Notes to the consolidated financial statements

1 GENERAL INFORMATION

Howden Joinery Group Plc is a company incorporated in the United Kingdom under the Companies Act 2006. The registered office address is 40 Portman Square, London, W1H 6LT. The nature of the Group's operations are set out in the Strategic Report, and the Group's principal activity is the sale of kitchens and joinery products, along with the associated manufacture, sourcing, and distribution of these products.

These financial statements are presented in UK pounds sterling, being the currency of the primary economic environment in which the Group operates.

Foreign operations are included in accordance with the policies set out in note 2.

2 SIGNIFICANT ACCOUNTING POLICIES

Accounting period

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

Statement of compliance and basis of preparation

The Group's financial statements have been prepared in accordance with the IFRSs adopted for use in the European Union and International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. They therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, and on the going concern basis, as described in the going concern statement in the Strategic Report. The principal accounting policies are set out below.

Standards in issue but not yet effective

At the date of authorisation of these financial statements, the following standards, amendments to standards, and interpretations, were in issue but not yet effective for the Group in these financial statements:

Amendments to IAS 1: Disclosure Initiative

Annual Improvements to IFRSs: 2012–2014 Cycle

Amendments to IAS 16 and IAS 41: Bearer Plants

Amendments to IFRS 11: Joint Operations

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

Amendments to IAS 27: Equity Method in Separate Financial Statements

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

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

Amendments to IAS 7: Disclosure Initiative

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

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

IFRIC 22: Foreign Currency Transactions and Advance Consideration

Amendments to IAS 40: Transfers of Investment Property

Annual Improvements to IFRSs: 2014–2016 Cycle

IFRS 9: Financial Instruments

IFRS 14: Regulatory Deferral Accounts

IFRS 15: Revenue from Contracts with Customers

IFRS 16: Leases

The Directors anticipate that the adoption of the other standards and interpretations mentioned above will have no material impact on the Group's financial statements when the relevant standards come into effect, other than in the case of IFRS 15 and IFRS 16, which are discussed below.

IFRS 15: Revenue from Contracts with Customers

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

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

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

The effect of IFRS 15 is expected to be most significant for companies which, for example, sell combined bundles of both goods and services, and companies who have long-term contracts. The Group's business model does not include any such transactions. We are an in-stock business, we currently recognise revenue on despatch from our depots, and we do not expect that to change under IFRS 15.

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

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

At present, any bad debt costs are deducted from operating costs in the period in which they are incurred, whereas IFRS 15 requires that an estimate of these costs is deducted from revenue in the same period as the related sales are recognised. If any items are found to be faulty at the point of sale, they are typically returned to the selling depot within a few days and the sale is reversed, so it is not anticipated that we will have to adjust turnover materially for these items as a result of adopting IFRS 15.

Notes to the consolidated financial statements continued

Although the Group does not have a history of incurring significant bad debt costs, or significant costs related to goods which are faulty at the point of sale, we anticipate that the introduction of the new IFRS will result in a small amount of costs being deducted from revenue at the time of sale rather than being charged as costs when incurred.

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

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

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

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

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

The Group has not yet carried out a detailed assessment of the possible range of effects on its balance sheet and income statement at the date of approval of these financial statements.

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

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

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

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

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

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

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

Capital work in progress and freehold land are not depreciated.

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

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

Intangible assets
Our intangible assets represent computer software. Where computer software is not an integral part of a related item of computer hardware, the software is classified as an intangible asset. The capitalised costs of software for internal use include external direct costs of materials and services consumed in developing or obtaining the software and payroll and payroll-related costs for employees who are directly associated with and who devote substantial time to the project. Capitalisation of these costs ceases no later than the point at which the software is substantially complete and ready for its intended internal use. These costs are amortised over their expected useful lives, which are reviewed annually. The expected useful lives range between three and seven years, depending on the nature of the software.

Impairment of assets
The carrying amount of the Group’s assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset’s recoverable amount is estimated.

