HOWDENS

Annual Report and Accounts 2018

Howden Joinery Group Plc

HOWDENS

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.

The Strategic Report

Governance

The Financial Statements

Additional Information

What we did in 2018

£1.5bn
revenue
(2017: £1.4bn)

61.7%
gross margin
(2017: 63.3%)

£239m
profit before tax
(2017: £232m)

£240m
operating profit
(2017: £234m)

31.3p
earnings per share
(2017: 29.9p)

11.6p
full year dividend
(2017: 11.1p)

£231m
net cash at year end

£131m
returned to shareholders in year

33
new UK depots opened

694
total UK depots at year end

18
new kitchen ranges introduced

potential for
850
UK depots

New distribution centre opened successfully

546
new jobs

Strategic report

Chairman's statement

Since its foundation in 1995, Howdens has grown steadily to become the leading supplier of kitchens in the UK, by focusing closely on the needs of our builder customers and providing value to all concerned.

CONTINUED GROWTH

I am pleased to report that 2018 saw further progress for Howdens. Against a backdrop of muted consumer sentiment, we pressed ahead with growing the business. Sales increased by 7.7% compared to 2017, at some cost to gross margin which was 61.7%, a decline on 2017's 63.3%. In a weak consumer market, the growth was all volume, whilst at margin level we absorbed extra costs due to volume growth and general cost inflation. Our pricing remained highly competitive, particularly in the first half, and we continued to grow market share.

Our sales growth more than offset the decline in gross margin, resulting in profit before tax increasing to £238.5m, from £232.2m in the prior year. We absorbed extra costs from starting to upgrade our digital capability, from relocating and significantly expanding our distribution centre in Northamptonshire and from additional depreciation arising as a result of our programme of investment over the past four years.

Our business model allows us to be agile in an uncertain and changing market environment. We performed well against our financial and non-financial key performance indicators (KPIs), as shown on pages 24 to 26. Andrew Livingston discusses our performance in more detail in his review of the year on pages 18 to 23 and Mark Robson in his financial review on pages 27 to 31. We talk about our Culture and Purpose on pages 10 and 11.

INVESTMENT PROGRAMME

In order to continue providing high levels of service to local builders and innovative products to our end-consumers, we believe that we must steadily invest in the business - both in our manufacturing and supply chain capability and in our national footprint. The Board believes that there are considerable opportunities for further growth, and that in order to fulfil that potential we must continue to invest in both capacity and capability through the economic cycle.

Howdens has undertaken a major capital expenditure programme in the past four years, investing around £220m in the business.

During 2018, we upgraded our manufacturing facilities at our Howden site and at Runcorn. We also completed the transfer of our main distribution capabilities from our old distribution centre in Northampton to our new warehouse at Raunds, also in Northamptonshire. I am pleased to note that we have also received planning permission for two new facilities at Raunds, which are expected to become operational during 2020, providing Howdens with strategic options for its distribution requirements for many years to come. We continue to invest in digital capabilities and launched our new website in September 2018.

We anticipate that our core capital expenditure for 2019 will be approximately £60m, and we retain significant financial capacity to invest for further growth.

RETURNS TO SHAREHOLDERS

Earnings for the year were 31.3p per ordinary share, an increase of 4.7% on the prior year (2017: 29.9p) as a result of the profit improvement and the cancellation of shares bought back over the year.

In line with our stated dividend policy, which is set out in detail in the Review of Finance and Operations on page 27, the Board is recommending a final dividend of 7.9p, resulting in a total dividend for the full year 2018 of 11.6p, an increase of 4.5% on the prior year (2017: 11.1p). This increase reflects the Board's confidence in the prospects for the business.

We announced a two year £80m share repurchase programme in February 2017, which we completed during the first half of 2018. In March 2018, we announced a further two year programme of £60m, half of which was completed during 2018. We expect to complete the remainder of the March 2018 programme during 2019. Together with £68m in dividend payments, Howdens returned £131m to shareholders in the year.

Chairman's statement continued

The Board is mindful of the changing economic landscape and change in tone in many areas of the UK consumer market. We do have cash surplus above and beyond our requirements for working capital and the final dividend for 2018, and will carry out a further £50m share buyback programme over the next two years.

BOARD

The previously announced transition of CEO from Matthew Ingle to Andrew Livingston took place in the year. Reflecting great credit on Matthew, the Executive team and the whole Company, Andrew received an enthusiastic welcome and a thorough induction during the first half year. He has since lost no time in establishing himself in the CEO role and making the plan and future direction of the Company his own. The transition from a Founder to the new CEO has been seamless, and the Board continues to see great prospects for the Company's future development.

We welcomed Karen Caddick to the Board as an independent Non-Executive Director in September 2018. Karen is the Group Human Resources Director at Saga plc, and will become Chairman of our Remuneration Committee in September 2019 when Tiffany Hall steps down. Having served three terms as a Non-Executive, the last four years as Remuneration Committee Chairman and two years as Senior Independent Director, Tiffany will go with our great thanks for her service and contribution to a highly successful period in Howden's history. Succeeding her in the role of Senior Independent Director will be Geoff Drabble, who joined the Board in 2015.

GOVERNANCE AND SUSTAINABILITY

Howdens has a clear governance framework and we strive to operate with integrity in all we do. It is vital to maintain the trust of investors, customers, our colleagues and other stakeholders in an environment where expectations, as well as regulations, continue to grow. Our corporate governance framework and a summary of the work of the Board during 2018 can be found in our Corporate Governance Report, starting on page 59. Our Sustainability Report, which begins on page 41, talks to our aim of being a good corporate citizen and living our ethos of being worthwhile to all concerned. Fundamentally, each of our 694 depots represents a place in a local community and our people are encouraged to participate in community life. In 2018, the Group donated around £2.1m to good causes.

The Board believes the Company was compliant with all relevant aspects of the Code on Corporate Governance throughout the year under review.

Our Board meetings conducted in 2018 were structured, as normal, to address the Board's collective responsibilities in relation to strategy, performance and governance. In the first half of the year, much time was given over to ensuring the best possible transition arrangements were in place from old-to-new CEO, and to considering the risks arising from the change. In the second half, the Board's attention turned to deliberating Andrew Livingston's first reflections on the business and to discussing his emerging medium and long term plans. Inevitably, time was also spent considering mitigating actions that may be required in the event of a disruptive period following the UK's exit from the European Union.

MARKET ENVIRONMENT AND RISKS

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 32 to 37. As in previous years, we monitor our market situation closely, in order to ensure timely responses to changing conditions.

LOOKING AHEAD

The retirement of our Founder represented the end of a chapter, but by no means the end of the story, for Howdens. The Board believes there are many opportunities ahead, and the strength of the Company will allow us to look through the economic cycle and to deliver relative outperformance in any downturn.

These opportunities to grow our business represent a further step change in our ambition. The implementation of new generation depot designs, the ability to rollout smaller depots, as well as the potential for international growth, will, I expect, provide Howdens with strong opportunities to create value in the coming years. We now expect to be able to grow to around 850 depots in the UK, an increase of 50 on our previously announced estimate, and will be opening four new depots in France during 2019, our first new depots rolled out in the country since 2016.

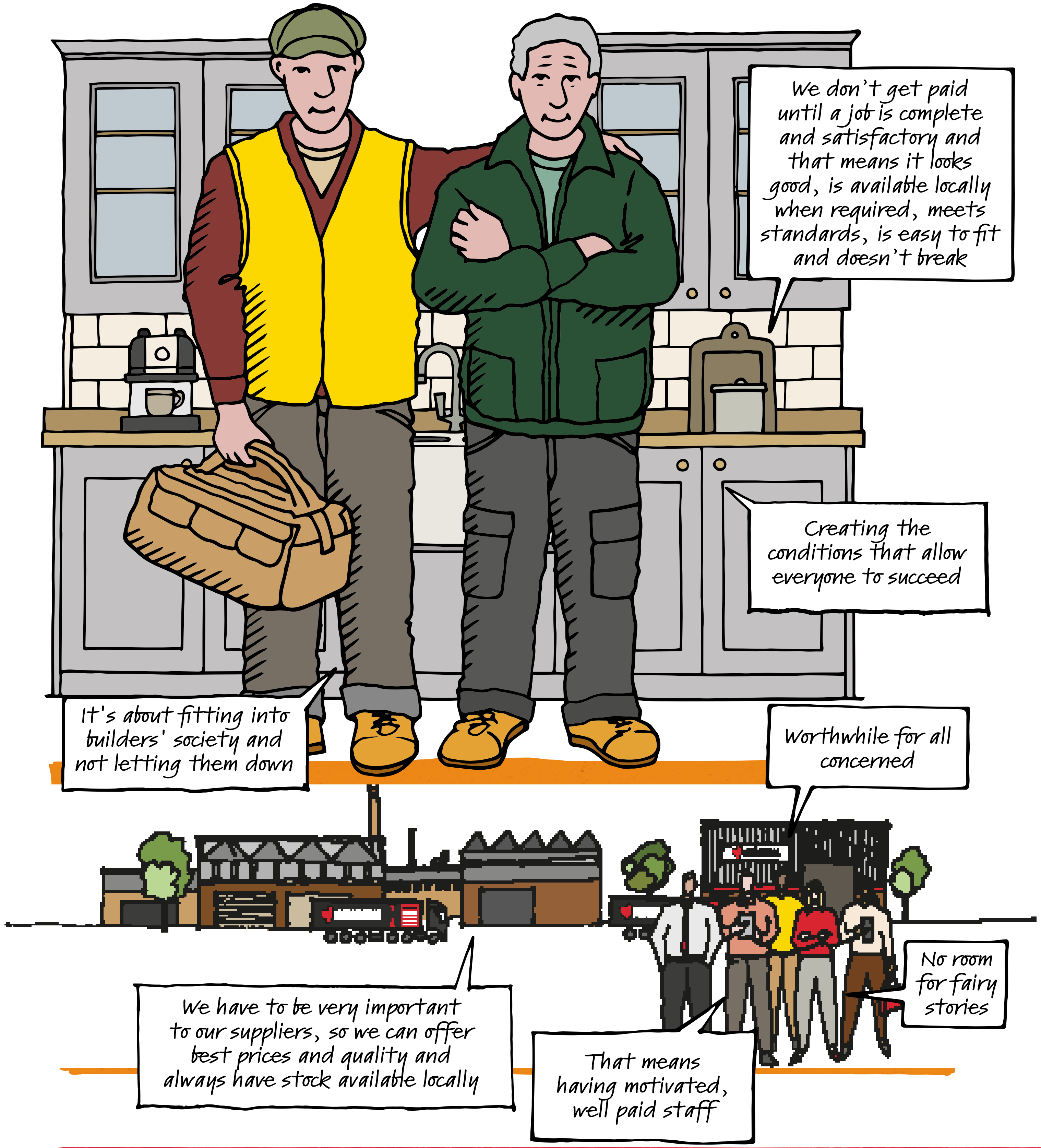
Following 33 depot openings in 2018, we anticipate around 45 in 2019, of which five will be in Northern Ireland and four in France.

At the same time as we see good opportunities for expansion and creating value, I note that there is continuing uncertainty surrounding the UK consumer and the economic outlook, as the UK looks towards a post-Brexit world. We remain confident in the Group's potential and believe that the business has the financial capability, the culture and the skills to enable us to plan for the future from a position of stability and strength. Above all else, Howdens is a people business and it gives me great pleasure on behalf of the Board to thank our colleagues for delivering another fine performance in 2018.

Richard Pennycook
Chairman

27 February 2019

Our Culture and Purpose



WORTHWHILE FOR ALL CONCERNED

Howdens was founded on the principle that its business should be worthwhile for all concerned – customers, prospective customers, homeowners, tenants, local communities, our suppliers, our investors, our staff and their families.

This founding principle has shaped our business model and our strategic decisions for more than 20 years. We believe in local profit-sharing and incentivisation for our staff, as well as looking after the fundamentals of the trade relationship and offering trade terms that allow the builder to run a business and make a living. In short, creating the conditions that allow everyone to succeed.

Since Howdens opened its doors in 1995, we have grown in a balanced way, investing sensibly and ensuring we are prepared for all market conditions. Underpinning our success has been a lowest-cost and flexible approach to our production, a low break-even point for our depots and an entrepreneurial spirit.

Howdens solves problems for small builders doing joinery work. It's about fitting into their society, not letting them down and associating with people who run their own business. Builders don't get paid until a job is complete and satisfactory; that means our products must look good, be available locally when required, meet standards, are easy to fit and don't break.

We offer builders trade accounts which give them up to eight weeks before payment is required; we give them a confidential discount, swap items on the spot, provide a welcoming trade environment, exclude retail, and retain staff. Customers always see the same faces. It's about trust with our customers – we do what we say.

To achieve this we have to build strong and enduring relationships with our suppliers, and work closely with them so we can offer best prices and quality and always have stock available. It means having great suppliers who share our philosophy.

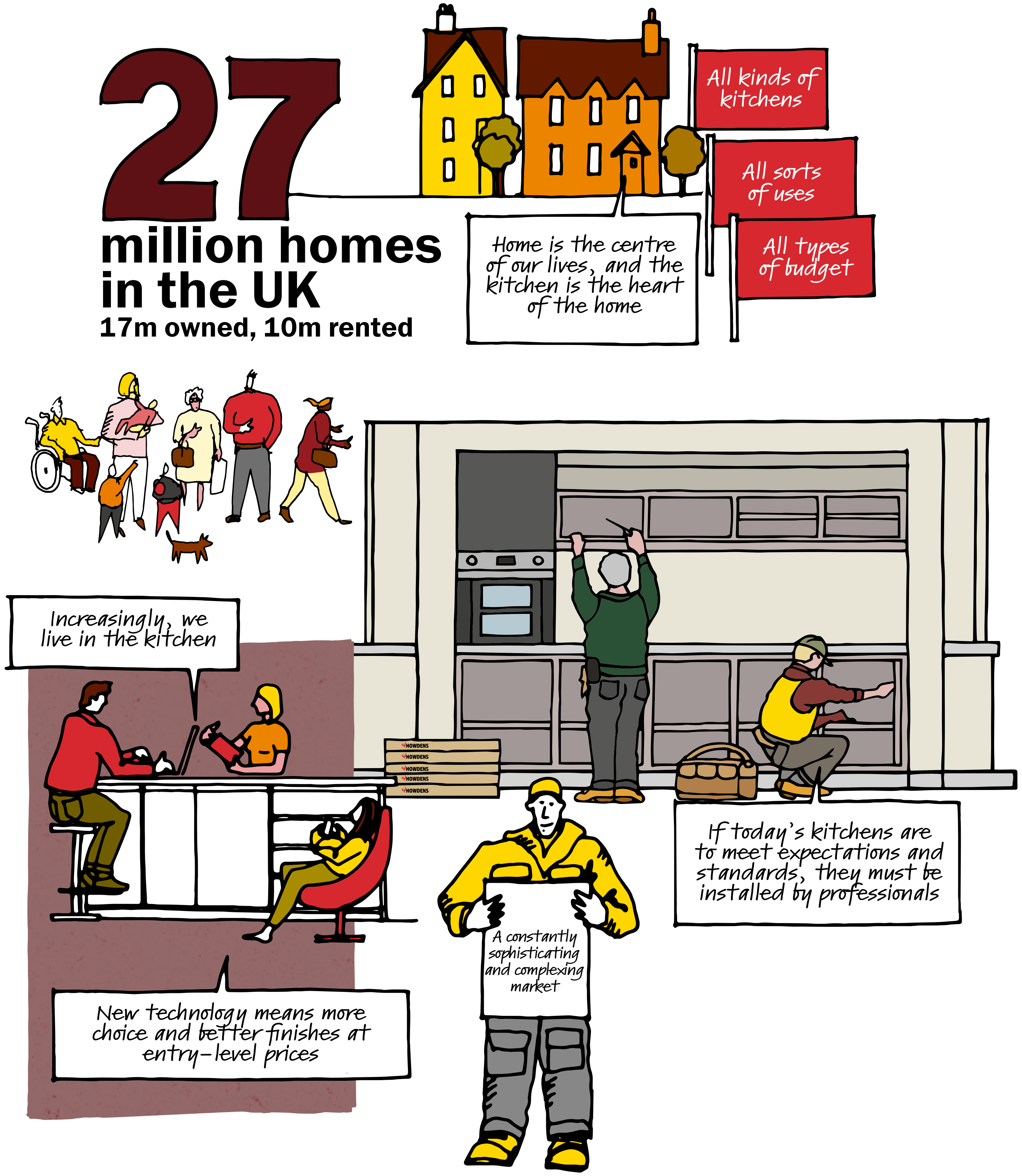
It also means having motivated and well-paid staff. This is an entrepreneurial, manager-driven business with low central overheads. Tradespeople are entrepreneurs. They are not interested in, and don't benefit from, a big central office. Howdens does not offer a huge corporate hierarchy – rather, an extremely satisfying, well-paid job for committed individuals.

Howdens has grown from nothing - no name, no product, no building, no staff. Today it has more than 690 depots, 460,000 accounts in the UK and over 9,500 staff. A winning formula that everyone connected with can call their own and a model that can grow.

Andrew Livingston
Chief Executive Officer

To supply from local stock nationwide... ...the small builder's ever-changing, routine, integrated kitchen and joinery requirements...

Our Market



OUR MARKET

Howdens started operations in 1995 in the UK, where there are currently approximately 27 million homes, of which around 17 million are owned and 10 million are rented.

Howdens designs, manufactures, sources and supplies kitchens for a wide range of end-uses, including for private rentals and social housing, as well as for all kinds of owner-occupied homes.

In 2018, Howdens sold over 4 million kitchen cabinets, along with 900,000 appliances, around 700,000 sinks and taps, over 2.5 million doors and close to 3 million square metres of flooring. We expect that our contract division, which was started in 2017, can develop and increase our business with new build contractors, a growing area of the UK market.

The Market Backdrop

The UK consumer environment has been mixed for the past three years. 2016 was impacted by an increase in UK Stamp Duty on second homes and buy-to-let house purchases, as well as rapid shifts in both foreign exchange rates and in consumer confidence. 2017 and 2018 have been more stable, albeit that the subdued economic environment persisted, with the ongoing uncertainty around Brexit.

Changing Lifestyles

The kitchen is the centre of every home. As our way of life and our expectations change, so does the kitchen, which continues to become more complex and have greater functionality. As a result, the types of kitchens demanded by today's lifestyle mean that DIY is a not a reasonable option for most people.

The level of skill required to fit a modern kitchen, due to the types of cabinets, finishes and appliances, as well as regulatory requirements, is beyond many of us, and we simply don't have the time to do the work involved. In general, there is a shift towards 'done for you' rather than DIY.

We believe that it is no longer possible to have a kitchen that both looks good and works properly without the help of skilled fitters. This is why we only sell to builders. The Howdens model is designed specifically to meet their needs and we discuss it in detail on the following pages.

Consumer expectations

Expectations about what the kitchen can do, and what we can do in it, have changed significantly in the last few years. The pace of change has accelerated with the development of the internet and social media, and with a change in living styles and aspirations. There is a move from kitchens as standard cooking spaces towards kitchens as open-plan and work-space type environments. But while we all have access to information about new ideas and innovative designs, we have less time in which to make decisions about increasingly complex kitchens.

Recent technological advances have transformed the functionality and appearance of kitchens. The market demands more functionality, more choice and more sophisticated-looking finishes at entry-level prices. We need to make sure that we can offer all of these things, and that our depots stock the right products for the changing market. We look at this in more detail in our CEO report on page 22.

Dealing with complexity

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. As kitchens become more complex, we are increasing our investment in people with specific skills, such as designers, salespeople and managers, as well as on developing the next generation of skills through apprenticeships.

A major element of our service is the skilled designers we have in each of our depots. It takes an average of three visits to a home to carry out a survey, plan and make changes to a kitchen design and then show to a customer in our depot presentation room. This shows that customers need to deal with people who are knowledgeable about kitchens.

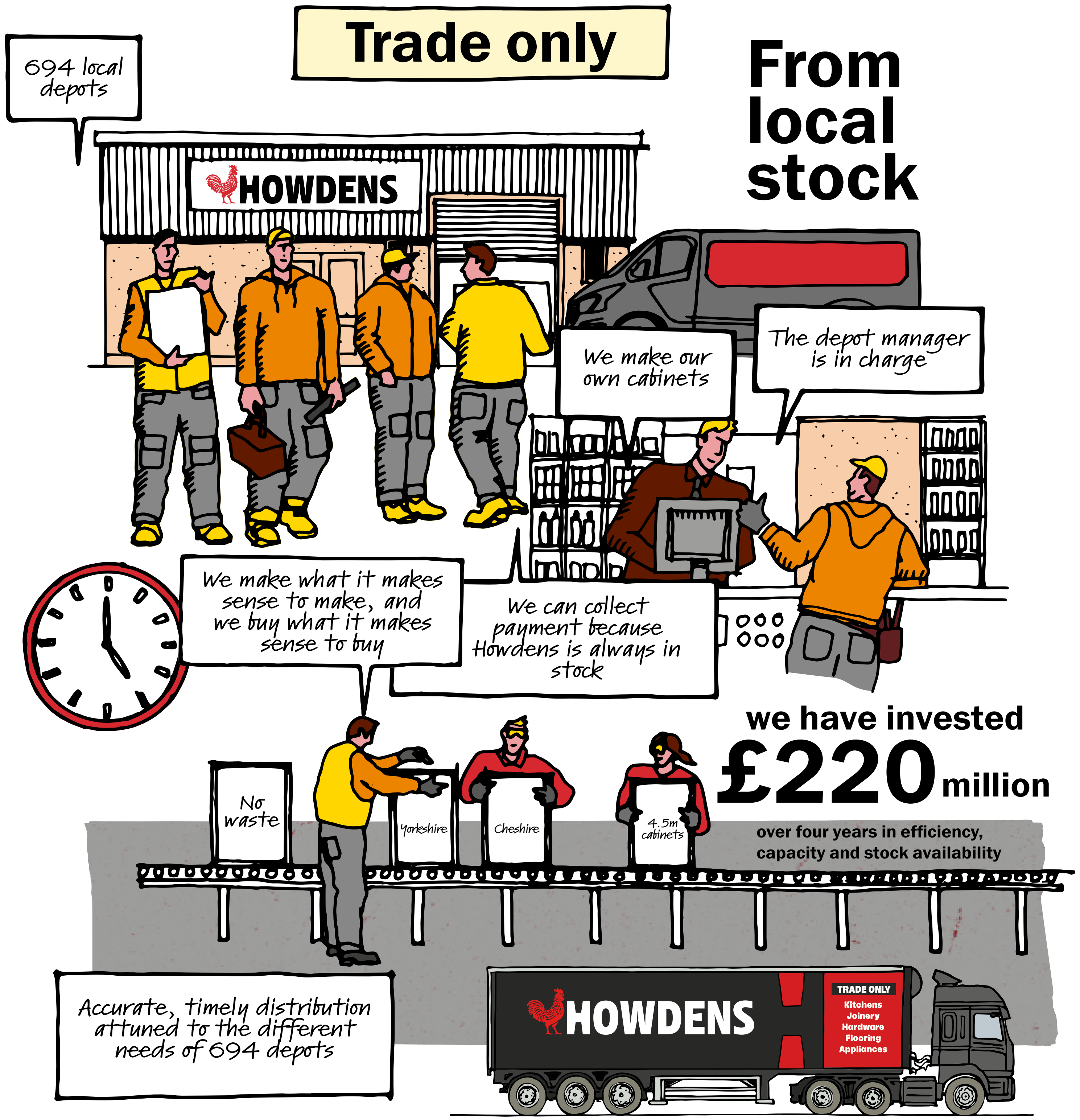
International markets

While we have grown strongly in the UK, we have also been investigating the opportunities for Howdens in continental Europe. At the end of 2018, we had 24 depots outside the UK: 20 in France, two in Belgium, one in the Netherlands and one in Germany.

We have taken the time to understand these markets and in February 2019 we announced that we are closing the operations in the Netherlands and Germany while expanding the number of depots in France. This will initially be around Paris, building a city network of depots where we know the market and can build on our customer relationships and we have the people who can develop our position.

...assuring best local price, no-call-back quality and confidential trade terms...

Our Business Model



OUR BUSINESS MODEL

Howdens is a trade-only business, selling kitchens and joinery to local builders and trade professionals from our 694 local depots in the UK. We also have depots in Continental Europe and we discuss our plans for Europe on page 23. Each local depot operates on an in-stock basis and is normally only a short drive away, allowing the builder to plan and start a job without delays.

A typical depot currently occupies around 10,000 square feet, is located on an industrial estate and costs a fraction of high street retail properties. Our current depot design costs on average £450,000 to fit out, including £150,000 of inventory, and typically breaks even by year two at £700,000 sales.

We have been looking at using new storage methods in our depots which will allow us to look to redesign them, including the possibility of opening new, smaller, depots that are roughly half the size of our traditional offering. This is discussed by our CEO in more detail on pages 20 to 22.

Manufacturing capabilities

We design and manufacture all our own cabinets (approximately 4.4 million per year) in our own factories in Yorkshire and Cheshire. Other products, including some cabinet doors and our own-brand appliances, are made to our specifications and bought in from suppliers with whom we have built long-standing relationships. We make what it makes sense to make, and we buy what it makes sense to buy.

Both of our factories serve only one customer – Howdens – and so their working practices and scheduling exactly match the requirements of our depots. 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.

Local depots

At local level, a Howdens depot opens with a manager and a small number of staff. The manager and staff are responsible for growing their account base and their sales, and for managing their own depot margin. Profit-sharing is calculated locally, not centrally. Everyone is strongly incentivised to grow a profitable, local business.

The depot manager's autonomy is a key element of Howdens' business model. Depot managers hire their own staff, do their own local marketing, set local pricing, manage the level of discount applicable to their account holders and manage their own stock levels to suit their own local customers. This means our distribution operation has to be attuned to the different needs of around 700 depots. No two deliveries are alike, and each one must be correct, complete and on time.

Trade accounts

When a builder comes into one of our depots for the first time, they can open a trade account which gives them up to eight weeks before they need to pay us. This, and the fact that we are in stock locally, means that builders can complete the job and get payment from their customer before they need to pay us. In turn, this means that we can collect our debts. The total cost of our credit control operations, including bad debts and write-offs, is less than 1% of sales.

Once the builder has had an enquiry about installing a new kitchen, they can ask one of our highly-trained designers to 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.

A flexible model

The Howdens model is efficient, flexible, scalable and recoverable – which means that when something goes wrong on a project, as it occasionally may, our local depots are empowered to fix it. Our model allows us to manage complexity effectively by combining efficient processes with an understanding of the factors that make our world chaotic rather than orderly.

...and to provide the builder's customer with enough choice...

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Our Strategy

OUR STRATEGY

Howdens' strategy is focused on kitchens and related products. Its successful execution depends on our ability to manage the complex combination of numerous skills and products in a simple and efficient way. This ability has been developed since we started operations in 1995.

Invest for growth

Our strategy is to invest for future growth. In order to deliver the potential we see in our market and ensure stock availability in depots as we expand, we have invested around £220 million in the past four years in our manufacturing and distribution to improve efficiency, provide for disaster recovery and increase capacity in anticipation of the continuing growth of the business, as well as implement upgrades of our digital capabilities.

Expand our depot network

Our strategy is to expand our depot network and expand the range of products we can sell to the builder, increasing our total addressable market. While we take account of market conditions in planning the 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 illustrated 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.

We believe that there is some way to go before we have saturated the UK market and we see continue to see significant opportunities to grow our business, with scope for up to 850 depots, some of which will utilise a smaller depot footprint. We discuss our expansion plans in more detail in our CEO's report on pages 18 to 23.

People Development

Our strategy is to develop our people. Howdens' success is based on customer service: we do what we say and say what we mean. We seek to ensure that everyone in the business practises this principle, and stays focused on this and on all the other elements of our culture.

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.

Prudent financial management

Our strategy is to commit to prudent financial management. We maintain sufficient cash balances to allow us to meet the requirements of the working capital cycle, taking into account the marked seasonality of the business and returning surplus cash to shareholders as appropriate, which has been via share repurchases and dividend payments.

We discuss our uses of cash in more detail in our financial review on pages 27 to 28. Our dividend policy is on page 27.

Actions in 2018

We have transferred our main distribution operations to a 650,000 square foot national distribution centre, built in 2017 at Raunds, near Northampton, replacing our old distribution centre on the outskirts of the town. We have also made significant, ongoing investments in Howdens' systems infrastructure to ensure that our processes are robust and efficient.

Other activities included developing a new website, and introducing new products such as worktops, oak cabinets and pre-finished doors that meet the builder's constantly evolving needs. These all support our strategy of growing the business.

Chief Executive's statement

Pressing ahead

This is my first review as Chief Executive of Howdens since taking over from Matthew Ingle in April 2018. Howdens knows its objectives: to help our trade customers achieve exceptional results for their customers and to profit from doing so. When our customers succeed, we succeed.

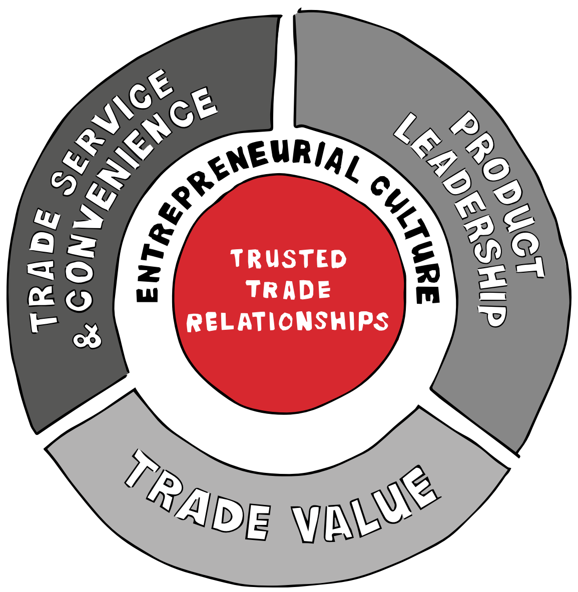
Our model is a powerful combination of locally empowered depot management teams served by a dedicated supply chain, which is both cost effective and critical to the success of our in-stock offer.

A key feature of Howdens success is our trade customer focus, which underpins everything we do. We believe the best way to source and install a kitchen is to work with your local tradesperson as kitchen installation requires professional skills and the purchasing decision can be both complex and time consuming. The installation is often linked to other developments in the home, an extension or breaking through a wall to create open living space. The builder is best placed to co-ordinate the kitchen project, backed by Howdens support and resources, throughout the entire process.

Our depot managers set us apart. They bring a determination to succeed, have a can-do attitude, are commercial and are incentivised to be so. You should be all of these things when dealing with entrepreneurial customers.

All of this makes our business model very difficult both to replicate and compete against.

Our relationship with trade customers has three key facets, each underpinned by our entrepreneurial culture:



Trade Service and Convenience: Depots located where our customers need them; monthly account facilities; product in stock to get the job done including appliances, joinery, flooring and hardware. A design service to help customers choose and plan kitchens.

Product Leadership: Product design and testing facilities ensure that we offer the right product styles that are attractive to consumers; designed to be trade quality and easy to fit with the builders in mind ("fit and forget quality").

Trade Value: At best local trade prices enabled by in-house manufacturing, long-term key supplier agreements and a low-cost depot operating model.

2018 PERFORMANCE

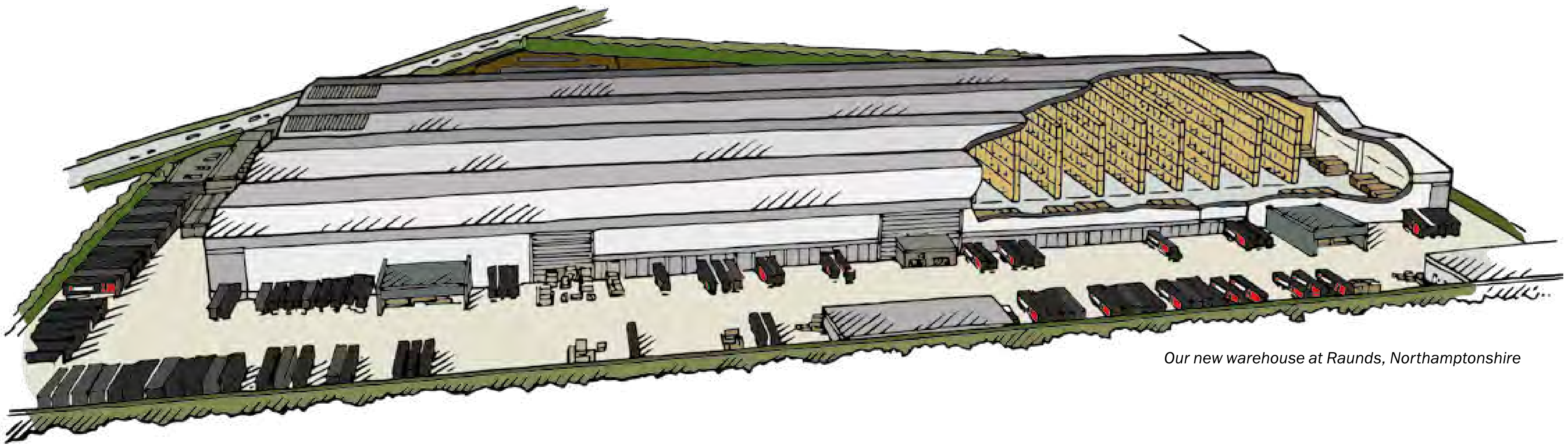
We were pleased with the performance for the year and particularly progress in the second half. In 2018, revenue increased by 7.7% and profit before tax rose to £238.5m. We ended the year with £231m in cash, after investing £44m and returning £131m to shareholders.

More information about our financial performance can be found in the Review of Operations and Finance starting on page 27.

Investment

We have continued to invest where necessary to support our plans for the business. Investments made or completed include:

- Increasing our distribution capability with a successful transition into a new 650,000 sq. ft. warehousing facility in Raunds, Northamptonshire. The first phase of this new facility was operational during our peak Period 11 trading period and delivered 100% on time in full during that time;
- Opening 33 UK depots during 2018, an increase on the 19 opened in the prior year and bringing the total to 694. Of the depots opened, 18 were in the new format, which we describe on the following page;
- Introducing new product ranges, including 18 new kitchen ranges, new worktops, doors and hardware. New product development continues to be essential as tastes and fashions in kitchens change rapidly and these are now being researched and products tested through a new Product Development Centre; and
- Relaunching the website onto a new scalable and responsive platform, allowing our trade customers and end consumers to browse our product offering more easily, using their choice of device. The migration was completed with no adverse effects and weekly traffic, of which more than half is now by smartphone, has been growing strongly. This investment has also made us more visible to end consumers earlier in their kitchen design and purchasing journey.



Our new warehouse at Raunds, Northamptonshire

Chief Executive's statement

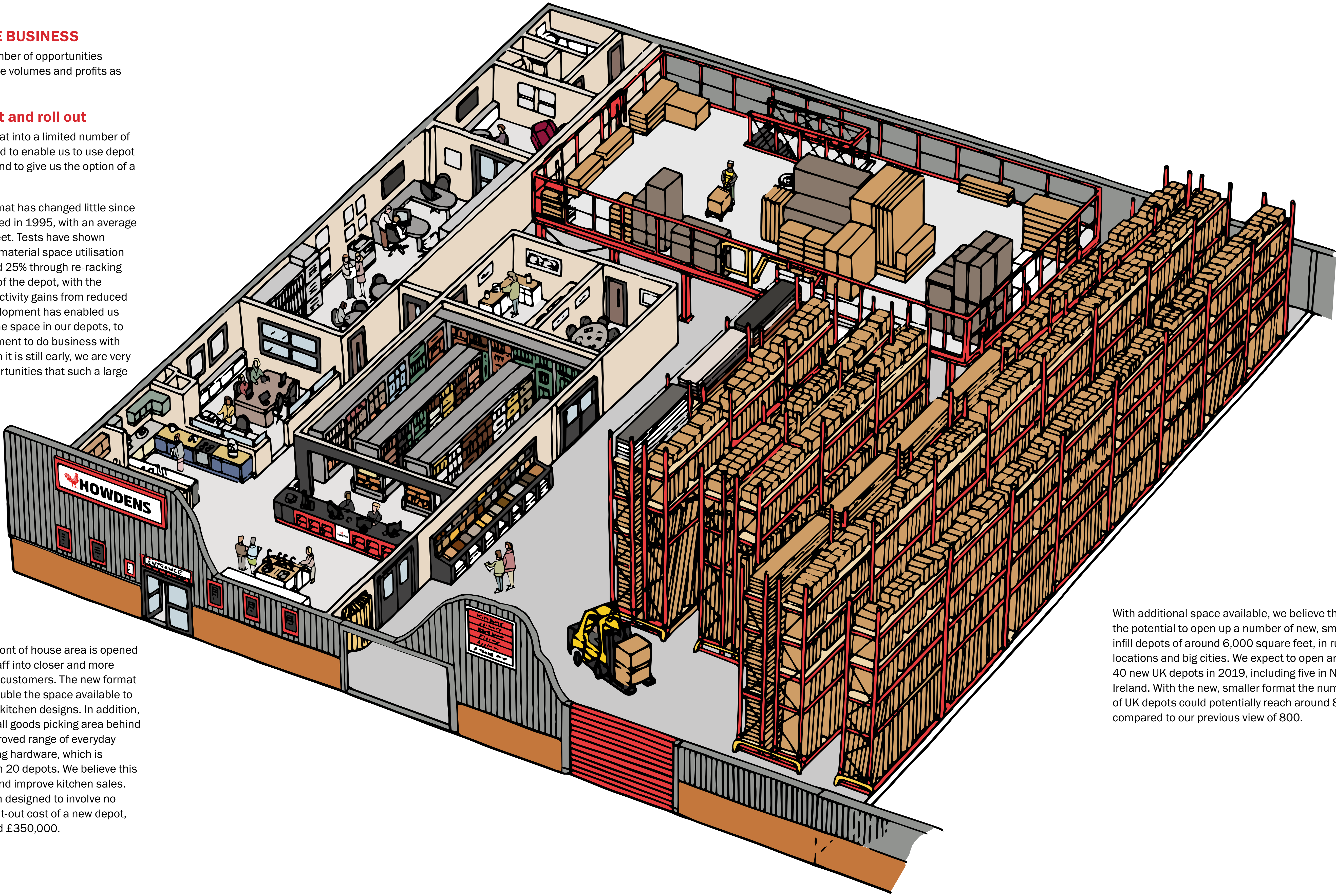
DEVELOPING THE BUSINESS

We are prioritising a number of opportunities with potential to increase volumes and profits as described below.

New depot format and roll out

We have put a new format into a limited number of depots which is designed to enable us to use depot space more efficiently and to give us the option of a smaller footprint.

The Howdens depot format has changed little since the business was founded in 1995, with an average size of 10,000 square feet. Tests have shown there are ways to make material space utilisation improvements of around 25% through re-racking the warehouse section of the depot, with the potential to make productivity gains from reduced picking times. This development has enabled us to rethink how we use the space in our depots, to create the best environment to do business with our customers. Although it is still early, we are very encouraged by the opportunities that such a large space saving opens up.



In the new design, the front of house area is opened up to bring our depot staff into closer and more immediate contact with customers. The new format also provides around double the space available to display a wider range of kitchen designs. In addition, there is space for a small goods picking area behind the counter with an improved range of everyday essential items, including hardware, which is currently being trialled in 20 depots. We believe this will encourage footfall and improve kitchen sales. These depots have been designed to involve no material change to the fit-out cost of a new depot, which remains at around £350,000.

With additional space available, we believe there is the potential to open up a number of new, smaller, infill depots of around 6,000 square feet, in rural locations and big cities. We expect to open around 40 new UK depots in 2019, including five in Northern Ireland. With the new, smaller format the number of UK depots could potentially reach around 850, compared to our previous view of 800.

Chief Executive's statement continued

We also see potential to use this format to update our mature depots as a means to enhance volume growth and improve operational efficiency at these depots. We have converted three of our older depots and these are now trading in the new format. A further six depots will be converted by June 2019 and we will trade these through peak period 11 trading before drawing any conclusions as to the sort of returns we can expect.

Range management and replenishment

We aim to reduce kitchen range complexity to help customers buying decisions and to access supply chain and other product handling benefits.

Having our product in-stock and available locally has always been a key point of competitive difference and our customers tell us that high stock availability is vitally important in the running of their businesses.

Kitchens are becoming more complex and consumers expect more choice. The trend for the more industrial look continues with the combination of darker grey tones with warmer timber becoming increasingly popular. In addition, alongside the popular grey and navy ranges, we have been introducing new charcoal ranges and synthetic technologies continue to improve, offering affordable alternatives to real wood finishes.

