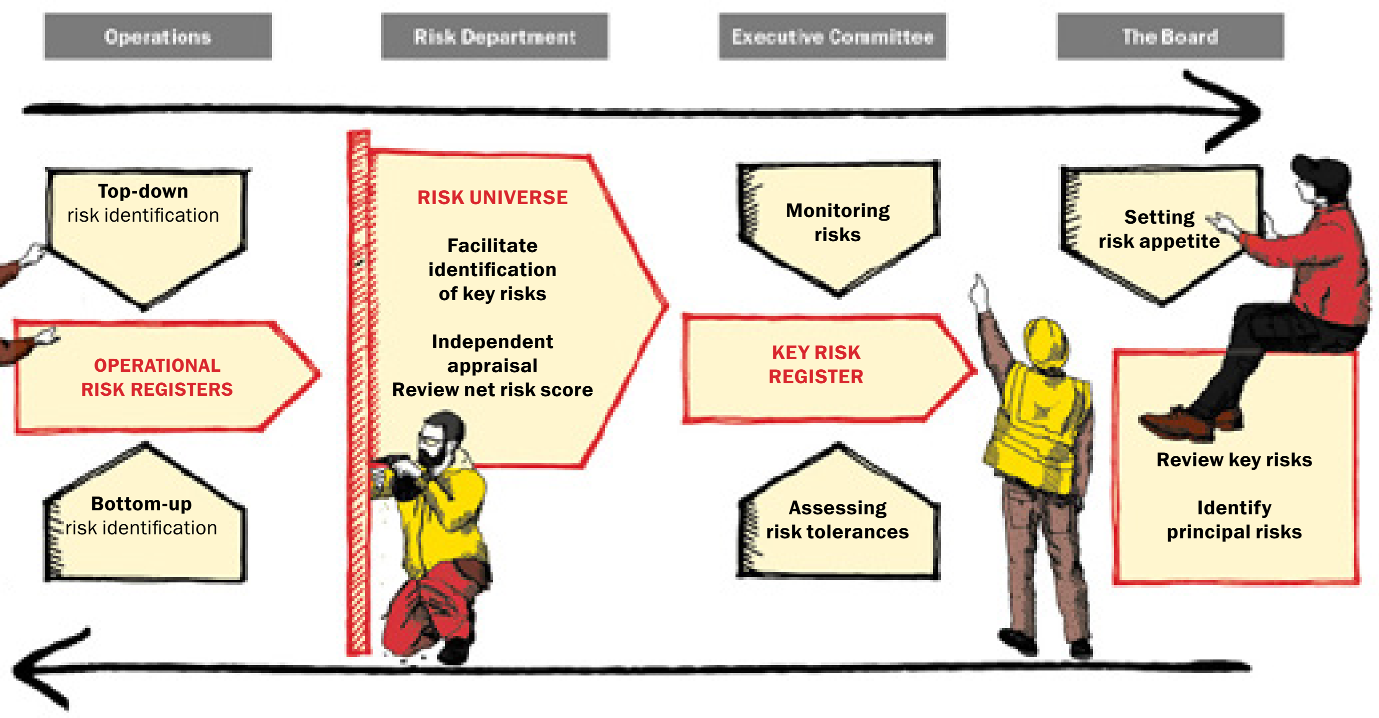
OUR APPROACH TO RISK

Our approach to risk aims to make sure that we consider risk in all our business decisions whilst preserving the Howdens business model and culture and achieving our long-term strategic objectives. Our risk management approach reflects our 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.

Opportunity risk is managed closely, and depends on our ability to understand and manage the key drivers of success, whilst maintaining 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 business.

Service availability risk is managed carefully, to ensure that the essential services the business relies upon heavily are available at all times. This includes our approach to supply risk and continuity of stock servicing the depots, debt collection processes, and systems resilience measures to ensure that the stock, sales and cash can be accounted for and managed seamlessly.

RISK MANAGEMENT PROCESS



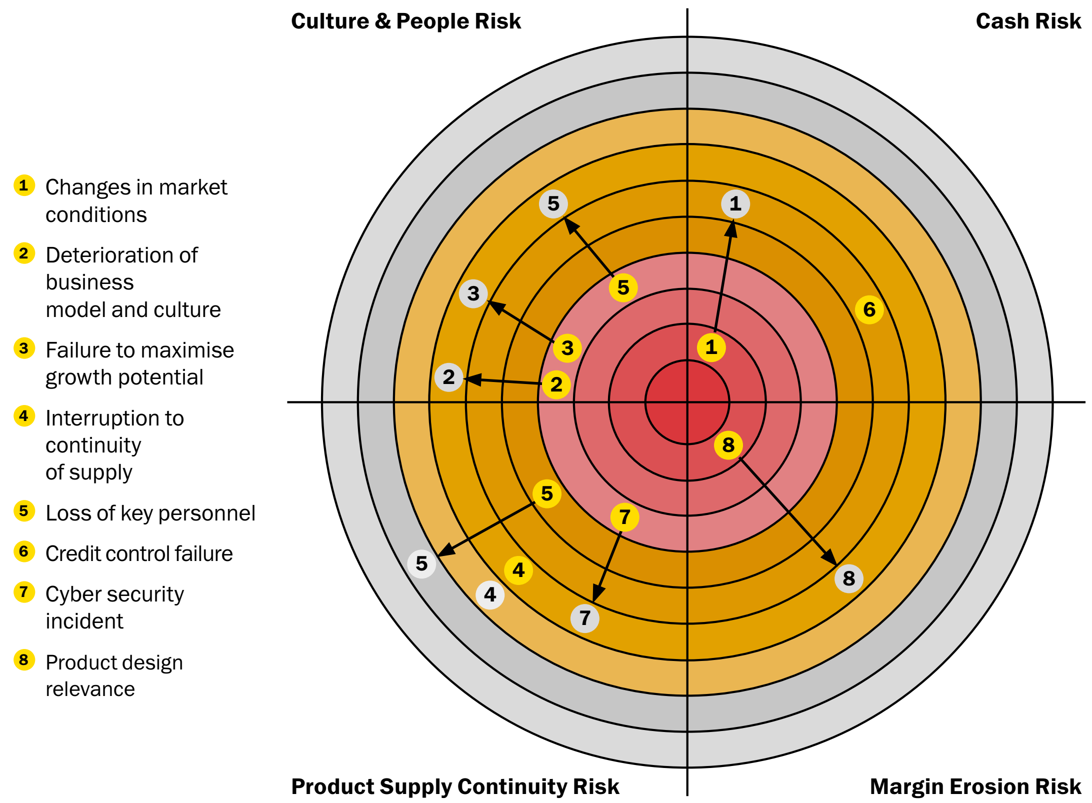
RISK MANAGEMENT PROCESS

The main steps in the process are illustrated in the diagram on the previous page, and described below:

- **Operational Risk Registers** are reviewed quarterly by senior management within each division. They consider the risks they are managing and discuss the ways in which those risks are being mitigated to arrive at the residual likelihood and impact of that risk to the division (the “net risk” impact and likelihood). Additionally, they pay attention to the inherent impact the risk could have on the division if not controlled (the “gross risk” impact and likelihood).
- **The Group Risk Universe** is then informed by this process to consolidate a Group view of the key risks identified by the divisions. This includes reporting risks that have either a residual risk impact above our appetite, or inherent risks that are managed to within a tolerable level. All of these risks are included in our Key Risk Register, which gives an overview of the main risks and how they are being managed.
- **The Executive Committee** then reviews this Key Risk Register and provides their top-down strategic view of the risks they are managing to achieve our objectives.
- **The Board** review the top-down and bottom-up views of the Group key risks twice yearly, and uses this information to select the Group’s principal risks.
- **Long Term Viability** is also considered in the context of these risks, as described in the Group Viability Statement on page 20.

RISK HEAT MAP

To help visualise our risks, we plot them on the heat map below. The highest level of risk is at the centre of the circle. The yellow circle for each risk shows the current risk level and the grey circle shows the target risk level.



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CHANGES IN MARKET CONDITIONS

Risk	Impact	Mitigating factors	Change year on year
Our products are mostly sold to small builders and installed in owner-occupied and private and public sector rented housing, mainly in the replacement market. Our revenues are dependent on levels of activity in these markets, which are affected by many factors, including: consumer confidence and buying behaviour; Government, local authority and housing association decisions; credit availability and interest rates; and technology developments. With a significant proportion of the raw materials and finished products we buy being purchased from overseas, our costs of goods sold can be affected by exchange rate movements between the pound, and the euro and US dollar.	Weaker market conditions can affect our level of sales, while a lower exchange rate can increase our cost of goods sold. Without mitigating action, these can reduce our profitability and cash flow. These risks were highlighted in 2016, when we saw softer market conditions in the second half of the year, and a much weaker exchange rate against both the euro and US dollar.	We have a good track record of dealing with changes in market conditions. We maintain close relationships with our customers, who can give us early warning of market conditions changing, and we monitor activity in our depots closely. As a result, we can take swift action to mitigate the effects of changing market conditions, including managing cost levels and inventory. Our unique service proposition to the small builder means that we have a good track record of managing prices to offset cost pressures.	↑

DETERIORATION OF BUSINESS MODEL AND CULTURE

Risk	Impact	Mitigating factors	Change year on year
Our future success depends on continuing to successfully implement our unique business model and our locally enabled, entrepreneurial culture. The key to our trade-only model is our local depots, who supply the small builder, with product that is held in stock. Our aim is simple, to provide a local service to builders saving them time, meeting their needs through product availability and innovation. The future success of the business depends on the continuing implementation of this model; and, on its locally enabled, entrepreneurial culture.	If we lose sight of our model and culture we will not successfully service the needs of the local small builder and their customers, and our long-term profitability may suffer.	The Howdens business model and culture are at the core of our activities and decision-making processes. They are led by the actions of the Board and Executive Committee. The Board, the Executive and senior management teams regularly visit our depots and factories, our logistics and support locations and reinforce the importance of the model and culture through frequent events.	↔

FAILURE TO MAXIMISE THE GROWTH POTENTIAL OF THE BUSINESS

Risk	Impact	Mitigating factors	Change year on year
As Howdens continues to expand, this brings both opportunities and challenges to the business. These opportunities include meeting customers' changing expectations and demands through product and services. This requires us to identify new market opportunities, continue to leverage the reach of the depot network and the performance of existing depots. Some challenges we may face in growth include the scalability of our supply chain, systems and personnel capabilities.	If we do not recognise, understand and exploit the potential these opportunities offer, in line with our business model and risk appetite, or do not align current structures and skills to meet the challenges they present, this could affect our ability to obtain maximum benefit from our growth opportunities.	We place continuing focus on the opportunities and challenges related to growth. We will continue to focus on our people, service, systems, and manufacturing and distribution capabilities. Additionally, the builder's requirement for a local and convenient service provides a significant opportunity for growth through expansion of our depot network. We have increased our investment in all of these areas as we grow, and we will continue this investment in 2017.	↔

INTERRUPTION TO CONTINUITY OF SUPPLY

Risk	Impact	Mitigating factors	Change year on year
Howdens is an in-stock business. Our warehousing distribution and manufacturing sites only supply products to Howdens depots; the result is an efficient system with no unnecessary waste of time, space or product. Our business model requires depots to be able to supply at once from local stock, and our customers expect this and rely on it.	Any disruption to our relationship with key suppliers or interruption to manufacturing and distribution operations could adversely affect our ability to deliver the in-stock business model and to service our customer's needs.	With suppliers, we have multiple sourcing strategies for our key products wherever possible, to reduce the effect of a supply failure. Where appropriate we enter into long-term contracts to secure supply of key products, services and raw materials. We build strong mutually supportive relationships focussed on integrity, fairness and respect which remain worthwhile for all concerned. We have invested heavily in our manufacturing operations and this investment gives us an enhanced disaster recovery capability. We are also investing in new warehouse space to support our distribution capabilities, reducing our exposure to this risk.	↓

LOSS OF KEY PERSONNEL

Risk	Impact	Mitigating factors	Change year on year
The skills, experience and performance of key members of our 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.	We use the Remuneration Committee to ensure that key team members are appropriately compensated for their contributions and incentivised to continue their careers with us. We will continue to focus on leadership development, succession planning and providing the best tools for our people to achieve their objectives.	↔

CREDIT CONTROL FAILURE

Risk	Impact	Mitigating factors	Change year on year
When a builder comes into one of our depots for the first time, we open a nett monthly account for them, so they can complete the job before paying Howdens. Our customers rely on our trade account facilities, as cash flow is critical to their business.	Failure to provide, or service these facilities could affect our ability to continue to support our customers, and potentially our ability to collect debt. This could have a direct impact on both our revenue and our working capital.	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 customers, both at depot level and within the credit control department. In addition, concentration of debt is limited, as debt exposure is spread across 400,000 customer accounts.	↔

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CYBER SECURITY INCIDENT

Risk We are dependent on a core set of critical IT systems which are fundamental to the day-to-day running of the business. Complex systems are integral to our daily operations throughout the supply chain and are essential to support business growth. These systems are at risk from increasingly sophisticated security threats.

Impact If we experienced a major security breach, this could result in a key system being unavailable causing operational difficulties and/or sensitive data to be unavailable or compromised. This could also lead to loss of customer data and scrutiny from regulators.

Mitigating factors We employ complex technical IT security controls to protect our information and our key systems. We adopt a continuous improvement approach to IT security and continue to invest in the security of our systems. In addition, we are also placing focus on the training and development of our people, in cyber security, as we recognise that Information Systems security risks are not always technical. We regularly engage external specialists to validate the effectiveness of our controls against industry best practice. Disaster recovery capability and business continuity plans are in place, and are tested periodically.

Change year on year

PRODUCT DESIGN RELEVANCE

Risk Ensuring that we have products that meet the design, price and quality needs of the small builder, and their customer, is a key focus of the business model and is a critical element of our future success and growth aspirations. Kitchen technology and design do not stand still; consumer buying patterns are changing, which is increasing the need for our product to be aligned to these expectations.

Impact If we do not support the builder with new products that their customers want it could influence both their ability to generate revenue and therefore our own.

Mitigating factors Our dedicated product team regularly refresh our range of kitchens and appliances to meet builders' and end-users' expectations for design, price and quality. We work with external design and brand specialists and attend product design fairs to monitor likely future trends. Our local depot staff have close relationships with their account holders, and we actively gather feedback from them about changes in trends. We work with our suppliers, to develop new and improved products for the future, some of which are unique to Howdens. A number of new products were introduced during the year across all product categories, and many more are already planned for 2017.

Change year on year

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Howdens – worthwhile for all concerned

At the heart of every house is the kitchen. Big or small, it's a welcoming space to meet morning or night to relax or busily prepare food and entertain family and friends. No longer simply used for cooking, the kitchen is now capable of housing anything from morning coffee with friends, to a weekend dinner party.

At the heart of our business is a commitment to creating first class kitchens and joinery and in doing so to help everyone we work with, in every community, to do well.

SO HOW DO WE DO THIS?

As a Board we ensure that value creation benefits broader society and is well understood. We note the new government's response has been to reinvigorate industrial strategy and challenge companies to reconnect and to ensure all interests are aligned. This includes adopting values that provide the foundation for a corporate culture that respects its responsibilities to all stakeholders, including society.

For 21 years, we have been growing a sustainable business that delivers value for shareholders, employees, builders and communities. We live, breathe and dream our values and are in tune with the societies where we operate. We always act responsibly. Our approach to sustainability helps us to maximise long-term value socially, environmentally and financially. And we continue to do this day in day out.

Howdens now employs 8,900 people across 642 depots, two factories, our warehouse and distribution operation and our IT and support functions. We supply around 50 kitchen ranges as well as appliances and joinery items to 400,000 small builders across Great Britain and with a small number of sites in Europe. We are continuing to invest in this market that demands more choices, better quality, better availability, better planning and better service.

And we are investing in the people that are helping us to grow. These are the people who work in our factories; who work in our depots; who work in our distribution network. We work for the small builder across the country to ensure that they have the right product at the right price at the right time for their customer.

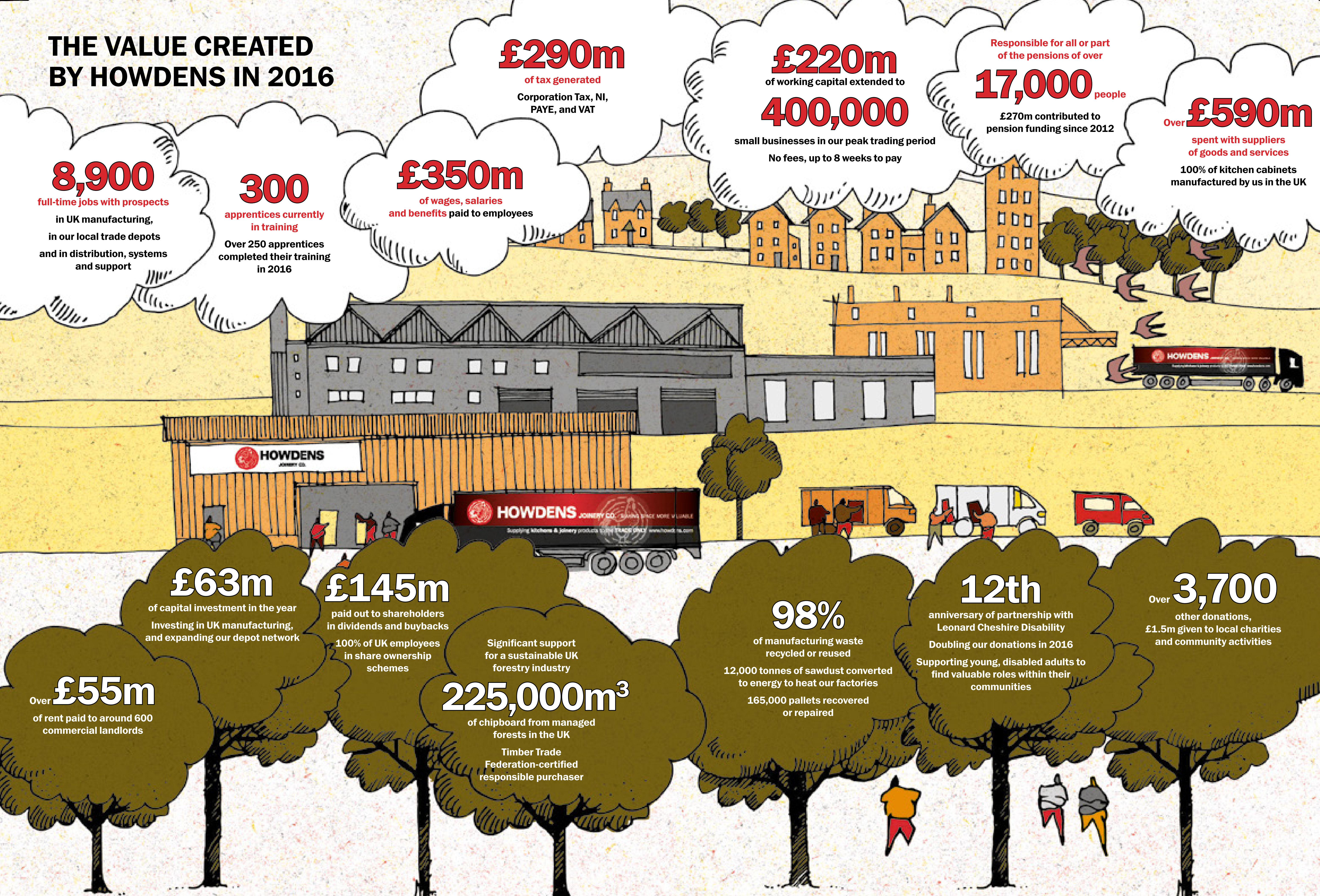
We are part of the local community. We have made over £2.5 million of donations, and we work with a wide range of charities on a local, national and international basis.

We are a long-term business with considerable opportunity for growth and we continuously assess how we can operate more effectively and sustainably; where we can make the difference. In the next pages you will find lots of stories and examples both big and small or how Howdens ensures that it is worthwhile for all concerned.

Matthew Ingle
Chief Executive Officer

22 February 2017

THE VALUE CREATED BY HOWDENS IN 2016



8,900
full-time jobs with prospects
in UK manufacturing,
in our local trade depots
and in distribution, systems and support

300
apprentices currently in training
Over 250 apprentices completed their training in 2016

£350m
of wages, salaries and benefits paid to employees

£290m
of tax generated
Corporation Tax, NI, PAYE, and VAT

£220m
of working capital extended to
400,000
small businesses in our peak trading period
No fees, up to 8 weeks to pay

Responsible for all or part of the pensions of over
17,000 people
£270m contributed to pension funding since 2012

Over **£590m**
spent with suppliers of goods and services
100% of kitchen cabinets manufactured by us in the UK

£63m
of capital investment in the year
Investing in UK manufacturing, and expanding our depot network

Over **£55m**
of rent paid to around 600 commercial landlords

£145m
paid out to shareholders in dividends and buybacks
100% of UK employees in share ownership schemes

Significant support for a sustainable UK forestry industry
225,000m³
of chipboard from managed forests in the UK
Timber Trade Federation-certified responsible purchaser

98%
of manufacturing waste recycled or reused
12,000 tonnes of sawdust converted to energy to heat our factories
165,000 pallets recovered or repaired

12th
anniversary of partnership with Leonard Cheshire Disability
Doubling our donations in 2016
Supporting young, disabled adults to find valuable roles within their communities

Over **3,700**
other donations,
£1.5m given to local charities and community activities

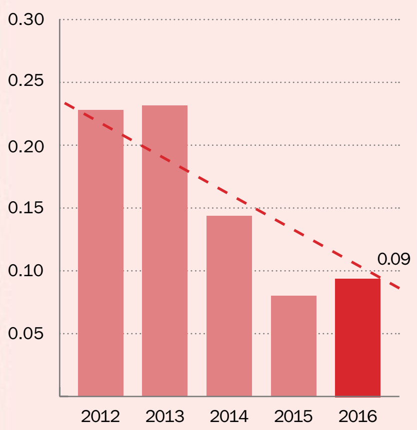
Our people

Keeping them safe, offering them rewarding careers, developing their potential

KPI

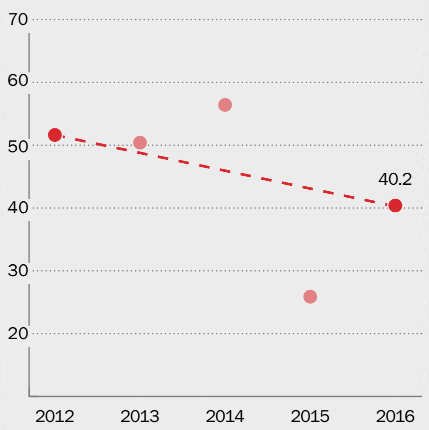
RIDDORs/100k hours worked

59% reduction 2012–2016



Accident severity rate*

22% reduction 2012–2016



* Accident severity rate = hours lost to accidents/100k hours worked

Other themes in 2016

- **Moving from Training to Learning & Development**
- **Growing our own – developing new apprenticeship programmes**
- **Succession planning – developing our leaders of the future**

Keeping our people safe

Continued efforts, focusing on risk and behaviours, sharing best practice

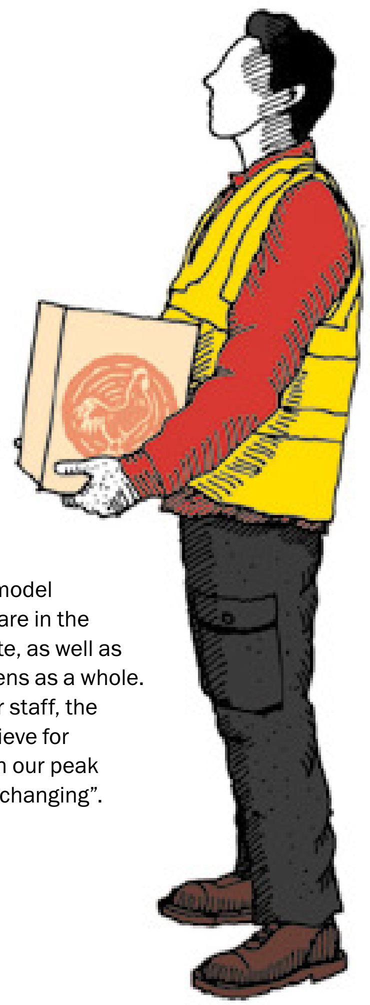
We've got 8,900 employees, and we need to keep them all safe at work. Accidents have remained very low this year because we've continued to invest in safe processes and safe plant and machinery.