Apart from in the case of trade and other receivables, and inventories, an impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. Impairment losses are recognised in the income statement.

For trade and other receivables and inventories which are considered to be impaired, the carrying amount is reduced through the use of an allowance for estimated irrecoverable amounts. Changes in the carrying value of this allowance are recognised in the income statement.

Current tax
The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the financial period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other financial years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Deferred tax
Deferred tax is provided in full using the balance sheet liability method. It is the tax expected to be payable or recoverable on the temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets and liabilities other than in a business combination that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries, to the extent that they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amounts of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is charged or credited to the income statement except when it relates to items charged or credited directly to equity, in which case the deferred tax is also recognised in equity.

Foreign currencies
Foreign currency transactions
Transactions in foreign currency are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at the date. Foreign exchange gains and losses are recognised in the income statement.

Foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, where applicable, are translated into sterling at foreign exchange rates ruling at the balance sheet date. The results and cash flows of overseas subsidiaries and the results of joint ventures are translated into sterling on an average exchange rate basis, weighted by the actual results of each month.

Exchange differences arising from the translation of the results and net assets of overseas subsidiaries are taken to equity via the statement of comprehensive income.

Notes to the consolidated financial statements continued

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

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

Pensions

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

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

Current and past service costs are recognised in operating profit and net financing costs include interest on pension scheme liabilities and assets.

Leased assets
Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases. For property leases, the land and building elements are treated separately to determine the appropriate lease classification.

Operating leases
Assets leased under operating leases are not recorded on the balance sheet. Rental payments are charged directly to the income statement.

Lease incentives
Lease incentives primarily include up-front cash payments or rent-free periods. Lease incentives are capitalised and spread over the period of the lease term.

Leases with predetermined fixed rental increases
The Group has some leases with predetermined fixed rental increases. These rental increases are accounted for on a straight-line basis over the period of the lease term.

Borrowing costs

Borrowing costs are recognised in the income statement in the period in which they are incurred. In the case of prepaid loan facility fees, they are capitalised and set against the related borrowings, and then amortised over the life of the related loan facility.

Other payables
Other payables are stated at their fair value.

Share-based payments
The Group has applied the requirements of IFRS 2 Share-based payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at the date of the Group's transition to IFRS.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Financial instruments
Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables
Trade receivables do not carry any interest and are stated at their nominal value, as reduced by appropriate allowances for estimated irrecoverable amounts. Such allowances are raised based on an assessment of debtor ageing, past experience, or known customer circumstances.

Cash at bank and in hand and Cash and cash equivalents
Cash at bank and in hand, which is the term used in the balance sheet, comprises cash on hand together with demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents, which is the term used in the cash flow statement, comprises cash at bank and in hand, as defined immediately above, together with any overdrafts repayable on demand, and any current asset investments with a maturity date of less than three months from the balance sheet date.

Net cash
Net cash, as shown in note 22, comprises cash and cash equivalents plus any bank borrowings/prepaid loan fees, and any finance leases.

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

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

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables
Trade payables are not interest bearing and are stated at their nominal value.

3 CRITICAL ACCOUNTING JUDGEMENTS
The Group makes judgements and assumptions concerning the future that impact the application of policies and reported amounts. The resulting accounting estimates calculated using these judgements and assumptions will, by definition, seldom equal the related actual results but are based on historical experience and expectations of future events. The judgements and key sources of estimation uncertainty that may have a significant effect on the amounts recognised in the financial statements are discussed below.

Post-employment benefits
The Group operates a defined benefit scheme for its employees. The present value of the scheme's liabilities recognised at the balance sheet date is dependent on interest rates of high quality corporate bonds. The net financing charge recognised in the income statement is dependent on the interest rate of high quality corporate bonds. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in the relevant note to these financial statements.

Allowances against the carrying value of inventories
The Group reviews the market value of and demand for its inventories on a periodic basis to ensure that recorded inventory is stated at the lower of cost and net realisable value. In assessing the ultimate realisation of inventories, the Group is required to make judgements as to future demand requirements and to compare these with the current or committed inventory levels. Factors that could impact estimated demand and selling prices are the product lifecycles of different ranges, and the extent to which they meet builder's and end-user's requirements.

