HOWDENS
JOINERY CO.

MAKING SPACE MORE VALUABLE

Howden Joinery Group Plc

Annual Report and Accounts 2017

HOWDENS
JOINERY CO.

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

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

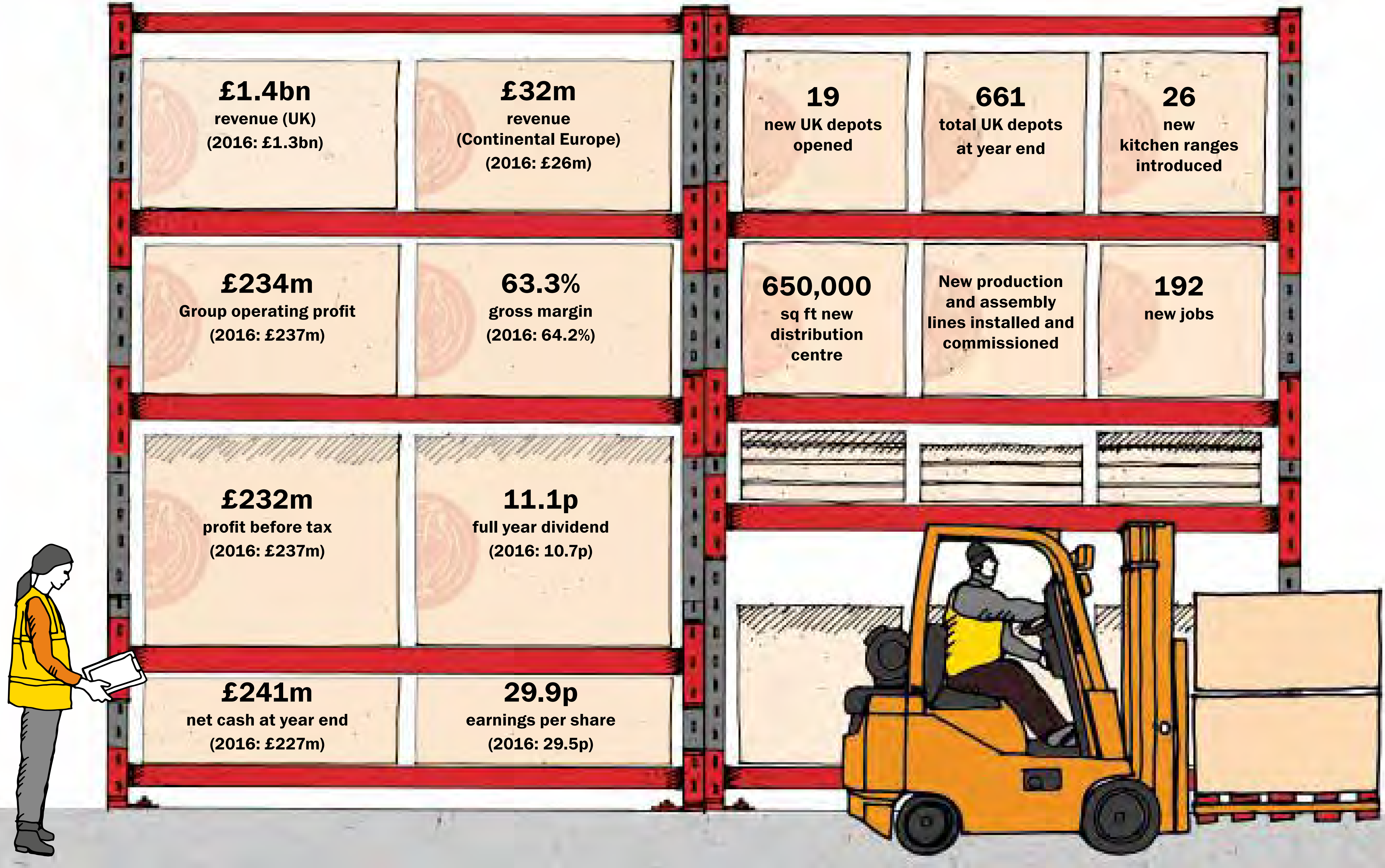
The Strategic Report

Governance

The Financial Statements

Additional Information

What we did in 2017



Strategic report

Chairman's statement

Over the last two decades Howdens has evolved and grown to become the leading supplier of kitchens in the UK, focused on providing good service to small builders and value to all concerned.

GROWTH IN A DIFFICULT MARKET

I am pleased to report that 2017 saw good progress for Howdens. Sales increased by 7.4% compared to 2016, driven mainly by an increase in volume of products sold, with stronger growth seen in the second half of the year. This growth demonstrates the good demand for our products and services despite a backdrop of muted consumer sentiment.

Our agile business model has enabled us to respond well to the changing market environment and is discussed by our CEO, Matthew Ingle, in more detail in his review of the year on pages 20 to 21.

Our gross margin was 63.3%, which was achieved while absorbing extra costs from both adverse foreign exchange movements and volume growth. This enabled Howdens to continue to be strongly cash generative, ending the year with £241m of net cash.

CEO SUCCESSION

In July, we announced that that Howdens' founder and CEO, Matthew Ingle, will retire after 23 years with the company, to be succeeded as CEO by Andrew Livingston, previously CEO of Screwfix Direct Ltd, a division of Kingfisher Plc.

Matthew has been the driving force behind Howdens, and on behalf of the Board and all our colleagues I would like to thank him for his exceptional leadership. There is no way to describe the contribution of a founder of a business which has grown from 14 depots, to an organisation that employs over 9,000 people, and has 460,000 account holders with revenue of around £1.4bn.

Howdens is a strong, growing and unique business whose culture is testament to Matthew's character. Under his leadership, Howdens has delivered exceptional value to its shareholders and we celebrate Matthew's achievements and the first 23 years of Howdens on pages 10 and 11.

I am also very pleased to welcome Andrew to Howdens and we look forward to him leading the Company through the next stage of our development. Andrew developed an outstanding strategic and operational track record at Screwfix which, like Howdens, has developed great relationships with its trade customers. Andrew joined the Company on 29 January 2018 and will become CEO on 2 April 2018.

OUR INVESTMENT PROGRAMME

Since 1995, Howdens has grown to become the leading supplier of kitchens in the UK by providing a high level of service to local builders and value to all concerned. As a result, we have continued to invest steadily in the business to provide a strong platform for expansion.

While uncertainties regarding UK consumer demand remain, your Board believes that there are considerable opportunities for long term growth of the business, and that in order to fulfil that potential we must continue to invest in both capacity and capability through this economic cycle.

As I noted in last year's Annual Report, in 2015 we initiated a three-year programme of investment across Howdens in areas including manufacturing capability and warehousing capacity. We have now completed the three-year investment programme on schedule, with capital expenditure for 2017 of £48m.

During 2017, at our Howden site, our cabinet production facility and assembly lines were fully installed and commissioned, as was our new cabinet component line at Runcorn. In addition, our new warehouse at Raunds came on-stream and has been utilised for bulk storage. We expect to use our new distribution centre for our peak October trading period in 2018, as we migrate from our older distribution centre in Northampton.

We anticipate that our core capital expenditure for 2018 will be approximately £60m and any additional expenditure beyond this level will be success-led.

Chairman's statement continued

THE BUSINESS MODEL

Howdens was designed from the start to work around the needs of the small builder, who knows that our depots are always in stock and that they are run by experienced and knowledgeable staff. We understand that our culture is the key reason for our continued success and maintaining that culture as we grow the business is vitally important.

RETURNS TO SHAREHOLDERS

Howdens' earnings for the year were 29.9p per ordinary share, a small increase on the prior year (2016: 29.5p). There were a number of factors which impacted earnings in 2017.

Howdens reports results based on a weekly cycle, rather than on a monthly basis, which means that for most years the company reports 52 weeks of trading. However in 2017, we reported 53 weeks of trading, including the week between Christmas and New Year, which increased operating costs by approximately £8m, but did not contribute to revenue.

In addition, we incurred expected additional expenses in 2017 due to new product introductions and new services, our new distribution centre at Raunds, additional depreciation due to our investment programme, and pension costs. We also had additional costs due to inflationary pressures.

In line with our stated dividend policy, which is set out in detail in the Review of Finance and Operations on page 22, the Board is recommending a final dividend of 7.5p, resulting in a dividend for the full year 2017 of 11.1p, an increase of 3.7% on the prior year (2016: 10.7p). The increase reflects the Board's confidence in the prospects for the business and takes account of the factors which impacted the earnings per share performance in 2017.

In February 2017 we announced a two year £80m share buyback programme, of which £48m was completed during the year. We expect to complete the remainder of the buyback programme during 2018. Together with £68m in dividend payments, Howdens returned £116m to shareholders in the year.

As a Board, we are mindful of the changing economic landscape and a change in tone in many areas of the UK consumer market. We do have cash surplus above and beyond our requirements for working capital and the final dividend for 2018, and will implement a further share repurchase programme of £60m to be completed during the next two years.

GOVERNANCE

Howdens aims to have a clear governance framework and to operate with integrity in all we do. It is vital to maintain the trust of investors, customers, our colleagues and other stakeholders in an environment where expectations, as well as regulations, continue to evolve. Our corporate governance framework and the work of the Board during 2017 may be found in our Corporate Governance Report starting on page 51. Also detailed in the Governance section is information such as company's gender balance (page 67) and Directors' remuneration arrangements (starting page 72).

The Board meetings conducted in 2017 were structured to address the Board's collective responsibilities in relation to strategy, performance and governance. While we have a well-established business model and a clear UK strategy, it is important the constituent parts of the strategy were evaluated and tested at each Board meeting, with particular emphasis on the first principles and individual tenets of the model. Given the strength of Howdens' culture, these discussions were informed by an understanding of the ethos and values of the business.

MARKET ENVIRONMENT

Howdens has a strong track record of dealing with change and facing the challenges of the evolving marketplace. The Board is mindful of the challenges that lie ahead and we continue to evaluate the potential risks that could impact the Group. We address these matters in more detail on pages 28 to 32. In particular, as in 2017, we monitor our market situation closely, in order to ensure timely responses to changing conditions.

SUSTAINABILITY

Our aim is to be worthwhile for all, which shapes our engagement with a wide range of stakeholders, including our customers, colleagues and local communities. Howdens increasingly looks to promote sustainability which we believe has positive benefits in the areas of safety, energy efficiency and environmental awareness, and recognises the importance of training, development and opportunities for young people. More detail can be seen in our Sustainability Report which begins on page 35.

Howdens is based on each depot having a local presence and our people embody the idea of local service, both for our customers and for the wider community. In 2017, the Group donated around £2.5m to good causes.

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

LOOKING AHEAD

2017 saw Howdens grow and continue to invest for the future. Nevertheless, we note that that there is increasing uncertainty surrounding the UK consumer and the economic outlook. We remain confident in the Group's potential and believe that the business has the financial capability, the culture and the skills to enable us to plan for the future from a position of stability and strength.

Richard Pennycook
Chairman

28 February 2018

A tribute to Matthew

Matthew Ingle founded Howdens in 1995 with just 14 depots. Under his leadership and guidance, the company has grown to become the leading provider of kitchens in the UK.

Fitting a kitchen is complicated – no two are the same. The design has to be great, and the fitting may involve joinery, plumbing, electrical and decorative skills. Even for multi-skilled professional builders that can be a challenge. To increase the pressure still further, the consumer needs their kitchen back in action as rapidly as possible. A day lost (for example because a critical part is missing) is another day of chaos in the house.

It was Matthew who had the vision to build a business which would support the builder to deliver this complex task. He took his idea to Derek Hunt at MFI, who agreed to back it. Howdens began trading as a division of MFI with just 40 people, 14 depots and seven kitchen ranges. Revenue in that first year was barely £1m, whilst now the company turns over £5 million every working day with over 660 depots and a talented workforce of 9,000 nationwide.

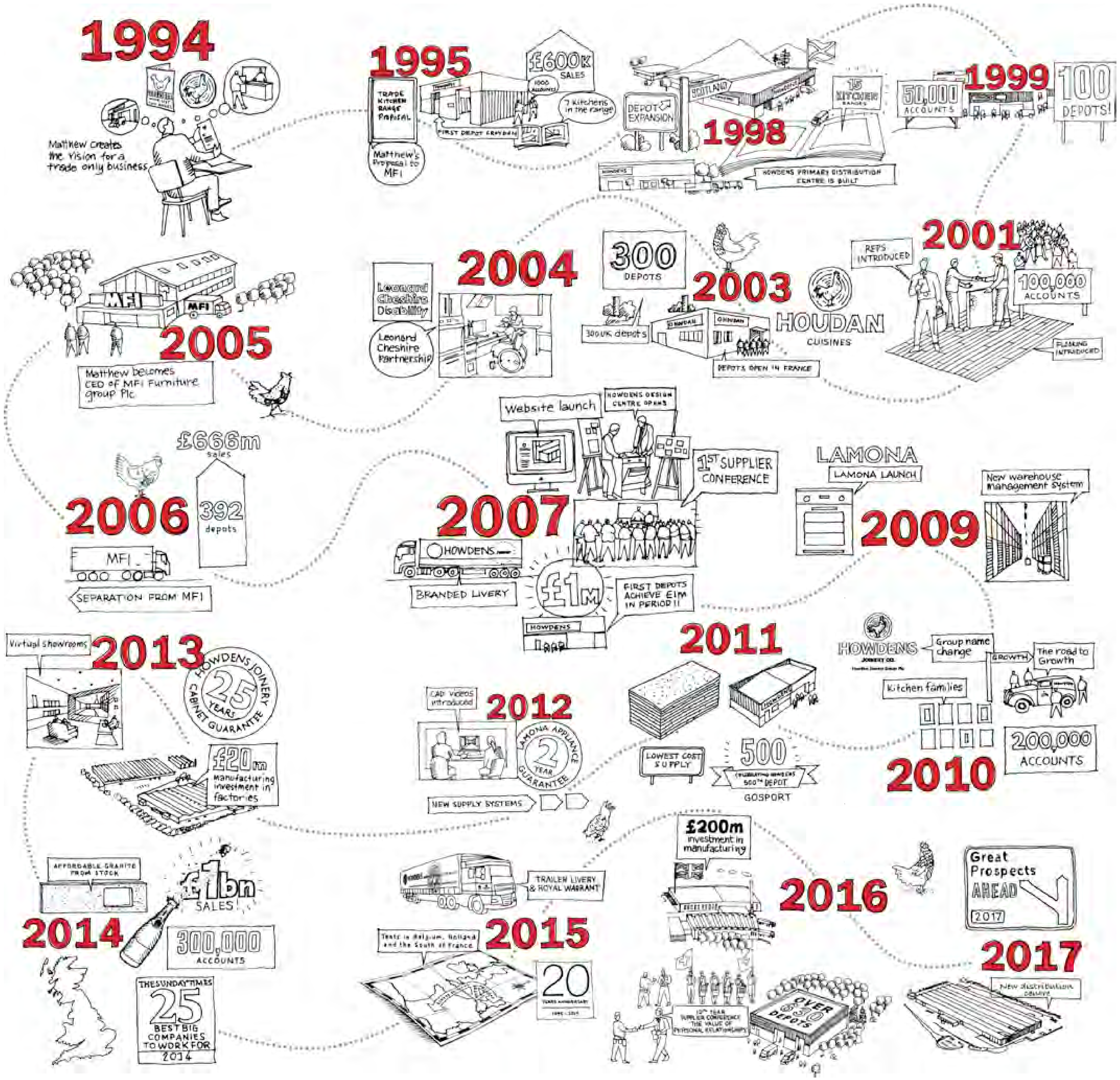
From the start, Matthew laid out a clear purpose for the business, which has changed little over the years. He believed that for a business to be worthwhile, it had to be worthwhile for all concerned – and testament to that strong foundation is the fact that Howdens today has amongst the most loyal customers, colleagues and suppliers of any business, anywhere. Matthew has always set the highest standards and is passionate about the integrity of the business and its people. So while our kitchens change with the times, the company's values have remained constant.

Howdens grew strongly in its early years, but the decline of the wider MFI business, coupled with the impact of the financial crisis, left Matthew and his executive team to deal with legacy costs and a share price which sank to 11 pence. It is to Matthew's and his team's great credit that they kept Howdens moving forwards whilst also sorting out the mess.

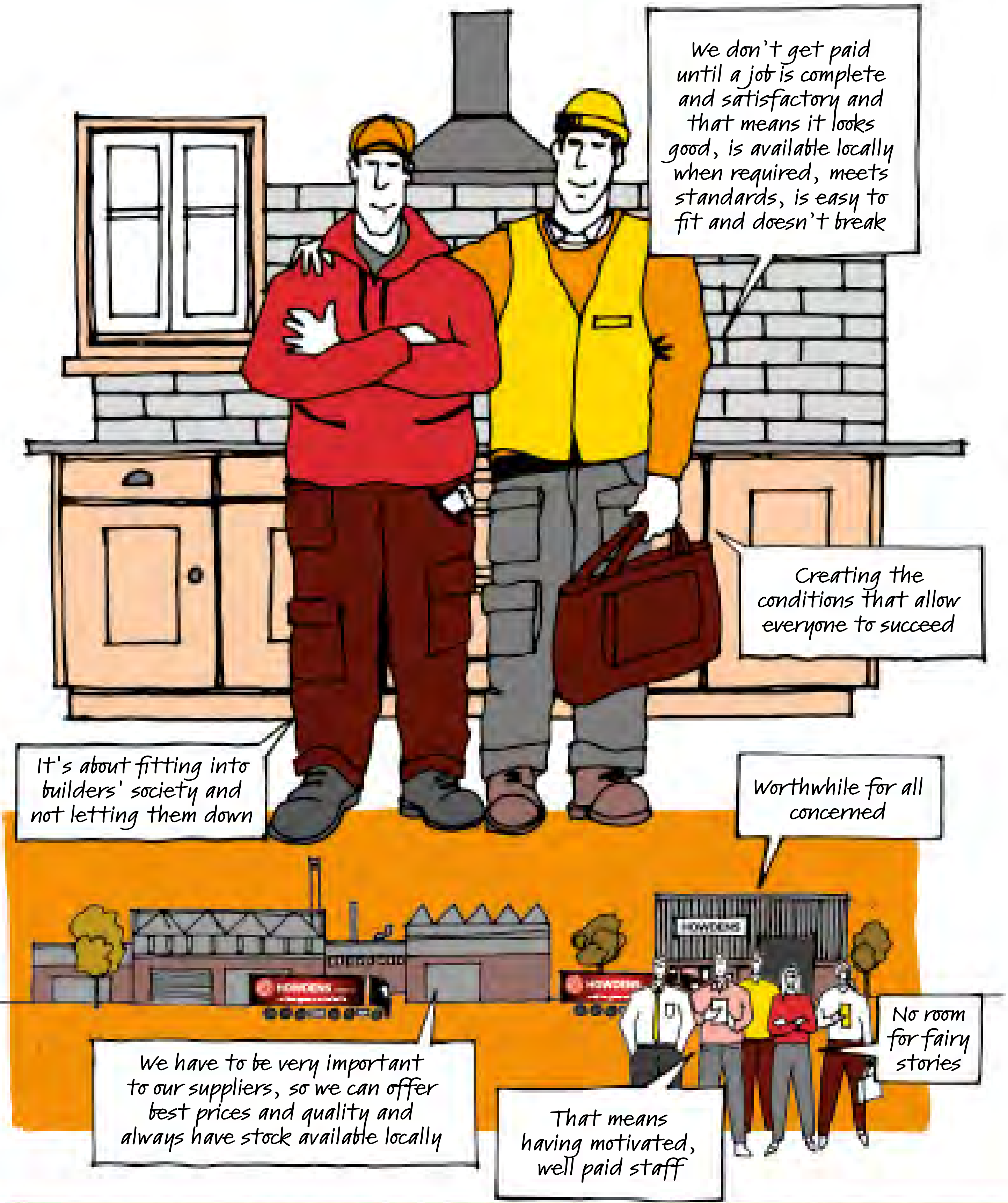
Since those traumatic times, Howdens has gone from strength to strength and today, Matthew leaves the company in a robust position, financially and operationally, and with great prospects.

Matthew will retire from the company on 31 July 2018 and I am delighted that he will continue to be in touch with Howdens in the role of Lifetime President. On behalf the Board, colleagues past and present, and our shareholders, I thank him for his pioneering spirit and outstanding leadership, and for creating the strong, vibrant and growing company that he leaves behind. We all wish him the best for the future.

Richard Pennycook
Chairman



Our Culture and Purpose



OUR CULTURE AND PURPOSE

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

This founding principle has shaped our business model and our strategic decisions. Things like local profit-sharing and incentivisation for our staff, as well as the fundamentals of the trade relationship and trade terms that allow the builder to run a business and make a living. Creating the conditions that allow everyone to succeed.

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

Howdens solves problems for small builders doing joinery work… it's about fitting into their society and not letting them down… associating with people who run their own business… it means a lot. Builders don't get paid until a job is complete and satisfactory and that means it looks good, is available locally when required, meets standards, is easy to fit and doesn't break.

We offer builders trade accounts which give them up to eight weeks before they need to pay us, we give them a confidential discount, swap items on the spot, provide a welcoming trade environment, exclude retail, and retain staff. Customers always see the same faces. It's about trust: there's no room for fairy stories. We do what we say.

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

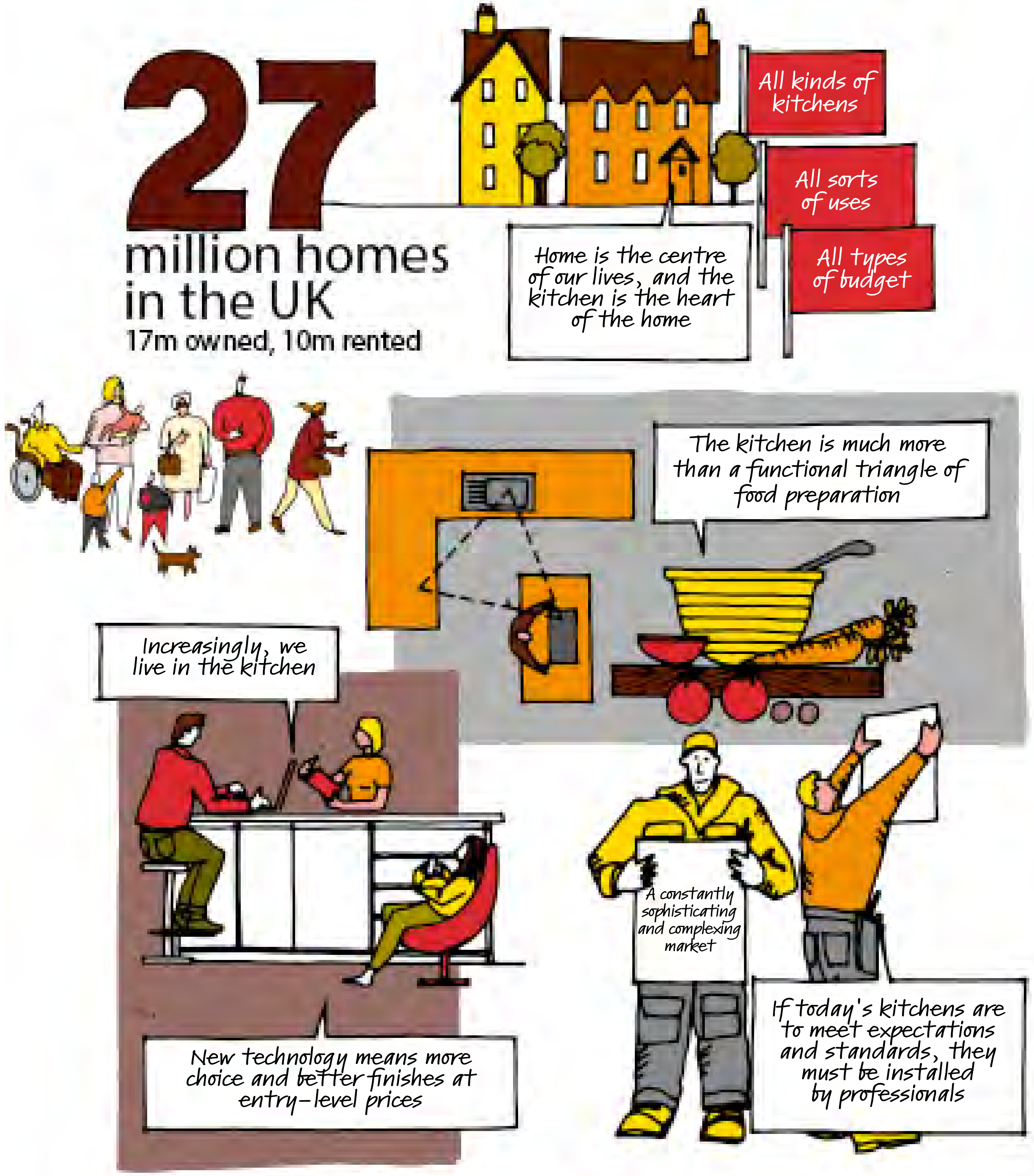
It also means having extremely motivated and well-paid staff. This is an entrepreneurial, manager-driven business with low central overheads. Tradespeople are entrepreneurs. They are not interested in, and don't benefit from, a big central office. Howdens does not offer a huge corporate hierarchy… rather,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

Howdens has grown from nothing… no name, no product, no building, no staff, to more than 660 depots, 460,000 accounts and 9,000 staff, in 22 years. A winning formula that everyone connected with can call their own, and a philosophy that can grow.