But having robust processes can only take us so far. So this year, we've turned our attention to changing behaviours and mind sets. We're also working with other companies and consultants to help us benchmark and challenge ourselves. We hope that these actions will improve our safety record even further.

We have brought safety teams from the trade division and the supply division together to share best practice and work on common risk areas. One example of this is a short film that we produced this year, highlighting our procedures for unloading at depots. Responsibility for safety when unloading is shared between the lorry driver making the delivery and the depot staff receiving and unloading the goods. Making a film with employees from both divisions allowed us to give a consistent message across the business.

Other highlights include:

- £1m bespoke forklift truck failsafe loading alert system rolled out across all depots.
- Development of bespoke safety management software which provides a single place for recording and tracking any incidents across the whole depot network.
- Retaining our ISO 18001 safety accreditation at all factories and warehouses.



Offering rewarding careers

Good basic salary, substantial bonus opportunity

We pay a good basic salary. We evaluate all our job roles against a consistent scale across each division. We use a scale based on the skills required for each role, and we set our salaries according to those skills. This is transparent and objective, and helps our people to know that we are treating them equally and paying them according to their skills. All of our pay rates are above the living wage, and most of them are well above it. We also offer a range of both core and opt-in benefits to suit our employees' lifestyles.

We offer all of our people the opportunity to be part of a pension scheme which we contribute to. In 2016 we paid £53.4m into our pension schemes for the benefit of our 17,000 members, which include both current and former employees. We also offer free shares to all our people who stay with the company for at least three years, so that they can share in our growth.

We give staff the opportunity to get substantial bonuses for exceptional performance. This has always been part of the Howdens business model and culture. Our people share in the profitability of their local site, as well as in the profitability of Howdens as a whole. In the words of some of our staff, the bonuses that they can achieve for exceptional performance in our peak trading period can be "life-changing".

Developing potential

Moving from training to learning & development, identifying tomorrow's leaders to grow with the business, developing new apprenticeships

We've completed our transformation beyond simply training for current job roles to developing for the future. Our business benefits from the investment we make in developing our people. When we invest in the right people we can grow our own leaders. Leaders who already understand the strategic importance of the Howdens business model and culture. Our investment in development also gives valuable opportunities to our best people and helps us to retain them.

We will need more leaders at every level as we implement our strategy to expand the depot network. We're using a consistent approach across the business to identify people with the potential to step up. Then we're supporting them with a tailored development framework to get them ready for their next career step before they actually take that step. This means that they can hit the ground running, with the confidence to perform at a high standard and to deliver the Howdens values and service to our customers.

We are also continuing to develop our apprenticeship programmes throughout the business, offering a range of worthwhile futures to young people across the country.

We have almost 300 apprentices currently training. In our Supply division, some of them are apprenticed in engineering, some are apprenticed to become multi-skilled machine operators, and some are apprenticed in our logistics operation and are learning to become our next generation of truck drivers.

In our Trade division we have apprentices working in a variety of roles across the depot network. 2016 has been the first year of our Howdens-specific three-year apprenticeship programme. During their first year, apprentices gain a nationally-recognised qualification and they also get experience of each main role in a depot, such as counter sales, business development, and kitchen design. In the second and third years, they decide to specialise in one role and they continue their development through specific courses relevant to that role.

See some of the stories that our people have to tell about their career development with Howdens at: https://careers.howdens.com/our-people.

Our customers

Sustainable product, safety and traceability, supporting our customers

KPI

% energy reduction on best-selling Lamona fridge-freezers

In 2013 we set ourselves the target to reduce the energy consumption of our best-selling Lamona fridge-freezers by 5% in the three years to 2016. We haven't been able to meet the 5% target by the end of 2016, although we expect to beat the target in 2017.

We have been working with our suppliers to achieve further reductions in 2016, and we look forward to launching new A++ rated fridge-freezers in 2017, which will give a 10% reduction in energy consumption over 2013 levels.

Other themes in 2016

- **Energy-efficient new products**
- **Increased efforts to trace product to end-users**
- **Supporting the builder and the builder's customer**

Sustainable product

Energy efficiency, durability and quality

Our appliances are made by third party suppliers to our specifications. We have always worked in partnership with our suppliers to improve the energy performance of our appliances, and each year this brings improvements in different product categories. Highlights in 2016 are:

- all our Lamona dishwashers now have an A+ energy rating. This means that we can now offer our customers a dishwasher which is 11% more energy-efficient
- we have introduced more efficient motors into three of our extractors, offering energy savings of up to 36%
- we have developed our first A+ rated single oven, which offers an 8% energy saving over our previous best offer

Our end-users' demands are changing all the time and we need to make sure that our builder-customers can offer a Howdens product to meet those demands. People want the highest levels of quality, safety and design, and the lowest energy consumption, at the best price. We have a rolling development programme with our main appliance suppliers where we look forward three to five years to develop our products for the future. Together, we are planning tomorrow's energy savings today.

Offering our customers no-call-back quality kitchen and joinery is part of our mission statement. We manufacture all of our cabinets ourselves, which means that we have direct control of their quality and can be confident in offering a 25 year guarantee on them.

We test the durability of our manufactured products by subjecting them to a range of tests intended to represent the challenges of a real kitchen. For example, we test the durability of their surfaces by covering them with everyday household products, from bleach and other cleaning products, to curry powder and red wine. We "slam test" doors and drawers up to 10,000 times, we put excessive weights on hinged cabinet doors to represent the action of someone using the door to pull themselves up from floor level, and we put half-tonne weights on the shelves of our tall cabinets to represent a fully laden fridge freezer.

Our suppliers test all of our Lamona appliances in their own laboratories. Their testing is accredited by independent third parties, so we already know that these products pass all the required safety directives. In addition we test all Lamona products in an independent test facility. This gives us extra assurance as well as simulating four years usage in a home environment. We also put our kitchens and appliances into Liverpool John Moores University teaching kitchens where students put them through their paces every day and give us direct feedback on their performance.

Safety and traceability

Safety by design, scanning and registering products

We design safety features into the products we make ourselves, and we carefully select bought-in product from reputable sources and then we carry out additional safety testing before we sell it to our customers.

As an example of safe bought-in product, our Lamona tumble dryers have always been designed so that the heating element and the main airflow are separated. This is to prevent excess fluff coming into contact with the heating element and potentially catching fire.

It's important to us to do as much as we can to trace the ownership of our appliances, in case we ever have a product recall. We have installed scanners at all of our depots, so that we have a record of which items have been sold to which builder-customer. We're also working hard to encourage the domestic end-user to register their products so that we can support them if the need ever arises.

In 2016 we have:

- included links to the "Register my appliance" website on our own website and in the document pack that comes with the appliance
- put a sticker on the instruction manual for each appliance with the unique serial number of that appliance, so that it's easier for end users to register them
- briefed depot staff on the importance of encouraging product registration and put reminders and information in our product catalogues

We're also working with the UK trade association for domestic appliance manufacturers to see what else we can do to encourage end-users to register their appliances.

Supporting our customers

Supporting the builder, supporting the builder's customer

Our business model is designed to have the greatest positive impact on our customers' businesses. Around 400,000 small builders have trade accounts with us, and we offer each of those businesses the same high levels of service and support.

Small builders are typically managing more than one project at the same time. They may have to change priorities and reschedule work at short notice because their customers need them to. Managing that complexity can be a headache, but our unique business model is developed to support them.

Because we have invested in being an in-stock business, a builder can come into the depot and take away a complete kitchen to start work that same day if they need to. We can also offer delivery onsite at a time to suit the builder's schedule. Time is money, and we have spent our money to give the builder more time. Being in stock also allows us to swap product if the end-user changes their mind.

We support the builder's business by offering them trade accounts with nett monthly payment terms. This means that the builder can be paid for the completed job before they need to pay us. During our peak trading period in 2016 we made £220m of working capital available to our customers in this way.

We also offer a high level of support to the builder's customer, the end-user. Firstly, we invest in offering a wide selection of different kitchen ranges. We offer different styles, colours and price points, so that the builder can offer their customer choice and personalisation.

Secondly, we offer specialised support in planning the ideal kitchen. Our designers will go out to the end-user's home, for free and at a time which suits them, to measure the space and discuss options. We will then produce state of the art 3D kitchen design plans that the end-user can view at their leisure and discuss with their builder, friends and family.

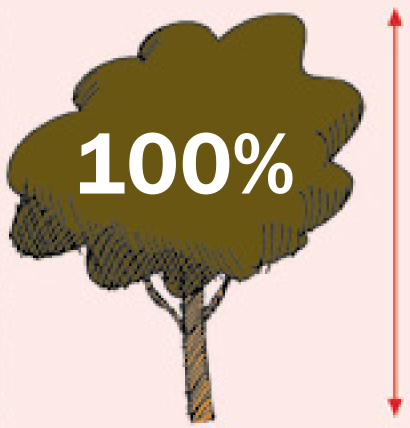
We also stand by our products once the builder has installed them. Our aftersales service will work directly with the builder's customer to resolve any questions. An end-user can phone our helpline or can go into their local depot. We can send locally-based engineers to deal with any appliance issues quickly and efficiently.

Our suppliers

Sustainable sourcing, long-term relationships, active monitoring

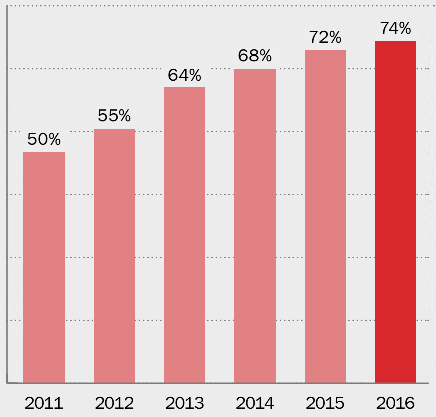
KPI

100% of wood-based material used in our manufacturing processes from FSC® certified sources



Sustainable kitchens

74% of kitchen ranges FSC® or PEFC™ certified



Other themes in 2016

- **Working together with suppliers for mutual benefit**
- **Risk-based independent testing to check that our timber is what it says it is**
- **Completed our assessment of the CSR processes of 100% of our direct suppliers**

Sustainable sourcing

Timber management and chain of custody, shared values throughout the supply chain

Over 75% of our products are wood or wood-based, and we're responsible for making sure that it is legally harvested and comes from sustainable sources.

In 2016 we used 225,000 cubic metres of chipboard and 33,000 cubic metres of MDF in our factories. All of this came from FSC® (the Forest Stewardship Council®) certified sources and all of the products that we manufacture ourselves hold the FSC chain of custody certification (license code FSC-C019676). This means that the wood comes from responsibly managed forests and that we have independent documented evidence of an unbroken chain of ownership all the way from the forest to us, via the mill, the importer, and our suppliers.

74% of our total timber products are from certified sources (FSC or PEFC™ – the Programme for the Endorsement of Forest Certification) with 100% of our internally manufactured timber products made from FSC certified materials. We have been approved by the Timber Trade Federation as having an environmental due diligence system in place which complies with their Responsible Purchasing Policy.

We aim to source our bought-in products to the same standards as the products we manufacture ourselves. One of the metrics we use to monitor our progress in this area is the percentage of kitchen ranges which are entirely 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. A range is only entirely FSC-compliant if every individual component in that range is FSC certified. At the end of 2016, 74% of our kitchen ranges met this standard, which is an increase of 24% since 2011.

We only want to work with suppliers who share our ethical values. We are clear about our expectations and our standards and our aim is that they run through our whole supply chain. Every year we gather our main suppliers together at a conference to talk about the issues that affect us and them. As well as talking to them about product development, we use this as an opportunity to repeat and reinforce our expectations for sustainability and ethical behaviour. We tell them what we need from them and we work together to come up with solutions.

Strategic report
Governance
Financial statements
Additional information

Long-term relationships

Worthwhile for all, built on respect, securing supply

As a purchaser of goods and services, we have a big impact on the livelihoods of our supplier network. We recognise that our relationships across the business need to be worthwhile for all concerned, and this includes our suppliers. We look to develop long-term relationships with our suppliers which are built on mutual respect and which allow us all to develop our businesses and prosper together. We work with our suppliers to set an agenda for the next few years. This might involve projects to improve quality, reliability and cost of production, or it might be developing and testing new products. In all cases, these projects will only work in the long-term if they bring benefits to both parties.

Over the last five years, two of our collaborations with suppliers have resulted in us jointly winning the prestigious British Woodworking Federation product innovation award for developing groundbreaking new door technologies that we hope will benefit both us and our suppliers for years to come.

The first example was the project behind our unique Burford door. This involved a significant financial investment from our supplier in order to develop new tooling. It also required mutual trust and respect as we worked together to solve problems and come up with a door technology which is unique to Howdens, sells at a premium price, and is still in our product range five years after its development.

A second example was the award-winning work we have done with another of our suppliers in 2016 to develop the technology to produce a quick-fit internal door. This is a door which allows the builder to adjust the width of the door without needing to trim it, thus saving him time. We trialled this door in some of our depots in 2016 and have already extended the trial in 2017 due to high demand.

We also work with our suppliers with the aim of securing our future supply. As an example, our packaging supplier set up a factory next to our Runcorn site which provides us with just-in-time deliveries at 30 minutes' notice. They were able to make this investment in their own business because we had committed to a long-term supply agreement with them. This benefits the supplier, benefits our shareholders, and benefits the environment as it reduces transport miles.

Active monitoring

Supplier assessments, training our people, risk-based testing

We take care to select suppliers with high ethical standards and we make it clear that we expect them to uphold those standards. We require them to confirm that they are operating ethically, and we gather evidence to support what they say.

We have a self-assessment process for our suppliers which includes assessing their corporate and social responsibility practices. As part of this we ask them how they manage areas such as health and safety, the environment, sustainability, ethical sourcing and product compliance. They have to provide evidence to substantiate their answers and we have a dedicated compliance team who validate the answers and the evidence. In 2016 we have validated all of our 180 direct manufacturing suppliers.

Our own people have a personal responsibility to understand and demonstrate best practice and integrity, so we've given them training to support them in their dealings with suppliers. During 2016 all of our buyers and our compliance team have taken the Chartered Institute of Procurement and Supply's Ethical Procurement & Supply training. This training is designed to give them an understanding of the fundamentals of ethical behaviour when selecting and managing suppliers. At the end of the training they had to pass a comprehensive assessment as well as making a personal commitment to upholding the CIPS Code of Conduct.

Our due diligence systems rely on suppliers accurately declaring what types of wood are being used and where that wood comes from. To give us extra assurance, we carry out additional checks. We select samples of wood and send them for independent microscopy testing at a leading independent research institute. This analysis can prove what type of wood it is. We are currently evaluating the use of an emerging technology which, when it is developed and ready for use, could tell us both the species of wood and also where in the world it comes from.

There is more information about the work we do to safeguard against human rights violations in both our own business and our supply chain in our modern slavery statement at http://www.howdenjoinerygroupplc.com/responsibilities/modern-slavery-statement.asp

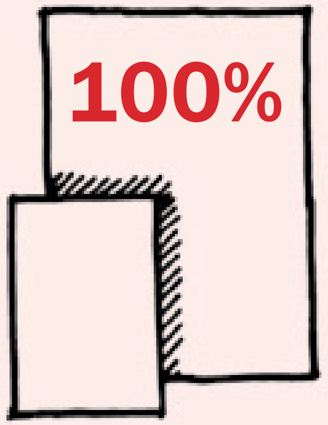
Our environment

Reducing waste, responsible operations, lowering emissions

KPIs

Total % of waste recycled or reused

100% of all packaging from recycled sources



Other themes in 2016

- **Energy-efficient 650,000 sq ft new warehouse opened in 2016**
- **93% of freight from Europe moved from road to rail**
- **Continuing to reduce emissions even with increased turnover**

Reducing waste

Minimising production waste, reuse/recycle, reducing amounts to landfill

As part of our investment to replace and upgrade the machinery in our factories, we've been able to reduce waste by improving the efficiency of the way we cut chipboard. We have invested in software that allows us to take the actual production demand for different-sized panels and to make sure that we get the most panels out of each sheet of chipboard. We've taken what we learnt from this and have worked with our chipboard supplier to look for additional benefits. The result of this is that our supplier now makes a new size of chipboard sheet for us. This allows us to reduce our waste as well as allowing our supplier to make more efficient use of their own machines. Our factories already operate at high levels of efficiency, but this change has allowed us to reduce waste from cutting patterns by a further 2%.

Nevertheless, we still generate a lot of sawdust waste. At both of our factories, we have highly efficient biomass boilers which burn this waste to generate energy to heat the factories. They allow us to reuse waste, they reduce our emissions and they save us the cost of the equivalent bought-in fuel. In 2016, we converted around 12,000 tonnes of sawdust into energy at our Howden and Runcorn sites. This is enough sawdust to fill 15 Olympic swimming pools. Burning it onsite means that it doesn't have to go to landfill and it doesn't have to be transported elsewhere to be reused. We generated approximately 42,000 MWh of energy from our biomass boilers, equivalent to the average annual electricity consumption of over 10,000 households.

Nine years ago, we started repairing broken pallets rather than scrapping them. In 2016 we repaired over 165,000 pallets and put them back into use, reducing waste and saving money.

Responsible operations

Energy-efficient facilities, efficient transport

All our factories, warehouses and transport sites meet the ISO 14001 standard for Environmental Management. This assures us that we have good environmental management processes in place. It also encourages us to look for further improvements in areas such as sustainable energy, waste and material management.

We have invested in a number of energy-saving projects at our factories in 2016. The most significant of these involved replacing old lighting and compressor technology with modern energy-efficient versions. These initiatives should give us a total energy saving of 2,500 MWh per year.

2016 saw us begin to use our new 650,000 sq ft warehouse at Raunds, near Northampton. Since we were involved in the design and construction of this warehouse from scratch, we were able to specify various energy-efficiency measures such as:

- efficient door seals to reduce the use of heating and cooling systems
- a solar thermal system which will reduce our need to use additional heating
- LED lighting and skylights

We were very pleased that the site received a "Very Good" rating on the BREEAM sustainability scale, putting it in the top 25% of buildings of its type.

Our truck fleet drives over 14 million miles per year, so it's very important to us that it runs efficiently and safely. We upgraded our core truck fleet to meet the latest Euro 6 emissions standards in 2015, and this also helped us to improve our miles per gallon by 6%. In 2016 we have managed a further 1% improvement in mpg by concentrating on driver behaviour. We use advanced in-cab telemetry to measure and benchmark our drivers, and we reward those who perform to the highest efficiency and safety levels. We debrief our drivers regularly, and we work with any drivers who are not driving to the highest standards to help them improve.

We now use taller trailers to deliver the cabinets that we make in our Runcorn factory. Being able to get more cabinets in each delivery means that we've made an annual reduction in trailer loads equivalent to 800 standard trailers.

We try to avoid our trucks returning empty from the depots when we can, and so we contract to carry loads for other companies when this suits our schedule. This means that we contribute to a reduction in the total number of trucks on the road, as well as the associated emissions.

In 2016 we became one of the first companies to gain the Freight Transport Association's Truck Excellence accreditation. This involves an independent audit to test that we demonstrate consistently high operating and safety standards.

We have continued to reduce our carbon footprint on the majority of our inbound freight from Europe, moving it from road to rail. 93% of our European freight was transported by rail in 2016. This gave a saving of approximately 900 tonnes of CO_2 for the year, as well as a significant cost saving.

Lowering emissions

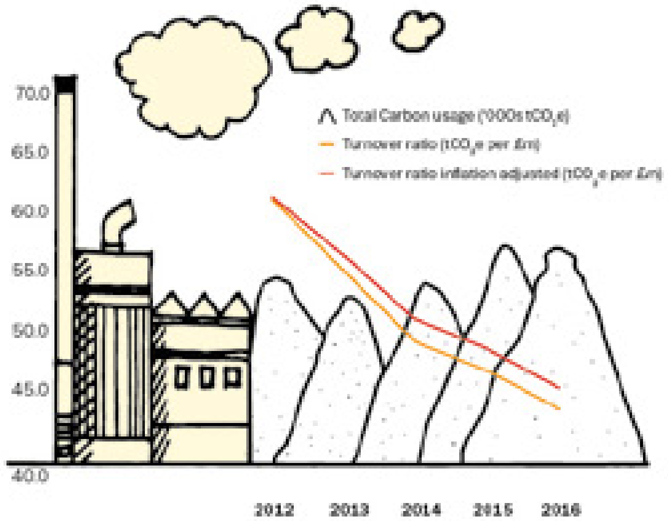
Efficient operations lead to reduced emissions

GREENHOUSE GAS AND EMISSIONS REPORTING

	Total CO_2 Emissions (Tonnes) 2016	Total CO_2 Emissions (Tonnes) 2015
Scope 1 – Direct: Gas	3,338	2,544
Scope 1 – Direct: Diesel	26,065	25,427
Scope 1 – Direct: Other fuels	1,196	1,516
SCOPE 1 – DIRECT: TOTAL	30,599	29,487
Scope 2 – Indirect: Electricity	28,148	29,578
SCOPE 2 – INDIRECT: TOTAL	28,104	29,578
TOTAL (Scope 1 and 2)	58,747	59,065
Turnover (£m)	1,307.3	1,220.2
Turnover ratio (tCO_2e per £m)	44.9	48.4
Inflation adjusted turnover ratio (tCO_2e per £m)	47.1	50.4

We are pleased to report that our total emissions have reduced in 2016 despite an increase in turnover.

Turnover increased by 7% in 2016, and both the turnover ratio and the inflation adjusted turnover ratios decreased by 7%. We will continue to look for further improvements. Our record over the past five years is shown on the chart below.



Our communities

Local community projects, nationwide and international projects, education and scholarships

Local community projects

Local involvement on a nationwide basis, thousands of donations, £1.5m contributed

Every Howdens depot, manufacturing site, distribution and support centre, has an important role in the life of its local community. Each of our sites depends on its local community for its success and growth; for its customers and its staff. Our culture is based on personal relationships and individual accountability, and we encourage our people to support and engage with local community activities and charities.

We make our products, time and cash available for staff at local sites to get involved in their communities in all sorts of ways. This year we have donated 61 kitchens and paid for them to be fitted. Typical cash donations may be just a few hundred pounds, but they will make a big difference. They might cover things like:

- buying new kit for a local children's sports team
- supporting the work of a community centre
- giving our staff's time and materials to help renovate facilities at a care home
- providing assistance to a local school or college
- donating cash to a local hospital's appeal for vital equipment

In 2016, we've made 3,700 separate donations which have involved us giving cash or products worth £1.5m. In addition to that, we also donated £150,000 of cash and stock to communities affected by flooding.