Notes to the consolidated financial statements continued

4 REVENUE

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

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

5 SEGMENTAL REPORTING

(a) Basis of segmentation, and other general information

Information reported to the Group's Executive Committee is focused on one operating segment, Howden Joinery. Thus, the information required in respect of profit or loss, assets and liabilities, can all be found in the relevant primary statements and notes to these consolidated financial statements.

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

(b) Other information

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

(c) Geographical information

The Group's operations are mainly located in the UK, with a small presence in France, Belgium, The Netherlands, and Germany. The Group has depots in each of these five countries. The number of depots in each location at the current and prior period ends is shown in the five year record which is located towards the back of this Annual Report. The Group's manufacturing and sourcing operations are located in the UK.

The following table analyses the Group's revenues from external customers by geographical market, irrespective of the origin of the goods:

	52 weeks to 24 December 2016 £m	52 weeks to 26 December 2015 £m
Revenues from external customers		
UK	1,281.7	1,203.8
Continental Europe	25.6	16.4
	1,307.3	1,220.2

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

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

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

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

Notes to the consolidated financial statements continued

6 OPERATING PROFIT

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

	52 weeks to 24 December 2016 £m	52 weeks to 26 December 2015 £m
Net foreign exchange (loss)/gain	(22.9)	9.9
Depreciation of property plant and equipment:		
– on owned assets	(21.9)	(19.7)
– on assets held under finance lease	–	(0.1)
Amortisation of intangible assets (included in administrative expenses):		
– on owned assets	(2.1)	(1.8)
Cost of inventories recognised as an expense	(437.7)	(439.1)
Write down of inventories	(6.8)	(6.6)
Profit/(loss) on disposal of fixed assets	0.1	(0.9)
Increase in allowance for doubtful debts (note 16)	(0.4)	(1.0)
Staff costs (note 7)	(350.9)	(323.4)
Lease payments under operating leases	(73.8)	(66.0)
Auditor's remuneration for audit services (see below)	(0.4)	(0.4)

All of the items above relate to continuing operations.

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

	52 weeks to 24 December 2016 £m	52 weeks to 26 December 2015 £m
Audit services:		
Fees paid to the Company's auditor for the audit of the Company's annual financial statements	(0.1)	(0.1)
Fees paid to the Company's auditor and their associates for other services to the Group:		
– the audit of the subsidiary companies pursuant to legislation	(0.3)	(0.3)
Total audit fees	(0.4)	(0.4)
Other services:		
Audit related assurance services	(0.1)	(0.1)
Tax compliance services	(0.1)	(0.1)
Tax advisory services	(0.1)	(0.1)
Total non-audit fees	(0.3)	(0.3)

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

Details of the Group's policy on the use of auditors for non-audit services, the reasons why the auditor was used rather than another supplier and how the auditor's independence and objectivity were safeguarded are set out in the Corporate Governance Report. No services were provided pursuant to contingent fee arrangements.

7 STAFF COSTS

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

	52 weeks to 24 December 2016 £m	52 weeks to 26 December 2015 £m
Wages and salaries	(301.7)	(275.6)
Social security costs	(26.4)	(25.8)
Pension operating costs (note 19)	(22.8)	(22.0)
	(350.9)	(323.4)

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

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

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

8 FINANCE INCOME

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

Notes to the consolidated financial statements continued

9 TAX

(a) Tax in the income statement

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

UK Corporation tax is calculated at 20.0% (2015: 20.25%) of the estimated assessable profit for the period. Tax for other countries is calculated at the rates prevailing in the respective jurisdictions.

(b) Tax relating to items credited to equity

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

(c) Reconciliation of the total tax charge

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

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

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

* In September 2016 Parliament approved the Finance Bill which reduces the UK Standard rate of corporation tax from 20% to 19% with effect from 1 April 2017 and 19% to 17% from 1 April 2020. All deferred tax assets and liabilities have been recognised at 17% except those items expected to reverse before the tax rate reduces to 17%.