Matthew Ingle

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

Our Market



OUR MARKET

There are approximately 27 million homes in the UK, of which around 17 million are owned and 10 million are rented.

Howdens designs, manufactures, sources and supplies kitchens for a wide range of end-uses, including for private rentals and social housing as well as for all kinds of owner-occupied homes. In 2017, Howdens sold over 4 million kitchen cabinets, along with 900,000 kitchen appliances, 650,000 sinks and taps, over 2 million internal doors and over 2.5 million square metres of flooring.

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

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

Expectations about what the kitchen can do, and what we can do in it, have changed significantly in the last few years. The pace of change has accelerated with the development of the internet and social media. But while we all have access to information about new ideas and innovative designs, we have less time in which to make decisions about increasingly complex kitchens.

Recent technological advances have transformed the functionality and appearance of kitchens. The market demands, and we can offer, more functionality, more choice and more sophisticated-looking finishes at entry-level prices. It also means we have the ability to plan and sell kitchens that suit the requirements of a wide range of end-users, each of whom has a different, individual home.

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

We continue to investigate the opportunities for Howdens in Europe. At the end of 2017, we had 24 depots outside the UK: twenty in France, two in Belgium, one in the Netherlands and one in Germany. We continue to learn from our operations in mainland Europe and we intend to thoroughly understand these markets before any decision is made to expand in them.

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

Our Business Model

OUR BUSINESS MODEL

Howdens is a trade-only business, selling kitchens and joinery to local builders and trade professionals from our 660 local depots. Each local depot operates on an in-stock basis and is normally only a short drive away, allowing the builder to plan and start a job without delays.

A typical depot occupies around 10,000 square feet, is located on an industrial estate and costs a fraction of high street retail properties. Depots cost on average £450,000 to fit out and typically break even by year 2 at c.£700,000 sales.

We design and manufacture all our own cabinets (approximately 4 million per year) in our own factories in Yorkshire and Cheshire. Other products, including some cabinet doors and our own-brand appliances, are made to our specifications and bought in from suppliers with whom we have built long-standing relationships. We make what it makes sense to make, and we buy what it makes sense to buy.

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

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

The depot manager's autonomy is a key element of Howdens' business model. Depot managers hire their own staff, do their own local marketing, set local pricing, manage the level of discount applicable to their account holders and manage their own stock levels to suit their own local customers. This means our distribution operation has to be attuned to the different needs of 660 depots. No two deliveries are alike, and each one must be correct, complete and on time.

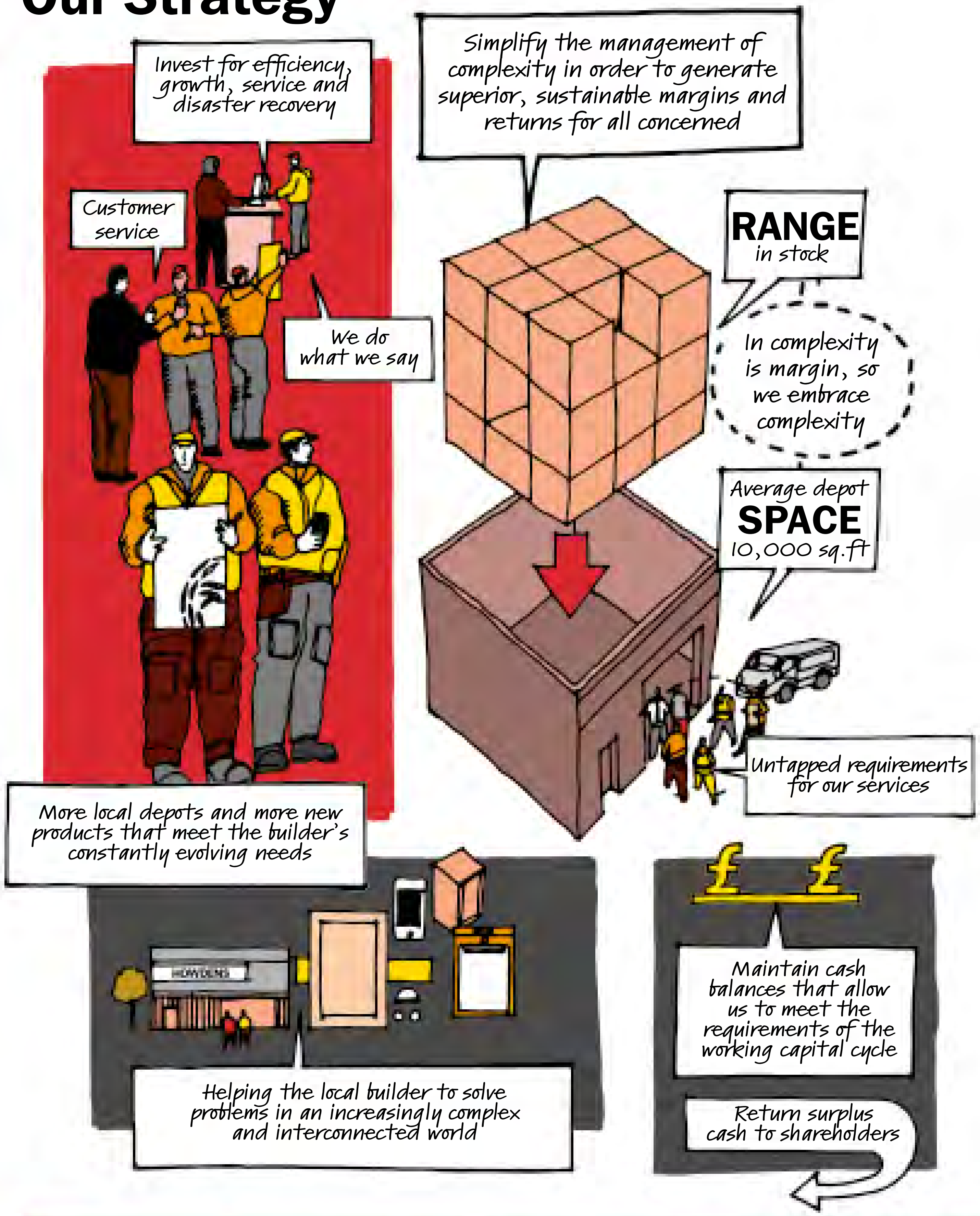
When a builder comes into one of our depots for the first time, they can open a trade account which gives them up to eight weeks before they need to pay us. This, and the fact that we are in stock locally, means that builders can complete the job and get payment from their customer before they need to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

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

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

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

Our Strategy



OUR STRATEGY

Howdens' strategy is focused on kitchens. Its successful execution depends on our ability to manage the complex combination of numerous skills and products in a simple and efficient way. This ability has been developed over more than 20 years.

Our strategy is to invest for future growth. In order to deliver the potential we see in our market and ensure stock availability in depots as we expand, we have invested £160 million over three years in our manufacturing and distribution to improve efficiency, provide for disaster recovery and increase capacity in anticipation of the continuing growth of the business. We have opened a new 650,000 square foot national distribution centre at Raunds, near Northampton, replacing our old distribution centre on the outskirts of the town. We have also made significant, ongoing investments in Howdens' systems infrastructure to ensure that our processes are robust and efficient and that we can manage the increasing need for connectivity across our business and in all our lives.

Our strategy is to expand our UK depot network. We believe that there is some way to go before we have saturated the UK market and we see significant opportunities to grow our business. While we take account of market conditions in planning our roll-out of new depots, we continue to see untapped requirement by builders for a local and convenient service in much of the country. This need is shown by the fact that when we add a new depot near to an existing one, we see overall sales increase in the area within a short time.

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

Our business benefits from the investment we make in developing our people. When we invest in the right people, we can grow our own leaders. Leaders who already understand the strategic importance of the Howdens business model and culture. Our investment in development also gives valuable opportunities to our best people and helps us to retain them.

Our strategy is to commit to prudent financial management. We maintain sufficient cash balances to allow us to meet the requirements of the working capital cycle, taking into account the marked seasonality of the business and returning surplus cash to shareholders as appropriate. Our dividend policy is on page 24.

We continue to develop strategic options for the future. These options include developing new products that meet the builder's constantly evolving needs and introducing new services for builders, such as solid surface installation.

...advice and aftersales to make a home to be proud of."

Chief Executive's statement

Howdens is a highly successful trade business that started with just 14 depots in 1995 and has now grown to more than 660 depots, with the opportunity for even more. We are the leading supplier of kitchens in the UK because we continue to keep the builder's needs at the centre of everything we do.

I am pleased to report that Howdens has seen another successful year, with good revenue growth, finishing the year with net cash of £241 million.

LOCAL EMPOWERED STAFF

The general economic backdrop was mixed in 2017, but we knew we could do more to help the builder and help our depot managers sell more kitchens. Following a successful trial in one of our regions, we increased the autonomy of our depot managers by giving them additional flexibility over pricing.

I believe that this was the key decision taken during the year. We know that depot managers understand their local builders and market better than anyone, and we were pleased to see positive results immediately following the change.

THE RIGHT PRODUCT

As well as the right price, it is important that when a builder shows their customer our kitchen, the customer is inspired by enlightened and relevant designs. We recognise that kitchens are an area in which taste and fashion are moving faster than before.

Technology, expectations and fashion change, but our depot managers should never have to worry about the suitability of the product they sell.

We introduced 26 new kitchen ranges throughout the year, as we continue to develop the range of products and services we offer, in order to broaden the entry-level appeal of the Howdens' proposition.

The new ranges included eleven grey kitchens, as the trend for this colour continues, more entry-level products, including a new Allendale family, as well as an improved flat-pack offering. In addition, we updated our own-brand Lamona range of appliances and introduced a number of new joinery products.

We expect to introduce around 20 ranges in 2018 and will continue to develop our products and services.

SUPPLIERS AND SUPPLY CHAIN

We had 100% availability of products to our depots during our peak trading (Period 11) in October, demonstrating the strength of our supply chain. We have our own warehouses and distribution operations, and our trucks only deliver our product to Howdens depots. During Period 11 our supply division made around ten thousand deliveries to our depots, and of the eight million items received, all were correctly delivered.

Achieving this level of service demonstrates our shared values and positive personal relationships, both within Howdens and with our suppliers and I would like to thank our suppliers for their continued support of our business.

OUR INVESTMENT

In 2015, we announced that we were to undertake a three-year investment programme to upgrade our manufacturing as well as our distribution capabilities. This was to replace older machinery and warehouse capacity and give us the extra capability to match our growth plans for Howdens. I am pleased that our investment programme was brought in on time and on budget.

We also continue to invest in IT and we have upgraded our systems to help the depots process orders quicker than ever before.

Our market is becoming more complex – people want more choice – more colours, more designs, at ever more affordable prices. Those who can manage to deal with this increasingly complex world will prosper, and that is why it is imperative that we continue to invest in the business.

SUCCESSION

When Howdens first started trading in 1995 with just 40 people and seven kitchen ranges, I could not imagine the journey we would undertake. Thanks to our builder customers, we grew quickly and weathered both the problems with MFI in 2005 and the financial crisis, to emerge as a business which has grown strongly and invested significantly in its long-term future.

Howdens has done well, is doing well and has great prospects for the future.

I decided in 2017 that I would retire from my role as CEO in 2018 and pass the baton on to Andrew Livingston (information about Andrew's appointment may be found on page 7). Andrew has an outstanding track record at Screwfix and I look forward to seeing the business move to its next chapter under his leadership. I am also pleased I will continue to be in touch with Howdens in my role as Lifetime President.

We have the financial and operational capabilities to make our own future. I believe the business has the resources it needs to move to a new chapter in its development, and there are exciting choices for Andrew and the new generation of leaders to make.

MARKET CONDITIONS

After a turbulent 2016, which saw an increase in UK Stamp Duty on second homes and buy-to-let house purchases, as well as rapid shifts in both foreign exchange and in consumer confidence, 2017 was a more stable year in our markets - albeit one in which we saw a stable, if muted economic environment.

As I noted above, we responded to this environment by increasing price flexibility for our depot managers and by introducing many new products into the market. Importantly, we did not implement our usual annual price increase at the start of 2018, which will give us flexibility on pricing during 2018.

WORTHWHILE FOR ALL

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

I set out to make Howdens feel like home. The sort of business our customers' parents used and were proud to buy from. I hope our children and our customers' children use Howdens too and feel the same way.

I wish all in the company and all who work with it, the best for the future.

As good as it ever was.

Matthew Ingle
Chief Executive Officer

28 February 2018

KPIs and Review of Finance and Operations

FINANCIAL KEY PERFORMANCE INDICATORS

We measure the Group's performance and progress against four financial key performance indicators.

Total sales growth

Growth in sales of the UK Howden Joinery depots is key to enhancing shareholder value. We believe that there remain considerable opportunities to grow sales. In addition, we believe there are economies of scale in the business which will allow us to grow long-term profitability as we grow sales. We saw total UK sales of £1,372m in 2017, representing a growth of 7.1% compared to 2016. Depot staff bonuses are linked to this target at an individual depot level.

Profit before tax

We target profit before tax as it captures how much profit we have generated after taking account of major expenditure items such as costs of sales, selling and distribution costs, administrative expenses and finance costs. Profits before tax went from £237.0m in 2016 to £232.2m in 2017, due to a range of factors as detailed on the opposite page. This KPI is a direct driver of Executive Committee and senior management bonuses.

Cash

We are committed to generating cash flow performance through the operating cycle. Our aim is to retain at least one year's requirement for working capital after capital expenditure and after paying a dividend in line with our stated dividend policy, which is outlined in more detail on page 24. We ended 2017 with £241m of cash and cash equivalents, in line with this KPI. This KPI is a direct driver of Executive Committee and senior management bonuses.

Depot openings

Our business model is based on individual depots providing kitchens to small builders in their local community. We believe that there is some way to go before the UK market is saturated and therefore the continuing drive to open new depots in new localities is a key driver to the Group's prospects. We opened 19 new UK depots in 2017 and continue take account of economic conditions in order to phase our growth taking account of the economic environment.

NON-FINANCIAL KEY PERFORMANCE INDICATORS

Our non-financial key performance indicators are concerned with:

- Health & Safety;
- use of FSC® certified materials in our manufacturing processes;
- production waste recycling; and
- recycled packaging

and these are discussed in our Sustainability Report which starts on page 35.

FINANCIAL REVIEW

Financial results for 2017

The information presented here relates to the 53 weeks to 30 December 2017 and the 52 weeks to 24 December 2016, unless otherwise stated.

Total Group revenue increased by £96.5m to £1,403.8m. Howden Joinery UK depot revenue rose by 7.1% to £1,372.0m (2016: £1,281.7m). UK revenue increased by 5.2% on a same depot basis to £1,340.6m in 2017 (2016: £1,274.6m), resulting from additional revenue from depots opened in 2016 and 2017 of £31.4m in 2017 (2016: £7.0m).

Revenue £m	2017	2016
Group	1,403.8	1,307.3
comprising:		
Howden Joinery UK depots	1,372.0	1,281.7
Howden Joinery continental Europe depots	31.8	25.6

Revenue growth in the UK reflected the growth in maturing and new depots, in addition to sales growth from mature depots. We saw weakness in the London area being offset by stronger performance elsewhere during the first half of 2017, while we saw stronger revenue growth in all areas during the second half of the year, in part reflecting the weaker comparatives from a period of slower trading that was seen in the second half of 2016.

Sales in continental Europe rose by £6.2m to £31.8m, reflecting same depot growth, the benefits of foreign exchange and the contribution of the new outlets opened during 2015 and 2016. In Euros, sales of the French depots increased 11.1% and by 6.4% on a same depot basis.

Gross profit increased by £48.5m to £888.4m. The gross profit margin for the year was 63.3% (2016: 64.2%) and reflected the impact of our sales initiatives, inflationary pressures and the impact of adverse currency movements (one third of our cost of goods sold being denominated in Euros or US dollars).

Selling and distribution costs and administrative expenses were £654.0m (2016: £602.7m). As expected, costs increased due to new product introductions and new services, our new distribution centre at Raunds, additional depreciation due to our investment programme, pension costs, and extra operating costs due to a 53rd week of trading. We also saw the impact of inflation in our cost base.

For 2017, Howdens reports 53 weeks of trading, including the week between Christmas and New Year, when depots are closed while incurring ongoing costs. The inclusion of a 53rd week in 2017 increased operating costs by approximately £8.0m, but did not contribute to revenue.

As a result, our operating profit declined slightly to £234.4m (2016: £237.2m).

The net interest charge was £2.2m (2016: £0.2m), reflecting a £2.4m finance expense in respect of pensions. Profit before tax was £232.2m (2016: £237.0m).

The tax charge on profit before tax was £47.2m (2016: £51.4m), representing an effective rate of tax of 20.3% (2016: 21.7%). The change in 2017 is mainly due to a reduction in the statutory tax rate.

Reflecting the above and the reduced share count following share repurchases, basic earnings per share were 29.9p (2016: 29.5p).

At 30 December 2017, the pension deficit shown on the balance sheet was £109.3m (24 December 2016: £106.0m). The increase in the deficit was due to higher liabilities arising primarily from a decrease in the discount rate of £79.0m, partly offset by both the Group's £41.4m contribution to fund the deficit and by positive asset returns.

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

The last completed triennial actuarial review of the defined benefit pension scheme was carried out as at April 2014 and the valuation as at April 2017 is in progress and expected to complete in 2018.

As part of the £80m share repurchase programme announced in February 2017, the Group acquired 11.2m shares, to 30 December 2017, for a consideration of £48m.

There was a net cash inflow from operating activities of £176.7m (2016: £207.2m), after the cash contribution to the Group's defined benefit pension scheme.

Review of finance and operations continued

Working capital increased by £26.9m, mainly due to an increase in stock following the increased roll out of new ranges in 2017. In addition, net tax paid totalled £41.8m (2016: £28.8m).

Payments to acquire fixed assets totalled £48.5m (2016: £63.5m). Fixed asset spending was less than anticipated during 2017 due to the timing of some projects (which will now be undertaken in early 2018) and fewer than expected depot rollouts.

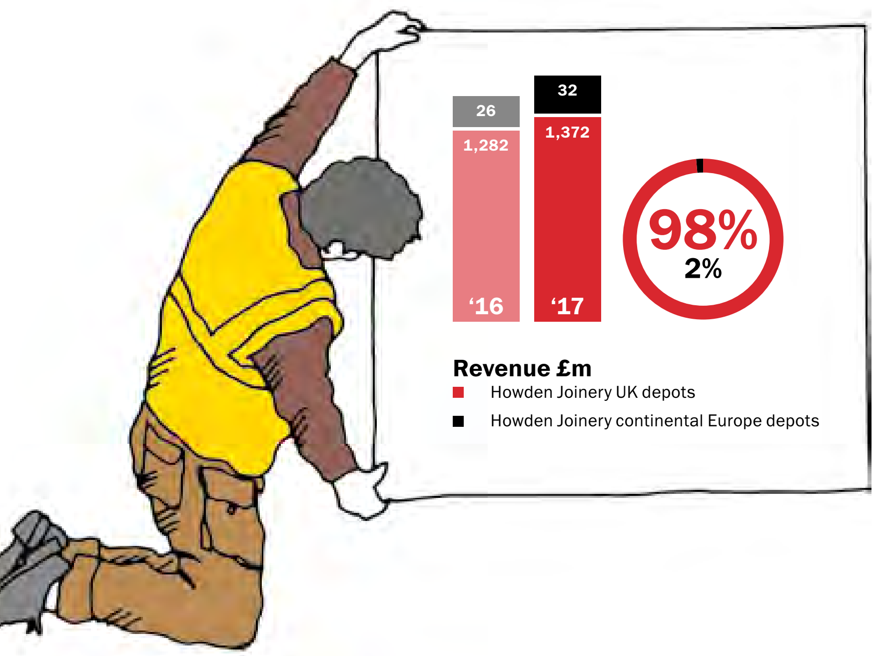
Reflecting the above, together with dividend payments referred to below, there was a net cash inflow of £14.5m in 2017, the Group having net cash of £241.1m at the end of the year (24 December 2016: £226.6m net cash).

Dividend and return of surplus cash to shareholders

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

Given the operational performance of the business in 2017 and taking account of the additional costs due to the 53rd week, the Board has recommended to shareholders a final dividend of 7.5p (2016: 7.4p), giving a total dividend for the year of 11.1p (2016: 10.7p), an increase of 3.7%, equating to a dividend cover of 2.7x.

The final dividend payment of 7.5p per share will, if approved by shareholders, be paid on 22 June 2018 to shareholders on the register at close of business on 25 May 2018.



As previously stated, the Board intends to target a capital structure that is both prudent and recognises the benefits of operational and financial leverage, and that, after considering our capital requirements, will return surplus cash to shareholders as appropriate. The Group has significant property leases for the depot network and continues to have a material deficit in the Group pension fund. Taking into account this underlying level of gearing, the Board believes it is appropriate for the Group to be able to operate through the annual working capital cycle without incurring bank debt.

The Board has reviewed the cash balances in light of the Group's future investment opportunities, expected peak working capital requirements, trading outlook and increased dividend payment. As a result, it has decided to complete the remaining £32m of the £80m share buyback programme announced in February 2017 and to implement a further share buyback programme of £60m to be completed during the next two years.

Shares that were bought in the market by our brokers during 2017 were cancelled.

OPERATIONAL REVIEW

The business model of Howden Joinery is: "To supply from local stock nationwide the small builder's ever-changing, routine, integrated kitchen and joinery requirements, assuring best local price, no-call-back quality and confidential trade terms… and to provide the builder's customer with enough choice, advice and aftersales to make a home to be proud of".

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

UK depot network and operations

During 2017, 19 new depots were opened, bringing the total number of depots trading at the end of the year to 661. In addition, eight depots were relocated and 14 were extended. A number of other depots are at various stages of the acquisition/shopfitting process and we expect to open up to 30 new depots in total during 2018.

Our account base was flat on the year, standing at approximately 464,000 at year end, while revenue per account grew. Our debt collection performance continues to be robust.

Product and marketing

We continue to enhance our product offering and introduced 26 new kitchen ranges during 2017. These included 11 new grey kitchens (across four different shades of grey) as the trend for this colourway continues. We have 56 current ranges on offer in our depots at the end of February 2018.