Our culture of being involved in the local community and of giving back to that community also shows in the actions our people take as individuals. Every year, all across the country, we support individuals and teams of our people as they give up their time and put themselves to the test to raise money for all sorts of local and national charities.

Nationwide and international projects

Leonard Cheshire Disability: increased commitment, starting involvement with international projects

We've had a successful partnership with Leonard Cheshire Disability (LCD) since 2004 and we're pleased to say that it continues to grow. In 2016 we have doubled our commitment to LCD and have donated cash and goods worth £0.8m.

LCD works for a society where everyone is equally valued, and supports people with all types of disabilities, all over the world. Like Howdens, LCD values local relationships, and their work supports disabled people to be active members of their local communities. They support disabled people to live in their own homes and in residential care, as well as providing skills and employment programmes to help disabled people into work. Internationally, in over 50 countries worldwide, LCD helps disabled children into primary school, and supports disabled adults into jobs.

Our work with LCD is in three main areas:

- designing and fitting inclusive kitchens in their care homes and day centres so disabled people can live more independently
- helping young disabled people play an active role in their communities through sponsorship of the "Can Do" volunteering programme
- working with LCD's international network on overseas projects

Howdens are experts in designing inclusive kitchens for disabled people or those with limited mobility, and all of our ranges are available with a variety of inclusive features. We have pledged to supply and fit inclusive kitchens from our range wherever they are needed in any of LCD's homes across the country. We take on projects as prioritised by LCD and when convenient for each home. This year's demand meant that we planned, donated and fitted 27 kitchens. Some of these are specific training kitchens, used to pass on cooking skills which help people increase their ability to live independently.

Just over four years ago we began to support LCD's Can Do programme. Can Do gives young disabled adults the chance to develop important life and work skills, and boost their self-confidence. It does this by supporting them to devise and take part in a range of volunteering projects in their local community. It gives them individual mentoring, group support and a social network, as well as an opportunity to gain further qualifications. Howdens support has helped Can Do expand from four locations when we began our involvement to 19 locations in 2016, supporting more than 6,000 young disabled people through meaningful volunteering opportunities in their local community.

Can Do aims to build young people's confidence, so that they can get out and about on their own, cook their own meals, build their support and friendship networks, and where possible get them ready for the world of work. In 2016, Can Do participants in London swapped skills with employers, providing them with training on disability equality in the workplace, in exchange for support with CV writing. As a result of taking part in Can Do, 79% of participants felt more independent and able to do tasks and activities on their own, and 87% of them believe their employability and skills improved.

Howdens has a global reach through our supply chain, and so in 2016 we began to support LCD's global network. We are currently supporting two projects in South East Asia. One of them aims to equip 5,000 disabled adults with the training and skills needed to find employment or to start their own business. The other project aims to support 300 disabled women by promoting their human rights, preventing violence and supporting them into employment.

There are more details of our involvement with LCD online at www.howdens.com/about-us/leonard-cheshire-disability/ and more information about LCD at https://www.leonardcheshire.org/.

Education and scholarships

QEST educational scholarships, E-ACT academies

QEST is the charitable arm of the Royal Warrant Holders' Association. They grant apprenticeships and scholarships in traditional and contemporary crafts, making a vital contribution to the British craft industry. We started to work with them in 2015. Our donations so far have funded one scholar in furniture making and design, and we look forward to sponsoring another scholar in 2017. There is more information about QEST at www.qest.org.uk/about-qest/

Howdens also work with E-ACT, a leading independent academy sponsor, responsible for managing, maintaining and developing 24 academies. We are part way through a three-year commitment to provide £20,000 per year to assist with developing community engagement. We offer them practical support in the shape of providing expert volunteer help with their governance, and we also promote our apprenticeship programmes to E-ACT students where appropriate.

Case Study: Retained firefighters and emergency first responders

Our people are making a real difference in their local community, and are helping to save lives. Our factory in Howden, Yorkshire, is on the edge of a small rural town. The local fire station is unmanned and relies on retained firefighters. These are people who typically have other jobs or responsibilities, but when the call comes they drop whatever they are doing and respond.

Six years ago we started working with the local Fire and Rescue Service and we currently have three employees who are trained members of the retained firefighter team at the Howden fire station. That station sent teams to over 200 incidents in 2016, including house fires, vehicle fires, industrial fires and incidents in which people were trapped in burning buildings. 80% of those calls had at least one of our people on the responding team and on most calls our people made up at least half of the team. In recognition of this, one of our employees was given the 2016 Chief Fire Officer's Award. This award is only given to one person in a year, and it was presented in recognition for building a strong relationship between Howdens and the Humberside Fire & Rescue Service. In the words of the Chief Officer, that relationship has been instrumental in keeping crewing levels high and keeping two vehicles on the run during the day as well as on evenings and at weekends.

We also have some employees who are trained as first responders and who support the local ambulance service. These people are called out to give essential advanced first aid in the case of, say, a heart attack or stroke. They give vital initial care until an ambulance can get to the scene. This sort of care can be critical in determining the outcome of an emergency, especially in more rural areas where ambulances have to come from further away. According to the local Fire and Rescue Service, the team which our employees are part of has saved at least a dozen lives in the last year.

Around two years ago, we started to do the same thing at our Runcorn factory and we now have a retained firefighter team there. In the future we hope to extend this and have a team based at our main warehouse in Northamptonshire.

Governance

Corporate Governance report

'Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.'

The UK Corporate Governance Code, Principal A.1

MEETING ATTENDANCE

The Board held regular meetings during 2016 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 Officer.

A full list of Directors who served during the year are set out in the attendance table below.

	Attendance	No. of meetings
Will Samuel*	4	4
Mark Allen	7	7
Andrew Cripps**	6	7
Geoff Drabble	7	7
Tiffany Hall	7	7
Matthew Ingle	7	7
Richard Pennycook	7	7
Mark Robson	7	7
Michael Wemms***	6	7

* Will Samuel retired from the Board on 5 May 2016.

** Andrew Cripps was unable to attend the Board meeting on 15 February 2016 due to ill health.

*** Michael Wemms was unable to attend the Board meeting on 3 November 2016 due to a conflict with another commitment.

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 still 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 three times during the year without the Executive Directors present.

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.

Simply put, the purpose of our Board and our corporate governance framework is to safeguard the interests of stakeholders 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, proportionate, effective and compliant with both the spirit and the letter of the UK Corporate Governance Code.

The Board considers itself to be highly accountable to shareholders and it is entirely cognisant of its responsibilities to its other stakeholders. Through challenge and collaboration the Board has continued to safeguard the outstanding execution of strategy and entrepreneurial culture which has made the business so successful.

Whilst it is important to recognise that shareholder and stakeholder sentiment may change over time, the core principals of fairness and good governance do not. Howdens will continue to guard against complacency, to take a long-term view on strategy and to ensure that robust and proportional procedural safeguards are in place.

SCHEDULE OF MATTERS RESERVED FOR THE BOARD
www.howdenjoinerygroupplc.com/investors/governance/schedule-matters/index.asp

Corporate Governance Report

BOARD OF DIRECTORS

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.

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.

MATTHEW INGLE
Chief Executive Officer

Length of Tenure
Executive Director: 18.9 years
CEO: 11.4 years

Skills and Experience
Matthew 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.

Current External Appointments
None

MARK ROBSON
Deputy Chief Executive and Chief Financial Officer

Length of Tenure
DCEO: 2.8 years
CFO: 11.9 years

Skills and Experience
Mark is a Chartered Accountant and qualified with Price Waterhouse.

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

Current External Appointments
None

RICHARD PENNYCOOK
Chairman

Length of Tenure
Chairman: 0.8 years
NED: 3.4 years

Skills and Experience
Richard was a public company director for over 20 years. He is currently Chief Executive Officer of the Co-operative Group, but will step down from this role at the beginning of March. From May 2017, he will serve as Non-Executive Chairman of Fenwick. Richard has previously held Finance Director roles at Wm Morrison Supermarkets plc, RAC Group plc, H P Bulmer Holdings plc, Laura Ashley Holdings plc and J D Wetherspoon plc. His other past roles include Senior Independent Director and Chairman of the Audit Committee of Persimmon plc, Non-Executive Director of Richer Sounds plc, President of Allders International North America and Chief Executive Officer of Welcome Break Holdings Ltd. He is a fellow of the Institute of Chartered Accountants in England and Wales.

Current External Appointments
- Non-Executive Chairman of The Hut Group Limited.
- Chairman of the Institute For Turnaround.

MICHAEL WEMMS
Senior Independent Director (SID)

Length of Tenure
SID: 10.0 years
NED: 10.3 years

Skills and Experience
Michael was Chairman of House of Fraser plc from 2001 until November 2006 and was an Executive Director of Tesco plc from 1989 to 2000. He 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.

Current External Appointments
- Chairman of the Board of Trustees of E-ACT, the independent academy sponsor.

DIRECTORS' INDEMNITY & INSURANCE

Howdens has provided indemnities to the Directors (to the extent permitted by the Companies Act 2006) in respect of liabilities incurred as a result of their office. Howdens also 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.

INDEPENDENCE

In compliance with Provision B.1.2 of the UK Corporate Governance Code, at least half of the Directors were independent throughout the year. The Board considered that all of the Non-Executive Directors were deemed to be independent for the duration of the period.

The Board considered that Richard Pennycook was independent upon his appointment as Chairman on 5 May 2016.

MARK ALLEN
Non-Executive Director

Length of Tenure
NED: 5.7 years

Skills and Experience
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, and became Chief Executive Officer in 2006.

Current External Appointments
- Chief Executive Officer of Dairy Crest Group plc.
- Trustee for The Prince's Countryside Fund.
- Non-Executive Director of Warburtons Limited.
- Director for The GLF Schools Board.

ANDREW CRIPPS
Non-Executive Director

Length of Tenure
NED: 1.2 years

Skills and Experience
Andrew qualified as a Chartered Accountant with KPMG.

His consumer product experience includes Executive Director roles in the UK and Europe with Rothmans International, where he was Corporate Finance Director.

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

Current External Appointments
- Deputy Chairman of Swedish Match AB.
- Non-Executive Director of Booker Group plc.
- Senior Independent Director and Chairman of the Audit Committee at the 2 Sisters Food Group.

GEOFF DRABBLE
Non-Executive Director

Length of Tenure
NED: 1.6 years

Skills and Experience
Geoff was appointed Chief Executive Officer of Ashtead Group Plc, the FTSE100 international equipment rental company, 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.

Current External Appointments
- Chief Executive Officer of Ashtead Group Plc.

TIFFANY HALL
Non-Executive Director

Length of Tenure
NED: 6.8 years

Skills and Experience
Tiffany was previously Managing Director at BUPA Home Healthcare, UK Marketing Director at BUPA and Head of Marketing at British Airways. She has also served as 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.

Current External Appointments
- None

DEBBIE WHITE
Non-Executive Director

Length of Tenure
NED: <0.1 years

Skills and Experience
Debbie is currently Global Chief Executive Officer of Sodexo Healthcare, Defence and Justice Services. She has held various positions within Sodexo since 2004, including CFO in the UK & Ireland, CFO of Sodexo Inc. (the North American subsidiary of Sodexo), and later CEO for Sodexo UK & Ireland. Debbie started her career with Arthur Andersen in the UK before joining AstraZeneca where she held a range of financial roles. She later became a director at PwC Consulting where she worked across a number of sectors in a global capacity.

Current External Appointments
- Global Chief Executive Officer of Sodexo Healthcare, Defence and Justice Services.
- Trustee and Chairman of the Audit Committee of Wellbeing of Women.

Corporate Governance Report continued

EXECUTIVE COMMITTEE AND COMPANY SECRETARY

The principal purpose of the Executive Committee, which generally meets 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.

KEVIN BARRETT
Group Development Director

Length of Tenure
With Howdens: 1.5 years
Member of the Executive Committee: 1.5 years

Skills and Experience
Before joining Howdens, Kevin spent 10 years at Sainsbury's where he held a variety of roles including Director of Strategy for the whole company, and Head of Distribution for Sainsbury's Bank. He started his career as a management consultant at Accenture.

CLIVE COCKBURN
Chief Information Officer

Length of Tenure
With Howdens: 14.4 years
Member of the Executive Committee: 1.1 years

Skills and Experience
Clive was appointed as CIO in January 2016 having joined Howdens in 2002 as Head of IT Infrastructure and Service Delivery. Prior to joining, he held senior IT positions in Hays Logistics UK, United Transport Limited and Exel Logistics plc.

ROB FENWICK
Chief Operating Officer: Howden Joinery Supply Division

Length of Tenure
With Howdens: 16.1 years
Member of the Executive Committee: 11.8 years

Skills and Experience
Rob joined Howdens in January 2001 and has held various supply chain positions. Since October 2005, he has been responsible for transforming the Supply Division from a vertically integrated operation to a commercial organisation. Prior to joining Howdens, Rob worked in the automotive, FMCG and other industry sectors.

GARETH HOPKINS
Interim Group HR Director

Length of Tenure
With Howdens: 1.9 years
Member of the Executive Committee: 1.9 years

Skills and Experience
Gareth was appointed Interim Group HR Director in April 2015 having previously worked in the business as a HR consultant for 15 months. He has worked as an interim HR Director in FTSE 250 companies for 15 years and was previously Group HR Director at Dairy Crest and Whitworths.

THERESA KEATING
Group Finance Director

Length of Tenure
With Howdens: 16.5 years
Member of the Executive Committee: 5.0 years

Skills and Experience
Theresa was appointed Finance Director in May 2014, having been Group Financial Controller since 2007. She joined the Group Finance team in 2000 having previously held various commercial finance roles at Waterstones, HMV and Heals.

ANDY WITTS
Chief Operating Officer: Howden Joinery Trade Division

Length of Tenure
With Howdens : 21.6 years
Member of the Executive Committee: 8.5 years

Skills and Experience
Andy was one of the founding members of the Howdens depot management team, having joined from Magnet in 1995. He was promoted from the Regional team to become Sales Director in January 2007 and was appointed Chief Operating Officer of the Trade Division in January 2014.

FORBES MCNAUGHTON
Company Secretary

Length of Tenure
With Howdens: 4.6 years
Company Secretary: 2.7 years

Skills and Experience
Forbes was appointed Group Company Secretary in May 2014 having joined the Company as Deputy Company Secretary following a period of secondment from KPMG. He is a member of the Institute of Chartered Secretaries and Administrators (ICSA) and is Secretary to the Executive Committee as well as to the Board of Directors.

Matthew Ingle, the CEO, and Mark Robson, DCEO and CFO, are also members of the Executive Committee.

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CORPORATE GOVERNANCE FRAMEWORK

THE ROLE OF THE BOARD

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.

Matters reserved for consideration by the Board are detailed in a schedule which is reviewed annually and was last reviewed and approved in January 2017. These key matters include setting the Group's values and standards as well as 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.

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.

THE ROLE OF 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 relevant range of skills and experience and all actively contribute in discussion. Non-Executive Directors have the same general legal responsibilities to the Company as any other director. The Board as a whole is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. In addition to these requirements of all Directors, the role of the Non-Executive has the following key elements:

Strategy: Non-Executive Directors should constructively challenge and contribute to the development of strategy;

Performance: Non-Executive Directors should scrutinise the performance of management against agreed goals and objectives;

Risk: Non-Executive Directors should satisfy themselves that financial information is accurate and that financial controls and systems of risk management are robust and defensible; and

People: Non-Executive Directors are responsible for determining appropriate levels of remuneration of executive directors and have a primary role in appointing, and where necessary removing, senior management and in succession planning.

THE ROLE OF EXECUTIVE DIRECTORS

As well as their duties as Directors of the Company, the day-to-day running of the Group is delegated to the Chief Executive Officer and the Deputy Chief Executive and Chief Financial Officer by the Board. In May 2014, Mark Robson was appointed Deputy Chief Executive and is responsible for day-to-day management of the business, whilst the Chief Executive Officer focuses on the Company's continuing development and the implementation of the strategy, which the Board has formulated and approved. The Chief Executive Officer also has a particular focus on maintaining and further developing our strong and distinctive culture, which has served the Company well throughout the years and continues to ensure our success for the future.

THE ROLE OF THE 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.

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.

All of the Directors have direct and unfettered access to the Company Secretary.

THE ROLE OF ADVISORS

External advisors provide a range of services to the Board and its Committees including banking, brokerage, legal, audit, actuarial, PR and Executive remuneration, as well as other consulting services. Both the Executive Committee and the Board rely on such advisors to provide counsel and opine on specialist matters where necessary. The Non-Executive Directors can engage with advisors at the Company's expense independent of management where appropriate.

The competency, value, length of tenure and independence of advisors is reviewed by the Board on an annual basis. A list of principal advisors to the Company can be found on page 135.

DIVISION OF RESPONSIBILITIES

The roles of Chairman and Chief Executive Officer 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.

The Chairman	Chief Executive Officer	Deputy Chief Executive	Senior Independent Director (SID)
The Chairman's role is to lead an effective Board, which provides direction to the Executive team.	The role of the Chief Executive Officer is to lead the Executive team. The Chief Executive Officer reports to the Board and is accountable to it.	The Deputy Chief Executive has responsibility for the day-to-day management of the business as well as his responsibilities as Chief Financial Officer.	The role of the SID is to provide an alternative communication channel between the Chairman and the Board and to provide an alternative point of contact for principal shareholders to raise issues and concerns.

HOW THE BOARD PERFORMED DURING 2016

Board meetings in 2016 were structured to address the Board's collective responsibilities in relation to strategy, performance and governance.

Despite the strength of the business model and the clarity of the UK strategy, the constituent parts of this strategy were evaluated at each Board meeting, with particular emphasis on first principles and individual tenets of the model. These discussions are underpinned by consideration of the culture and values of the business.

Outside of Board meetings, the Board were provided with performance updates every four weeks and weekly updates were provided during peak trading. This was intended to complement the more detailed operational and finance reports that were provided at each meeting during 2016. In addition to the Executive Directors, the Divisional Chief Operating Officers, the Group Finance Director, the Interim Group HR Director and the Company Secretary were present at all Board meetings to take questions from the Non-Executive Directors. The Board regularly discussed the Group's people agenda with specific regard to organisational development. Health & Safety updates for each division were provided at every meeting.

The Board considered a wide range of governance matters during the year which included but were not limited to the Group risk register, legal and regulatory updates and Group policies. Bespoke training was provided on directors' duties and the updated Market Abuse Regulations. In July the Board agreed a CSR statement of intent in order to provide the divisions with a framework upon which to build specific targets and KPIs.

Board Evaluation

In the previous two financial years, the Board evaluation has been undertaken internally by the Senior Independent Director, with support from the Company Secretary. In keeping with the guidance provided under the UK Corporate Governance Code, the 2016 Board evaluation was externally facilitated by Independent Board Evaluation (IBE). IBE does not have any other business relationship with the Company or with any member of the Board. More information on the 2016 Board evaluation can be found in the Nominations Committee Report on page 58.

Pensions

In 2011 the Board delegated authority to a Pensions Sub-Committee in order to consider all matters relating to the Company defined benefit pension scheme. This was a reaction to the risk that the pension deficit posed to the future viability of the Group at that time. In 2016 the Board recognised that, whilst still an ongoing risk which required careful monitoring and management, the strength of the Group covenant meant that matters in relation to the defined benefit scheme could revert to being considered by the Board as a whole and therefore the Pensions Sub-Committee was disbanded. A separate Funding and Investment Strategy Committee consisting of members of the Executive Committee was established to provide a vehicle for communication with the Pension Trustees on routine funding and investment matters and this Committee, in conjunction with the Company's actuaries, report to the Board on such matters at least twice annually.

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 22 and 23 and are satisfied that it accords both with the UK Corporate Governance 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.

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 22 to 23, 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 one additional risk that they consider to be principal. These have therefore been disclosed as part of the principal risks disclosure in line with the UK 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. A review was last undertaken by PwC in 2012, and therefore an external assessment of the Internal Audit department will be undertaken during 2017.

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.

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 2016 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 22 February 2017, 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:

Substantial Shareholder	% of total voting rights	Date of last notification
Standard Life Investments Limited	5.76%	Oct 2016
FMR LLC (Fidelity)	Below 5%	Jan 2017
BlackRock, Inc	Below 5%	Apr 2016
Legal and General Group Plc	Below 3%	July 2016

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

Annual General Meeting

The 2017 Annual General Meeting (AGM) is to be held at UBS, 5 Broadgate London, EC2M 2QS on 2 May 2017 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 21 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 page 65 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 21. 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 24. 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.

During 2016 the Company repurchased 17,467,000 ordinary shares, with a nominal value of £1,746,700, which equated to 2.72% of the called up share capital of the Company at the beginning of the period, excluding Treasury shares. As at 24 December 2016, the Company held 10,828,842 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 18), 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 24 December 2016, the Directors had authority under the shareholders' resolutions of 5 May 2016 to purchase through the market 63,727,882 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 15 months from the date of passing.

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COMPLIANCE TABLE

We have complied with all the provisions of the September 2014 version of the UK Corporate Governance Code (the "Code").

Throughout the 52 weeks ended 24 December 2016, the Company was fully compliant with the main and supporting provisions of the Code. A full version of the Code may be found on the Financial Reporting Council's website: www.frc.org.uk.

The Code sets standards of good practice in relation to board leadership and effectiveness, accountability, remuneration and relations with shareholders. Below we have stated how we have addressed each of the main principles in turn.

We recognise that Code Provision B.1.1 provides that tenure in excess of nine years is one factor boards should consider when determining the independence of non-executive directors. However, following a recommendation from the Nominations Committee, the Board are satisfied that Michael Wemms, who has served as a Non-Executive Director for ten years, remains independent in character and judgement. Michael will not stand for re-election at the 2017 AGM and will stand down from the Board with immediate effect following the meeting.

SECTION A: LEADERSHIP

A1 THE ROLE OF THE BOARD

"Every company should be headed by an effective board which is collectively responsible for the long-term success of the company."

- The Board held seven formal meetings during 2016. Individual Directors' attendance may be found on page 43. The number of meetings and the attendance of each Board Committee may also be found on the following pages:
  - Nominations Committee: page 55
  - Audit Committee: page 61
  - Remuneration Committee: page 67
- A formal schedule of matters which only the Board may take decisions on is available on the Howdens website.

A2 DIVISION OF RESPONSIBILITIES

"There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision."

- The roles of Chairman and Chief Executive Officer are separate and clearly defined. They are not exercised by the same individual.
- The responsibilities of each role have been set out in writing and agreed by the Board.
- Further information about the separation of the roles and how they work together for the success of Howdens may be found on pages 48 to 49.

A3 THE CHAIRMAN

"The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role."

- The Chairman was considered independent on appointment.
- The Chairman sets the agendas for all Board meetings and ensures sufficient time is given to each agenda item.
- The Chairman ensures the full Board receives accurate and clear information in a timely fashion (please see B5 'Information and Support' on page 53 for further information).
- All the Directors are encouraged by the Chairman to participate in constructive and open discussions during meetings.

A4 NON-EXECUTIVE DIRECTORS

"As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy."

- The diversity of skills, experience, approach and mindset of our Non-Executive Directors mean that they are well placed to effectively scrutinise both strategy and operational management. In addition to the Executive Directors, members of the Executive Committee are frequently present in person at Board meetings where Non-Executive Directors can hold them directly accountable.
- Michael Wemms is the Senior Independent Director. He provides a valuable sounding board for the Chairman and intermediary for the other Directors. He is also available for shareholders to contact with concerns which cannot be resolved via the Chairman or the Executive Directors. As previously announced, Michael will step down from this role on 20 April 2017 ahead of his retirement from the Board at the 2017 AGM. Effective 20 April 2017, Tiffany Hall, who has been a Non-Executive Director since 2010, will assume the role as Senior Independent Director.