10 EARNINGS PER SHARE

	52 weeks to 24 December 2016			52 weeks to 26 December 2015		
	Earnings £m	Weighted average number of shares m	Earnings per share p	Earnings £m	Weighted average number of shares m	Earnings per share p
From continuing operations:						
Basic earnings per share	185.6	629.6	29.5	175.4	642.8	27.3
Effect of dilutive share options	–	1.9	(0.1)	–	1.6	(0.1)
Diluted earnings per share	185.6	631.5	29.4	175.4	644.4	27.2

Notes to the consolidated financial statements continued

11 DIVIDENDS

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

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

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

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

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

12 INTANGIBLE ASSETS

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

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

13 PROPERTY, PLANT AND EQUIPMENT

	Freehold property £m	Leasehold property £m	Plant, machinery & vehicles £m	Fixtures & fittings £m	Capital WIP £m	TOTAL £m
Cost						
At 27 December 2014	22.1	41.9	139.5	87.0	8.1	298.6
Exchange adjustments	–	–	–	(0.1)	–	(0.1)
Additions	0.5	8.3	5.3	8.8	20.0	42.9
Disposals	–	(2.3)	(11.8)	(2.2)	–	(16.3)
Reclassifications	0.1	1.0	4.3	0.6	(6.0)	–
At 26 December 2015	22.7	48.9	137.3	94.1	22.1	325.1
Exchange adjustments	–	–	0.2	0.5	–	0.7
Additions	4.2	6.7	12.1	13.6	25.3	61.9
Disposals	(0.3)	(0.3)	(5.7)	(0.9)	(1.5)	(8.7)
Reclassifications	4.2	1.9	5.2	1.8	(13.1)	–
At 24 December 2016	30.8	57.2	149.1	109.1	32.8	379.0
Accumulated depreciation						
At 27 December 2014	2.8	15.6	103.8	69.3	–	191.5
Exchange adjustments	–	–	–	(0.1)	–	(0.1)
Charge for the period	0.3	4.3	9.7	5.5	–	19.8
Disposals	–	(1.4)	(11.7)	(2.2)	–	(15.3)
At 26 December 2015	3.1	18.5	101.8	72.5	–	195.9
Exchange adjustments	–	–	0.1	0.2	–	0.3
Charge for the period	0.5	4.6	10.6	6.2	–	21.9
Disposals	(0.3)	(0.3)	(5.5)	(0.9)	–	(7.0)
At 24 December 2016	3.3	22.8	107.0	78.0	–	211.1
Net book value at 24 December 2016	27.5	34.3	42.1	31.1	32.9	167.9
Net book value at 26 December 2015	19.6	30.4	35.5	21.6	22.1	129.2

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

Notes to the consolidated financial statements continued

14 DEFERRED TAX

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

	Retirement benefit obligations £m	Accelerated capital allowances £m	Company share schemes £m	Other timing differences £m	Total £m
At 27 December 2014	28.5	1.8	6.4	0.9	37.6
(Charge)/credit to income statement	(7.0)	(0.8)	–	0.1	(7.7)
(Charge)/credit outside income statement	(11.7)	–	(1.6)	–	(13.3)
At 26 December 2015	9.8	1.0	4.8	1.0	16.6
Charge to income statement	(6.0)	0.5	(1.1)	–	(6.6)
Credit/(charge) outside income statement	16.3	–	(2.1)	–	14.2
At 24 December 2016	20.1	1.5	1.6	1.0	24.2

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

The presentation in the balance sheet is as follows:

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

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

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

15 INVENTORIES

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

In the event that the Group were to use its bank facility, it has pledged its inventories as security for any borrowing under the facility. More details are given in note 18.

16 OTHER FINANCIAL ASSETS

Trade and other receivables

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

Trade and other receivables are not interest-bearing, and are on commercial terms. Their carrying value approximates to their fair value.