New product developments and launches in 2017 included:

- Clerkenwell ranges in gloss and matt colourways;
- a new Allendale family, a lower priced alternative to the successful Fairford (textured shaker) collection;
- an enhanced rigid cabinet platform and Technik (flat pack) offering;
- an updated design of our Lamona appliance range;
- a continued roll-out of quartz worktops;
- an extended collection of pre-finished doors;
- improved quick fit hardware;
- new vinyl flooring products; and
- filing 8 new patent applications.

We expect to bring 19 new ranges during 2018, including five new kitchen families across various price points, finishes and colours, as well as a new grey oak cabinet to complement these new ranges.

Manufacturing and logistics operations

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

During 2017 a number of the investment projects progressed as follows.

Manufacturing operations

At our Howden site, our new cabinet production facility and assembly lines were fully installed and commissioned, as was our new cabinet component line at Runcorn. We expect to complete the production ramp-up at both sites during 2018.

Logistics

A 650,000 sq ft warehouse near Raunds, which is to the east of our current national distribution centre in Northampton, was handed over to us in 2016. During 2017, we completed IT systems integration and undertook tests to distribute product from Raunds to a number of depots. The facility is currently being used for bulk storage and was utilised during Period 11 in 2017.

We expect to migrate the majority of distribution capabilities to this site during 2018 and will use our previous distribution facility at Northampton for bulk storage once the transfer has been completed.

We have received full planning permission for a further two distribution facilities at Raunds totaling 950,000 sq ft, which we expect to become operational during 2020. This will enable us to exit the current national distribution centre at Northampton during 2020/2021, while providing Howdens with a strategic replacement asset. We do not expect to incur any capital expenditure on the new facilities until 2019.

Information systems

We have continued to enhance our deployment of our SAP strategy and have upgraded our core system to run on the latest SAP Hana technology.

Continental Europe

We have 20 depots in France, one in each of Germany and The Netherlands, and two in Belgium. Revenue growth in France increased by 6.4% in Euros on a same depot basis and our nascent operations in the other regions are enabling us to gain a greater understanding of each local market.

CEO retirement and succession

On 7 July 2017, it was announced that Howdens' founder and CEO, Matthew Ingle, had decided to retire in the first half of 2018 after 23 years with the Group, to be succeeded by Andrew Livingston, previously CEO of Screwfix Direct Ltd, a division of Kingfisher Plc. Andrew Livingston joined Howdens as CEO Designate on 29 January 2018.

Following a successful transition period, the Board has agreed that Andrew Livingston will become CEO on 2 April 2018. At that date, Andrew will be appointed director of Howden Joinery Group Plc and Matthew Ingle will retire from the Board. Matthew will remain involved with the business until his retirement on 1 August 2018, and beyond in his role as Honorary Lifetime President.

Andrew Livingston is also an independent Non-Executive Director at LondonMetric Property Plc.

Save as noted, there are no disclosures to be made pursuant to Listing Rule 9.6.13 R.

Review of finance and operations continued

CURRENT TRADING AND OUTLOOK FOR 2018

Current trading

Howden Joinery UK depots have seen a continuing good sales performance in the first two periods of our new financial year (to 24 February).

Given the material timing impact of the 53rd week in the 2017 financial year on this reporting period, the pattern of trading year-on-year is not directly comparable, as there is an extra week of trading in the first period of 2018.

Howden Joinery UK depot sales in the first two periods of 2018 increased by 12.5% on the same period last year, excluding the first two weeks of trading. The average annual revenue growth for the same period of trading from 2016 to 2018 was 7.9%.

This sales growth has been driven by an increase in volumes, as we did not implement an annual price increase at the start of 2018, and by the weaker comparative from the prior year period.

Outlook

The Group believes that the number of depots in the UK can be increased from the 661 operating at the end of 2017 to up to 800 depots. During the course of 2018, we plan to open around 30 depots in the UK, one already having been opened.

We expect inflationary pressures on the costs of goods sold.

In addition to ongoing operational costs including inflationary pressures, we expect further operating costs of around £20m from continued investments in areas across the business including digital upgrades, the effects of moving from our older distribution centre to Raunds and additional depreciation.

We note that we had fewer depot openings in 2017 compared to 2016, which reduced costs year-on-year. We expect the costs of new depots in 2018 to increase compared to 2017.

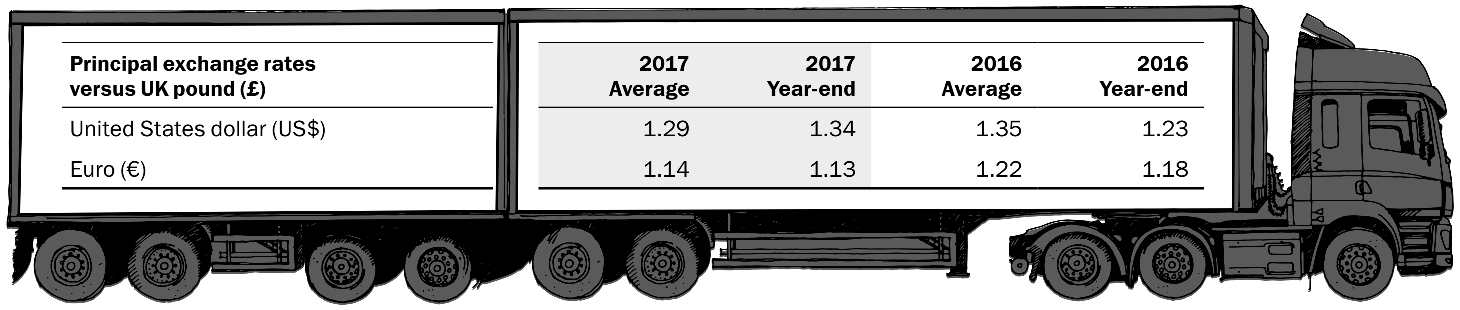
We manufacture in the UK around one third of the products that we sell, primarily cabinets and worktops, and provide warehousing and delivery to our depots of manufactured and bought-in products. Investment in the resilience and capacity of manufacturing and warehousing, new depots and digital upgrades, plus some expenditure initially planned for 2017, will result in expected capital expenditure of around £60m in 2018.

We believe that current market conditions are stable although we remain watchful given economic uncertainties.

USE AND MANAGEMENT OF FINANCIAL INSTRUMENTS, AND EXPOSURE TO FINANCIAL RISK

The Group holds financial instruments for one principal purpose: to finance its operations. The Group does not currently use derivative financial instruments to reduce its exposure to interest or exchange rate movements. The Group finances its operations by using cash flows from operations, and it has access to an asset-backed loan facility if additional financing is required. Treasury operations are managed within policies and procedures approved by the Board. The main potential risks arising from the Group's financial instruments are foreign currency risk, counterparty risk, funding and liquidity risk and interest rate risk, which are discussed below.

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



Principal exchange rates versus UK pound (£)	2017 Average	2017 Year-end	2016 Average	2016 Year-end
United States dollar (US$)	1.29	1.34	1.35	1.23
Euro (€)	1.14	1.13	1.22	1.18

Foreign currency risk

The most significant currencies for the Group are the US dollar and the Euro. It is the Group's current policy that routine transactional conversion between currencies is completed at the relevant spot exchange rate. This policy is reviewed on a regular basis.

The net adverse impact of exchange rates on currency transactions in the year was £11.3m, with a further £4m of additional indirect currency-related costs. The principal exchange rates affecting the profits of the Group are set out in the table above.

Counterparty risk

Group Treasury policy on investment restricts counterparties to those with a short-term credit rating at least equivalent to Standard and Poor's A-1 or Moody's P-1. It also places limits on the maximum amount which can be invested with a single counterparty. Investments mainly consist of bank deposits, UK Treasury bills and liquidity funds. The Group continuously reviews the credit quality of counterparties, the limits placed on individual credit exposures and categories of investments.

Funding and liquidity

The Group's objective with respect to managing capital is to maintain a balance sheet structure that is both efficient in terms of providing long-term returns to shareholders and safeguards the Group's ability to continue as a going concern. As appropriate, the Group can choose to adjust its capital structure by varying the amount of dividends paid to shareholders, the returns of capital to shareholders, the level of capital expenditure, or by issuing new shares.

The Group has a committed, asset-backed, bank facility which allows borrowing of up to a maximum of £140m, dependent on the actual levels of stock and trade debtors held at any time. The facility was not used at any point during 2017 and is due to expire in July 2019.

The Group's committed borrowing facility contains certain financial covenants which have been met throughout 2017. The covenants are tested every four weeks and are based around: (i) fixed charges; (ii) tangible net worth; and (iii) earnings before interest, tax, depreciation and amortisation (EBITDA) for Howden Joinery Limited.

In addition, our pension trustees, who carry a charge over the share capital of Howden Joinery Limited, have a separate covenant test around the EBITDA of Howden Joinery Limited.

The Group's latest forecasts and projections have been stress-tested for reasonably possible adverse variations in trading performance and show that the Group will operate within the terms of its borrowing facility and covenants for the foreseeable future.

At the 2017 year end, the Group had £186m of cash, £55m of short-term investments, and £138m of funds available to borrow under the committed borrowing facility.

Interest rate risk

The Group has not had any borrowings during 2017 and does not consider interest rate risk to be significant at present.

NEW ACCOUNTING STANDARDS

None of the new accounting standards that came into effect during 2017 had a material implication for the Group.

CAUTIONARY STATEMENT

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

By order of the Board

Mark Robson
Deputy Chief Executive and Chief Financial Officer

28 February 2018

Principal risks and uncertainties

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

OUR APPROACH TO RISK

When we look at risks, we specifically consider the effects they could have on our business model, our culture and our long-term strategic objectives. These are set out on pages 12 to 19, and we encourage you to refer to them as you read this section.

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

RISK APPETITE

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

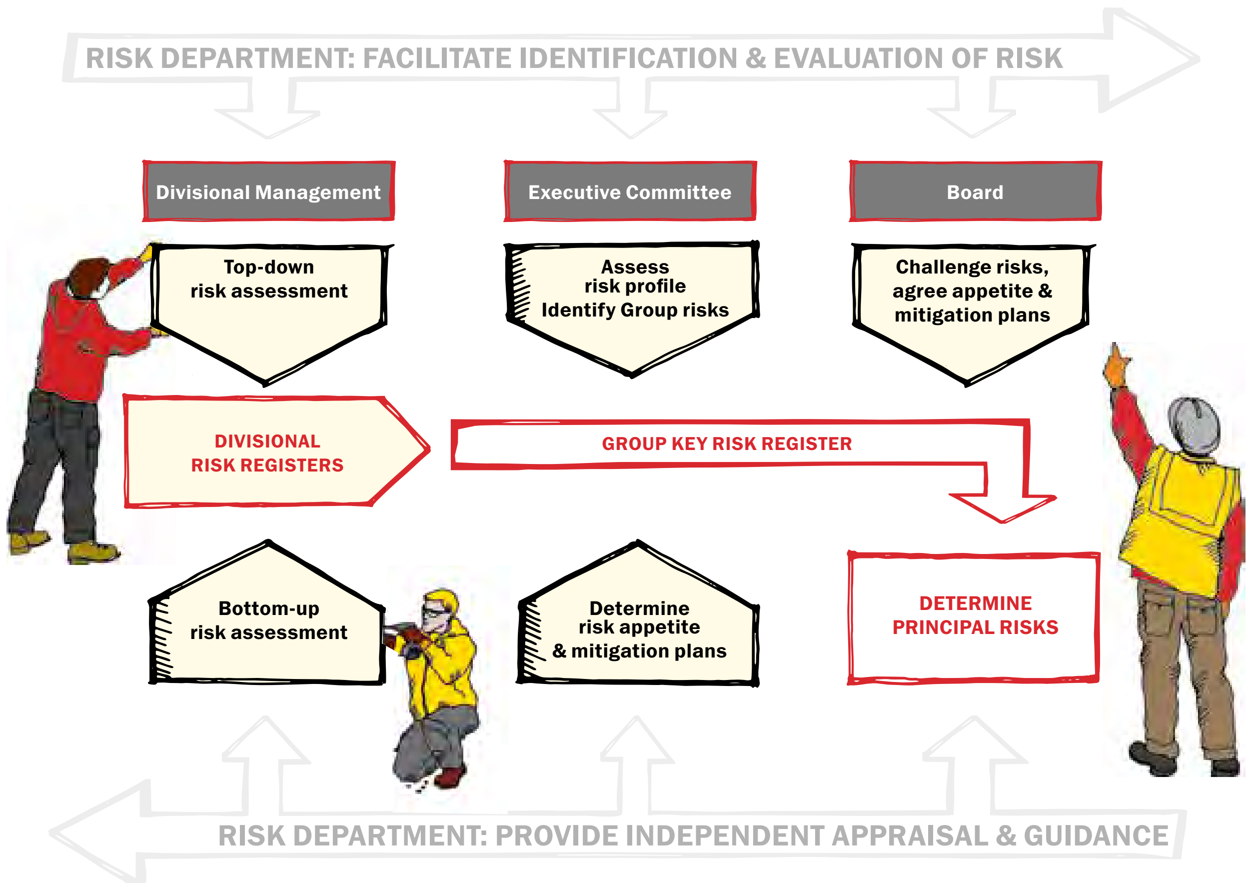
We have a higher appetite for risks that present us with a clear opportunity for reward, and we actively seek out those that provide the greatest opportunities.

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

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

RISK MANAGEMENT PROCESS

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



RISK MANAGEMENT PROCESS (CONTINUED)

- **Divisional Management** formally review their risks on a quarterly basis, to arrive at their Divisional Risk Register. They consider the inherent impact each risk they are managing could have on the division if not controlled, as well as the mitigating controls in place. They then arrive at an assessment of the residual likelihood and impact of that risk to the division. They do this on both a top-down and a bottom-up basis.

  Risks with a residual risk level above our appetite are then consolidated into the Group Key Risk Register, together with selected risks which have a high inherent level but which are managed to within a tolerable residual level. The Group Key Risk Register gives an overview of these main risks and how they are being managed.

- **The Executive Committee** then review the Group Key Risk Register to assess any changes to the Divisional risk profiles. They also identify the risks that they are managing at a Group level. They then determine risk appetites and future mitigation plans for the Board to review.

- **The Board** challenge and agree the Group key risks, appetites and mitigation strategies twice yearly and use this information to determine the Group's principal risks.

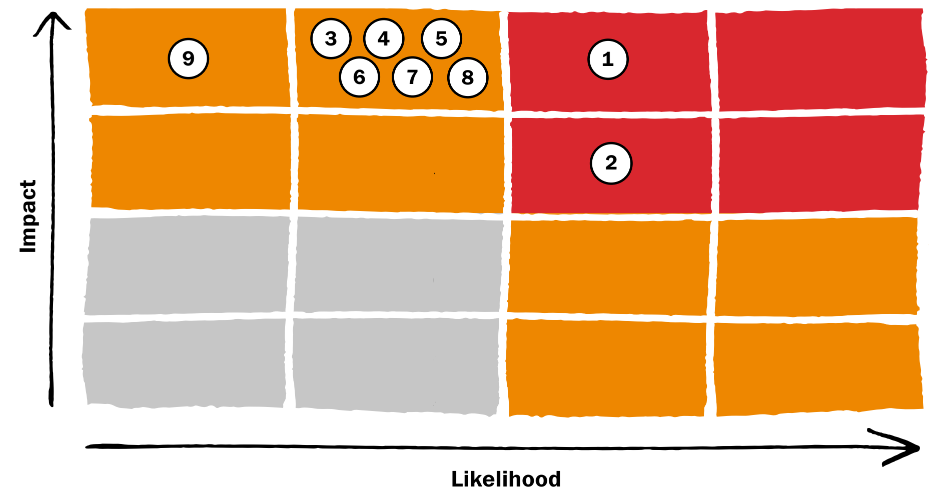
- **The Group Risk Department** facilitates the identification and evaluation of risks, providing independent appraisal and guidance across the Group.

These principal risks are also taken into account in the Board's consideration of Long-Term Viability, as described in the Group Viability Statement on page 35.

RISK HEAT MAP

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

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



Principal risks and uncertainties continued

The arrows alongside each risk show the year on year change

FAILURE TO MAXIMISE THE GROWTH POTENTIAL OF THE BUSINESS

Risk and impact

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

Mitigating factors

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

DETERIORATION OF BUSINESS MODEL AND CULTURE

Risk and impact

- Our future success depends on continuing to successfully implement our unique business model and our locally-enabled, entrepreneurial culture (see pages 12 to 13 and 16 to 17).
- If we lose sight of our model and culture we will not successfully service the needs of the local small builder and their customers, and our long-term profitability may suffer.

Mitigating factors

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

CHANGES IN MARKET CONDITIONS

Risk and impact

- We buy a significant proportion of raw materials and finished products in euros and US dollars. If sterling weakens, our input costs increase.
- Our products are mostly sold to small builders and installed in owner-occupied and private and public sector rented housing, mainly in the repair, maintenance and improvement markets. If activity falls in these markets, it can affect our sales.
- Over 2017 our assessment of this risk has increased due the continuing volatility of foreign currency.

Mitigating factors

- We have proven expertise in managing both selling prices and costs of production. This continues to be a main area of focus.
- We have a good track record of dealing with changes in market conditions. We monitor activity in our depots closely and we have good relationships with our customers. This can give us early warning of changing conditions, so we can take swift mitigating action, including managing costs.

INTERRUPTION TO CONTINUITY OF SUPPLY

Risk and impact

- Howdens is an in-stock business. Our business model requires depots to be able to supply at once from local stock. Our customers expect this, and rely on it.
- Any disruption to our relationship with key suppliers or interruption to manufacturing and distribution operations could affect our ability to deliver our in-stock business model and to service our customer's needs. If this happened, we could lose customers and sales.
- In 2017 our assessment of this risk has increased, due to the disruption in the marketplace as a result of uncertainty caused by Brexit.

Mitigating factors

- We build strong relationships with our suppliers, focused on integrity, fairness and respect, and which are worthwhile for all concerned.
- Where appropriate we enter into long-term contracts to secure supply of key products, services and raw materials.
- Wherever possible we have multiple-sourcing strategies for our key products, to reduce the effect of a supply failure.
- We have invested heavily in our manufacturing operations and this investment gives us an enhanced disaster recovery capability.
- We are also investing in new warehouse space to support our distribution capabilities and equip them for growth.

LOSS OF KEY PERSONNEL

Risk and impact

- The skills, experience and performance of key members of our management team make a major contribution to the success of the business.
- The loss of a key member of the Group's management team could adversely affect the Group's operations.

Mitigating factors

- We use the Remuneration Committee to ensure that key team members are appropriately compensated for their contributions and incentivised to continue their careers with us.
- We will continue to focus on leadership development and succession planning. For an example, see our case study on CEO succession planning at page 68.

HEALTH AND SAFETY

Risk and impact

- Howdens is about people and relationships. We have over 660 depots, 9,000 employees, more than 460,000 total customer accounts, and suppliers all over the world.
- Care for the health & safety of employees, customers, suppliers and everyone who comes into contact with Howdens is integral to our values and to our behaviour.
- If we don't ensure safe ways of working across the business, this could compromise the safety and wellbeing of individuals and the reputation and viability of the business.

Mitigating factors

- Since the beginning of our business, we have invested in safe ways of working. We have developed dedicated health & safety teams and formalised systems that help us stay safe.
- We monitor, review and update our practices to take account of changes in our environment or operations and in line with best practice and changing legislation.
- Most importantly, we make sure we keep talking about health & safety at every level of the business. See page 40 for our related KPI and discussion of our performance in recent years.

Principal risks and uncertainties continued

The arrows alongside each risk show the year on year change

CYBER SECURITY INCIDENT

Risk and impact

- We depend on a core set of critical IT systems which are fundamental to the day-to-day running of the business. These systems are at risk from increasingly sophisticated security threats.
- If we experienced a major security breach, this could result in a key system being unavailable causing operational difficulties, and/or sensitive data to be unavailable or compromised. This could also lead to breach of customer data.

Mitigating factors

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

PRODUCT DESIGN RELEVANCE

Risk and impact

- Ensuring that we have products that meet the design, price and quality needs of the small builder, and their customer, is a key focus of the business model and is a critical element of our future success and growth aspirations. Kitchen technology and design do not stand still, and our products must reflect that.
- If we do not support the builder with new products that their customers want, we could lose customers and sales.
- In 2017 our assessment of this risk has reduced, following a significant refresh of our kitchen ranges and appliances.

Mitigating factors

- Our dedicated product team regularly refresh our range of kitchens and appliances to meet builders' and end-users' expectations for design, price and quality.
- We work with external design and brand specialists and attend product design fairs to monitor likely future trends.
- Our local depot staff have close relationships with their account holders and end-users, and we actively gather feedback from them about changes in trends.
- We work with our suppliers, to develop new and improved products for the future, some of which are unique to Howdens. A number of new products were introduced during the year across all product categories, and more are already planned for 2018.

CREDIT CONTROL FAILURE

Risk and impact

- When a builder comes into one of our depots for the first time, we offer them a trade account, so they can complete the job before paying Howdens. Many of our customers rely on our trade account facilities, as cash flow is often critical to small businesses.
- Failure to provide, or service these facilities could affect our ability to continue to support our customers, and potentially our ability to collect debt. This could have a direct impact on both our revenue and our working capital.

Mitigating factors

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

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

GOING CONCERN

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

The Group's forecasts and projections have been stress-tested for reasonably possible adverse variations in economic conditions and trading performance. The results of this testing show that the Group should be able to operate within the level of its current net cash balances and its committed bank facility, and that it would not breach the facility covenants.

After making due enquiries the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

VIABILITY STATEMENT

In accordance with provision C2.2 of the UK Corporate Governance Code, the Directors have assessed the viability of the Company over a period longer than the period of twelve months from the date of the approval of the financial statements as provided in the Going Concern statement above. The Directors have assessed whether the Company will continue to operate and to meet its liabilities as they fall due during the three year period to December 2020. A three year period was agreed to be the most appropriate time period to ensure alignment with the Company's existing rolling three year strategic planning process, as detailed below.

The review of the Company's long-term viability was undertaken with reference to the Company's work on strategic planning in 2017 which covered the three year period to December 2020. This included sensitivity analysis of the Company's strategic plans and considered downside income, margin and cash flow scenarios. This analysis was modelled on the biggest downturn in sales and margin that the Company has experienced over a three-year period.

The Directors also considered that the Company's strong cash position plus the availability of the £140m committed banking facility, the operational flexibility afforded by the depot opening programme and the robust disaster recovery and business continuity management frameworks supported the prospect of long-term viability.

The Directors also undertook a robust assessment of the Company's principal risks and the potential impacts these risks would have on the Group's business model, future performance, solvency and liquidity over the assessment period. These risks are set out on pages 28 to 32.

Having taken into account the Company's current position, strategic plans and principal risks in their evaluation of the prospects of the business, the Directors concluded that they have a reasonable expectation that the Company will continue to operate and to meet its liabilities as they fall due during the three year period to December 2020.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

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

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

AUDIT INFORMATION AND AUDITORS

Each of the persons who is a Director at the date of approval of this Annual Report and Accounts confirm that:

- so far as each of the Directors is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and Company, and the undertakings including the consolidation taken as a whole;
- the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Group and Company and the undertakings including the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face; and
- the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's performance, business model and strategy.