SECTION B: EFFECTIVENESS

B1 BOARD COMPOSITION

"The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively."

- The Nominations Committee regularly reviews the size, composition and structure of the Board and makes recommendations to the Board for all new appointments and reappointments. It considers whether there are any gaps in skill, experience or knowledge on the Board when assessing Board effectiveness.
- Details of the work of the Nominations Committee may be found on pages 55 to 60.
- Further information on Board composition may be found on page 57.

B2 BOARD APPOINTMENTS

"There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board."

- The Nominations Committee is responsible for leading any process of appointing new directors to the Board.
- The Nominations Committee will only recommend individuals for appointment who subscribe to Howdens' shared values. They must also understand and be sympathetic to our entrepreneurial culture and unique business model.
- Further information on Boardroom diversity may be found on page 57 of the Nominations Committee Report.

B3 COMMITMENT

"All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively."

- Each of the Directors' external commitments is set out in their biographies on pages 44 to 45.
- None of our Non-Executive Directors currently holds more than three non-executive directorships in other publically-listed companies. Neither of our Executive Directors has any external appointments.
- Each Director's conditions of appointment is made available for inspection at the AGM and at the Company's registered office during normal business hours.

B4 DEVELOPMENT

"All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge."

- A tailored induction programme is undertaken by all new Directors. Further information on inductions can be found on page 59.
- Non-Executive Directors are invited to attend Howdens' events at different locations and to meet with employees of all levels. This serves to underpin the Board's understanding of Howdens' unique culture.
- Individual training and development needs are considered as part of the annual Board evaluation process. Formal training is also provided when there are specific legal and regulatory developments.

B5 INFORMATION AND SUPPORT

"The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties."

- With the support of the Company Secretary, the Chairman ensures accurate and quality information is available to the Board via an electronic portal. The use of an electronic portal ensures information is disseminated quickly and securely.
- The Company Secretary, under the Chairman's direction, ensures information flows effectively within the Board and its Committees and between the Executive Committee and the Non-Executive Directors. He also ensures that all Board procedures are complied with.

B6 EVALUATION

"The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors."

- The 2016 Board evaluation was externally facilitated by Independent Board Evaluation. Details of the evaluation, including recommendations, may be found on page 58.

B7 RE-ELECTION

"All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance."

- At the 2017 Annual General Meeting, each Director will stand for re-election, with the exception of Michael Wemms who will stand down at the conclusion of the meeting.

SECTION C: ACCOUNTABILITY

C1 FINANCIAL AND BUSINESS REPORTING

"The board should present a fair, balanced and understandable assessment of the company's position and prospects."

- Howdens' annual performance, business model and strategy may be found within the Strategic Report (pages 3 to 19).
- The Directors' going concern and viability statements may be found on page 20.

C2 RISK MANAGEMENT AND INTERNAL CONTROL

"The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems."

- The Board is responsible for the Group's systems of internal control and risk management, and for reviewing their effectiveness. The Board is assisted with these responsibilities by the Audit Committee.
- The principal risks and uncertainties facing Howdens may be found on pages 24 to 26.

C3 AUDIT COMMITTEE AND AUDITORS

"The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors."

- The Audit Committee is comprised of five independent Non-Executive Directors. The Chairman is not a member of the Audit Committee.
- The Audit Committee has at least one Audit Committee member with recent and relevant financial experience (please see page 66 of the Audit Committee Report for more information).
- The Audit Committee has recommended that the auditor, Deloitte LLP, be reappointed at the 2017 Annual General Meeting. Information about audit rotation can be found on page 65.

Corporate Governance Report continued

COMPLIANCE TABLE

SECTION D: REMUNERATION

D1 LEVEL AND COMPONENTS OF REMUNERATION

"Executive directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied."

- Our remuneration policy is designed to incentivise our Executive Directors by aligning the way we reward them with the long-term strategic ambitions of Howdens. This in turn aligns the interests of the Executive Directors with those of our shareholders.
- Howdens' executive remuneration policy is predicated on the principles of fairness and proportionality. It has been designed with the intention that it is easy to understand, that it is aligned with the wider reward practices for the wider workforce and provides safeguards against payment for sub-standard performance.

D2 PROCEDURE

"There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration."

- The Remuneration Committee is responsible for setting the remuneration of our Executive Directors. The Remuneration Committee Report may be found on pages 67 to 78.
- The Remuneration Committee is made up of five independent Non-Executive Directors. The Chairman is not a member of the Remuneration Committee.
- No Director is involved in deciding his or her remuneration.
- PwC provides remuneration consultancy services to the Remuneration Committee.

SECTION E: RELATIONS WITH SHAREHOLDERS

E1 DIALOGUE WITH SHAREHOLDERS

"There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place."

- Both Executive and Non-Executive Directors met with shareholders during the year to discuss strategy, performance and governance matters.
- The Chairman of the Remuneration Committee met with a number of shareholders and shareholder body groups ahead of the presentation of the updated Remuneration Policy at the Annual General Meeting.
- Non-Executive Directors receive regular updates from the Deputy Chief Executive and Chief Financial Officer at Board meetings as to share price movement, shareholder sentiment and significant changes to the share register. The Company Secretary updates the Board at regular intervals as to wider Corporate Governance developments.

E2 CONSTRUCTIVE USE OF GENERAL MEETINGS

"The board should use general meetings to communicate with investors and to encourage their participation."

- The Annual General Meeting provides an opportunity for shareholders to meet with the Board and to ask questions pertaining to the business of the meeting, as well as about the business more generally.
- Where shareholders cannot attend the Annual General Meeting, we encourage them to submit their votes via a proxy.
- The full Board attends the Annual General Meeting and the Chairs of the Board committees are available to answer questions.

By order of the Board

Richard Pennycook
Chairman

22 February 2017

Nominations Committee Report

'The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively... There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.'

The UK Corporate Governance Code, Principal B.1 and B.2

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
Richard Pennycook (Chairman)*	4	4
Mark Allen	4	4
Andrew Cripps**	3	4
Geoff Drabble	4	4
Tiffany Hall	4	4
Will Samuel*	2	2
Michael Wemms***	3	4

* Richard Pennycook was appointed Chairman of the Nominations Committee immediately following Will Samuel's retirement at the AGM on 5 May 2016. Mr Samuel and Mr Pennycook absented themselves for all matters concerning the Chairman succession process.

** Andrew Cripps was unable to attend the Committee meeting on 15 February 2016 due to ill health.

*** Michael Wemms was unable to attend the Board meeting on 3 November 2016 due to a conflict with another commitment.

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 and the Chairman of the Board. 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.

INTRODUCTION BY THE COMMITTEE CHAIRMAN

Whereas the Board and its other Committees' main focus is often on strategy and the operational mechanics of the business, the main function of the Nominations Committee is to ensure that the right people are in the right place across the Group. This is particularly true in relation to the make-up of the Board itself and its ability to deliver shareholder value and safeguard the interests of other stakeholders. The Nominations Committee must establish whether the Board has the right balance of technical capability, market insight and transposable industry knowledge so that it can constructively challenge management from a position of expertise and experience. It is also important that the Board as a whole are sufficiently independent, have a diversity of perspective and understand the governance issues which are inherent with running a large company with a premium stock-exchange listing.

The Nominations Committee also plays an important role in recommending to the Board a policy on gender diversity. It is important that the Board sets the tone for the rest of the Group on matters of diversity and whilst the Committee continues to acknowledge that setting specific gender targets could be unhelpful for a small Board such as ours, I am pleased that the recent appointment of Debbie White to our Board will perhaps redress the gender balance to some degree. We maintain that the main priority of the Nominations Committee is to ensure diversity of perspective in the boardroom and this is something we will keep under close review.

The Nominations Committee is also responsible for monitoring the ongoing effectiveness of the Board. During 2016, the Company engaged with Independent Board Evaluation to conduct an external review of Board effectiveness. This proved to be a very worthwhile exercise and provided useful insights and realisable recommendations. The evaluation included a review of the work of the Nominations Committee and recommendations were made to facilitate the work of the Committee, which can often be sensitive in nature. Further details about the 2016 evaluation can be found later in this report.

NOMINATIONS COMMITTEE TERMS OF REFERENCE
www.howdenjoinerygroupplc.com/investors/governance/nomination/index.asp

Nominations Committee report continued

ROLE OF THE NOMINATIONS COMMITTEE

The main responsibilities of the Committee are set out below. How the Committee addressed each of these is set out in the body of this report. In some instances, the Committee were not required to exercise their authority in relation to a specific function of the Committee.

	Role
Board Composition	Regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) required of the Board compared to its current position and make recommendations to the Board with regard to any changes;
	Giving full consideration to succession planning for Directors and certain other senior executives in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future;
	Formulating plans for succession for both Executive and Non-Executive Directors and in particular for the key roles of Chairman and Chief Executive Officer;
	Being responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise;
	As part of the process for nominating candidates for appointment, obtaining details of and reviewing any interests the candidate may have which conflict or may conflict with the interests of the Company;
	Keeping under review the leadership needs of the organisation, both Executive and Non-Executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace;
	Making recommendations to the Board regarding the membership of the Audit, Nominations and Remuneration Committees, and any other Board Committees as appropriate, in consultation with the chairmen of those committees;
	Recommending, or not, the re-appointment of any Non-Executive Director at the conclusion of their specified term of office and the re-election by shareholders of any Director under the annual re-election provisions, in each case having given due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required; and
	Considering any matters relating to the continuation in office of any Director at any time including the suspension or termination of service of an Executive Director as an employee of the Company subject to the provisions of the law and their service contract.
Board Effectiveness	Providing appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
	Reviewing annually the time required from Non-Executive Directors and undertaking performance evaluation to assess whether Non-Executive Directors are spending enough time to fulfil their duties; and
	Ensuring that on appointment to the Board, Non-Executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside Board meetings.
Governance	Giving due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority[1]s Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate.

BOARD COMPOSITION

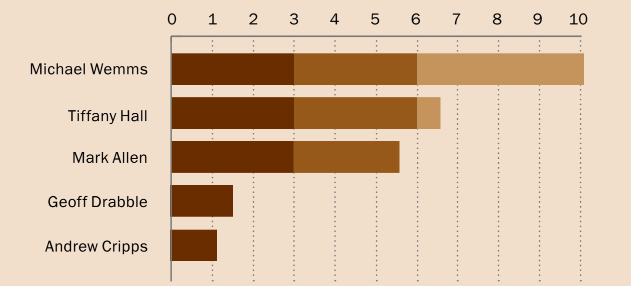
An effective Nominations Committee will establish a stable leadership framework. Part of its work must also be to proactively manage change to reassess the future leadership needs of the Company. As detailed in the report below, the Howdens Nominations Committee has successfully managed a Board succession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

Non-Executive and Executive Director Succession

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.

The Nominations Committee considers Executive succession as part of its routine succession planning process.

Non-Executive Tenure as at 24 December 2016



Chairman Succession

The Company announced on 2 December 2015 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. Richard Pennycook, who has been a Non-Executive Director of Howdens since September 2013 assumed the role of Non-Executive Chairman and Chairman of the Nominations Committee from that date.

Boardroom diversity

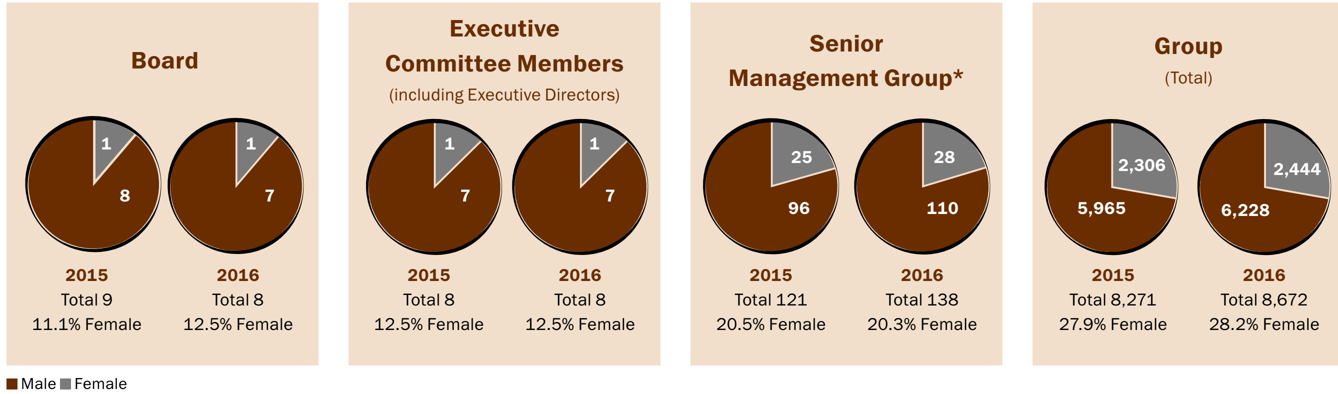
The Board recognises the importance of ensuring that there is diversity of perspective, background and approach in its management team and on its Board. Since the business was established in 1995, it has sought to enable individuals to progress within the organisation regardless of age, gender, background 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 2018, 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 24 December 2016, 12.5% 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 24 December 2016:

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 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.

Nominations Committee report continued

BOARD EVALUATION

In the previous two financial years, the Board evaluation has been undertaken internally by the Senior Independent Director, with support from the Company Secretary. In keeping with the guidance provided under the UK Corporate Governance Code, the 2016 Board evaluation was externally facilitated by Independent Board Evaluation (IBE). IBE does not have any other business relationship with the Company or with any member of the Board. The evaluation 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.

Methodology

September 2016
The evaluation methodology and agenda was agreed with the Chairman and Company Secretary.

October 2016
Interviews with Board members and key non-Board contributors, including the Company Secretary, members of the Executive Committee and external Board advisors, commence.

November 2016
IBE observes the November Board and Committee meetings.

December 2016
The conclusions of the evaluation, including the observations and recommendations for the main Board and individual Director assessments, are presented to the Chairman. Individual Committee reports are presented to the Committee Chairmen and a report on the Chairman of the Board is presented to the SID.

January 2017
The main observations and recommendations from the evaluation are presented to the Nominations Committee.

IBE will contact the Company Secretary six months after the conclusion of the evaluation to check on progress against the recommendations.

Summary conclusions and recommendations

The evaluation concluded that the Board was considered by most interviewees to be very effective and supportive of management, giving clear stewardship and presenting challenge where needed, that the Board is attuned to the special nature of Howdens' culture, and is watchful and alert to the best way of adding value to the Executive team. However the Board is aware that there are some challenges ahead, such as on strategy and succession planning.

Recommendations included: improvements in boardroom diversity, addressing the method of challenge and feedback provided by the Board to management, reviewing the time afforded to particular agenda items, the provision of more information in relation to key shareholders and refinement of the Board papers to help focus on key items.

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. Non-Executive Directors are encouraged to meet with Howdens' employees at all levels in order to maintain a broad view of the business. Non-Executive Directors are also invited to attend Howdens' events following their initial induction. During 2017, all Directors will receive the bespoke Howdens culture training, developed in-house for depot staff and management.

The individual training and development needs of Directors are also 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. In 2016, the Board received training from the Group's solicitors Freshfields Bruckhaus Deringer on directors duties and the new Market Abuse Regulations.

Directors are also encouraged to attend external seminars and briefings as part of their continuous professional development. All members of the Board are members of the Deloitte Academy which provides in-depth updates on financial reporting and corporate governance matters.

THE NOMINATIONS COMMITTEE IN 2017

The Nominations Committee is scheduled to meet at least twice during 2017. 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 board evaluation process, discuss boardroom diversity, and review the Committee's terms of reference.

Appointments and Re-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, throughout 2016, the Nominations Committee executed its long-term succession plans and began a search for a new Non-Executive Director as a replacement for Michael Wemms. The Zygos Partnership 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 final deliberations of the Nominations Committee in February 2017 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 Debbie White was appointed Non-Executive Director with effect from 15 February 2017.

The Zygos Partnership does not have any other business relationship with the Company. More information about the process is contained in the Case Study.

Upon the recommendation of the Nominations Committee, and after careful consideration, the Board agreed to reappoint Tiffany Hall and Michael Wemms as Non-Executive Directors with effect from May and November respectively. Having served on the Board for six years, Tiffany's appointment was extended for a further three years. Having been appointed as Non-Executive Director in November 2006, the Board agreed to extend Michael Wemms' appointment. 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 were also aware of the importance of the continued 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 Officer in the months following the 2016 Annual General Meeting. As reported elsewhere in this Annual Report, Michael Wemms will not stand for re-election at the Annual General Meeting in 2017 and will retire from the Board immediately following the meeting.

During 2017, the Nominations Committee will continue to ensure that a continuous transition process takes place between new and long-serving Non-Executives occurs.

Annual General Meeting (AGM) elections and re-elections

As stated in the Corporate Governance Report, and with the exception of Michael Wemms, 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 2017 AGM. Debbie White, having been appointed since the last AGM, will offer herself 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.

By order of the Board

Richard Pennycook
Nominations Committee Chairman

22 February 2017

Nominations Committee report continued

Case Study: Non-Executive Succession

As announced on 15 February 2017, Michael Wemms will not stand for re-election to the Board at the 2017 AGM. Having first been appointed to the Board in 2006, the Nominations Committee took time throughout 2016 to consider Michael's replacement and exactly what skills, experience and perspective would most benefit the Board in the long-term.

At its meeting in February 2016, the Committee agreed to undertake a review of the balance of the Board and its requirements in terms of membership for the next phase of the business. The Zygos Partnership were instructed to prepare a long list of candidates for consideration by the Committee.

The Committee met at an additional, out-of-cycle meeting in April to discuss the candidate long-list. It was agreed that the scope of the initial list provided should be broadened and that recent experience of expanding a business into new markets or territories would be preferable. It was noted that the Board already had a strength in depth in relation to operational experience and governance matters and therefore a candidate with a different skill set was required. The Committee also agreed that any list should have adequate female representation to ensure that gender diversity was also given appropriate consideration.

Considering a revised list at the September meeting, the Committee agreed that the candidates would meet the Executive Directors and two Non-Executive Directors with a view to their recommending two or three candidates. At the November meeting three candidates had been identified to meet with the remaining Non-Executive Directors. It was agreed that once the candidates had met with all Directors, a recommendation for appointment or continuation of the search would be made to the Board.

At the Nominations Committee in February 2017, the Nominations Committee recommended that the Board to appoint Debbie White as Non-Executive Director and member of the Audit, Nominations and Remuneration Committees. From a strong field of candidates, it was felt that Debbie provided the best diversity of perspective and cultural fit to help with the leadership of the business in the long-term.

Audit Committee Report

'The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.'

The UK Corporate Governance Code, Principal C.3

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.

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

	Attendance	No. of meetings
Andrew Cripps (Chairman)*	2	3
Mark Allen	3	3
Geoff Drabble	3	3
Tiffany Hall	3	3
Richard Pennycook**	1	1
Michael Wemms***	2	3

* Andrew Cripps was unable to attend the Committee meeting on 15 February 2016 due to ill health.

** Richard Pennycook ceased being a member of the Committee following his appointment as Chairman of the Board on 5 May 2016.

*** Michael Wemms was unable to attend the Committee meeting on 3 November 2016 due to a conflict with another commitment.

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.

INTRODUCTION BY THE COMMITTEE CHAIRMAN

The Audit Committee has a vital role in the financial probity of the business so that shareholder interests are properly protected. We do this primarily through a focus on financial controls and risk management, financial reporting and on the independent external audit of this Annual Report and Accounts.

The Committee are supported in their review of financial controls by a comprehensive internal audit team who examine and report on the adequacy of the Group's procedures from a risk-based perspective. We debate and approve their annual plan, as well as changes thereto, and receive regular reports on their work. Where appropriate the Committee meets with relevant management to gain further assurance on implementation of key controls. This process has worked well during the year.

We review the Interim Report and this Annual Report and Accounts, focusing on key judgements as well as the completeness and overall balance of reporting to shareholders. In this we are supported by the independent external auditors, Deloitte. Continued independence necessitates change and with this audit our lead engagement partner completes his five year term. The Committee have approved his successor having considered a well-qualified shortlist and the handover process has commenced. Having reviewed the effectiveness of the audit, the Committee are pleased to recommend that shareholders reappoint Deloitte as external auditors at the AGM.

AUDIT COMMITTEE TERMS OF REFERENCE

www.howdenjoinerygroupplc.com/investors/governance/audit/index.asp

Audit Committee Report continued

ROLE OF THE AUDIT COMMITTEE

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 external audit on behalf of the Board.

It is has primary responsibility for:

	Role	Considerations, actions and activities
Controls and internal audit	Monitoring the Group's internal financial controls throughout the year; 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); and Overseeing the Group's Internal Audit function effectiveness and ensuring that its findings are used effectively.	The Committee considered the controls in place to mitigate fraud risk; Senior management from the business were invited to discuss the controls in their business areas. During 2016, the Director of Commercial Finance and Head of Compliance of the Trade division gave presentations on the control environments in their area. An update on the IT control environment was also presented by the Chief Information Officer; The Committee assessed the coverage of independent assurance by reviewing the Group assurance map and reviewed the business continuity management provisions; and The Committee received a report on the activity reported under the Group's whistleblowing policy and considered this report against a wider peer group benchmark.
Financial reporting	Monitoring the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance, reviewing accounting policies and 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); Ensuring that information flows from the senior management and external auditor are such that the information received by the Committee is complete, accurate, timely and robust; and Reviewing the going concern report and the report on the longer-term viability of the business, prior to consideration by the Board.	The Committee reviewed the Group's Annual Report and Accounts and the half-yearly financial report published in July 2016. 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 effectiveness of the Group's internal financial controls (with specific reference to controls in place on a divisional basis) and the disclosures made in the Annual Report and Accounts on this matter were reviewed; and Consideration was given as to whether the Annual Report and Accounts were 'fair, balanced and understandable'.
External audit	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 plans and Audit Committee reports; and Developing and implementing a policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.	The proposed plan of work presented by the external auditor, including audit risks, materiality, terms of engagement and fees was considered prior to commencement of the 2016 audit; The reports from the external auditor 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 were scrutinised; An assessment of the qualification, expertise, resources, and independence of the external auditor and the effectiveness of the audit process was undertaken. 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 Committee discussed the risk of a possible withdrawal of the external auditors from the market.
Governance	Ensuring members of the Audit Committee are aware of changes to the technical, regulatory and governance environment applicable to the work of the Committee; and Reporting to the Board on how it has discharged its responsibilities.	The Committee received updates from the external auditor on latest governance practices for Audit Committees and changes in statutory reporting requirements; Members of the Committee and the Committee collectively was subject to an external effectiveness review as part of the Board's wider evaluation process and undertook an effectiveness self-assessment review. The external review concluded that the Committee was 'thorough and effective'; The Committee updated its policies in relation to allocation of non-audit work, employment of ex-audit firm personnel and the Group Whistleblowing policy; An update on the changes in legislation in relation to audit tendering and compulsory auditor rotation was provided by the Company Secretary; and The Committee reviewed the Directors' conflicts of interest and the Committee's terms of reference.

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.

Audit Committee Report continued

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's accounts this year, the principal areas of judgement relate to inventory obsolescence and actuarial assumptions.