At the end of 2018 we had over 70 kitchen ranges on offer, each comprised of about 100 product items. Five years ago, we had around 40 ranges.

New kitchen ranges each year represent a significant portion of sales as the product lifecycles shorten. We need, however, to manage our kitchen portfolio efficiently. We have made some progress in this area: last year we sold an increased amount of new product with the introduction of 18 new kitchens compared with 27 in 2017.

Aligned with kitchen range management a priority is to be more disciplined about both the timing of discontinuation of underperforming ranges and how we manage the clearance of stock from the business.

We are also reviewing the stocking points across our product items, both locally in each depot and in our primary warehouse locations. By rebalancing our stock levels, we believe we can continue to offer the product options customers expect, while making it simpler for depots to deliver the service levels demanded.

Digital development

We see digital as an enabler and reinforcer to the strong local relationships between depots and their builders.

We are building a digital platform which is purposed in the coming years to:

- improve the interface between Howdens, tradespeople and their customers
- increase builder and consumer awareness of Howdens to help our customers sell Howdens product
- streamline operating processes, freeing up time for depot staff and customers to use more productively

Whilst recognition of the Howdens brand is high within the trade, it is lower among consumers. Howdens historically has not been well positioned for online kitchen searches. In 2019 our search engine optimisation enhancements will move Howdens.com into more prominent positions, raising brand awareness with consumers. Our online search capabilities will become increasingly flexible and consumers will be able to refine their style and product selections more easily, enabling a more detailed discussion of their needs with their builders and our designers.

Trade customers are always on the move and many rely heavily on their mobile devices to manage their businesses. Our digital programme will put a tradespersons' local depot in their pocket, enabling access to product information. Later this year we will test a secure customer-only area of the website where the tradespeople can manage their details, view account information and pay bills at any time.

2019 improvements will allow faster access to and sharing of information supporting in-depot conversations. This digital interaction will also allow us to streamline our operating processes so that we can respond more quickly to customers, freeing up time for depot staff and customers to use more productively.

International Operations

Howdens has been trading in France since 2005, expanding the number of trial depots, since 2012, into more areas of France, as well as into Belgium, the Netherlands and Germany.

By sticking to the fundamental operating principles and values of the UK business, we believe that we can have a successful business in France.

The performance of the mature French depots is similar to the UK in terms of revenue per depot and the average number of kitchens our customers buy. Customers appreciate the quality of the product, price, availability and knowledge of staff. It also appears that depots in small clusters within cities perform better, partly due to word of mouth between customers, the ability to establish a quality, trusted brand locally and being able to develop the people necessary to run a Howdens depot.

In contrast to the UK, we have found that France has a lower proportion of integrated kitchens and a higher proportion of kitchens that are sold through retail, DIY and specialist shops. This provides us with potential growth opportunities as the kitchens purchased become more integrated and customers appreciate the benefits of buying a kitchen in a different way, the Howdens way.

Although timing is subject to the outcome of Brexit negotiations, we plan to open four depots in the Paris area this year to test our city strategy.

After a recent successful test in Paris, the operation will now be rebranded from Houdan to Howdens as in the UK to gain advantage from the brand equity, online search reputation and business efficiencies. In order to focus on France, I have decided to close our operations in Germany and the Netherlands – and the depots ceased trading in January 2019. Depots in Belgium remain unchanged and continue to be managed by the French structure.

Finally, I would like to take this opportunity to thank everyone at Howdens for their support in making this CEO transition happen so smoothly. We remain cautious on market conditions given economic uncertainties, particularly the impact Brexit may have, however I am encouraged by the start we have made to the year and with the response of the depot managers and the field teams to the initiatives I have outlined.

We have a lot to look forward to over the coming years in Howdens and I am very proud to be leading it.

Andrew Livingston
Chief Executive Officer

27 February 2019

Key Performance Indicators

St Strategy   Ri Risk   Re Remuneration

FINANCIAL

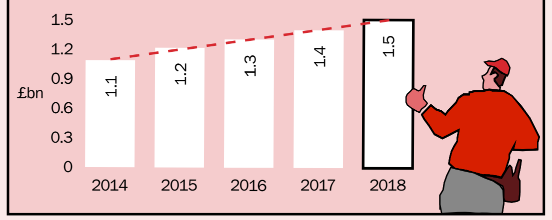
SALES GROWTH

Why we measure it
We believe that there are considerable opportunities to grow sales. As sales grow, we believe there are economies of scale which will also allow us to grow long-term profitability.

Links to strategy, risks and remuneration

- Ri Failure to maximise growth potential.
- Re Depot staff bonuses are directly linked to their depot's sales.

Progress
We saw total UK sales of £1.5bn in 2018, representing annual growth of 7.7%.



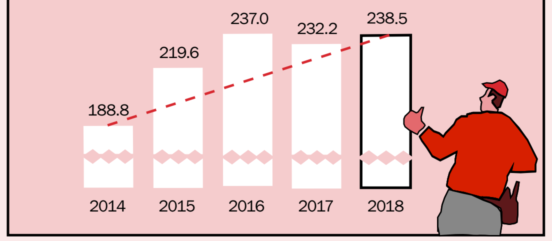
PROFIT BEFORE TAX

Why we measure it
Profit before tax is a simple and widely understood measure. We consider that it gives a complete picture of our performance as it includes all of our operating, selling and distribution, admin and financing expenses.

Links to strategy, risks and remuneration

- Ri Failure to maximise growth potential.
- Ri Deterioration of model & culture.
- Re Executive Committee and senior management bonuses are directly linked to PBT.

Progress
Profits before tax went from £232.2m in 2017 to £238.5m in 2018.



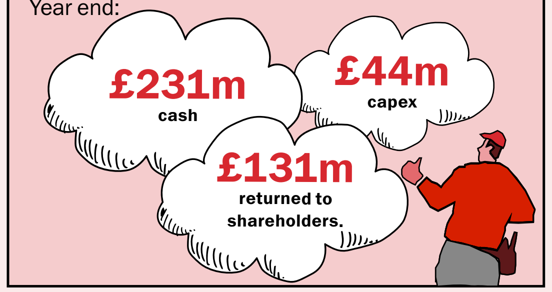
CASH

Why we measure it
We aim to generate sufficient cash throughout the operating cycle to cover our investment needs, to retain at least one year's working capital requirement and to pay a dividend in line with our stated dividend policy (detailed on page 27).

Links to strategy, risks and remuneration

- St Prudent financial management.
- St Invest in our people & infrastructure.
- St Return surplus cash to shareholders.
- Re Executive Committee and senior management bonuses are directly linked to cash generation targets.

Progress
Year end:



NON-FINANCIAL

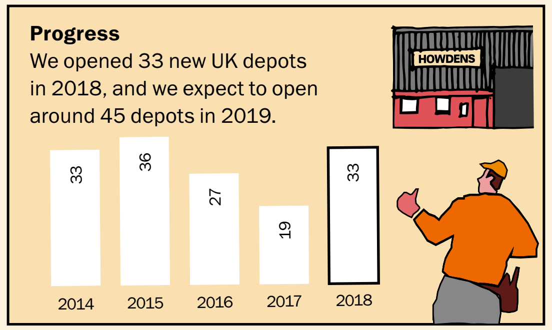
DEPOT OPENINGS

Why we measure it
We believe that there is some way to go before the UK market is saturated. We continue to identify possible sites for new depots over the medium term whilst at the same time keeping our model flexible, and allowing us to take account of economic conditions and phase the speed of our growth accordingly.

Links to strategy risks and remuneration

- St Expand our UK depot network.
- Ri Failure to maximise growth potential.
- Ri Deterioration of model & culture.

Progress
We opened 33 new UK depots in 2018, and we expect to open around 45 depots in 2019.



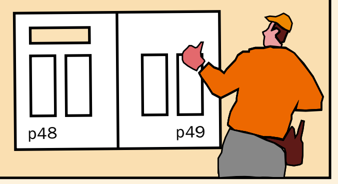
HEALTH & SAFETY

Why we measure it
We have over 9,500 employees working in our factories, our logistics operation, our support sites and our depots and we need to keep them all safe at work.

Links to strategy risks and remuneration

- St Our people.
- Ri Health & Safety.

Progress
See page 48 for more details.



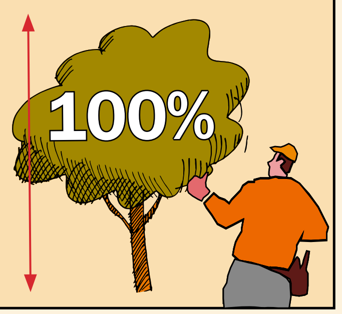
USE OF FSC® CERTIFIED MATERIALS

Why we measure it
We are committed to being a responsible business and we use over a quarter of a million cubic metres of chipboard and MDF in our factories. Ensuring that this all comes from FSC® certified sources gives us assurance over the provenance of this material.

Links to strategy risks and remuneration

- Ri Product relevance.
- Ri Continuity of Supply.

KPI
100% of wood-based material used in our manufacturing processes from FSC® certified sources for the last 5 years



Strategic report
Governance
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Additional information

Key Performance Indicators continued

St Strategy Ri Risk Re Remuneration

NON-FINANCIAL

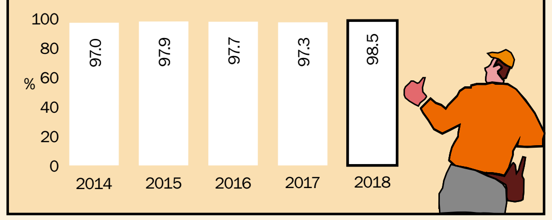
PRODUCTION WASTE RECYCLING

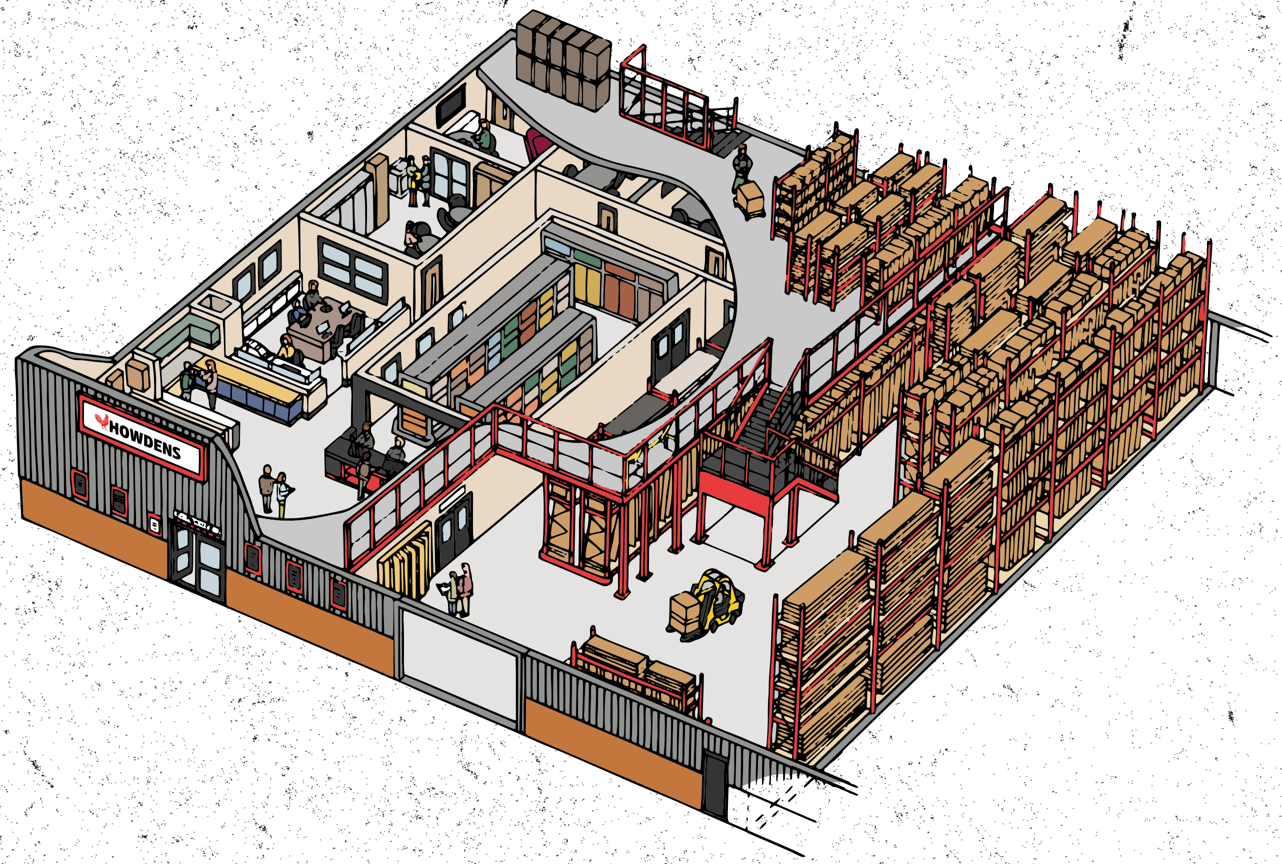
Why we measure it
One of the pillars of our business model is our efficient production, which gives us a significant cost advantage. Recycling as much of our waste as we can reduces our costs and helps us to deliver long-term sustainable returns.

Links to strategy, risks and remuneration

St Prudent financial management.

Progress
98.5% of our production waste was recycled or reused. See page 54 for more details.





Review of Finance and Operations

FINANCIAL RESULTS FOR 2018

The information presented here relates to the 52 weeks to 29 December 2018 and the 53 weeks to 30 December 2017, unless otherwise stated.

Revenue

Total Group revenue increased £107.5m to £1,511.3m. Howden Joinery UK depot revenue rose 7.7% to £1,477.3m (2017: £1,372.0). UK revenue increased by 6.3% on a same depot basis (i.e. excluding depots opened in that year and the prior year) to £1,449.6m in 2018 (2017: £1,340.0m). This excludes the additional revenue from depots opened in 2017 and 2018 of £27.6m (2017: £8.1m).

Revenue £m	2018	2017
Group	1,511.3	1,403.8
comprising:		
Howden Joinery UK depots	1,477.3	1,372.0
Howden Joinery continental Europe depots	34.0	31.8

Depot revenue in Continental Europe was £34.0m (2017: £31.8m). On a local currency basis, sales at our French depots increased by 4.4%, and by the same amount on a same depot basis, as there were no new depots opened in 2017 or 2018.

Gross Profit

Gross profit increased to £932.2m (2017: £888.4m). The gross profit margin of 61.7% (2017: 63.3%) was impacted by lower prices in the first quarter of 2018, as a result of giving depots more flexibility over margin, and general cost inflation, with selling prices only being increased in April 2018.

Operating Profit

Operating profit, including the one-off £3.8m GMP equalisation charge[1], rose to £240.1m (2017: £234.4m), giving an operating profit margin of 15.9% (2017: 16.7%).

Selling and distribution costs and administrative expenses were £692.1m (2017: £654.0m). Costs increased, as expected, due to continued investments in areas across the business, including new depots, digital upgrades, the effects of moving from our older distribution centre to Raunds and the additional depreciation arising from recent investments. There was also the one-time GMP equalisation charge of £3.8m and the absence of the additional £8.0m of costs incurred in 2017 owing to the 53rd week of trading.

Profit before and after tax

The net interest charge was £1.6m (2017: £2.2m), reflecting a £2.3m (2017: £2.4m) finance expense in respect of pensions. Profit before tax, after including the £3.8m GMP equalisation charge, was £238.5m (2017: £232.2m). Without the GMP equalisation charge, profit before tax would have been £242.3m (2017: £232.2m).

The tax charge was £48.1m (2017: £47.2m), representing an effective rate of tax of 20.2% (2017: 20.3%). As a result, profit after tax was £190.4m (2017: £185.0m).

Reflecting the above and the reduced share count following share repurchases, basic earnings per share were 31.3p (2017: 29.9p).

Dividend

The Group's dividend policy is to target a dividend cover of between 2.5x and 3.0x, with one third of the previous year's dividend being paid as an interim dividend each year.

The Board has recommended to shareholders a final dividend of 7.9p (2017: 7.5p), giving a total dividend for the year of 11.6p (2017: 11.1p), an increase of 4.5%. This equates to a dividend cover of 2.7x (2017: 2.7x).

The final dividend payment of 7.9p per share will, if approved by shareholders, be paid on 21 June 2019, with an ex-dividend date of 23 May 2019 and a record date of 24 May 2019.

Cash

There was a net cash inflow from operating activities of £163.2m (2017: £176.7m).

Net working capital increased by £49.7m, as expected, mainly due to debtors that were up by £48.2m. This was due to Period 11 trading ending in early November, allowing payments to fall into the 2019 financial year, which started on 30 December 2018. Stock increased £18.0m due to new kitchen ranges and depot openings, partly offset by creditors, up £16.5m. Capital expenditure on assets including depots, the new Raunds distribution centre and digital, totalled £44.3m (2017: £48.5m). Net tax paid was £45.4m (2017: £41.8m), dividends paid were £68.3m (2017: £68.4m) and share repurchases totalled £62.2m (2017: £47.9m).

1 The non-recurring Guaranteed Minimum pension (GMP) equalisation charge of £3.8m is in respect of equalising Guaranteed Minimum Pension entitlements between female and male members of the defined benefit (DB) pension plan between 1978 and 1997. This is an issue that affects all UK DB pension plans, although it is only since the High Court ruling in a test case in October 2018 that there was some clarity as to the obligations which exist and the range of suitable ways in which to measure them.

Review of Finance and Operations continued

Overall, there was a net cash outflow of £9.8m, leaving the Group with net cash of £231.3m at year end (30 December 2017: £241.1m net cash).

The Group reached agreement to extend its existing bank facility until December 2023.

Share repurchase

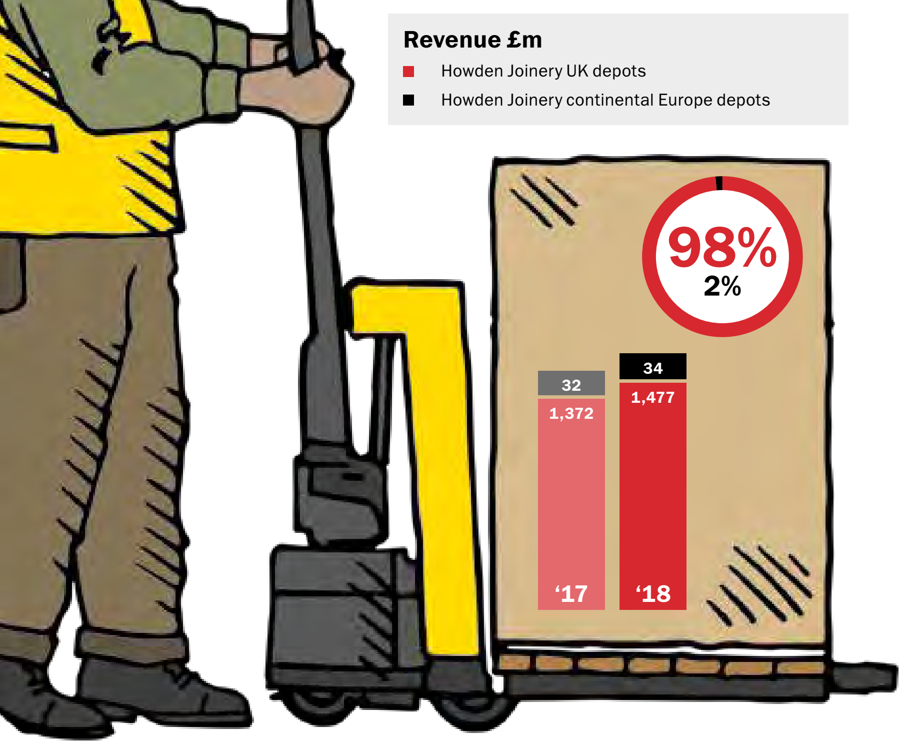
The Board targets a capital structure that is both prudent and recognises the benefits of operational and financial leverage, and that, after considering our capital requirements, will return surplus cash to shareholders as appropriate. The Group has significant property leases for the depot network and continues to have a material deficit in the Group pension fund. 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 regularly reviews the Group's cash balances in light of future investment opportunities, expected peak working capital requirements, trading outlook and dividend payments.

In February 2017, we announced an £80m share repurchase programme, of which £32.1m was remaining at the start of 2018. In March 2018, we announced a further share buyback programme of £60m to be completed during the following two years.

During 2018, the Group acquired 12.8m shares for a consideration of £62.2m. This completed the February 2017 share repurchase programme and £30.0m of the March 2018 programme remains. Shares that were bought in the market by our brokers during 2018 were cancelled.

Following the Board's recent review, it has decided to complete the remaining £30m of the £60m 2018 share buyback programme and return a further £50m to shareholders through another share purchase programme, over the next two years.



Pensions

At 29 December 2018, the pension deficit shown on the balance sheet was £36.0m (30 December 2017: £109.3m). The reduction in the deficit was due to a £105.3m reduction in liabilities (primarily due to an increase in the discount rate) and a £42.2m cash contribution, partly offset by a reduction in asset returns.

In July 2015, we announced that an agreement had been reached with the Trustees in relation to the schedule of payments towards the funding of the Group's defined benefit pension scheme deficit from April 2015. It was agreed that the Group would continue to make deficit contributions equivalent to £35m per annum until 30 June 2017. It was also agreed that the Group would make an 'interim' payment of £25m over the period July 2017 to June 2018.

On 28 June 2018, we announced that, following the triennial actuarial valuation of the scheme as at 5 April 2017, we had reached agreement with the Trustees of the defined benefit pension scheme in relation to the schedule of payments required to fund the scheme deficit. We will make annual deficit contributions of £30m per annum for up to five years until June 2023.

The funding position will be monitored on an ongoing basis, and deficit contributions will be suspended should the scheme's funding position improve to at least 100 percent of the scheme's funding basis for two consecutive months and resumed if the funding position subsequently falls back below 100 percent.

The agreement resulted in a contribution to the pension deficit in the financial year ended 29 December 2018 of £27.5m.

OPERATIONAL REVIEW

Howdens knows its objective: to help our trade customers achieve exceptional results for their customers and to profit from doing so. When our customers succeed, we succeed.

Our model is a powerful combination of locally empowered depot management teams served by a dedicated supply chain, which is both cost effective and critical to the success of our in-stock offer.

A key feature of Howdens success is our trade customer focus, which underpins everything we do.

UK depot rollout and operations

During 2018, 33 new depots were opened, bringing the total number of depots trading at the end of the year to 694. Of the new depots, 18 were in the new format, described below. Our account base was approximately 466,000 accounts at year end, with revenue per account growing. Our debt collection performance continues to be robust.

Product and marketing

2018 saw the introduction of 18 new kitchen ranges, across all price points, including 10 Shaker styles, four integrated handle and four Slab styles. At the end of 2018, more than 70 current kitchen ranges were on offer.

Other new developments included:

- a new grey oak cabinet
- four thin laminate worktops and an extension of our quartz worktop range
- a new range of prefinished moulded and oak doors, which saves time for the builder
- an expansion of our fire door range and fire-rated hardware packs

We continue to enhance the marketing of our products and services, enabling our builder customers and their customers to see the full breadth and depth of the Howdens offer. Building on the success of the Trade Book, which was first printed in 2017, a new Trade Book was published in September, along with two new kitchen brochures published in February and September.

September also saw the launch of the new www.howdens.com website. The new site can be viewed on desktop, tablet and smart phone and offers customers improved product search and information.

Later this year, we will test a secure customer-only area of the website where builders can access their account details and interface more efficiently with their local depot. The new website, with our search engine optimisation, will be more prominent to end consumers and be more flexible with regard to style and product selections when choosing a new kitchen.

Manufacturing and logistics operations

Our UK-based manufacturing and logistics operations are vital in enabling us to supply our small builder customers from stock available locally. This requires us to have the scale, space and flexibility to respond to each depot's individual needs, especially during our peak 'Period 11' trading, when sales are more than double the level in other periods.

During 2018, a number of investment projects progressed, as follows:

- continued ramp up of the new cabinet production facilities at Howden and Runcorn sites; and
- increased distribution capability with the successful transition into a new warehousing facility in Raunds, Northamptonshire, the first phase being 650,000 sq ft. The new facility delivered 100% on time, in full, during Period 11, the busiest time of the year

Continental Europe

At the end of 2018, there were 24 depots across France, Belgium, the Netherlands and Germany. We believe there is the potential for a successful business based in France. The French market has low penetration rates of integrated kitchens and most kitchens are purchased through DIY outlets and specialist shops, which is similar to the way the UK market was structured when Howdens was founded. Based on the way depots perform in their local areas we think the French trade customer and consumer can see the benefits of buying a kitchen though the trade. We also believe that depots in small clusters within cities perform better, partly due to word of mouth between customers and also because of our ability to build a local and trusted brand. Clustering also helps to build the Howdens culture within our business teams. We have therefore decided to develop our operation in France by way of a City-based strategy. Although timing is subject to the outcome of Brexit negotiations, we plan to open four more depots in Paris in 2019 as we build the management capabilities required for any further expansion. Belgian depots continue to trade and are run within the French field structure.

The single depot operations in the Netherlands and Germany were closed in January 2019.

Review of Finance and Operations continued

CURRENT TRADING AND OUTLOOK FOR 2019

Current trading

Howden Joinery UK depots sales in the first two periods of the new financial year (to 23 February), increased by 4.0%, with one fewer trading day than in 2018. Adjusting for the one fewer trading day, sales in 2019 would have been up 5.1%.

On a same depot basis (i.e. excluding depots opened in the year and the prior year), UK revenue increased by 2.4%, or 3.5% adjusted for the one fewer trading day.

Outlook for 2019

The Group believes that there is the potential for the number of depots in the UK to be increased from the 694 operating at the end of 2018, to around 850 depots. During the course of 2019, we plan to open around 40 depots in the UK and Northern Ireland (one already having been opened), and around four in the Paris region.

Regarding the Group's financial performance, we expect further operating costs of £15m in respect of closing the operations in the Netherlands and Germany, digital upgrades and additional depreciation. These are in addition to the impact of on-going growth in the business, inflationary pressures, new depots and any impact of foreign exchange rates.

Capital expenditure of around £60m is expected, including further investment in new depots, digital upgrades and the next phase of the Raunds distribution centre.

We remain cautious given economic uncertainties, particularly the impact that Brexit might have. In preparation for a 'No-Deal' Brexit, our worst case scenario, a number of measures have been taken. Our stocking policy for at-risk items has been adjusted to secure continuity of supply during the transition. As a result, around £15m additional inventory has been purchased and key suppliers are also making plans to ensure supply. In addition, we are looking closely at the options for our inbound supply routes and pursuing appropriate logistics accreditation, including Authorised Economic Operator status, to reduce potential customs delays. Further details of Brexit risks and mitigations can be found on page 34.

Whilst we remain aware of the economic uncertainties that we face, we are encouraged by the start we have made to the year and remain confident in our business model for the future.

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.

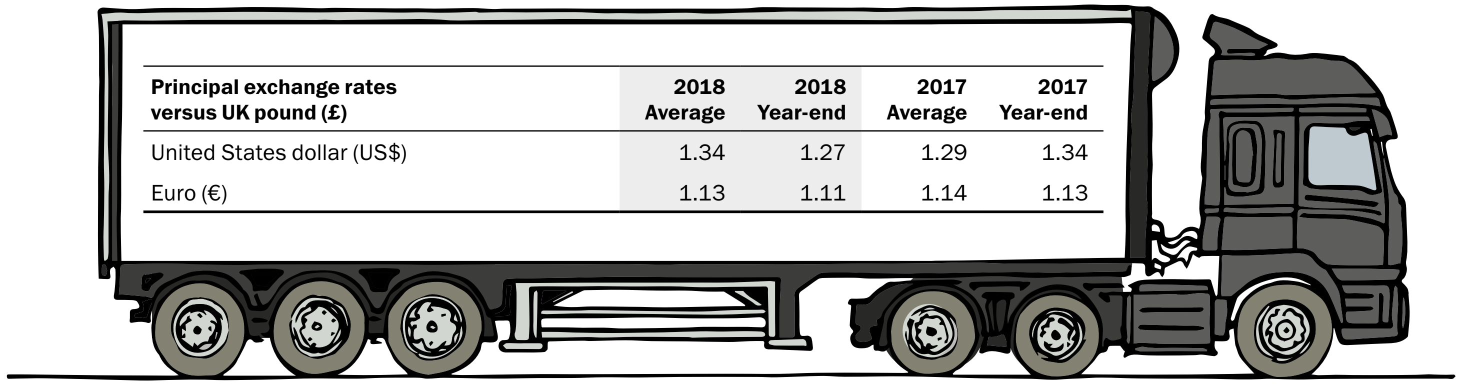
The net favourable impact of exchange rates on currency transactions in the year was £1.1m. The principal exchange rates affecting the profits of the Group are set out in the table on the following page.

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

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.



Principal exchange rates versus UK pound (£)	2018 Average	2018 Year-end	2017 Average	2017 Year-end
United States dollar (US$)	1.34	1.27	1.29	1.34
Euro (€)	1.13	1.11	1.14	1.13

The Group has a committed, 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 2018 and has been renewed and is now due to expire in December 2023.

The Group's committed borrowing facility contains certain financial covenants which have been met throughout 2018. 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 2018 year end, the Group had £231m of cash and £138m of funds available to borrow under the committed borrowing facility.

Interest rate risk

The Group has not had any borrowings during 2018 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 2018 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

27 February 2019

Principal risks and uncertainties

Our approach to risk is adaptive. We aim to protect what we have while responding to opportunities to grow and create value.

OUR APPROACH TO RISK

When we look at risks, we specifically consider the effects they could have on our business model, our culture and our long-term strategic objectives. These are set out on pages 10 to 17, and we encourage you to refer to them as you read this section.

We consider both short and long-term risks within a timeframe of up to three years, and we consider financial risks as well as environmental, social and governance risks.

RISK APPETITE

"Risk appetite" describes the amount of risk we are willing to tolerate, accept or seek. Our risk appetite is determined by the nature of the risk and how that risk could affect us.

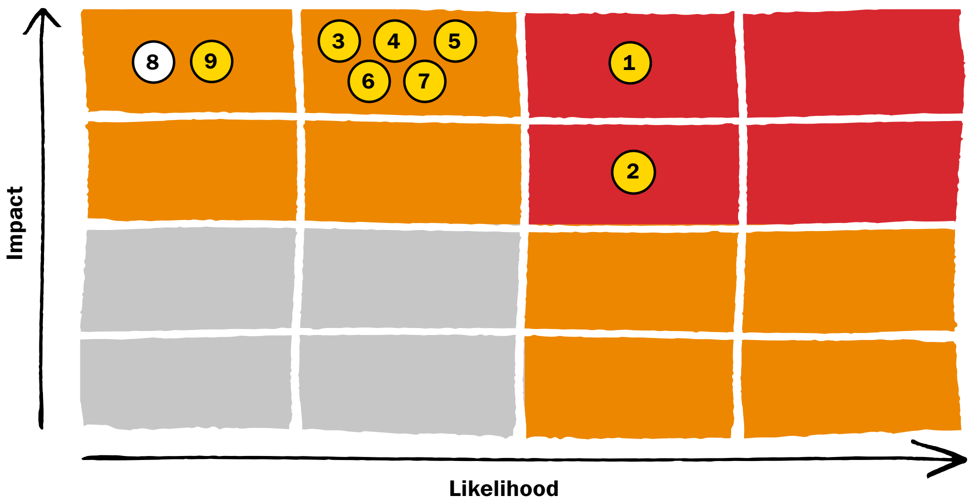
We have a higher appetite for risks that present us with a clear opportunity for reward, and we actively seek out those that provide the greatest opportunities.

We have some appetite for risks with a possible opportunity for reward. With these risks, we carefully balance our mitigation efforts with our view of the possible rewards.

We have a very low appetite or tolerance for risks that only have negative consequences, particularly when they could adversely impact health & safety, our values, our culture or business model. We aim to eliminate these risks with our mitigation efforts.

RISK HEAT MAP

To help visualise our principal risks, we have plotted them on the heat map below. The individual risks are described in more detail on the following pages.



Risk

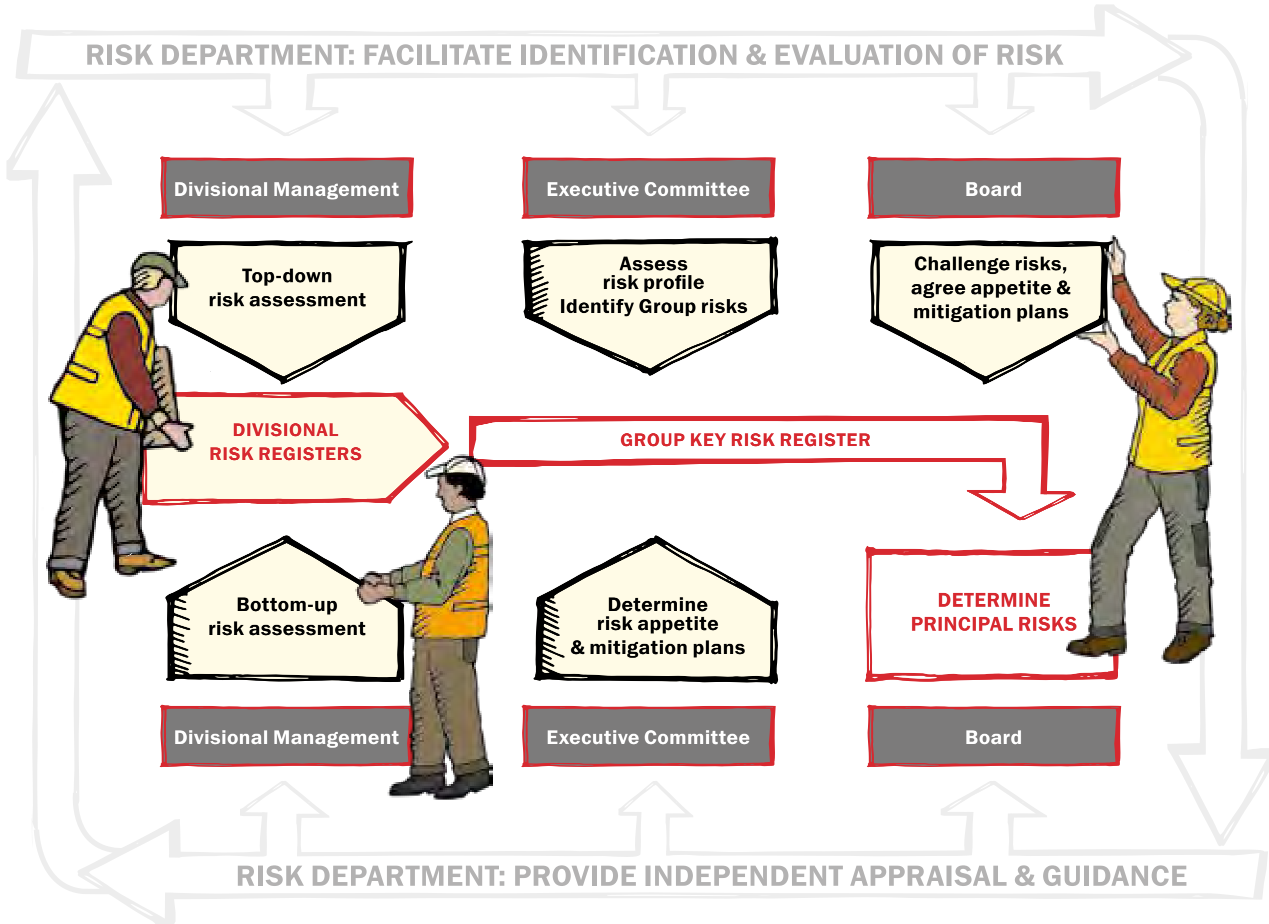
1 Failure to maximise growth potential
2 Deterioration of business model and culture
3 Changes in market conditions
4 Interruption to continuity of supply
5 Loss of key personnel
6 Health and Safety
7 Cyber security incident
8 Product design relevance
9 Credit control failure

Risk movement in 2018

- Increased
- Stayed the same
- Decreased

THE RISK MANAGEMENT PROCESS

The main steps in the process are set out below:



- **Divisional Management** review their risks regularly, to update their **Divisional Risk Register**. They assess the likelihood and impact each risk could have on the business if not managed, identify what mitigations are in place to establish how much risk remains and discuss future mitigation strategies, where appropriate. They do this on both a top-down and a bottom-up basis.
- The **Group Key Risk Register** is formed of our most significant risks from across the entire business and gives an overview of how our risk profile is changing, how risks are being managed currently and future mitigation plans for review.
- **The Executive Committee** then review the Group Key Risk Register to assess any changes to the Divisional risk profiles. They also identify the risks that they are managing at a Group level. They then determine risk appetites and future mitigation plans for the Board to review.
- **The Board** challenge and agree the Group key risks, appetites and mitigation strategies twice yearly and use this information to **determine the Group's principal risks**.
- **The Group Risk Department** facilitates the identification and evaluation of risks, providing independent appraisal and guidance across the Group.

The principal risks are also taken into account in the Board's consideration of Long-Term Viability, as described in the Group Viability Statement on page 38.

Principal risks and uncertainties continued

BREXIT RISKS

In line with the way we manage risks within the business, we have not presented a separate principal risk relating to Brexit. Brexit will impact a number of our existing risks, with the severity and timeframes varying significantly, depending on No-Deal or Deal scenarios.

The following table summarises some of the key risk areas impacted by a 'No-Deal' Brexit; our worst case scenario. It also shows which of our principal risks these elements are managed under, and gives examples of key mitigating actions.

What are the No-Deal Brexit risks	What this could mean to us	What we are doing about this	Managed within principal risks
Trade & Customs Risks • No longer inside the EU Single Market/Free Trade Area • Exit from the EU Customs Union • No agreed regulatory co-operation	• Tariffs could lead to higher prices for product and raw materials sourced from EU • Supply chain delays as goods sourced from outside the UK come through a new customs regime • Regulatory uncertainty as recognition of UK standards and regulations ceases across the EU	• Modelling the challenges and opportunities across the supply chain • Reviewing the way in which we obtain our products is the most cost effective after Brexit • Obtaining preferred importer/exporter status to reduce potential customs delays • Increasing our stockholding of 'at-risk' products to secure continuity of supply during transition • Reviewing contracts to ensure product supply remains sustainable after Brexit	1, 2, 3, 4
People & Immigration Risks • No free movement between the UK & EU	• Possible shortage of migrant labour for us • Labour shortages for our stakeholders, particularly in the supply chain • Our customers could also be affected	• Evaluating our workforce composition both internally and externally with suppliers • Reviewing how we can help migrant workers to understand their rights and with working visa applications	1, 4
Strategy & Business Plan Risks • Consumer uncertainty • Investor uncertainty • Currency and Stock Market volatility • Political uncertainty	• This uncertainty may impact on our sales and future strategic growth decisions • Increased costs due to currency fluctuations	• Modelling the challenges and opportunities across the entire business, to ensure we optimise strategic plans given the various scenarios	1, 2, 3, 4

2018 PRINCIPAL RISKS

The arrows alongside each risk show the year on year change

1. FAILURE TO MAXIMISE THE GROWTH POTENTIAL OF THE BUSINESS

Risk and impact

- We see a significant potential for growth. This brings both opportunities and challenges.
- If we don't innovate, recognise and exploit our growth opportunities in line with our business model and risk appetite, or if we don't align structures and skills to meet the challenges of growth, we won't get maximum benefit from our growth potential.

Mitigating factors

- The opportunities and challenges related to growth are a major area of focus throughout the business, at all levels.
- We continue to invest in our depot environment, people, services, and systems, and our manufacturing and distribution capabilities to equip them for growth.
- Growth activities are reviewed in the light of our risk appetite, values, business model and culture.

2. DETERIORATION OF BUSINESS MODEL AND CULTURE

Risk and impact

- Our future success depends on continuing to maintain our values, our unique business model and our locally-enabled, entrepreneurial culture (see pages 14 to 15 and 18).
- If we lose sight of our values, model or culture we will not successfully service the needs of the local small builder and their customers, and our long-term profitability may suffer.

Mitigating factors

- Our values, business model and culture are at the centre of our activities and decision-making processes, and they are led by the actions of the Board, Executive Committee and senior management.
- The Board and Executive Committee regularly visit our depots and factories, our logistics and support locations and hold events to reinforce the importance of our values, model and culture.