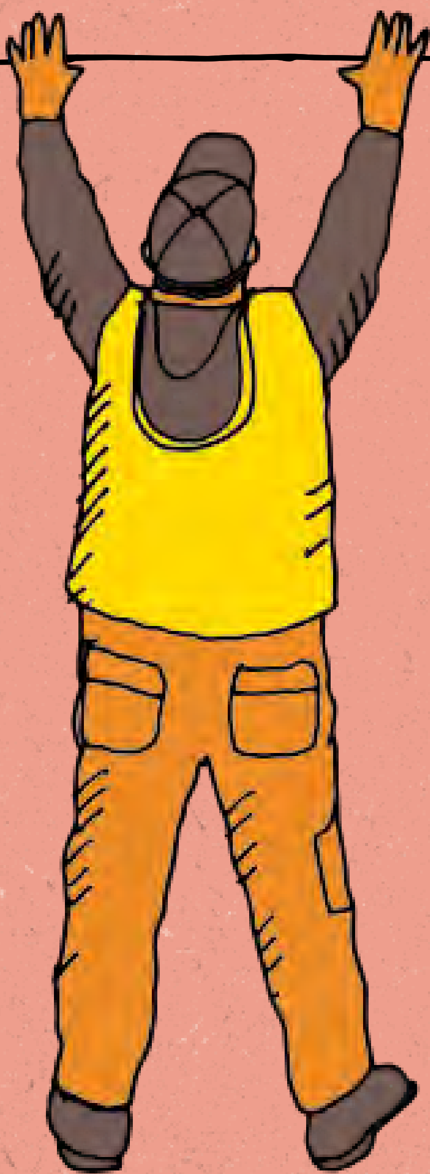
This responsibility statement was approved by the Board of Directors and is signed on its behalf by:

Matthew Ingle
Chief Executive Officer

Mark Robson
Deputy Chief Executive and Chief Financial Officer

28 February 2018

Sustainability Matters



Why sustainability matters to us

SUSTAINABILITY IS PART OF OUR CULTURE

When we talk about the Howdens culture, we describe it as being "worthwhile for all concerned"..."helping everyone we work with, in every community, to do well"... and..."creating the conditions that allow everyone to succeed". These are the concepts that our business is built on, and they all lead to sustainable behaviour.

IT IS PART OF OUR BUSINESS MODEL

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

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

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

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

Our 660 local depots, and the relationships that those depots rely on to trade profitably, mean that our success relies on us being a good neighbour in each of those communities.

IT MITIGATES OUR RISKS

We discuss our principal risks on pages 28 to 32. Sustainable behaviour helps us to address some of those risks.

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

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

WHAT ARE THE MATERIAL AREAS FOR US AND OUR STAKEHOLDERS?

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

People: safety, offering rewarding careers, being a good company to work for.

Sustainable product: safe, traceable, reliable and durable.

Sustainable supply chain: sustainable sourcing, timber management and chain of custody, active monitoring of suppliers.

Environment: reducing waste, responsible operations, lowering emissions, sustainable transport fleet.

Communities: local community projects, our work with Leonard Cheshire Disability, our on-call firefighters and emergency first responders.

Our sustainability KPIs relate to safety, use of wood from certified sources, recycling of waste and recycled packaging, and can be found on pages 43 and 44.

Our impact on our stakeholders

9,000
full-time jobs with prospects
in UK manufacturing, in our local trade depots in distribution, systems and support

374
apprentices currently in training
tailored apprentice programmes across the Group

£380m
of wages, salaries and benefits paid to employees

£300m
of tax generated or collected
Corporation Tax, NI, PAYE, and VAT

£240m
of working capital extended to over
400,000
small businesses in our peak trading period
No fees, up to 8 weeks to pay

Responsible for all or part of the pensions of over
17,000 people
£260m cash contributed to pension funds in last 5 years

7th
Best Big Company to work for in 2017
as voted by our own employees

£48m
of capital investment in the year
Investing in UK manufacturing, and expanding our depot network

Over **£60m**
of rent paid to around 650 commercial landlords

£116m
paid out to shareholders in dividends and buybacks
100% of UK employees in share ownership schemes

Significant support for a sustainable UK forestry industry
230,000m³
of chipboard from managed forests in the UK
Timber Trade Federation-certified responsible purchaser

97%
of manufacturing waste recycled or reused
12,000 tonnes of sawdust converted to energy to heat our factories
160,000 pallets recovered or repaired

13th
anniversary of partnership with Leonard Cheshire Disability
£1m donated in 2017
Supporting young, disabled adults to find valuable roles within their communities

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

Our people

Keeping them safe, offering them rewarding careers, best companies to work for

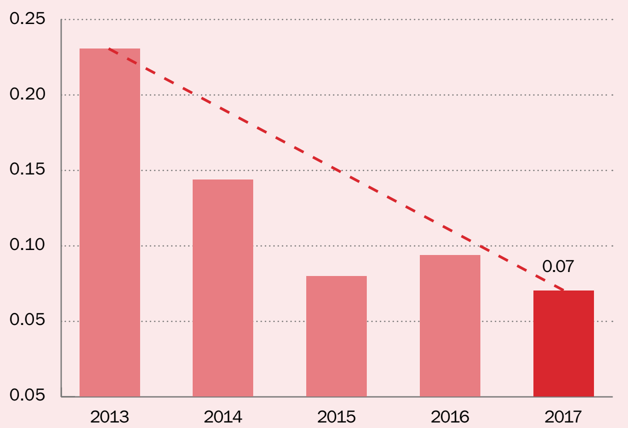
Keeping our people safe

Focusing on a safety culture, making safety messages more accessible

KPI

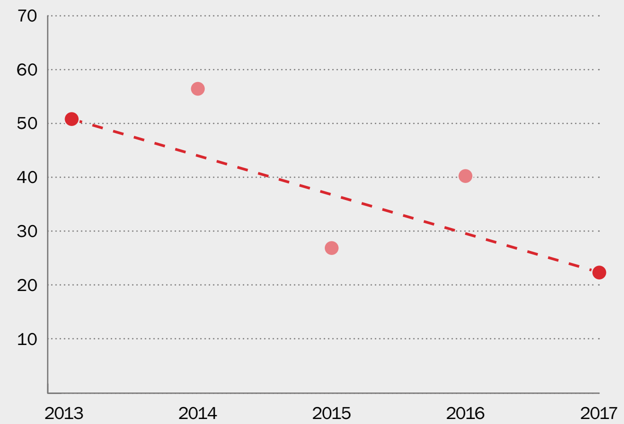
RIDDORs/100k hours worked

70% reduction 2013–2017



Accident severity rate*

56% reduction 2013–2017



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

We've got 9,000 employees, and we need to keep them all safe at work. Accidents have remained very low this year because we've continued to invest in safe processes and safe plant and machinery.

We have always committed to developing, implementing and improving safe systems of work, and this has continued during 2017. The next step of our journey is to strengthen their effectiveness with increased emphasis on a safety culture where we support and empower employees to share our aims and work with us.

In 2017 we released a number of pictorial safe systems of work, as well as short safety films which are aimed at making important safety messages more engaging and accessible to staff. We are also implementing safety management software across the business which will make it easier to manage risks and processes.

We're also working with other leading companies and consultants to help us benchmark and challenge ourselves. We hope that these actions will improve our safety record even further.

Offering rewarding careers

Great rewards, great opportunities to develop

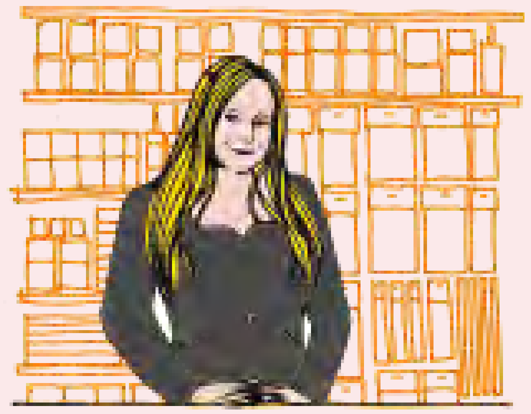
We pay a good basic salary: all of our pay rates are above living wage and most of them are well above it. We offer a range of benefits, including pension schemes which we contributed £47m to in 2017, for the benefit of our 17,000 current and past employee members. We offer free shares to all our people who stay with the company for at least three years so that they can share in our growth.

Part of our culture and our business model is that we offer staff the chance to get significant bonuses for exceptional performance and that we invest in our staff to offer them opportunities to develop and progress with us. We want our best people to stay with us and help grow the business, and we also want to recruit the best people. We develop tailored programmes for our 374 apprentices throughout the business, offering a range of worthwhile futures to young people across the country.

Find out more about working with Howdens at https://careers.howdens.com/ and see the case study on the next page for the story of one depot manager's career progression with us.

Case Study: rewarding careers

"Howdens is a brilliant company to work for"



When Hayley left school at 17 and joined Howdens as an apprentice, she never imagined that 20 years later she would be managing a depot with a turnover of around £4m, 17 staff, and around 1,300 trade accounts.

Hayley completed her apprentice program and developed through various roles until she first became manager of an established depot 10 years ago.

After some years of success there, she took the opportunity to move to a new town and set up her current depot from scratch. She was in charge of hiring the staff, developing contacts with local builders, gaining their trust and getting them to open an account with Howdens and start trading.

When asked about her career with Howdens, Hayley said: *"Howdens is a brilliant company to work for. There's no other company like it. Results matter, not formal qualifications. If you work hard you can go a long way, and staff can see that."*

Through her career, Hayley has had the benefit of many Howdens training courses, as well as on-the-job training and mentoring from her managers. Now she's a manager herself, it's important to her to develop her own staff and help them to fulfil their potential.

"We've got four apprentices at our depot. It's important to me to encourage them because that's how I started with Howdens." Hayley has supported and mentored lots of her staff as they are promoted within the business. Several of them have gone on to become managers at other Howdens depots. *"When assistant managers are promoted and move on within the business, everyone on the team can see that the opportunities are there for them."*

The hard work and motivation that Hayley has been able to instil in her team has often paid off in high sales and profitability, and this means that the whole team has been able to earn significant bonuses over the years. Part of the Howdens model is that everyone is paid a good basic salary, but that we also recognise and reward exceptional performance with substantial bonuses.

There are individual bonuses for all the team members, and for exceptional performance these can reach the size at which staff have described them as *"life-changing"*. We also have a pot of money which is for the whole depot to spend on a team activity. *"We're a team… a family"* said Hayley. *"When we've done really well, our incentive pot has paid for the team to have a trip to Dublin in a 5 star hotel, or we've organised a private chef to cook us all dinner. We work really hard, but we have great rewards".*

Best Companies to work for

7th best big company to work for in 2017

We were very pleased that the responses of our employees meant that we were voted the Sunday Times 7th Best Big Company to work for in 2017. This shows continuing improvement after being voted 12th in 2014 and 25th in 2010.

We know that, for our business to grow, we need to motivate and invest in our people – we want them to be proud to work here. So it's good to know that the survey showed 80% of our staff feel pride in working for Howden Joinery. Some comments from employees were:

- "I have never worked for a company that looks after their employees so well"
- "As an apprentice I have all the support I need and more"
- "This is the only company I have ever worked for where I feel part of something and not just a number"
- "Authentic and real culture, security of job with real opportunities for growth"
- "The bond between the team is an unbreakable one"

Sustainable product

Safe and traceable, efficient and durable

Safety and traceability

Safety by design. Fire safety. Registering products for traceability

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

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

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

We sell 600,000 fire doors per year, and we recognise that only a correctly fitted fire door offers the protection it is designed for. A door can be rated to withstand fire for 60 minutes, but if it is not fitted with the correct hinges, frame, intumescent strip, or door closer, for example, it will not provide that level of protection.

In 2017 we've been developing an initiative to make it easier for our builder-customers to make sure that they have the right fittings every time they buy a fire door. We have been working with the British Woodworking Federation, whose Certifire fire door certification scheme is the leading authority on fire door safety. We have developed guidance for our depots which identifies the six most common situations in which a builder would be fitting a fire door, and which automatically selects the right fittings for each situation.

It's important to us to do as much as we can to trace the ownership of our appliances, in case we ever have a product recall. We have installed scanners at all of our depots, so that we have a record of which items have been sold to which builder-customer. We've also briefed our depot staff on the importance of encouraging product registration and put reminders and information in our product catalogues.

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

Sustainable product

Energy efficiency, durability and quality

Our appliances are made by third party suppliers to our specifications. We have always worked in partnership with our suppliers to improve the energy performance of our appliances, and each year this brings improvements in different product categories. Highlights in 2017 are:

- our Lamona washer-dryers now use 21% less water per wash. They also now incorporate more efficient motors, which means that they offer the same energy consumption as the previous model whilst increasing the washing load by 14%
- all of our kitchen lighting is now LED, which is 10% longer-lasting than our previous best-selling lighting, and which uses only 50% of the electricity

People want the highest levels of quality, safety and design, and the lowest energy consumption, at the best price. We have a rolling development programme with our main appliance suppliers where we look forward three to five years to develop our products for the future. Together, we are planning tomorrow's energy savings today.

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

The exceptional build quality of our cabinets is central to our offering. In 2017 we improved this even further when we launched our redesigned cabinet leg. It's 20% faster for the builder to fit and adjust, as well as being 30% stronger.

We test the durability of our manufactured products by subjecting them to a range of tests intended to represent the challenges of a real kitchen. For example, we test the durability of their surfaces by covering them with everyday household products, from bleach to curry powder, nail varnish and red wine. We "slam test" doors and drawers up to 10,000 times, and we put half-tonne weights on the shelves of our tall cabinets. We subject products to heat, humidity, ultraviolet light, and steam.

Sustainable supply chain

Sustainable sourcing, actively monitoring our suppliers

Sustainable sourcing

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

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

In 2017 we used 233,000 cubic metres of chipboard and 38,000 cubic metres of MDF in our factories. All of this came from FSC® (the Forest Stewardship Council®) certified sources and all of the products that we manufacture ourselves hold the FSC chain of custody certification (license code FSC-C019676). This means that the wood comes from responsibly managed forests and that we have independent documented evidence of an unbroken chain of ownership all the way from the forest to us, via the mill, the importer, and our suppliers. We have also been approved by the Timber Trade Federation as having an environmental due diligence system in place which complies with their Responsible Purchasing Policy.

KPI

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

100% of our internally-manufactured timber products are made from FSC certified materials, and we aim to source our bought-in products to the same standards. A typical kitchen range is a combination of items which we have manufactured ourselves and other items which we have bought in. A range is only entirely FSC-compliant if every individual woden component is FSC certified. Each of the 26 new kitchen ranges that we introduced in 2017 met this standard.

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

Active monitoring

Supplier assessments, training our people, risk-based testing

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

Our due diligence systems rely on suppliers accurately declaring what types of wood are being used and where that wood comes from. To give us extra assurance, we carry out additional checks. We select samples of wood and send them for independent microscopy testing at a leading independent research institute. This analysis can prove what type of wood it is.

We have a self-assessment process for our suppliers which includes assessing their sustainability practices. As part of this we ask them how they manage areas such as health and safety, the environment, ethical sourcing and product compliance. They have to provide evidence to substantiate their answers and we validate the answers and the evidence.

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

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

Our environment

Reducing waste, responsible operations, lowering emissions, sustainable transport

Reducing waste

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

KPI 1

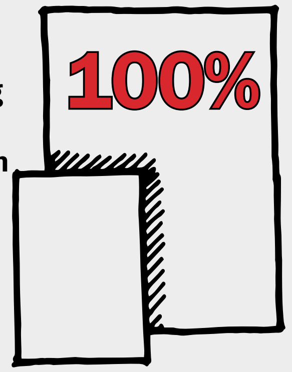
Total % of waste recycled or reused

97%

KPI 2

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

100%



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

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

In 2017, we converted over 12,000 tonnes of sawdust into energy at our Howden and Runcorn sites. This is enough sawdust to fill 15 Olympic swimming pools. Burning it onsite means that it doesn't have to be transported elsewhere to be reused. It also saves us money. We generated approximately 51,000 MWh of energy from our biomass boilers in 2017, equivalent to the average annual electricity consumption of over 13,000 households.

Over ten years ago, an employee-led energy efficiency initiative came up with the idea of repairing broken pallets rather than scrapping them. We put these pallets back into use, which cuts down our waste and saves us money. In 2017 we repaired over 160,000 pallets, making a total of 1.5 million since this program started.

Responsible operations

Energy-efficient facilities, efficient transport

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

We have invested in a number of energy-saving projects at our factories in 2017. The most significant of these involved replacing old lighting and compressor technology with modern energy-efficient versions. These initiatives should give us a total energy saving of around 800 kWh per year.

We have continued to reduce our carbon footprint on the majority of our inbound freight from Europe. Instead of each of our European suppliers delivering their goods to us individually by road, we have changed the freight terms so that we take control of the goods at the producer's factory gate. This has allowed us to consolidate the operation and to move it from road to rail. 91% of our European freight was transported by rail in 2017. This gave a saving of approximately 1,100 tonnes of CO_2 for the year, as well as a significant cost saving, and greater operational flexibility.

For a case study on our award-winning sustainable transport fleet, see pages 46 and 47.

Lowering emissions

Efficient operations lead to reduced emissions

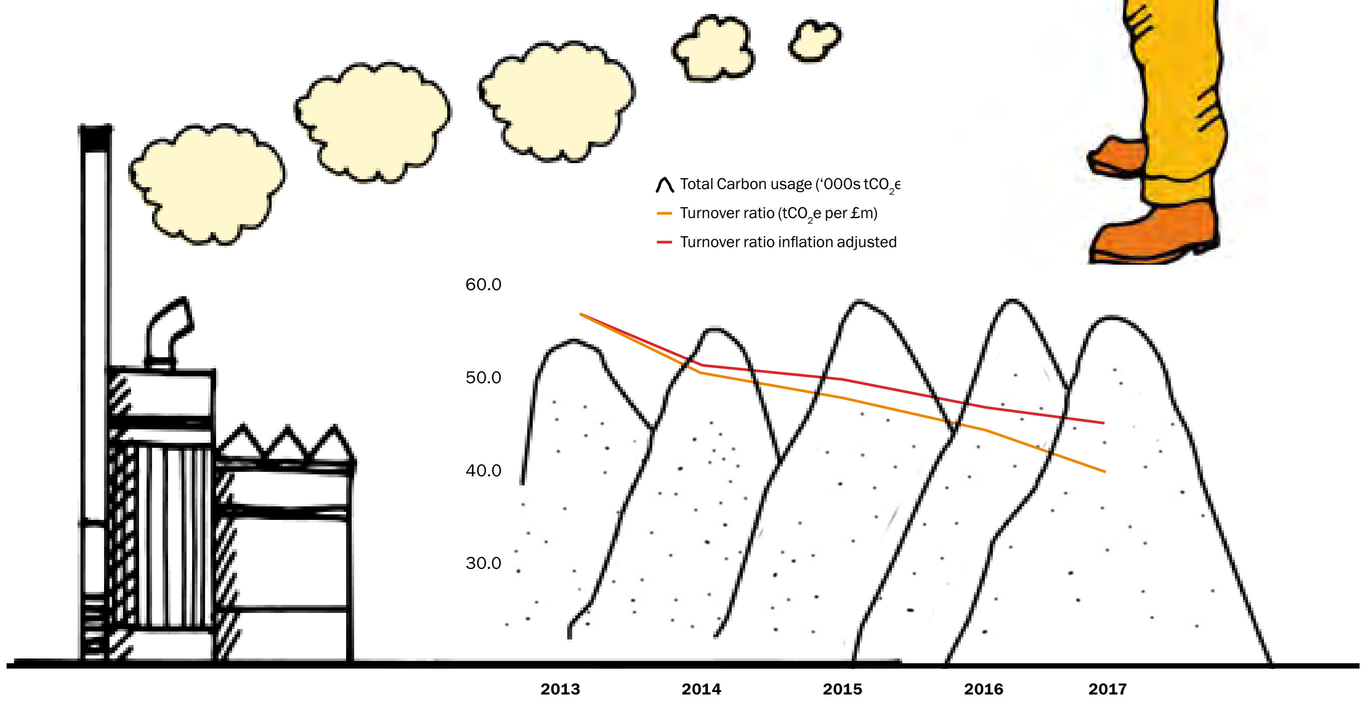
GREENHOUSE GAS AND EMISSIONS REPORTING

	Total CO_2 Emissions (Tonnes) 2017	Total CO_2 Emissions (Tonnes) 2016
Scope 1 – Direct: Gas	3,314	3,338
Scope 1 – Direct: Diesel	26,548	26,065
Scope 1 – Direct: Other fuels	999	1,196
SCOPE 1 – DIRECT: TOTAL	30,861	30,599
Scope 2 – Indirect: Electricity	25,989	28,148
SCOPE 2 – INDIRECT: TOTAL	25,989	28,148
TOTAL (Scope 1 and 2)	56,850	58,747
Turnover (£m)	1,403.8	1,307.3
Turnover ratio (tCO_2e per £m)	40.5	44.9
Inflation adjusted turnover ratio (tCO_2e per £m)	45.7	47.1

We are pleased to report that our total emissions have reduced in 2017 despite an increase in turnover.

Turnover increased by 7% in 2017, whilst the turnover ratio decreased by 11% and the inflation adjusted turnover ratio decreased by 3%. We will continue to look for further improvements. Our record over the past five years is shown on the chart below.

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



Our environment continued

Sustainable transport fleet

Our "always in-stock" model means that efficient and safe transport is strategically important to us.

Award-winning sustainable transport fleet

A key part of our business model is that each of our depots are always in-stock. To achieve this, our truck fleet covers approximately 15 million miles per year. That's the equivalent of 600 times around the Earth, and it accounts for around a third of our total carbon emissions, so we keep a close eye on it.

We voluntarily upgraded our core fleet to the latest Euro 6 emissions standards back in 2015, and we keep looking for additional ways to make our fleet less polluting, safer, and more efficient.

In 2017, our efforts were recognised by the Freight Transport Association when we won the Leadership in Carbon Reduction Award. We received praise for our "*innovative and experimental approach*", and for demonstrating "*clear leadership in carbon reduction*".

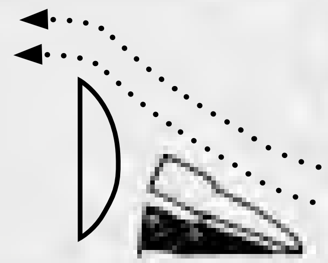
"clear leadership in carbon reduction"

A

TALLBOY TRAILERS AND PODS

We use taller trailers to deliver the cabinets that we make in our Runcorn factory. Being able to get more cabinets in each delivery means that we've made an annual reduction in trailer loads equivalent to 1,700 standard trailers.

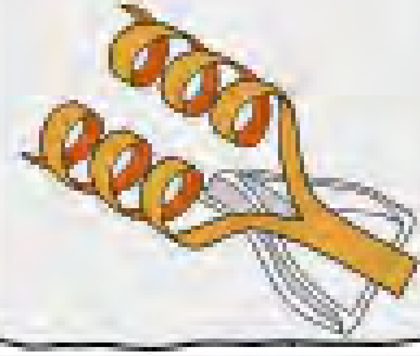
By fitting our tall trailers with aerodynamic pods, we increase their fuel efficiency.



B

AIR DEFLECTORS AND AIRTABS

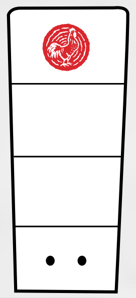
The air deflector on the cab roof, and the airtabs which we have retro-fitted to both cab and trailer, reduce drag and increase fuel efficiency.



D

TYRE PRESSURE MONITORING

Incorrect tyre pressures can compromise safety, reduce fuel efficiency, and lead to increased repair costs and breakdowns. We have tyre pressure sensors fitted on all of our trucks, which are automatically monitored by sensors at the gates of each of our factories and warehouses. If the tyres are not correctly inflated, this triggers a warning email to our control centre so that we can quickly put it right.



C

IN-CAB MONITORING

We have installed advanced in-cab telemetry to benchmark our drivers. We use the information to debrief our drivers daily, using key targets such as harsh braking, excessive engine idling in traffic and sudden acceleration – measures which improve both efficiency and safety. We reward those who perform to the highest standards, and we work with any drivers who need help to improve.

Our communities

Local community projects, Leonard Cheshire Disability, on-call firefighters and emergency first responders

Local community projects

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

Each of our 661 depots, and every one of our manufacturing, distribution and support sites, has an important role in the life of its local community. Each site depends on its local community for its success and growth; for customers and staff.

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

We make our products, time and cash available for staff to get involved in all sorts of ways. This year we have donated 62 kitchens and paid for them to be fitted. These kitchens go into places like village halls and community centres, and help them to continue to serve their neighbourhoods.