Valuation of inventory

The Group's in stock model necessitates tight management of inventory to ensure comprehensive local availability while minimising obsolescence and wastage. The Committee reviewed the results of stock counts and processes to value inventory including the assumptions behind obsolescence provisions. 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 net deficit of the Group's defined benefit pension scheme has increased substantially over the year reflecting the impact of market conditions on key valuation assumptions. The Committee considered carefully the appropriateness of these assumptions, the recommendations of external actuaries and the views of the external auditors.

In previous years, the Audit Committee considered recoverability of trade debtors to be an area of significant financial judgement. Whilst management's assumptions underlying the bad debt provision continues to be challenged as an area of audit focus, the Audit Committee no longer consider these assumptions to be significant to the overall results. This reflects the effectiveness of tight credit controls over many years and the consistent record of predicting recovery rates.

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 is 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 are appropriate.

INTERNAL AUDIT

During the year, the Committee reviewed:

- Internal Audit's programme of work and resources;
- 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 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 PwC in 2012. In line with the Committee's policy to perform an external review of the function every five years, an external review of the Internal Audit function will be undertaken during 2017.

WHISTLEBLOWING

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. The Whistleblowing policy and issues raised and investigated under this policy were formally reviewed during the year.

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.

Auditor effectiveness

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.

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 auditor, the Committee undertook a comprehensive review during 2016 encompassing the following:

- A review of the independence of the external auditor and the arrangements which they have in place to identify, report and manage conflicts of interest;
- Consideration of the effectiveness of the external auditor 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;
- Consideration of the overall extent of non-audit services provided by the external auditor, 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 auditor.

All relevant fees proposed by the external auditor must be reported to and approved by the Audit Committee. At the year end, the external auditor formally confirmed that their independence and objectivity had been maintained.

Policy for non-audit services

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

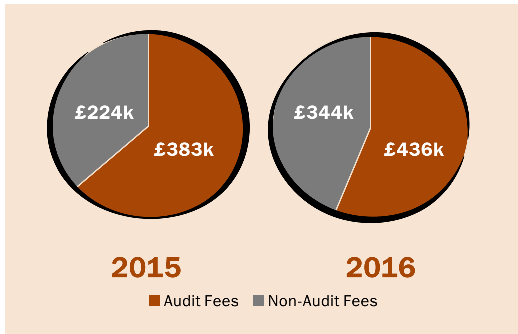
During the year, the Audit Committee reviewed and updated the policy for non-audit services to bring it into line with the amended FRC ethical standards and UK Corporate Governance Code (application from 25 December 2016). The regulation substantially curtails those non-audit services which can be provided by auditor. Key changes included:

- The introduction of a 70% cap of the value of the audit fee for all non-audit services calculated on a rolling three-year basis.
- The inclusion of tax calculation services as one of the category of services upon which is prohibited.
- The inclusion of actuarial valuation services in the category of services which are prohibited.

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

The policy aims to ensure that in providing non-audit services the auditor does not audit its 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.

Details of the total fees, including non-audit fees of £344,000, paid during the year to the external auditor, Deloitte LLP, are set out in the chart below and in Note 6 to the consolidated financial statements.



Non-audit services comprise the review of the Interim Report and tax compliance and tax advisory services for which Deloitte have been the most appropriate provider. Following regulatory changes, steps have been taken during the year for tax compliance to be conducted internally and an alternative supplier is being sought for tax advisory services.

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

Lead audit partner and audit tender

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 February 2016, following completion of the 2015 external 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. At that time, the current lead audit partner, Ed Hanson, had completed four years of a five year cycle.

As reported in last year's Annual Report, the Audit Committee determined 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 and this remains its recommendation.

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.

The Committee considered a shortlist to succeed Ed Hanson as lead audit partner on completion of his five year cycle with the 2016 audit and are pleased to recommend Claire Faulkner to this role. Claire has substantial relevant experience as lead audit partner of premium listed companies and has been shadowing Ed through the 2016 year end audit.

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 2017 and that the Directors be authorised to fix their remuneration.

Audit Committee Report continued

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 Audit Committee until 5 May 2016. Following Richard's appointment as Chairman of the Board, Andrew Cripps was appointed Audit Committee Chairman. Andrew qualified as a Chartered Accountant with KPMG and has held Executive Director roles in the UK and Europe with Rothmans International, where he was Corporate Finance Director. More recently, Andrew has been Audit Committee Chairman of a number of public companies, including Booker Group plc. As such, the Board considers that he has the requisite recent and relevant financial experience to satisfy Provision C.3.1 of the UK Corporate Governance Code.

Committee Effectiveness

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, commercial and relevant sector 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.

All members of the Committee are members of the Deloitte Academy which provides in-depth updates on financial and reporting matters.

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

THE AUDIT COMMITTEE IN 2017

The Audit Committee is scheduled to meet at least three times during 2017 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.

The Audit Committee confirms that the Company has complied with the provisions of the Competition and Markets Authority Order throughout its financial year ended 24 December 2016 and up to the date of this report.

By order of the Board

Andrew Cripps
Audit Committee Chairman

22 February 2017

Case Study: Cyber Security

Like all companies, Howdens is acutely aware of the risk associated with a cyber security incident or a serious data breach. Such events are considered by the Board to be a principal risk to the Company.

Whilst the Board is satisfied that the current mitigating security measures are sufficient, a recommendation in the 2015 external auditor management letter prompted the Audit Committee to request a deep dive in relation to the adequacy of password management controls across all user accounts. Similarly, an internal audit recommendation caused the Audit Committee to review cyber security awareness across the Group. At the July 2016 Audit Committee the Chief Information Officer presented updates against both recommendations and provided subsequent updates in writing at the November meeting.

The Audit Committee will continue to actively review the controls put in place by management in relation to cyber security as this risk matures.

Remuneration Committee Report

'Executive directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied... There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors.'

The UK Corporate Governance Code, Principal D.1 and D.2

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 (Chairman)	5	5
Mark Allen	5	5
Andrew Cripps*	4	5
Geoff Drabble	5	5
Richard Pennycook**	2	2
Michael Wemms***	4	5

* Andrew Cripps was unable to attend the Committee meeting on 15 February 2016 due to ill health.

** Richard Pennycook ceased being a member of the Committee following his appointment as Chairman of the Board on 5 May 2016.

*** Michael Wemms was unable to attend the Board meeting on 3 November 2016 due to a conflict with another appointment.

In compliance with the UK Corporate Governance Code and the Committee's terms of reference, during the year the Remuneration Committee consisted 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.

INTRODUCTION BY THE COMMITTEE CHAIRMAN

On behalf of the Board, I am pleased to present the Report of the Remuneration Committee for 2016, prepared in compliance with the reporting requirements of the Large and Medium-sized Companies and Groups Regulations 2013. We have restructured our report this year to support ease of use and to highlight the key areas that we believe will be of primary focus to the reader. As such, pay outcomes for the year, together with details of our implementation of policy in 2017, are provided in the main body of the report. All relevant supporting information required under the reporting regulations now sits in an Appendix to the report.

Executive pay is currently subject to increased levels of media and political scrutiny. Over the past year, the Committee kept fully abreast of the evolving views of shareholders on pay and in particular the recent UK Government consultation on corporate governance. The associated themes have provided important context to our discussions and decision making process. Our continuing intention is to follow a strategically aligned approach to remuneration that reflects Howdens' business model, remains in line with best practice and maintains a continued strong link between pay and performance.

One of the emerging external themes that the Committee has been mindful of over the last year has been the increased focus by shareholders on the alignment of approach between Executives and the wider workforce. The Committee and the management team are focused on ensuring a fair approach to pay across Howdens. We are regularly updated on wider workforce pay, and we make our decisions relating to the remuneration of senior Executives in the context of reward across the business. An aligned approach to rewarding performance is a central part of the Company's ethos, with monthly bonuses paid to our depot staff based on profitability measures. This plays a key role in embedding our entrepreneurial culture and supporting the engagement, motivation and fantastic performance of our employees.

REMUNERATION COMMITTEE TERMS OF REFERENCE
www.howdenjoinerygroupplc.com/investors/governance/remuneration/index.asp

Remuneration Committee Report

continued

2016 reward outcomes

2016 was the first year of operation of our revised remuneration policy, which was approved by shareholders at the 2016 AGM, and applies for three years from that date. This policy is summarised on page 70, and is available to view in full on our website at www.howdenjoinerygroupplc.com/investors/governance/remuneration/remuneration-policy.asp.

Howden's again delivered strong growth over the year. Group sales increased 7.1% on 2015, while maintaining a similar level of gross margin, 64.2%. The UK referendum on EU membership has, however, created a number of challenges for us, resulting in negative volume growth in the second half of the year and having an unfavourable impact on foreign exchange rates. We believe that despite the current market conditions it is important to continue our strategic improvements in capacity and capability. We have therefore continued to invest in manufacturing, warehousing, distribution, depot operations and organisational development across the Group.

Given the capital expenditure associated with these investments, around £65m, and the impact of foreign exchange pressures, the 7.9% increase in PBT and £268.0m cash flow delivered in 2016 represent very strong performance for the Company. This has enabled the Board to recommend a final dividend of 7.4p, resulting in a full year dividend of 10.7p – an increase of 8% on 2015.

It speaks to the level of stretch in our incentive targets that, despite this sector leading performance, the outcomes under the annual bonus fell slightly short of target for the profit element, and just above target for the cash element, resulting in a payment of 72% of base salary to our Executive Directors.

Over the three year period of the 2014 Co-Investment Plan cycle, our PBT has grown by 20.6% p.a., demonstrating exceptional long-term performance. This award will therefore vest at maximum, with two matching shares being released for each originally invested share. One award from the Co-Investment Plan and one award from the Performance Share Plan, which replaced the Co-Investment Plan in the last policy review, remain in-flight. Both awards require 8% per annum PBT growth to achieve threshold vesting and 20% per annum growth to achieve maximum vesting.

The CEO and Deputy CEO and CFO have been awarded salary increases of 1.6% for 2016. This is in line with inflation, and below the increases awarded to the wider workforce. It forms the first increase received by the CEO in four years.

CONSULTING WITH OUR INVESTORS

Case study: Developing a new policy

Through late 2015 and early 2016 the Remuneration Committee undertook a review of the remuneration policy for Executive Directors. Under the current legislative requirements, our previous policy (approved by shareholders in 2014) would expire at the 2017 AGM. However we wanted to ensure the model in operation continued to be appropriate in light of the maturity of the business and our evolving strategic priorities.

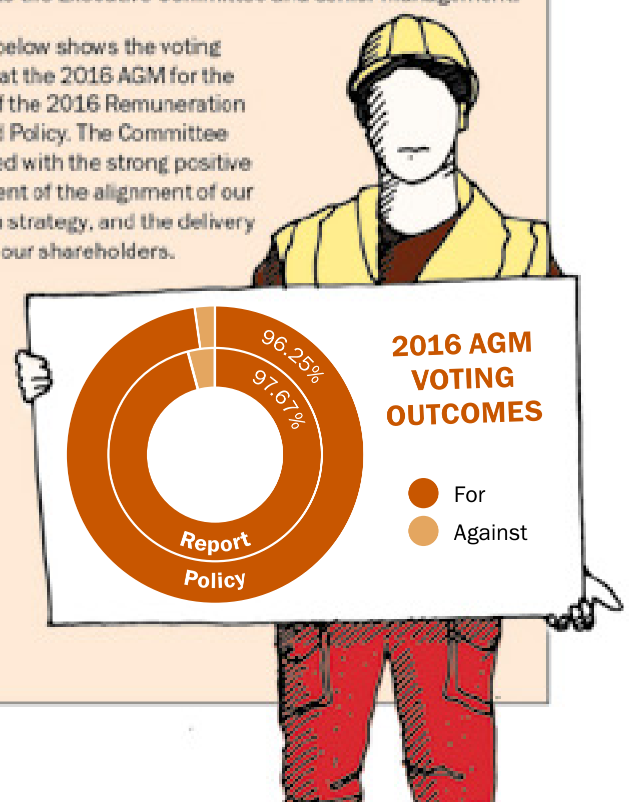
We developed a number of 'strawman' designs, spanning a range of possible alternative structures of pay – then undertook modelling and considered the alignment of each with:

- The Company's strategy and associated internal projections
- Shareholder guidance and best practice
- Market practice in comparable companies
- Pay benchmarking

Our proposed structure was then shared with investors and proxy agencies. We received a number of items of constructive feedback, particularly relating to the performance measures in operation under our plans and whether these continued to be appropriate. We acknowledged this, recognising that although currently well aligned to strategy, additional flexibility around measures would be built into the policy. We further committed to shareholders that measures would be reviewed on an annual basis.

Following this productive dialogue we finalised our proposed policy. We also looked at the application of the new structure below Board, and identified how our new model should be cascaded to the Executive Committee and senior management.

The chart below shows the voting outcomes at the 2016 AGM for the approval of the 2016 Remuneration Report and Policy. The Committee was pleased with the strong positive endorsement of the alignment of our model with strategy, and the delivery of value to our shareholders.



2017 incentives

In line with the commitment we made to investors ahead of the introduction of our new policy in 2016, we have reviewed the performance measures underlying our plans. The Board continues to believe that a focus on PBT across our incentives remains appropriate, particularly given the challenges we will face in the coming year. It is our primary performance indicator and is directly aligned with the value we deliver to shareholders. 2017 PSP awards will therefore continue to be based on PBT growth, with the annual bonus based on a combination of PBT and cash flow performance.

We have reviewed the targets for 2017 incentives in light of the much tougher economic and cost pressures anticipated over the coming period, as well as the investments we intend on making across the business.

Howdens has a track record of strong performance (with an average profit growth over the last five years of 16.6% p.a.) and as a result has historically set sector leading performance ranges. The 2015 and 2016 grants under our long-term plans had a threshold to maximum growth range of 8%–20% p.a.

As highlighted elsewhere in this report, the business is now facing substantial headwinds over the next period. To maintain the appropriate level of stretch in targets, whilst ensuring incentives continue to be motivating for management to deliver strong performance, the Committee has determined that a reduction in this range is appropriate.

We have reduced the range for the 2017 PSP grant such that the level of PBT growth to achieve threshold performance will be 3% p.a. (at which point 15% of award vests) with maximum vesting requiring 3 year growth of 15% p.a. In determining this range the Committee made reference to current analyst expectations (which are positioned close to threshold performance), and to maintaining a maximum level of performance which remains positioned between the upper quartile and upper decile levels of performance required by our peers in the FTSE 250.

The Committee was conscious of the importance of maintaining the alignment between pay and performance, and has therefore made a reduction to the maximum award level for 2017 to reflect the reduction in the performance range. Awards for 2017 have been reduced by 50% of salary, such that grants to Executive Directors under the PSP in 2017 will have a maximum opportunity of 220% of salary.

We intend to revisit the appropriate measures, targets and the opportunity level under the PSP ahead of 2018 awards being made as the business continues to evolve.

I am pleased to report that the external Board evaluation conducted during the year concluded that the Remuneration Committee is well run, and that it had handled the change in Remuneration policy in a most efficient and effective way. It also confirmed that the Committee receives good support from the Interim Group HR Director, the Company Secretary and its external advisors.

I hope the information presented in this report enables our shareholders to understand both how we have operated our remuneration policy over the year and the rationale for our decision making. We continue to be committed to an open and transparent dialogue with our investors, and the Committee would welcome any feedback or comments you have on this report or the way in which we implement our remuneration policy.

This report has been structured to support the reader in quickly and easily accessing relevant information.

* The Directors remuneration policy was approved by shareholders at the 2016 Annual General Meeting and, therefore, does not form part of the Remuneration Report for the purposes of the Annual General Meeting to be held on 2 May 2017.

How to use this report

Within this Remuneration Committee Report we have used colour coding to denote different elements of remuneration.

The colours are:

- Salary
- Pension
- Deferred bonus
- Benefits
- Annual bonus
- LTIP

Remuneration Committee Report
continued

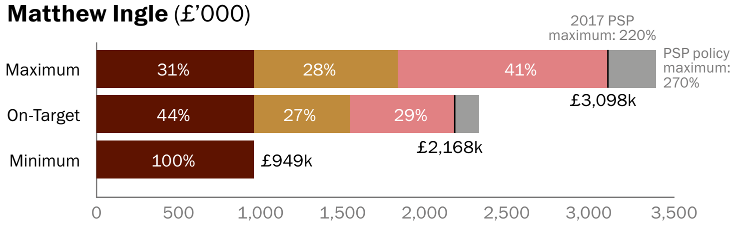
EXECUTIVE DIRECTORS
Our remuneration policy for Executive Directors*

	2017	2018	2019	2020	2021	2022	Link to strategy
Base Salary							Salaries are reviewed annually and are effective from 1 January each year. Recognises the market value of the Executive's role, skill, responsibilities, performance and experience.
Benefits							Provides a competitive level of benefits.
Pension							A hybrid defined benefit, occupational pension plan operates. It is closed to new entrants who would participate in the auto-enrolment defined contribution scheme or receive a salary supplement. The CEO has chosen to opt out of the plan and receives a salary supplement in lieu of pension.
Annual Bonus							The annual bonus has a maximum opportunity of 150% of salary. It is subject to stretching PBT and cash flow targets, reflecting our key internal performance indicators and the role of sustainable profit growth in our entrepreneurial culture. Above target, a profit share is used, aligned to the incentive structure that extends into the organisation.
Deferred Bonus							Any bonus in excess of 100% of salary is deferred into shares, which are paid out in two equal tranches on the first and second anniversary of the deferral date. Clawback and/or malus provisions operate on the bonus for a total period of up to two years after the performance period.
LTIP (Performance Share Plan)				Holding Period			Three year performance period followed by a two year holding period. Performance is based on stretching PBT growth targets, aligning management with our longer term financial growth and reflecting the value we are able to deliver to shareholders. Clawback provisions operate for the duration of the holding period.

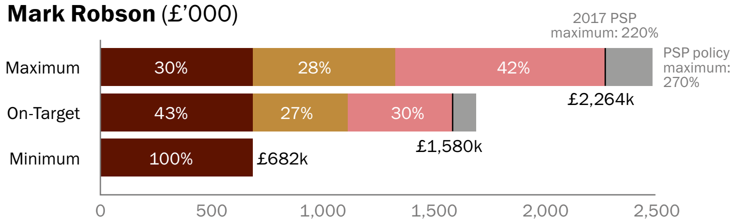
* For additional detail together with our joiner and leaver policies please see the full policy online at www.howdenjoinerygroupplc.com/investors/governance/remuneration/remuneration-policy.asp.

Detailed remuneration scenarios and pay for performance

Matthew Ingle (£'000)



Mark Robson (£'000)



Fixed Elements of Remuneration
Bonus
LTIP
Excludes share price growth.

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 weighted towards long-term variable pay.

The composition and value of the Executive Directors' remuneration packages in a range of performance scenarios are set out in the charts to the left. 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 shareholders.

On-target awards assumes a target of 100% of salary for the bonus and PSP vesting at the mid-point between minimum and maximum. Maximum award assumes vesting of 150% of salary for the bonus and 270% of salary for the PSP.

Salary
Benefits
Pension
Annual bonus
Deferred bonus
LTIP

Executive Director shareholdings

The Committee believes that significant shareholdings on the part of our Executive Directors are key to ensuring effective alignment with shareholders.

Under the share ownership guidelines, the Executive Directors are required to have a personal shareholding equal to twice their basic salary. Shares deferred under the deferred bonus plan and unvested incentives shares are not counted towards this requirement.

There are no shareholding guidelines for Non-Executive Directors.

See the appendix on page 77 for a table of total shares in the Company held by the Directors, together with unvested performance shares and those held subject to deferral conditions.

(All figures are calculated as a % of salary, based on a share price of £3.86, being the three-month average share price to 24 December 2016)	Shareholding requirement	Shares Owned outright	Shares subject to deferral	Subject to performance conditions
Matthew Ingle	200%	2,039%	11%	766%
Mark Robson	200%	2,033%	10%	752%
		Shareholding requirement met	Awards subject to deferral or performance conditions do not count towards the shareholding requirement	

Single figure of remuneration (Audited)

£000s	Salary		Benefits		Bonus		LTIP		Pension		Total	
Executive Directors	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Matthew Ingle	572	572	193	216	412	640	1,749	3,625	172	172	3,098	5,225
Mark Robson	421	421	77	76	303	471	1,227	2,543	175	175	2,203	3,686
Total	993	993	270	292	715	1,111	2,976	6,168	347	347	5,301	8,911

Notes to the single figure table
Salary, benefits and pension

Our policy

Salaries will not be changed outside of the annual review, unless there are exceptional circumstances, such as a mid-year change in role. Increases will normally be only for inflation and/or in line with the wider employee population. Salaries are set within a range defined by market benchmark derived from companies in a similar sector (policy is to pay median). Salaries for 2017 can be found on page 73. 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.

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. Reflecting the increased requirement for him to attend the Company's London office, the Committee agreed that the Chief Executive's permanent place of work for tax purposes should be the Company's London office (as detailed in the 2015 report). The costs of travel between his home and the London office therefore continue to be met by the Company as a taxable benefit.

Remuneration Committee Report
continued

Salary
Benefits
Pension
Annual bonus
Deferred bonus
LTIP

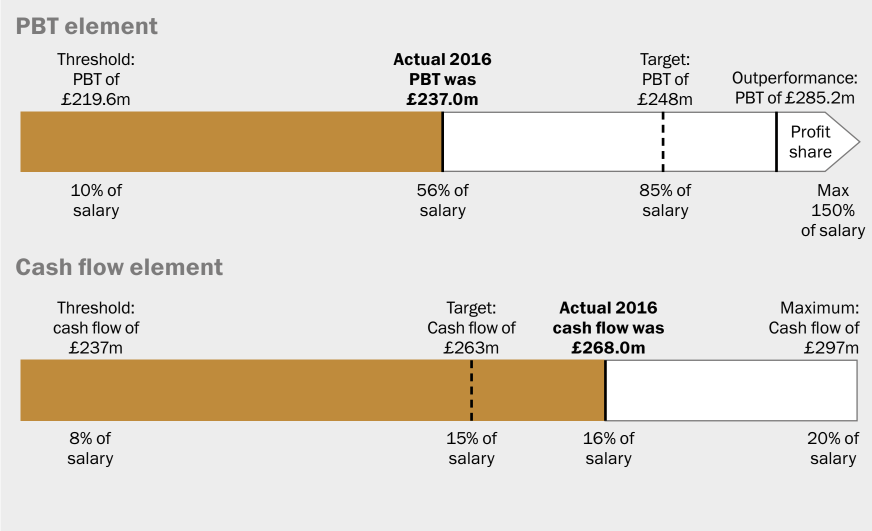
Annual Bonus (Audited)

Our policy

Our annual bonus is based on PBT and cash flow measures, subject to an aggregate maximum of 150% of salary.

Under the PBT measure, payouts from threshold to target are made as a percentage of salary, with performance above target resulting in a profit share award (subject to the overall cap set out above).

Awards of up to 100% of salary are paid in cash, with the remainder deferred as shares, vesting in two equal tranches, 1 and 2 years following the deferral date subject to continued employment.



Outcomes for the year

Our PBT for 2016 of £237.0m falls between threshold and target for the year, resulting in an annual bonus payment of 56% of salary for 2016, reflecting performance of 7.9% PBT growth. Cash flow was £268.0m, just above target, resulting in a payment under this element of 16% of salary. Therefore in aggregate Executive Directors will receive an annual bonus of 72% of salary for 2016, reflecting the strong performance required to deliver 7.9% PBT growth in the year.