An analysis of the Group's allowance for doubtful receivables is as follows:

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

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

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

Notes to the consolidated financial statements continued

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

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

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

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

There were no trade receivables which would have been impaired at either period end were it not for the fact that their credit terms were renegotiated. The Group does not renegotiate credit terms.

Cash at bank and in hand

Cash at bank and in hand, which is the term used in the balance sheet, comprises cash on hand together with demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash at bank is either in current accounts, or is placed on short-term deposit, and is available on demand. Interest on short-term deposits is paid at prevailing money market rates. The carrying amount of these assets approximates to their fair value.

Current asset investments

Current asset investments comprise investments in short-term UK Gilts. They have maturity dates ranging between 1 and 3 months from the balance sheet date. They return a fixed rate of interest. The weighted average effective interest rate on the Gilts held at the balance sheet date is 0.1% pa.

These investments are classified as held-to-maturity, and are held at amortised cost. The Directors estimate that the fair value of these investments at the current period end is equal to their carrying value.

Assets pledged as security

In the event that the Group were to use its bank facility, it has pledged its trade receivables as security for any borrowing under the facility. More details are given in note 18.

17 OTHER FINANCIAL LIABILITIES

Trade and other payables

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

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

The average credit taken for trade purchases during the period, based on total operations, was 47 days (2015: 46 days).

The Group's policy on payment of creditors is to agree terms of payment prior to commencing trade with a supplier, and to abide by those terms on the timely submission of satisfactory invoices.

18 BORROWING FACILITY

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

The facility is secured on the Group's trade receivables and inventory. The available facility limit is calculated every week, based on the asset backing at the time and can never exceed £140m. As at 24 December 2016, the Group had available £138m of undrawn committed borrowing facilities, in respect of which all conditions precedent had been met (26 December 2015: £118m), in addition to the Group's cash and short-term investments as shown on the Balance Sheet.

If the Group were to use the facility, it would carry interest at a rate of LIBOR plus a margin of 125 basis points. Under the terms of the facility, none of the Group's principal subsidiary companies can sign up to additional secured borrowings, other than those expressly permitted within the terms of the facility. The facility permits (i) normal trade credit granted to it in the ordinary course of business; (ii) up to £10m of additional secured borrowings, and (iii) up to £20m of finance lease borrowing.

Notes to the consolidated financial statements continued

19 RETIREMENT BENEFIT OBLIGATIONS

(a) Overview of all retirement benefit arrangements

Defined contribution: auto-enrolment plan

The Group operates an auto-enrolment defined contribution plan for employees, in line with recent UK Government legislation. Under the terms of this scheme, employees make pension contributions out of their salaries, and the Group also makes additional contributions.

The total cost charged to income in respect of this plan in the current period of £4.1m (2015: £3.3m) represents the Group's contributions due and payable in respect of the period. Due to the timing of payments, £0.4m (2015: £0.2m) of this amount was unpaid at the period end, but was paid shortly afterwards.

Defined contribution: other plan

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

The total cost charged to income in respect of this plan in the current period of £0.8m (2015: £0.9m) represents the Group's contributions due and paid in respect of the period.

Defined benefit plan

Characteristics and risks of the plan

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

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

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

Accounting and actuarial valuation

Contributions are charged to the income statement so as to spread the cost of pensions over the employees' working lives with the Group. The present value of the defined benefit obligation, the related current service cost, and past service cost are determined by a qualified actuary using the projected unit method. The most recent completed actuarial valuation was carried out at 5 April 2014 by the plan actuary. The actuary advising the Group has subsequently rolled forward the results of the 5 April 2014 valuation to 24 December 2016, and has restated the results onto a basis consistent with market conditions at that date.

Funding and estimated contributions

The Group has an agreement with the pension plan trustees to make additional deficit contributions to the plan over and above the normal level of contributions of £35m per year until 30 June 2017, and then £25m per year until 30 June 2018.