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

- buying new kit for a local children's sports team
- giving our staff's time and materials to help renovate facilities at a local community centre
- donating cash to a local hospital's appeal for vital equipment

In 2017, we've made 3,700 separate donations which have involved us giving cash or products worth £1.5m.

Our culture of giving back to the local community also shows in the actions our people take as individuals. Every year, we support our people as they take the Howdens culture and make it personal. They give up their time and put themselves to the test to raise money for all sorts of local and national causes. In September 2017, for instance, Howdens people all over the country committed their time to a range of sponsored events, from sleepouts to sitting in baths of baked beans, to raise money for local homeless projects.

Leonard Cheshire Disability

£1m donated to nationwide and international projects, 100th inclusive kitchen installed

We've had a successful partnership with Leonard Cheshire Disability (LCD) since 2004 and we're pleased to say that it continues to grow. In 2017 we have donated cash and goods worth £1m.

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

Our work with LCD is currently focused in three main areas:

- designing and fitting inclusive kitchens in their care homes and day centres so that disabled people can live more independently (see case study on facing page)
- helping young disabled people play an active role in their communities through sponsorship of the "Can Do" volunteering programme
- offering support and skills training through employability workshops and mentoring

In 2010 we began to support LCD's Can Do programme. Can Do gives young disabled adults the chance to develop important life and work skills, and boost their self-confidence. It does this by supporting them to devise and take part in a range of volunteering projects in their local community. It gives them individual mentoring, group support and a social network, as well as an opportunity to gain further qualifications. Howdens support has helped Can Do expand from four locations when we began our involvement to 17 locations in 2017, supporting 2,000 young disabled people per year through meaningful volunteering opportunities in their local community.

Can Do aims to build young people's confidence, so that they can get out and about on their own, cook their own meals, build their support and friendship networks, and where possible get them ready for the world of work.

In 2017 we have started working with LCD on a programme of employability workshops, designed to equip people with the skills they need to succeed in the jobs market. The workshops will cover a range of practical skills and we will also offer follow-up mentoring support. Funding has been committed, planning is at an advanced stage and the first workshops are scheduled for April 2018.

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

Case Study:
100th inclusive kitchen with Leonard Cheshire Disability

Howdens are experts in designing inclusive kitchens for disabled people or those with limited mobility. All of our ranges are available with a variety of inclusive features such as easy access to cabinets, variable-height worktops for sinks and preparation areas, and raised plinths to allow wheelchairs to pass below.

We have pledged to supply and fit inclusive kitchens from our range wherever they are needed in any of LCD's homes across the country. Some of these are specific training kitchens, used to pass on cooking skills which help people increase their ability to live independently.

This year we planned, donated and fitted 35 kitchens, and in July 2017 we reached the landmark of fitting our 100th inclusive kitchen since the programme started.

The manager of the home where the 100th kitchen was fitted said:

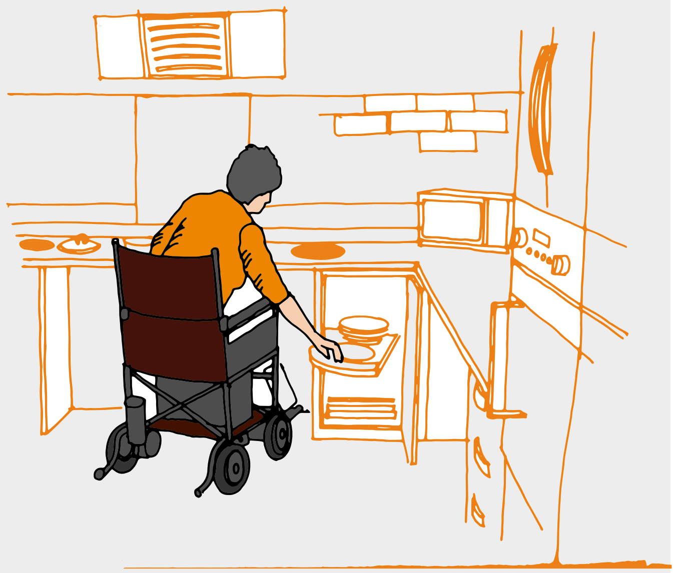
"Having a fully accessible kitchen for our service users is extremely important for their independence. They can now join in on all aspects of the kitchen: from preparing a meal, to cooking it, eating in it and of course doing the washing up!

I couldn't begin to describe the hours of freedom and joy, and the levels of independence this kitchen will bring to our residents."

Residents of the home said:

"Now I'll be able to prepare my own meals and eat when I want to."

"The new kitchen will enable me to cook like I did when I was at home before my stroke."



On-call firefighters and emergency first responders

Saving lives in local communities

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

Seven years ago we started working with the local Fire and Rescue Service and we currently have 14 employees who are trained members of the on-call firefighter team at the Howden fire station. That station sent teams to over 200 incidents in 2017, including house fires, industrial fires, road traffic collisions and incidents in which people and animals were trapped in burning buildings. In the words of the Chief Officer, that relationship has been instrumental in keeping crewing levels high and keeping two vehicles on the run during the day as well as on evenings and at weekends.

In 2017, we were invited to go to the Home Office, as well as to the Chief Fire Officers' Association, to present this successful model of the fire and rescue services working with businesses.

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

Around three years ago, we started to do the same thing at our Runcorn factory and we now have an on-call firefighter team there. In 2017 we also started to recruit for a team at our main warehouse in Northamptonshire.

Governance

Corporate Governance Report

INTRODUCTION FROM THE CHAIRMAN OF THE BOARD

Howdens is founded on the principle that it should provide value to all concerned. This principle guides the Board's decision making and defines our strategic objectives because it is an enduring philosophy that has supported the good governance and, in turn, the success of the business over time.

While the Company is clearly accountable to its shareholders, it is our customers, investors, suppliers, staff, and local communities that have contributed to making Howdens the leading supplier of kitchens in the UK. Howdens is a business built on relationships. We do not take these relationships for granted and we ensure that we govern in a way that reinforces them – a strong culture which permeates through all levels of Howdens and which has shaped our business model and strategy is fundamental to supporting this (please see page 12 for further information on Culture and Purpose).

The importance of setting the tone from the top cannot be underestimated. The purpose of the Board and our framework of corporate governance is to ensure the interests of stakeholders are safeguarded and the business is run in a fair and effective way. Our approach to compliance is that we should not only adhere to the letter of the UK Corporate Governance Code but the spirit of it too.

The Board must ensure that the culture and values of the business are aligned to its decision making processes. We must both challenge and collaborate with management to ensure their goals and objectives remain aligned with the business's values and culture.

In 2017, the Board approved the continued and steady investment in the capacity and capability of the business to build a strong foundation from which Howdens can continue to grow for the long-term benefit of our stakeholders.

In 2018 we will continue to ensure Howdens is prepared for both the challenges and the opportunities which will arise and that sufficient resource is in place to meet our strategic objectives for sustainable growth.

MEETING ATTENDANCE

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

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

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

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

	Richard Pennycook*	Mark Allen[1]	Andrew Cripps	Geoff Drabble[2]	Tiffany Hall	Matthew Ingle[3]	Mark Robson	Michael Wemms[4]	Debbie White[5]
No. of meetings	8	7	8	7	8	7	8	4	6
Attendance	100%	88%	100%	88%	100%	88%	100%	100%	100%

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

1 Mark was unable to attend a meeting on 6 July 2017, which had been called on short notice.
2 Geoff was unable to attend the Board meeting on 20 April 2017 due to ill health.
3 Matthew was excused from attending a meeting on 6 July 2017 due to his direct interest in the business of the meeting.
4 Michael retired from the Board on 2 May 2017.
5 Debbie was appointed to the Board on 15 February 2017.
* Denotes Chairman of the Board

Corporate Governance Report

BOARD OF DIRECTORS

Key to Board committee membership

- Chairman of Committee
- Remuneration Committee
- Audit Committee
- Nominations Committee

CHAIRMAN

RICHARD PENNYCOOK
Non-Executive Chairman

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

Skills and experience

Richard has extensive experience in logistics, supply chain management, manufacturing and consumer goods having served as a public company director for over 20 years and having served as Group Chief Executive of The Co-operative Group. His other past roles also include Senior Independent Director and Chairman of the Audit Committee of Persimmon plc. Richard has also previously held Finance Director roles in a number of public companies.

SENIOR INDEPENDENT DIRECTOR

TIFFANY HALL
Senior Independent Non-Executive Director

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

Skills and experience

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

EXECUTIVE DIRECTORS

MATTHEW INGLE
Chief Executive Officer

Matthew was appointed Chief Executive Officer in October 2005 and will retire from the Board on 2 April 2018.

Skills and experience

Matthew set up Howdens in 1995 and has been responsible for its growth into a successful business today. Prior to joining the Company he had been Managing Director of the Magnet Trade operation. He was elected to the Board of the Company in 1998.

Matthew has no external appointments.

ANDREW LIVINGSTON
Chief Executive Officer Designate

Andrew was appointed CEO Designate in January 2018 and will be formally appointed to the Board on 2 April 2018.

Other FTSE appointments

- Non-Executive Director at LondonMetric Property Plc

Skills and experience

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

MARK ROBSON
Deputy Chief Executive and Chief Financial Officer

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

Skills and experience

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

Mark has no external appointments.

COMPOSITION AND INDEPENDENCE

The Board comprises two Executive Directors, the Chairman and five Non-Executive Directors.

The Board considered that all of the Non-Executive Directors were independent for the full duration of the period and that Richard Pennycook was independent upon his appointment as Chairman in May 2016.

NON-EXECUTIVE DIRECTORS

MARK ALLEN
Non-Executive Director

Mark was appointed to the Board in May 2011.

Other FTSE appointments

- Chief Executive of Dairy Crest Group plc

Skills and experience

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

ANDREW CRIPPS
Non-Executive Director

Andrew was appointed to the Board in December 2015.

Other FTSE appointments

- Non-Executive Director of Booker Group plc

Skills and experience

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

GEOFF DRABBLE
Non-Executive Director

Geoff was appointed to the Board in July 2015.

Other FTSE appointments

- Chief Executive officer of Ashtead Group Plc

Skills and experience

Geoff has a notable background in in the building products and construction markets and is the Chief Executive Officer of Ashtead Group Plc, the FTSE100 international equipment rental company which operates a model across multiple sites, with incentivised local managers. He was appointed as Chief Executive in January 2007, having served as Chief Executive Designate from October 2006 and as a Non-Executive Director since April 2005. Geoff has also previously held the position of Executive Director of The Laird Group plc where he was responsible for its Building Products division. Prior to joining The Laird Group, he held a number of senior management positions at Black & Decker.

DEBBIE WHITE
Non-Executive Director

Debbie was appointed to the Board in February 2017.

Other FTSE appointments

- Chief Executive Officer of Interserve Plc

Skills and experience

Debbie has significant experience of the B2B industry and of finance and accounting. She was appointed Chief Executive Officer of Interserve Plc in September 2017 and prior to this served as Global CEO of Sodexo Healthcare and Sodexo Government. Debbie also held various other positions within Sodexo, including CFO in the UK & Ireland, CFO of Sodexo Inc. and later CEO for Sodexo UK & Ireland. In 2013, she became a trustee of the charity Wellbeing of Women and is now Chair of the Audit Committee. Debbie started her career with Arthur Andersen in the UK, before joining AstraZeneca where she held a range of financial roles. She later became a director at PwC Consulting where she worked across a number of sectors in a global capacity.

NON-EXECUTIVE DIRECTORS' SKILLS AND EXPERIENCE

An exercise was undertaken during 2017 using a skills matrix to highlight where the skills and experience of our Non-Executive Directors were particularly strong and where there were opportunities to further grow the Board's collective knowledge and inform the Board's future composition as Non-Executive Directors naturally rotate off the Board.

Howdens-specific skills

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

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

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

Corporate Governance Report continued

EXECUTIVE COMMITTEE AND COMPANY SECRETARY

The principal purpose of the Executive Committee is to implement the Group's strategy and operational plans.

The Committee monitors the operational and financial performance of the business, and is responsible for the optimisation of resources and the identification and control of operational risk within the Group. The Committee generally meets twice a month, or more frequently if required.

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

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

Skills and Experience

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

CLIVE COCKBURN
Chief Information Officer

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

Skills and Experience

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

ROB FENWICK
Chief Operating Officer: Howden Joinery Supply Division

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

Skills and Experience

Since October 2005, he has been responsible for transforming the Supply Division from a vertically integrated operation to a commercial organisation. Prior to joining Howdens, Rob worked in the automotive, FMCG and other industry sectors.

GARETH HOPKINS
Interim Group HR Director

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

Skills and Experience

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

THERESA KEATING
Group Finance Director

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

Skills and Experience

Theresa was appointed Finance Director in May 2014, having been Group Financial Controller since 2007. She joined the Group Finance team in 2000 having previously held various commercial finance roles at Waterstones, HMV and Heals. Theresa is also a trustee of E-Act, a multi-academy trust.

ANDY WITTS
Chief Operating Officer: Howden Joinery Trade Division

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

Skills and Experience

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

FORBES MCNAUGHTON
Company Secretary

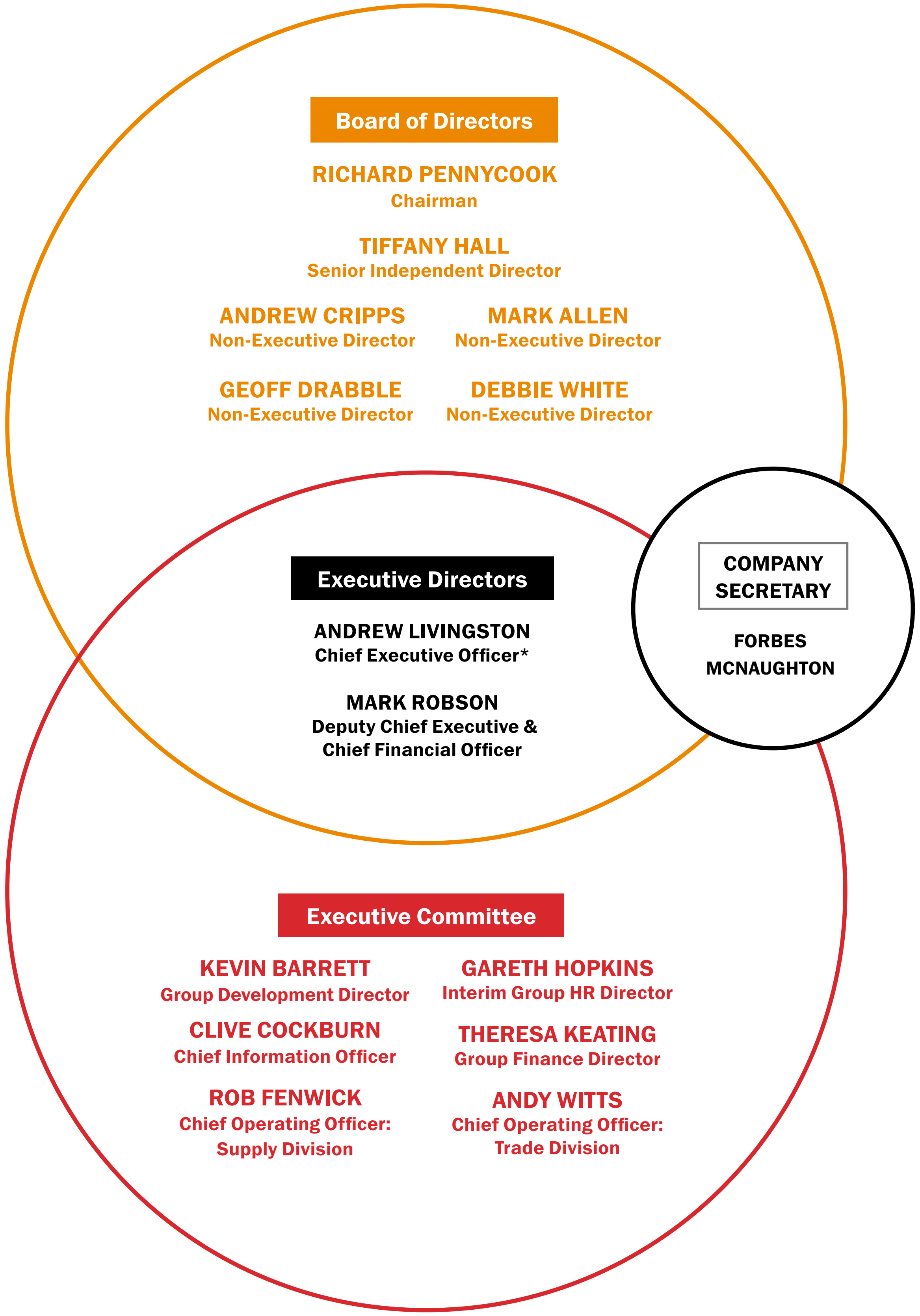
Forbes joined Howdens in July 2012 and was appointed Group Company Secretary in May 2014.

Skills and Experience

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

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

2018 CORPORATE GOVERNANCE FRAMEWORK



*Effective 2 April 2018

Corporate Governance Report continued

CORPORATE GOVERNANCE FRAMEWORK

THE BOARD'S ROLE

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

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

Matters which are reserved for consideration by the Board, and are not delegated to a Board Committee or to the Executive Committee, are detailed in a schedule which is reviewed annually (this was last reviewed and approved by the Board in November 2017). These matters include setting the Group's values, standards and strategy (as previously described) as well as taking decisions about:

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

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

THE CHAIRMAN'S ROLE

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

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

THE NON-EXECUTIVE DIRECTORS' ROLE

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

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

THE EXECUTIVE DIRECTORS' ROLE

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

The Deputy Chief Executive Officer is responsible for the daily management of the business, while the Chief Executive Officer focuses on the business's continuing development and the implementation of the strategy. The Chief Executive Officer also has a particular focus on maintaining and continuously developing the strong and unique Howdens culture, which has served the Company well throughout the years and continues to ensure its success for the future.

THE COMPANY SECRETARY'S ROLE

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

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

THE EXTERNAL ADVISORS' ROLE

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

The competency, value, length of tenure and independence of advisors is reviewed by the Board on an annual basis. A list of principal advisors to the Company can be found on page 149.

DIVISION OF RESPONSIBILITIES

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

SID
Providing an alternative point of contact for principal shareholders

CHAIRMAN
Leading an effective Board, which provides direction to the Executive team

CEO
Continuing development of the business and the Howdens culture

DEPUTY CEO
Day-to-day management of the business as well as responsibilities as Chief Financial Officer

Corporate Governance Report continued

BOARD ACTIVITY DURING 2017

Key Agenda Items Considered

Strategy
The Board considered strategy at various points during the year. In particular, the Board discussed the UK depot opening programme, future warehousing capacity, depot manager autonomy and the ongoing European depot tests.

Employee Development
The Board regularly discussed the Group's people agenda during 2017, with particular regard to organisational design and development (including succession planning for senior managers). Each division's HR heads presented to the Board and answered questions on topics including succession planning, apprenticeships and learning and development. Further information about our employees may be found on page 40.

Health & Safety
Divisional H&S updates were provided at each of the scheduled Board meetings during 2017. Updates included information in relation to new training initiatives and an update on the Company's journey to embrace behavioural safety, which builds on the extensive work already carried out on our H&S systems.

Pensions
Matters in relation to the defined benefit scheme were considered by the Board. However, a separate Funding and Investment Strategy Committee consisting of members of the Executive Committee was established in 2017 to provide a vehicle for communication with the Pension Trustees on routine funding and investment matters and this Committee, in conjunction with the Company's actuaries, reported to the Board on these matters twice during the year.

Board Meeting Attendees

In addition to the Executive Directors, the Divisional Chief Operating Officers, the Group Finance Director, the Interim Group HR Director and the Company Secretary were present at all scheduled Board meetings during the year to take questions from the Non-Executive Directors.

Group Financial Performance Monitoring

Outside of Board meetings, the Board were provided with performance updates every four weeks and weekly updates were provided during peak trading. This was intended to complement the more detailed operational and finance reports that were provided at each scheduled meeting during 2017.

Howdens Culture and Purpose

The Board attended a bespoke in-house culture training session in September 2017 and was also invited to attend Howdens events at various locations throughout the year. This gave our Non-Executive Directors the chance to meet with employees at all levels and in all divisions and served to underpin the Board's understanding of the unique Howdens culture.

Board Effectiveness Evaluation

The 2017 Board evaluation was conducted internally by our Senior Independent Director, Tiffany Hall. Independent Board Evaluation (IBE)* were invited to provide support to Ms Hall, following their successful facilitation of the 2016 external Board evaluation.

Further information about the 2017 Board evaluation and progress since the 2016 evaluation can be found in the Nominations Committee Report on page 70.

* IBE does not have any other business relationship with the Company or with any member of the Board.

SHAREHOLDERS AND SHARE CAPITAL

Relations with Shareholders

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

Both of the Executive Directors, the Chairman, and the Remuneration Committee Chair (along with the Company Secretary) met with principal shareholders during the year to discuss the ongoing progress of the Company and Executive incentive arrangements. All of the Directors make themselves available for meetings with shareholders as required.

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

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

Annual General Meeting

The 2018 Annual General Meeting (AGM) will be held at UBS, 5 Broadgate London, EC2M 2QS on 2 May 2018 at 11:00am. Shareholders will have the opportunity to discuss Howdens' progress and operations directly with their Board at the AGM.

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

Share Capital

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

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

Treasury shares
The Company held 7,420,580 ordinary shares in Treasury at the end of the period (30 December 2017). Shares held in Treasury have no voting rights and are used solely for the satisfaction of employee share awards.

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

Employee share awards
Details of employee share schemes are set out in note 24 on page 125. Shares held by the Howden Joinery Group Plc Employee Share Trust abstain from voting at the Company's general meetings.

Acquisition of the Company's own shares
During 2017, the Company returned nearly £48m to shareholders by repurchasing 11,171,060 of its ordinary shares (representing a nominal value of £1,117,106), which equated to 1.8% of the called up share capital of the Company at the beginning of the period (excluding Treasury shares). Repurchased shares are either placed into Treasury for the satisfaction of employee share awards or are cancelled.

At the AGM on 2 May 2017, the Directors were granted authority by shareholders to purchase up to 63,119,324 of the Company's ordinary shares through the market[2]. The authority expires at the conclusion of the next AGM or within 15 months from the date of passing the resolution (whichever is earlier).

Substantial shareholdings
As at 28 February 2018, the Company had been notified in accordance with Rule 5 of the Disclosure and Transparency Rules, of the following voting rights as a shareholder of the Company:

Substantial Shareholder	% of total voting rights	Date of last notification
Ameriprise Financial, Inc.	5.1%	Aug 2017
Standard Life Aberdeen plc	7.1%	Aug 2017
FMR LLC	Below 5%	Jan 2017

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

Significant agreements
There are a number of agreements that take effect, alter or terminate upon a change of control such as commercial contracts, bank loan agreements and employee share plans. The only one of these which is considered to be significant in terms of likely impact on the business of the Group as a whole is the bank facility (as described in note 18), which requires majority lender consent for any change of control.

If the lender were not prepared to consent to a change of control, a mandatory repayment of the entire facility would be triggered. The Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

[2] At prices ranging between 10p and the higher of (a) 105% of the average middle market quotation for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased; and (b) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System.

Corporate Governance Report continued

Risk and Internal Control

The Board is responsible for the Group's systems of internal control and for reviewing its effectiveness, whilst the role of management is to implement Board policies on risk and control.

Such a system is, however, designed to manage rather than eliminate the risks of failure to achieve business objectives. In pursuing these objectives, internal controls can only provide reasonable assurance against misstatement or loss. The UK Corporate Governance Code recommends that the Board reviews the effectiveness of the Group's system of internal controls at least annually, including financial, operational and compliance controls, and risk management.