3. CHANGES IN MARKET CONDITIONS

Risk and impact

- We buy a significant proportion of raw materials and finished products in euros and US dollars. If sterling weakens, our input costs increase.
- Our products are mostly sold to small builders and installed in owner-occupied and private and public sector rented housing, mainly in the repair, maintenance and improvement markets. If activity falls in these markets, it can affect our sales.

Mitigating factors

- We have proven expertise in managing both selling prices and costs. This continues to be a main area of focus.
- We have a good track record of dealing with changes in market conditions. We monitor activity across our supply-chain and depots closely, using the good relationships we have to give us early warnings of changing conditions. This enables us to take swift mitigating action, such as those discussed on the previous page in relation to Brexit.

Principal risks and uncertainties continued

The arrows alongside each risk show the year on year change

4. INTERRUPTION TO CONTINUITY OF SUPPLY

Risk and impact

- Howdens is an in-stock business. Our customers expect this, and rely on it.
- Any disruption to our relationship with key suppliers or interruption to manufacturing and distribution operations could affect our ability to deliver the in-stock business model and to service our customer's needs. If this happened, we could lose customers and sales.

Mitigating factors

- We build strong relationships with our suppliers, focused on integrity, fairness and respect, and which are worthwhile for all concerned.
- Where appropriate we enter into long-term contracts to secure supply of key products, services and raw materials.
- Wherever possible we have multiple-sourcing strategies for our key products, to reduce the effect of a supply failure.
- 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 and equip them for growth.
- Brexit uncertainty has also driven us to increase stock holding of at-risk products to help ensure the continuity of supply.

5. LOSS OF KEY PERSONNEL

Risk and impact

- 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.

Mitigating factors

- 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.
- Work is ongoing to ensure that appropriate continuity and succession plans are in place. We will also continue to focus on leadership development and succession planning.

6. HEALTH AND SAFETY

Risk and impact

- Howdens is about people and relationships. We have over 690 depots, 9,500 employees, hundreds of suppliers and hundreds of thousands of customers.
- Care for the health & safety of employees, customers, suppliers and everyone who comes into contact with Howdens is integral to our values and to our behaviour.
- If we don't ensure safe ways of working across the business, this could compromise the safety and wellbeing of individuals and the reputation and viability of the business.

Mitigating factors

- Since the beginning of our business, we have invested in safe ways of working. We have developed dedicated health & safety teams and formalised systems that help us stay safe.
- We monitor, review and update our practices to take account of changes in our environment or operations and in line with best practice and changing legislation.
- Most importantly, we make sure we keep talking about health & safety at every level of the business. See page 48 for our related KPI and discussion of our performance in recent years.

7. CYBER SECURITY INCIDENT

Risk and impact

- We depend on a core set of critical IT systems which are fundamental to the day-to-day running of the business. These systems are at risk from increasingly sophisticated security threats.
- 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 breach of customer data.

Mitigating factors

- We place focus on training our people about cyber security risks, as we recognise that these risks are not always technical and awareness is our first point of control.
- We employ complex technical IT security controls to protect our information and our key systems. We regularly engage external specialists to validate the effectiveness of our controls against industry best practice.
- We have robust disaster recovery and business continuity plans, and we test them regularly.
- We adopt a continuous improvement approach to IT security and continue to invest in the security of our systems.

8. PRODUCT DESIGN RELEVANCE

Risk and impact

- 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, and our products must reflect that.
- If we do not support the builder with new products that their customers want, we could lose their loyalty, and sales could diminish.
- In 2018 our assessment of this risk has reduced, following improvements in the way we review market trends and collaborate across the business, to ensure we introduce the right kitchen ranges and new products.

Mitigating factors

- Our dedicated product team regularly refresh our offerings to meet builders' and end-users' expectations for design, price, quality and availability.
- 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 customers and end-users, 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 more are already planned for 2019.

9. CREDIT CONTROL FAILURE

Risk and impact

- When a builder comes into one of our depots for the first time, we offer them a trade account, so they can complete the job before paying Howdens. Many of our customers rely on our trade account facilities, as cash flow is often critical to small businesses.
- 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.

Mitigating factors

- We have an effective trade account policy used to agree terms with our customers and efficient debt collection processes, which we monitor closely and regularly.
- We have robust systems and tested business continuity plans.
- We maintain good personal relationships with our customers, both at depot level and within the credit control department.
- Our concentration of debt is limited, as our exposure is spread across 400,000 customer trade accounts.

Going Concern and Viability statements

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 December 2023.

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.

LONG TERM PROSPECTS AND VIABILITY

Assessment of long-term prospects

The Directors have assessed the Company's long-term prospects, with particular reference to the factors below:

Current position
- history of profits, strong net profit margins
- debt-free. Consistently cash-generative. Proven ability to maintain strong cash balances whilst also investing for growth and returning cash to shareholders. £140m lending facility available if needed
- strong relationships with suppliers and customers, built on trust
- proven ability to flex the operating cost base in a severe economic downturn
- robust disaster recovery and business continuity framework

Strategy and business model
- proven, successful business model
- scope, and resources, for growing the depot network in line with announced plans
- clear strategic direction

Robust assessment of principal risks
- the Directors' role in the risk identification, management, and assessment process is outlined on pages 32 to 37, together with details of the principal risks and mitigations
- the Directors are satisfied that they have carried out a robust assessment of the Company's principal risks

Assessment of Viability

The Directors' review of the Company's long-term viability was mainly done with reference to the Company's annual strategic planning process, which looks forward over a three-year period.

The three-year plans were subjected to sensitivity analysis which considered downside income, cash flow and capital expenditure scenarios, modelled on the biggest downturn in sales and margin that the Company has ever experienced over a three year period.

The results of the sensitivity analysis showed that the Company would remain profitable over the three-year period, and would remain within the terms of its current lending facility. These results did not include any mitigating actions that would be open to the Company in the event that such a downturn was experienced.

The Directors consider that the reasonably likely foreseeable financial effects of any of the Company's principal risks, including the financial effect of a no-deal Brexit including mitigating actions – which was modelled during the year and which the Directors also reviewed, are unlikely to be greater than those effects which were modelled in the downturn scenarios.

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 2021.

Other Directors' statements

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Other Directors’ statements continued

Other Statements of the Directors

AUDIT INFORMATION AND AUDITOR

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 auditor is 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 auditor is 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:

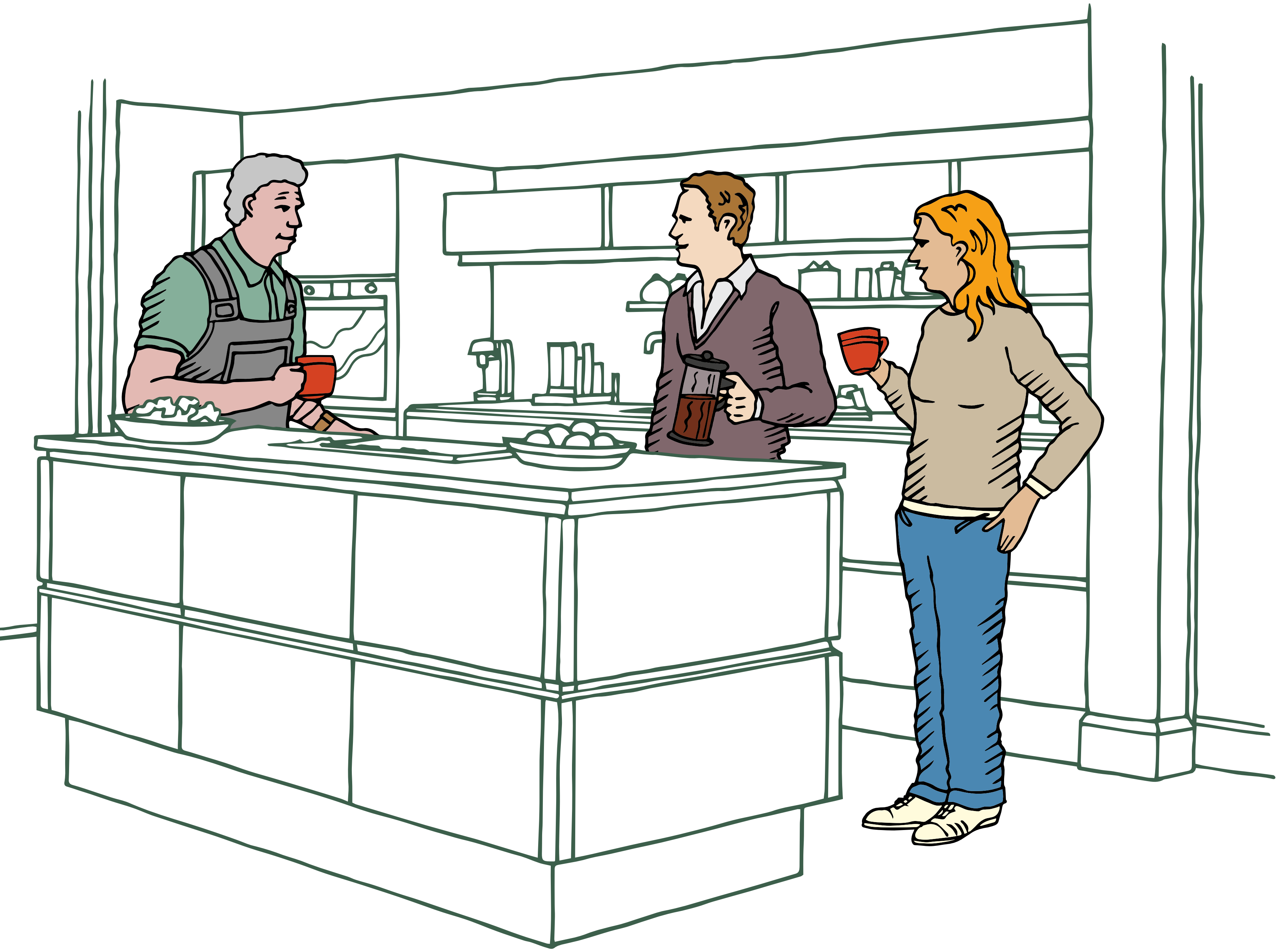
Andrew Livingston
Chief Executive Officer

Mark Robson
Deputy Chief Executive and Chief Financial Officer

27 February 2019

Sustainability Matters

Why sustainability matters to us



SUSTAINABILITY IS PART OF OUR CULTURE

When we talk about the Howdens culture, we describe it as being “worthwhile for all concerned” and “creating the conditions that allow everyone to succeed”. These are the concepts that our business is built on, and they all lead to sustainable behaviour.

THE BOARD LEADS OUR COMMITMENT TO SUSTAINABILITY

The importance of sustainable behaviour is recognised right through the business. Part of the Board agenda in 2018 involved re-emphasising our commitment to Health & Safety and to Sustainability and Corporate Social Responsibility. We present our revised Group Statements of Intent on the following two pages.

IT IS PART OF OUR BUSINESS MODEL

Our business model leads naturally to sustainable behaviour. It is part of our competitive advantage.

Lowest cost production in our dedicated UK factories leads naturally to trying to minimise waste and the use of energy and raw materials. It is also one of the reasons why we have developed an award-winning efficient transport fleet that has shown clear leadership in carbon reduction.

Our mission statement aim of “no-call-back quality” means that we strive to produce and source product which is durable and safe.

Being trusted partners to both our suppliers and our customers means that our relationships with them need to work for all parties over the long term.

We have over 700 depots in the UK and Europe, and the relationships that those depots rely on to trade profitably mean that our success relies on us being a good neighbour in each of those communities.

IT MITIGATES OUR RISKS

We discuss our principal risks on pages 32 to 37. Sustainable behaviour helps us to address some of those risks.

For example, we place a great emphasis on looking after our people. We invest in keeping them safe, developing their skills, and offering them rewarding careers and a great place to work. We do this because it’s the right thing to do, but it also mitigates our “Health & Safety” and “Loss of key personnel” risks.

Developing and maintaining sustainable supplier relationships mitigates the “Interruption to continuity of supply” risk, and energy-efficient, safe, tested and durable product mitigates our “Product design relevance” risk.

WHAT ARE THE MATERIAL AREAS FOR US AND OUR STAKEHOLDERS?

The main body of this report is organised in five sections, reflecting the main areas of importance to us and to our stakeholders:

People: keeping them safe, offering rewarding careers.

Sustainable supply chain: sustainable sourcing, shared values throughout the supply chain, active monitoring of suppliers.

Sustainable product: safe, traceable, energy-efficient and durable.

Environment: reducing waste, responsible operations, lowering emissions.

Communities: local community projects, our nationwide work with Leonard Cheshire Disability.

OUR SUSTAINABILITY KPIS

Our sustainability KPIs relate to safety, use of wood from certified sources, recycling of waste and recycled packaging, and can be found on pages 48, 53 and 54.

2018 Group Statements of Intent

Health and Safety

We believe that all employees have a right to work in a safe and healthy environment and we intend to carry out our business without putting employees, or others, health or physical wellbeing at risk.

The Board of Directors

HOWDENS

SAFE TO TRADE

The directors recognise their commitment and responsibility to ensure adequate health and safety provision for all staff, customers and contractors.

The central idea of Howdens is that it should be worthwhile for all concerned. Putting this into practice – wanting others to do well, not just ourselves – is what sets Howdens apart, and what will guarantee its future.

Fundamental to this idea is that we keep our employees safe at work. We've got around 9,600 employees in the UK and Europe (and counting) and we need to keep them all safe. **There should be no compromise on health and safety.**

Our two operational divisions and central functions whilst different operationally and in their deployment methodologies, share the same intent and purpose:

- ✔ To provide a safe and healthy working environment
- ✔ To prevent workplace accidents and reduce the risk of potential long-term health effects
- ✔ Where incidents occur, to learn from those instances by improving awareness and processes
- ✔ To ensure performance metrics and near miss reporting are continually reviewed to identify risk and improvement opportunities
- ✔ To make our safety messages engaging and accessible
- ✔ To foster a positive Health and Safety culture amongst our workforce by ensuring engagement and positive challenge

We will continue to share best demonstrated practice across the divisions. This will ensure performance improvements beyond compliance to legislation, codes and standards and will complement the cultural variances across the Group. Each division should also engage external partners and undertake appropriate benchmarking to ensure that there are no skills or knowledge gaps.

We have made good progress on health and safety to date but the next step of our journey is to strengthen the effectiveness of our existing processes with increased emphasis on a safety culture.

The Board of Directors,
Howden Joinery Group Plc

Sustainability and Corporate Social Responsibility

We intend to match our commitment to growth and development with a continued focus on being a responsible company. We are committed to ensuring that our business remains worthwhile for all concerned.

The Board of Directors

HOWDENS

We are mindful of Howdens' responsibilities concerning energy use, waste reduction, ethical and sustainable sourcing of materials, and support and enrichment of the local communities in which we operate, even in the face of increasing demands on our resources.

With over 690 depots throughout the UK, we are a local business with national scale and therefore have unique responsibilities to all of the communities in which we operate.

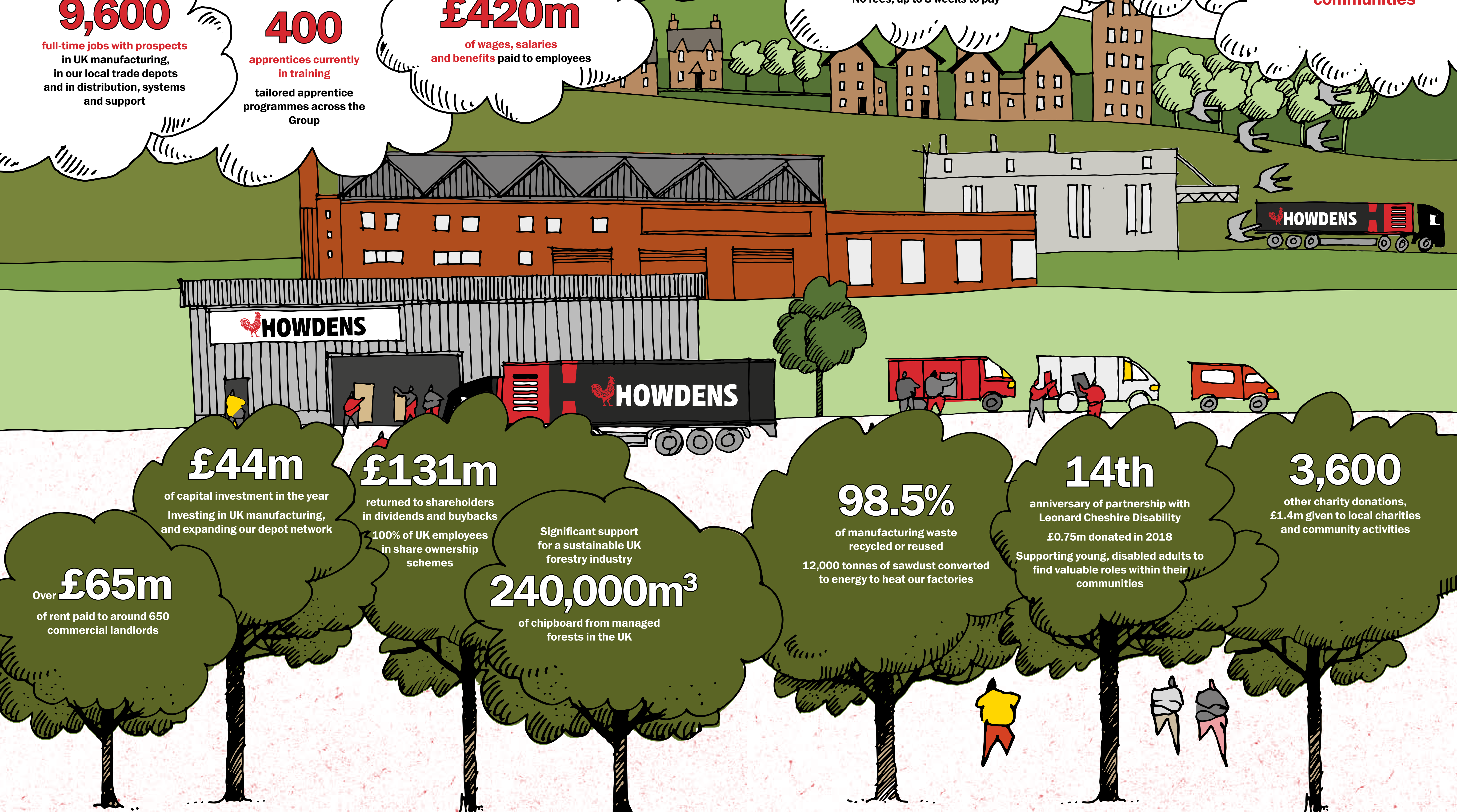
Regardless of what part of the business they operate, we expect all our employees to share the same intent and purpose;

- ✔ To reduce our impact on our environment wherever possible by reducing energy use and waste production relative to revenue
- ✔ Where we source products from third parties, to ensure that we undertake due diligence to ensure that they conduct their business in an ethical way
- ✔ To ensure that we minimise as far as possible the risk of Modern Slavery in either our own business or those in our supply chain
- ✔ To support and encourage our staff to help local charities and community organisations
- ✔ To offer rewarding careers and create an environment to attract, develop, motivate and reward employees of high calibre
- ✔ To support the training of apprentices where this is appropriate in the business

We will continue to focus on the main areas of importance to us and to our stakeholders.

The Board of Directors,
Howden Joinery Group Plc

Our impact on our stakeholders



9,600
full-time jobs with prospects
in UK manufacturing, in our local trade depots and in distribution, systems and support

400
apprentices currently in training
tailored apprentice programmes across the Group

£420m
of wages, salaries and benefits paid to employees

£320m
of tax generated or collected
Corporation Tax, NI, PAYE, and VAT

£260m
of working capital extended to over
410,000
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
£260m cash contributed to pension funds in last 5 years

Employing people in over **700** communities

£44m
of capital investment in the year
Investing in UK manufacturing, and expanding our depot network

Over **£65m**
of rent paid to around 650 commercial landlords

£131m
returned to shareholders in dividends and buybacks
100% of UK employees in share ownership schemes

Significant support for a sustainable UK forestry industry
240,000m³
of chipboard from managed forests in the UK

98.5%
of manufacturing waste recycled or reused
12,000 tonnes of sawdust converted to energy to heat our factories

14th
anniversary of partnership with Leonard Cheshire Disability
£0.75m donated in 2018
Supporting young, disabled adults to find valuable roles within their communities

3,600
other charity donations, £1.4m given to local charities and community activities

Our people

Keeping them safe, offering them rewarding careers

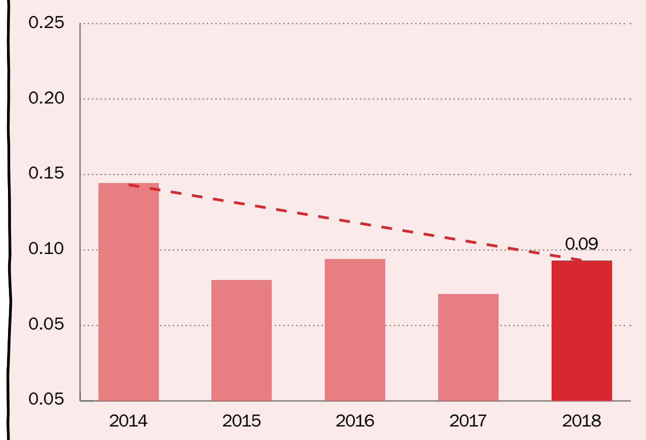
Keeping our people safe

Focusing on a safety culture, making safety messages more accessible

KPI

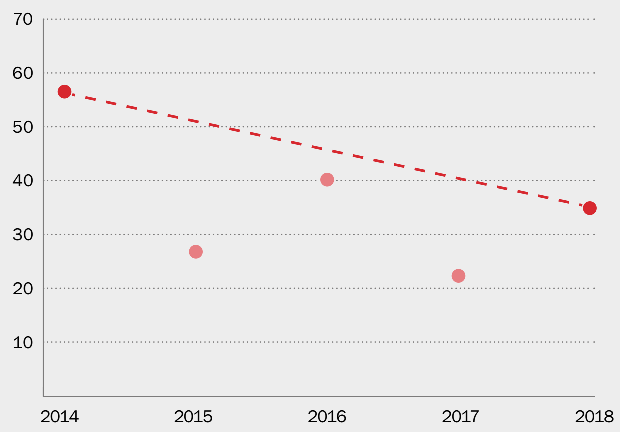
RIDDORs/100k hours worked

36% reduction 2014–2018



Accident severity rate*

38% reduction 2014–2018



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

We have got around 9,600 employees and we need to keep them all safe at work. We continue to invest in safe processes, safe plant and machinery and whilst our Reportable Injury Rate shows a slight increase in 2018, we are still performing significantly better than the UK national average for workplace accidents.

We have always committed to developing, implementing and improving safe systems of work, and this has continued during 2018. The focus on the next leg of our journey is to strengthen this with an increased emphasis on a safety culture where we support and empower employees to share our aims.

2018 marked a milestone in the way we implement and manage safety across our depot network, with the roll out of our unique “Safe to Trade” toolkit and software. All of our depot staff have been retrained using this new model which has empowered them to ask “Am I safe to trade today – Are WE safe to trade today?” This is featured in a case study on pages 50 and 51.

In our factories and logistics operations, we have launched a behavioural safety commitment programme, “Safe to Supply”, which has seen 1,500 people briefed this year. The briefings emphasised that the Howdens culture is committed to safety, and encouraged all employees to feel empowered to take responsibility for themselves and their team. One simple but effective 2018 initiative is to encourage staff to “Press Pause for Safety”, and take the time to ask “Am I safe, and are my workmates safe?” before starting work.

We continue to work with other leading companies and external consultants to share best practice, to help us benchmark and to learn and challenge ourselves. We hope that these actions will improve our safety record even further in the future.

Offering rewarding careers

Great rewards, great opportunities to develop, pioneering apprentice schemes

We pay a good basic salary: all of our pay rates are above living wage and most of them are well above it. We also offer a range of benefits, including pension schemes which we contributed £50m to in 2018, for the benefit of our 17,000 current and past employee members. We give free shares to all our people who stay with the company for at least three years so that they can share in our growth.

Part of our culture and our business model is that we offer staff the chance to get significant bonuses for exceptional performance and that we invest in our staff to offer them opportunities to develop and progress with us. We want our best people to stay with us and help grow the business, and we also want to recruit the best people.

One of the larger programmes we’ve been delivering in 2018 has been to support and increase the skills of our kitchen sales designers. Incorporating input from the most successful designers in our depot network, we developed a 5 day tailored programme focused on customer service and selling skills. So far we’ve delivered this training to over 500 designers and we hope to see the results in increased sales, which should lead to increased employee bonuses.

We employ 400 apprentices throughout the business, offering a range of worthwhile futures and high-quality nationally-recognised qualifications to people across the country. We work with local colleges to develop bespoke apprentice programmes, tailored to the specific skills and development needs of our apprentices, and which also fit the needs and demands of a growing modern business.

We’ve increased the number of apprentices in the business in 2018 and we currently have apprentices working and learning skills in areas such as sales, customer service, warehouse work, business admin, HR, manufacturing, engineering, IT, design, truck driving and business improvement techniques. See below for a case study on our truck driving apprentice scheme.

Find out more about working with Howdens, and see our current vacancies on our careers website at https://careers.howdens.com/.

Case Study: truck driving apprenticeships

We’ve invested a lot of money in our truck fleet, aimed at making it as safe and energy-efficient as possible, as we explained in a detailed feature in our 2017 Sustainability Report.

One of the main things that can affect safety and efficiency is the skills and behaviour of our drivers. We make use of advanced in-cab driver monitoring software in conjunction with daily driver debriefs so that we can support and reward good driving habits.

Good drivers are hard to come by, so we’ve invested in developing the new generation of drivers by training our own from scratch. We’ve recruited staff who don’t have a heavy goods driving licence and, together with a third party driver training agency, we’ve put them through a structured apprentice programme so that they gain their driving qualification and also learn the high standards that we expect from a Howdens driver.

The apprenticeship is a pioneering initiative in the fleet industry and we were very proud this year when 3 of our employees became the first people in the UK to complete it. The 12-month programme consists of both practical and theory elements, and throughout their training each of the apprentices has the benefit of working with an existing driver “buddy” as well as ongoing feedback and mentoring from our fleet management team.

Apprentices spend a block of time at our warehouse, doing their initial training. Before they take their test they spend 6–8 weeks shadowing an existing driver out on the roads, seeing how it’s done the Howdens way. After passing the test, they spend a further 4–8 weeks being shadowed and mentored by an experienced driver before finally taking to the roads on their own.

Strategic report
Governance
Financial statements
Additional information

Our people continued

Case Study: Safe to Trade

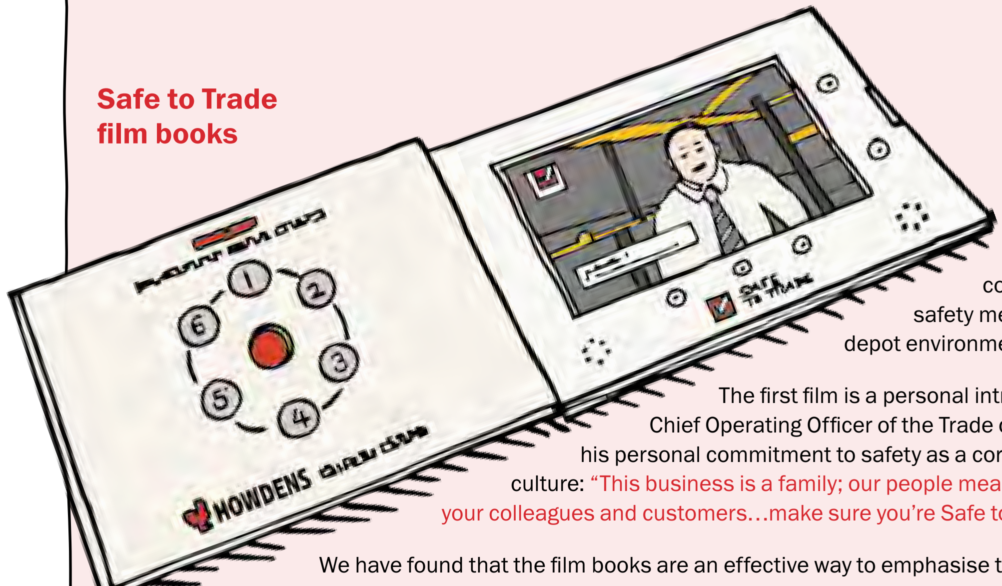
Simple, scalable, effective, engaging

Introduction – "Safe to Work, Safe to Trade, Safe Home"

We've got nearly 700 depots across the UK, and we continue to open new ones. Our depots are busy hubs of activity. Some staff might be working at the trade counter or in the offices, and warehouse staff will be picking orders ready for despatch. Product is being delivered by lorry and unloaded by fork lift truck, builders are buying and loading into their vans, and end users are visiting to see product, talk to our designers and discuss kitchen plans. We need to make and maintain an environment that keeps all these people safe.

How do we encourage the same high standards of safety across nearly 700 depots? How do we embed our health & safety culture and standards across the depot network, making it effective, engaging and consistent? 2018 saw us take another big step towards these aims as we rolled out our unique and innovative "Safe to Trade" packs to all the UK depots, and began to roll them out to our European depots. This case study highlights some of the main elements of the packs.

Safe to Trade film books

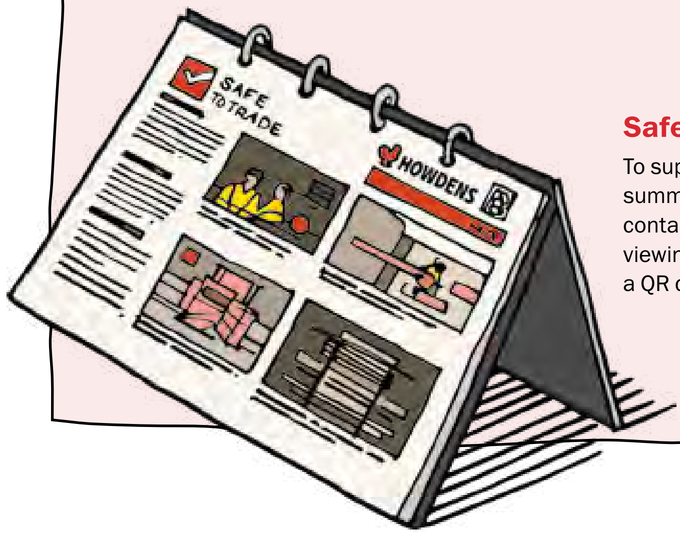


Our unique film books are a cornerstone of the Safe to Trade programme. The books contain a collection of short films, covering the key safety messages and safe systems of work in a depot environment.

The first film is a personal introduction from Andy Witts, the Chief Operating Officer of the Trade division, where he emphasises his personal commitment to safety as a cornerstone of the depot culture: "This business is a family; our people mean a lot to us…look after your colleagues and customers…make sure you're Safe to Trade".

We have found that the film books are an effective way to emphasise the safety message. They replace a hard copy safety manual and are much more attractive and engaging. The films are loaded on a memory card so it is easy to update and add to them as needed.

Every new employee works through the film book as part of their induction, and after each film they have to demonstrate their understanding by successfully completing a questionnaire. If existing employees need refresher training, they can easily repeat modules as required. Our insurers were so impressed by the potential of the video books to reduce accidents that they contributed some funding to their development.



Safe Systems of Work folder

To support the film books, we've developed a one page summary of each film for easy reference. The folder containing these summaries is available for ad-hoc viewing or refresher training. Each summary sheet has a QR code that leads to supporting online content.

Staying Safe to Trade booklet

We give every member of depot staff a summary booklet that includes a safety message from the divisional COO, together with a simple and engaging overview of what being 'Safe to Trade' means for every member of staff. The booklet goes on to highlight the most prominent hazards that could be encountered at a trade depot location, and most importantly… how to avoid them!

Safe to Trade Online

Safe to Trade Online is our new safety management software. It has two main functions: it makes managing safety in the depot a lot easier, and it also gives our central and regional safety teams the ability to monitor compliance and to analyse trends and root causes.

For the depot staff, Safe to Trade Online contains all our key safety standards and makes them easily accessible. It also gives reminders of key tasks that need to be done on a recurring basis. It also allows the regional and central teams to monitor what is being done, and to see the findings and any follow-up actions.

Risk Assessment and training folder

As well as the risks that are common across the depot network, there will also be things which are specific to individual depots. These risks, together with details of how to mitigate them, will be recorded in the folder, along with details of each individual's training and any safety-related qualifications.

It means that each depot has material that is tailored to their individual risk profile. It also means that when staff transfer between depots they can easily see any additional risks that they need to be aware of at the new depot, and can take their own training records with them.

Sustainable supply chain

Sustainable sourcing, actively monitoring our suppliers

Sustainable sourcing

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

In 2018 we used 239,000 cubic metres of chipboard and 43,000 cubic metres of MDF in our factories – that's enough to fill the Royal Albert Hall more than three times. 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.

We are also a member of the Timber Trade Federation which requires our commitment to implementing an environmental due diligence system to fulfil the Federation's responsible purchasing commitments.

We continually look to improve our processes and our awareness of timber sourcing risks. This includes attending workshops run by The Office for Product Safety and Standards who monitor and enforce the Timber Regulations, so that we can keep up to date with the latest developments.

We only want to work with suppliers who share our ethical values. We are clear about our expectations and we aim to align them through our whole supply chain.

Every year we bring our main suppliers together at a forum to talk about shared issues. This benefits both us and our suppliers, and is an example of the principle that our business needs to be "worthwhile for all concerned".

The forum gives our suppliers an opportunity to get valuable feedback that's unique to our trade-only environment. We can pass on comments from over 1,600 trained Howdens kitchen designers, as well as from our builder-customers and end users. Because of the huge scale of our Lamona own-brand appliances, and because we manage any repairs that are needed, we can also pass on comments from the service engineers, allowing our suppliers to quickly make any improvements that might be needed.

As well as talking to our suppliers about product development, we use the supplier forum as an opportunity to repeat and reinforce our expectations for sustainability and ethical behaviour. We tell our suppliers what we need from them and we work together to come up with solutions.

Active monitoring

Supplier assessments, risk-based testing, training our people

We know that there will always be potential ethical, social and environmental risks in our supply chain, and we are committed to understanding, identifying, and minimising them as much as possible. We will only trade with a supplier when we have carried out a thorough risk assessment and are satisfied that we have credible evidence that they meet our high standards.

In 2018 we have continued to strengthen our approach to reducing supply chain risks. We have made our expectations even clearer by modifying our supplier contract terms and conditions to include specific ethics and sustainability clauses. We have also issued a Supplier Code of Conduct where we set out what we expect and how we will monitor that they are complying.

After clearly setting out our standards and expectations, we then work to understand the specific risk profile of each supplier. In 2018, we have started to use Sedex, a leading worldwide platform for sharing responsible sourcing data, to help us assess supplier risk and to verify any specific mitigations which may be in place. Sedex is used by over 50,000 members in over 150 countries. It is a place where suppliers can share a wide range of sustainability data and accreditation information for their companies and their individual operating sites, as well as the results of independent third party sustainability audits.

We encourage all our suppliers to become members of Sedex. For those who are not, we use a combination of specific questionnaires and targeted verification processes – which may include us commissioning an independent sustainability audit.

We need our people to understand and demonstrate best practice and integrity, so we've given them training to support them in their dealings with suppliers. All of our buyers and our compliance team have taken and passed the Chartered Institute of Procurement and Supply's Ethical Procurement & Supply training, and we have a rolling programme of refresher training on Modern Slavery and Anti-Bribery.

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. You can find this in the Sustainability section of our investor relations website.

Sustainable product

Safe and traceable, efficient and durable

Safety and traceability

Safety by design, fire safety, registering products for traceability

We design safety features into the products we make ourselves, 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.

Our Lamona fridge-freezers and fridges have also been designed to reduce the risk from fire. The electronic circuit boards are isolated in a fire-retardant, self-extinguishing box. The top, back and base of each unit is enclosed in fire-retardant material, and they use the latest capacitor technology which is designed to remain safe in the event of a failure.

We sell 700,000 fire doors per year, and we recognise that only a correctly fitted fire door offers the protection it is designed for. If it isn't fitted with the correct hinges, frame, intumescent strip, or door closer, for example, it won't function properly.

In 2018 we've rolled out an initiative to help our builder-customers make sure that they have the right fittings every time they buy a fire door. We have been working with the British Woodworking Federation, whose "Certifire" fire door certification scheme is the leading authority on fire door safety. We have developed guidance for our depots which identifies the six most common situations in which a builder would be fitting a fire door, and which automatically selects the right fittings for each situation.

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 use scanners at all of our depots, so that we know which items have been sold to which builder-customer. We've briefed our depot staff on the importance of encouraging product registration and put reminders in our product catalogues.

We're working hard to encourage the domestic end user to register their products so that we can support them if the need ever arises. Our product website and the document pack that comes with each appliance include links to the "Register my appliance" website. We've put a sticker on each instruction manual with the unique serial number of each appliance, so that it's easier for end users to register them.

Sustainable product

Energy efficiency, durability, FSC® certification

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.

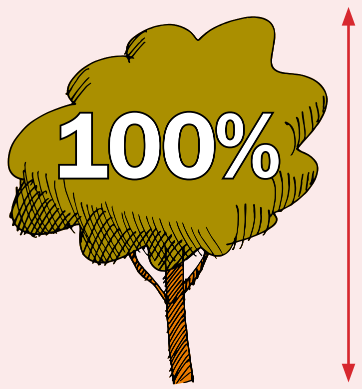
One of the highlights in 2018 is that all of our Lamona extractors now use LED lights, which reduces energy consumption by 80%. They also have more efficient motor technology, reducing energy consumption even further.

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 to curry powder, nail varnish and red wine. We "slam test" doors and drawers up to 10,000 times, and we put half-tonne weights on the shelves of our tall cabinets. We subject products to heat, humidity, ultraviolet light, and steam.

KPI

100% of chipboard & MDF used in our manufacturing processes from FSC® certified sources



100% of our internally-manufactured timber products are made from FSC certified materials, and we aim to source our bought-in products to the same standards. A typical kitchen range is 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 wooden component is FSC certified. Each of the 18 new kitchen ranges that we introduced in 2018 met this standard.

Our environment

Reducing waste, responsible operations, lowering emissions

Reducing waste

Turning production waste into energy, reducing amounts to landfill, reuse/recycle

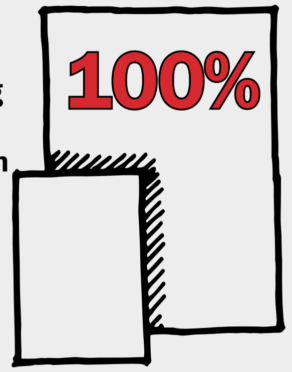
KPI 1

Total % of waste recycled or reused

98.5%

KPI 2

100% of all packaging used in our manufacturing is from recycled sources



Highly-efficient production is one of our strategic aims as it gives us a competitive cost advantage. Over the years we've invested in efficient production machinery and in software that takes the constantly-changing production mix, and maximises the number of panels that we can get from each sheet of chipboard. We've also worked with our chipboard supplier to develop a new size of board that allows us to minimise cutting waste even further.

Nevertheless, the sheer scale of our manufacturing operations means that we still generate a lot of sawdust waste. At both of our factories, we have invested in biomass boilers which burn this waste to produce heat. They allow us to reuse waste, they reduce our emissions and they save us the cost of the equivalent bought-in fuel.

In 2018, we converted 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 be transported elsewhere to be reused. It also saves us money. We generated 46,000 MWh of energy from our biomass boilers in 2018, equivalent to the average annual electricity consumption of 12,000 households.

Over ten years ago, an employee-led energy efficiency initiative came up with the idea of repairing broken pallets rather than scrapping them. We put these pallets back into use, which cuts down our waste and saves us money. In 2018 we repaired over 160,000 pallets, making a total of 1.6 million since this program started.

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 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 in our production facilities in 2018. The most significant of these involved replacing old compressed air management systems and technology with modern energy-efficient versions. These initiatives should give us an aggregate energy saving of around 2.4 million kWh per year, the equivalent of the annual energy use of 140 average homes.

In the factory where we implemented these energy-saving initiatives, we achieved a 12% year-on-year reduction in the electricity consumed to make one finished product. Despite an increase in production volume, the overall electricity use at that factory reduced by 6% compared to the previous year.