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

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

As is mandatory under International Financial Reporting Standards, the Group values its pension deficit in these accounts on an IAS 19 basis. As shown below, the IAS 19 deficit at the current period end is £106m. On a funding basis (also known as a "Technical Provisions basis", being the basis on which the triennial actuarial valuations are carried out), the funding deficit at the current period end is estimated at £236m, this estimate being based on an approximate roll-forward of the 2014 triennial funding valuation, updated for market conditions.

French post-employment benefits

We recognised a provision in 2014 for a post-employment benefit which is payable to employees in our French subsidiaries under French law on retirement. It is a lump sum payable on retirement, not a recurring pension. As such, there is no underlying pension plan. In 2016 this liability had grown from £0.2m to £0.3m, and we recognised an additional £0.1m.

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

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

(c) Other information – defined benefit pension plan

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

Notes to the consolidated financial statements continued

Sensitivities

If there was an increase/decrease in the discount rate of 0.25%, there would be a corresponding decrease/increase in the scheme liabilities of around 5.5%, or £71m, and a decrease/increase in the total service cost of around £1.3m.

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

The effect of increasing the assumption regarding life expectancy by one year longer than shown above would be to increase the assessed value of liabilities by around 2% or £26m, and would increase total service cost by around £0.4m.

The sensitivities above are applied to the defined benefit obligation at the end of the reporting period, and the projected total service cost for 2017. Whilst the analysis does not take account of the full distribution of cash flows expected under the scheme, it does provide an approximation to the sensitivity of the assumptions shown.

Analysis of plan assets

	24 December 2016		26 December 2015	
	Quoted market price in an active market £m	No quoted market price in an active market £m	Quoted market price in an active market £m	No quoted market price in an active market £m
Government bonds	435.7	–	348.8	–
Equities				
– passive equities	113.6	–	107.3	–
– low volatility equities	215.2	–	191.0	–
Private equity	–	43.2	–	42.0
Alternative growth assets				
– fund of hedge funds	84.3	–	82.2	–
– absolute return fund	67.2	–	70.0	–
Corporate bonds	124.6	–	90.4	–
Commercial property fund	82.4	–	51.8	–
Cash and cash equivalents	11.6	–	9.6	–
Total	1,134.6	43.2	951.1	42.0

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

Asset allocation

The trustees' current chosen long-term asset allocation strategy for the plan, as noted in the plan's most recent audited accounts (for the year to 5 April 2016), is to target an allocation of 55% in return-seeking assets (such as equities, alternative growth assets, private equity and the commercial property fund), and 45% in risk-reducing assets (such as government bonds, corporate bonds, and cash and cash equivalents).

Analysis of plan liabilities

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

1 The number of members is as per the 5 April 2016 trustees' report, and the duration is as at 5 April 2014 (being the date of the most recent triennial valuation).

2 The number of members is as per the 5 April 2015 trustees' report, and the duration is as at 5 April 2014 (being the date of the triennial valuation which was in progress at that time).

Balance sheet

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

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

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

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

Notes to the consolidated financial statements continued

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

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

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

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

Amount charged to operating profit:

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

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

Amount credited to other finance charges:

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

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

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

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

20 PROVISIONS

	Property £m	Warranty £m	Other £m	Total £m
At 27 December 2014	6.8	3.6	0.2	10.6
Additional provision in the period	2.4	4.1	–	6.5
Provision released in the period	(1.9)	–	–	(1.9)
Utilisation of provision in the period	(1.8)	(3.5)	–	(5.3)
At 26 December 2015	5.5	4.2	0.2	9.9
Additional provision in the period	3.8	3.6	0.1	7.5
Provision released in the period	(0.4)	–	–	(0.4)
Utilisation of provision in the period	(4.2)	(3.8)	–	(8.0)
At 24 December 2016	4.7	4.0	0.3	9.0

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

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

Warranty provision
The warranty provision relates to amounts due in respect of product warranties. As products are sold, the Group makes provision for claims under warranties. As claims are made, the Group utilises the provision and then uses this historical data to periodically revise the basis on which it makes further provision.