The Board has conducted reviews of the effectiveness of the system of internal controls through the processes described within the principal risks and uncertainties section of the Strategic Report on page 28 and 29 and are satisfied that it accords both with the UK Corporate Governance Code and with the Turnbull Guidance. The Board has not identified or been advised of any failings or weaknesses which it has determined to be significant.

Risk management

The Group's risk assessment process and the way in which significant business risks are managed is a key area of focus for the Board.

The Group's assessment of the principal risks and uncertainties, as described within the Strategic Report on page 28 and 29, outlines the ongoing process for identifying, evaluating and managing the significant risks faced by the Group.

The Board confirms that it has conducted a robust assessment of the principal risks. In July 2017, it identified health and safety as a further principal risk, which has been disclosed as part of the principal risks disclosure.

Internal control

The Group has an established framework of internal controls, which includes the following key elements:

- The Board reviews Group strategy, and the Executive Committee are accountable for performance within the agreed strategy.
- The Group and its subsidiaries operate control procedures designed to ensure complete and accurate accounting of financial transactions and to limit exposure to loss of assets or fraud.
- The Audit Committee meets regularly and its responsibilities are set out in the Audit Committee Report. It receives reports from the Internal Audit function on the results of work carried out under an annually agreed audit programme. The Audit Committee has full and unfettered access to the internal and external auditors.
- The Internal Audit function facilitates a process whereby operating entities provide certified statements of compliance with specified and appropriate key financial controls. These controls are then cyclically tested by Internal Audit to ensure they remain effective, and are being consistently applied.
- The Audit Committee will annually assess the effectiveness of the assurance provided by the internal and external auditors. Every five years an external assessment is also undertaken with regard to the assurance provided by the Internal Audit department. An external assessment was undertaken by Grant Thornton in 2017 and further information may be found in the Audit Committee Report on page 85.

Conflicts of Interest

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

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

COMPLIANCE TABLE

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

Throughout the 53 weeks ended 30 December 2017, the Company was fully compliant with the main and supporting provisions of the Code. A full version of the Code may be found on the Financial Reporting Council's website: www.frc.org.uk.

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

SECTION A: LEADERSHIP

A1 THE ROLE OF THE BOARD

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

- The Board held eight formal meetings during 2017. Individual Directors' attendance may be found on page 51. The number of meetings and the attendance of each Board Committee may also be found on the following pages:
  - Nominations Committee: page 65
  - Remuneration Committee: page 72
  - Audit Committee: page 85
- A formal schedule of matters which only the Board may take decisions on is available on the Howdens website.
- The Company maintains appropriate insurance cover against legal action brought against it or its subsidiaries, Directors and Officers. It has also provided indemnities to the Directors (to the extent permitted by the Companies Act 2006) in respect of liabilities incurred as a result of their office. Neither the indemnity nor insurance provides cover in the event that the Director is proved to have acted dishonestly or fraudulently.

A2 DIVISION OF RESPONSIBILITIES

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

- The roles of Chairman and Chief Executive Officer are separate and clearly defined. They are not exercised by the same individual.
- The responsibilities of each role have been set out in writing and agreed by the Board.
- Further information about the separation of the roles and how they work together for the success of Howdens may be found on page 57.

A3 THE CHAIRMAN

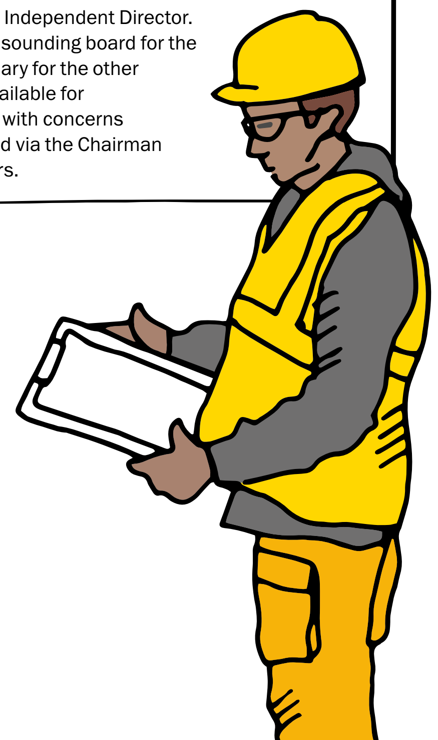
"The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role."

- The Chairman was considered independent on appointment.
- The Chairman sets the agendas for all Board meetings and ensures sufficient time is given to each agenda item.
- The Chairman ensures the full Board receives accurate and clear information in a timely fashion (please see B5 'Information and Support' on page 62 for further information).
- All the Directors are encouraged by the Chairman to participate in constructive and open discussions during meetings.

A4 NON-EXECUTIVE DIRECTORS

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

- The diversity of skills, experience, approach and mindset of our Non-Executive Directors mean that they are well placed to effectively scrutinise both strategy and operational management. In addition to the Executive Directors, members of the Executive Committee are frequently present in person at Board meetings where Non-Executive Directors can hold them directly accountable.
- Tiffany Hall is the Senior Independent Director. She provides a valuable sounding board for the Chairman and intermediary for the other Directors. She is also available for shareholders to contact with concerns which cannot be resolved via the Chairman or the Executive Directors.



Corporate Governance Report continued

COMPLIANCE TABLE CONTINUED

SECTION B: EFFECTIVENESS

B1 BOARD COMPOSITION

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

- The Nominations Committee regularly reviews the size, composition and structure of the Board and makes recommendations to the Board for all new appointments and reappointments. It considers whether there are any gaps in skill, experience or knowledge on the Board when assessing Board effectiveness. Details of the work of the Nominations Committee may be found on pages 65 to 71.
- At least half of the Directors were independent throughout the year. Further information on Board composition may be found on pages 52 and 53.

B2 BOARD APPOINTMENTS

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

- The Nominations Committee is responsible for leading any process of appointing new directors to the Board.
- The Nominations Committee will only recommend individuals for appointment who subscribe to Howdens' shared values. They must also understand and be sympathetic to our entrepreneurial culture and unique business model.
- Further detail regarding CEO succession may be found in the case study on page 68.
- Further information on Boardroom diversity may be found on page 67 of the Nominations Committee Report.

B3 COMMITMENT

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

- Each of the Directors' external commitments is set out in their biographies on pages 52 and 53. None of our Non-Executive Directors currently holds more than two non-executive directorships in other UK publically-listed companies and none of our full time Executive Directors holds any directorship in a FTSE 100 company.
- Each Director's conditions of appointment is made available for inspection at the AGM and at the Company's registered office during normal business hours.

B4 DEVELOPMENT

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

- A tailored induction programme is undertaken by all new Directors. Further information on inductions can be found on page 69.
- Non-Executive Directors are invited to attend Howdens' events at different locations and to meet with employees of all levels.
- Individual training and development needs are considered as part of the annual Board evaluation process. Formal training is also provided when there are specific legal and regulatory developments.

B5 INFORMATION AND SUPPORT

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

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

B6 EVALUATION

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

- The 2017 Board evaluation was lead by the Senior Independent Director, Tiffany Hall, with support from Independent Board Evaluation, who facilitated the 2016 external evaluation. Details of the evaluation, including recommendations, may be found on page 70.

B7 RE-ELECTION

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

- At the 2018 Annual General Meeting, each Director will stand for election or re-election, with the exception of Matthew Ingle who will retire as a Director on 2 April 2018.

SECTION C: ACCOUNTABILITY

C1 FINANCIAL AND BUSINESS REPORTING

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

- Howdens' annual performance, business model and strategy may be found within the Strategic Report (pages 7 to 49).
- The Directors' going concern and viability statements may be found on pages 33 and 34.

C2 RISK MANAGEMENT AND INTERNAL CONTROL

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

- The Board is responsible for the Group's systems of internal control and risk management, and for reviewing their effectiveness. The Board is assisted with these responsibilities by the Audit Committee.
- The principal risks and uncertainties facing Howdens may be found on pages 30 to 32.

C3 AUDIT COMMITTEE AND AUDITORS

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

- The Audit Committee is comprised of five independent Non-Executive Directors. The Chairman is not a member of the Audit Committee.
- The Audit Committee has at least one Audit Committee member with recent and relevant financial experience (please see page 91 of the Audit Committee Report for more information).
- The Audit Committee, as a whole, has competence in the various relevant sectors which Howdens operates within (please see page 91 of the Audit Committee Report for more information).
- The Audit Committee has recommended that the auditor, Deloitte LLP, be reappointed at the 2018 Annual General Meeting. Information about audit rotation can be found on page 89.

SECTION D: REMUNERATION

D1 LEVEL AND COMPONENTS OF REMUNERATION

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

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

D2 PROCEDURE

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

- The Remuneration Committee is responsible for setting the remuneration of our Executive Directors. The Remuneration Committee Report may be found on pages 72 to 84.
- The Remuneration Committee is made up of five independent Non-Executive Directors. The Chairman of the Board is not a member of the Remuneration Committee.
- No Director is involved in deciding their own remuneration.
- PwC provides remuneration consultancy services to the Remuneration Committee.

Corporate Governance Report continued

COMPLIANCE TABLE CONTINUED

SECTION E: RELATIONS WITH SHAREHOLDERS

E1 DIALOGUE WITH SHAREHOLDERS

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

- Both Executive and Non-Executive Directors met with shareholders during the year to discuss strategy, performance and governance matters.
- Non-Executive Directors receive regular updates from the Deputy Chief Executive and Chief Financial Officer at Board meetings as to share price movement, shareholder sentiment and significant changes to the share register. The Company Secretary updates the Board at regular intervals as to wider Corporate Governance developments.

E2 CONSTRUCTIVE USE OF GENERAL MEETINGS

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

- The Annual General Meeting provides an opportunity for shareholders to meet with the Board and to ask questions pertaining to the business of the meeting, as well as about the business more generally.
- Where shareholders cannot attend the Annual General Meeting, we encourage them to submit their votes via a proxy.
- The full Board attends the Annual General Meeting and the Chairs of the Board committees are available to answer questions.
- Separate resolutions will be proposed on each substantially separate issue and the numbers of proxy votes cast for and against each resolution will be made available to shareholders via the corporate website and the London Stock Exchange news service once voting has been completed.

By order of the Board

Richard Pennycook
Chairman

28 February 2018

Nominations Committee Report

INTRODUCTION FROM THE CHAIR OF THE COMMITTEE

The role of the Nominations Committee is to set the people agenda of the business. Ensuring that there is a fair, orderly succession for appointments to the Board is its primary purpose and therefore, by design and by default, the Nominations Committee plays a vital role in influencing the culture, strategy and long-term success of the business by making recommendations on appointment to the Board.

This is never more true than when considering an appointment for a new Chief Executive Officer. Succession planning for a high-performing founder CEO presents some unique and interesting challenges given that it is a situation which occurs so infrequently. We have provided more detail about the CEO succession process in the case study on page 68 but needless to say, recruitment of our new CEO dominated the agenda for the Nominations Committee during 2017.

That said, during 2017 the Nominations Committee also managed to discharge its recurring duties addressing big issues such as boardroom diversity and non-executive director succession planning. On issues such as diversity, it is imperative that the Board (facilitated by the work of the Nominations Committee) sets the tone for the rest of the business and during 2018 the Nominations Committee will dedicate more time to consideration of diversity (in all its guises) across the business as a whole. Our priority will always be to ensure a diversity of perspective but we must also recognise the wider societal issues and responsibilities which come with being a responsible employer.

The ongoing effectiveness of the Board is also important during periods of transition in the top team. We engaged Independent Board Evaluation (IBE) to undertake our external Board effectiveness review in 2016 which was undertaken shortly after I had assumed the role of Chairman of the Board. In order to ensure a continuum from the external process, we asked IBE to support our internal review process in 2017 which was undertaken by our Senior Independent Director. Ensuring that we fully revisited the observations and recommendations from the external effectiveness evaluation in 2016 helped ensure that our 2017 effectiveness review was more a iterative process than in previous years. More detail about the methodology and recommendations can be found later in the report.

MEETING ATTENDANCE

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

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

	Richard Pennycook*	Mark Allen	Andrew Cripps	Geoff Drabble	Tiffany Hall	Michael Wemms[1]	Debbie White[2]
No. of meetings	4	4	4	4	4	3	1
Attendance	100%	100%	100%	100%	100%	100%	100%

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

1 Michael retired from the Board on 2 May 2017.
2 Debbie was appointed to the Nominations Committee following the completion of her induction programme.
* Denotes Chair of Committee

Nominations Committee Report continued

BOARD COMPOSITION

Role of the Nominations committee

- Regularly reviews the structure, size and composition (including the skills, knowledge, experience and diversity) required of the Board compared to its current position and makes recommendations to the Board with regard to any changes
- Gives full consideration to succession planning for Directors and certain other senior executives in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future
- Formulates plans for succession for both Executive and Non-Executive Directors and in particular for the key roles of Chairman and Chief Executive Officer
- Identifies and nominates candidates to fill Board vacancies as and when they arise, for the approval of the Board
- As part of the process for nominating candidates for appointment, obtains details of and reviews any interests the candidate may have which conflict or may conflict with the interests of the Company
- Keeps under review the leadership needs of the organisation, both Executive and Non-Executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace
- Makes recommendations to the Board regarding the membership of the Audit, Nominations and Remuneration Committees, and any other Board Committees as appropriate, in consultation with the chair of each committee
- Recommends, or not, the re-appointment of any Non-Executive Director at the conclusion of their specified term of office and the re-election by shareholders of any Director under the annual re-election provisions, in each case having given due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required
- Considering any matters relating to the continuation in office of any Director at any time including the suspension or termination of service of an Executive Director as an employee of the Company subject to the provisions of the law and their service contract

Supporting actions, processes and information:

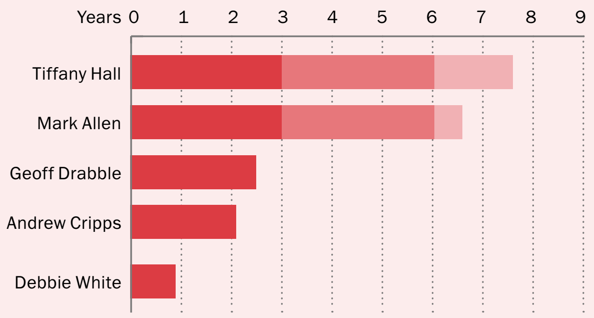
DIRECTOR SUCCESSION

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

As detailed in the remainder of this report and in the case study on page 68, the Nominations Committee has successfully managed a Board succession programme which has ensured a smooth introduction of both Executive and Non-Executive Directors to the Board.

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

Non-Executive Tenure as at 30 December 2017



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

BOARD COMPOSITION CONTINUED

After careful consideration, the Committee also recommended to the Board that Mark Allen should be reappointed as Non-Executive Director with effect from May 2017. Having served on the Board for six years, Mark's appointment was agreed by the Board and extended for a further three years.

The Nominations Committee also considers Executive Director succession as part of its routine succession planning process and during 2017 it recommended that Andrew Livingston be appointed as successor to Matthew Ingle as Chief Executive Officer following the latter's retirement in 2018. Further information about the recruitment process can be found in the case study on page 68.

Senior Independent Director Succession

Tiffany Hall was appointed Senior Independent Director in April 2017. She replaced Michael Wemms who had served as Senior Independent Director since November 2006. Michael undertook a number effectiveness evaluations on behalf of the Board and was responsible for overseeing the Chairman succession process during 2015.

DIVERSITY

Boardroom Diversity

The Board recognises the importance of ensuring that there is diversity of perspective, background and approach in its management team and on its Board. Since the business was established in 1995, it has sought to enable individuals to progress within the organisation regardless of age, gender, background or formal qualifications.

We believe that it is in the interests of the business and of its shareholders for us to build a stable, cohesive and representative Board. Whilst the setting of targets on particular aspects of diversity may be relevant in many cases, we feel that this could be given inappropriate focus within the context of a smaller board, resulting in the possible overlooking of certain well-qualified candidates.

The Nominations Committee will continue to seek diversity of mindset as well as of gender, race, and background when considering new appointments in the period to 2019, and it will continue to review this policy on an annual basis to ensure it remains appropriate. More widely, we are committed to developing a long-term pipeline of executive talent that reflects the diversity of Howdens' business and its stakeholders. As at 30 December 2017, 25% of Board members were women.

Both of the Executive Directors were male.

Group diversity policy

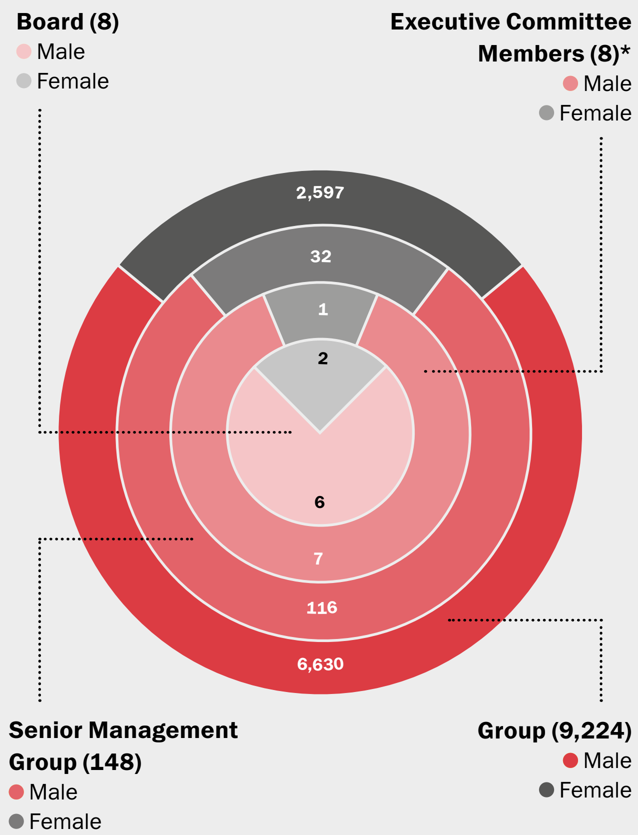
The Group promotes the importance of diversity and adopts an Equal Opportunities Policy under which training and career development opportunities are available to all employees, regardless of gender, religion or race.

The Group is committed to meeting the code of practice on the employment of disabled people and full and fair consideration is given to disabled applicants for employment. It aims to do all that is practicable to meet its responsibility towards the employment and training of disabled people. The Group welcomes, and considers fully, applications by disabled persons, having regard to their particular aptitudes and abilities. It is also the Group's policy to retain employees who may become disabled while in service and to provide appropriate training.

Group Gender Diversity Statistics

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

Group Gender Diversity (as at 30 December 2017)



* including Executive Directors

Strategic report
Governance
Financial statements
Additional information

Nominations Committee Report continued

Case Study: CEO Succession

The Nominations Committee has considered Executive Director succession as part of its routine succession planning for a number of years. In 2016, Matthew Ingle indicated that he would consider retirement conditional upon the Board identifying a suitable successor as CEO. The Nominations Committee therefore agreed to identify, at the appropriate time, an individual who, should it become necessary, would ultimately be able to undertake the role of CEO of Howdens.

The Nominations Committee, supported by the Interim Group HR Director and the Company Secretary, agreed:

- A specification for the role and responsibilities for a new CEO (alongside the roles and responsibilities of the Chairman and Senior Independent Director);
- To appoint Zygos as the external search partner*; and
- An interview and selection process.

It was also agreed that the Company Secretary was responsible for ensuring that the approved process steps were followed.

The Nominations Committee requested that the Remuneration Committee determine an indicative reward package but that this should be in line with the Remuneration Policy for Executive Directors. With the assistance of Zygos, a long list of candidates was drawn up for consideration by the Nominations Committee. Both internal and external candidates were invited to participate in the process.

The Nominations Committee considered formal appraisals of all candidates selected from the long-list. A significant number of the candidates met with the Chairman and some of the Non-Executive Directors. Following the conclusion of these meetings, the Nominations Committee met to agree a short list of candidates.

Three candidates were considered for further consideration. All three candidates met with the Non-Executive Directors and the Chairman. References were taken for each candidate and psychometric profiles undertaken for selected candidates. Following a further Nominations Committee meeting, it was agreed to seek to engage with a particular individual and agree contract terms.

The Remuneration Committee, with support from the Interim Group HR Director, worked with Matthew Ingle to agree a retirement arrangement which was fair and in line with the Remuneration Policy. The Committee also agreed an onboarding package with the new CEO which took account of the bonus and long-term incentives he would forfeit from leaving his previous role. More information and detail about both Matthew and Andrew's remuneration arrangements can be found in the Remuneration Committee Report, which starts on page 72.

After contractual arrangements had been agreed with both parties in principle, the Board met on 6 July 2017 to consider the recommendations of both the Nominations Committee and the Remuneration Committee. They unanimously approved the proposals and internal and external announcements were made on 7 July.

Having successfully secured a suitable candidate for the role and discharged its announcement obligations, the Nominations Committee tasked the Interim Group HR Director with formulating transitional arrangements for the outgoing and incoming CEOs which included a detailed induction plan for the new CEO Designate.

Andrew Livingston joined Howdens on 29 January 2018 as CEO Designate.

* Zygos does not have any other business relationship with the Company.

BOARD EFFECTIVENESS

Role of the Nominations committee

- Provides appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members
- Annually reviews the time required from Non-Executive Directors and undertakes a performance evaluation to assess whether Non-Executive Directors are spending enough time to fulfil their duties
- Ensures that on appointment to the Board, Non-Executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside Board meetings

Supporting actions, processes and information:

DIRECTOR INDUCTION AND TRAINING

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

The Nominations Committee recognises that regular re-acquaintance with the culture of the business underpins the effectiveness of Non-Executive Directors. Non-Executive Directors are encouraged to meet with Howdens' employees at all levels in order to maintain a broad view of the business. Non-Executive Directors are also invited to attend Howdens' events following their initial induction.

During 2017, all Directors also received bespoke Howdens culture training, developed in-house for depot staff and management.

The individual training and development needs of Directors are also considered as part of the annual Board evaluation process. Ongoing training and development for the Directors includes attendance at formal conferences and internal events as well as briefings from external advisers.

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

Nominations Committee Report continued

BOARD EFFECTIVENESS EVALUATION

In line with the Board's policy to undertake an external Board effectiveness review every three years and following the evaluation conducted by Independent Board Evaluation (IBE) in 2016, the 2017 review was undertaken by the Senior Independent Director. In order to ensure that we built on the progress made following the 2016 report, IBE were engaged to provide support to the Senior Independent Director for the 2017 effectiveness evaluation. The evaluation focused on the following areas:

- Role and performance of the Chairman
- Shareholder relations: accountability and communication
- Strategy
- Governance, compliance and risk
- Board dynamics, focus and priorities
- Succession planning: Board and Executive Committee
- Board Composition: culture, skills and diversity
- Decision-making: objectivity, process and outcomes
- Board papers and presentations
- 2016 Recommendations
- Emerging issues and future challenges for the board

Methodology

September 2017
The evaluation methodology and agenda were agreed with the Chairman and Company Secretary.

October and November 2017
Interviews with Board members, the Company Secretary and the Interim Group HR Director commence.

December 2017
The conclusions of the evaluation, including the observations and recommendations for the main Board are presented to the Chairman.

January 2018
The main observations and recommendations from the evaluation are presented to the Board.

Summary conclusions and recommendations

This Board was deemed effective by the evaluation participants, and was even said by some to be functioning better than in 2016. The areas that received positive feedback from participants were shareholder accountability and relationships, governance, compliance and risk, board focus and succession planning. Recommendations were made across a number of areas and the Chairman, Senior Independent Director and Company Secretary have agreed to progress these during 2018.

GOVERNANCE

Role of the Nominations committee

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

Supporting actions, processes and information:

THE NOMINATIONS COMMITTEE IN 2018

The Nominations Committee is scheduled to meet at least twice during 2018. It will continue to consider Board succession and review the balance of skills on the Board. In addition, it will also assess the time commitment and performance of Non-Executive Directors, plan the board evaluation process, discuss boardroom diversity, and review the Committee's terms of reference.