	PBT (% of salary)	Cash flow (% of salary)	Total bonus (% of salary)	Total bonus (£000)
Matthew Ingle	56%	16%	72%	412
Mark Robson	56%	16%	72%	303

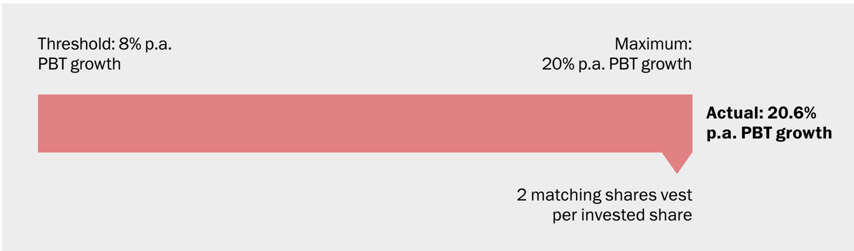
Co-Investment Plan (Audited)

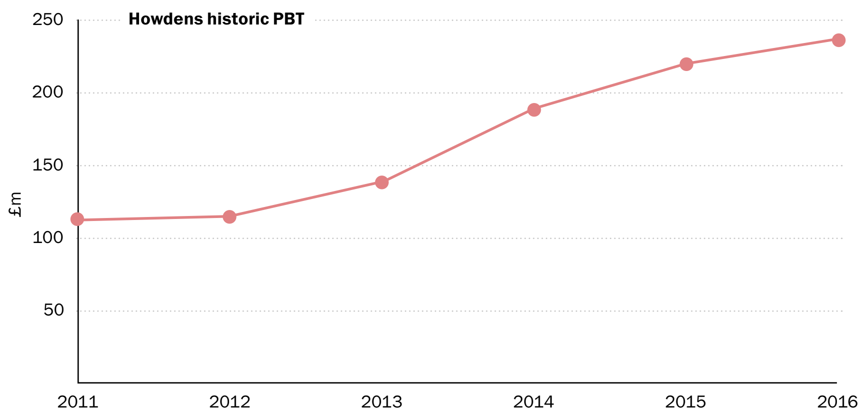
Our policy

The legacy Co-Investment Plan, which has now been replaced by the Howdens PSP, provides matching shares on an initial, personally funded investment, subject to PBT growth targets.

The CEO could invest up to the lower of 650,000 shares or 150% of salary – with the Deputy CEO and CFO able to invest an equivalent proportion of salary.

Each invested share is matched by up to 2 shares for achievement of 20% p.a. PBT growth over the three year performance period. Threshold vesting is 0.3 shares per invested share (for 8% p.a. PBT growth).





Outcomes for the year

Over the three year performance period of the 2014 Co-Investment Plan, PBT grew 20.6% p.a., demonstrating exceptional long-term performance. The plan therefore vested at maximum, with two matching shares released per originally invested share.

Implementation of Director policy in 2017

Executive Directors

Base salaries and fees

Base salary increases from 2016 are set out in the table below. The salary increases awarded to Executive Directors for 2017 are in line with inflation in 2016, and fall below the average increase made to our workforce. This is the first salary increase made to the CEO since 2013, and the first to the Deputy CEO and CFO since his change in role in 2014.

	2017		2016	
	Salary	Percentage increase	Salary	Percentage increase
Matthew Ingle	581	1.6%	572	0%
Mark Robson	428	1.6%	421	0%

Annual Bonus Measures

The table below sets out Annual Bonus measures for 2017, comprising the same measures as for 2016. Targets for these measures are considered commercially sensitive by the Board and so are not disclosed here. Performance targets, together with achievement against them, will be set out in full in the 2017 Remuneration Committee Report. The profit share percentages for the CEO and Deputy CEO and CFO have been reduced from 0.210% and 0.155% respectively to reflect performance expectations for 2017.

	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: 0.203% of PBT
			Profit share for the Deputy CEO: 0.150% of PBT
Cashflow	Net cash flow from operating activities, taking into account the efficiency with which working capital is used, and adjusted for exceptional items	Threshold	8% of salary
		Target	15% of salary
		Maximum	20% of salary

Performance Share Plan measure and targets

The table below sets out PSP performance measures and targets for awards to be made in 2017. Note that for 2017 the maximum opportunity under the PSP has been reduced by 50% of salary, to 220% (from the policy maximum of 270%). For scheme interests awarded in 2016 see the Appendix on page 76.

	PBT growth performance condition	Payout level
PBT component vesting schedule	15% p.a.	220% of salary (100% of maximum)
	Straight-line vesting between these points	
	3% p.a.	33% of salary (15% of maximum)
	Less than 3% p.a.	0

Strategic report
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Remuneration Committee Report
continued

NON-EXECUTIVE DIRECTORS

Single figure of remuneration (Audited)

The table below sets out the fees received by Non-Executive Directors in 2015 and 2016. No taxable benefits were paid out to Non-Executive Directors during the year.

		Fees (£000)	
Non-Executive single figure	'Additional roles'	2016	2015
Will Samuel	Chairman (until 2016 AGM)*	66	190
Richard Pennycook	Chairman/Audit Committee Chair*	186	53
Mark Allen		55	45
Tiffany Hall	Remuneration Committee Chair	65	53
Geoff Drabble		55	22
Andrew Cripps	Audit Committee Chair*	62	4
Michael Wemms	SID	65	48
Total		554	415

* Richard Pennycook was appointed as Chairman at the 2016 AGM. Richard was also Chairman of the Audit Committee until the 2016 AGM when Andrew Cripps was appointed to the role.

Our NED fee policy

Fees reflect the time commitment and responsibilities of the role. Accordingly, Committee Directorship and SID fees are paid in addition to the NEDs' basic fee. Committee chairmanship fees apply only to the Audit and Remuneration Committees. The Chairman does not receive a NED basic fee or an additional fee for chairing the Nominations Committee. Fees may be reviewed every year, and are set within a range of defines by a market benchmark of comparable size companies. Benchmarking is typically undertaken every three years. Fees for 2017 and increases from the prior year are set out below.

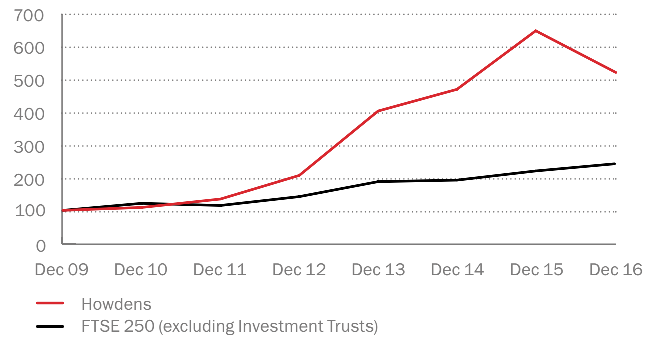
	2017		2016	
	Fee	Percentage increase from 2016	Fee	Percentage increase from 2015
Chairman fee	£250,000	9%	£230,000	21%
Basic NED fee	£55,000	0%	£55,000	22%
Additional SID fee	£10,000	0%	£10,000	333%
Committee Chair fee	£10,000	0%	£10,000	25%

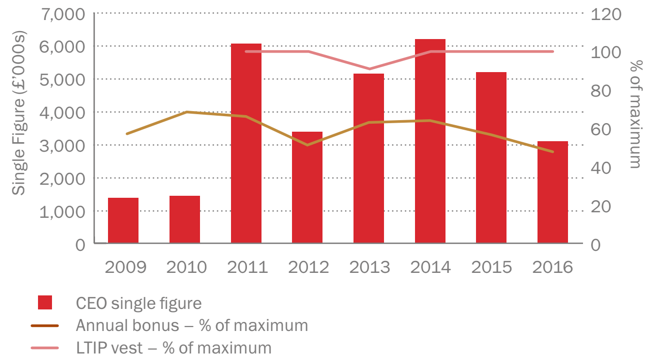
Further to the publication of the 2016 Annual Report and Accounts on 22 March 2017, an error was found in the table which sets out the rate of the Chairman's and Non-Executive Directors' fees for 2016 and 2017. The table stated that the Chairman's fee for 2016 was £225,000 and that this represented an 18% increase from 2015. As provided above, the Chairman's fee for 2016 was in fact £230,000, which represented a 21% increase from 2015. This figure represents the total fee for the Chairman role in the year and comprises a pro-rated amount based on 4 months of £190,000 per annum and 8 months of £250,000 per annum. The table also stated that the Chairman's fee for 2017 will be £225,000 and that this represented a 0% increase from 2016. In fact the Chairman's fee for 2017 will be £250,000, which represents a 9% increase from 2016.

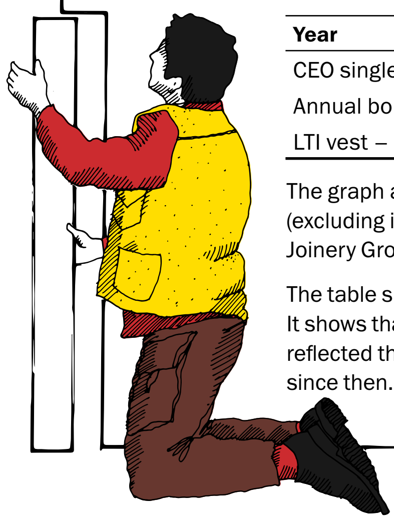
Salary
Benefits
Pension
Annual bonus
Deferred bonus
LTIP

OUR CORPORATE PERFORMANCE AND REMUNERATION

TSR performance and historic single figure







Year	2009	2010	2011	2012	2013	2014	2015	2016
CEO single figure (£000's)	1,399	1,458	6,083	3,401	5,168	6,221	5,225	3,098
Annual bonus – % of maximum	63%	69%	66%	51%	63%	64%	56%	48%
LTI vest – % of maximum	–	–	100%	100%	89%	100%	100%	100%

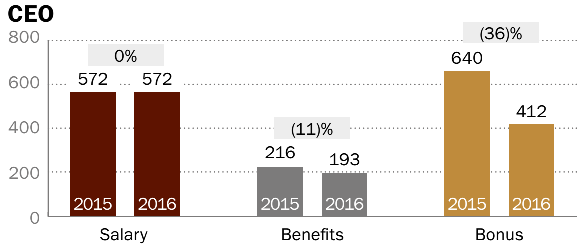
The graph above left illustrates the Company's TSR performance relative to the constituents of the FTSE 250 (excluding investment trusts) of which the Company is a constituent. It shows that over the past eight years Howden Joinery Group has generated a significantly high return than the FTSE 250 (excluding Investment Trusts).

The table shows the historic CEO single figure and incentive pay-out levels with this also shown as a graph above right. 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.

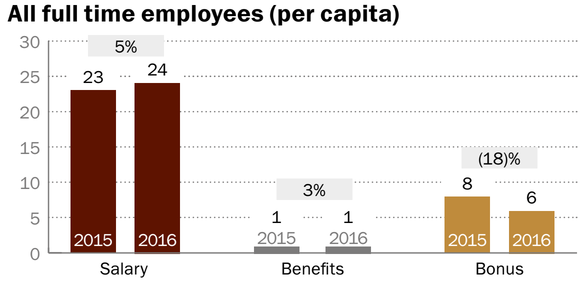
Percentage change in remuneration of director undertaking the role of Chief Executive

The graphs below set out the change in short-term pay from 2015 to 2016 of the CEO compared to all employees (on a per capita basis).

CEO



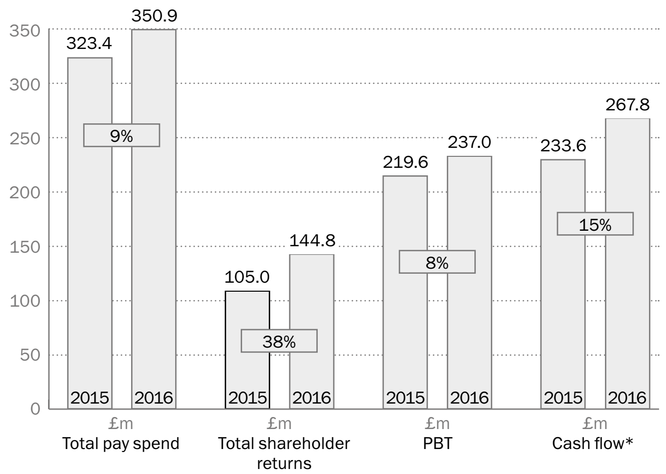
All full time employees (per capita)



Relative importance of spend on pay

The graph below sets out the change in the Group's total remuneration spend from 2015 to 2016 compared to the total shareholder returns of the Group, the total remuneration spend of the Group, and the two incentive performance measures PBT and cash flow.

The figures demonstrate our continued growth in terms of financial performance, progression of our dividend policy and a significant increase in our workforce.



* Net cash flow from operating activities, being the definition used for the annual bonus scheme (see page 73).

Remuneration Committee Report
continued

Salary
Benefits
Pension
Annual bonus
Deferred bonus
LTIP

APPENDIX

In this Appendix we set out a number of key disclosures that provide further clarity to investors and other readers of this report on the implementation of our remuneration policy in the year under review.

Total pension entitlements (Audited)

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, available online at www.howdenjoinerygroupplc.com. 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 full funded pension position in 2006 and hence has chosen to opt out of the memberships of the plan. Mr Ingle therefore received a salary supplement of 30% of salary in lieu of pension (£172k) in 2016.

	Matthew Ingle	Mark Robson
Accrued pension at 24 Dec 2016 £000	59	35
Normal retirement date	28/09/2014	16/01/2019
Pension value in the year from defined benefit component £000	–	58
Pension value in the year from defined contribution component £000	–	34
Pension value in the year from cash allowance £000	172	83
Total	172	175

Scheme interests awarded during the financial year (Audited)

During 2016 the Executive Directors were invited to participate in the Performance Share Plan, as follows:

Nature of award	**Restricted shares awarded under the PSP**		
Level of award	**Executive**	**Number of awarded shares**	**Face value of award***
	CEO	311,082	£1,542,967
	Deputy CEO	229,081	£1,136,242
PBT component vesting schedule	**PBT growth performance condition**		**Vesting**
	20% p.a.	270% of salary (100% of maximum)	
	Straight-line vesting between these points		Straight-line vesting
	8%p.a.	40.5% of salary (15% of maximum)	
	Less than 8% p.a.	0	
Performance period	Performance measured from FY2016 to FY2018		
Vesting date	5 May 2019		

* Based on a share price of £4.96, being the closing price on 4 May 2016.

Service contracts/Notice period

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 of the Company.

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.

Loss of office payments or payments to past directors

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

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. Howdens allows Executive Directors and other appropriate senior employees to accept a maximum of one external 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.

Director shareholdings (Audited)

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.

The table below sets out the total shares held together with unvested performance shares and those held subject to deferral conditions.

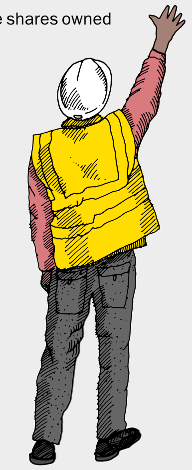
Director	Matthew Ingle	Mark Robson
Shareholding requirement %	200%	200%
Shareholding requirement (number of shares)	296,373	218,135
Owned outright (including connected persons)	3,021,216	2,217,469
Subject to deferral	16,703	11,415
Share awards subject to performance conditions	1,135,245	820,196
Options subject to performance conditions	–	–
Vested but unexercised options	–	–
Current shareholding (% of salary)*	2,039%	2,033%
Guideline met	Y	Y

* Based on a share price of £3.86, being the three-month average price to 24 December 2016. This is calculated by using only those shares owned outright by the Executive Directors.

Non-Executive Director shareholdings (Audited)

There is no shareholding requirement for Non-Executive Directors.

Director	Shareholding
Mark Allen	3,000
Andrew Cripps	3,000
Geoff Drabble	3,000
Tiffany Hall	3,000
Richard Pennycook	54,663
Michael Wemms	42,000



No changes to the Executive and Non-Executive Directors' total shareholdings (including any holdings of their connected persons) have occurred between the end of the period and 22 February 2017.

Consideration by the directors of matters relating to directors' remuneration

The Committee met four times during 2016, and discussed a number of items for which it is responsible. 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.

Remuneration Committee Report
continued

Advisors to the Committee

The Committee regularly consults with the Chief Executive Officer 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 2016 totalled £94,300, with fee levels based on the quantity and complexity of work undertaken. PwC also provided consultancy advice and support to the internal audit function to the Company during 2016.

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.

By order of the Board

Tiffany Hall
Remuneration Committee Chairman

22 February 2017

Directors' report

The Directors have pleasure in submitting their report and the audited financial statements for the 52 week period ended 24 December 2016. Comparative figures relate to the 52 weeks ended 26 December 2015.

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, including the statement on political donations.

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 3 to 41.

Dividend: Information about the final dividend can be found in the Chairman's Statement on page 5 and the Review of Finance and Operations on page 14

Going Concern, Viability and other Statements of the Directors: These statements may be found on pages 20 to 21.

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 39.

Employees: Information about employee participation in the Howden Joinery Share Incentive Plan can be found on page 33.

Located in the Nominations Committee Report:

Directors: Information with regard to the appointment and replacement of Directors is located on page 59.

Employees: Information about the total number of employees and gender diversity statistics are located on page 57. The average number of employees and their remuneration are shown in note 7 to the financial statements.

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 page 51.

Directors: Details of Directors and their interests are on pages 44 to 45 and details of Directors' Indemnity and Insurance on page 44.

Annual General Meeting: Information about the Annual General Meeting, including reappointment of the Group's auditor, can be found on page 51. A copy of the UK Corporate Governance Code can be accessed at www.frc.org.uk.

POLITICAL DONATIONS

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

By order of the Board

Forbes McNaughton
Secretary

22 February 2017

Financial statements

Consolidated income statement

	Notes	52 weeks to 24 December 2016 £m	52 weeks to 26 December 2015 £m
Continuing operations:			
Revenue – sale of goods	4	1,307.3	1,220.2
Cost of sales		(467.4)	(435.8)
Gross profit		839.9	784.4
Selling & distribution costs		(513.5)	(475.0)
Administrative expenses		(89.2)	(87.5)
Operating profit	6	237.2	221.9
Finance income	8	0.8	1.8
Other finance expense - pensions		(1.0)	(4.1)
Profit before tax		237.0	219.6
Tax on profit	9	(51.4)	(44.2)
Profit for the period attributable to the equity holders of the parent		185.6	175.4
Earnings per share:			
Basic earnings per 10p share	10	29.5p	27.3p
Diluted earnings per 10p share	10	29.4p	27.2p

Consolidated statement of comprehensive income

	52 weeks to 24 December 2016 £m	52 weeks to 26 December 2015 £m
Profit for the period	185.6	175.4
Items of other comprehensive income:		
Items that will not be reclassified subsequently to profit or loss:		
Actuarial (losses)/gains on defined benefit pension scheme	(86.4)	58.4
Deferred tax on actuarial losses/gains on defined benefit pension scheme	16.3	(11.7)
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	0.8	(0.9)
Other comprehensive income for the period	(69.3)	45.8
Total comprehensive income for the period attributable to equity holders of the parent	116.3	221.2

Consolidated balance sheet

	Notes	24 December 2016 £m	26 December 2015 £m
Non-current assets			
Intangible assets	12	7.3	4.6
Property, plant and equipment	13	167.9	129.2
Deferred tax asset	14	26.0	18.6
Long-term prepayments		0.4	0.6
		201.6	153.0
Current assets			
Inventories	15	183.7	177.1
Trade and other receivables	16	135.9	129.5
Investments	16	87.3	60.0
Cash at bank and in hand	22	139.3	166.1
		546.2	532.7
Total assets		747.8	685.7
Current liabilities			
Trade and other payables	17	(214.2)	(197.7)
Current tax liability		(19.8)	(5.2)
		(234.0)	(202.9)
Non-current liabilities			
Pension liability	19	(106.0)	(49.2)
Deferred tax liability	14	(1.8)	(2.0)
Provisions	20	(9.0)	(9.9)
		(116.8)	(61.1)
Total liabilities		(350.8)	(264.0)
Net assets		397.0	421.7
Equity			
Share capital	21	63.9	65.2
Share premium account		87.5	87.5
ESOP reserve		(0.2)	11.0
Treasury shares		(52.8)	(45.3)
Other reserves		–	28.1
Retained earnings		298.6	275.2
Total equity		397.0	421.7

The financial statements were approved by the Board and authorised for issue on 22 February 2017 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 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)	–
Buyback 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
Accumulated profit for the period	–	–	–	–	–	185.6	185.6
Net actuarial loss on defined benefit scheme	–	–	–	–	–	(70.1)	(70.1)
Current tax on share schemes	–	–	–	–	–	1.5	1.5
Deferred tax on share schemes	–	–	–	–	–	(2.1)	(2.1)
Currency translation differences	–	–	–	–	–	0.8	0.8
Net movement in ESOP	–	–	5.0	–	–	–	5.0
Buyback and cancellation of shares	(1.3)	–	–	–	–	(55.0)	(56.3)
Buyback of shares into treasury	–	–	–	(23.7)	–	–	(23.7)
Transfer of shares from treasury into share trust	–	–	(16.2)	16.2	–	–	–
Dividends declared and paid	–	–	–	–	–	(65.4)	(65.4)
Transfer of other reserve into retained earnings	–	–	–	–	(28.1)	28.1	–
At 24 December 2016	63.9	87.5	(0.2)	(52.8)	–	298.6	397.0

The ESOP reserve includes shares in Howden Joinery Group Plc with a market value on the balance sheet date of £20.8m (2015: £29.2m), 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. It has been moved to retained earnings in the current period in order to simplify disclosure.

Consolidated cash flow statement

	Notes	52 weeks to 24 December 2016 £m	52 weeks to 26 December 2015 £m
Group operating profit before tax and interest		237.2	221.9
Adjustments for:			
Depreciation and amortisation included in operating profit		24.0	21.6
Share-based payments charge		4.0	7.5
(Profit)/loss on disposal of property, plant and equipment and intangible assets		(0.1)	0.9
Operating cash flows before movements in working capital		265.1	251.9
Movements in working capital and exceptional items			
Increase in stock		(6.6)	(34.0)
(Increase)/decrease in trade and other receivables		(6.4)	3.6
Increase in trade and other payables and provisions		14.5	11.2
Difference between pensions operating charge and cash paid		(30.6)	(39.1)
		(29.1)	(58.3)
Cash generated from operations		236.0	193.6
Tax paid		(41.5)	(35.3)
Tax refund received		12.7	–
Net cash flow from operating activities		207.2	158.3
Cash flows used in investing activities			
Payments to acquire property, plant and equipment and intangible assets		(63.5)	(45.9)
Receipts from sale of property, plant and equipment and intangible assets		0.2	–
Interest received		0.8	0.7
Net cash used in investing activities		(62.5)	(45.2)
Cash flows used in financing activities			
Payments to acquire own shares		(80.0)	(45.3)
Receipts from release of shares from share trust		1.0	1.1
Decrease in prepaid loan fees & loans		–	0.9
Decrease/(increase) in long-term prepayments		0.2	(0.6)
Repayment of capital element of obligations under finance leases		–	(0.1)
Dividends paid to Group shareholders		(65.4)	(59.9)
Net cash used in financing activities		(144.2)	(103.9)
Net increase in cash and cash equivalents		0.5	9.2
Cash and cash equivalents at beginning of period		226.1	216.9
Cash and cash equivalents at end of period	22	226.6	226.1

Notes to the consolidated financial statements

1 GENERAL INFORMATION

Howden Joinery Group Plc is a company incorporated in the United Kingdom under the Companies Act 2006. The 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

Accounting period

The Group's accounting period covers the 52 weeks to 24 December 2016. The comparative period covered the 52 weeks to 26 December 2015.