Notes to the consolidated financial statements continued

21 SHARE CAPITAL

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

22 NOTES TO THE CASH FLOW STATEMENT

Analysis of net cash

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

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

23 FINANCIAL COMMITMENTS

Capital commitments

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

Operating lease commitments

The Group as lessee:

Payments under operating leases during the period are shown at note 6. At the balance sheet date, the Group had outstanding lease commitments for future minimum lease payments under non-cancellable operating leases which fall due as shown below.

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

The Group as lessor:

The Group sublets certain leased properties to third parties. At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

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

Notes to the consolidated financial statements continued

24 Share-based payments

1) Details of each scheme

The Group recognised a charge of £4.0m (2015: charge of £7.5m) in respect of share-based payments during the period. The Group has various share-based payment schemes, which are all equity-settled. The main details of all schemes which existed during the period are given below.

Share Incentive Scheme ("Freeshares")
This is an 'all-employee' share incentive plan whereby participants receive a grant of free shares in the Group. If the employees are still employed by the Group three years after the grant, then the shares vest. Dividends are paid out on the shares between award date and vesting date. There are no other performance conditions attached to these awards.

Share Award Plan
This is a discretionary plan under which the Group may grant nil cost options subject to conditions as determined by the Group. The shares will vest at the end of a five year period commencing on the date of grant, subject to continuing employment.

Co-investment Plan ("COIP")
This is a co-investment plan where each participant is permitted to invest a limited amount of shares on an annual basis for the purposes of the plan. Details of the plan conditions are as follows:

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

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

Howden Joinery Group Long-Term Incentive Plan ("LTIP")
This is a discretionary plan under which the Group may grant different types of share award including market value and nil cost options, conditional awards of shares and restricted shares (where the employee is the owner of the shares from the date of award but subject to forfeiture). The different types of awards are as follows:

(i) Market value options, the vesting period for which is three years from the date of grant with an exercise period of seven years (i.e. a total life of ten years). Options will vest if cumulative PBT of £90m is achieved over the three financial years ending 2009, 2010 and 2011.

(ii) Market value options which vest after a three year period from the date of grant. 15% of the options will vest if the Group achieves growth in pre-exceptional PBT equivalent to RPI over the performance period; 100% will vest if pre-exceptional PBT growth equivalent to RPI + 8% is achieved.

(iii) Conditional Share Award - shares will vest at the end of a three year period commencing on the date of grant subject to continuing employment.

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

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

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

2) Movements in the period

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

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

Notes to the consolidated financial statements continued

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

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

3) Fair value of options granted

The fair value of all options granted is estimated on the date of grant using a binomial option valuation model.

The key assumptions used in the model were:

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

25 RELATED PARTY TRANSACTIONS

Companies which are related parties

Transactions between Group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note. All transactions between the Group and the Group's pension schemes have been disclosed in note 19.

Remuneration of key management personnel

Key management personnel comprise the Board of Directors (including Non-Executive Directors) and the Executive Committee. Details of the aggregate remuneration to these personnel are set out below. The figure disclosed for share-based payments represents the gain realised on the exercise of share options in the year, albeit that those options will have been granted in previous periods. All figures include any related employer's National Insurance.

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

Other transactions with key management personnel

There were no other transactions with key management personnel.

26 FINANCIAL RISK MANAGEMENT

(a) Capital risk management

The Group manages its capital structure to maximise shareholder returns through its debt and equity balance, trading off the benefits of financial leverage with the expected future costs of financial distress.

The capital structure of the Group consists of cash and short-term investments, the committed borrowing facility discussed further in note 18 - if needed - and equity attributable to equity holders of the parent (including issued share capital and reserves as disclosed in the Consolidated Statement of Changes in Equity, and in note 21).

The Board of Directors reviews the capital structure regularly, including at the time of preparing annual budgets, preparing three-year corporate plans, and considering corporate transactions. As part of this review, the Board reviews the costs and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buybacks, taking on or issuing new debt or repaying any existing debt.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are in note 2 to the financial statements.