Appointments and Re-appointments

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act and related legislation. On that basis, during 2017, the Nominations Committee began a search for a new Non-Executive Director as a replacement for Tiffany Hall.

Russell Reynolds Associates was engaged by the Committee to assist with the identification of suitable candidates. Further details on the outcome of this search will be provided following its conclusion in 2018 and reported in full in the 2018 Annual Report. Russell Reynolds Associates does not have any other business relationship with the Company.

During 2018, the Nominations Committee will continue to ensure that a continuous transition process takes place between new and long-serving Non-Executive Directors occurs.

Annual General Meeting (AGM) elections and re-elections

As stated in the Corporate Governance Report, and with the exception of Matthew Ingle, all of the Directors not appointed since the last AGM will retire in accordance with the UK Corporate Governance Code and each will offer themselves for re-election in accordance with Article 118 of the Articles of Association at the 2018 AGM.

Andrew Livingston, having been appointed since the last AGM, will offer himself for election in accordance with Article 117 of the Articles of Association.

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

By order of the Board

Richard Pennycook
Nominations Committee Chairman

28 February 2018

Strategic report
Governance
Financial statements
Additional information

Remuneration Committee Report

INTRODUCTION FROM THE CHAIR OF THE REMUNERATION COMMITTEE

I am pleased to present the Howden Joinery Group Remuneration Committee Report for 2017. We have used the same simplified reporting format as last year, which we believe supports ease of use whilst maintaining compliance with the requirements of the Large and Medium-sized Companies and Groups Regulations 2013. The main body of the report continues to highlight the key areas that we believe will be of primary focus to the reader, such as pay outcomes for the year and details of how our policy will be implemented in 2018. All relevant supporting information required under the reporting regulations is set out in an Appendix to the report.

Through the year the Committee has continued to focus on ensuring that the approach to executive remuneration at Howdens meets best practice requirements and maximises alignment to the Company's strategy. We have also focused on ensuring that our approach to pay is fair, and that pay in the wider workforce is considered and reflected in the Committee's deliberations. The next UK Corporate Governance Code is expected to increase the remit of the Committee to include a level of oversight for the wider workforce, and we believe we are well placed to incorporate this additional responsibility – the Committee already regularly receives updates from the Interim Group Human Resources Director on pay and conditions throughout the workforce.

An aligned approach to rewarding performance throughout the business is a central part of the Company's ethos, with monthly bonuses paid to our depot staff based on profitability measures. This helps to embed our entrepreneurial culture and supports the engagement, motivation and performance of our employees. Howdens' Remuneration Committee already determines the structure and targets of incentives for the Executive Committee, and these targets also apply to members of the senior management team that do not participate in depot incentives.

CEO Transition

A key part of our work in the year has been supporting the Nominations Committee in CEO succession planning, and ensuring that the approach to retirement and recruitment remuneration for our outgoing and incoming CEOs were appropriate, aligned with best practice and compliant with our policy and relevant plan rules. We also sought to ensure that a competitive offering was made to Andrew Livingston once he was identified by the Board as the clear choice for the Company's next Chief Executive.

Matthew Ingle will retire on 2 April 2018. Matthew has been a pivotal figure for Howdens, transforming the business and leading us in delivering exceptional market leading performance throughout his tenure.

Matthew will continue to support the Company through the transition until 31 July 2018, after which his services will be retained under a consultancy agreement (with all fees paid disclosed in the relevant remuneration report). The Board is pleased to appoint Matthew as Honorary Life President, a role for which he will receive no remuneration. Andrew Livingston was appointed CEO designate on 29 January 2018, and will take on the role of CEO from 2 April.

Andrew forfeited awards on leaving his previous role, including performance based awards and awards of restricted stock not subject to performance conditions. In accordance with our approved recruitment remuneration policy the Committee have sought to replace these awards with those of equivalent fair value and timing insofar as possible. Restricted stock awards have been replaced by restricted Howdens shares with similar vesting periods. Recognising that Andrew's previous performance based awards had a period of less than one year remaining prior to vesting, the Committee felt it appropriate to make the associated replacement awards in the form of restricted shares with an equivalent expected value.

Andrew also forfeited his 2017 cash annual bonus upon leaving his previous role. In line with our recruitment remuneration policy, the bonus forfeited was replaced with a cash award based on an appropriate estimate of the value foregone, and pro-rated for time.

2017 reward outcomes

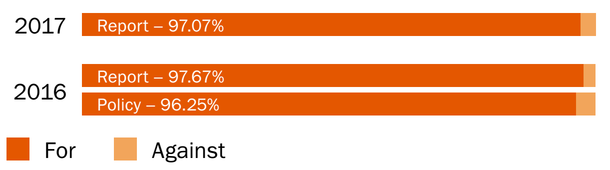
2017 was the second year of operation of our revised remuneration policy, which was approved by shareholders at the 2016 AGM (see chart below for AGM voting outcomes), and applies for three years from that date. This policy is summarised on page 74. It is available to view in full on our website at www.howdenjoinerygroupplc.com/investors/governance/remuneration/remuneration-policy.asp.

Howdens has again delivered strong levels of growth. Faced with low levels of consumer confidence and unfavourable exchange rates, sales increased 7.4% on 2016, with a gross margin of 63.3% and Profit Before Tax (PBT) of £232.2m. Despite the challenging market conditions, we have continued to invest in strategic improvements in capacity and capability, including investment in manufacturing, warehousing, distribution, depot operations and organisational development across the Group. Given the capital expenditure associated with these investments (approximately £50m), and the impact of foreign exchange pressures, the £232.2m PBT and £239.9m cash flow delivered in 2017 represent strong performance for the Company.

As in 2016, it speaks to the level of stretch in our incentive targets that the outcomes under the annual bonus fell short of target for both the profit element and the cash element, resulting in a payment of 52% of base salary to our Executive Directors.

Over the three year period of the 2015 Co-Investment Plan cycle, our PBT has grown by 7.1% p.a. However, due to the stretching performance targets for this award (8% per annum PBT growth was required to achieve threshold vesting), this award will lapse in full. The 2015 Co-Investment Plan award was the final award of this type granted to the Executive Directors.

AGM VOTING OUTCOMES



There are two in-flight awards under the Performance Share Plan (PSP), which replaced the Co-Investment Plan in the last policy review. The 2016 Plan uses the same target range as the 2015 Co-Investment Plan (8%–20% PBT growth p.a.), while the 2017 award operates under a revised range of 3%–15% PBT growth p.a.

The CEO and CEO Designate will not receive a salary increase for 2018. The Deputy CEO and CFO has been awarded a salary increase of 3% for 2018. This is in line with inflation and the average increase awarded to the wider workforce in 2017.

2018 incentives

In line with the commitment we made to investors ahead of the introduction of our new policy in 2016, we have reviewed the performance measures underlying our plans. The Committee concluded that a focus on PBT across our incentives remains appropriate. It is our primary performance indicator and is directly aligned with the value we deliver to shareholders. The 2018 PSP awards will therefore continue to be based on PBT growth, with the annual bonus based on a combination of PBT and cash flow performance. Howdens has a track record of market leading performance (with an average profit growth over the last five years of 15.7% p.a.) and as a result has historically set sector leading performance ranges. In order to reflect the increasingly challenging external market conditions we reduced the range for the 2017 PSP grant such that the level of PBT growth to achieve threshold performance was 3% p.a. (at which point 15% of award vests) with maximum vesting requiring 3 year growth of 15% p.a. (reduced from 8%–20% p.a. in 2016).

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

For the 2018 PSP we have again carefully considered analyst expectations and our own internal projections, as well as the feedback we received from some investors. As such, we have increased the threshold performance target under the LTIP to 5% p.a., while maintaining a maximum performance level of 15% p.a. The maximum opportunity under the plan will therefore remain unchanged on 2017, at 220% of salary.

Our new CEO will undertake a comprehensive review of our strategy in the coming year. Where appropriate the Committee will seek to reflect the outcomes of this review into remuneration arrangements, and in particular into our performance measures for 2019. Our current policy expires at our 2019 AGM, and therefore towards the end of 2018 we will consult with our largest shareholders on a proposed policy for 2019 onwards that is fit for future purpose and aligned with our strategic priorities.

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

MEETING ATTENDANCE

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

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

	Tiffany Hall*	Mark Allen[1]	Andrew Cripps	Geoff Drabble	Michael Wemms[2]	Debbie White[3]
No. of meetings	6	5	6	6	2	3
Attendance	100%	83%	100%	100%	67%	75%

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

1 Mark was unable to attend a meeting on 6 July 2017, which had been called on short notice.
2 Michael retired from the Board and the Remuneration Committee on 2 May 2017.
3 Debbie was appointed to the Board and Remuneration Committee on 15 February 2017. Debbie was unable to attend the Remuneration Committee meeting in May due to a long-standing commitment.
* Denotes Chair of Committee

Remuneration Committee Report
continued

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

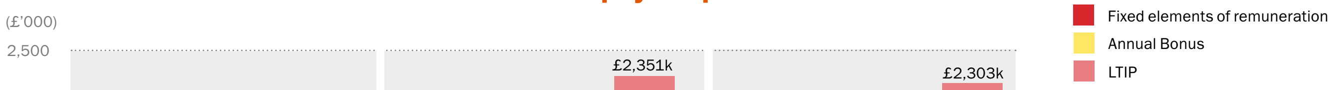
The colours are: Salary Benefits Pension Annual bonus Deferred bonus LTIP

EXECUTIVE DIRECTORS
Our remuneration policy for Executive Directors

	2018	2019	2020	2021	2022	2023	Link to strategy
Base Salary							Salaries are reviewed annually and are effective from 1 January each year. Recognises the market value of the Executive's role, skill, responsibilities, performance and experience.
Benefits							Provides a competitive level of benefits.
Pension							For Executives appointed before April 2013, a hybrid defined benefit, occupational pension plan operates. It is closed to new entrants. Executives appointed after April 2013 are invited to participate in the auto-enrolment defined contribution scheme or receive a salary supplement of 20% of pensionable salary.
Annual Bonus							The annual bonus has a maximum opportunity of 150% of salary. It is subject to stretching PBT and cash flow targets, reflecting our key internal performance indicators and the role of sustainable profit growth in our entrepreneurial culture. Above target, a profit share is used, aligned to the incentive structure that extends into the organisation.
Deferred Bonus							Any bonus in excess of 100% of salary is deferred into shares, which are paid out in two equal tranches on the first and second anniversary of the deferral date. Clawback and/or malus provisions operate on the bonus for a total period of up to two years after the performance period.
LTIP (Performance Share Plan)				Holding Period	Holding Period		Three year performance period followed by a two year holding period. Performance is based on stretching PBT growth targets, aligning management with our longer term financial growth and reflecting the value we are able to deliver to shareholders. Clawback provisions operate for the duration of the holding period.

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

2018 Detailed remuneration scenarios and pay for performance



Notes:

As reported elsewhere in this report, Matthew Ingle will not receive an LTIP in 2018. Andrew Livingston's figures include an LTIP award in 2018 in line with our policy of 220% base salary.

Andrew Livingston's full benefit figure is not yet known, and therefore Mark Robson's figure has been used as a proxy.

Both Matthew Ingle and Andrew Livingston's fixed elements of remuneration and bonus have been pro-rated in line with the period during which they will be in their Executive Director roles.

The remuneration package for the Executive Directors is designed to provide an appropriate balance between fixed and variable performance related components, with a significant proportion weighted towards long-term variable pay.

The composition and value of the Executive Directors' remuneration packages in a range of performance scenarios are set out in the charts at the bottom of page 74. These show that the proportion of the package delivered through long-term performance is in line with our remuneration policy and changes significantly across the performance scenarios as a result. The package promotes the achievement of superior long-term performance and aligns the interests of the Executive Directors with those of shareholders.

On-target awards assumes a target of 100% of salary for the bonus and PSP vesting at the mid-point between minimum and maximum. Maximum award assumes vesting of 150% of salary for the bonus and 220% of salary for the PSP.

Executive Director shareholdings

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

Under the share ownership guidelines, the Executive Directors are required to have a personal shareholding equal to twice their base salary. Shares deferred under the deferred bonus plan and unvested incentives shares are not counted towards this requirement. There are no shareholding guidelines for Non-Executive Directors.

See the appendix on page 83 for a table of total shares in the Company held by the Directors, together with unvested performance shares and those held subject to deferral conditions.

Figures for Andrew Livingston have not been included. Andrew joined the Company as CEO Designate during January 2018. As at the date of this report, Andrew holds no shares in the Company. It is anticipated that Andrew will increase his total shareholding to meet the requirement in due course and compensation for his long-term incentive awards forfeited from his previous employer has been structured to reflect this.

Single figure of remuneration (Audited)

£000s	Salary		Benefits		Bonus		LTIP		Pension		Total	
Executive Directors	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Matthew Ingle	581	572	211	193	302	412	0	1,749	174	172	1,268	3,098
Mark Robson	428	421	53	77	223	303	0	1,227	177	175	881	2,203
Total	1,009	993	264	270	525	715	0	2,976	351	347	2,149	5,301

Notes to the single figure table

Salary, benefits and pension

Our policy

Salaries will not be changed outside of the annual review, unless there are exceptional circumstances, such as a mid-year change in role. Increases will normally be only for inflation and/or in line with the wider employee population. Salaries are set within a range defined by market benchmark derived from companies in a similar sector (policy is to pay median). Salaries for 2018 can be found on page 77. The peer group used is reviewed whenever benchmarking is performed, and the Committee applies judgement in identifying appropriate peer group constituent companies. The individual's level of total remuneration against the market is considered at the same time.

Benefits are based upon market rates and include receipt of a car allowance; non-exclusive use of a driver; health insurance and death-in-service insurance payable by the Company. Reflecting the increased requirement for him to attend the Company's London office, the Committee agreed that the Chief Executive's permanent place of work for tax purposes should be the Company's London office (as detailed in the 2015 report). The costs of travel between his home and the London office therefore continue to be met by the Company as a taxable benefit.

Strategic report
Governance
Financial statements
Additional information

Remuneration Committee Report
continued

Salary
Benefits
Pension
Annual bonus
Deferred bonus
LTIP

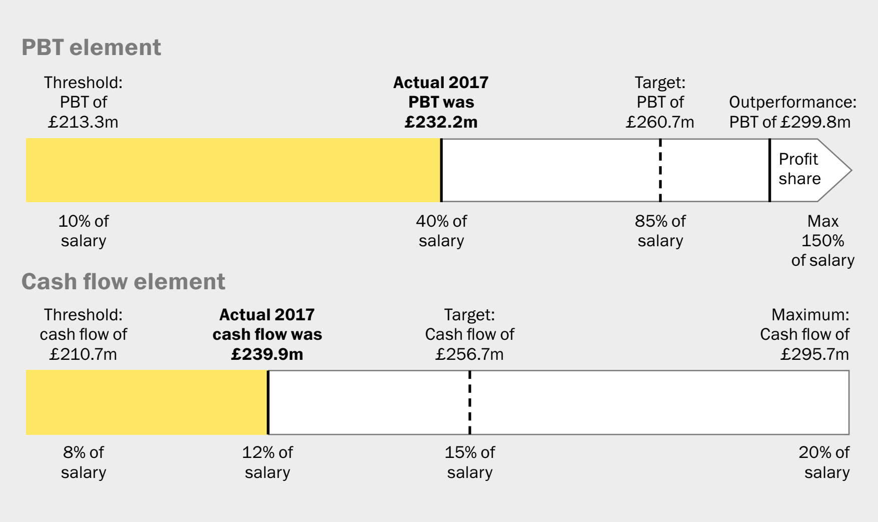
Annual Bonus (Audited)

Our policy

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

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

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



Outcomes for the year

Our PBT for 2017 of £232.2m falls between threshold and target for the year, resulting in an annual bonus payment of 40% of salary for 2017. Cash flow was £239.9m resulting in a payment under this element of 12% of salary. Therefore in aggregate Executive Directors will receive an annual bonus of 52% of salary for 2017.

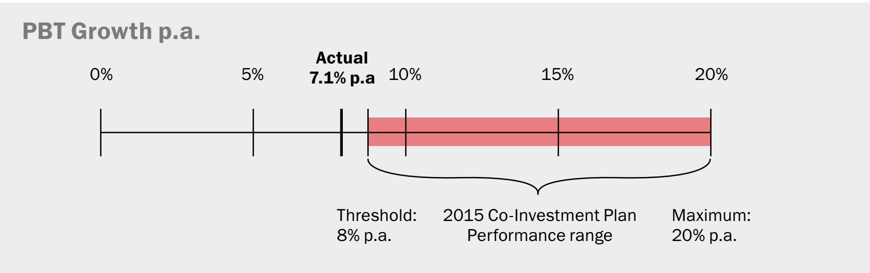
	PBT (% of salary)	Cash flow (% of salary)	Total bonus (% of salary)	Total bonus (£000)
Matthew Ingle	40%	12%	52%	302
Mark Robson	40%	12%	52%	223

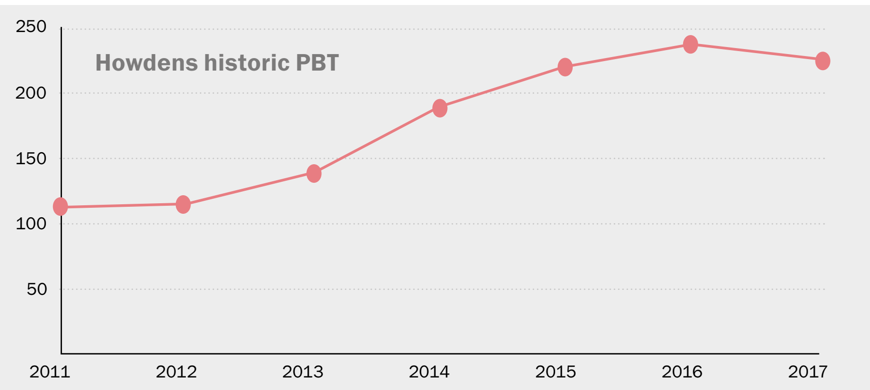
Co-Investment Plan (Audited)

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

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

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





Outcomes for the year

Over the three year performance period of the 2015 Co-Investment Plan, PBT grew 7.1% p.a. The plan therefore lapsed in full.

Implementation of Director policy in 2018

Executive Directors

Base salaries and fees

Base salary increases from 2017 are set out in the table below. The salary increase awarded to Mark Robson for 2018 is in line with inflation and the average increase made to our workforce in 2017.

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

	2018		2017	
	Salary	Percentage increase	Salary	Percentage increase
Matthew Ingle	581	0%	581	1.6%
Andrew Livingston	550	–	–	–
Mark Robson	441	3%	428	1.6%

Annual Bonus measures

The table below sets out Annual Bonus measures for 2018, comprising the same measures as for 2017. Targets for these measures are considered commercially sensitive by the Board and so are not disclosed here. Performance targets, together with achievement against them, will be set out in full in the 2018 Remuneration Committee Report.

The Annual Bonus for the CEO and CEO Designate will be pro-rated in line with the duration of their service during the period in question as well as being subject to the performance conditions set out below.

	Definition	Performance level	Payout level
PBT	Pre-exceptional profit before tax from continuing operations	Threshold	10% of salary
		Target	85% of salary
Cash Flow	Net cash flow from operating activities, taking into account the efficiency with which working capital is used, and adjusted for exceptional items	Threshold	8% of salary
		Target	15% of salary
		Maximum	20% of salary

Performance Share Plan measure and targets

The table below sets out PSP performance measures and targets for awards to be made in 2018. Note that for 2018 the maximum opportunity under the PSP is 220% (which was reduced from the policy maximum of 270% in 2017). For scheme interests awarded in 2017 see the Appendix on page 82. Matthew Ingle will not receive a PSP award for 2018.

	PBT growth performance condition	Payout level
PBT component vesting schedule	15% p.a.	220% of salary (100% of maximum)
	Straight-line vesting between these points	
	5% p.a.	33% of salary (15% of maximum)
	Less than 5% p.a.	0

Remuneration Committee Report
continued

CHANGES TO THE BOARD
Matthew Ingle will retire from his role as CEO on 2 April 2018. His retirement date from the Group will be 31 July 2018 and he will continue to receive his base salary and benefits until that date, during which period he will remain at the Company's disposal to support the transition. Matthew's services will also be retained under a consultancy arrangement for an initial period of 12 months following his retirement. Any fees paid to Matthew under this agreement will be disclosed in the relevant directors' remuneration report. Matthew will not be remunerated for his role as Honorary Life President of the Company.

Matthew will receive a pro-rated annual bonus in respect of time served to his retirement date for 2018, with the award subject to the achievement of the normal performance targets for the year (see page 77). No deferral will be applied to this award.

In accordance with our approved loss of office policy, unvested awards under the 2016 and 2017 Performance Share Plan will be pro-rated for the proportion of the performance period in which Matthew was employed. His 2016 and 2017 PSP awards will vest on their normal vesting dates of 5 May 2019 and 27 March 2020 respectively, subject to the extent to which performance conditions are met. These awards will not be subject to a post-vest holding period. Matthew will not receive an award under the 2018 Performance Share Plan.

New Chief Executive Officer
Andrew Livingston was appointed as CEO Designate of the Group on 29 January 2018 and will become CEO on 2 April 2018.

His base salary is £550,000 per annum, and he receives benefits in line with the normal remuneration policy, together with a salary supplement of 20% of base salary in lieu of pension.

When determining Andrew's base salary, the Committee considered the following factors:

- His previous roles and experience;
- The base salary of his prior role;
- The base salary of the incumbent Howdens CEO; and
- The median base salary for FTSE 100 – 200 CEOs.

Andrew is eligible to participate in incentives as set out within the approved remuneration policy for executive directors. As such, he will participate in the 2018 annual bonus with a maximum opportunity of 150% of salary, pro-rated for his time in role during the year.

Andrew will receive a grant under the 2018 Performance Share Plan of 220% of salary, in line with the normal structure and cycle of awards for Executive Directors. This award will vest in 2021, subject to the achievement of a threshold PBT growth level of 5% p.a. over the three year period. Maximum vesting under this award will require PBT growth of 15% p.a. (see page 77).

Approved recruitment policy
The Committee may grant the Executive Director awards to replace awards from a previous employment that are forfeited. Should replacement awards be made, any awards granted would be no more generous overall in terms of quantum or vesting period than the awards due to be forfeited. In determining the quantum and structure of these commitments, the Committee will take into account the fair value and, as far as practicable, the timing and performance requirements of remuneration foregone.

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

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

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

In total, 249,330 awards have been awarded to replace those forfeited from previous employment with a total value of £1,098,049. See below for details of each tranche of the replacement awards made to Andrew:

Number of Shares	Vesting date	Value of shares (£)[1]
131,639	March 2018	579,738
69,397	March 2019	305,624
48,294	March 2020	212,687

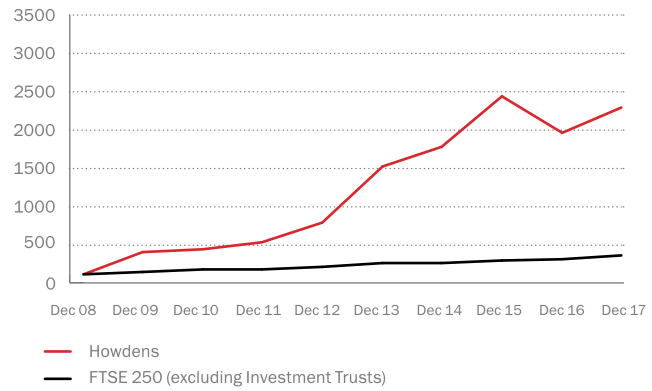
[1] Based on the 3 month average share price to 30 December 2017 of 440.4p

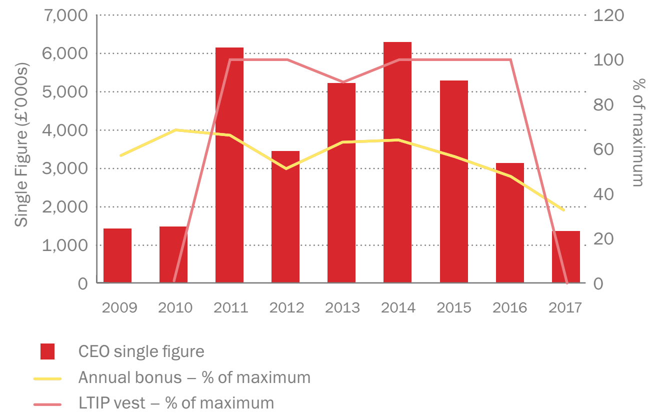
Andrew will retain these shares as part of his shareholding requirement as CEO (200% of salary), subject to disposals to cover tax liabilities arising.

