Independent auditor's report

to the members of Howden Joinery Group Plc

OPINION ON FINANCIAL STATEMENTS OF HOWDEN JOINERY GROUP PLC

In our opinion:

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

The financial statements that we have audited comprise:

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

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

SUMMARY OF OUR AUDIT APPROACH

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

GOING CONCERN AND THE DIRECTORS' ASSESSMENT OF THE PRINCIPAL RISKS THAT WOULD THREATEN THE SOLVENCY OR LIQUIDITY OF THE GROUP

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 2 to the financial statements and the directors' statement on the longer-term viability of the group contained on page 20.

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

- the directors' confirmation on page 20 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 22-26 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in the strategic report to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors' explanation on page 20 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

INDEPENDENCE

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

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

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

Independent auditor's report

to the members of Howden Joinery Group Plc continued

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

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

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

OUR APPLICATION OF MATERIALITY

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

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

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

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

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

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, we focused our audit scope on the UK, French and Belgian trading entities and each of the Head Office companies which is consistent with prior year. All of these were subject to a full audit. Our audit work at the entities was executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged between 50% and 95% (2015: 50% and 95%) of group materiality. These locations represent the principal business units and account for 99% (2015: 99%) of the group's revenue and of the group's profit before tax for the 52 weeks ended 24 December 2016. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. The UK trading entities and Head Office Companies together account for 98% (2015: 98%) of group revenue and were audited by the group team. This audit approach is consistent with the prior year.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

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

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

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

22 February 2017