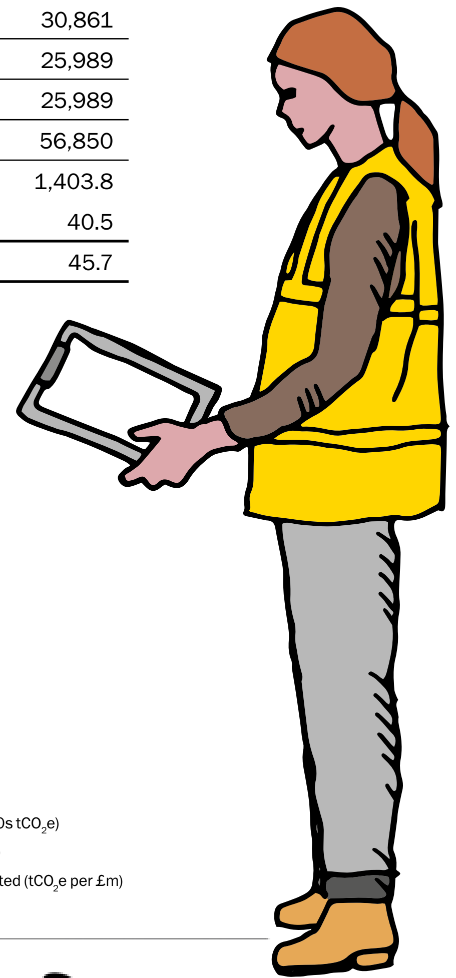
We are very proud of our award-winning sustainable road transport fleet which combines efficient modern trucks with a focus on encouraging and monitoring safe and sustainable driver behaviour. Our fleet drives over 15 million miles per year, so it's very important to us that it's both efficient and safe. For more details of the specific features that help us to achieve these objectives, please see the extended case study on pages 46 and 47 of our 2017 report.

Lowering emissions

Efficient operations lead to reduced emissions

GREENHOUSE GAS AND EMISSIONS REPORTING

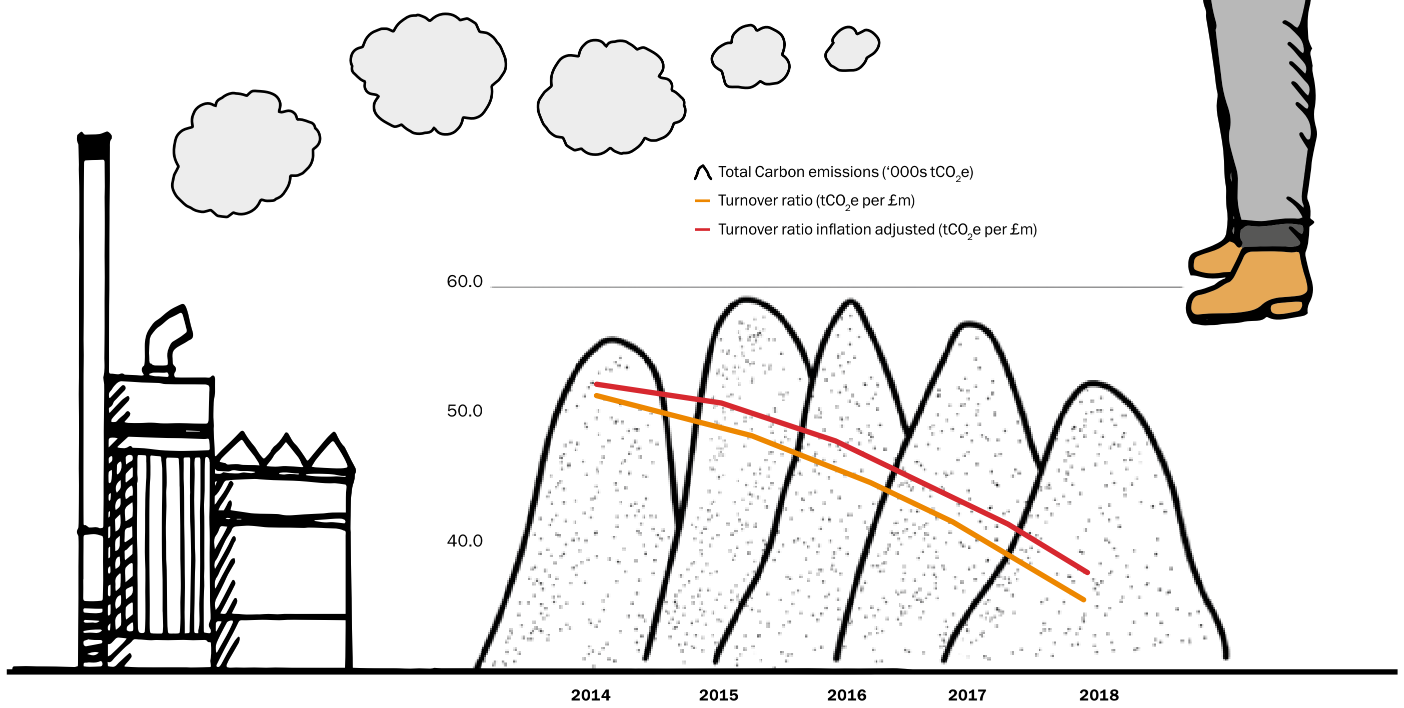
	Total CO_2 Emissions (Tonnes) 2018	Total CO_2 Emissions (Tonnes) 2017
Scope 1 – Direct: Gas	3,472	3,314
Scope 1 – Direct: Diesel	26,683	26,548
Scope 1 – Direct: Other fuels	898	999
SCOPE 1 – DIRECT: TOTAL	31,053	30,861
Scope 2 – Indirect: Electricity	21,130	25,989
SCOPE 2 – INDIRECT: TOTAL	21,130	25,989
TOTAL (Scope 1 and 2)	52,183	56,850
Turnover (£m)	1,511.3	1,403.8
Turnover ratio (tCO_2e per £m)	34.5	40.5
Inflation adjusted turnover ratio (tCO_2e per £m)	37.0	45.7



We are pleased to report that our total emissions have reduced in 2018 despite an increase in turnover.

Turnover increased by 7.7% in 2018, whilst the turnover ratio decreased by 14.7% and the inflation adjusted turnover ratio decreased by 12.9%. We will continue to look for further improvements. Our record over the past five years is shown on the chart below.

Emission source data is converted to carbon tonnes using the conversion factors published by Defra. Source data includes meter readings for electricity and gas and purchasing records for other fuels.



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Our communities

Local community projects, Leonard Cheshire

Local community projects

Local involvement on a nationwide basis, thousands of donations, £1.4m contributed

Each of our depots, and every one of our manufacturing, distribution and support sites, has an important role in the life of its local community. Each site depends on the local community for its success and growth; for customers and staff.

Our culture is based on personal relationships and individual accountability, and we encourage our people to support and engage with local activities and charities.

We make our products, time and cash available for staff to get involved in all sorts of ways. This year we have donated 38 kitchens to local good causes, and paid for them to be fitted. These kitchens go into places like village halls and community centres, as well as to charities which collect surplus food from hotels, restaurants and supermarkets and share it with vulnerable people who need it most. It helps them to continue to serve their neighbourhoods.

We also support thousands of small local projects with cash donations. Typical donations may be just a few hundred pounds, but they will make a big difference. They might cover things like:

- helping local hospices to fund vital care for patients or counselling for bereaved families
- donating cash to local air ambulance charities, helping them to keep on providing essential emergency services
- buying kit for a local children's sports team
- donating cash to a local hospital's appeal for vital equipment
- donating stock to help renovate facilities at a local community centre or scout hut

In 2018, we've made over 3,600 separate donations which have involved us giving cash or products worth £1.4m.

Our culture of giving back to the local community also shows in the actions our people take as individuals. Every year, we support our people as they take the Howdens culture and make it personal. They give up their time and put themselves to the test to raise money for all sorts of local and national causes. We hold the Charities Aid Foundation Gold Award in recognition of the high level of employee participation in payroll giving.

See the case study on the opposite page for details of how four of our employees raised over £20,000 for Leonard Cheshire by successfully completing a 100 mile cycle ride.

Leonard Cheshire

£750,000 donated, 31 inclusive kitchens installed, "Can Do" projects, employability workshops

We've had a successful partnership with Leonard Cheshire since 2004 and we're pleased to say that it continues to grow. In 2018 we have donated cash and goods worth £0.75m.

Leonard Cheshire's aim is to support individuals to live, learn and work as independently as they choose, whatever their ability. They work for a fairer, more inclusive society that recognises the contributions that we all make and where we can all play our part. They support people with a wide range of additional needs, all over the world.

Like Howdens, they value local relationships, and their work supports people to be active and proud members of their local communities.

They support people to live in their own homes and in residential care, as well as providing skills and employment programmes which can help people to develop themselves and take an active role in contributing to their communities.

Our work with Leonard Cheshire is currently focused in three main areas:

- designing and fitting inclusive kitchens in their care homes and day centres so that disabled people can live more independently
- helping young people living with disabilities to play an active role in their communities through Howdens' sponsorship of the "Can Do" volunteering programme
- offering support and skills training through employability workshops and mentoring

Inclusive kitchens

Howdens are experts at designing inclusive and democratic kitchens that can help a wide range of people with different needs. This could range from features that help the youngest and oldest members of multi-generational families, to features that can help people with limited mobility, sight or other additional needs. All of our kitchen ranges are available with a variety of inclusive features such as easy access cabinets, pull-down shelves and pull-out storage, variable-height worktops for sinks and preparation areas, high-contrast work surfaces and cupboards to help with limited sight, and raised plinths to allow wheelchairs to pass below.

There is an obvious fit between our skills in inclusive kitchen design and the needs of Leonard Cheshire's residents. We have pledged to supply and fit inclusive kitchens from our range wherever they are needed in any of Leonard Cheshire's homes across the country, and we have been doing this for some years. In 2018 we fitted a further 31 kitchens nationwide.

Most kitchens are for residents' everyday use, but some are specific training kitchens, used to pass on cooking skills which help people increase their ability to live independently.

Some comments from users of the kitchens have been: *"Now I'll be able to prepare my own meals and eat when I want to", and "The new kitchen will enable me to cook like I did when I was at home before my stroke."*

Can Do

We began to support the Can Do programme in 2010. Can Do is a skills development activity-based programme for young people with additional needs. It gives these young 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 projects in their local community. These projects are designed in conjunction with the specific needs and interests of their participants, and they cover a wide range of activities.

In 2018, for example, projects have ranged from gardening to sailing to wildlife projects; from delivering "care and share" bags to homeless people around the UK at Christmas to visiting residents in care homes, and learning woodworking skills. It provides individual mentoring, group support and a social network, as well as an opportunity to gain a City & Guilds qualification.

Howdens support has helped Can Do expand from four locations when we began our involvement to 18 locations in 2018, supporting 2,000 young people per year through meaningful projects in their local community.

Can Do aims to build young people's confidence, so that they can get out and about, learn a range of skills, build their support and friendship networks, and where possible get ready for the world of work.

95% of participants said that they had learnt new skills which would help them in the future. Typical feedback comments were that participation in Can Do *"has been great at supporting me to make some important changes to my life. This experience had really helped me to improve my self-confidence" and "something really great to put on my CV and a huge confidence boost".*

Employability workshops

In 2018 we have started working with Leonard Cheshire on a programme of employability workshops, designed to equip people with skills that they will need to succeed in the jobs market, such as job search and CV writing skills, interview practice and sessions on different ways of finding employment and an introduction to what the world of work looks like. Feedback from participants was very positive, with 95% of participants saying that they felt more confident about applying for jobs and navigating the recruitment process, and one participant saying that it had *"enabled me to regain the focus that I had lost towards my aspirations".*

There is more information about Leonard Cheshire at www.leonardcheshire.org/, and information on the Can Do programme here: https://leonardcheshire.org/support-and-information/life-and-work-skills/can-do.

Case Study:
"Ride London" employee fundraising for Leonard Cheshire

In July 2018, a team of four Howdens employees took on the Prudential RideLondon-Surrey 100 mile bike challenge to raise awareness and funds for Leonard Cheshire.

On a rainy and windy day, they completed the course and raised over £20,000 in sponsorship between them. Despite being a little saddle sore, they collected their well-deserved commemorative medals and wore them with the pride of a good job well done.

Howdens was proud to support these exceptional individual efforts in aid of Leonard Cheshire. To prepare them for the tough course, we arranged for them to have professional mentoring and practical training advice from presenter and cycling expert, Rebecca Charlton. We also provided fundraising support by commissioning and publishing a series of video blogs from the riders to showcase their stories and try to help them reach their target.

Governance

Corporate Governance Report

INTRODUCTION FROM THE CHAIRMAN OF THE BOARD

Corporate governance has continued to attract attention throughout 2018. This is always true when there are high profile corporate failures and when the interests of stakeholders (be they employees, pensioners, suppliers or shareholders) are compromised. There has been continued focus on executive remuneration, abuse of position, external audit quality and diversity. We welcome the updated Corporate Governance Code and its principles-based approach. Ensuring that directors, Boards and senior management are responsible for their actions and that they can demonstrate that they have understood the impact of their decision making on all stakeholders, can only be positive for the interests of all.

Howdens was founded on the principle that it is worthwhile for all concerned and we will demonstrate throughout this Annual Report (not just in the governance sections) that Howdens remains a values-driven business with a deeply embedded culture of doing the right thing in respect of all our stakeholders. Being worthwhile for all concerned means providing a safe environment in which our employees work, offering them secure employment with prospects for progression, selling great products to our trade account holders, having long-term strategic relationships with our key suppliers, generating value for our shareholders, contributing to the communities in which we operate and ensuring that the business remains in robust financial health so that we can continue to meet our pension commitments.

We recognise that there will always be more that the Board can do on governance matters and we will be increasing our focus on diversity and stakeholder engagement throughout 2019.

CEO Transition

Change in leadership at any point has particular governance challenges. Managing the transition from a founder CEO to their successor is particularly hard given their passion and natural affinity for the business. However, as will be detailed later in these reports, this is a process that had been successfully executed by the Board and Executive team.

In 2018, the Board approved a number of strategic and directional investments. The Company has invested heavily in previous years in supply capacity and capability and we have continued to do so in 2018. In addition, there was also investment in digital programmes which we anticipate will make the way we do business with our customers easier and more efficient. The Board also agreed to extend the roll out of depots in France. All of these initiatives are intended to grow the business for the long-term benefit of our stakeholders.

We will continue our strategic review in 2019. We will do so against a backdrop of extreme political uncertainty and the Board will be rigorous in its assessment of risk as well as its consideration of opportunities.

MEETING ATTENDANCE

The figures below show the number of meetings individual Directors that served during the year could have attended (taking account of eligibility, appointment and retirement dates during the year) and the percentage of those meetings they actually attended.

If a Director is unable to attend a Board meeting, they are nevertheless provided with all the papers and information relating to the meeting and encouraged to discuss the issues arising directly with the Chairman and Executive Directors.

Although members of the Executive Committee have also attended at the invitation of the Chairman and Chief Executive Officer their attendance is not shown below.

In addition to formal Board meetings, the Non-Executive Directors met four times during the year without the Executive Directors present.

	Richard Pennycook*	Mark Allen	Karen Caddick[1]	Andrew Cripps	Geoff Drabble	Tiffany Hall	Matthew Ingle[2]	Andrew Livingston[3]	Mark Robson	Debbie White
No. of meetings	6	6	2	6	6	6	2	4	6	6
Attendance	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Schedule of Matters Reserved for the Board – www.howdenjoinerygroupplc.com/investors/governance/schedule-matters/index.asp

1 Karen was appointed to the Board on 7 September 2018.
2 Matthew retired from the Board on 2 April 2018.
3 Andrew was appointed to the Board on 2 April 2018.
* Denotes Chairman of the Board

Corporate Governance Report

BOARD OF DIRECTORS

Key to Board committee membership

- Chair of Committee
- Audit Committee
- Remuneration Committee
- Nominations Committee

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.

EXECUTIVE DIRECTORS

ANDREW LIVINGSTON

Chief Executive Officer

Andrew was appointed CEO Designate in January 2018 and was appointed to the Board as Chief Executive Officer on 2 April 2018.

Other listed company appointments

Non-Executive Director at LondonMetric Property Plc

Skills and experience

Andrew was the Chief Executive of Screwfix Direct Ltd from 2013, where he had previously held the position of Commercial and Ecommerce Director. Prior to joining Screwfix, Andrew was the Commercial Director and Chief Operating Officer at Wyevale Garden Centres and the Commercial Director of Kitchens and Bathrooms at B&Q. Andrew holds an MBA from London Business School.

MARK ROBSON

Deputy Chief Executive and Chief Financial Officer

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

Skills and experience

Mark spent the six years prior to joining Howdens as Group Finance Director at Delta plc. Between 1985 and 1998, he held a number of senior financial positions with ICI. He is a Chartered Accountant and qualified with Price Waterhouse.

Mark has no external appointments.

CHAIRMAN

RICHARD PENNYCOOK

Non-Executive Chairman

Richard was appointed to the Board in September 2013 and became Non-Executive Chairman in May 2016.

Skills and experience

Richard has extensive experience in logistics, supply chain management, retailing, manufacturing, consumer goods and corporate governance having served as a public company finance director for over 20 years and as Group Chief Executive of The Co-operative Group. Past Non-Executive roles include Senior Independent Director and Chairman of the Audit Committee of Persimmon Plc and Chairman of The Hut Group Limited.

SENIOR INDEPENDENT DIRECTOR

TIFFANY HALL

Senior Independent Non-Executive Director

Tiffany was appointed to the Board in May 2010. She was appointed Remuneration Committee Chair in May 2014 and Senior Independent Director in April 2017.

Other listed company appointments

Non-Executive Director of B&M European Value Retail S.A

Skills and experience

Tiffany has a strong background in marketing, sales, digital and customer service having previously served as Managing Director at BUPA Home Healthcare, Marketing Director at BUPA and Head of Marketing at British Airways. She was also Chairman of Airmiles and BA Holidays and prior to that held other positions at British Airways including Head of Global Sales and Distribution and Head of UK Sales and Marketing. Tiffany is currently Non-Executive Director of B&M European Value Retail S.A. and was also previously a Non-Executive Director of Think London.

NON-EXECUTIVE DIRECTORS

MARK ALLEN

Non-Executive Director

Mark was appointed to the Board in May 2011.

Other listed company appointments

Chief Executive Officer of Dairy Crest Group plc

Skills and experience

Mark has significant experience in operating a vertically-integrated business and in particular in manufacturing, B2B, consumer goods and logistics, distribution and supply chain management. Mark joined Dairy Crest in 1991 as a general manager following a period at Shell and, after being promoted through a variety of roles including Sales & Operations Director and two divisional Managing Director roles, he was appointed to Dairy Crest's main Board in 2002, becoming Chief Executive in 2007.

KAREN CADDICK

Non-Executive Director

Karen was appointed to the Board in September 2018

Skills and experience

Karen is currently the Group Human Resources Director at Saga Plc and has previously been Group Human Resources Director at Millennium & Copthorne Hotels Plc. Karen also spent 10 years in financial services working in a number of HR positions for Royal & Sun Alliance and Barclays Bank. She then went on to hold Human Resources Director roles at Channel Five Broadcasting, The Financial Times, Punch Taverns & Spirit Group Plc and WM Morrison Supermarkets Plc. Karen is Non-Executive Director at Papworth Hospital NHS Foundation Trust. She is ACII and FCIPD qualified.

ANDREW CRIPPS

Non-Executive Director

Andrew was appointed to the Board in December 2015.

Other listed company appointments

Non-Executive Director of Swedish Match AB

Skills and experience

Andrew has extensive experience in finance and accounting having qualified as a Chartered Accountant with KPMG and held executive director roles in the UK and Europe with Rothmans International, where he was the Corporate Finance Director. Andrew is Deputy Chairman of Swedish Match AB and Senior Independent Director and Chairman of the Audit Committee at the 2 Sisters Food Group. Andrew has also been a non-executive director and audit committee chair of a number of public companies with consumer-facing and manufacturing businesses.

GEOFF DRABBLE

Non-Executive Director

Geoff was appointed to the Board in July 2015.

Other listed company appointments

Chief Executive Officer of Ashtead Group Plc

Skills and experience

Geoff has a notable background in the building products and construction markets and is the Chief Executive Officer of Ashtead Group Plc, the FTSE 100 international equipment rental company which operates a model across multiple sites, with incentivised local managers. He was appointed as Chief Executive Officer in January 2007, having served as Chief Executive Designate from October 2006 and as a Non-Executive Director since April 2005. Geoff has also previously held the position of 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.

DEBBIE WHITE

Non-Executive Director

Debbie was appointed to the Board in February 2017.

Other listed company appointments

Chief Executive Officer of Interserve Plc

Skills and experience

Debbie has significant experience of the B2B industry and of finance and accounting. She was appointed Chief Executive Officer of Interserve Plc in September 2017 and prior to this served as Global CEO of Sodexo Healthcare and Sodexo Government. Debbie also held various other positions within Sodexo, including CFO in the UK & Ireland, CFO of Sodexo Inc. and later CEO for Sodexo UK & Ireland. In 2013, she became a trustee of the charity Wellbeing of Women and is now Chair of the Audit Committee. 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.

INDEPENDENCE

The Board considered that all of the Non-Executive Directors were independent for the full duration of the period being reported on and that Richard Pennycook was independent upon his appointment as Chairman.

NON-EXECUTIVE DIRECTORS' SKILLS AND EXPERIENCE

An exercise was undertaken during 2018 using a skills matrix to highlight where the skills and experience of our Non-Executive Directors were particularly strong, where there were opportunities to further grow the Board's collective knowledge and inform the Board's future composition as Non-Executive Directors naturally rotate off the Board.

Howdens-specific skills

The matrix showed that the Board is rich in skills that are considered to be of high importance to the Howdens business model, strategy and sectors within which the Company operates. These included:

- Vertical integration
- Multi-site depot operation
- Logistics, supply chain management and distribution
- B2B
- Manufacturing
- HR and people management

For further biographical details of each Director, please visit www.howdenjoinerygroupplc.com/about/who-we-are/board/index.asp

Corporate Governance Report continued

EXECUTIVE COMMITTEE AND COMPANY SECRETARY

The principal purpose of the Executive Committee is to implement the Group's strategy and operational plans. The Committee monitors the operational and financial performance of the business, is responsible for the optimisation of resources and the identification and control of operational risk within the Group. The Committee generally meets weekly.

KEVIN BARRETT
Group Development Director & Commercial Director of the Trade Division

Kevin joined Howdens in September 2015 as a member of the Executive Committee.

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

Clive joined Howdens in October 2002 and has been a member of the Executive Committee since January 2016.

Skills and Experience

Clive was appointed as CIO 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

Rob joined Howdens in January 2001 and has been a member of the Executive Committee since April 2005.

Skills and Experience

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.

ANDY GAULT
Group Digital Director

Andy joined Howdens in April 2018 as a member of the Executive Committee.

Skills and Experience

Andy has over 20 years' experience in core areas of retail having worked at leading retailers such as Wyevale, Screwfix, and B&Q. His experience encompasses the disciplines of eCommerce, store management, supply chain, buying, strategy, and international. He is also a member of the IMRG Advisory Board and has served on the Google Retail advisory council (EMEA).

GARETH HOPKINS
Interim Group HR Director

Gareth joined Howdens in April 2015 as a member of the Executive Committee.

Skills and Experience

Gareth was appointed Interim Group HR Director 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

Theresa joined Howdens in September 2000 and has been a member of the Executive Committee since February 2012.

Skills and Experience

Theresa was appointed Group 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. Theresa is also a trustee of E-Act, a multi-academy trust.

ANDY WITTS
Chief Operating Officer: Howden Joinery Trade Division

Andy joined Howdens in July 1995 and has been a member of the Executive Committee since September 2008.

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

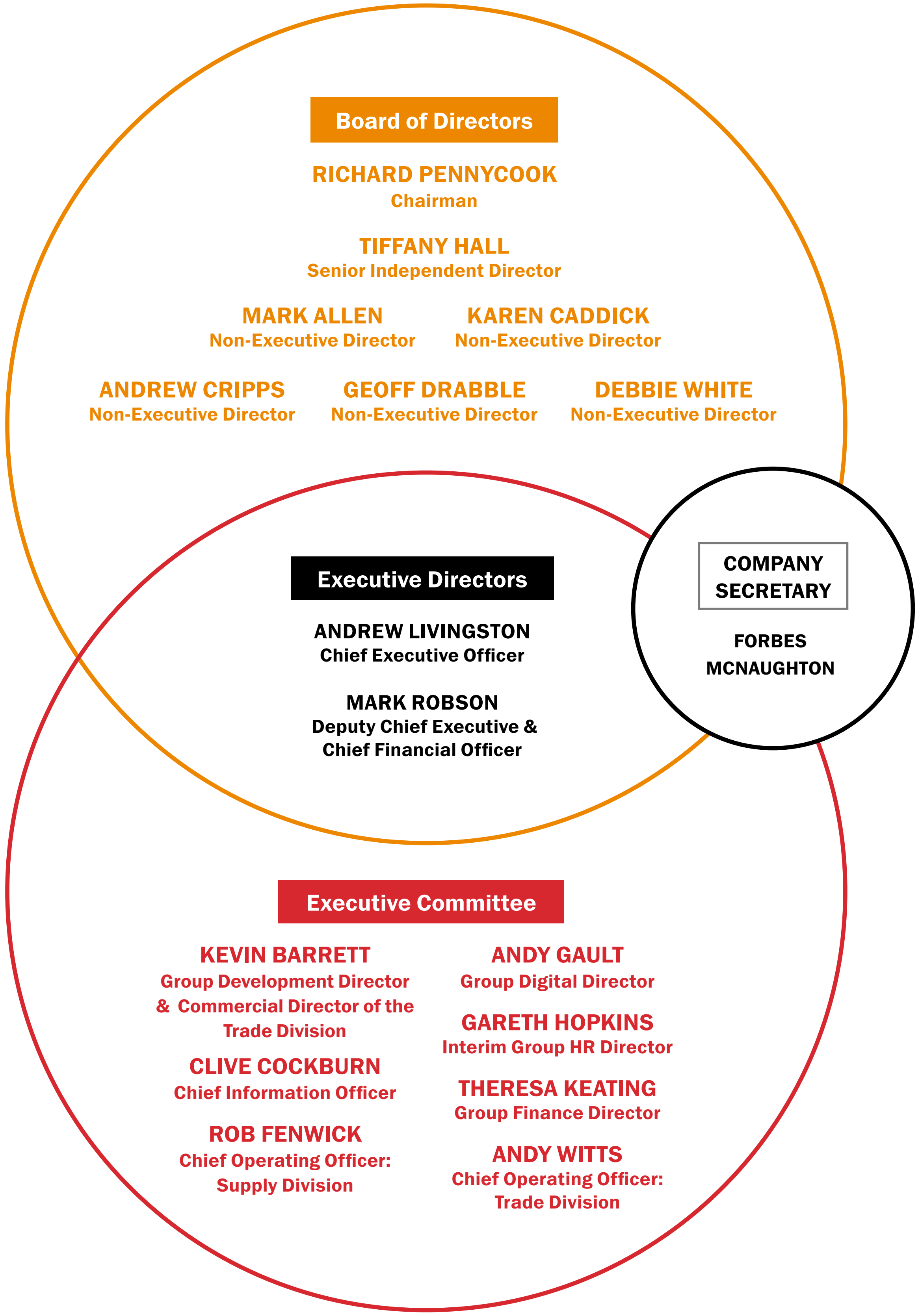
Forbes joined Howdens in July 2012 and was appointed Group Company Secretary in May 2014.

Skills and Experience

Forbes joined the Company as Deputy Company Secretary in 2012 following a period of secondment from KPMG. He is a fellow of the Institute of Chartered Secretaries and Administrators (ICSA) and is Secretary to the Executive Committee as well as to the Board of Directors.

The CEO and DCEO & CFO are also members of the Executive Committee.

2018 CORPORATE GOVERNANCE FRAMEWORK



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CORPORATE GOVERNANCE FRAMEWORK

THE BOARD'S ROLE

The role of the Board is to direct the affairs of the Group so that long-term, sustainable performance may be achieved which meets stakeholder and shareholder interests.

The Directors are collectively responsible for developing the strategy of the Group and ensuring there are sufficient resources to successfully implement that strategy. They should challenge the performance and decisions of the senior management team and provide counsel to the senior management team in their day-to-day running of the business. They are also responsible for setting and protecting the culture and values of the business – a role particularly pertinent to Howdens where integrity, respect, individual accountability and recognition are fundamental tenets of the business.

Matters which are reserved for consideration by the Board, and are not delegated to a Board Committee or to the Executive Committee, are detailed in a Schedule of Matters Reserved for the Board (the "Schedule"), which is reviewed annually. This was last reviewed and approved by the Board in November 2018. The Schedule was updated in line with the changes made under the 2018 UK Corporate Governance Code and supporting materials. These matters include setting the Group's values, standards and strategy (as previously described) as well as taking decisions about:

- acquisitions and disposals
- risk management
- internal control
- significant capital projects
- annual budgets
- Group borrowing facilities
- significant financial and operational matters

The Board also considers legislative, environmental, health & safety, governance and employment issues.

THE CHAIRMAN'S ROLE

The Chairman is primarily responsible for the leadership and effectiveness of the Board and for creating a culture of openness, debate and challenge in the boardroom. He is also responsible for ensuring effective communication with our shareholders.

The Chairman is responsible for setting the Board's agenda (with support from the Company Secretary) and ensuring that adequate time is given to discussion of all agenda items at meetings.

THE NON-EXECUTIVE DIRECTORS' ROLE

Non-Executive Directors have the same general legal responsibilities to the Company and the same commitment to its success as the Executive Directors. However, the Non-Executive Directors are removed from the day-to-day management of the Company and so are able to provide independent judgement and oversight, and to constructively challenge senior management.

Non-Executive Directors are also key to providing the business with valuable insights, specialist knowledge and creative solutions gained from experience outside the Company. Our Non-Executive Directors, therefore, have been selected for the diversity of their backgrounds, perspectives, experience and personal attributes, as well as for their impressive business acumen.

THE EXECUTIVE DIRECTORS' ROLE

As well as their general legal responsibilities as Directors of the Company, the Chief Executive Officer and the Deputy Chief Executive and Chief Financial Officer have been delegated the day-to-day running of the Group by the Board and are responsible for satisfactory execution of the policies and strategy agreed by the Board.

THE COMPANY SECRETARY'S ROLE

The Company Secretary is an officer of the Company and shares various legal obligations with the Directors. He provides the Board with guidance and advice on various governance and regulatory matters (under the direction of the Chairman) and ensures that information flows effectively and in a timely manner between the Board and senior management, as well as within the Board and between the Board's Committees.

The Company Secretary is also responsible for developing and overseeing the systems which ensure compliance with various legal and code requirements and for supervising the day-to-day administration of the Company.

THE EXTERNAL ADVISORS' ROLE

External advisors provide a range of services to the Board and its Committees including banking, brokerage, legal, audit, actuarial, financial 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 guidance on specialist matters when 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 167.

DIVISION OF RESPONSIBILITIES

The roles of Chairman and Chief Executive Officer (CEO) are held by separate members of the Board and are clearly defined. This provides a crucial safeguard so that no one person has unlimited decision-making power and that no one person is responsible for monitoring their own performance. The Senior Independent Director (SID) role also ensures that issues may be raised in the event a principal shareholder feels unable to raise them with the Chairman directly and ensures that there is an alternative communication channel between the Chairman and the Board.

BOARD ACTIVITY DURING 2018

Key Agenda Items Considered

Strategy

The Board considered strategy at various points during the year. In particular, the Board discussed the UK depot opening programme and the revamped depot format, future warehousing capacity, long-term supply agreements, digital trials and website development, and the ongoing European depot tests.

Employee Development

The Board regularly discussed the Group's people agenda during 2018, with particular regard to organisational design and development. Further information about our employees may be found on page 48.

Health & Safety

Divisional H&S updates were provided at each of the scheduled Board meetings during 2018. Updates included information in relation to new training initiatives and an update on the Company's journey to embrace behavioural safety, which builds on the extensive work already carried out on our H&S systems. In particular, the Board considered the 'Safe to Trade' initiative, which is set out in more detail on page 50. Interaction with the Health and Safety Executive and any sanctions for non-compliance were also considered.

Pensions

Matters in relation to the defined benefit scheme were considered by the Board. However, a separate Funding and Investment Strategy Committee consisting of members of the Executive Committee was established in 2017 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, reported to the Board on these matters twice during the year.

During the year, the Board agreed a Schedule of Payments in relation to the Scheme following the triennial valuation as at 5 April 2017. More information on the Schedule of Payments may be found on page 28.

Governance, Legal and Regulatory

The Board received updates on data protection (GDPR), the updated UK Corporate Governance Code, international financial reporting standards (in particular, the potential impact of IFRS 16), payment practices reporting, gender pay reporting, and the Group Banking facility.

Brexit

During the year the Board received regular updates from the Brexit Readiness Sub-Committee (BRSC), a sub-committee of the Executive Committee tasked with overseeing the Group's preparations for a potential disorderly exit from the EU.

Policies

During 2018, the Board considered and approved updated versions of the following Group policies: anti-bribery and corruption, anti-money laundering, anti-tax evasion, competition law policy, market abuse compliance and disclosure, data protection and privacy, the modern slavery statement, and whisteblowing. The Board's Statement of Intent for both Health and Safety and CSR (which are covered in more detail in the Sustainability Matters report on pages 44 and 45) were also updated and approved.

Board Meeting Attendees

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 scheduled Board meetings during the year to take questions from the Non-Executive Directors and to provide support during the CEO transition.

Group Financial Performance Monitoring

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 scheduled meeting throughout the year.

Board Effectiveness Evaluation

The 2018 Board effectiveness evaluation was conducted internally by our Senior Independent Director, Tiffany Hall, with the support of the Company Secretary. Further information about the 2018 Board evaluation and progress since the 2017 evaluation can be found in the Nominations Committee Report on page 78.

Corporate Governance Report continued

SHAREHOLDERS AND SHARE CAPITAL

Relations with Shareholders

The Board's relationship with both the Company's institutional and private investors is very important and the Board readily enters into dialogue with them. The Company remains mindful of the stewardship obligations of institutional investors, as set out in the UK Stewardship Code, and will continue to work with investors to ensure that they are able to satisfy these requirements.

Both of the Executive Directors and the Chairman met with principal shareholders during the year to discuss the ongoing progress of the Company. During Q1 2019, the Remuneration Committee Chair consulted with shareholders on the updated Executive Director Remuneration Policy. All of the Directors make themselves available for meetings with shareholders as required.

The Board receives regular reports from the Head of Investor Relations in relation to major shareholders and developments and changes in their shareholdings. Regular feedback reports are also commissioned by the Board from the Company's joint brokers, UBS and Numis.

The Company's corporate website includes a dedicated investor relations section and provides an effective and easily accessible communication channel for existing and potential investors (www.howdenjoinerygroupplc.com).

Annual General Meeting

The 2019 Annual General Meeting (AGM) will be held at UBS, 5 Broadgate, London, EC2M 2QS on 2 May 2019 at 11:00am. Shareholders will have the opportunity to discuss Howdens' progress and operations directly with the Board at the AGM.

The notice of the AGM will be sent to shareholders at least 21 clear days before the meeting and will detail the resolutions to be voted on.

Share Capital

Issued share classes	Ordinary only (fully paid)
Voting rights at general meetings	One vote per share
Fixed income rights	None
Individual special rights of control	None
Holding size restrictions[1]	None
Transfer restrictions[1]	None

The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of shares or on voting rights.

Treasury shares

The Company held 6,738,280 ordinary shares in Treasury at the end of the period (29 December 2018). Shares held in Treasury have no voting rights and are used solely for the satisfaction of employee share awards.

Employee share awards

Details of employee share schemes are set out in note 24 on page 143. Shares held by the Howden Joinery Group Plc Employee Share Trust abstain from voting at the Company's general meetings.

Acquisition of the Company's own shares

During 2018, the Company returned over £62m to shareholders by repurchasing 12,756,448 of its ordinary shares (representing a nominal value of £1,275,645), which equated to 2.1% of the called up share capital of the Company at the beginning of the period (excluding Treasury shares). Repurchased shares were cancelled.

At the AGM on 2 May 2018, the Directors were granted authority by shareholders to purchase up to 61,977,218 of the Company's ordinary shares through the market[2]. The authority expires at the conclusion of the next AGM or within 15 months from the date of passing the resolution (whichever is earlier).

Substantial shareholdings

As at 27 February 2019, 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
BlackRock, Inc	Below 5%	Oct 2018
Caisse de dépôt et placement du Québec	3.0%	July 2018
Standard Life Aberdeen plc	4.7%	Apr 2018

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

1 Governed by the general provisions of the Articles of Association (which may be amended by special resolution of the shareholders) and prevailing legislation.

2 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.

Significant agreements

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.

If the lender were not prepared to consent to a change of control, a mandatory repayment of the entire facility would be triggered. 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.

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 32 and 33 and are satisfied that it accords both with the UK Corporate Governance Code and with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. 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 32 and 33, outlines the ongoing process for identifying, evaluating and managing the significant risks faced by the Group.

The Board confirms that it has conducted a robust assessment of the principal risks.

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 Committee 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 also undertaken with regard to the assurance provided by the Internal Audit department. An external assessment was undertaken by Grant Thornton in 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.

Corporate Governance Report continued

COMPLIANCE TABLE

We have complied with all the provisions of the April 2016 version of the UK Corporate Governance Code (the "Code").

Throughout the 52 weeks ended 29 December 2018, 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. This Corporate Governance Report explains how the Board has applied the main principles of the Code. Below we have stated how we have addressed each of the main principles in turn.

The Company will disclose how it has applied the principles and provisions of the 2018 version of the Code in the 2019 Annual Report and Accounts.

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 six formal meetings during 2018. Individual Directors' attendance may be found on page 59. The number of meetings and the attendance of each Board Committee may also be found on the following pages:
  - Nominations Committee: page 72
  - Remuneration Committee: page 80
  - Audit Committee: page 102
- A formal schedule of matters which only the Board may take decisions on is available on the Howdens website.
- The Company maintains appropriate insurance cover against legal action brought against it or its subsidiaries, Directors and Officers. It has also 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. Neither the indemnity nor insurance provides cover in the event that the Director is proved to have acted dishonestly or fraudulently.

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 page 64.

A3 THE CHAIRMAN

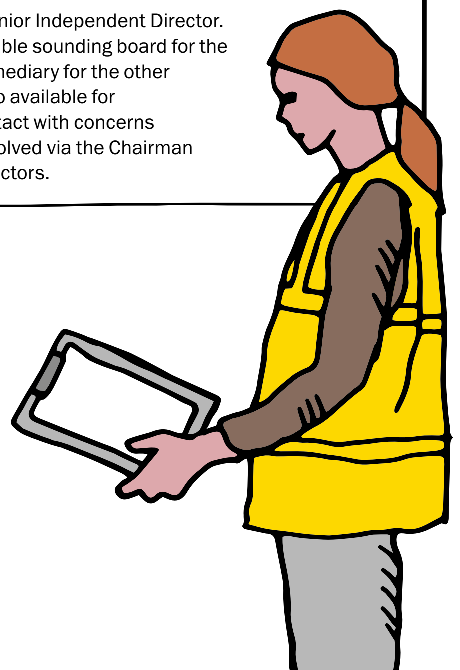
"The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role."

- 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 69 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.
- Tiffany Hall is the Senior Independent Director. She provides a valuable sounding board for the Chairman and intermediary for the other Directors. She is also available for shareholders to contact with concerns which cannot be resolved via the Chairman or the Executive Directors.



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 72 to 79.
- At least half of the Directors were independent throughout the year. Further information on Board composition may be found on pages 60 and 61.

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 detail regarding CEO succession may be found on page 76.
- Further information on Boardroom diversity may be found on page 75 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 60 and 61. None of our Non-Executive Directors currently holds more than two non-executive directorships in other UK publically-listed companies and none of our full time Executive Directors holds any directorship in a FTSE 100 company.
- 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 77.
- Non-Executive Directors are invited to attend Howdens' events at different locations and to meet with employees of all levels.
- 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, quality and timely 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.
- The Company Secretary ensures that all Board procedures are complied with and that all of the Directors have direct access to his advice and services.

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 2018 Board evaluation was lead by the Senior Independent Director, Tiffany Hall, with the support of the Company Secretary. Details of the evaluation, including recommendations, may be found on page 78.

B7 RE-ELECTION

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

- At the 2019 Annual General Meeting, each Director will stand for election or re-election. For further discussion of the composition and independence of the Board, please see pages 74 and 75 of the Nominations Committee Report.

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COMPLIANCE TABLE CONTINUED

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 7 to 57).
- The Directors' going concern and viability statements may be found on page 38.

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 35 to 37.