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. 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:

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: 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

Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – applying the consolidation exemption

Amendments to IAS 12: Recognition of Deferred Tax Assets on unrealised losses

Amendments to IAS 7: Disclosure Initiative

Amendments to IFRS 2: Classification and Measurement of Share-Based Payment Transactions

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

IFRIC 22: Foreign Currency Transactions and Advance Consideration

Amendments to IAS 40: Transfers of Investment Property

Annual Improvements to IFRSs: 2014–2016 Cycle

IFRS 9: Financial Instruments

IFRS 14: Regulatory Deferral Accounts

IFRS 15: Revenue from Contracts with Customers

IFRS 16: Leases

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

We will adopt IFRS 15 in the year to December 2019. IFRS 15 has two main effects; it may change the way in which companies recognise revenue, and it may also change the amount of revenue recognised. We do not expect any change to the way we recognise revenue, and we expect a small reduction to the amount of revenue that we recognise.

The effect of IFRS 15 on the way companies will recognise revenue.

IFRS 15 requires companies to look at their contracts with customers and, where relevant, to break these contracts down into separate performance obligations. The total revenue under each contract has to be allocated between each separate obligation. Each part of the revenue can only be recognised at a point in time, or over a period of time, which reflects the completion of each separate obligation.

The effect of IFRS 15 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. We are an in-stock business, we currently recognise revenue on despatch from our depots, and we do not expect that to change under IFRS 15.

The effect of IFRS 15 on the amount of revenue recognised.

IFRS 15 will require companies to adjust the amount of revenue they recognise. They will have to deduct an amount from each period's turnover representing any sales that they estimate the customer won't pay for, and any goods or services which they estimate may be faulty at the point of sale.

At present, any bad debt costs are deducted from operating 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 materially for these items as a result of adopting IFRS 15.

Notes to the consolidated financial statements continued

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, we anticipate that the introduction of the new IFRS 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 16: Leases
We will adopt IFRS 16 in the year to December 2020. It will increase both our assets and liabilities by a material amount. It will also have a timing effect on how we recognise the cost of leases in our income statement.

We lease our depot, warehouse, factory and office properties, as well as other assets such as fork lift trucks, lorries, vans and cars. Under the current leasing standard, these leases are operating leases. This means that they are not represented on the balance sheet, and that rent payments are charged to income on a straight-line basis over the course of the lease. When IFRS 16 comes into effect, we will have to bring these leases onto our balance sheet. Also, our annual lease expense will no longer be equal to the rent paid for that year.

When we bring these leases onto the balance sheet, our gross assets and gross liabilities will each increase by a broadly equal and opposite amount. The addition to gross assets will represent our right to use the leased asset, and the addition to gross liabilities will reflect our obligation to make future lease payments.

IFRS 16 will also have a timing effect on the annual lease expense, which will no longer be equal to the rent paid for that year. We will have to treat the leases in a similar way to borrowings, and will have to calculate a notional interest charge on them. This notional interest will be calculated in a similar way to that in which interest is charged on a loan. More interest will be charged in the early periods of each lease and less interest will be charged on the later periods.

This means that the annual income statement charge for a lease will not be the same each year. It will be more than the annual rental payment in the earlier years of a lease, and less than the annual rental payment in the later years of a lease. Over the course of a lease, the total amounts of interest and capital repayments charged to the income statement will still be equal to the total rental payments under the lease, as they are at present. However, there will inevitably be some timing effect which will depend on the maturity profile and the length of leases which we have at any one time.

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 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 years
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 three 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.

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.

Notes to the consolidated financial statements continued

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 best estimate of the expenditure required to settle the obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation, and are discounted to present value where the effect is material.

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

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

Current and past service costs are recognised in operating profit and net financing costs include interest on pension scheme liabilities and 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 the income statement 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 22, 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.

3 CRITICAL ACCOUNTING JUDGEMENTS
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 may have a significant effect on the amounts recognised in the financial statements are discussed below.

Post-employment benefits
The Group operates a defined benefit scheme for its employees. The present value of the scheme's liabilities recognised at the balance sheet date is dependent on interest rates of high quality corporate bonds. The net financing charge recognised in the income statement is dependent on the interest rate of high quality corporate bonds. 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.

Notes to the consolidated financial statements continued

4 REVENUE

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

	52 weeks to 24 December 2016 £m	52 weeks to 26 December 2015 £m
Continuing operations		
Sales of goods	1,307.3	1,220.2
Finance income	0.8	1.8
Total revenue	1,308.1	1,222.0

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 to 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 24 December 2016 £m	52 weeks to 26 December 2015 £m
Capital additions	66.7	45.9
Depreciation and amortisation	(24.0)	(21.6)

(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 in each of these five countries. 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 24 December 2016 £m	52 weeks to 26 December 2015 £m
Revenues from external customers		
UK	1,281.7	1,203.8
Continental Europe	25.6	16.4
	1,307.3	1,220.2

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:

	24 December 2016 £m	26 December 2015 £m
Carrying amount of segment assets		
UK	726.0	671.9
Continental Europe	21.8	13.8
	747.8	685.7

	24 December 2016 £m	26 December 2015 £m
Non-current assets (excluding deferred tax assets)		
UK	171.6	131.9
Continental Europe	4.0	2.5
	175.6	134.4

	52 weeks to 24 December 2016 £m	52 weeks to 26 December 2015 £m
Additions to property plant and equipment and intangible assets		
UK	64.9	44.2
Continental Europe	1.8	1.7
	66.7	45.9

Notes to the consolidated financial statements continued

6 OPERATING PROFIT

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

	52 weeks to 24 December 2016 £m	52 weeks to 26 December 2015 £m
Net foreign exchange (loss)/gain	(22.9)	9.9
Depreciation of property plant and equipment:		
– on owned assets	(21.9)	(19.7)
– on assets held under finance lease	–	(0.1)
Amortisation of intangible assets (included in administrative expenses):		
– on owned assets	(2.1)	(1.8)
Cost of inventories recognised as an expense	(437.7)	(439.1)
Write down of inventories	(6.8)	(6.6)
Profit/(loss) on disposal of fixed assets	0.1	(0.9)
Increase in allowance for doubtful debts (note 16)	(0.4)	(1.0)
Staff costs (note 7)	(350.9)	(323.4)
Lease payments under operating leases	(73.8)	(66.0)
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 24 December 2016 £m	52 weeks to 26 December 2015 £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 Corporate Governance 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 24 December 2016 £m	52 weeks to 26 December 2015 £m
Wages and salaries	(301.7)	(275.6)
Social security costs	(26.4)	(25.8)
Pension operating costs (note 19)	(22.8)	(22.0)
	(350.9)	(323.4)

Wages and salaries includes a charge in respect of share-based payments of £4.0m (2015: £7.5m).

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 24 December 2016 Number	52 weeks to 26 December 2015 Number
	8,852	8,037

8 FINANCE INCOME

	52 weeks to 24 December 2016 £m	52 weeks to 26 December 2015 £m
Bank interest receivable	0.5	0.8
Other interest receivable	0.3	1.0
Total finance income	0.8	1.8

Notes to the consolidated financial statements continued

9 TAX

(a) Tax in the income statement

	52 weeks to 24 December 2016 £m	52 weeks to 26 December 2015 £m
Current tax:		
Current year	44.9	41.1
Adjustments in respect of previous periods	(0.1)	(4.6)
Total current tax	44.8	36.5
Deferred tax:		
Current year	7.2	7.3
Adjustments in respect of previous periods	(0.6)	0.4
Total deferred tax	6.6	7.7
Total tax charged in the income statement	51.4	44.2

UK Corporation tax is calculated at 20.0% (2015: 20.25%) 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 24 December 2016 £m	52 weeks to 26 December 2015 £m
Deferred tax (credit)/charge to other comprehensive income on actuarial loss/gain on pension scheme	(16.3)	11.7
Deferred tax charge to equity on share schemes	2.1	1.6
Current tax credit to equity on share schemes	(1.5)	(3.8)
	(15.7)	9.5

(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 24 December 2016 £m	52 weeks to 26 December 2015 £m
Profit before tax	237.0	219.6
Tax at the UK corporation tax rate of 20.0% (2015: 20.25%)	47.4	44.5
IFRS 2 share scheme charge	(0.4)	(0.3)
Expenses not deductible for tax purposes	2.2	1.5
Overseas losses not utilised	1.6	1.1
Change of tax rate*	0.4	0.7
Non-qualifying depreciation	0.9	0.9
Other tax adjustments in respect of previous years	(0.7)	(4.2)
Total tax charged in the income statement	51.4	44.2

The Group's effective rate of tax is 21.7% (2015: 20.1%).

* In September 2016 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 17% from 1 April 2020. All deferred tax assets and liabilities have been recognised at 17% except those items expected to reverse before the tax rate reduces to 17%.

10 EARNINGS PER SHARE

	52 weeks to 24 December 2016			52 weeks to 26 December 2015		
	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	185.6	629.6	29.5	175.4	642.8	27.3
Effect of dilutive share options	–	1.9	(0.1)	–	1.6	(0.1)
Diluted earnings per share	185.6	631.5	29.4	175.4	644.4	27.2

Notes to the consolidated financial statements continued

11 DIVIDENDS

	52 weeks to 24 December 2016 £m	52 weeks to 26 December 2015 £m
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the 52 weeks to 24 December 2016 – 3.3p/share	20.6	–
Final dividend for the 52 weeks to 26 December 2015 – 7.1p/share	44.8	–
Interim dividend for the 52 weeks to 26 December 2015 – 2.8p/share	–	17.9
Final dividend for the 52 weeks to 27 December 2014 – 6.5p/share	–	42.0
	65.4	59.9

	52 weeks to 24 December 2016 £m	52 weeks to 26 December 2015 £m
Dividends proposed at the end of the period (but not recognised in the period):		
Proposed final dividend for the 52 weeks to 24 December 2016 – 7.4p/share	46.1	
Proposed final dividend for the 52 weeks to 26 December 2015 – 7.1p/share		45.2

The Directors propose a final dividend in respect of the 52 weeks to 24 December 2016 of 7.4p per share, payable to ordinary shareholders who are on the register of shareholders at 19 May 2017, and payable on 16 June 2017.

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

The proposed final dividend for the current period is subject to the approval of the shareholders at the 2017 Annual General Meeting, and has not been included as a liability in these financial statements.

12 INTANGIBLE ASSETS

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

	Cost £m	Amortisation £m	Net book value £m
At 27 December 2014	12.3	(8.9)	3.4
Exchange adjustments	(0.1)	0.1	–
Additions	3.0	–	3.0
Amortisation for the period	–	(1.8)	(1.8)
At 26 December 2015	15.2	(10.6)	4.6
Exchange adjustments	0.2	(0.2)	–
Additions	4.8	–	4.8
Disposals	(0.2)	0.2	–
Amortisation for the period	–	(2.1)	(2.1)
At 24 December 2016	20.0	(12.7)	7.3

13 PROPERTY, PLANT AND EQUIPMENT

	Freehold property £m	Leasehold property £m	Plant, machinery & vehicles £m	Fixtures & fittings £m	Capital WIP £m	TOTAL £m
Cost						
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
Exchange adjustments	–	–	0.2	0.5	–	0.7
Additions	4.2	6.7	12.1	13.6	25.3	61.9
Disposals	(0.3)	(0.3)	(5.7)	(0.9)	(1.5)	(8.7)
Reclassifications	4.2	1.9	5.2	1.8	(13.1)	–
At 24 December 2016	30.8	57.2	149.1	109.1	32.8	379.0
Accumulated depreciation						
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
Exchange adjustments	–	–	0.1	0.2	–	0.3
Charge for the period	0.5	4.6	10.6	6.2	–	21.9
Disposals	(0.3)	(0.3)	(5.5)	(0.9)	–	(7.0)
At 24 December 2016	3.3	22.8	107.0	78.0	–	211.1
Net book value at 24 December 2016	27.5	34.3	42.1	31.1	32.9	167.9
Net book value at 26 December 2015	19.6	30.4	35.5	21.6	22.1	129.2

At 24 December 2016, the Group had entered into contractual commitments to acquire property, plant and equipment amounting to £7.3m (2015: £21.2m).

Notes to the consolidated financial statements continued

14 DEFERRED TAX

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

	Retirement benefit obligations £m	Accelerated capital allowances £m	Company share schemes £m	Other timing differences £m	Total £m
At 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
Charge to income statement	(6.0)	0.5	(1.1)	–	(6.6)
Credit/(charge) outside income statement	16.3	–	(2.1)	–	14.2
At 24 December 2016	20.1	1.5	1.6	1.0	24.2

Deferred tax arising from accelerated capital allowances, company share schemes and other timing differences can be further analysed as a £5.9m asset and a £1.8m liability (2015: £8.8m asset and £2.0m liability).

The presentation in the balance sheet is as follows:

	24 December 2016 £m	26 December 2015 £m
Deferred tax assets	26.0	18.6
Deferred tax liabilities	(1.8)	(2.0)
	24.2	16.6

At the balance sheet date the Group had unused tax losses as disclosed below. These losses are carried forward by particular Group companies and may only be offset against profits of that particular company. No deferred tax asset has been recognised in relation to these losses as it is not considered probable that suitable future taxable profits will be available in the relevant company against which the unused tax losses can be utilised. All losses have been valued in GBP at the year end closing exchange rate.

	24 December 2016 £m	26 December 2015 £m
Trading losses	44	36
Non -trading losses	20	20
Capital losses	86	86
Total losses	150	142
Trading losses expiring in 2024	2	–
Trading losses expiring in 2025	1	1
Losses available indefinitely	147	141
Total losses	150	142

15 INVENTORIES

	24 December 2016 £m	26 December 2015 £m
Raw materials	5.0	5.0
Work in progress	4.2	4.5
Finished goods and goods for resale	196.9	184.4
Allowance against carrying value of inventories	(22.4)	(16.8)
	183.7	177.1

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 18.

16 OTHER FINANCIAL ASSETS

Trade and other receivables

	24 December 2016 £m	26 December 2015 £m
Trade receivables (net of allowance)	99.2	97.1
Prepayments and accrued income	35.3	30.5
Other receivables	1.4	1.9
	135.9	129.5

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:

	24 December 2016 £m	26 December 2015 £m
Balance at start of period	8.3	7.3
Increase in allowance recognised in the income statement	0.4	1.0
Balance at end of period	8.7	8.3

The Group's exposure to the credit risk inherent in its trade receivables is discussed in note 26. We have no significant concentration of credit risk, as our exposure is spread over a large number of customers. We charge interest at appropriate market rates on balances which are in litigation.

Before accepting any new credit customer, we obtain a credit check from an external agency to assess the potential customer's credit quality, and then we set credit limits on a customer-by-customer basis. We review credit limits regularly, and adjust them if circumstances change. In the case of one-off customers, our policy is to require immediate payment at the point of sale, and not to offer credit terms.

Notes to the consolidated financial statements continued

The historical level of customer default is low, and as a result we consider the "credit quality" of period end trade receivables to be high. We regularly review trade receivables which are past due but not impaired, and we consider, 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. We maintain regular contact with all such customers and, where necessary, we take legal action to recover the receivable. We make an allowance for impairment for any specific amounts which we consider to be irrecoverable or only partly recoverable. We also have a separate general allowance, which is calculated as a percentage of sales and is based on historical default rates. At the period end, the total bad debt provision of £8.7m (2015: £8.3m) consists of a specific provision of £3.5m (2015: £3.3m) which has been made against specific debts with a gross carrying value of £4.5m (2015: £4.2m), and a general provision of £5.2m (2015: £5.0m). To the extent that recoverable amounts are estimated to be less than their associated carrying values, we have recorded impairment charges in the consolidated income statement and have written carrying values down to their estimated recoverable amounts.

We wrote off £5.0m of debts in the period (2015: £4.7m). Included within our aggregate trade receivables balance are specific debtor balances with customers totalling £18.9m before bad debt provision (2015: £19.4m before provision) which are past due as at the reporting date. We have assessed these balances for recoverability and we believe that their credit quality remains intact.

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

	24 December 2016 £m	26 December 2015 £m
1–30 days past due	9.3	10.5
31–60 days past due	2.2	1.9
61–90 days past due	1.1	1.3
90+ days past due	6.3	5.7
Total overdue amounts, excluding allowance for doubtful receivables	18.9	19.4

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 0.1% 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 18.

17 OTHER FINANCIAL LIABILITIES
Trade and other payables

	24 December 2016 £m	26 December 2015 £m
Current liabilities		
Trade payables	93.9	85.7
Other tax and social security	58.4	55.9
Other payables	10.6	8.2
Accruals and deferred income	51.3	47.9
	214.2	197.7

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 47 days (2015: 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.

18 BORROWING FACILITY
The Group has a £140m committed borrowing facility, which expires in July 2019. There were no borrowings under the facility at either the current or previous period end, and the facility was not used at any time during either period.

The facility is secured on the Group's trade receivables and inventory. The available facility limit is calculated every week, based on the asset backing at the time and can never exceed £140m. As at 24 December 2016, the Group had available £138m of undrawn committed borrowing facilities, in respect of which all conditions precedent had been met (26 December 2015: £118m), 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. 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 permits (i) normal trade credit granted to it in the ordinary course of business; (ii) up to £10m of additional secured borrowings, and (iii) up to £20m of finance lease borrowing.

Notes to the consolidated financial statements continued

19 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 £4.1m (2015: £3.3m) represents the Group's contributions due and payable in respect of the period. Due to the timing of payments, £0.4m (2015: £0.2m) 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 £0.8m (2015: £0.9m) 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 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 24 December 2016, 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, and then £25m per year until 30 June 2018.

The Group's estimated total cash contributions to the defined benefit plan in the 53 weeks ending 30 December 2017 are £43.5m.

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

As is mandatory under International Financial Reporting Standards, the Group values its pension deficit in these accounts on an IAS 19 basis. As shown below, the IAS 19 deficit at the current period end is £106m. 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 £236m, this estimate being based on an approximate roll-forward of the 2014 triennial funding valuation, updated for market conditions.

French post-employment benefits

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. In 2016 this liability had grown from £0.2m to £0.3m, and we recognised an additional £0.1m.

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

	52 weeks to 24 December 2016 £m	52 weeks to 26 December 2015 £m
Charged to the income statement:		
Defined benefit plan – current service cost	15.0	16.2
Defined benefit plan – administration costs	2.9	1.6
Defined benefit plan – total operating charge	17.9	17.8
Defined benefit plan – net finance charge	1.0	4.1
Defined contribution plans – total operating charge	4.9	4.2
French post-employment benefits – charge in period	0.1	–
Total net amount charged to profit before tax	23.9	26.1
Charged/(credited) to equity:		
Defined benefit plan – actuarial losses/(gains)	86.4	(46.7)
Total charge/(credit)	110.3	(20.6)

(c) Other information – defined benefit pension plan

Key assumptions used in the valuation of the plan	52 weeks to 24 December 2016	52 weeks to 26 December 2015
Rate of increase of pensions in deferment capped at lower of CPI and 5%	2.50%	2.05%
Rate of CARE revaluation capped at lower of RPI and 3%	2.60%	2.40%
Rate of increase of pensions in payment:		
– pensions with increases capped at lower of CPI and 5%	2.50%	2.50%
– pensions with increases capped at lower of CPI and 5%, with a 3% minimum	3.55%	3.65%
– pensions with increases capped at the lower of LPI and 2.5%	2.25%	2.25%
Rate of increase in salaries	4.50%	4.50%
Inflation assumption – RPI	3.50%	3.50%
Inflation assumption – CPI	2.50%	2.50%
Discount rate	2.85%	3.75%
Life expectancy (yrs): pensioner aged 65		
– male	87.9	87.8
– female	89.4	89.3
Life expectancy (yrs): non-pensioner aged 45		
– male	89.5	89.4
– female	92.3	92.2

Notes to the consolidated financial statements continued

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 5.5%, or £71m, and a decrease/increase in the total service cost of around £1.3m.

An increase of 0.25% to the inflation rate would increase scheme liabilities by around 2.5%, or £32m, and would increase total service cost by around £0.3m.

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 £26m, and would increase total service cost by around £0.4m.

The sensitivities above are applied to the defined benefit obligation at the end of the reporting period, and the projected total service cost for 2017. 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

	24 December 2016		26 December 2015	
	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	435.7	–	348.8	–
Equities				
– passive equities	113.6	–	107.3	–
– low volatility equities	215.2	–	191.0	–
Private equity	–	43.2	–	42.0
Alternative growth assets				
– fund of hedge funds	84.3	–	82.2	–
– absolute return fund	67.2	–	70.0	–
Corporate bonds	124.6	–	90.4	–
Commercial property fund	82.4	–	51.8	–
Cash and cash equivalents	11.6	–	9.6	–
Total	1,134.6	43.2	951.1	42.0

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 2016), is to target an allocation of 55% in return-seeking assets (such as equities, alternative growth assets, private equity and the commercial property fund), and 45% in risk-reducing assets (such as government bonds, corporate bonds, and cash and cash equivalents).

Analysis of plan liabilities

	24 December 2016[1]		26 December 2015[2]	
	No. of members	Duration (yrs)	No. of members	Duration (yrs)
Active members	1,781	32	1,872	32
Deferred members	6,226	24	6,448	24
Pensioners	3,198	15	3,035	15
Total number/average duration	11,205	21	11,355	21

1 The number of members is as per the 5 April 2016 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 2015 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 defined benefit retirement benefit plan is as follows:

	24 December 2016 £m	26 December 2015 £m
Present value of defined benefit obligations	(1,283.8)	(1,042.3)
Fair value of scheme assets	1,177.8	993.1
Deficit in the scheme, recognised in the balance sheet	(106.0)	(49.2)

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

	52 weeks to 24 December 2016 £m	52 weeks to 26 December 2015 £m
Present value at start of period	1,042.3	1,086.1
Current service cost	15.0	16.2
Administration cost	2.9	1.6
Interest on obligation	38.3	37.6
Contributions from scheme members	0.1	0.1
Actuarial losses/(gains):		
– changes in demographic assumptions	–	10.1
– changes in financial assumptions	232.3	(55.4)
– experience	(12.5)	(19.2)
Benefits paid, including expenses	(34.6)	(34.8)
Present value at end of period	1,283.8	1,042.3

Notes to the consolidated financial statements continued

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

	52 weeks to 24 December 2016 £m	52 weeks to 26 December 2015 £m
Fair value at start of period	993.1	943.5
Interest income on plan assets	37.3	33.5
Contributions from plan members	0.1	0.1
Contributions from the Group	48.5	56.9
Actuarial gain/(loss)	133.4	(6.1)
Benefits paid, including expenses	(34.6)	(34.8)
Fair value at end of period	1,177.8	993.1

Movements in the deficit during the period were as follows:	52 weeks to 24 December 2016 £m	52 weeks to 26 December 2015 £m
Deficit at start of period	(49.2)	(142.6)
Current service cost	(15.0)	(16.2)
Administration cost	(2.9)	(1.6)
Employer contributions	48.5	56.9
Other finance charge	(1.0)	(4.1)
Actuarial (loss)/gain	(86.4)	58.4
Deficit at end of period	(106.0)	(49.2)

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 24 December 2016 £m	52 weeks to 26 December 2015 £m
Current service cost	15.0	16.2
Administration cost	2.9	1.6
Total operating charge	17.9	17.8

The total operating charge is included in staff costs (note 7).