Notes to the consolidated financial statements continued

(c) Categories of financial instruments

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

(d) Financial risk management

General

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

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

Cash and cash equivalents

Cash at bank and in hand, which is the term used in the balance sheet, comprises cash on hand together with demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents, which is the term used in the cash flow statement, comprises cash at bank and in hand, as defined immediately above, together with any current asset investments.

Arrangements are in place to ensure that cash is utilised most efficiently for the ongoing working capital needs of the Group's operating units and to ensure that the Group earns the most advantageous rates of interest available. The prime consideration in the investment of cash balances is the security of the asset, followed by liquidity and then yield.

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

Management of trade receivables is discussed in note 16.

(e) Credit risk

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

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

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

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

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

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

(f) Liquidity risk

Liquidity risk is the risk that the we could experience difficulties in meeting our commitments to creditors as financial liabilities fall due for payment. We manage our liquidity risk by using reasonable and retrospectively-assessed assumptions to forecast the future cash-generation and working capital requirements of our business and by maintaining sufficient cash and investment reserves, committed borrowing facilities and other credit lines as appropriate. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has agreed an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. We manage liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities as far as is possible. Included in note 18 is a description of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk. In addition, the Strategic Review contains a section describing the interaction of liquidity risk and the going concern review.

Maturity profile of outstanding financial liabilities

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

Notes to the consolidated financial statements continued

(g) Market risk

This is the risk that financial instrument fair values will fluctuate owing to changes in market prices. The significant market risks to which we are exposed are foreign exchange risk, and interest rate risk. These are discussed further below:

Foreign exchange risk

We are exposed to foreign exchange risk, principally as a result of operating costs incurred in foreign currencies, and to a lesser extent, from non-Sterling revenues. Our policy is generally not to hedge such exposures. The exposure of the our financial assets and liabilities to currency risk is as follows:

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

Interest rate risk

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

(h) Financial instrument sensitivities

Financial instruments affected by market risk include deposits, trade receivables and trade payables. The following analysis, required by IFRS 7, is intended to illustrate the sensitivity of the Group's financial instruments as at its year end to changes in market variables, being exchange rates and interest rates. The sensitivity analysis has been prepared on the basis that the components of net cash and the proportion of financial instruments in foreign currencies are all constant. For floating rate liabilities, the analysis is prepared assuming that the amount of liability outstanding at the year end date was outstanding for the whole year. As a consequence, this sensitivity analysis relates to the position as at the balance sheet date. The following assumptions were made in calculating the sensitivity analysis:

- Deposits are carried at amortised cost and therefore carrying value does not change as interest rates move.
- No sensitivity is provided for accrued interest as accruals are based on pre-agreed interest rates and therefore are not susceptible to further rate movements.
- Finance lease interest payments are fixed at the inception of the contract and are not subject to repricing. They have therefore been excluded from this analysis.
- Translation of foreign subsidiaries and operations into the Group's presentation currency have been excluded from the sensitivity.

Using the above assumptions, the following analyses show the illustrative effect on the income statement and equity that would result from reasonably possible changes in the relevant foreign currency or interest rates:

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for floating rate non-derivative instruments at the balance sheet date. The Group holds no derivative financial instruments. Fixed rate liabilities are not susceptible to changes in interest rates, and are omitted from the analysis below. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis points increase is used as this represents management's assessment of the possible change in interest rates.

At the reporting date, if interest rates had been 50 basis points higher and all other variables were held constant, the Group's net profit and profit and loss reserve would remain the same (2015: remain the same).

For a decrease of 50 basis points, the current year figures would remain the same (2015: remain the same).

Foreign exchange sensitivity

As noted above, the Group is mainly exposed to movements in Euro and US dollar exchange rates. The following information details our sensitivity to a 10% weakening or strengthening in Sterling against the Euro and the US Dollar. These percentages are the rates used by management when assessing sensitivities internally and represent management's assessment of the possible change in foreign currency rates. The sensitivity analysis of our exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the end of the financial period, and based on the outstanding foreign currency balances at the period end.

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