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 six 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 110 of the Audit Committee Report for more information).
- The Audit Committee, as a whole, has competence in the various relevant sectors which Howdens operates within (please see page 110 of the Audit Committee Report for more information).
- The Audit Committee has recommended that the auditor, Deloitte LLP, be reappointed at the 2019 Annual General Meeting. Information about audit rotation can be found on page 107.

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 80 to 101.
- The Remuneration Committee is made up of six independent Non-Executive Directors. The Chairman of the Board is not a member of the Remuneration Committee.
- No Director is involved in deciding their own 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.
- 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.
- Separate resolutions will be proposed on each substantially separate issue and the numbers of proxy votes cast for and against each resolution will be made available to shareholders via the corporate website and the London Stock Exchange news service once voting has been completed.

By order of the Board

Richard Pennycook
Chairman

27 February 2019

Nominations Committee Report

INTRODUCTION FROM THE CHAIR OF THE COMMITTEE

With succession comes change and with change some uncertainty about future execution and impacts on the culture of the business. Ensuring that there are robust succession plans in place at both Board and Executive level is fundamental to the long term prospects of the business. It is the job of the Nominations Committee to ensure that the succession plans leverage the opportunities of change whilst minimising the risks.

Succession planning for a high-performing founder CEO presents a particular challenge given that the business and its culture has been formed in the founder's image. It is not limited to identifying and securing the services of a suitable successor. Ensuring that there is a rigorous induction programme and smooth transition period are of equal importance. We consider this in more detail in the case study on page 76.

In addition to the work undertaken on CEO succession, during 2018 the Nominations Committee also considered succession planning for the Board as a whole and in particular, the succession of the Remuneration Committee Chair and Senior Independent Director (Tiffany Hall). This culminated in the recommendation to the Board to appoint Karen Caddick. Karen will shadow Tiffany as Remuneration Committee Chair for twelve months as we take our Remuneration Policy out for shareholder approval. Karen has a broad skill set which will complement the Board's other strengths but in particular she will have a key role in providing non-executive support to the business' people, colleague inclusion and diversity agendas.

The Committee also oversaw Andy Gault's appointment to the Executive Committee and the formation of a diversity working group. Specific updates were provided from management on organisational design and Group benefits in additional to the routine business of the Nominations Committee which is considered in more detail throughout this report.

The last external Board effectiveness review was undertaken in 2016 and we will externally facilitate this review again in 2019. The 2018 review was undertaken in line with policy to externally facilitate every three years and as such was undertaken by the Senior Independent Director with support from the Company Secretary. More detail about the methodology and recommendations can be found on page 78.

The updated UK Corporate Governance Code places the onus on Nominations Committees to look beyond the Board and to the Group as a whole when considering matters such as succession and diversity. We welcome the changes and the understanding that the Board and the Company should be completely aligned in terms of policies, practices and culture. I look forward to developing these themes further in the 2019 Nominations Committee report.

MEETING ATTENDANCE

The Committee meets at least twice a year and at any other such time as the Chair of the Committee requires. In 2018 we met 4 times. Only the attendance of members of this committee is shown in the table below, although other Directors, where appropriate, have also attended at the invitation of the Committee Chair.

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. As additional governance, the Committee terms of reference require that any Director joining the Committee must have completed their period of induction with the Company. 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.

	Richard Pennycook*	Mark Allen	Andrew Cripps	Geoff Drabble	Tiffany Hall	Debbie White
No. of meetings	4	4	4	4	4	4
Attendance	100%	100%	100%	100%	100%	100%

Nominations Committee Terms of Reference – www.howdenjoinerygroupplc.com/investors/governance/nomination/index.asp

* Denotes Chair of Committee

Nominations Committee Report continued

BOARD COMPOSITION

Role of the Nominations Committee

- To review on a regular basis the structure, size and composition of the Board and make recommendations to the Board with regard to any changes. In undertaking this review, the Committee must take into account the skills, knowledge, experience of members of the Board and of the diversity of background, views, gender and race as well as and length of service of the Board as a whole
- To formulate and execute succession plans for both Executive and Non-Executive Directors and in particular for the key roles of Chairman and Chief Executive Officer. Succession plans should take into account the challenges and opportunities facing the Company, and therefore what skills and expertise are needed on the Board in the future
- Where needed, the Committee should identify and nominate candidates to fill Board vacancies as and when they arise, for the approval of the Board
- As part of the process for nominating candidates for appointment, the Committee will obtain details of and review any interests the candidate may have which conflict or may conflict with the interests of the Company. This process also includes assessing whether the candidates have any other significant appointments of which the Board should be aware
- To keep 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
- To make recommendations to the Board regarding the membership of the Executive, Audit, Nominations and Remuneration Committees in consultation with the chair of each committee
- To recommend 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
- To consider 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

Supporting actions, processes and information:

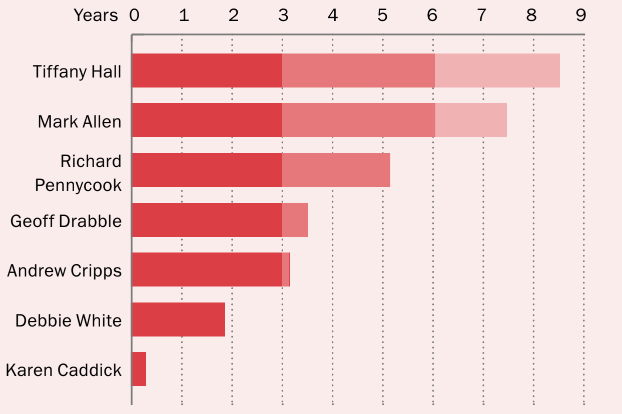
DIRECTOR SUCCESSION

An effective Nominations Committee will establish a stable leadership framework. Part of its work must also be to proactively manage change to reassess the future leadership needs of the Company.

As detailed in the remainder of this report and in the case study on page 76, the Nominations Committee has successfully managed a Board succession programme which has ensured a smooth introduction of both Executive and Non-Executive Directors to the Board.

The Nominations Committee remains committed to a programme of reviewing and refreshing the Non-Executive membership of the Board to ensure there is sufficient balance between the introduction of fresh perspectives and the maintenance of continuity and stability. Where possible, the Board will ensure a phased transition of Non-Executives in order to avoid wholesale changes to the make-up of the Board (see chart to the right for tenures of the Non-Executive Directors).

Non-Executive Tenure as at 29 December 2018



At the Nominations Committee meeting in July 2018, the Committee recommended to the Board that it appoint Karen Caddick as Non-Executive Director. Based on Karen's professional experience, it was felt that she provided strong diversity of perspective and cultural fit to help with the leadership of the business in the long-term and it was also acknowledged that Karen had particular strengths in organisational development, delivery of diversity programmes and executive remuneration. This recommendation was unanimously approved by the Board.

BOARD COMPOSITION CONTINUED

After careful consideration, the Committee also recommended to the Board that both Geoff Drabble and Andrew Cripps should be reappointed as Non-Executive Directors with effect from July and December 2018 respectively. Having served on the Board for three years, Geoff and Andrew's appointments were both agreed by the Board and extended for a further three years.

The Nominations Committee also considers Executive Director succession as part of its routine succession planning process and during 2018 it recommended to the Board that Andrew Livingston be appointed as successor to Matthew Ingle as Chief Executive Officer. The Board unanimously accepted this recommendation.

Remuneration Committee Chair and Senior Independent Director Succession

Tiffany Hall will retire from the Board during 2019 having been appointed in May 2010. Karen Caddick will succeed Tiffany as Remuneration Committee Chair upon Tiffany's retirement which will allow for an extended handover period and also ensure that Karen will have served on the Howden Joinery Group Plc Remuneration Committee for a period of more than twelve months.

Following an internal process, the Nominations Committee recommended to the Board that Geoff Drabble be appointed as Tiffany's successor as Senior Independent Director. This recommendation was unanimously accepted by the Board, and Geoff will succeed Tiffany upon her retirement.

DIVERSITY

Boardroom Diversity Policy

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, race, and background when considering new appointments in the period to 2020, 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 29 December 2018, 33% of Board members were women.

Both of the Executive Directors were male.

Group diversity policy

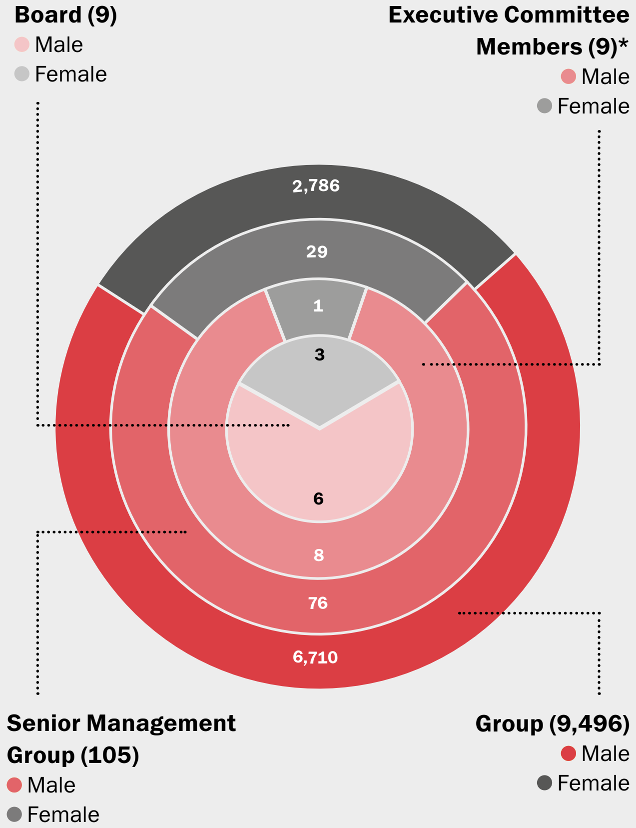
The Group promotes the importance of diversity and adopts an Equal Opportunities Policy under which training and career development opportunities are available to all employees, regardless of gender, religion or race.

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

The Nominations Committee reviews the gender statistics shown in the chart below 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.

Group Gender Diversity (as at 29 December 2018)



* including Executive Directors

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Case Study: CEO induction

Andrew Livingston joined Howdens on 29 January 2018 as CEO Designate. Between joining the business and his appointment as CEO in April 2018, it was imperative to ensure that he received a comprehensive and dynamic induction programme.

The Nominations Committee tasked the Group HR Director and the Company Secretary with developing his induction programme. Given the unique nature of Howdens' culture, it was apparent from the outset that the retiring CEO would be instrumental in both formulating and helping to deliver the programme.

In order to ensure as immersive induction as possible, Executive Committee meetings were held weekly between the end of January and April 2018 at different locations across the business. Effectively a weekly programme in each of the business units, the incoming CEO was able to spend time with senior management and employees across the business in the following areas:

- Depots: Andrew visited depots in all nine regions and attended regional board meetings in each region during the induction. This meant that all field based management and depot managers had the opportunity to meet with Andrew before he became CEO. He also received briefings on health and safety and from the commercial, product and marketing teams.
- Manufacturing and logistics: Meetings with senior supply chain managers were held at each of the main manufacturing and logistics sites as part of the induction programme. This part of the programme also included a number of meetings with suppliers. Andrew attended the biennial kitchen exhibition, Eurocucina, in Italy in April.
- Support services: Andrew also received briefings from the support functions including IT, Group finance and accounting, internal audit and risk, and governance and legal. He met with all of the Group's principal advisors including brokers, auditors, lawyers and actuaries during the course of his induction.

The induction culminated at the senior management conference held at the end of March when the CEO role effectively transitioned from Matthew to Andrew, with thanks going to the former and the latter setting out his strategic vision based on trade convenience, product leadership and value.

The Non-Executive Directors were available to support the incoming CEO and members of the Executive Committee both during and post-transition.

Following his appointment as CEO in April, Andrew has met with representatives of various stakeholder groups including suppliers at the annual Supplier Conference, the Chairman of the Pension Trustees and the teams responsible for delivering on the Group's charity and community objectives.

BOARD EFFECTIVENESS

Role of the Nominations Committee

- To provide appropriate and timely training, both in the form of an induction programme for new Directors and on an ongoing basis for all Directors
- To annually review the time required from Non-Executive Directors and undertake a performance evaluation to assess whether Non-Executive Directors are spending enough time to fulfil their duties
- To ensure 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

Supporting actions, processes and information:

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. We have considered the induction delivered to the Chief Executive Officer in some detail in the case study on page 76.

The Nominations Committee recognises that regular re-acquaintance 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.

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.

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.

Nominations Committee Report continued

BOARD EFFECTIVENESS EVALUATION

In line with the Board's policy to undertake an external Board effectiveness review every three years and following the evaluation conducted by Independent Board Evaluation (IBE) in 2016, the 2018 review was undertaken by the Senior Independent Director with support from the Company Secretary and focused on the following areas:

- The appointment and transition of Chief Executive Officer
- Role and performance of the Chairman
- Shareholder relations: accountability and communication
- Strategy
- Governance, compliance and risk
- Board dynamics, focus and priorities
- Succession planning: Board and Executive Committee
- Board Composition: culture, skills and diversity
- Decision-making: objectivity, process and outcomes
- Board papers and presentations
- 2017 Recommendations
- Emerging issues and future challenges for the Board

Methodology

September 2018
The evaluation methodology and agenda were agreed with the Chairman and Company Secretary.

October to December 2018
Interviews with Board members, the Company Secretary and the external audit lead partner.

December 2018
The conclusions of the evaluation, including the observations and recommendations for the main Board are presented to the Chairman.

January 2019
The main observations and recommendations from the evaluation are presented to the Nominations Committee and the Board.

Summary conclusions and recommendations

The Board was deemed effective by the evaluation participants and the significant events which occurred during the year, particularly the handover between CEOs had been well managed by the Board. All Board members gave positive feedback in relation to stakeholder accountability and relationships, governance, compliance and risk, board focus and succession planning. The Board were mindful that the incoming CEO would have a different approach to strategy and that this would develop during 2019. More specific recommendations were made across a number of areas and the Chairman, Senior Independent Director and Company Secretary have agreed to progress these during 2019.

GOVERNANCE

Role of the Nominations Committee

- To give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate

Supporting actions, processes and information:

THE NOMINATIONS COMMITTEE IN 2019

The Nominations Committee is scheduled to meet at least twice during 2019.

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

In recognition of the new requirements of the UK Corporate Governance Code, the Committee will also ensure that plans are in place for orderly succession to senior management positions, including the Company Secretary, taking into account the challenges and opportunities facing the Company. The Committee will review how talent is managed throughout the organisation and how succession plans support the development of a diverse talent pipeline, in particular the gender balance of senior management and their direct reports. The Committee will be taking an active role in the setting, meeting and monitoring of the impact of diversity objectives and strategies for the Group as a whole.

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, during 2018, the Nominations Committee began a search for a new Non-Executive Director as a replacement for Mark Allen.

Russell Reynolds Associates was engaged by the Committee to assist with the identification of suitable candidates. Further details on the outcome of this search will be provided following its conclusion in 2019 and reported in full in the 2019 Annual Report. Russell Reynolds Associates does not have any other business relationship with the Company.

During 2019, the Nominations Committee will continue to ensure that a continuous transition process between new and long-serving Non-Executive Directors occurs.

Annual General Meeting (AGM) elections and re-elections

As stated in the Corporate Governance Report, all of the Directors not appointed since the last AGM will retire in accordance with the UK Corporate Governance Code and each will offer themselves for re-election in accordance with Article 118 of the Articles of Association at the 2019 AGM.

Karen Caddick, 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 Chair

27 February 2019

Remuneration Committee Report

ANNUAL REMUNERATION COMMITTEE CHAIR STATEMENT

I am pleased to present the Howden Joinery Group Remuneration Committee Report for 2018. The report has been prepared in compliance with the requirements of the Large and Medium-sized Companies and Groups Regulations 2013.

Our existing policy was approved by shareholders at the 2016 AGM and therefore is due to expire at the 2019 AGM. At the AGM on 2 May 2019, we will therefore be seeking approval of both the Annual Report on Remuneration and the revised Executive Director Remuneration Policy. Our updated policy remains broadly unchanged with some minor revisions to ensure our policy remains in line with best practice. It is structured to be aligned to our strategy and to maintain an aligned approach to rewarding performance between Executives and the wider workforce with a focus on profitability measures in executive remuneration as well as monthly bonuses paid to depot staff. This approach promotes individual and collective responsibility and reaffirms our entrepreneurial culture with our employees. We have invited our principal shareholders to comment on the draft policy and we have taken their feedback into account in the policy set out later in the report.

A summary of our proposed changes are set out later within this letter with the full policy set out on pages 82 to 89.

2018 reward outcomes

2018 represents the third year of operation for our remuneration policy, which was approved by shareholders at the 2016 AGM (see chart on page 101 for AGM voting outcomes), and applies for three years from that date. This policy is summarised on page 90.

For the 2018 annual bonus, performance was based on the delivery of both profit and cash flow targets. Despite the challenging headwinds in the market Howdens has performed well over the year delivering 7.7% growth in sales on 2017 whilst continuing to deliver a strong gross profit margin of 61.7%. This has resulted in a Profit Before Tax (PBT) of £238.5m and cash flow of £224.8m. This has allowed us to continue to invest in key strategic opportunities such as depots, digital initiatives, and supply chain resilience which will position us competitively to meet future demand.

Howdens incurred a one-off charge of £3.8m in respect of GMP equalisation in 2018. This charge applied to all defined benefit pension schemes and related to the equalisation benefits for men and women in respect of guaranteed minimum pension provision. Equalisation was only applicable for pre-1997 pensionable service. Due to the one-off nature of this charge, and because it was both historic and outside of management's control, the Remuneration Committee agreed to exercise discretion and discount the charge in respect of the 2018 bonus.

Our strong financial performance has resulted in an annual bonus outcome just above target of 112% of salary for our Executive Directors.

The 2016 Performance Share Plan (PSP) with performance measured to FY 2018 is based on three year PBT growth p.a. Over the three year period of the 2016 Performance Share Plan cycle, our PBT has grown by 2.8% p.a., however due to the stretching nature of this award (requiring 8% per annum PBT growth to achieve threshold vesting) the award will lapse in full.

The CEO's salary was last agreed by the Remuneration Committee in July 2017 as part of his recruitment package. As such, the Committee has implemented a 2.5% base salary increase for 2019. This increase is in line with the increase being implemented for the wider workforce. No salary increase has been implemented for the Deputy Chief Executive Officer & Chief Financial Officer (DCEO & CFO) for 2019 as the Committee were mindful that the DCEO & CFO receives a pension provision at a higher rate than current policy under his contract of employment. It should be noted that the DCEO & CFO opted-out of the defined benefit plan at the end of 2018 and that will reduce his ongoing pension benefits going forwards.

2019 remuneration policy review

During the year the Committee undertook a comprehensive review of the remuneration arrangements for Executive Directors in light of the Company's strategic priorities and developing corporate governance and investor expectations. Our current remuneration policy has supported the success of our business through a challenging time, and continues to be aligned both with our long term strategy and wider market norms. As such, based on our review we have decided that the current remuneration structure continues to be the best framework for Howdens with some minor revisions to ensure continued alignment to best practice.

There is no change to the annual bonus opportunity which we believe continues to be appropriate for the business and aligned to market practice in comparable sized companies. We will retain existing full flexibility in bonus performance metrics with measures subject to annual review by the Committee to ensure that they remain fit for purpose (subject to at least 75% of performance measures being based on financial targets). Annual bonus deferral will be increased such that 30% of any bonus earned in a year is deferred in shares for a period of two years. This change supports a strong alignment between management and shareholders whilst maintaining an appropriate cash flow to participants.

We are also introducing a post-cessation holding period such that Executive Directors will be required to retain 100% of their shareholding requirement (200% of salary) for a period of two years post-cessation. We believe that this change will also strengthen the alignment between Executive Directors and shareholders.

We believe the current PSP continues to be fit for purpose and is strongly aligned to our strategy therefore we will make no change to the structure or opportunity level. Our remuneration philosophy is (and historically has been) one of above market levels of reward for above market levels of performance. In line with this, the PSP maximum opportunity will continue to be 270% of salary.

Shareholders should take comfort however that the 270% opportunity level will only be available for exceptionally stretching levels of performance. In practice the 270% award level was only applied at a time when the associated PBT target range was 8% – 20%. In 2017 and 2018 the Committee reduced the maximum opportunity to 220% when the target range was reduced.

The Committee recognises the provisions of the new UK Corporate Governance Code around Executive Director pensions, and the views held by our shareholders in this regards. As such, under our revised policy the pension provision for new Executive Directors has been reduced to 4% of salary. Andrew Livingston, who was appointed under our previous policy, receives a salary supplement of 20% of salary in lieu of pensions. Mark Robson, who has been in role for a number of years, will receive a salary supplement of 30% of salary in lieu of pensions having opted-out of the Company's defined benefit plan at the end of 2018.

We are currently undertaking a comprehensive review of pensions across our wider workforce, and will continue to keep Executive Director pensions under review.

2019 incentives

For the 2019 annual bonus we will replace the historic profit share structure within the annual bonus PBT measure with a conventional threshold to maximum approach. Upon review, whilst the profit share component has historically served the business well and created alignment to depot management, who also participate in a profit share arrangement, we now believe that it creates undue complexity. A more conventional profit measure still maintains the focus on profit in incentives and alignment with the depots but reduces complexity for participants and investors.

Performance measures for the 2019 annual bonus will remain the same as 2018 being PBT and cash flow. For the 2019 PSP, in consideration of internal expectations and external forecasts, it is our intention to maintain both the target range and opportunity under the 2018 PSP of 220% of salary for a target range of 5% to 15% PBT growth per annum.

The Committee has for some time been cognisant of the emphasis in our incentives on PBT. This reflects the focus on profit throughout the business, and has aligned management with our entrepreneurial culture, the wider workforce and the delivery of value to shareholders through share price growth and shareholder returns.

However, we note the comments from some shareholders that a greater diversity of measures within our long-term incentive plans would be desirable. Alignment with the strategy of the business has and will continue to be the central driver for the selection of performance measures. Therefore from 2020 onwards we intend to introduce a returns measure into our long-term incentive program. Through 2019 we will set internal targets and monitor this against investments to ensure we can appropriately calibrate this metric and that it is well understood within the senior management population before it is formally introduced.

I hope the information presented within this report provides a clear explanation as to how we have operated our 2016 remuneration policy over 2018 and as to how we intend to operate our proposed remuneration policy for 2019. 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, our proposed remuneration policy or how we implement it for 2019.

MEETING ATTENDANCE

The Committee meets at least three times a year and at any other such time as the Chair 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.

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.

	Tiffany Hall*	Mark Allen[1]	Karen Caddick[2]	Andrew Cripps	Geoff Drabble	Debbie White
No. of meetings	4	3	1	4	4	4
Attendance	100%	75%	100%	100%	100%	100%

Remuneration Committee Terms of Reference – www.howdenjoinerygroupplc.com/investors/governance/remuneration/index.asp

1 Mark was unable to attend the meeting on 19 July 2018 due to a prior commitment
2 Karen was appointed to the Board and Remuneration Committee on 7 September 2018.
* Denotes Chair of Committee

Remuneration Committee Report
continued

DIRECTORS' REMUNERATION POLICY

Howdens' Remuneration Policy, as set out in our 2015 Annual Report and Accounts, was approved by shareholders at our 2016 AGM. Our current Policy expires at the 2019 AGM and therefore we present a revised policy, following careful review, below with the intention that it will apply for three years from the date of the 2019 AGM. The policy has supported the success of our business through a challenging period and continues to be aligned both with our long-term strategy and wider market norms. The changes detailed in the summary below demonstrate that the policy remains broadly unchanged from the version approved by shareholders in 2016, albeit there are minor revisions to ensure continued alignment with best practice.

Summary of changes to the Remuneration Policy

Remuneration Element	Proposed changes
Pension	The pension provision for new Executive Directors has been reduced to be in line with the wider workforce, which is currently 4% of salary.
Annual bonus deferral	Annual bonus deferral changes from any bonus earned in excess of 100% of salary being deferred in two tranches, to 30% of any bonus earned deferred for a period of two years.
Post-cessation shareholding requirement	From 2019, Executive Directors will be required to retain 100% of their shareholding requirement (or full actual holding if lower) for two years post-cessation.

Future policy table – Executive Directors

The table below sets out the key components of Executive Directors' pay packages, including why they are used and how they are operated in practice.

Remuneration is benchmarked against rewards available for equivalent roles in a suitable comparator group. In addition to benchmarking, the Committee considers general pay and employment conditions of all employees within the Group and is sensitive to these, to prevailing market conditions, and to governance requirements.

Element and how it supports our strategy	Operation	Opportunity	Performance Measures
Base salary Recognises the market value of the executive's role, skill, responsibilities, performance and experience.	Salaries are reviewed annually, and are effective from 1 January each year. Salaries will not be changed outside of the annual review, except for in exceptional circumstances, such as a mid-year change in role.	Increases will normally be only for inflation and/or in line with the wider employee population. Salaries are set within a range defined by a market benchmark derived from companies of a comparable size operating in a similar sector (policy is to pay median). The peer group used is reviewed whenever benchmarking is performed, and the Committee applies judgement in identifying appropriate peer group constituent companies. The individual's level of total remuneration against the market is considered at the same time. Reviews will also take into account the performance of the individuals, any changes in their responsibilities, pay increases for the wider workforce and internal relativities. 2018 and 2019 salary levels are detailed in the "Implementation of Director policy in 2019" section on page 94.	None.

Element and how it supports our strategy	Operation	Opportunity	Performance Measures
Benefits Provides a competitive level of benefits.	Howdens pays the cost of providing the benefits on a monthly basis or as required for one-off events.	Benefits are based upon market rates and include receipt of a car allowance; non-exclusive use of a driver; health insurance and death-in-service insurance payable by the Company.	None.
Annual Bonus Incentivises annual performance over the financial year. Deferral links bonus payout to share price performance over the medium term.	Performance is assessed annually against cash flow and PBT targets. 30% of any bonus earned is deferred into shares. Shares are paid out on the second anniversary of deferral date. The Committee has the discretion to adjust the bonus outcome in light of overall underlying performance. Any adjustment made using this discretion will be explained in the following Annual Report on Remuneration. Payment is subject to continued employment. Malus provisions apply for the duration of the performance period and to shares held under deferral. Clawback provisions apply to cash amounts paid for two years following payment. Therefore clawback and/or malus will operate on the award for a total period of up to two years after the performance period. Clawback may be applied in the following scenarios: – material misstatement of accounts; – erroneous assessment of a performance target; – where the number of plan shares under an award was incorrectly determined; or – gross misconduct by a Director.	The threshold for the annual bonus will be dependent on the individual measures used each year. For 2019, the annual bonus will be based on PBT and cash flow, with threshold payout being 20% of salary. The maximum opportunity under the annual bonus is 150% of salary. The Committee has the flexibility to apply a maximum opportunity of up to 200% of salary in exceptional circumstances. If the Committee considers it appropriate to use a maximum opportunity of over 150% of salary, we will notify our largest shareholders in advance, and discuss with them the rationale for such an exceptional award. The exceptional maximum would not be used on a retrospective basis, and would be based on pre-determined and stretching performance targets.	For 2019 the annual bonus will be based on PBT and cash flow measures. The Committee retains the flexibility to use alternative measures during the life of this policy, subject to at least 75% of the bonus being based on financial metrics.

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Element and how it supports our strategy	Operation	Opportunity	Performance Measures
Performance Share Plan (PSP) Focuses management on longer-term financial growth than addressed by the annual bonus. Long-term financial growth is key to the generation of shareholder value.	Executives have the opportunity to participate in the PSP on an annual basis. The PSP operates over a three-year cycle. Under the PSP, awards will be granted towards the beginning of the performance period and vest based on performance over the following three-year performance period. Malus provisions apply for the duration of the vesting period. The Committee has the discretion to adjust the PSP outcome in light of overall underlying performance. Any adjustment made using this discretion will be explained in the following Annual Report on Remuneration. Vested awards are subject to a two-year holding period following vesting, during which no performance measures apply. Clawback provisions apply for the duration of the holding period, through which vested awards may be reclaimed in the event of: – material misstatement of accounts; – erroneous assessment of a performance target; – where the number of plan shares under an award was incorrectly determined; or – gross misconduct by a Director. No dividends accrue on unvested shares.	The threshold for the performance share plan will be 15% of maximum. This may be amended by the Committee dependent on the maximum opportunity in a given year. The maximum opportunity under the PSP is 270% of salary.	2019 awards will be based in full on PBT growth. The Committee retains the flexibility to use alternative financial performance measures during the life of this policy.
Pension Provides competitive long-term savings opportunities.	New Executive Directors will be entitled to participate in the auto-enrolment defined contribution scheme in line with the wider workforce, which is currently 4% of basic salary or receive a salary supplement in lieu of pension. The level of salary supplement is aligned to the maximum pension benefit available to the Executive Director. The current CEO receives a salary supplement of 20% of salary in lieu of pension. The current DCEO & CFO receives a salary supplement of 30% in lieu of pension.		None.
All-employee share incentive scheme To encourage share ownership across the Company.	Executive Directors are able to participate in HMRC approved share plans available to all employees of the Company.	The maximum participation levels will be set based on the applicable limits set by HMRC.	None.
Shareholding Requirement Strengthens alignment of interests between participants and shareholders.	Executive Directors are expected to retain vested shares from deferred bonus and long-term incentive awards (net of income tax and national insurance contributions) until they reach the minimum requirements. Unvested deferred bonus and long-term incentive shares are not taken into account. PSP shares within a holding period are counted towards the requirement.	Executive Directors are expected to build up a holding of 200% of base salary. Executive Directors will be required to retain 100% of their shareholding requirement (i.e. 200% of base salary) for two years post-cessation (or full actual holding if lower).	None.

Performance measures and targets

As part of the Committee's review of our remuneration arrangements, we have considered the appropriateness of the performance measures we have historically used, as well as the potential merits of incorporating measures which deliver increased focus on other elements of our financial performance. Following careful review, the Committee believes that the current measures continue to be appropriate for our business, and therefore for the 2019 awards PBT and cash flow will continue to be the measures used within incentives.

The Committee does however recognise the feedback received by shareholders and the undue complexity that exists in our current profit share arrangement included as part of the annual bonus calibration.

We therefore have decided to replace the historic profit share structure with a PBT measure operating under a conventional threshold to maximum calibration. Upon review, whilst the profit share component has served the business well and created alignment to depot management, we now believe that it creates undue complexity. A more conventional profit measure still maintains the focus on profit in incentives but reduces complexity for participants and investors.

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

The Committee has for some time been cognisant of the emphasis in our incentives on PBT. This reflects the focus on profit throughout the business, and has aligned management with our entrepreneurial culture, the wider workforce and the delivery of value to shareholders through share price growth and the dividend.

However, we note the comments from some shareholders that a greater diversity of measures within our plans would be desirable. Alignment with the strategy of the business has and will continue to be the central driver for the selection of performance measures. Therefore from 2020 onwards we intend to introduce a returns measure into our long-term incentive program.

Through 2019 we will set internal targets and monitor this to ensure we can appropriately calibrate this metric from 2020 onwards and that it is well understood within the senior management population before it is formally introduced.

We want to continue to ensure that the Committee is positioned to maintain alignment between incentives and the challenges facing the business, as such, during the life of this policy it may become appropriate to amend the performance measures used for our incentives. It is for this reason that we maintain the flexibility in our policy to change performance measures, subject to at least 75% of the bonus and 100% of the PSP being based on financial metrics.

Annual bonus – 2019

The table below sets out additional information on performance conditions relating to the 2019 annual bonus:

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

Commercial sensitivity precludes the advance publication of bonus targets but targets will be disclosed retrospectively in the Annual Report on Remuneration. For 2018 targets please see the annual bonus targets and outcomes table on page 92.

Performance Share Plan – 2019

The PSP will be based solely on nominal PBT performance for the 2019 award. Targets are considered by the Remuneration Committee to provide a range which represents long-term success for Howdens, and are kept under review in light of brokers' forecasts and inflation forecasts. In the event that inflation significantly increases, the Committee will reconsider the operation of this measure to ensure that the use of nominal targets is appropriate.

The intended targets for 2019 PSP grants are detailed in the "Implementation of Director policy in 2019" section on page 94.

Remuneration policy for other employees

The remuneration policy described above applies specifically to Executive Directors of the Group. However, the Remuneration Committee believes it is appropriate that all reward received by senior management is directly linked to the performance of the Company and aligned with shareholder value. Accordingly, Executive Committee members (a further seven individuals) participate in the same incentive schemes as the Executive Directors at a reduced level to ensure alignment between the leadership team with each other and with our shareholders.

Remuneration Committee Report
continued

Below this level, the encouragement of share ownership is cascaded through all tiers of management. Individuals within the upper tiers of the organisation participate in a similar bonus plan that is linked to PBT and cash flow. These individuals also participate in a PSP, which vests dependent on the same performance measures as the PSP awarded to Executive Directors.

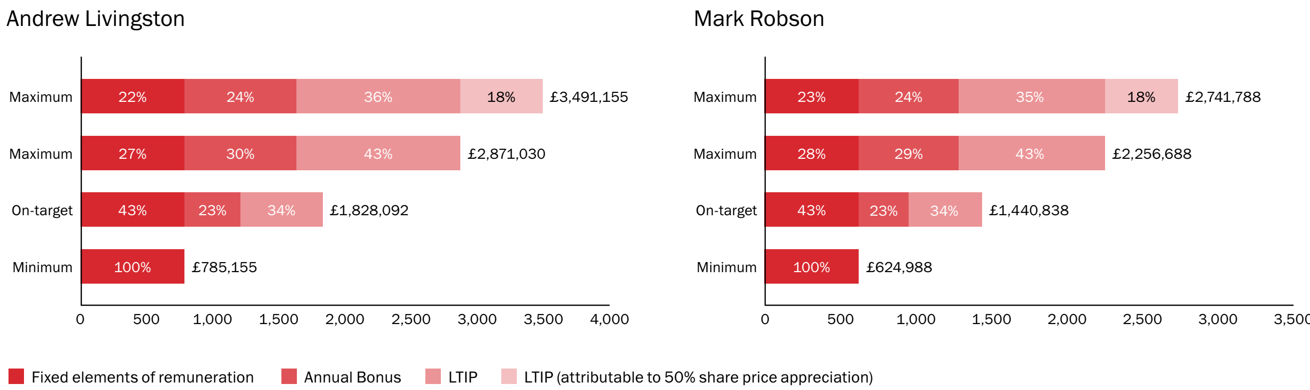
Share grants are made at a reduced level to a wider population within Howdens that do not use performance conditions. These awards are made in order to encourage share ownership throughout the Company.

NED fee policy
The Group's policy on Non-Executive Director (NED) and Chairman fees is set out below.

Element and how it supports our strategy	Operation	Opportunity	Performance Measures
Fees for Non-Executive Directors To attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy.	The fees for the Non-Executive Directors are determined by the Chairman and Chief Executive. The fee for the Chairman is determined by the Remuneration Committee while the Chairman is absent. No other services are provided to the Group by Non-Executive Directors.	Fees for Non-Executive Directors are set out in the statement of implementation of policy on page 97. The fees reflect the time commitment and responsibilities of the roles. Accordingly, committee chairmanship and Senior Independent Director (SID) fees are paid in addition to the NEDs' basic fee. Committee chairmanship fees apply only to the Audit and Remuneration Committees. The Chairman receives no fees in addition to the Chairman's fee. Fees may be reviewed every year, and are set within a range defined by a market benchmark of comparably sized companies. Benchmarking is typically undertaken every three years.	NEDs are not eligible to participate in any performance related arrangements.

2019 remuneration scenarios
The remuneration package for the Executive Directors is designed to provide an appropriate balance between fixed and variable performance-related components, with a significant proportion of the package weighted towards long-term variable pay. The Committee is satisfied that the composition and structure of the remuneration packages is appropriate, clearly supports the Company's strategic ambitions and does not incentivise inappropriate risk-taking and reviews this on an annual basis.

Value of package (£'000)



Fixed elements of remuneration consist of the annual salary that the Executive Director will receive for 2019, alongside their 2019 pension entitlement, and actual benefits received in 2018 (as a proxy for 2019).

Annual bonus is based on a maximum opportunity of 150% of salary and an on-target opportunity of 75% of salary.

LTIP is based on a maximum opportunity of 220% of salary in line with the 2019 grant (noting that the overall policy maximum is 270% of salary). Target opportunity is calculated as 50% of maximum (110% of salary).

The 'maximum (including share price appreciation of 50%)' column is calculated on the same basis as the maximum column however includes an uplift of 50% total over three years for the performance share plan.

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

Statement of consideration of employment conditions elsewhere in the Group
The Committee has carefully reviewed the requirements of the revised 2018 UK Corporate Governance Code ("the Code"). Embedding the new Principles of the Code, including increasing awareness of the pay arrangements across the wider group will be a significant focus for the Committee during 2019 as the Board continues to seek to adopt leading standards of governance.

When making decisions on Executive reward, the Remuneration Committee will continue to consider the wider economic environment and conditions within the Company and will review and enhance its processes in this regard. In particular, the Committee considers pay conditions for the wider workforce when reviewing base salaries for Executive Directors in addition to a range of applicable pay ratios. For 2019, salary increases for the wider workforce are around 2.5% of salary.

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

In addition, and in order to provide increased transparency we have decided to early adopt the requirement to disclose the ratio of CEO to UK workforce pay.

Statement of consideration of shareholder views
The Committee remains committed to maintaining an ongoing and transparent dialogue with its shareholders. This Executive remuneration policy was shared with our major shareholders and shareholder representation bodies in advance of the publication of this report.

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

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

Component	Policy
General	The Committee's approach to recruitment remuneration is to pay no more than is necessary to attract appropriate candidates to the role. Any new Executive Director's ongoing package would be consistent with our remuneration policy as set out in this report.
Base salary and benefits	The salary level will be set taking into account the responsibilities of the individual and the salaries paid to similar roles in comparable companies (policy is to pay median). In certain circumstances the Committee may initially position the Executive Director's salary below the market level and increase it to market levels through exceptional increases over an appropriate period of time. The Executive Director will be eligible to receive benefits in line with Howdens' benefits policy as set out in the remuneration policy table. Should relocation of a newly recruited Executive Director be required, reasonable costs associated with this relocation will be met by the Company. Such relocation support could include but not be limited to payment of legal fees, removal costs, temporary accommodation/hotel cost, a contribution to stamp duty, replacement of non-transferable household items and related taxes incurred. In addition, and in appropriate circumstances, the Committee may grant additional support in relation to the payment of school fees and provision of tax advice.
Pension	The Executive Director will be able to participate in the auto-enrolment defined contribution scheme or to receive a supplement payment in line with the wider workforce.

Remuneration Committee Report
continued

Component	Policy
Annual bonus	The Executive Director will be eligible to participate in the annual bonus scheme as set out in the remuneration policy table. The maximum potential opportunity under this scheme is 150% of salary, although in exceptional circumstances the Committee may choose to apply a maximum of up to 200% of salary.
Long-term incentives	The Executive Director will be eligible to participate in the PSP set out in the remuneration policy table. Accordingly, the Executive Director may be offered a maximum opportunity under the PSP of the 270% of salary in performance shares.
Replacement awards	The Committee may grant the Executive Director awards to replace awards from a previous employment that are forfeited. Should replacement awards be made, any awards granted would be no more generous overall in terms of quantum or vesting period than the awards due to be forfeited. In determining the quantum and structure of these commitments, the Committee will take into account the fair value and, as far as practicable, the timing and performance requirements of remuneration foregone.

Service contracts and letters of appointment

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

In their service contracts, Executive Directors have the following remuneration-related contractual provisions:

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

Non-Executive Director appointments are for an initial period of three years. They are subject to re-appointment annually in accordance with the UK Corporate Governance Code. Non-Executive Directors are not entitled to any form of compensation in the event of early termination for whatever reason.

Copies of the Directors' service contracts and letters of appointment are available at the Company's registered office during usual business hours.