Amount credited to other finance charges:

	52 weeks to 24 December 2016 £m	52 weeks to 26 December 2015 £m
Interest income on plan assets	(37.3)	(33.5)
Interest cost on defined benefit obligation	38.3	37.6
Net charge	1.0	4.1

The actual return on plan assets was £170.7m (52 weeks to 26 December 2015: £27.4m).

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 24 December 2016 £m	52 weeks to 26 December 2015 £m
Actuarial gain/(loss) on plan assets	133.4	(6.1)
Actuarial (loss)/gain on plan liabilities	(219.8)	64.5
Net actuarial (loss)/gain, before associated deferred tax	(86.4)	58.4

20 PROVISIONS

	Property £m	Warranty £m	Other £m	Total £m
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
Additional provision in the period	3.8	3.6	0.1	7.5
Provision released in the period	(0.4)	–	–	(0.4)
Utilisation of provision in the period	(4.2)	(3.8)	–	(8.0)
At 24 December 2016	4.7	4.0	0.3	9.0

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.

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.

Notes to the consolidated financial statements continued

21 SHARE CAPITAL

	52 weeks to 24 December 2016 Number	52 weeks to 26 December 2015 Number	52 weeks to 24 December 2016 £m	52 weeks to 26 December 2015 £m
Ordinary shares of 10p each:				
Allotted, called up and fully paid.				
Balance at the beginning of the period	651,830,815	646,541,496	65.2	64.7
Issued during the period	–	5,289,319	–	0.5
Bought back and cancelled during the period	(12,467,000)	–	(1.3)	–
Balance at the end of the period	639,363,815	651,830,815	63.9	65.2

22 NOTES TO THE CASH FLOW STATEMENT

Analysis of net cash

	Cash at bank and in hand £m	Short-term investments £m	Cash and cash equivalents, and net cash £m
At 26 December 2015	166.1	60.0	226.1
Cash flow	(26.8)	27.3	0.5
At 24 December 2016	139.3	87.3	226.6

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.

23 FINANCIAL COMMITMENTS

Capital commitments

	24 December 2016 £m	26 December 2015 £m
Contracted for, but not provided for in the financial statements	7.7	21.2

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	
	24 December 2016 £m	26 December 2015 £m	24 December 2016 £m	26 December 2015 £m	24 December 2016 £m	26 December 2015 £m
Payments falling due:						
Within one year	58.2	54.3	15.4	13.3	73.6	67.6
In the second to fifth year inclusive	190.3	164.1	32.4	31.3	222.7	195.4
After five years	195.1	81.1	10.4	10.7	205.5	91.8
	443.6	299.5	58.2	55.3	501.8	354.8

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:

	24 December 2016 £m	26 December 2015 £m
Payments receivable:		
Within one year	0.7	0.8
In the second to fifth year inclusive	1.0	1.7
After five years	0.7	1.1
	2.4	3.6

Notes to the consolidated financial statements continued

24 Share-based payments
1) Details of each scheme
The Group recognised a charge of £4.0m (2015: charge of £7.5m) 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.

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.

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.

Co-investment Plan ("COIP")
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. Details of the plan conditions are as follows:

Date of award	2013	2014	2015	2016
Vesting based on growth in profits - from year ended December	2012	2013	2014	2015
– to year ended December	2015	2016	2017	2018
Award vests at 25% if profits over the vesting period grow by	6%	N/A	N/A	N/A
Award vests at 15% if profits over the vesting period grow by	N/A	8%	8%	8%
Award vests at 100% if profits over the vesting period grow by	12%	20%	20%	20%

If profits grow by a figure between the upper and lower thresholds for each year, the award will vest on a sliding scale.

Howden Joinery Group Long-Term Incentive Plan ("LTIP")
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). The different types of awards are as follows:

(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. The vesting conditions for these options are the same as for that year's COIP, which are shown above.

(v) Performance share plan. Vesting conditions are as follows:

Date of award	2015	2016
Vesting based on growth in profits – from year ended December	2014	2015
– to year ended December	2017	2018
Award vests at 25% if profits over the vesting period grow by	N/A	N/A
Award vests at 15% if profits over the vesting period grow by	8%	8%
Award vests at 100% if profits over the vesting period grow by	20%	20%

2) Movements in the period

52 weeks to 24 December 2016	COIP Number	Freeshares Number	Share Award Plan Number	LTIP (i) Number	LTIP (ii) Number
In issue at start of period	4,273,532	792,829	22,143	194,413	211,956
Granted in period	–	844,200	–	–	–
Lapsed in period	–	(159,600)	–	–	–
Exercised in period	(2,007,858)	(20,316)	–	(51,730)	(104,587)
In issue at end of period	2,265,674	1,457,113	22,143	142,683	107,369
Exercisable at end of period	–	77,413	–	142,683	107,369
Weighted average share price for options exercised during the period (£)	4.65	4.53	–	4.99	4.91
Number of options in the closing balance granted before 7 November 2002	–	77,413	–	–	–
Weighted average life remaining for options outstanding at the period end (yrs)	0.70	1.90	1.25	0.00	0.00
Weighted average fair value of options granted during the period (£)	N/A	4.67	N/A	N/A	N/A
Exercise price for all options (£)	0.00	0.00	0.00	0.36	0.81

52 weeks to 24 December 2016	LTIP (iii) Number	LTIP (v) Number	LTIP (iv) Number	LTIP (iv) WAEP (£)
In issue at start of period	1,009,500	588,066	2,380,779	2.83
Granted in period	13,800	1,610,541	–	N/A
Lapsed in period	(49,300)	(34,469)	(8,462)	3.78
Exercised in period	(467,100)	–	(423,335)	2.09
In issue at end of period	506,900	2,164,138	1,948,982	2.97
Exercisable at end of period	–	–	881,926	1.98
Weighted average share price for options exercised during the period (£)	4.67	N/A	4.80	
Number of options in the closing balance granted before 7 November 2002	–	–	–	
Weighted average life remaining for options outstanding at the period end (yrs)	0.35	2.03	0.25	
Weighted average fair value of options granted during the period (£)	4.67	4.67	N/A	
Exercise price for all options (£)	0.00	0.00	1.09 to 3.79	

Notes to the consolidated financial statements continued

52 weeks to 26 December 2015	COIP Number	Freeshares Number	Share Award Plan Number	LTIP (i) Number	LTIP (ii) Number
In issue at start of period	7,983,287	120,449	69,009	211,063	334,665
Granted in period	1,035,181	757,100	–	–	–
Lapsed in period	(285,245)	(51,300)	–	–	–
Exercised in period	(4,459,691)	(33,420)	(46,866)	(16,650)	(122,709)
In issue at end of period	4,273,532	792,829	22,143	194,413	211,956
Exercisable at end of period	–	89,229	–	194,413	211,956
Weighted average share price for options exercised during the period (£)	4.44	4.75	4.41	4.88	4.78
Number of options in the closing balance granted before 7 November 2002	–	89,229	–	–	–
Weighted average life remaining for options outstanding at the period end (yrs)	1.02	2.44	2.25	0.00	0.00
Weighted average fair value of options granted during the period (£)	4.38	5.18	N/A	N/A	N/A
Exercise price for all options (£)	0.00	0.00	0.00	0.36	0.81

52 weeks to 26 December 2015	LTIP (iii) Number	LTIP (v) Number	LTIP (iv) Number	LTIP (iv) WAEP (£)
In issue at start of period	1,565,700	–	3,147,253	2.47
Granted in period	9,500	595,200	–	N/A
Lapsed in period	(83,300)	(7,134)	(60,825)	2.66
Exercised in period	(482,400)	–	(705,649)	1.27
In issue at end of period	1,009,500	588,066	2,380,779	2.83
Exercisable at end of period	–	–	476,907	1.20
Weighted average share price for options exercised during the period (£)	4.48	N/A	4.78	
Number of options in the closing balance granted before 7 November 2002	–	–	–	
Weighted average life remaining for options outstanding at the period end (yrs)	0.82	2.25	0.85	
Weighted average fair value of options granted during the period (£)	4.29	4.38	N/A	
Exercise price for all options (£)	0.00	0.00	1.08 to 3.78	

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 24 December 2016	52 weeks to 26 December 2015
Dividend yield (%)	2.0	1.8
Expected life of options (yrs)	3.0	3.0

25 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 19.

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 are 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 24 December 2016 £m	52 weeks to 26 December 2015 £m
Short-term employment benefits	6.8	6.2
Share-based payments	9.3	17.8
	16.1	24.0

Other transactions with key management personnel

There were no other transactions with key management personnel.

26 FINANCIAL RISK MANAGEMENT

(a) Capital risk management

The Group manages its capital structure to maximise shareholder returns through 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 18 - 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 21).

The Board of Directors reviews the capital structure regularly, including 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 costs 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 buybacks, taking on or issuing new debt or repaying any existing debt.

(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 in note 2 to the financial statements.

Notes to the consolidated financial statements continued

(c) Categories of financial instruments

	24 December 2016 £m	26 December 2015 £m
Financial assets (current and non-current)		
Trade receivables	99.2	97.1
Cash and cash equivalents	139.3	166.1
Current asset investments	87.3	60.0
Financial liabilities (current and non-current)		
Trade payables	93.9	85.7

(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 these exposures 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 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 16.

(e) Credit risk

The Group's principal financial assets are cash, investments, and trade and other receivables. Our main credit risk is the risk of trade customers defaulting their debts. We have a policy of only dealing with creditworthy counterparties in order to mitigate the risk of defaults.

We describe our policy on dealing with trade customers in note 16 and note 2. Trade receivables are spread over a large number of customers, and we do not have a significant exposure to any single counterparty.

We limit our 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, the Group Treasury function monitors counterparty risk through regular assessments which take account of counterparties' key financial ratios, corporate bond and equity prices together with agency credit ratings.

Our maximum exposure to credit risk is presented in the following table:

	24 December 2016 £m	26 December 2015 £m
Trade receivables (net of allowance)	99.2	97.1
Cash	139.3	166.1
Current asset investments	87.3	60.0
Total credit risk exposure	325.8	323.2

(f) Liquidity risk

Liquidity risk is the risk that the we could experience difficulties in meeting our commitments to creditors as financial liabilities fall due for payment. We manage our liquidity risk by using reasonable and retrospectively-assessed assumptions to forecast the future cash-generation and working capital requirements of our business 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. We manage 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 18 is a description of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk. In addition, the Strategic Review contains a section describing the interaction of liquidity risk and the going concern review.

Maturity profile of outstanding financial liabilities

Our only outstanding financial liabilities are our trade creditors. These are capital liabilities, with no associated interest, and are payable within one year.

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 we are exposed are foreign exchange risk, and interest rate risk. These are discussed further below:

Foreign exchange risk

We are 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. Our policy is generally not to hedge such exposures. The exposure of the our financial assets and liabilities to currency risk is as follows:

	24 December 2016 £m	26 December 2015 £m
Euro		
Trade receivables	2.6	1.8
Other receivables	1.9	1.4
Cash and cash equivalents	6.9	4.2
Trade payables	(18.2)	(13.2)
Other payables	(2.1)	(0.8)
	(8.9)	(6.6)
US Dollar		
Cash and cash equivalents	0.2	0.1
Trade payables	(0.5)	(0.7)
	(0.3)	(0.6)
TOTAL	(9.2)	(7.2)

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 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 cash 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:

- 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 (2015: remain the same).

For a decrease of 50 basis points, the current year figures would remain the same (2015: 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 our sensitivity to a 10% weakening or strengthening in 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 our 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.

	24 December 2016	26 December 2015
10% weakening of Sterling to Euro	(1.0)	(0.8)
10% strengthening of Sterling to Euro	0.8	0.6
10% weakening of Sterling to US dollar	–	(0.1)
10% strengthening of Sterling to US dollar	–	0.1

Independent auditor's report

to the members of Howden Joinery Group Plc

OPINION ON FINANCIAL STATEMENTS OF HOWDEN JOINERY GROUP PLC

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 24 December 2016 and of the group's profit for the 52 weeks then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements that we have audited comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and parent company Balance Sheets;
- the Consolidated Cash Flow Statement;
- the Consolidated and parent company Statements of Changes in Equity;
- the Significant Accounting Policies; and
- the related group notes 1 to 26 and parent company notes 1 to 7.

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), including FRS 101 "Reduced Disclosure Framework".

SUMMARY OF OUR AUDIT APPROACH

Key risks	The key risks that we identified in the current year were: • Valuation of the inventory obsolescence provision • Appropriateness of the actuarial and other assumptions underlying the valuation of pension liabilities Within this report, any new risks are identified with ⬆ and any risks which are the same as the prior year identified with ➡.
Materiality	The materiality used in the current year was £11.0m which was determined on the basis of 5% of profit before tax.
Scoping	All UK, French and Belgian companies have been subject to full scope audit, providing 99% coverage over Group revenues and profit before tax.
Significant changes in our approach	There has been no significant change in our approach.

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 20.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the directors' confirmation on page 20 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;
- the disclosures on pages 22-26 that describe those risks and explain how they are being managed or mitigated;
- 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; and
- the directors' explanation on page 20 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.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any 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 confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards.

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.

In the prior year our report included the recoverability of trade debtors and appropriateness of the bad debt provision as a key risk. This is no longer considered to be a key risk given there is no significant concentration of credit risk (given the exposure is spread over a large number of customers) and the historical level of customer default remains modest.

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

Valuation of the inventory obsolescence provision	
Risk description	The scale and expansion of the Group's product range means there is significant judgement involved in determining the adequacy of the inventory obsolescence provision and in particular the provision percentages applied to those discontinued and slow moving inventory lines. At the year end, the gross inventory balance is £206.1m, of which there is a £22.4m allowance against the carrying value. This was reported as a significant risk to the Audit Committee and further information is included in notes 2, 3 and note 15.
How the scope of our audit responded to the risk	We have assessed the integrity of the underlying calculation by checking the accuracy of the ageing of the discontinued inventory items. We have challenged the reasonableness of the assumptions used, specifically by assessing the provision percentages from a review of sales of post discontinued inventory lines. For other lines we have assessed the forecast sales demand with comparison to prior periods. We have also reviewed the level of inventory write offs in the year and compared that to the overall inventory provision.
Key observations	We are satisfied with the overall level of the provision.

Appropriateness of the actuarial and other assumptions underlying the valuation of pension liabilities	
Risk description	There is a significant judgement involved in the assessment of the actuarial and other assumptions used to measure the defined pension deficit. The scheme was closed to new entrants from April 2013. Management judgement is required in determining the key actuarial assumptions that underpin the valuation of the defined benefit deficit of £106m (2015: £49m). This was reported as a significant risk to the Audit Committee and further information is included in notes 2, 3 and note 19.
How the scope of our audit responded to the risk	We have used our pension specialists to assist us in assessing the appropriateness of the assumptions underlying the valuation of the pension deficit. We have reviewed the valuation report produced by the company's external actuaries and challenged each of the key assumptions such as the discount and inflation rates 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. In addition, we have assessed the competence and independence of the company's external actuaries, confirming they have sufficient and appropriate experience and are members of the Institute and Faculty of Actuaries.
Key observations	We are satisfied with the assumptions used and conclude they are within an acceptable range.

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.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	£11.0m (2015: £10.0m)
Basis for determining materiality	Approximately 5% of profit before tax (2015: approximately 5% of profit before tax)
Rationale for the benchmark applied	Profit before tax has been used as the basis for determining materiality as it is one of the most relevant benchmarks for users of the accounts

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £550,000 (2015: £220,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. The change in the reporting threshold has been made following our reassessment of what matters require communicating.

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 which is consistent with prior year. All of these were subject to a full audit. 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% (2015: 50% and 95%) of group materiality. These locations represent the principal business units and account for 99% (2015: 99%) of the group's revenue and of the group's profit before tax for the 52 weeks ended 24 December 2016. 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% (2015: 98%) of group revenue and were audited by the group team. This audit approach is consistent with the prior year.

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, based on the work undertaken in the course of the audit:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Independent auditor's report

to the members of Howden Joinery Group Plc continued

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or • the parent company financial statements are not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.	**We have nothing to report arising from these matters.**
Corporate Governance Statement Under the Listing Rules we are also required to review 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.**
Our duty to read other information in the Annual Report Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.	**We confirm that we have not identified any such inconsistencies or misleading statements.**

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.

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

22 February 2017

Company balance sheet

	Notes	24 December 2016 £m	26 December 2015 £m
Non-current assets			
Investments in subsidiaries	4	699.0	699.0
Long-term prepayments		0.4	0.6
		699.4	699.6
Current assets			
Debtors	5	26.4	41.9
Current asset investments		87.3	60.0
Cash at bank and in hand		120.8	155.4
		234.5	257.3
Current liabilities			
Creditors: amounts falling due within one year	6	(307.6)	(383.5)
Net current liabilities		(73.1)	(126.2)
Total assets less current liabilities		626.3	573.4
Non-current liabilities			
Provisions		–	–
Net assets		626.3	573.4
Equity			
Called up share capital	7	63.9	65.2
Share premium account		87.5	87.5
Retained earnings reserve		527.7	466.0
Treasury shares		(52.8)	(45.3)
Total equity		626.3	573.4

These financial statements were approved by the Board on 22 February 2017 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

Company statement of changes in equity

	Called up share capital £m	Share premium account £m	Treasury shares £m	Retained earnings £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	(45.3)	466.0	573.4
Retained profit for the period	–	–	–	182.1	182.1
Buyback and cancellation of shares	(1.3)	–	–	(55.0)	(56.3)
Buyback of shares into treasury	–	–	(23.7)	–	(23.7)
Transfer of shares from treasury into share trust	–	–	16.2	–	16.2
Dividends declared and paid	–	–	–	(65.4)	(65.4)
At 24 December 2016	63.9	87.5	(52.8)	527.7	626.3

Notes to the Company financial statements

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 24 December 2016. The comparative period covered the 52 weeks to 26 December 2015.

Basis of accounting

These financial statements have been prepared on the going concern basis and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the UK Companies Act. The prior period financial statements did not require restatement for material adjustments on adoption of FRS 101 in the current year.

The accounts are prepared under the historical cost convention. Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement or statement of comprehensive income.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Statement of Cash Flows and related notes;
- disclosures in respect of transactions with wholly owned subsidiaries;
- comparative period reconciliations for tangible fixed assets and intangible assets;
- an additional statement of financial position for the beginning of the earliest comparative period as required by IFRS 1 First-time Adoption of International Financial Reporting Standards;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs; and
- disclosures in respect of Key Management Personnel.

As the Group Financial Statements include the equivalent disclosures, the Company has also taken advantage of the exemptions under FRS 101 available in respect of IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instruments.

Investments in subsidiaries

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

2 Explanation of transition to FRS 101

This is the first time that the Company has presented its financial statements under FRS 101. The following disclosures are required in the year of transition. The last financial statements under a previous GAAP were for the 52 week period ended 26 December 2015 and the date of transition to FRS 101 was therefore 27 December 2015. There have been no adjustments on transition to FRS 101.

3 PROFIT AND LOSS ACCOUNT INFORMATION

The Company profit after tax for the 52 weeks to 24 December 2016 was £182.1m (52 weeks to 26 December 2015: profit after tax of £320.3m).

The Company has no employees (2015: none), did not pay directors' emoluments (2015: £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 26 December 2015 and 24 December 2016	262.1	436.9	699.0

Details of subsidiary undertakings are given on page 132.

5 DEBTORS

	24 December 2016 £m	26 December 2015 £m
Other debtors	0.2	0.4
Corporation tax	26.2	41.4
Other tax and social security	–	0.1
	26.4	41.9

6 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	24 December 2016 £m	26 December 2015 £m
Other tax and social security	(0.2)	–
Owed to subsidiaries	(307.3)	(382.8)
Accruals and deferred income	(0.1)	(0.7)
	(307.6)	(383.5)

Notes to the Company financial statements continued

7 SHARE CAPITAL

ORDINARY SHARES OF 10p EACH	52 weeks to 24 December 2016 No.	52 weeks to 26 December 2015 No.	52 weeks to 24 December 2016 £m	52 weeks to 26 December 2015 £m
Allotted, called up and fully paid				
Balance at the beginning of the period	651,830,815	646,541,496	65.2	64.7
Issued during the period	–	5,289,319	–	0.5
Bought back and cancelled during the period	(12,467,000)	–	(1.3)	–
Balance at the end of the period	639,363,815	651,830,815	63.9	65.2

Additional information

Parent company and all subsidiary undertakings

as at 24 December 2016

	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	Gutenbergring 73–75, 22848 Norderstedt
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 2016 52 weeks £m	Dec 2015 52 weeks £m	Dec 2014 52 weeks £m	Dec 2013 52 weeks £m	Dec 2012 53 weeks £m
Summarised Income Statement					
Revenue – continuing operations	1,307.3	1,220.2	1,090.8	956.5	887.1
Operating profit – continuing operations	237.2	221.9	189.8	138.0	119.8
Loss from discontinued operations	–	–	(2.1)	–	(4.4)
	237.2	221.9	187.7	138.0	115.4
Profit on continuing ordinary activities before tax	237.0	219.6	188.8	133.9	112.1
Full year dividend per share (pence)	10.7	9.9	8.4	5.5	3.0
Basic EPS - continuing operations (pence)	29.5	27.3	23.2	15.7	27.3
Summarised Balance Sheet					
Total non-current assets	201.6	153.0	151.1	123.3	140.4
Inventories	183.7	177.1	143.1	123.4	115.9
Receivables	135.9	129.5	133.1	122.4	96.0
Payables and provisions	(244.8)	(214.8)	(207.2)	(192.6)	(180.4)
Pension liability	(106.0)	(49.2)	(142.6)	(54.3)	(154.5)
	(31.2)	42.6	(73.6)	(1.1)	(123.0)
Net cash, short-term investments, and borrowings	226.6	226.1	217.4	139.5	95.4
Total net assets	397.0	421.7	294.9	261.7	112.8
Number of depots at end of year					
UK	642	619	589	559	529
France	20	17	12	11	11
Belgium	2	2	2		
Netherlands	1	1			
Germany	1				
Capital expenditure	64	46	33	46	24

Shareholder ranges as at 24 December 2016

	Number of holders	Percentage of holders	Number of shares	Percentage of shares
Corporate holders				
0 to 1,000	142	1.50	62,364	0.01
1,001 to 5,000	176	1.86	444,850	0.07
5,001 to 10,000	55	0.58	387,068	0.06
10,001 to 50,000	143	1.51	3,726,307	0.58
50,001 to 100,000	71	0.75	5,050,603	0.79
100,001 to 250,000	83	0.88	13,515,087	2.11
250,001 to max	257	2.72	604,645,124	94.57
	927	9.80	627,831,403	98.19
Individual holders				
0 to 1,000	6,978	73.80	2,527,385	0.40
1,001 to 5,000	1,297	13.71	3,063,492	0.48
5,001 to 10,000	158	1.67	1,166,300	0.18
10,001 to 50,000	83	0.88	1,704,464	0.27
50,001 to 100,000	6	0.06	409,103	0.06
100,001 to 250,000	3	0.03	454,705	0.07
250,001 to max	5	0.05	2,206,963	0.35
	8,530	90.20	11,532,412	1.81
Total	9,457	100.00	639,363,815	100.00

Advisors and committees

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Mark Allen
Geoff Drabble
Tiffany Hall
Michael Wemms
Debbie White

Corporate timetable

2017	
Trading update	27 April
Half–Yearly Report	20 July
Trading update	2 November
End of financial year (53 week)	30 December

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