Policy on payment for loss of office

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

Component	Policy
General	When determining any loss of office payment for a departing individual, the Committee will always seek to minimise cost to the Company whilst seeking to reflect the circumstances in place at the time. As an overriding principle there should be no element of reward for failure.
Base salary and benefits	In the event of termination by the Company, there will be no compensation for loss of office due to misconduct or normal resignation. In other circumstances, Executive Directors may be entitled to receive compensation for loss of office which will be paid monthly for a maximum of twelve months. Such payments will be equivalent to the monthly salary that the Executive would have received if still in employment with the Company.
Pension	Prior to plan normal retirement age, an enhanced pension may be payable to participants of the defined benefit pension plan in the event of retirement through ill-health. There is no scope for enhancements to individuals' accrued pension entitlements for other loss of office scenarios.
Annual bonus	Where an Executive Director's employment is terminated after the end of a performance year but before the payment is made, the Executive may be eligible for an annual bonus award for that performance year subject to an assessment based on performance achieved over the period. No award will be made in the event of gross misconduct. Where an Executive Director's employment is terminated during a performance year, a pro-rata annual incentive award for the period worked in that performance year may be payable subject to an assessment based on performance achieved over the period.
Long-term incentives and deferred annual bonus	The treatment of outstanding deferred annual bonus is governed by written agreements with individuals and the treatment of long-term incentive awards by the rules of the relevant plan. Individuals are defined as either a good or bad leaver for the purposes of outstanding incentive awards. Good leavers are those leaving under pre-specified circumstances (such as retirement, ill-health or disability) or those deemed by the Committee at its absolute discretion as a good leaver given the circumstances surrounding the loss of office. All other leavers are bad leavers. If an individual is a good leaver or dies then they will either continue to hold the award which will vest on the normal vesting date based on Howdens' performance (where applicable), or the Committee may exercise discretion to accelerate vesting of the award, pro-rated to reflect the extent to which the performance targets have been met (allowing for the curtailed performance period). In both scenarios, the amount vesting is pro-rated for the proportion of the period elapsed when the individual leaves. If an individual is a bad leaver then all awards to which they are conditionally entitled will lapse in full.
Post-cessation shareholding requirements	Upon departure individuals will be required to retain 100% of their shareholding requirement (or full actual holding if lower) for a period of two years post-cessation.

Remuneration Committee Report
continued

DIRECTORS' REMUNERATION REPORT

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 Benefits Pension Annual bonus Deferred bonus LTIP

EXECUTIVE DIRECTORS
Our remuneration policy for Executive Directors (as applied in 2018)

	2018	2019	2020	2021	2022	2023	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							For Executives appointed before April 2013, a hybrid defined benefit, occupational pension plan operates. It is closed to new entrants. Executives appointed after April 2013 are invited to participate in the auto-enrolment defined contribution scheme or receive a salary supplement of 20% of pensionable salary.
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							For the 2018 award, 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	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.

Salary Annual bonus
Benefits Deferred bonus
Pension 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 base 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 100 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.

In line with the revised UK Corporate Governance Code, for 2019 we have introduced a post-cessation shareholding requirement. This requires executives to hold 100% of their shareholding requirement (or full actual holding if lower) for a period of two years post cessation.

Single figure of remuneration (Audited)

£000s	Salary		Benefits		Bonus		LTIP		Pension		Recruitment Award		Total	
Executive Directors	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Andrew Livingston	413	–	81	–	462	–	–	–	83	–	1,431	–	2,470	–
Mark Robson	441	428	51	53	494	223	0	0	182	177	–	–	1,168	881
Former Executive Directors														
Matthew Ingle	145	581	78	211	163	302	0	0	44	174	–	–	430	1,268
Total	**999**	**1,009**	**210**	**264**	**1,119**	**525**	**0**	**0**	**309**	**351**	**1,431**	**0**	**4,068**	**2,149**

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 2019 can be found on page 94. 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. Following Andrew Livingston's appointment as CEO, the Remuneration Committee agreed that the Company would pay reasonable hotel costs in order to provide flexibility whilst he undertook the logistical demands of the role.

Remuneration Committee Report
continued

Salary
Benefits
Pension
Annual bonus
Deferred bonus
LTIP

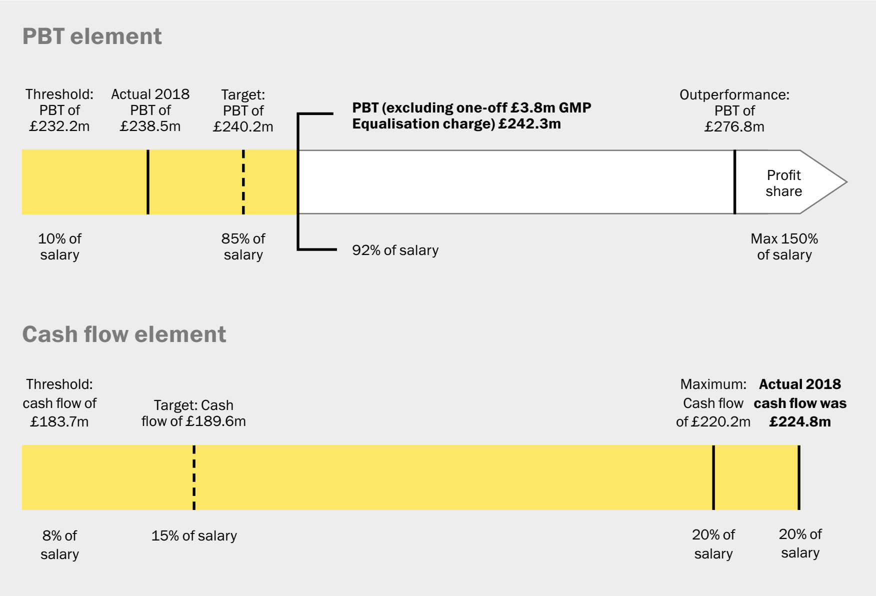
Annual Bonus (Audited)

Our policy for 2018 outcomes

Our annual bonus for 2018 was 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 an overall cap set out above).

Awards of up to 100% of salary were 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

Howdens incurred a one-off charge of £3.8m in respect of GMP equalisation in 2018. This charge applied to all defined benefit pension schemes and related to the equalisation benefits for men and women in respect of guaranteed minimum pension provision. Equalisation was only applicable for pre-1997 pensionable service. Due to the one-off nature of this charge, and because it was both historic and outside of management's control, the Remuneration Committee agreed to exercise discretion and discount the charge in respect of the 2018 bonus.

The adjusted annual PBT figure for the year in relation to the annual bonus is £242.3m. This is between target and outperformance, resulting in an annual bonus payout of 92% of salary under the PBT component for 2018. Cash flow for the year was £224.8m resulting in a payment under this element of 20% of salary. Therefore in aggregate Executive directors will receive an annual bonus of 112% of salary for 2018.

	PBT (% of salary)	Cash flow (% of salary)	Total bonus (% of salary)	Total bonus (£000)
Andrew Livingston	92%	20%	112%	462
Mark Robson	92%	20%	112%	494
Matthew Ingle (former CEO)	92%	20%	112%	163

Matthew Ingle's bonus outcome was pro-rated in respect of time served to his retirement date of 31 July 2018. As Matthew stepped down from the Board on 2 April 2018, the bonus disclosed in the table above is in respect of his time served to this date. The additional portion earned between 2 April and 31 July is set out in the payment to past directors section on page 100.

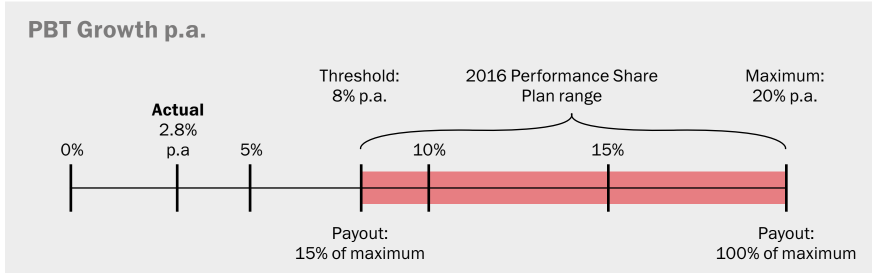
Performance Share Plan (PSP) (Audited)

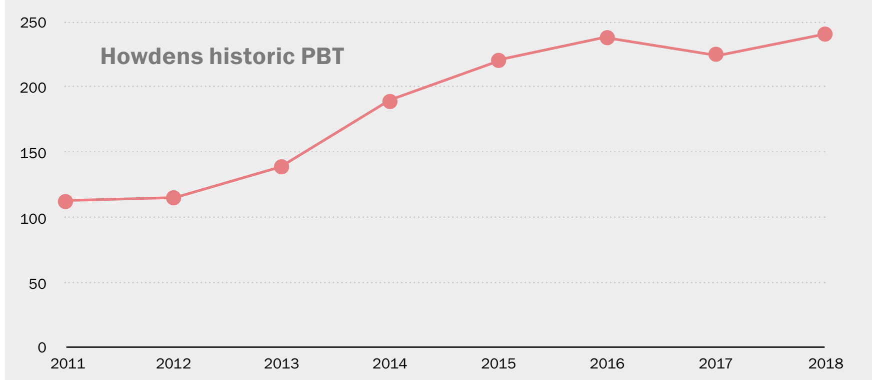
Our policy for 2018 outcomes

2019 is the first year in which the PSP vests, having first been granted in 2016 under the 2016 remuneration policy.

Our PSP was measured against PBT over the three year period from FY 2016 to FY 2018.

Any PSP award that vests is subject to a two year holding period.





Outcomes for the year

The 2016 PSP had a threshold requirement of 8% p.a. and a maximum requirement of 20% p.a. 2018 PBT was £238.5m, and therefore growth on 2016 was 2.8% p.a. The award therefore lapsed in full.

Recruitment awards (Audited)

Our new CEO, Andrew Livingston forfeited a number of awards from his previous employment on leaving that role, including performance based awards and awards of restricted shares not subject to performance conditions. As per our approved 2016 recruitment policy, these awards were replaced by awards of similar structure, fair value, and timing as far as practical.

Awards not previously subject to performance conditions were replaced with awards of restricted shares, with equivalent remaining periods to release of awards foregone.

Performance based awards were replaced with restricted share awards of an equivalent expected value and release date. Due to the short period (of less than one year) between Andrew's date of appointment and the original vesting date of the foregone performance awards, it was not considered appropriate to apply performance conditions to the replacements for these awards, but rather to mirror the expected value of the number of shares granted. For 2018 Andrew 131,639 performance based awards vested on 31 March 2018 with a total value of £605,025.

Additionally, Andrew forfeited his 2017 annual bonus on leaving his previous role. In line with our approved policy, this was replaced with a like-for-like cash award of £296,413. This amount was determined to be an appropriate estimate of the value of the bonus foregone, pro-rated for time in role.

Full details of the awards granted to Andrew are set out on page 99.

Remuneration Committee Report
continued

IMPLEMENTATION OF DIRECTOR POLICY IN 2019

Executive Directors

Base salaries and fees

Base salary increases from 2018 are set out in the table below. The salary increase awarded to Andrew Livingston is in line with the average increase that will be made to our workforce in 2019.

Matthew Ingle received his base salary until his retirement date in July 2018. Andrew Livingston received his salary from his commencement date in January 2018.

	2019		2018	
Executive Directors	**Salary (£000)**	**Percentage increase**	**Salary (£000)**	**Percentage increase**
Andrew Livingston	564	2.5%	550	–
Mark Robson	441	0%	441	3%
Former Executive Directors				
Matthew Ingle	–	–	581	0%

Annual Bonus measures

The table below sets out Annual Bonus measures for 2019. 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 2019 Remuneration Committee Report.

	Definition	Performance level	Payout level
PBT	Pre-exceptional profit before tax from continuing operations	Threshold	20% of salary
Cash Flow	Net cash flow from operating activities, taking into account the efficiency with which working capital is used, and adjusted for exceptional items	Target	75% of salary
		Maximum	150% of salary

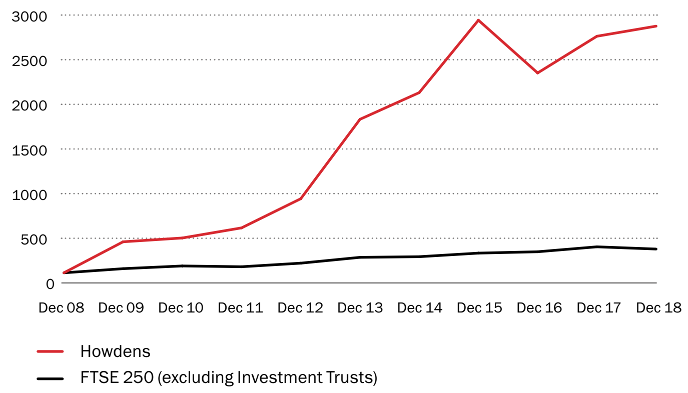
Performance Share Plan measure and targets

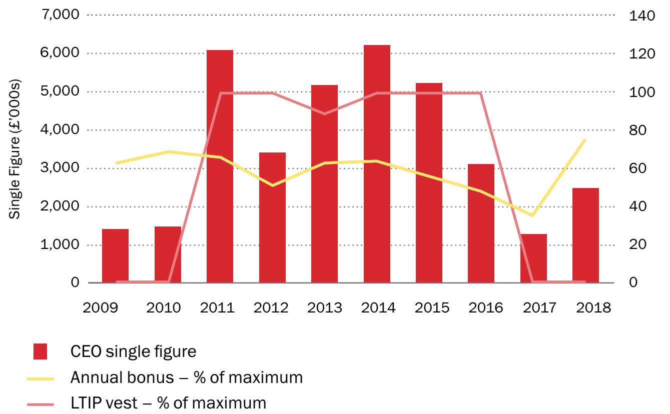
The table below sets out PSP performance measures and targets for awards to be made in 2019. Note that for 2019 the maximum opportunity under the PSP is 220% in line with the approach taken in 2017 and 2018. For scheme interests awarded in 2018 see the Appendix on page 98.

	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	
	5% p.a.	33% of salary (15% of maximum)
	Less than 5% p.a.	0

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	2017	2018
CEO single figure (£000's)	1,399	1,458	6,083	3,401	5,168	6,221	5,225	3,098	1,268	2,470
Annual bonus (% of maximum)	63%	69%	66%	51%	63%	64%	56%	48%	35%	75%
LTI vest (% of maximum)	0%	0%	100%	100%	89%	100%	100%	100%	0%	0%

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 ten years Howdens has generated a significantly higher returns than the FTSE 250 (excluding Investment Trusts).

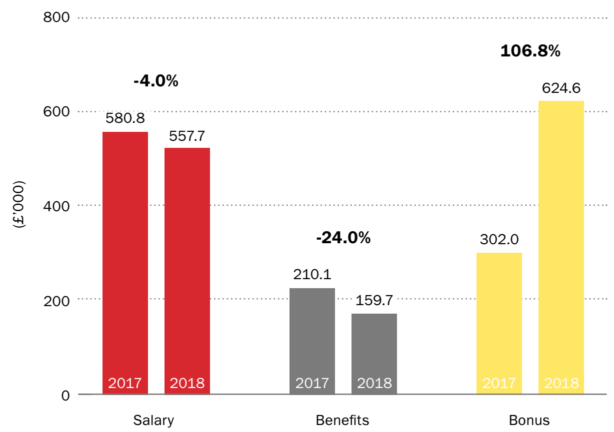
The table above shows the historic CEO single figure and incentive pay-out levels and this is also shown as a graph above right. The graph shows that the bonus has recognised consistently strong annual performance, and that long-term incentives have reflected the challenges that faced the Company after 2008 and recognised the turnaround delivered by the Group since then.

The maximum bonus opportunity reduced from 200% of basic salary to 150% following the approval of the Directors' Remuneration Policy by shareholders in May 2016.

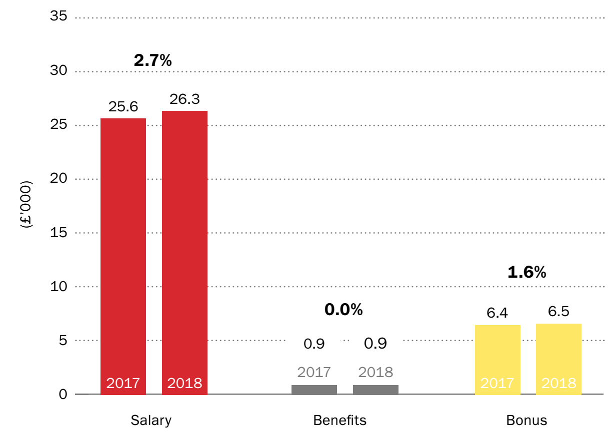
Percentage change in remuneration of director undertaking the role of Chief Executive Officer

The graphs below set out the change in short-term pay from 2017 to 2018 of the CEO compared to all employees (on a per capita basis).

CEO



All full time employees (per capita)



Strategic report
Governance
Financial statements
Additional information

Remuneration Committee Report
continued

CEO pay ratio table

Financial year	Method	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2018	A	122:1	100:1	81:1

During 2018, Howdens have undertaken an exercise to identify the CEO pay ratio in line with the updates to the Directors' Remuneration Reporting Regulations.

In accordance with section 17 of The Companies (Miscellaneous Reporting) Regulations 2018, method A was used in the calculation of the pay ratios; ranking the pay and benefits of all our UK employees for the relevant financial year to identify the 25th, 50th, and 75th percentile-ranked employees and using the pay and benefits figures for these three UK employees to determine the pay ratios at each quartile.

The pay and benefits of our colleagues was calculated in line with the Single Total Figure of Remuneration methodology. In our calculations we used actual pay from 1 January to 31 December 2018. Joiners, leavers and part time employees' earnings have been annualised on an FTE basis (excluding any payments of a one-off nature).

Where bonus payments are made on a weekly, monthly or quarterly basis, we included payments made in the 2018 compensation year, however, for annual bonus payments, we estimated the bonus due to employees for the 2018 compensation year (payment is due in March 2019).

P11D values have been based on the 2017/18 reportable values, however, have been annualised accordingly.

The total pay and benefits and salary of each colleague who is the best equivalent of the 25th, 50th, and 75th ranked employee is as follows:

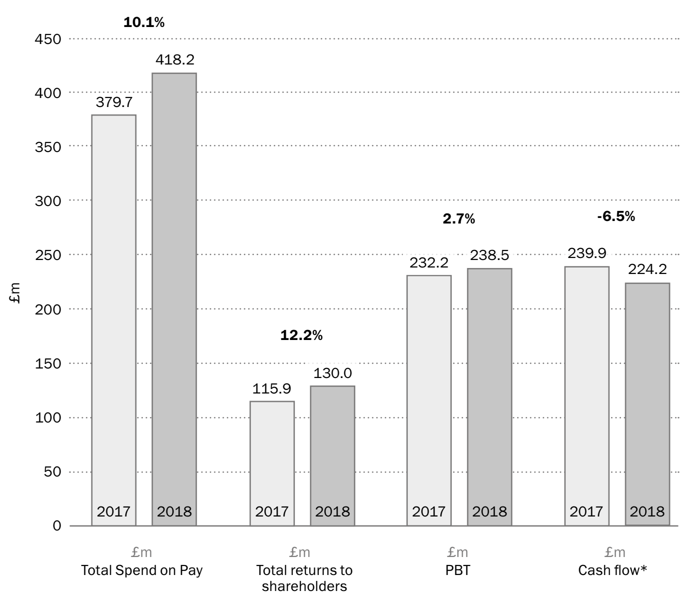
	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
Total pay and benefits (FTE)	23,763	29,125	35,936
Salary (including overtime) (FTE)	18,129	23,460	30,821

Due to the appointment of a new CEO during 2018, the CEO single figure combines the pay for both CEOs and includes the recruitment award of £1,431,048 (£1,134,635 shares and £296,413 bonus) made to Andrew Livingston. Excluding this award, the ratios would be 62:1 at 25th percentile, 50:1 at 50th percentile and 41:1 at 75th percentile.

Relative importance of spend on pay

The graph to the right sets out the change in the Group's total remuneration spend from 2017 to 2018 compared to the total returns to shareholders of the Group and the two incentive performance measures PBT and cash flow.

* Net cash flow from operating activities, being the definition used for the annual bonus scheme (see page 94).



NON-EXECUTIVE DIRECTORS
Single figure of remuneration (Audited)

The table below sets out the remuneration received by Non-Executive Directors in 2017 and 2018.

	Remuneration (£000)	
Non-Executive single figure	2018	2017
Richard Pennycook	250	250
Mark Allen	55	55
Karen Caddick	17	–
Andrew Cripps	65	65
Tiffany Hall	75	72
Geoff Drabble	55	55
Debbie White	55	48
Michael Wemms	–	22
Total	572	567

Our Non-Executive Director fee policy

Fees reflect the time commitment and responsibilities of the role. Accordingly, Committee Chair and Senior Independent Director fees are paid in addition to the Non-Executive Directors' basic fee. Committee chairmanship fees apply only to the Audit and Remuneration Committees. The Chairman does not receive a Non-Executive Director basic fee or an additional fee for chairing the Nominations Committee. Fees are reviewed every year, and are set within a range defined by a market benchmark of comparable size companies. Benchmarking is typically undertaken every three years. Fees for 2019 and increases from the prior year are set out below.

	2019		2018	
	Fee	Percentage increase from 2018	Fee	Percentage increase from 2017
Chairman fee	£250,000	0%	£250,000	0%
Basic Non-Executive Director fee	£55,000	0%	£55,000	0%
Senior Independent Director fee	£10,000	0%	£10,000	0%
Committee Chair fee	£10,000	0%	£10,000	0%

Remuneration Committee Report
continued

APPENDIX

In this Appendix a number of key disclosures are set out 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). The Plan is not open to new joiners.

The table below sets out the accrued pension for the Executive Directors who served during the year, 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 base salary in lieu of pension in 2018.

	Current Executive Directors		Former Executive Director
	Andrew Livingston	Mark Robson	Matthew Ingle
Accrued pension at 29 Dec 2018 £000	–	43	68
Normal retirement date	–	16/01/2019	28/09/2014
Pension value in the year from defined benefit component £000	–	60	–
Pension value in the year from defined contribution component £000	–	87	–
Pension value in the year from cash allowance £000	83	35	44
Total	83	182	44

Scheme interests awarded during the financial year (Audited)

During 2018 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[1]
	CEO	264,770	£1,209,999
	Deputy CEO & CFO	212,298	£970,202
PBT component vesting schedule	PBT growth performance condition		Vesting
	15% p.a.	220% of salary (100% of maximum)	
	Straight-line vesting between these points		Straight-line vesting
	5% p.a.	33% of salary (15% of maximum)	
	Less than 5% p.a.	0	
Performance period	Performance measured from FY2018 to FY2020		
Vesting date	26 March 2021		

1 Based on a share price of £4.57, being the closing price on 23 March 2018.

Free shares awarded under the Share Incentive Plan				
Executive	Number of awarded shares	Face value of award[1]	Date of grant	Performance criteria
Andrew Livingston	100	£465	6 April 2018	n/a
Mark Robson	100	£465	6 April 2018	n/a

1 Based on a share price of £4.65, being the closing price on 5 April 2018.

Salary
Benefits
Pension
Annual bonus
Deferred bonus
LTIP

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.

CHANGES TO THE BOARD

Matthew Ingle

Matthew Ingle retired from his role as CEO on 2 April 2018. His retirement date from the Group was 31 July 2018 and he continued to receive his base salary and benefits to that date, during which time he was available to support the transition. Matthew's services were also retained under a consultancy agreement for an initial period of twelve months following his retirement.

During the year Matthew received a pro-rated annual bonus in respect of time served to his retirement date for 2018, with the award subject to the normal performance targets for 2018 as set out on page 92. No deferral has been applied to this award.

Matthew has outstanding unvested awards under the 2016 and 2017 Performance Share Plan which will be pro-rated for the proportion of the performance period which he was employed and will vest on their normal vesting dates of 5 May 2019 and 27 March 2020. As the 2016 award lapsed in full (as set out on page 93), Matthew will receive no awards under this plan. The 2017 Performance Share Plan awards will remain subject to the extent that performance conditions are met. These awards will not be subject to a post-vest holding period. Matthew did not receive an award under the 2018 Performance Share Plan.

Andrew Livingston

Andrew Livingston was appointed as CEO Designate of the Group on 29 January 2018 and became CEO on 2 April 2018.

Upon appointment his base salary was £550,000 per annum and he is entitled to receive benefits in line with the normal remuneration policy, together with a salary supplement of 20% of base salary in lieu of pension.

During 2018, Andrew participated in both the 2018 annual bonus (pro-rated for his time in role) and the 2018 Performance Share Plan as set out on pages 92 and 93.

Andrew forfeited a number of awards from his previous employment on leaving that role, including performance based awards and awards of restricted shares not subject to performance conditions. As per our approved 2016 recruitment policy, these awards were replaced by awards of similar structure, fair value, and timing as far as practical.

Awards not previously subject to performance conditions were replaced with awards of restricted shares, with equivalent remaining periods to release of awards foregone.

Performance based awards were replaced with restricted share awards of an equivalent expected value and release date. Due to the short period (of less than one year) between Andrew's date of appointment and the original vesting date of the foregone performance awards, it was not considered appropriate to apply performance conditions to the replacements for these awards, but rather to mirror the expected value of the number of shares granted.

In total, 249,330 shares have been awarded to replace those forfeited from previous employment with a total value of £1,134,635. The table below sets out details for each tranche of the replacement awards made to Andrew:

(Audited)

Number of shares	Vesting date	Value of shares (£)[1]
131,639	31 March 2018	605,025
69,397	1 March 2019	312,287
48,294	1 March 2020	217,323

1 Based on actual date of vest, or three month average share price to 29 December 2018 of £4.50 if unvested.

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Remuneration Committee Report

continued

Andrew will retain these shares as part of his shareholding requirement as CEO (200% of salary), subject to disposals to cover tax liabilities arising.

Additionally, Andrew forfeited his 2017 annual bonus on leaving his previous role. In line with our approved policy, this was replaced with a like-for-like cash award of £296,413. This amount was determined to be an appropriate estimate of the value of the bonus foregone, pro-rated for time in role.

Loss of office payments or payments to past directors (Audited)

Matthew Ingle retired from the Board on 2 April 2018 and from the Group on 31 July 2018. Since the latter date, Matthew has provided services under a consultancy agreement. During 2018 the total amount paid under the consultancy agreement was £95,898.

For his services provided to the group to 31 July 2018, Matthew received a pro-rated annual bonus award. In light of the bonus outcome, as set out on page 92, Matthew received a total bonus payout of £302,016. The figure disclosed in the single figure of remuneration table on page 91 represents the period for which he was a director of the company (i.e. to 2 April 2018), and as such £139,392 represents a payment to him as a past director. No deferral will be applied to this award.

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.

Andrew Livingston is currently a Non-Executive Director of LondonMetric Property Plc, a FTSE250 REIT. Andrew received £56,785 in fees in respect of his role as Non-Executive Director. Andrew held this position upon appointment. Mark Robson does not have any external appointments. 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 of at least 200% of salary.

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

	Current Executive Directors		Former Executive Director
Director	**Andrew Livingston**	**Mark Robson**	**Matthew Ingle[2]**
Shareholding requirement %	200%	200%	–
Shareholding requirement (number of shares)	244,444	195,778	–
Owned outright (including connected persons)	12,834	202,920	3,007,951
Share awards subject only to continued employment	174,601[3]	300[4]	–
Share awards subject to performance conditions and continued employment[5]	264,770	659,745	–
Options subject to performance conditions	–	–	–
Vested but unexercised options	–	–	–
Current shareholding (% of salary)[1]	11%	207%	2,330%
Guideline met	N	Y	–

1 Based on a share price of £4.50, being the three-month average price to 29 December 2018. This is calculated by using only those shares owned outright by the Executive Directors and their connected persons.
2 Figures correct as at 31 August 2018.
3 Recruitment Plan and Share Incentive Plan
4 Share Incentive Plan
5 Performance Share Awards under the Long Term Incentive Plan

Salary
Benefits
Pension
Annual bonus
Deferred bonus
LTIP

Non-Executive Director shareholdings (Audited)

There is no shareholding requirement for Non-Executive Directors.

Non-Executive Director:	Mark Allen	Karen Caddick	Andrew Cripps	Geoff Drabble	Tiffany Hall	Richard Pennycook	Debbie White
Shareholding:	3,000	3,000	3,000	3,000	3,000	54,663	4,562

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 27 February 2019.

Consideration by the directors of matters relating to directors' remuneration

The Committee met four times during 2018, 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.

Voting at the 2018 annual general meeting (AGM)

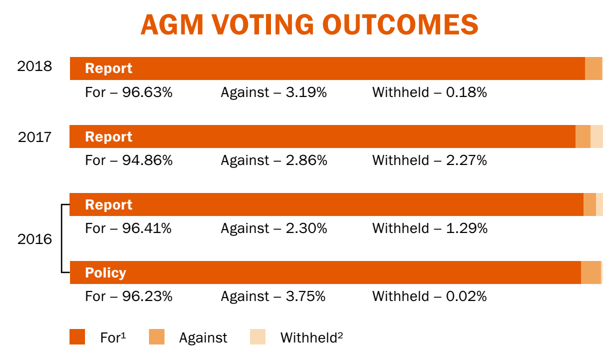
The results of the advisory vote in respect of the Directors' Remuneration Report at the 2018 AGM may be found in the chart below. There was no vote on the Directors' Remuneration Policy at the 2018 AGM as it was approved by shareholders at the AGM in 2016. The results of the binding vote on the Directors' Remuneration Policy at the 2016 AGM may also be found in the chart below.

Advisors to the Committee

The Committee regularly consults with the CEO and the Interim Group HR Director on matters concerning remuneration, although they are never present when their 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 2018 totalled £97,750 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 2018.

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.



1 A vote "for" includes those votes giving the Chairman discretion
2 A vote "withheld" is not a vote in law

By order of the Board

Tiffany Hall
Remuneration Committee Chair

27 February 2019

Audit Committee Report

INTRODUCTION FROM THE CHAIR OF THE AUDIT COMMITTEE

The Audit Committee is a central pillar of effective corporate governance. It provides our shareholders and other stakeholders with assurance on the integrity of the financial statements. It also provides assurance regarding the robustness of internal controls in preventing and detecting material misstatement.

The role, profile and agenda of our Audit Committee has evolved in recent years to reflect the fact that stakeholders are looking for ever greater assurance from audit committees. This is particularly true given the increasingly uncertain political and economic environments in which we live.

The Audit Committee's work in reviewing financial statements is supported by Deloitte LLP (Deloitte), our independent external auditor. Deloitte have been the Company's auditor since 2002 (when the audit was last tendered). Their effectiveness and independence have been monitored closely by the Audit Committee to ensure robust and objective audits are undertaken. The Audit Committee is therefore pleased to recommend that our shareholders reappoint Deloitte as the external auditor at our AGM on 2 May 2019.

As reported previously, it is the Committee's intention to review their appointment annually and that a new external auditor will be engaged no later than 2022 which is in line with the transitional arrangements for auditor rotation published by the Department for Business, Energy and Industrial Strategy. Further information regarding external audit tender planning may be found on page 107.

Of course the Audit Committee's remit is broader than the review of financial reporting and the annual audit. The Group's Internal Audit function supports the Committee's review of internal controls and during 2018 this included facilitating the Committee's review of the Company's implementation of the General Data Protection Regulation (GDPR) plan across the business. The Internal Audit Plan is regularly reviewed by the Committee to ensure it is fully aligned to the Board's strategy and the latest thinking on the risks facing the business. Further information regarding Committee actions and review of the Internal Audit function may be found on page 109.

During 2019, the Committee will continue to monitor the integrity of financial statements and formal announcements relating to financial performance, review internal controls, review and monitor the effectiveness of the Internal Audit function, and the effectiveness and objectivity of the external auditor.

MEETING ATTENDANCE

The figures below show the number of meetings individual Directors that served on the Audit Committee during the year could have attended (taking account of eligibility, appointment and retirement dates during the year) and the percentage of those meetings they actually attended.

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 by the Committee Chair to attend all or part of the meetings as and when appropriate. The Committee, however, reserves the right to request any non-members withdraw from any meeting at any time.

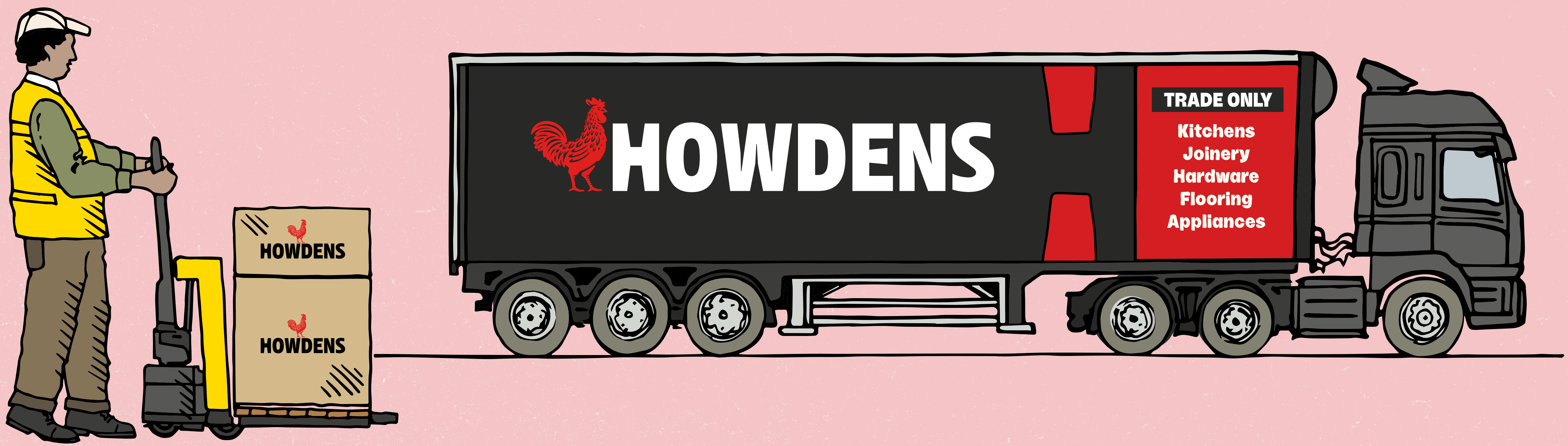
The Committee meets at least three times a year at appropriate intervals in the financial reporting and audit cycle and at any other time the Chair of the Committee requires it.

	Andrew Cripps*	Mark Allen	Karen Caddick[1]	Geoff Drabble	Tiffany Hall	Debbie White
No. of meetings	3	3	1	3	3	3
Attendance	100%	100%	100%	100%	100%	100%

Audit Committee Terms of Reference – www.howdenjoinerygroupplc.com/investors/governance/audit/index.asp

1 Karen was appointed to the Audit Committee on 7 September 2018

* Denotes Chair of Committee



Audit Committee Report continued

FINANCIAL REPORTING

Role of the Audit Committee:

- Monitor the integrity of the financial statements of the Group and formal announcements relating to the Group's financial performance
- Review accounting policies and significant financial reporting judgements contained in financial statements or announcements (although the Board as a whole remains responsible for determining whether the Annual Reports and Accounts as a whole are fair, balanced and understandable)
- Review the going concern report and the report on the longer-term viability of the business, prior to consideration by the Board

FINANCIAL REPORTING CONTINUED

COMMITTEE ACTIONS

Audit Committee Review

The Audit Committee reviewed the Group's 2018 Annual Report and Accounts and the half-yearly financial report published in July 2018.

As part of these reviews, the Committee received reports 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 Committee also considered whether the Annual Report and Accounts were fair, balanced and understandable and contained the information necessary for shareholders to assess the Company's position, performance, business model, and strategy.

Financial controls

The Committee received a report from the Head of Internal Audit on the results of key control questionnaires prepared by Group and Divisional management. 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 by the Audit Committee.

IFRS 16 Leases

This accounting standard requires the capitalisation of materially all leased assets, with the corresponding present value of lease obligations to be recognised in the balance sheet. In the income statement, in place of operating lease expenses, depreciation on these assets will be charged to operating profit and the implicit interest cost recognised as a finance expense. This standard will be applicable for accounting periods commencing 1 January 2019 and therefore the Group will adopt the standard in its 2020 financial year, which commences on 29 December 2019.

The Committee has overseen preparatory work conducted by the Company, which has included the identification and scrutiny of all applicable leases, selection of appropriate software and consideration of transition methods.

The Group expects to enter further significant leases for its new distribution centre at Raunds in 2019, which will form a substantial part of the new disclosure. As a result it is premature to make an estimate of the impact of the new standard, but the Committee will continue to monitor progress during the current year. In accordance with existing accounting standards, the operating lease commitments at the balance sheet date are set out in note 23.

Supporting actions, processes and information:

Areas of Significant Financial Judgement

The Committee exercises its judgement in deciding the areas of accounting that are significant to the Group's accounts. The external auditor reports detailed results of their procedures in relation to these significant areas to the Committee.

The matters shown below have been discussed with the Deputy Chief Executive & Chief Financial Officer, Group Finance Director and the external auditor, and the Committee is satisfied that each of the matters 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.

Inventory obsolescence provisioning

Validity of the actuarial assumptions

Recognition of revenue (presumed risk)

■ Area of significant financial judgement in 2018 and 2017

□ Area of significant financial judgement in 2017

Inventory obsolescence provisioning

The Group's in-stock model (further information about which may be found on page 14) and the scale of our product range necessitates tight management of our inventory to ensure local availability of stock while at the same time minimising obsolescence and wastage.

The Committee reviewed the results of stock counts and the processes used to value each category of inventory, including the assumptions behind obsolescence provisions, with management.

The external auditor provided reports to the Committee which considered the appropriateness of provisions held against the carrying value of inventory, while also having regard to the age of discontinued lines and volumes of continuing lines relative to the expected usage and the levels of historical write-offs.

Validity of the actuarial assumptions

The triennial pension funding valuation was completed in the first half of 2018, after which time the pension assumptions for the IAS 19 valuation were updated to those used for the latest triennial valuation. The Committee noted that using revised mortality tables (CMI 2016) compared with those used for the previous valuation (CMI 2013) led to a reduction in assumed life expectancy which significantly reduced the net pension deficit. This deficit reduced from £109m at the end of 2017 to £36m at this balance sheet date reflecting the changed actuarial assumptions as well as significant continuing contributions to the fund by the Company and the return on funds invested in the scheme. The Committee carefully considered:

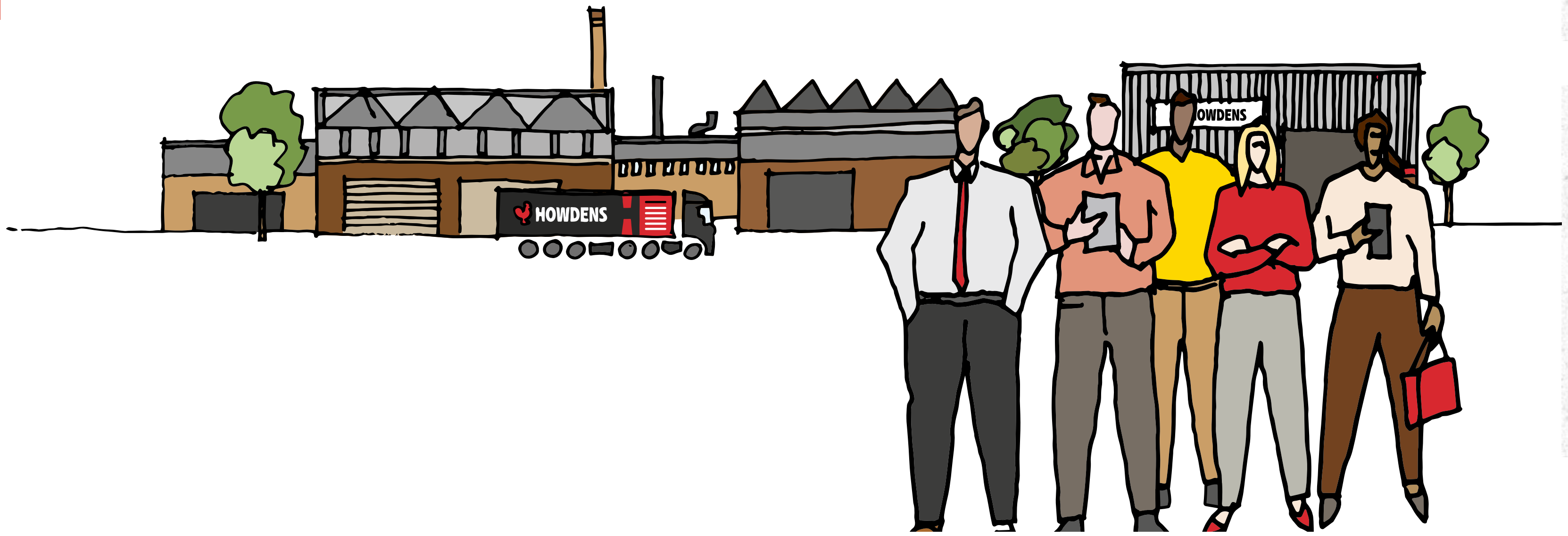
- whether the actuarial assumptions, and in particular the discount, inflation and mortality assumptions, applied were appropriate; and
- the views of the external auditors.

The Committee also met with the Group's external actuaries during the year and considered their recommendations.

2017 Area of Significant Financial Judgement

Recognition of revenue (presumed risk)

In accordance with ISA 240, there is a presumed fraud risk with regard to revenue recognition.



Audit Committee Report continued

EXTERNAL AUDITOR

Role of the Audit Committee:

- Make 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
- Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements
- Review the external auditor's audit plans and Audit Committee reports
- Develop, implement and monitor the policy on the engagement of the external auditor to supply non-audit services, taking into account relevant legislation and ethical guidance regarding the provision of non-audit services by the external audit firm

Supporting actions, processes and information:

External Auditor

External auditor:	Deloitte LLP ('Deloitte')
External auditor tenure:	17 years
Latest a new external auditor will be engaged*:	2022
Lead audit partner:	Claire Faulkner
Lead audit partner tenure:	2 years (of a 5 year cycle)

The information in the table above was correct at 29 December 2018.

*Further information about external auditor tender plans may be found on page 107.

Auditor Effectiveness

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

- The proposed plan of work presented by the external auditor, including audit risks, materiality, terms of engagement and fees prior to commencement of the 2018 audit
- The external auditor's fulfilment of the agreed audit plan and any variations from the plan
- Perceptions and professional scepticism of the external auditor and audit process from key management personnel in the finance function
- Robustness and perceptiveness of the auditor in their handling of the key accounting and audit judgements
- Internal control and risk content of the external auditor's report

Performance Expectations for the External Auditor

Specific auditor responsibilities	Wider auditor responsibilities
– Discuss audit approach and areas of focus in advance – Report issues at all levels within the Company in a timely fashion – Ensure clarity of roles and responsibilities between local Deloitte and Howdens' Finance teams – Respond to any issues raised by management on a timely basis – Meet agreed deadlines – Provide continuity and succession planning of key staff members of Deloitte – Provide sufficient time for management to consider draft auditors' reports and respond to requests and queries – Ensure consistent communication between local and central audit teams	– Provide timely up-to-date knowledge of technical and governance issues – Serve as an industry resource, communicating best practice trends in reporting – Adhere to all independence policies – Deliver a focused and consistent audit approach for the Group that reflects local risks and materiality – Liaise with the Howdens Internal Audit and Risk team to avoid duplication of work – Provide consistency in advice at all levels – Ultimately, provide a high quality service to the Board, be scrupulous in their scrutiny of the Group and act with utmost integrity

EXTERNAL AUDITOR CONTINUED

Auditor Independence

Auditor independence is an essential part of the audit framework and the assurance it provides. The Committee therefore undertook a comprehensive review of auditor independence during 2018, which included:

- 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
- 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

At the year-end, the external auditor formally confirmed that they had complied with the requirements of the FRC Ethical Standard as well as internal requirements and their independence and objectivity had been maintained.

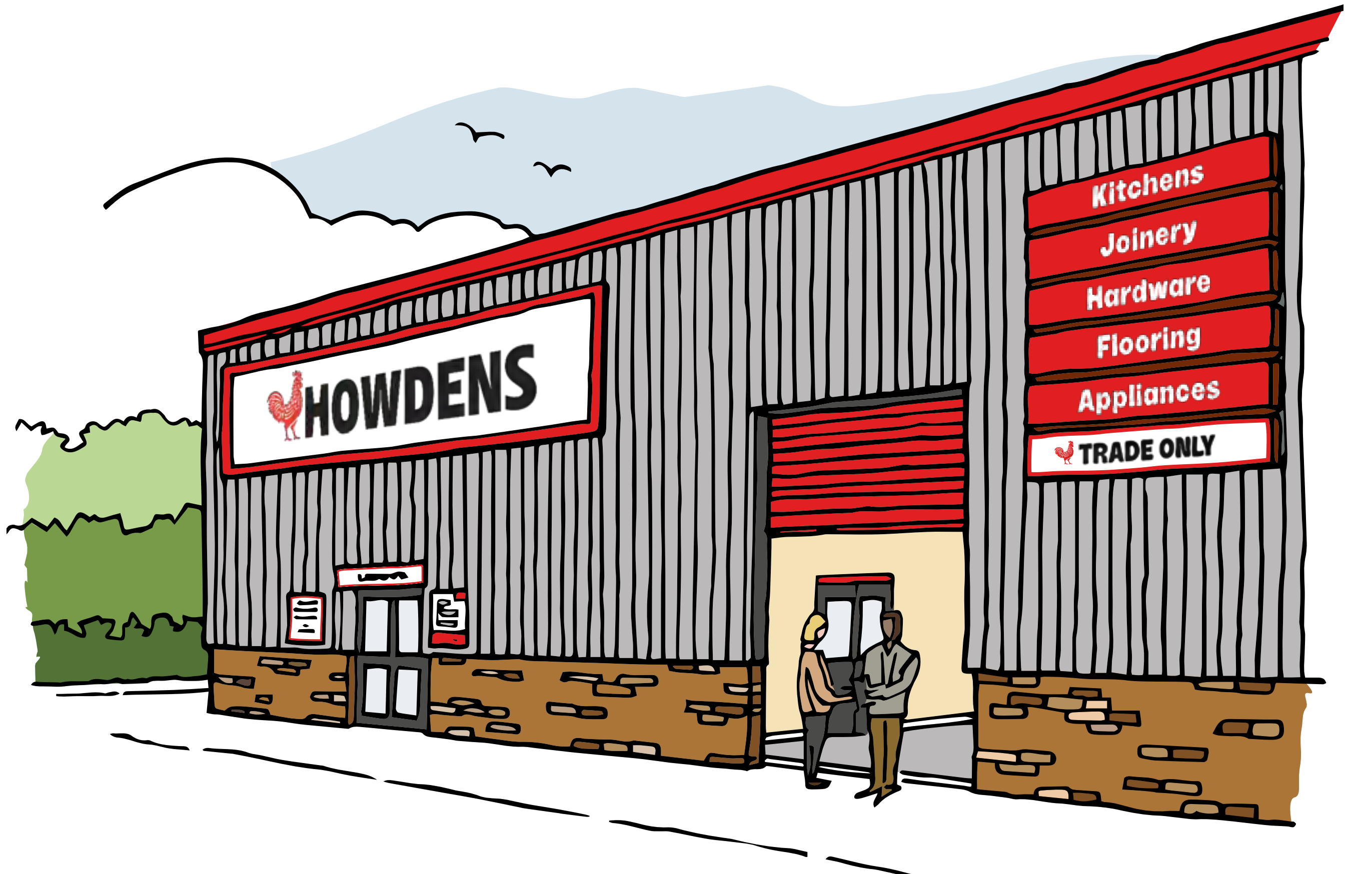
External audit tender

As reported in last year's Annual Report, the Audit Committee has decided that it will engage a new external auditor no later than 2022 (following the conclusion of the current five-year lead audit partner cycle). The Committee will keep the need to re-tender the external audit under review until this time.

In coming to this decision, the Audit Committee considered the transitional arrangements published by the Department of Business, Energy & Industrial Strategy in 2015, which provide that the Company cannot renew Deloitte's appointment as external auditor beyond June 2023, given it has been the external auditor for over eleven years but less than twenty years.

The Committee also considered the UK Corporate Governance Code and the FRC's Guidance on Audit Committees, which provide that the external audit should be re-tendered at least every ten years and that this process should fit in with the lead audit partner five-year rotation.

Deloitte has expressed their willingness to continue in office as auditor and the Committee has unanimously recommended to the Board that a proposal to reappoint them as the auditor and to authorise the Directors to fix their remuneration is put to the shareholders at the Annual General Meeting in 2019.



Audit Committee Report continued

EXTERNAL AUDITOR CONTINUED

Policy for non-audit services provided by the external auditor
The main aims of this policy are to:

- Ensure the independence of the auditor in performing the statutory audit; and
- Avoid any conflict of interest by clearly detailing the types of work that the auditor can and cannot undertake.

The Audit Committee reviewed and updated the policy for non-audit services in 2018 to ensure that it was in line with the amended FRC ethical standards, UK Corporate Governance Code and best practice.

The regulation substantially limits the non-audit services which can be provided by the auditor. The policy provides:

- A 70% cap of the value of the audit fee for all non-audit services calculated on a rolling three-year basis.
- The following services as categories that are prohibited from being carried out by the auditor:
  - tax calculation services
  - actuarial and other valuation services

The policy specifies a de minimus limit as well as the type of non-audit work that the auditor may be engaged in without the matter first being referred to the Audit Committee, which considers each referral on a case-by-case basis.

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.

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

Details of the total fees, including non-audit fees, paid during the year to Deloitte are set out in the chart below and in note 6 to the consolidated financial statements.

The only non-audit services provided by Deloitte in the year was their review of the half-yearly financial report. No advisory work was requested from the auditor.

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

CONTROLS AND INTERNAL AUDIT

Role of the Audit Committee:

- Monitor the Group's internal financial controls throughout the year
- Review the Group's financial risk management processes, systems and reports (although the Board as a whole remains responsible for overseeing the overall risk profile of the business)
- Oversee the effectiveness of the Group's Internal Audit function and ensure that its findings are used effectively

Supporting actions, processes and information:

COMMITTEE ACTIONS

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
- Staffing, reporting and effectiveness of divisional audit

Fraud Risk

The Committee considered the controls in place to mitigate fraud risk.

Divisional Controls

Senior management from the business were invited to discuss the controls in their business areas. 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 presented by the Chief Information Officer. Updates on cyber and information security and the General Data Protection Regulation were also provided by the Head of Information Systems Security and Head of Legal.

Independent Assurance

The Committee assessed the coverage of independent assurance by reviewing the annual internal audit plan against the Group assurance map. In addition, the Committee reviewed reports on preparedness to manage crises, business continuity and product recall. It also received reports on the scope of preparations for the UK's exit from the EU.

WHISTLEBLOWING POLICY

The Group's whistleblowing policy contains arrangements for all employees to have access to a confidential outsourced service, which allows calls and emails to be received in multiple languages, 24 hours a day. The policy is reviewed annually.

Complaints on accounting, risk issues, internal controls, auditing issues and related matters are reported to the Audit Committee as appropriate. In 2018, the Committee received a report on the activity reported under the Group's whistleblowing policy and the issues raised and investigated under this policy were formally reviewed by the Committee.

INDEPENDENT REVIEW OF THE INTERNAL AUDIT AND RISK FUNCTION

An independent review of the Internal Audit and Risk function was carried out by Grant Thornton during 2017 in line with the Audit Committee's policy to perform an external review of the functions every five years.

During 2018, the committee considered the effectiveness of the internal audit function and concluded that it remained effective, well-led, and had a clear remit.

Audit Committee Report continued

GOVERNANCE

Role of the Audit Committee:

- To be aware of technical, regulatory and governance changes applicable to the work of the Committee
- Review any interests a Director has which conflicts or may conflict with the interests of the Company
- Review its own performance, constitution and terms of reference once a year to ensure it is operating effectively
- Report to shareholders on its activities in the Annual Report

Supporting actions, processes and information:

COMMITTEE ACTIONS

Governance Updates

Updates on the latest governance practices for Audit Committees and changes in reporting requirements were provided by the external auditor.

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

Committee Effectiveness

An effectiveness review was carried out on the Committee and its members as part of the Board's wider evaluation process (further details may be found on page 78).

The Committee also 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.

Terms of Reference

The Committee reviewed its terms of reference to reflect changes in best practice and in particular the updated UK Corporate Governance Code.

Policies and Conflicts

The Committee reviewed its policies in relation to allocation of non-audit work (further detail on this policy may be found on page 108) and employment of ex-audit firm personnel. It also reviewed the Directors' conflicts of interest register.

CMA Order Compliance

The Audit Committee confirms that the Company has complied with the provisions of the Competition and Markets Authority Order throughout its financial year ended 29 December 2018 and up to the date of this report.

COMMITTEE MEMBERSHIP

The Committee is composed entirely of independent Non-Executive Directors. Independence is critical for fair assessment of the management team and the external and internal audit functions.

Chair

Andrew Cripps was appointed Audit Committee Chair in May 2016. He 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.

Andrew 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 the Annual Report.

Recent and relevant financial experience

Andrew Cripps 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.

Competence relevant to the sector

The unique business model of Howdens means it does not naturally fit into one sector and therefore when the Committee undertook an assessment of its skills and experience it assessed them against a number of sectors relevant to the Company. These included building and construction, multi-site wholesale, manufacturing and logistics, and service to customers.

The Committee concluded that competence relevant to these sectors was well represented within the current membership and that the thorough inductions provided to the Committee members and the opportunities for them to meet with senior management and Executives further enhanced their working knowledge of the way the Company operates and the sectors it spans.

Case Study: Pension Assumptions

The analysis of pension assumptions remained a key area of focus for the Audit Committee during the year.

At the February 2018 Audit Committee meeting, the Committee considered the Company's approach to key assumptions behind calculation of the net pension fund deficit, and particularly those relating to mortality rates. Hymans Robertson, the Company's actuaries, presented current practice and contributed to the meeting. The Committee noted that:

- Cash contributions to the fund by the Group are determined from triennial valuations prepared on the funding (or Technical Provisions) basis (see note 19)
- Latest mortality tables (CMI 2016) showed earlier mortality than those used in the Group's last funding valuation (CMI 2013) and hence a potentially lower deficit
- The Group's policy of only updating non-financial assumptions, particularly mortality tables, after completion of each triennial funding valuation has been consistently applied year on year
- The assumptions were within the external auditor's benchmark ranges.

The Committee discussed the IAS 19 deficit relative to the Technical Provisions deficit and the external auditor and Audit Committee concluded that the assumptions remained appropriate for the Company.

When the Audit Committee considered pensions assumptions at the half-year in July, it was noted that the triennial pension scheme valuation had been finalised and that Hymans Robertson had updated the IAS 19 pension assumptions to be consistent with the valuation. The effect was to reduce the net balance sheet liability and it was noted that the appropriate disclosures had been made. The assumptions continued to be within the external auditor's benchmark ranges. In addition, the external auditor noted that the degree of conservatism had reduced since the year-end in light of the updated pension assumptions following conclusion of the triennial review.

At the 2018 external audit planning meeting, the Committee noted that the FRC had published "The Audit of Defined Benefit Pension Obligations" report which highlighted that it expected Audit Committees and auditors to discuss the findings and consider whether the audit approach could be enhanced. The Committee considered that this would include the following:

- Challenge the assumptions used in calculating the pension deficit as at the year-end and assess whether these were reasonable, in particular those key assumptions relating to the discount rate, inflation rate and longevity.
- The external auditor to discuss with the Group's actuaries the methods used to calculate the assumptions and review the actuarial valuations prepared for compliance with the accounting and disclosure requirements.
- Deloitte to engage with in-house pension specialists to benchmark the pension assumptions used against internal benchmarks and other companies in the industry.
- Assess the design and implementation of the controls in place relating to validity of pension assumptions.
- Whilst not considered to be a significant risk, Deloitte's Pensions Centre of Excellence would carry out testing of pension assets.

The Committee further reviewed pension assumptions at its meeting in February 2019, concluding that these remained appropriate, individually and collectively. Controls over the completeness and valuation of pension fund assets were also discussed.

Audit Committee Report continued

THE AUDIT COMMITTEE IN 2019

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

The Committee will continue to consider all of the matters set out in this report 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.

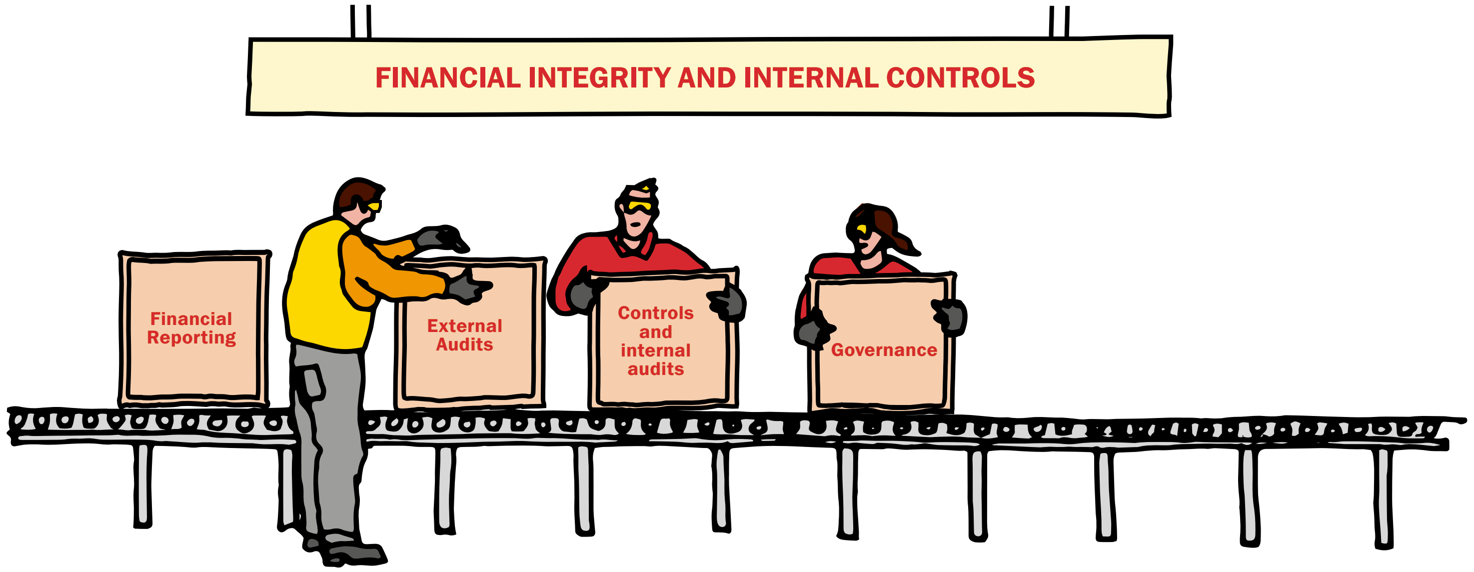
It will continue to consider the Company's governance arrangements and review the Committee's terms of reference.

The Committee has decided to increase the frequency of its meetings to allow more scope to review developments in internal controls outside the annual reporting cycle. In addition, the Committee will review the implementation of IFRS 16, the results of which will be detailed in the 2019 Audit Committee report.

By order of the Board

Andrew Cripps
Audit Committee Chair

27 February 2019



Directors' Report

The Directors have pleasure in submitting their report and the audited financial statements for the 52 week period ended 29 December 2018. Comparative figures relate to the 53 weeks ended 30 December 2017.

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 5 to 57.

Dividend: Information about the final dividend can be found in the Chairman's Statement on page 7 and the Review of Finance and Operations on page 27.

Non-financial reporting: Our compliance with the Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006 can be found on page 114.

Going Concern, Viability and other Statements of the Directors: These statements may be found on pages 38 and 39.

Principal Risks and Uncertainties: The Group's principal risks and uncertainties and information on the Group's approach to risk and the risk management process may be found on pages 32 to 37.

Located in the Nominations Committee Report:

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

Employees: Information about the total number of employees and gender diversity statistics are located on page 75. The average number of employees and their remuneration are shown in note 7 to the financial statements.

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 55.

Employees: Information about employee participation in the Howden Joinery Share Incentive Plan can be found on page 48.

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 66.

Directors: Details of Directors who served during the year and up to the date of signing may be found on page 59. Details of Directors and their interests are on pages 100 and 101 and details of Directors' Indemnity and Insurance on page 68.

Annual General Meeting: Information about the Annual General Meeting, including reappointment of the Group's auditor, can be found on page 66. 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 periods.

Directors' Report continued

Non-financial reporting:

Non-financial measures are an important part of our business, as we discuss on page 43, and we have recognised the importance of non-financial information in our Annual Reports for many years. The Board are committed to acting responsibly and working with our stakeholders to manage the social and ethical impact of our activities. We aim to treat all our stakeholders fairly and with integrity, as we explain in the introduction to our Sustainability Report on page 43.

We have a number of Group policies to provide guidance to our employees. The policies are designed to be easily understood and they generally include examples of acceptable and unacceptable behaviours.

In order to consolidate our reporting requirements under sections 414CA and 414CB of the Companies Act 2006 in respect of Non-Financial Reporting, the table below shows where in this Annual Report to find each of the disclosure requirements.

Focus area	Policies and statements	More information and outcomes
Environmental matters	Sustainability and Corporate Social Responsibility Statement of Intent (page 45).	• Greenhouse gas and emissions reporting (page 55) • KPIs on reusing or recycling waste and on use of recycled packaging (page 54) • KPI on use of certified timber in our manufacturing processes (page 53) • Discussions of our efforts to reduce waste and our responsible, energy-efficient operations (page 54)
Social matters	Sustainability and Corporate Social Responsibility Statement of Intent (page 45).	• Our impact on our stakeholders (page 46) • Our work with local and national charities (page 56)
Respect for human rights	Sustainability and Corporate Social Responsibility Statement of Intent (page 45).	• Discussion of Supplier Code of Conduct (page 52) • Discussion of sustainable sourcing, active monitoring of suppliers and training of our procurement staff (page 52) • Modern Slavery Statement (see Group website) • Internationally recognised labour standards form part of our contracts of employment
Anti-corruption and bribery	Anti-Bribery and Corruption, Conflicts of interest, Corporate gifts and hospitality, Anti-money laundering, Anti-tax evasion and Competition law policy.	• For more information on these policies, and the due diligence that we perform, see the Corporate Governance report on page 67
Employees	Health & Safety Statement of Intent (page 44), Market abuse compliance, Data Protection and Privacy, Whistleblowing.	• KPI on Health & Safety (page 48) • Discussion of Health & Safety performance and initiatives (page 48, pages 50 and 51) • Discussion of employee rewards and benefits, development opportunities, apprentice schemes (pages 48 and 49) • Diversity policies and statistics (page 75) • Director's remuneration policy – (pages 82 to 89)

We outline our business model on pages 14 and 15. All of our non-financial KPIs are presented together on pages 25 and 26. A discussion of our principal risks, including those related to our business relationships, products and services, as well as a description of our risk management process, starts at page 32.

By order of the Board

Forbes McNaughton
Company Secretary

27 February 2019

Financial statements

Consolidated income statement

	Notes	52 weeks to 29 December 2018 £m	53 weeks to 30 December 2017 £m
Continuing operations:			
Revenue – sale of goods	4	1,511.3	1,403.8
Cost of sales		(579.1)	(515.4)
Gross profit		932.2	888.4
Selling & distribution costs		(594.4)	(564.5)
Administrative expenses		(97.7)	(89.5)
Operating profit	6	240.1	234.4
Finance income	8	0.7	0.2
Other finance expense – pensions	19	(2.3)	(2.4)
Profit before tax		238.5	232.2
Tax on profit	9	(48.1)	(47.2)
Profit for the period attributable to the equity holders of the parent		190.4	185.0
Earnings per share:			
Basic earnings per 10p share	10	31.3p	29.9p
Diluted earnings per 10p share	10	31.2p	29.8p

Consolidated statement of comprehensive income

	Notes	52 weeks to 29 December 2018 £m	53 weeks to 30 December 2017 £m
Profit for the period		190.4	185.0
Items of other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on defined benefit pension scheme	19	59.3	(22.1)
Deferred tax on actuarial gains and losses on defined benefit pension scheme	9	(11.3)	4.2
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		(0.2)	–
Other comprehensive income for the period		47.8	(17.9)
Total comprehensive income for the period attributable to equity holders of the parent		238.2	167.1

Consolidated balance sheet

	Notes	29 December 2018 £m	30 December 2017 £m
Non-current assets			
Intangible assets	12	23.1	15.4
Property, plant and equipment	13	187.1	180.0
Deferred tax asset	14	11.2	25.8
Long-term prepayments		–	0.1
		221.4	221.3
Current assets			
Inventories	15	226.3	208.3
Trade and other receivables	16	186.0	137.8
Investments	16	–	55.0
Cash at bank and in hand	22	231.3	186.1
		643.6	587.2
Total assets		865.0	808.5
Current liabilities			
Trade and other payables	17	(232.9)	(212.1)
Current tax liability		(20.2)	(20.6)
		(253.1)	(232.7)
Non-current liabilities			
Pension liability	19	(36.0)	(109.3)
Deferred tax liability	14	(1.5)	(1.8)
Provisions	20	(7.3)	(10.5)
		(44.8)	(121.6)
Total liabilities		(297.9)	(354.3)
Net assets		567.1	454.2
Equity			
Share capital	21	61.5	62.8
Share premium account		87.5	87.5
ESOP reserve		(8.8)	(10.7)
Treasury shares		(32.9)	(36.2)
Retained earnings		459.8	350.8
Total equity		567.1	454.2

The financial statements were approved by the Board and authorised for issue on 27 February 2019 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	Retained profit £m	Total £m
At 24 December 2016	63.9	87.5	(0.2)	(52.8)	298.6	397.0
Accumulated profit for the period	–	–	–	–	185.0	185.0
Other comprehensive income for the period	–	–	–	–	(17.9)	(17.9)
Total comprehensive income for the period	–	–	–	–	167.1	167.1
Current tax on share schemes	–	–	–	–	0.4	0.4
Deferred tax on share schemes	–	–	–	–	(0.1)	(0.1)
Movement in ESOP	–	–	6.1	–	–	6.1
Buyback and cancellation of shares	(1.1)	–	–	–	(46.8)	(47.9)
Transfer of shares from treasury into share trust	–	–	(16.6)	16.6	–	–
Dividends declared and paid	–	–	–	–	(68.4)	(68.4)
At 30 December 2017	62.8	87.5	(10.7)	(36.2)	350.8	454.2
Accumulated profit for the period	–	–	–	–	190.4	190.4
Other comprehensive income for the period	–	–	–	–	47.8	47.8
Total comprehensive income for the period	–	–	–	–	238.2	238.2
Current tax on share schemes	–	–	–	–	0.1	0.1
Deferred tax on share schemes	–	–	–	–	(0.1)	(0.1)
Movement in ESOP	–	–	5.2	–	–	5.2
Buyback and cancellation of shares	(1.3)	–	–	–	(60.9)	(62.2)
Transfer of shares from treasury into share trust	–	–	(3.3)	3.3	–	–
Dividends declared and paid	–	–	–	–	(68.3)	(68.3)
At 29 December 2018	61.5	87.5	(8.8)	(32.9)	459.8	567.1

The ESOP reserve includes shares in Howden Joinery Group Plc with a market value on the balance sheet date of £27.1m (2017: £36.5m), 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 item "Movement in ESOP" consists of the share-based payment charge in the year, together with any receipts of cash from employees on exercise of share options.

At the current period end there were 6,738,280 ordinary shares held in treasury, each with a nominal value of 10p (2017: 7,420,580 shares).

Consolidated cash flow statement

	Notes	52 weeks to 29 December 2018 £m	53 weeks to 30 December 2017 £m
Operating profit		240.1	234.4
Adjustments for:			
Depreciation and amortisation included in operating profit		30.2	28.0
Share-based payments charge		4.3	4.0
Loss on disposal of property, plant and equipment and intangible assets		–	0.2
Operating cash flows before movements in working capital		274.6	266.6
Movements in working capital and exceptional items			
Increase in stock		(18.0)	(24.6)
Increase in trade and other receivables		(48.2)	(1.9)
Increase/ (decrease) in trade and other payables and provisions		16.5	(0.4)
Difference between pensions operating charge and cash paid		(16.3)	(21.2)
		(66.0)	(48.1)
Cash generated from operations		208.6	218.5
Tax paid		(45.4)	(41.8)
Net cash flow from operating activities		163.2	176.7
Cash flows used in investing activities			
Payments to acquire property, plant and equipment and intangible assets		(44.3)	(48.5)
Receipts from sale of property, plant and equipment and intangible assets		0.1	–
Interest received		0.7	0.2
Net cash used in investing activities		(43.5)	(48.3)
Cash flows used in financing activities			
Payments to acquire own shares		(62.2)	(47.9)
Receipts from release of shares from share trust		0.9	2.1
Decrease in long-term prepayments		0.1	0.3
Dividends paid to Group shareholders		(68.3)	(68.4)
Net cash used in financing activities		(129.5)	(113.9)
Net (decrease)/increase in cash and cash equivalents		(9.8)	14.5
Cash and cash equivalents at beginning of period		241.1	226.6
Cash and cash equivalents at end of period	22	231.3	241.1

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

Basis of presentation

The Group's accounting period covers the 52 weeks to 29 December 2018. The comparative period covered the 53 weeks to 30 December 2017.

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 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 (IFRS1, IAS 28)

IFRS 9: Financial Instruments

IFRS 15: Revenue from Contracts with Customers

IFRS 16: Leases

IFRIC 23: Uncertainty over Income Tax Treatments

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Amendments to IAS 28: Long-term Interests in Associates and JVs

Annual Improvements to IFRSs 2015 – 17 cycle

IFRS 17: Insurance Contracts

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

Amendments to References to the Conceptual Framework in IFRS Standards

Amendment to IFRS 3: Business Combinations

Amendments to IAS 1 and IAS 8: Definition of Material

The Directors anticipate that the adoption of the standards and interpretations mentioned above will have no significant impact on the Group's financial statements when the relevant standards come into effect, other than in the case of IFRS 16 which we discuss in more detail on the following page.

We do not expect IFRS 15 to have a significant effect on us, but we recognise that there is currently a high degree of interest in the effect of IFRS 15 on companies and that there is an expectation that IFRS 15 will have a significant effect on many companies, so we have chosen to explain why we do not expect it to have a significant effect on us.

IFRS 15: Revenue from Contracts with Customers

We will adopt IFRS 15 in the year to December 2019. IFRS 15 has two main potential 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 such changes.

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 some companies to adjust the amount of revenue they recognise in a period as it requires companies to adjust revenue for discounts, rebates, incentives, penalties and similar items.

The Group's business model either does not involve these sort of items, or, as in the case of discounts, they are applied at the point of sale and therefore already form part of the amount we recognise as revenue under the current accounting standard.

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. The amount of our future operating lease commitments can be seen at note 23 to these accounts, and our annual lease payment is shown at note 6.

When IFRS 16 comes into effect, we will have to bring these operating 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 payments.

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. We have carried out high level impact assessments, and as part of our ongoing IFRS 16 implementation project we have carried out initial data loading and testing, using our chosen software solution. Our plan for 2019 will see the finalising of our operating procedures, and a period of parallel running and further testing and modelling, before we make final decisions on the various adoption and transition options which the standard offers. The actual amount of additional assets and liabilities which we will recognise when we adopt IFRS 16 in 2020 will depend on several factors. Some of the most material factors will be: the transition option we decide to use; the incremental borrowing rates we use to discount our future lease commitments; and any significant leases which the Group enters into or which come to an end between now and 2020.

Basis of consolidation

Subsidiaries

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

Revenue recognition

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

Inventories

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

Property, plant and equipment

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

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

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

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

Capital work-in-progress and freehold land are not depreciated.

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

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

Notes to the consolidated financial statements continued

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 on a straight line basis 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.

Provisions
Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount required to settle the obligation.

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

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

The Group operates a defined benefit pension scheme. The Group's net obligation in respect of the defined benefit pension scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is then discounted to determine its present value, and the fair value of any scheme assets is deducted. The discount rate used is selected so as to closely approximate the yield at the balance sheet date on AA-rated bonds that have maturity dates approximating to the terms of the Group's obligations. 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. Actuarial gains and losses are recognised immediately through the remeasurement of the defined benefit liability and are taken through the statement of comprehensive income.

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.

Notes to the consolidated financial statements continued

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 SIGNIFICANT ACCOUNTING JUDGEMENTS AND MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Group makes some judgements when applying its accounting policies which can have a significant effect on the amounts recognised in these financial statements. The Group also makes assumptions concerning the future and other major sources of estimation uncertainty that can result in a material adjustment to the carrying amounts of assets and liabilities within the next financial period. We discuss these below.

Actuarial assumptions underlying the value of pension liabilities – judgement and estimation uncertainty

The Group operates a defined benefit scheme for its employees. There is significant judgement involved in selecting appropriate measurement bases for the actuarial assumptions used to measure the pension deficit.

There is also estimation uncertainty which means that reasonable alternative assumptions could have led to measurement at a materially different amount.

The key assumptions within this calculation are discount rate, inflation rates and mortality rates. These are set out in note 19, together with sensitivity analysis that shows the effect that these estimates can have on the carrying value of the pension deficit.

Allowances against the carrying values of inventories – estimation uncertainty

In order to achieve the accounting policy objective that inventories are stated at the lower of cost and net realisable value, the Group carries an allowance against products which it estimates may not sell at a price above cost, or where we may be holding levels of product in excess of estimated future demand. The Group bases these estimates on a regular review of product lifecycles and selling prices achieved in the market, and in particular on historical sales profiles of products after they have been discontinued. These estimates are updated based on actual experience, but the accuracy of the estimates at any point in time can be affected by the extent to which current products may not follow historical patterns.

Both the gross inventory balance and the amount of the allowance against their carrying value are material items and we would expect this to remain the case as the Group grows in size, and as consumer demand for regular introductions of new product continues. Details of inventories and of the allowances against their carrying amount for the current and prior period end are shown in note 15.

4 REVENUE

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

	52 weeks to 29 December 2018 £m	53 weeks to 30 December 2017 £m
Continuing operations		
Sales of goods	1,511.3	1,403.8
Finance income	0.7	0.2
Total revenue	1,512.0	1,404.0

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 of these consolidated financial statements.

The Howden Joinery business derives its revenue from the sale of kitchens and joinery products.

(b) Other information

	52 weeks to 29 December 2018 £m	53 weeks to 30 December 2017 £m
Capital additions	45.2	48.5
Depreciation and amortisation	(30.2)	(28.0)

(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 29 December 2018 £m	53 weeks to 30 December 2017 £m
Revenues from external customers		
UK	1,477.3	1,372.0
Continental Europe	34.0	31.8
	1,511.3	1,403.8

Notes to the consolidated financial statements continued

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

	29 December 2018 £m	30 December 2017 £m
Carrying amount of segment assets		
UK	828.4	774.9
Continental Europe	36.6	33.6
	865.0	808.5

	29 December 2018 £m	30 December 2017 £m
Non-current assets (excluding deferred tax assets)		
UK	205.8	191.5
Continental Europe	4.4	4.0
	210.2	195.5

	52 weeks to 29 December 2018 £m	53 weeks to 30 December 2017 £m
Additions to property, plant and equipment and intangible assets		
UK	44.0	47.9
Continental Europe	1.2	0.6
	45.2	48.5

6 OPERATING PROFIT

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

	52 weeks to 29 December 2018 £m	53 weeks to 30 December 2017 £m
Net foreign exchange gain/(loss)	1.1	(11.3)
Depreciation of property, plant and equipment:	(25.8)	(25.6)
Amortisation of intangible assets (included in administrative expenses):	(4.4)	(2.4)
Cost of inventories recognised as an expense	(571.4)	(497.3)
Write down of inventories	(8.8)	(6.8)
(Loss)/profit on disposal of fixed assets	–	(0.2)
Increase in allowance for doubtful debts (note 16)	(1.4)	(1.2)
Staff costs (note 7)	(418.2)	(379.7)
Lease payments under operating leases	(82.7)	(78.6)
Auditor's remuneration for audit services (see below)	(0.5)	(0.5)

All of the items above relate to continuing operations.

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

	52 weeks to 29 December 2018 £m	53 weeks to 30 December 2017 £m
Audit services:		
Fees paid to the Company's auditor for the audit of the Company's annual financial statements	(0.2)	(0.2)
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	(0.5)	(0.5)
Other services:		
Audit related assurance services (review of the half-year results)	(0.1)	(0.1)
Tax compliance services	–	–
Tax advisory services	–	–
Total non-audit fees	(0.1)	(0.1)

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 29 December 2018 £m	53 weeks to 30 December 2017 £m
Wages and salaries	(352.7)	(323.3)
Social security costs	(32.0)	(30.6)
Pension operating costs (note 19)	(33.5)	(25.8)
	(418.2)	(379.7)

Wages and salaries includes a charge in respect of share-based payments of £4.3m (2017: £4.0m).

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 29 December 2018 No.	53 weeks to 30 December 2017 No.
	9,590	9,044

Notes to the consolidated financial statements continued

8 FINANCE INCOME

	52 weeks to 29 December 2018 £m	53 weeks to 30 December 2017 £m
Bank interest receivable	0.7	0.2
Total finance income	0.7	0.2

9 TAX

(a) Tax in the income statement

	52 weeks to 29 December 2018 £m	53 weeks to 30 December 2017 £m
Current tax:		
Current year	(44.8)	(43.3)
Adjustments in respect of previous periods	(0.3)	0.4
Total current tax	(45.1)	(42.9)
Deferred tax:		
Current year	(3.0)	(4.5)
Adjustments in respect of previous periods	–	0.2
Total deferred tax	(3.0)	(4.3)
Total tax charged in the income statement	(48.1)	(47.2)

UK Corporation tax is calculated at 19.0% (2017: 19.25%) 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 29 December 2018 £m	53 weeks to 30 December 2017 £m
Deferred tax (charge)/credit to other comprehensive income on actuarial gain/loss on pension scheme	(11.3)	4.2
Deferred tax charge to equity on share schemes	(0.1)	(0.1)
Current tax credit to equity on share schemes	0.1	0.4
	(11.3)	4.5

(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 29 December 2018 £m	53 weeks to 30 December 2017 £m
Profit before tax	238.5	232.2
Tax at the UK corporation tax rate of 19% (2017: 19.25%)	(45.3)	(44.7)
IFRS 2 share scheme charge	0.6	0.9
Expenses not deductible for tax purposes	(0.9)	(1.6)
Overseas losses not utilised	(1.0)	(1.2)
Non-qualifying depreciation	(1.2)	(1.2)
Other tax adjustments in respect of previous years	(0.3)	0.6
Total tax charged in the income statement	(48.1)	(47.2)

The Group's effective rate of tax is 20.2% (2017: 20.3%)

10 EARNINGS PER SHARE

	52 weeks to 29 December 2018			53 weeks to 30 December 2017		
From continuing operations	Earnings £m	Weighted average number of shares m	Earnings per share p	Earnings £m	Weighted average number of shares m	Earnings per share p
Basic earnings per share	190.4	608.3	31.3	185.0	619.1	29.9
Effect of dilutive share options	–	2.5	(0.1)	–	2.1	(0.1)
Diluted earnings per share	190.4	610.8	31.2	185.0	621.2	29.8

Notes to the consolidated financial statements continued

11 DIVIDENDS

	52 weeks to 29 December 2018 £m	53 weeks to 30 December 2017 £m
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the 52 weeks to 29 December 2018 – 3.7p/share	22.4	–
Final dividend for the 53 weeks to 30 December 2017 – 7.5p/share	45.9	–
Interim dividend for the 53 weeks to 30 December 2017 – 3.6p/share	–	22.2
Final dividend for the 52 weeks to 24 December 2016 – 7.4p/share	–	46.2
	68.3	68.4

	52 weeks to 29 December 2018 £m
Dividend proposed at the end of the period (but not recognised in the period):	
Proposed final dividend for the 52 weeks to 29 December 2018 – (7.9p/share)	47.6

The directors propose a final dividend in respect of the 52 weeks to 29 December 2018 of 7.9p per share, payable to ordinary shareholders who are on the register of shareholders at 24 May 2019, and payable on 21 June 2019.

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 2019 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.

	Intangible assets in use £m	Intangible assets under construction £m	TOTAL £m
Cost			
At 24 December 2016	20.0	–	20.0
Exchange adjustments	0.1	–	0.1
Additions	3.7	6.8	10.5
Disposals	(0.3)	–	(0.3)
At 30 December 2017	23.5	6.8	30.3
Additions	9.6	2.6	12.2
Reclassifications	6.5	(6.5)	–
At 29 December 2018	39.6	2.9	42.5
Accumulated depreciation			
At 24 December 2016	(12.7)	–	(12.7)
Exchange adjustments	(0.1)	–	(0.1)
Charge for the period	(2.4)	–	(2.4)
Disposals	0.3	–	0.3
At 30 December 2017	(14.9)	–	(14.9)
Charge for the period	(4.4)	–	(4.4)
At 29 December 2018	(19.4)	–	(19.4)
Net book value at 29 December 2018	20.2	2.9	23.1
Net book value at 30 December 2017	8.6	6.8	15.4

Additions to intangible assets under construction in the prior period include £1.4m which had been transferred from the property, plant and equipment asset class "Capital WIP".

Notes to the consolidated financial statements continued

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 24 December 2016	30.8	57.2	149.1	109.1	32.8	379.0
Exchange adjustments	–	–	0.1	0.2	–	0.3
Additions	1.5	7.7	11.1	10.7	8.2	39.2
Disposals	(0.1)	(1.8)	(6.4)	(2.0)	(1.6)	(11.9)
Reclassifications	1.7	4.7	13.6	0.5	(20.5)	–
At 30 December 2017	33.9	67.8	167.5	118.5	18.9	406.6
Exchange adjustments	–	–	–	0.1	–	0.1
Additions	1.4	4.5	5.5	14.7	6.9	33.0
Disposals	–	(0.9)	(4.8)	(0.7)	–	(6.4)
Reclassifications	3.3	0.3	10.5	1.2	(15.3)	–
At 29 December 2018	38.6	71.7	178.7	133.8	10.5	433.3
Accumulated depreciation						
At 24 December 2016	(3.3)	(22.8)	(107.0)	(78.0)	–	(211.1)
Exchange adjustments	–	–	–	(0.1)	–	(0.1)
Charge for the period	(1.0)	(4.7)	(12.8)	(7.1)	–	(25.6)
Disposals	–	1.8	6.4	2.0	–	10.2
At 30 December 2017	(4.3)	(25.7)	(113.4)	(83.2)	–	(226.6)
Charge for the period	(1.1)	(5.5)	(11.4)	(7.8)	–	(25.8)
Disposals	–	0.9	4.8	0.5	–	6.2
At 29 December 2018	(5.4)	(30.3)	(120.0)	(90.5)	–	(246.2)
Net book value at 29 December 2018	33.2	41.4	58.7	43.3	10.5	187.1
Net book value at 30 December 2017	29.6	42.1	54.1	35.3	18.9	180.0

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 24 December 2016	20.1	1.5	1.6	1.0	24.2
(Charge)/credit to income statement	(3.5)	0.1	(0.8)	(0.1)	(4.3)
Credit/(charge) outside income statement	4.2	–	(0.1)	–	4.1
At 30 December 2017	20.8	1.6	0.7	0.9	24.0
(Charge)/credit to income statement	(2.7)	(0.4)	–	0.2	(2.9)
(Charge)/credit outside income statement	(11.3)	–	(0.1)	–	(11.4)
At 29 December 2018	6.8	1.2	0.6	1.1	9.7

Deferred tax arising from accelerated capital allowances, company share schemes and other timing differences can be further analysed as a £4.4m asset and a £1.5m liability (2017: £5.0m asset and £1.8m liability).

The presentation in the balance sheet is as follows:

	29 December 2018 £m	30 December 2017 £m
Deferred tax assets	11.2	25.8
Deferred tax liabilities	(1.5)	(1.8)
	9.7	24.0

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. Deferred tax assets are not 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 losses can be utilised. Specifically, in the case of the trading and non-trading losses this is due to the unpredictability of future profit streams in the relevant entities, while for the capital losses it is due to the future capital gains not currently being forecast to arise. All unrecognised losses may be carried forward indefinitely and have been valued in GBP at the year end closing exchange rate.

The losses attributable to Germany and the Netherlands are no longer included in the disclosures below on the basis that these operations have ceased to trade.

	29 December 2018 £m	30 December 2017 £m
Trading losses	41	50
Non-trading losses	20	20
Capital losses	86	86
Total losses	147	156
Trading losses expiring in 2023	–	2
Trading losses expiring in 2024	–	1
Trading losses expiring in 2025	–	2
Losses available indefinitely	147	151
Total losses	147	156

Notes to the consolidated financial statements continued

15 INVENTORIES

	29 December 2018 £m	30 December 2017 £m
Raw materials	6.1	5.7
Work in progress	5.4	5.3
Finished goods and goods for resale	246.6	224.4
Allowance against carrying value of inventories	(31.8)	(27.1)
	226.3	208.3

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

	29 December 2018 £m	30 December 2017 £m
Trade receivables (net of allowance)	145.2	103.8
Prepayments and accrued income	37.4	31.8
Other receivables	3.4	2.2
	186.0	137.8

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:

	29 December 2018 £m	30 December 2017 £m
Balance at start of period	9.9	8.7
Increase in allowance recognised in the income statement	1.4	1.2
Balance at end of period	11.3	9.9

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.

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 £11.3m (2017: £9.9m) consists of a specific provision of £5.3m (2017: £4.0m) which has been made against specific debts with a gross carrying value of £6.6m (2017: £5.2m), and a general provision of £6.0m (2017: £5.9m). 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 £5.5m of debts in the period (2017: £5.3m). Included within our aggregate trade receivables balance are specific debtor balances with customers totalling £25.8m before bad debt provision (2017: £24.1m 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:

	29 December 2018 £m	30 December 2017 £m
1–30 days past due	11.4	12.0
31–60 days past due	3.4	2.8
61–90 days past due	2.0	1.6
90+ days past due	9.0	7.7
Total overdue amounts, excluding allowance for doubtful receivables	25.8	24.1

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

The Group did not have any current asset investments at the end of 2018.

Current asset investments at the end of 2017 comprised investments in short-term UK Gilts. They had maturity dates ranging between 1 and 3 months from the balance sheet date. They returned a fixed rate of interest and the weighted average effective interest rate on the Gilts held at the balance sheet date was 0.1% pa.

These investments were classified as held-to-maturity, and held at amortised cost. The directors estimated that the fair value of these investments at the period end was 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

Current liabilities	29 December 2018 £m	30 December 2017 £m
Trade payables	95.6	88.6
Other tax and social security	69.0	61.5
Other payables	11.9	11.7
Accruals and deferred income	56.4	50.3
	232.9	212.1

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

The average credit taken for trade purchases during the period, based on total operations, was 41 days (2017: 45 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.

Notes to the consolidated financial statements continued

18 BORROWING FACILITY

At the period end date, the Group had a £140m committed borrowing facility, due to expire in July 2019. The Group did not use the facility in the year.

The facility is secured on the trade receivables and stock of the Group. The available facility limit is calculated every week, based on the asset backing at the time and can never exceed £140m. There were no borrowings under the facility at either the current or previous year end. As at 29 December 2018, the Group had available £138m of undrawn committed borrowing facilities, in respect of which all conditions precedent had been met (30 December 2017: £138m), 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 (i) permits normal trade credit granted to it in the ordinary course of business; (ii) allows up to £10m of additional secured borrowings, and (iii) allows up to £20m of finance lease borrowing.

Between the year end date and the date of approval of these financial statements, the facility was renewed until December 2023.

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. 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 £6.7m (2017: £4.8m) represents the Group's contributions due and payable in respect of the period. All of this amount was paid in the period as it also was in the previous period.

Defined contribution: other plan

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

The total cost charged to income in respect of this plan in the current period of £0.9m (2017: £0.8m) represents the Group's contributions due and paid in respect of the period.

Defined benefit plan

Characteristics and risks of the plan

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

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

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

Accounting and actuarial valuation

Contributions are charged to the consolidated income statement so as to spread the cost of pensions over the employees' working lives with the Group. The present value of the defined benefit obligation, the related current service cost, and past service cost are determined by a qualified actuary using the projected unit method. The most recent completed actuarial valuation was carried out at 5 April 2017 by the plan actuary. The actuary advising the Group has subsequently rolled forward the results of the 5 April 2017 valuation to 29 December 2018. This roll-forward exercise involves updating all the assumptions which are market-based (i.e. inflation, discount rate, rate of increase in pensions and rate of CARE revaluation) to values as at 29 December 2018. The mortality tables used to derive life expectancy assumptions for the accounting valuation are the same as those used for the most recent agreed triennial actuarial valuation, albeit that they are adjusted each year for actual experience. We only change the underlying mortality tables once a triennial actuarial valuation has been agreed with the plan Trustees. We are currently using CMI 2016 mortality tables, in line with the agreed April 2017 triennial valuation.

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 £30m per year until June 2023. The Group's estimated total cash contributions to the defined benefit plan in the 52 weeks ending 28 December 2019 are £46.5m.

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 £36.0m. 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 £189.5m, this estimate being based on an approximate roll-forward of the 2017 triennial funding valuation, updated for market conditions.

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

	52 weeks to 29 December 2018 £m	53 weeks to 30 December 2017 £m
Charged to the income statement:		
Defined benefit plan – current service cost	19.8	18.1
Defined benefit plan – past service cost (GMP equalisation*)	3.8	–
Defined benefit plan – administration costs	2.3	2.1
Defined benefit plan – total operating charge	25.9	20.2
Defined benefit plan – net finance charge	2.3	2.4
Defined contribution plans – total operating charge	7.6	5.6
Total net amount charged to profit before tax	35.8	28.2
(Credited)/charged to equity:		
Defined benefit plan – actuarial (gains)/losses	(59.3)	22.1
Total (credit)/charge	(23.5)	50.3

*** GMP equalisation charge**

The past service cost in the current period relates to a charge recognised in respect of equalising the Guaranteed Minimum Pension ("GMP") entitlements between female and male members of the plan between 1978 and 1997. This is an issue which affects all UK defined benefit pension plans, although it is only since the High Court ruling in a test case in October 2018 that there was some clarity as to the obligations which exist and the range of suitable ways in which to measure them. The plan's actuary has applied the principles of the High Court ruling to the specific details of the plan's membership in order to calculate the past service cost shown above.

(c) Other information – defined benefit pension plan

	52 weeks to 29 December 2018	53 weeks to 30 December 2017
Key assumptions used in the valuation of the plan		
Rate of increase of pensions in deferment capped at lower of CPI and 5%	2.45%	2.40%
Rate of CARE revaluation capped at lower of RPI and 3%	2.60%	2.55%
Rate of increase of pensions in payment:		
– pensions with increases capped at lower of CPI and 5%	2.45%	2.40%
– pensions with increases capped at lower of CPI and 5%, with a 3% minimum	3.35%	3.35%
– pensions with increases capped at the lower of LPI and 2.5%	2.25%	2.25%
Rate of increase in salaries	4.45%	4.40%
Inflation assumption – RPI	3.45%	3.40%
Inflation assumption – CPI	2.45%	2.40%
Discount rate	2.85%	2.50%
Life expectancy (yrs): pensioner aged 65		
– male	87.4	88.0
– female	89.0	89.5
Life expectancy (yrs): non-pensioner aged 45		
– male	88.6	89.6
– female	91.1	92.4

Notes to the consolidated financial statements continued

Sensitivities

If there was an increase in the discount rate of 0.25%, there would be a corresponding decrease in the scheme liabilities of around 5.7%, or £73m, a decrease in the operating charge of around £1.3m and a decrease in pensions finance charge of around £1.7m.

An increase of 0.25% to the inflation rate would increase scheme liabilities by around 2.7%, or £34m, an increase in the operating charge of around £0.5m and an increase in the pensions finance charge of around £1.0m.

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 3%, or £38m, an increase in the operating charge of around £0.5m and an increase in the pensions finance charge of around £1.1m.

The sensitivities above are applied to the defined benefit obligation at the end of the reporting period, and the projected total service cost for 2019. Whilst the analysis does not take account of the full distribution of cash flows expected under the scheme, it does provide a reasonable approximation. The same amount of decrease would produce a broadly equal and opposite effect.

Analysis of plan assets

	29 December 2018		30 December 2017	
	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	420.2	–	459.1	–
Equities				
– passive equities	115.2	–	135.5	–
– low volatility equities	–	–	228.3	–
Private equity*	–	10.1	–	26.5
Alternative growth assets				
– fund of hedge funds	89.2	–	89.2	–
– absolute return fund	67.7	–	68.0	–
Insurance-linked securities**	62.0	–	–	–
Corporate bonds	152.2	–	156.7	–
Commercial property fund***	61.5	49.1	57.9	31.2
Asset-backed securities	200.0	–	–	–
Cash and cash equivalents	18.5	–	12.9	–
Total	1,186.5	59.2	1,207.6	57.7

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

* The private equity investments are held in two funds. One fund values the assets based on guidelines from the European Private Equity and Venture Capital Association and International Private Equity and Venture Capital Valuation. The assets in the other fund are measured at fair market value on a quarterly basis in accordance with US GAAP: using the latest closing prices for publicly traded and quoted securities and applying a possible exit price for non-marketable and direct investments.

** The plan had committed to the investment in insurance-backed securities shortly before the end of the year, and had transferred the cash to the external investment manager. However, because of stock exchange holiday closures around the year end, the asset manager was not able to invest in these securities until the first trading day of the new year, which was 2 January 2019.

*** This holding is recorded at historical costs and then adjusted for amortisation and other payments received.

Asset allocation

The plan trustees' asset allocation strategy at the date of the plan's most recent audited accounts (5 April 2018), was 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). The Trustees noted in the 2018 accounts that they were reviewing the asset allocation and would ultimately increase the return-seeking allocation to 60%.

Analysis of plan members, scheme liability split and duration

	2018[1]		
	No. of members	% of total liability	Duration (yrs)
Active members	1,534	15%	25
Deferred members	5,890	54%	25
Pensioners	3,495	31%	14
Total No./average duration	10,919	100%	22

1 The figures are on an IAS 19 basis and are as at 5 April 2018, the date of the latest agreed pension plan accounts.

	2017[2]		
	No. of members	% of total liability	Duration (yrs)
Active members	1,655	7%	32
Deferred members	6,069	56%	24
Pensioners	3,372	37%	15
Total No./average duration	11,096	100%	21

2 The number of members is as per the 5 April 2017 trustees' report, and the duration and percentage of total liability are on the funding basis and as at 5 April 2014 (being the date of the most recent agreed triennial valuation at the time of approving the 2017 financial statements).

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:

	29 December 2018 £m	30 December 2017 £m
Present value of defined benefit obligations	(1,281.7)	(1,374.6)
Fair value of scheme assets	1,245.7	1,265.3
Deficit in the scheme, recognised in the balance sheet	(36.0)	(109.3)

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

	52 weeks to 29 December 2018 £m	53 weeks to 30 December 2017 £m
Present value at start of period	1,374.6	1,283.8
Current service cost	19.8	18.1
Past service cost	3.8	–
Administration cost	2.3	2.1
Interest on obligation	33.8	36.0
Contributions from plan members	–	0.1
Actuarial (gains)/losses:		
– changes in financial and demographic assumptions	(104.7)	83.0
– experience	(0.6)	(4.0)
Benefits paid, including expenses	(47.3)	(44.5)
Present value at end of period	1,281.7	1,374.6

Notes to the consolidated financial statements continued

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

	52 weeks to 29 December 2018 £m	53 weeks to 30 December 2017 £m
Fair value at start of period	1,265.3	1,177.8
Interest income on plan assets	31.5	33.6
Contributions from plan members	–	0.1
Contributions from the Group	42.2	41.4
Actuarial (losses)/gains	(46.0)	56.9
Benefits paid, including expenses	(47.3)	(44.5)
Fair value at end of period	1,245.7	1,265.3

Movements in the deficit during the period are as follows:

	52 weeks to 29 December 2018 £m	53 weeks to 30 December 2017 £m
Deficit at start of period	(109.3)	(106.0)
Current service cost	(19.8)	(18.1)
Past service cost	(3.8)	–
Administration cost	(2.3)	(2.1)
Employer contributions	42.2	41.4
Other finance charge	(2.3)	(2.4)
Actuarial gains/(losses) gross of deferred tax	59.3	(22.1)
Deficit at end of period	(36.0)	(109.3)

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 29 December 2018 £m	53 weeks to 30 December 2017 £m
Current service cost	19.8	18.1
Past service cost	3.8	–
Administration cost	2.3	2.1
Total operating charge	25.9	20.2

The total operating charge is included in the financial statement heading Staff Costs.

Amount credited to other finance charges:

	52 weeks to 29 December 2018 £m	53 weeks to 30 December 2017 £m
Interest income on plan assets	(31.5)	(33.6)
Interest cost on defined benefit obligation	33.8	36.0
Net charge	2.3	2.4

The actual return on plan assets was £(14.5)m (53 weeks to 30 December 2017: £90.5m).

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 29 December 2018 £m	53 weeks to 30 December 2017 £m
Actuarial (loss)/gain on plan assets	(46.0)	56.9
Actuarial gain/(loss) on plan liabilities	105.3	(79.0)
Net actuarial gain/(loss), before associated deferred tax	59.3	(22.1)

20 PROVISIONS

	Property £m	Warranty £m	Other £m	Total £m
At 24 December 2016	4.7	4.0	0.3	9.0
Additional provision in the period	1.5	3.6	2.0	7.1
Provision released in the period	(0.9)	–	–	(0.9)
Utilisation of provision in the period	(1.0)	(3.7)	–	(4.7)
At 30 December 2017	4.3	3.9	2.3	10.5
Additional provision in the period	0.4	3.5	0.3	4.2
Provision released in the period	(0.6)	–	(1.1)	(1.7)
Utilisation of provision in the period	(0.7)	(3.8)	(1.2)	(5.7)
At 29 December 2018	3.4	3.6	0.3	7.3

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 rent payment dates, lease expiry dates, 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

Ordinary shares of 10p each:	52 weeks to 29 December 2018 No.	53 weeks to 30 December 2017 No.	52 weeks to 29 December 2018 £m	53 weeks to 30 December 2017 £m
Allotted, called up and fully paid				
Balance at the beginning of the period	628,192,755	639,363,815	62.8	63.9
Bought back and cancelled during the period	(12,756,448)	(11,171,060)	(1.3)	(1.1)
Balance at the end of the period	615,436,307	628,192,755	61.5	62.8

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 30 December 2017	186.1	55.0	241.1
Cash flow	45.2	(55.0)	(9.8)
At 29 December 2018	231.3	–	231.3

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

	29 December 2018 £m	30 December 2017 £m
Contracted for, but not provided for in the financial statements:		
– Tangible assets	3.6	3.7
– Intangible assets	1.0	2.1
	4.6	5.8

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	
	29 December 2018 £m	30 December 2017 £m	29 December 2018 £m	30 December 2017 £m	29 December 2018 £m	30 December 2017 £m
Payments falling due:						
Within one year	67.0	60.1	15.1	15.0	82.1	75.1
In the second to fifth year inclusive	195.8	179.8	32.2	30.6	228.0	210.4
After five years	179.6	169.6	8.5	9.7	188.1	179.3
	442.4	409.5	55.8	55.3	498.2	464.8

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:

	29 December 2018 £m	30 December 2017 £m
Payments receivable:		
Within one year	1.9	1.7
In the second to fifth year inclusive	2.9	2.9
After five years	0.9	1.2
	5.7	5.8

24 SHARE-BASED PAYMENTS

1) Details of each scheme

The Group recognised a charge of £4.3m (2017: charge of £4.0m) 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	2015	2016
Vesting based on growth in profits – from year ended December	2014	2015
– to year ended December	2017	2018
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%

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

Notes to the consolidated financial statements continued

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 is 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	2017	2018
Vesting based on growth in profits – from year ended December	2014	2015	2016	2017
– to year ended December	2017	2018	2019	2019
Award vests at 15% if profits over the vesting period grow by	8%	8%	3%	5%
Award vests at 100% if profits over the vesting period grow by	20%	20%	15%	15%

Recruitment Plan
This is a discretionary plan under which the Group may grant employees conditional rights to acquire shares subject to conditions as determined by the Group. The awards granted under this plan may only be satisfied with existing shares.

2) Movements in the period

52 weeks to 29 December 2018	**COIP Number**	**Freeshares Number**	**Share Award Plan Number**	**LTIP (i) Number**	**LTIP (ii) Number**
In issue at start of period	1,035,181	2,101,110	22,143	62,150	96,919
Granted in period	–	909,200	–	–	–
Lapsed in period	(1,035,181)	(215,000)	–	–	–
Exercised in period	–	(298,966)	(22,143)	(3,650)	(16,642)
In issue at end of period	–	2,496,344	–	58,500	80,277
Exercisable at end of period	–	358,644	–	58,500	80,277
Number of options in the closing balance granted before 7 November 2002	N/A	358,644	–	–	–
Weighted average share price for options exercised during the period (£)	N/A	4.86	4.60	4.81	4.65
Weighted average life remaining for options outstanding at the period end (yrs)	N/A	1.37	0.00	0.00	0.00
Weighted average fair value of options granted during the period (£)	N/A	4.65	N/A	N/A	N/A
Exercise price for all options (£)	N/A	0.00	0.00	0.36	0.81

	LTIP (iii) Number	**LTIP (v) Number**	**LTIP (iv) Number**	**LTIP (iv) WAEP (£)**	**Recruitment Plan Number**
In issue at beginning of period	34,800	3,778,976	1,266,435	2.91	–
Granted in period	16,500	1,648,746	–	N/A	249,330
Lapsed in period	(2,600)	(585,333)	–	N/A	–
Exercised in period	(6,200)	(1,654)	(339,259)	2.82	(131,639)
In issue at end of period	42,500	4,840,735	927,176	2.94	117,691
Exercisable at end of period	–	–	927,176	2.94	–
Number of options in the closing balance granted before 7 November 2002	–	–	–		–
Weighted average share price for options exercised during the period (£)	4.66	4.76	4.87		4.60
Weighted average life remaining for options outstanding at the period end (yrs)	1.40	1.34	0.00		0.58
Weighted average fair value of options granted during the period (£)	4.57	4.68	N/A		4.44
Exercise price for all options (£)	0.00	0.00	1.09 to 3.79		0.00

Notes to the consolidated financial statements continued

53 weeks to 30 December 2017	COIP Number	Freeshares Number	Share Award Plan Number	LTIP (i) Number	LTIP (ii) Number
In issue at start of period	2,265,674	1,457,113	22,143	142,683	107,369
Granted in period	–	847,100	–	–	–
Lapsed in period	–	(176,800)	–	–	–
Exercised in period	(1,230,493)	(26,303)	–	(80,533)	(10,450)
In issue at end of period	1,035,181	2,101,110	22,143	62,150	96,919
Exercisable at end of period	–	67,910	–	62,150	96,919
Number of options in the closing balance granted before 7 November 2002	–	67,910	–	–	–
Weighted average share price for options exercised during the period (£)	4.30	4.30	–	4.37	4.29
Weighted average life remaining for options outstanding at the period end (yrs)	0.24	1.41	0.24	0.00	0.00
Weighted average fair value of options granted during the period (£)	N/A	4.23	N/A	N/A	N/A
Exercise price for all options (£)	0.00	0.00	0.00	0.36	0.81

	LTIP (iii) Number	LTIP (v) Number	LTIP (iv) Number	LTIP (iv) WAEP (£)
In issue at beginning of period	506,900	2,164,138	1,948,982	2.97
Granted in period	16,700	1,729,400	–	N/A
Lapsed in period	(12,400)	(112,157)	(13,087)	3.51
Exercised in period	(476,400)	(2,405)	(669,460)	3.07
In issue at end of period	34,800	3,778,976	1,266,435	2.91
Exercisable at end of period	–	–	1,266,435	2.91
Number of options in the closing balance granted before 7 November 2002	–	–	–	
Weighted average share price for options exercised during the period (£)	4.28	4.28	4.43	
Weighted average life remaining for options outstanding at the period end (yrs)	1.57	1.58	0.00	
Weighted average fair value of options granted during the period (£)	0.00	4.31	N/A	
Exercise price for all options (£)	0.00	0.00	£1.09 to £3.79	

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 29 December 2018	53 weeks to 30 December 2017
Dividend yield (%)	2.6	2.4
Expected life of options (years)	0.1 to 3	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 is set out below. The figure disclosed for share-based payments represents the gain realised on the exercise of share options in the year, albeit that those options will have been granted in previous periods. All figures include any related employer's National Insurance.

	52 weeks to 29 December 2018 £m	53 weeks to 30 December 2017 £m
Short-term employment benefits	6.7	6.4
Share-based payments	0.8	5.5
	7.5	11.9

Other transactions with key management personnel

There were no other transactions with key management personnel.

Notes to the consolidated financial statements continued

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.

(c) Categories of financial instruments

	29 December 2018 £m	30 December 2017 £m
Financial assets (current and non-current)		
Trade receivables	145.2	103.8
Cash	231.3	186.1
Current asset investments	–	55.0
Financial liabilities (current and non-current)		
Trade payables	95.6	88.6

(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 are 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:

	29 December 2018 £m	30 December 2017 £m
Trade receivables (net of allowance)	145.2	103.8
Cash	231.3	186.1
Current asset investments	–	55.0
Total credit risk exposure	376.5	344.9

(f) Liquidity risk

Liquidity risk is the risk that we could experience difficulties in meeting its commitments to creditors as financial liabilities fall due for payment. The Group manages its liquidity risk by using reasonable and retrospectively-assessed assumptions to forecast the future cash-generative capabilities and working capital requirements of the businesses it operates and by maintaining sufficient cash and investment reserves, committed borrowing facilities and other credit lines as appropriate. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has agreed an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities as far as is possible. Included in note 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:

	29 December 2018 £m	30 December 2017 £m
Euro		
Trade receivables	4.2	2.4
Other receivables	2.3	1.9
Cash and cash equivalents	21.4	19.3
Trade payables	(23.2)	(19.6)
Other payables	(3.1)	(2.0)
	1.6	2.0
US Dollar		
Cash and cash equivalents	–	0.4
Trade payables	(1.1)	(0.7)
	(1.1)	(0.3)
Japanese Yen		
Trade payables	–	(0.1)
	–	(0.1)
TOTAL	0.5	1.6

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 increase by £0.4m (2017: increase by £0.2m). For a decrease of 50 basis points, the current year figures would decrease by £0.4m (2017: decrease by £0.2m).

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.

	29 December 2018 £m	30 December 2017 £m
10% weakening of Sterling to Euro	0.2	0.2
10% strengthening of Sterling to Euro	(0.2)	(0.2)
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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion:

- **the financial statements of Howden Joinery Group plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 29 December 2018 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 Financial Reporting Standard 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.**

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the statement of accounting policies; and
- the related group notes 3 to 26 and company notes 1 to 6.

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, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation of the UK inventory obsolescence provision • Appropriateness of the actuarial assumptions underlying the valuation of pension liabilities Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with .
Materiality	The materiality that we used for the group financial statements was £11.5 million which was determined on the basis of 5% statutory profit before tax.
Scoping	Full audit procedures were performed over 99% of the Group's total assets, revenue and profit before tax which included all of the UK, French and Belgian components.
Significant changes in our approach	There has been no significant change in our approach.

Conclusions relating to going concern, principal risks and viability statement

Going concern	
We have reviewed the directors' statement in note 2 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 and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements. We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment. We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

Principal risks and viability statement	
Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to: • the disclosures on pages 32 to 37 that describe the principal risks and explain how they are being managed or mitigated; • the directors' confirmation on page 38 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; or • the directors' explanation on page 38 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 are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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.

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

Valuation of the UK inventory obsolescence provision	
Key audit matter description	At the year end, the gross inventory balance is £258.2 million (2017: £235.4 million), of which there is a £31.8 million (2017: £27.1 million) allowance against the carrying value. The scale and expansion of the Group's product range means there is significant Management 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. Given the high level of Management judgement involved, we deemed this a potential fraud risk for our audit. The Audit Committee report on page 105 also refers to inventory provisioning as one of the significant issues and judgements. Further information is included in note 3 and note 15.
How the scope of our audit responded to the key audit matter	We have considered the methodology used to calculate the inventory provision. We have challenged the reasonableness of Management's judgements and the assumptions used, specifically by assessing the provision percentages from an evaluation of sales of discontinued inventory lines. For other lines we have assessed the forecast sales demand with comparison to prior periods. We have assessed the integrity of the underlying calculation by checking the accuracy of the ageing of the discontinued inventory items. We have also reviewed the level of inventory write offs in the year compared to the overall inventory provision. We have checked the completeness of the provision by assessing the net realisable value and stock turn for a sample of inventory lines.
Key observations	On the basis of our testing, we are satisfied the overall provision is appropriate and is prepared on a basis consistent with the prior period.

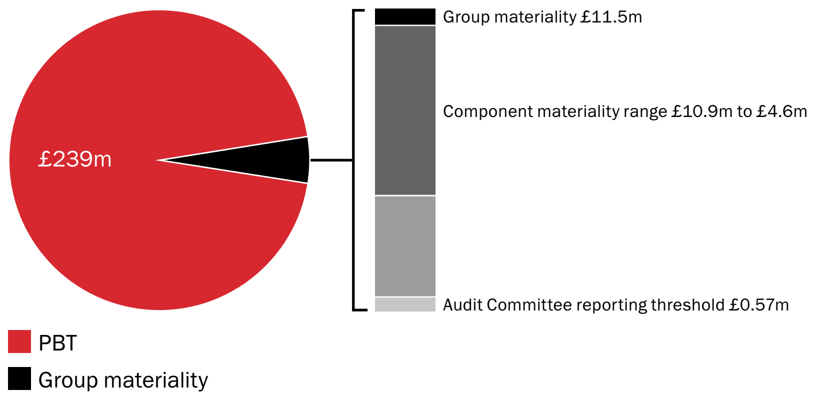
Appropriateness of the actuarial assumptions underlying the valuation of pension liabilities	
Key audit matter description	There is a significant Management judgement involved in the assessment of the actuarial assumptions used to measure the defined benefit pension deficit of £36.0 million (2017: £109.3 million), particularly in respect of the discount rate, inflation and mortality rates applied. The valuation of gross pension liabilities (£1,281.7 million) is materially sensitive to changes in these underlying assumptions. Management has highlighted defined pension arrangements as a critical accounting judgement and key source of estimation in note 3. Further information in respect of the pension scheme is included in note 19. The Audit Committee report on page 105 also refers to the valuation of the defined benefit deficit as one of the significant judgements considered by the Committee.
How the scope of our audit responded to the key audit matter	We have reviewed the valuation report produced by the Group's external actuaries and challenged each of the key assumptions being the discount rate, inflation rate and the mortality assumptions by comparison to available market data, our own benchmarks and by reference to the Company's accounting policies. Our pension specialists have assessed the appropriateness of the actuarial assumptions underlying the valuation of the defined benefit pension deficit, including the impact of GMP equalisation. We have also benchmarked the key assumptions against a population of other companies as at the end of December 2018. We have considered whether, individually and in aggregate the assumptions are appropriate. 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. We have assessed the pension disclosures in the financial statements and considered their compliance with the requirements of IAS 19 Employee Benefits revised.
Key observations	We are satisfied that individually, and in aggregate, the actuarial assumptions applied in respect of the scheme's liabilities are appropriate. Management's methodology in deriving each of the actuarial assumptions is consistent with prior year. The methodology to calculate GMP equalisation is appropriate.

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 financial statements	Parent company financial statements
Materiality	£11.5 million (2017: £11.0 million)	£4.6 million (2017: £4.4 million)
Basis for determining materiality	5% of statutory profit before tax	1% of net assets
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.	Net assets have been used as this is a non-trading holding company and we consider this to be the most appropriate basis.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £575,000 (2017: £550,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our audit scope on the UK, French and Belgian trading entities and each of the Head Office companies, which is consistent with prior year. All of these were subject to a full audit. Our audit work at these entities was executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged between £4.6 million and £10.9 million (2017: £4.6 million and £10.5 million) of group materiality. These locations represent the principal business units and account for 99% (2017: 99%) of the Group's net assets, Group's revenue and of the Group's profit before tax for the 52 weeks ended 29 December 2018. 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% (2017: 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.

Strategic report
Governance
Financial statements
Additional information

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

Other information

We have nothing to report in respect of these matters.

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- Enquiring of Management, internal audit, the Group's in-house legal counsel and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have any knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- Discussing among the engagement team regarding how and where material fraud might occur in the Financial Statements and any potential indicators of fraud. As part of this discussion we identified potential for fraud in the following area: valuation of the UK inventory provision; and
- Obtaining an understanding of the legal and regulatory framework that the Group operates in, focusing on those laws and regulations that had a direct effect on the Financial Statements (which included: the UK Companies Act 2006; Listing Rules; pensions legislation; health and safety legislation and tax legislation), or that had a fundamental effect on the operations of the Group.

Audit response to risks identified

As a result of performing the above, we identified valuation of UK inventory provision as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of Management, the Audit Committee and both in-house and external legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and reviewing internal audit reports; and
- In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of potential bias; and evaluating the business rationale for any significant transactions that are unusual or outside the normal course of business.

We also communicated the relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS
Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- 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 group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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 in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the members at the Annual General Meeting on 21 June 2002 to audit the financial statements for the period ending 28 December 2002 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 17 years, covering the periods ending 28 December 2002 to 29 December 2018.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

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.

Claire Faulkner FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London

27 February 2019

Company balance sheet

	Notes	29 December 2018 £m	30 December 2017 £m
Non-current assets			
Investments in subsidiaries	3	699.0	699.0
Long-term prepayments		–	0.1
		699.0	699.1
Current assets			
Debtors	4	1.1	7.3
Current asset investments		–	55.0
Cash at bank and in hand		212.0	163.0
		213.1	225.3
Current liabilities			
Creditors: amounts falling due within one year	5	(78.5)	(171.6)
Net current assets		134.6	53.7
Total assets less current liabilities		833.6	752.8
Net assets		833.6	752.8
Equity			
Called up share capital	6	61.5	62.8
Share premium account		87.5	87.5
Retained earnings		717.5	638.7
Treasury shares		(32.9)	(36.2)
Total equity		833.6	752.8

The Company profit after tax for the 52 weeks to 29 December 2018 was £208.0m (53 weeks to 30 December 2017: profit after tax of £226.2m).

These financial statements were approved by the Board on 27 February 2019 and were signed on its behalf by:

Mark Robson
Deputy Chief Executive Officer 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 24 December 2016	63.9	87.5	(52.8)	527.7	626.3
Retained profit for the period	–	–	–	226.2	226.2
Buyback and cancellation of shares	(1.1)	–	–	(46.8)	(47.9)
Transfer of shares from treasury into share trust	–	–	16.6	–	16.6
Dividends declared and paid	–	–	–	(68.4)	(68.4)
At 30 December 2017	62.8	87.5	(36.2)	638.7	752.8
Retained profit for the period	–	–	–	208.0	208.0
Buyback and cancellation of shares	(1.3)	–	–	(60.9)	(62.2)
Transfer of shares from treasury into share trust	–	–	3.3	–	3.3
Dividends declared and paid	–	–	–	(68.3)	(68.3)
At 29 December 2018	61.5	87.5	(32.9)	717.5	833.6

Notes to the Company financial statements

1 SIGNIFICANT COMPANY ACCOUNTING POLICIES

General information

Howden Joinery Group Plc is a company incorporated in the United Kingdom under the Companies Act 2006. The Company's principal activity is being the parent company of the Howden Joinery Group. More information about the Group structure is given at page 164.

Basis of presentation

The Company's accounting period covers the 52 weeks to 29 December 2018. The comparative period covered the 53 weeks to 30 December 2017.

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 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;
- a comparative period reconciliation for share capital;
- disclosures in respect of transactions with wholly owned subsidiaries;
- comparative period reconciliations for tangible fixed assets and intangible assets;
- 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.

Notes to the Company financial statements continued

2 PROFIT AND LOSS ACCOUNT INFORMATION

The Company has no employees (2017: none), did not pay directors' emoluments (2017: £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.

3 INVESTMENTS IN SUBSIDIARIES

	Shares in subsidiary undertakings £m	Long-term loans to subsidiary undertakings £m	Total £m
Cost and carrying value			
At 30 December 2017 and 29 December 2018	262.1	436.9	699.0

Details of subsidiary companies are given on page 162.

4 DEBTORS

	29 December 2018 £m	30 December 2017 £m
Other debtors	0.2	0.3
Other tax and social security	0.9	7.0
	1.1	7.3

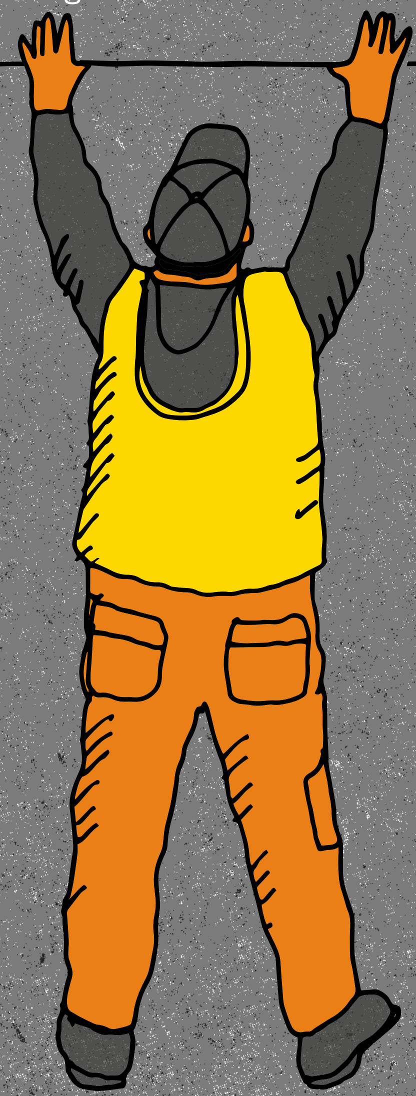
5 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	29 December 2018 £m	30 December 2017 £m
Owed to subsidiaries	(78.2)	(171.5)
Accruals and deferred income	(0.3)	(0.1)
	(78.5)	(171.6)

6 SHARE CAPITAL

	52 weeks to 29 December 2018 No.	53 weeks to 30 December 2017 No.	52 weeks to 29 December 2018 £m	53 weeks to 30 December 2017 £m
Ordinary shares of 10p each:				
Allotted, called up and fully paid				
Balance at the beginning of the period	628,192,755	639,363,815	62.8	63.9
Bought back and cancelled during the period	(12,756,448)	(11,171,060)	(1.3)	(1.1)
Balance at the end of the period	615,436,307	628,192,755	61.5	62.8

Additional information



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HOWDENS

Parent company and all subsidiary undertakings

as at 29 December 2018

	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 2018 52 weeks £m	Dec 2017 53 weeks £m	Dec 2016 52 weeks £m	Dec 2015 52 weeks £m	Dec 2014 52 weeks £m
Summarised Income Statement					
Revenue – continuing operations	1,511.3	1,403.8	1,307.3	1,220.2	1,090.8
Operating Profit – continuing operations	240.1	234.4	237.2	221.9	189.8
Loss from discontinued operations	–	–	–	–	(2.1)
	240.1	234.4	237.2	221.9	187.7
Profit on continuing ordinary activities before tax	238.5	232.2	237.0	219.6	188.8
Full year dividend per share (pence)	11.6	11.1	10.7	9.9	8.4
Basic EPS – continuing operations (pence)	31.3	29.9	29.5	27.3	23.2
Summarised Balance Sheet					
Total non-current assets	221.4	221.3	201.6	153.0	151.1
Inventories	226.3	208.3	183.7	177.1	143.1
Receivables	186.0	137.8	135.9	129.5	133.1
Payables and provisions	(261.9)	(245.0)	(244.8)	(214.8)	(207.2)
Pension liability	(36.0)	(109.3)	(106.0)	(49.2)	(142.6)
	114.4	(8.2)	(31.2)	42.6	(73.6)
Net cash, short term investments, and borrowings	231.3	241.1	226.6	226.1	217.4
Total net assets	567.1	454.2	397.0	421.7	294.9
Number of depots at end of year					
UK	694	661	642	619	589
France	20	20	20	17	12
Belgium	2	2	2	2	2
Netherlands	1	1	1	1	
Germany	1	1	1		
Capital expenditure	44	49	64	46	33

Shareholder ranges as at 29 December 2018

	Number of holders	Percentage of holders	Number of shares	Percentage of shares
Corporate holders				
0 to 1,000	153	1.65	63,190	0.01
1,001 to 5,000	156	1.68	379,874	0.06
5,001 to 10,000	68	0.73	510,972	0.08
10,001 to 50,000	151	1.63	3,966,916	0.64
50,001 to 100,000	57	0.61	4,042,775	0.66
100,001 to 250,000	83	0.89	13,190,160	2.14
Over 250,000	221	2.39	584,536,753	94.99
	889	9.58	606,690,640	98.58
Individual holders				
0 to 1,000	6,999	75.40	2,421,544	0.39
1,001 to 5,000	1,176	12.68	2,774,953	0.46
5,001 to 10,000	141	1.52	1,038,207	0.17
10,001 to 50,000	71	0.76	1,478,622	0.24
50,001 to 100,000	3	0.03	211,989	0.03
100,001 to 250,000	1	0.01	127,352	0.02
Over 250,000	2	0.02	693,000	0.11
	8,393	90.42	8,745,667	1.42
Total	9,282	100.00	615,436,307	100.00

Corporate timetable

2019	
Trading update	2 May
Half-Yearly Report	25 July
Trading update	7 November
End of financial year	28 December

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