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

Salary
Benefits
Pension
Annual bonus
Deferred bonus
LTIP

OUR CORPORATE PERFORMANCE AND REMUNERATION
TSR performance and historic single figure





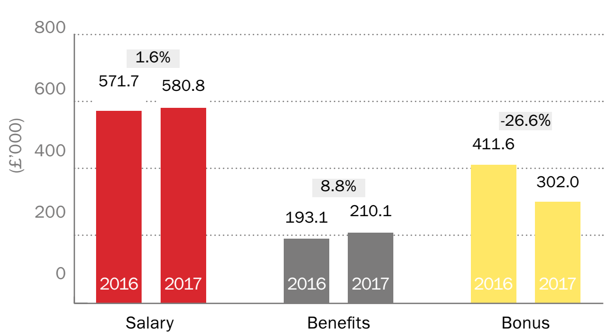
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017
CEO single figure (£000's)	1,399	1,458	6,083	3,401	5,168	6,221	5,225	3,098	1,268
Annual bonus (% of maximum)	63%	69%	66%	51%	63%	64%	56%	48%	35%
LTI vest (% of maximum)	0%	0%	100%	100%	89%	100%	100%	100%	0%

The graph above left illustrates the Company's TSR performance relative to the constituents of the FTSE 250 (excluding investment trusts) of which the Company is a constituent. It shows that over the past nine years Howdens has generated a significantly higher returns than the FTSE 250 (excluding Investment Trusts).

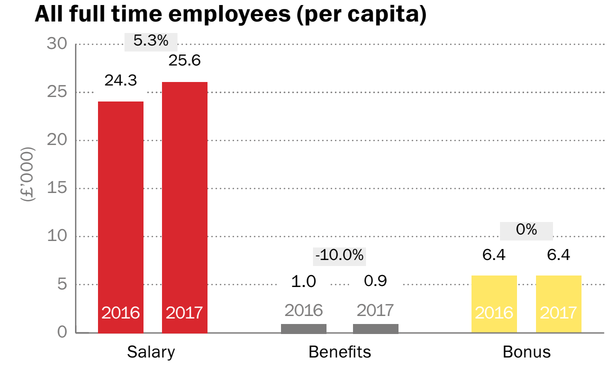
The table above shows the historic CEO single figure and incentive pay-out levels and this is also shown as a graph above right. The graph shows that the bonus has recognised consistently strong annual performance, and that long-term incentives have reflected the challenges that faced the Company after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

Percentage change in remuneration of director undertaking the role of Chief Executive
The graphs below set out the change in short-term pay from 2016 to 2017 of the CEO compared to all employees (on a per capita basis).

CEO



All full time employees (per capita)

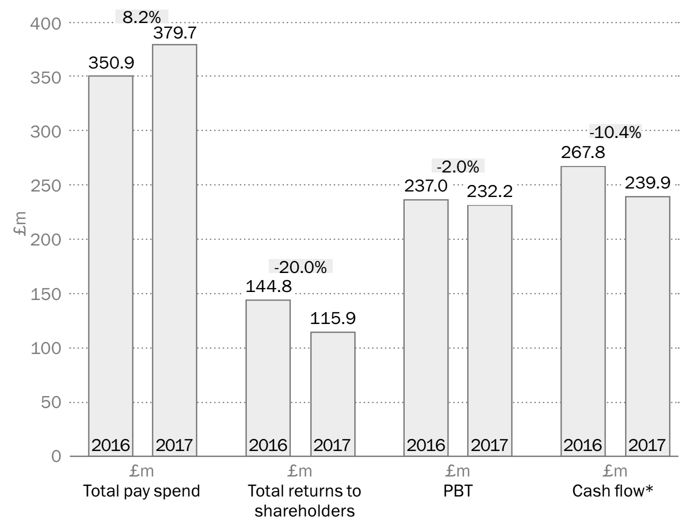


Remuneration Committee Report

continued

Relative importance of spend on pay

The graph to the right sets out the change in the Group's total remuneration spend from 2016 to 2017 compared to the total returns to shareholders of the Group and the two incentive performance measures PBT and cash flow.



* Net cash flow from operating activities, being the definition used for the annual bonus scheme (see page 77).

NON-EXECUTIVE DIRECTORS

Single figure of remuneration (Audited)

The table below sets out the remuneration received by Non-Executive Directors in 2016 and 2017.

	Remuneration (£000)	
Non-Executive single figure	2017	2016
Will Samuel	–	66
Richard Pennycook	250	186
Mark Allen	55	55
Tiffany Hall	72	65
Geoff Drabble	55	55
Andrew Cripps	65	62
Michael Wemms	22	65
Debbie White	48	–
Total	567	554

Michael Wemms received a gift from the Company after stepping down from the Board. The value of this gift fell below our de minimis threshold for itemisation of £10,000.

Our Non-Executive Director fee policy

Fees reflect the time commitment and responsibilities of the role. Accordingly, Committee Chairmen and Senior Independent Director fees are paid in addition to the Non-Executive Directors' basic fee. Committee chairmanship fees apply only to the Audit and Remuneration Committees. The Chairman does not receive a Non-Executive Director basic fee or an additional fee for chairing the Nominations Committee. Fees are reviewed every year, and are set within a range defined by a market benchmark of comparable size companies. Benchmarking is typically undertaken every three years. Fees for 2018 and increases from the prior year are set out below.

	2018		2017	
	Fee	Percentage increase from 2017	Fee	Percentage increase from 2016
Chairman fee	£250,000	0%	£250,000	9%
Basic Non-Executive Director fee	£55,000	0%	£55,000	0%
Additional Senior Independent Director fee	£10,000	0%	£10,000	0%
Committee Chair fee	£10,000	0%	£10,000	0%

Salary
Benefits
Pension
Annual bonus
Deferred bonus
LTIP

Case study: CEO Transition

Supporting the Board in succession planning for Executive Directors is a key function of the Remuneration Committee, albeit one that it hopes not to have to undertake very often. Ensuring the appropriate remuneration package is sufficient to attract the best talent, without being excessive, is vital to the long-term success of the business. However, it is also of paramount importance to ensure that the outgoing CEO (particularly when it is a retiring founder-CEO) is treated fairly. Of course this does not mean that awards should automatically vest regardless of performance condition in such situations, nor does it mean accelerated vesting.

Matthew Ingle will step down from Howdens as Chief Executive Officer on 2 April 2018 following 23 years as the CEO of Howdens and 20 years as a Plc Director. As he is retiring, Matthew will be treated as a 'Good Leaver' for the purpose of outstanding incentive awards.

To ensure that Matthew's outstanding awards received fair treatment, the Committee gave careful consideration to a range of factors including Matthew's status as a 'Good Leaver', his historic contribution to the Company as founder, and the strength of the Company's performance in recent years. Upon reflection on these factors, the Committee decided that the fairest treatment of awards was to allow all awards to continue under the current performance conditions, pro-rated for time served.

In further recognition of his unique contribution to Howdens, Matthew was appointed as honorary Lifetime President, a non-remunerated role.

For the incoming CEO the Committee wanted to ensure that there was an appropriate balance between ensuring that remuneration arrangements:

- provided us with the ability to attract the best talent available whilst not being excessive, minimising the cost to the Company where possible;
- were appropriate for the role in the context of the nature and size of the Company;
- provided a fair replacement for awards foregone; and
- were aligned to shareholders expectations and hence were within the scope of our approved remuneration policy.

Following the Board's unanimous decision that Andrew was to be Matthew's successor as CEO, the Committee determined the appropriate package for Andrew in the context of his experience, market pay levels and our remuneration policy and philosophy. Additionally the Committee undertook an in-depth review of the incentive awards that Andrew forfeited to ensure that replacement awards were appropriate, and represented an equivalent value to those forfeited from prior employment, with timings that mirrored those for the awards being replaced so far as possible.

The resulting outcome for both Matthew and Andrew is one that the Committee believes to be fair for both individuals, and is one that we believe will help safeguard the future success of Howdens.

I would like to take this opportunity to thank all those who assisted the Remuneration Committee during the process. More information on the process for CEO transition can be found in the Nominations Committee report on page 68.

Remuneration Committee Report
continued

Salary
Benefits
Pension
Annual bonus
Deferred bonus
LTIP

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

Total pension entitlements (Audited)
Executive Directors are eligible to participate in the Howden Joinery Group Pension Plan (the Plan). The Plan is not open to new joiners.

The table below sets out the accrued pension for both Executive Directors who served during the year, with pension values calculated using the HMRC method. No additional benefits become receivable if Executive Directors retire early. Matthew Ingle had a full funded pension position in 2006 and hence has chosen to opt out of the memberships of the plan. Mr Ingle therefore received a salary supplement of 30% of base salary in lieu of pension in 2017.

	Matthew Ingle	Mark Robson
Accrued pension at 30 Dec 2017 £000	65	39
Normal retirement date	28/09/2014	16/01/2019
Pension value in the year from defined benefit component £000	–	58
Pension value in the year from defined contribution component £000	–	34
Pension value in the year from cash allowance £000	174	85
Total	174	177

Scheme interests awarded during the financial year (Audited)
During 2017 the Executive Directors were invited to participate in the Performance Share Plan, as follows:

Nature of award	Restricted shares awarded under the PSP		
Level of award	Executive	Number of awarded shares	Face value of award*
	CEO	296,533	£1,278,057
	Deputy CEO & CFO	218,366	£941,157
PBT component vesting schedule	PBT growth performance condition		Vesting
	15% p.a.	220% of salary (100% of maximum)	
	Straight-line vesting between these points		Straight-line vesting
	3%p.a.	33% of salary (15% of maximum)	
	Less than 3% p.a.	0	
Performance period	Performance measured from FY2017 to FY2019		
Vesting date	27 March 2020		

* Based on a share price of £4.31, being the closing price on 24 March 2017.

Service contracts/Notice period
All Executive Directors' employment contracts have twelve months' notice of termination on both sides. In the event of termination by the Company, there will be no compensation for loss of office due to misconduct or normal resignation. In other circumstances, Executive Directors may be entitled to receive compensation for loss of office which will be paid monthly for a maximum of twelve months. Such payments will be equivalent to the monthly salary that the Executive would have received if still in employment with the Company. Executive Directors will be expected to mitigate their loss within a 12-month period of their departure of the Company.

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

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

External appointments
It is recognised that Executive Directors may be invited to become Non-Executive Directors of other companies and that exposure to such duties can broaden their experience and skills, which will benefit the Company. Howdens allows Executive Directors and other appropriate senior employees to accept a maximum of one external non-executive appointment outside the Company, subject to permission from the Committee, provided this is not with a competing company nor likely to lead to conflicts of interest.

Andrew Livingston is currently a Non-Executive Director of LondonMetric Property Plc, a FTSE250 REIT. Andrew held this position upon appointment. Neither Matthew Ingle nor Mark Robson have any external appointments. Executive Directors may retain the fees paid to them in respect of their Non-Executive duties.

Director shareholdings (Audited)
In order that their interests are aligned with those of shareholders, Executive Directors are expected to build up and maintain a personal shareholding in the Company.

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

Director	Matthew Ingle	Mark Robson
Shareholding requirement %	200%	200%
Shareholding requirement (number of shares)	264,000	194,409
Owned outright (including connected persons)	3,003,796	200,000
Share awards subject only to continued employment	4,155	3,120
Share awards subject to performance conditions and continued employment	978,447	720,528
Options subject to performance conditions	–	–
Vested but unexercised options	–	–
Current shareholding (% of salary)*	2,277%	206%
Guideline met	Y	Y

* Based on a share price of 440.4p, being the three-month average price to 30 December 2017. This is calculated by using only those shares owned outright by the Executive Directors.

Non-Executive Director shareholdings (Audited)
There is no shareholding requirement for Non-Executive Directors.

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

No changes to the Executive and Non-Executive Directors' total shareholdings (including any holdings of their connected persons) have occurred between the end of the period and 28 February 2018.

Consideration by the directors of matters relating to directors' remuneration
The Committee met five times during 2017, and discussed a number of items for which it is responsible. Under its terms of reference, which are reviewed on an annual basis, the Committee is responsible for determining the broad policy and specific remuneration packages for Executive Directors, the Company Secretary and other members of the Executive Committee, including pension rights and, where applicable, any compensation payments. The Committee is also regularly updated on pay and conditions applying to other employees in the Company.

Remuneration Committee Report
continued

Advisors to the Committee
The Committee regularly consults with the Chief Executive Officer and the Interim Group HR Director on matters concerning remuneration, although they are never present when their own reward is under discussion. The Company Chairman attends the Remuneration Committee by invitation except when his own remuneration is determined. The Company Secretary acts as secretary to the Committee but is never present when his own reward is determined.

The Committee also has access to detailed external information and research on market data and trends from independent consultants. PricewaterhouseCoopers LLP (PwC) is the Committee's retained independent advisor and provided advice to the Committee during the year. PwC has been independent advisor to the Committee since 2007, and was appointed by the Committee as the result of a tender process. Work undertaken by PwC for the Committee included updating the Committee on trends in compensation and governance matters and advising the Committee in connection with benchmarking of the total reward packages for the Executive Directors and other senior members of staff. A representative from PwC attends each meeting of the Remuneration Committee. Fees paid to PwC in relation to remuneration services provided to the Committee in 2017 totalled £120,550, with fee levels based on the quantity and complexity of work undertaken. PwC also provided consultancy advice and support to the internal audit function to the Company during 2017.

The Committee reviews the objectivity and independence of the advice it receives from PwC at a private meeting each year. It is satisfied that PwC is providing robust and professional advice. PwC is a member of the Remuneration Consultants' Group which operates a code of conduct in relation to executive remuneration consulting.

By order of the Board

Tiffany Hall
Remuneration Committee Chairman

28 February 2018

Audit Committee Report

INTRODUCTION FROM THE CHAIR OF THE AUDIT COMMITTEE
It is perhaps to be expected that the work of Audit Committees will receive more focus and attention this year than ever before. Trust in financial reporting, and the governance and internal controls that sit behind it, has been tested. It is therefore important for Audit Committees to demonstrate that they have successfully monitored the integrity of financial statements and presented them in a fair, balanced and understandable way. Our Audit Committee report for 2017 is prepared on that basis.

Without financial integrity and robust financial controls, Howdens would be unable to operate. Nor would we be able to support the extensive network of stakeholders that rely on us. This includes our builder customers, our shareholders, our employees, our pensioners, and our suppliers. With such a large reach, Howdens has a responsibility to achieve sustainable success in line with our culture and values and to continue to operate for many years to come.

Sustainable success can only be achieved if proper protection against financial loss and appropriate mitigation of risk is built into our processes. This protection has been realised using a framework of internal controls and risk management, the effectiveness of which requires continual monitoring and improvement.

The Audit Committee are committed to providing assurance on the principal risks of the business (as detailed on pages 30 to 32) through delivery of the Internal Audit Plan. The Internal Audit Plan is regularly reviewed to ensure assurance activity is aligned to the most significant risks facing the business. In additional to providing the Board with assurance on the principal risks, the Internal Audit Programme provides assurance on key business risks and change programme risks. This ensures that the Board receives assurance on the broadest spectrum of risks that could have an impact on the outlook provided within the viability statement.

Review of the internal controls and risk is supported by the Group's internal audit and risk function. An independent review of the function was carried out by Grant Thornton during the year in line with the Committee's policy to perform a review every five years (further information about which may be found on page 90). The Audit Committee was encouraged to note that the review described the internal audit and risk function as 'a valued and independent voice in the business'.

The work of the Audit Committee in reviewing the Company's financial statements is supported by our independent external auditors, Deloitte LLP (Deloitte). Deloitte has been the Company's auditors since 2002 (when the external audit was last tendered). Their effectiveness and independence have been closely monitored by the Audit Committee to ensure a perceptive, robust and objective audit is always undertaken. Following the appointment of a new lead audit partner this year, which provided further confidence of Deloitte's continued independence, the Audit Committee are pleased to recommend that our shareholders reappoint Deloitte as the external auditor at our AGM on 2 May 2018.

During 2018, the Committee will continue to ensure that the Group's financial systems provide accurate and up-to-date information, that the Group's published financial statements represent a true and fair reflection of this position and that the external audit an internal control frameworks are independent and effective.

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

The Chairman of the Board, along with the Chief Executive Officer, Deputy Chief Executive and Chief Financial Officer, Group Finance Director, Head of Internal Audit and Risk, the Chief Information Officer, representatives from the Finance function and senior representatives of the external auditors, are regularly invited by the Committee Chairman to attend all or part of our meetings as and when appropriate. The Committee, however, reserves the right to request any non-members withdraw from any meeting at any time.

The Committee meets at least three times a year and at any other time the Chairman of the Committee requires it.

	Andrew Cripps*	Mark Allen	Geoff Drabble	Tiffany Hall	Michael Wemms[1]	Debbie White[2]
No. of meetings	3	3	3	3	1	2
Attendance	100%	100%	100%	100%	100%	100%

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

1 Michael retired from the Board on 2 May 2017
2 Debbie was appointed to the Audit Committee on 15 February 2017
* Denotes Chair of Committee

Audit Committee Report continued

FINANCIAL REPORTING

Role of the Audit Committee:

- Monitors the integrity of the financial statements of the Group and formal announcements relating to the Group's financial performance
- Reviews accounting policies and significant financial reporting judgements contained in financial statements or announcements (although the Board as a whole remains responsible for determining whether the Annual Reports and Accounts as a whole are fair, balanced and understandable)
- Ensures that information provided to the Committee by the senior management and the external auditor is complete, accurate, timely and robust
- Reviews the going concern report and the report on the longer-term viability of the business, prior to consideration by the Board

Supporting actions, processes and information:

COMMITTEE ACTIONS

Areas of Significant Financial Judgement

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

The matters shown below have been discussed with the Deputy Chief Executive & Chief Financial Officer, Group Finance Director and the external auditor, and the Committee is satisfied that each of the matters has been fully and adequately addressed by the Executive Committee, appropriately tested and reviewed by the external auditor and the disclosures made in the Annual Report and Accounts are appropriate.

Inventory obsolescence provisioning

Validity of the actuarial assumptions

Recognition of revenue (presumed risk)

Capitalisation of fixed assets

Area of significant financial judgement in 2017 (filled box)

Area of significant financial judgement in 2016 (outlined box)

2017 Areas of significant financial judgement

Inventory obsolescence provisioning

The Group's in stock model (further information about which may be found on page 16) necessitates tight management of our inventory to ensure local availability of stock while at the same time minimising obsolescence and wastage. This is particularly significant in light of the number of new kitchen ranges introduced during the year.

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

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

Validity of the actuarial assumptions

The net deficit of the Group's defined benefit pension scheme has remained in line with the prior year reflecting the fall in the discount rate offset by the Company's contributions and better than expected return on assets. The Committee carefully considered:

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

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

Recognition of revenue (presumed risk)

In accordance with ISA240, there is a presumed fraud risk with regard to revenue recognition.

2016 Area of significant financial judgement

Capitalisation of fixed assets

The capitalisation of fixed assets is no longer considered to be an area of significant financial judgement. It continues to include inherent judgement but to a lesser degree than the areas of significant financial judgement. The change in significance is as a result of the changing nature of capital expenditure in the business's supply division.

FINANCIAL REPORTING CONTINUED

Annual Report and Half Year Financial Report

FRC Review of the 2016 Annual Report and Accounts

The Conduct Committee of the FRC carried out a review of the Company's Report and Accounts for the 52 weeks ended 24 December 2016.

Based on their review, the Conduct Committee did not have any questions or queries to raise with the Company which required a response and did not intend to take any further action in relation to the accounts.

Audit Committee Review

The Audit Committee reviewed the Group's 2017 Annual Report and Accounts and the half-yearly financial report published in July 2017.

As part of this review, the Committee received a report from Deloitte on their audit of the Annual Report and Accounts and review of the half-yearly financial report which took into account the Group's key risks, going concern considerations and longer-term viability.

The Committee also considered whether the Annual Report and Accounts were fair, balanced and understandable.

Financial controls

The effectiveness of the Group's internal financial controls (with specific reference to controls in place on a divisional basis) and the disclosures made in the Annual Report and Accounts on this matter were reviewed by the Audit Committee.

Audit Committee Report continued

EXTERNAL AUDIT

Role of the Audit Committee:

- Makes recommendations to the Board in relation to the appointment of the external auditor and approving the remuneration and terms of engagement of the external auditor
- Reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements
- Reviews the external auditor's audit plans and Audit Committee reports
- Develops, implements and monitors the policy on the engagement of the external auditor to supply non-audit services, taking into account relevant legislation and ethical guidance regarding the provision of non-audit services by the external audit firm

Supporting actions, processes and information:

EXTERNAL AUDITOR

External auditor:	Deloitte LLP ('Deloitte')
External auditor tenure:	15 years
Latest a new external auditor will be engaged*:	2022
Lead audit partner:	Claire Faulkner
Lead audit partner tenure:	1 year (of a 5 year cycle)

The information in the table above was correct at 30 December 2017.

*Further information about external auditor tender plans may be found on page 89.

Auditor Effectiveness

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

- The proposed plan of work presented by the external auditor, including audit risks, materiality, terms of engagement and fees prior to commencement of the 2017 audit
- The external auditor's fulfilment of the agreed audit plan and any variations from the plan
- Perceptions and professional scepticism of the external auditor and audit process from key management personnel in the finance function
- Robustness and perceptiveness of the auditor in their handling of the key accounting and audit judgements
- Internal control and risk content of the external auditor's report

Audit Quality Review

The FRC's Audit Quality Review team (AQR team) selected Deloitte's 2016 audit of the Group's financial statements as part of their 2017/18 annual inspection of audit firms.

The Committee was pleased to note that there were no findings raised following the FRC's assessment of the audit.

Auditor Independence

Auditor independence is an essential part of the audit framework and the assurance it provides. The Committee therefore undertook a comprehensive review of auditor independence during 2017, which included:

- A review of the independence of the external auditor and the arrangements which they have in place to identify, report and manage conflicts of interest
- Consideration of the effectiveness of the external auditor through a review of their plan of work and the outputs arising from the audit
- A review of the changes in key external audit staff for the current year and the arrangements for the day-to-day management of the audit relationship
- Consideration of the overall extent of non-audit services provided by the external auditor, in addition to case-by-case approval of the provision of non-audit services as appropriate
- Deliberation of the likelihood of a withdrawal of the auditor from the market and note taken of the fact that there are no contractual obligations to restrict the choice of external auditor

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

Policy for non-audit services provided by the external Auditor

The main aims of this policy are to:

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

The Audit Committee reviewed and updated the policy for non-audit services in 2016 to bring it into line with the amended FRC ethical standards and UK Corporate Governance Code.

EXTERNAL AUDIT CONTINUED

The regulation substantially limits the non-audit services which can be provided by auditor. The key changes to the policy included:

- The introduction of a 70% cap of the value of the audit fee for all non-audit services calculated on a rolling three-year basis.
- The inclusion of the following services as categories that are prohibited from being carried out by the auditor:
  - tax calculation services as one of the category of services upon which is prohibited
  - actuarial valuation services

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

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

External auditor fees

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

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

Non-audit services were provided in relation the review of the Interim Report.

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

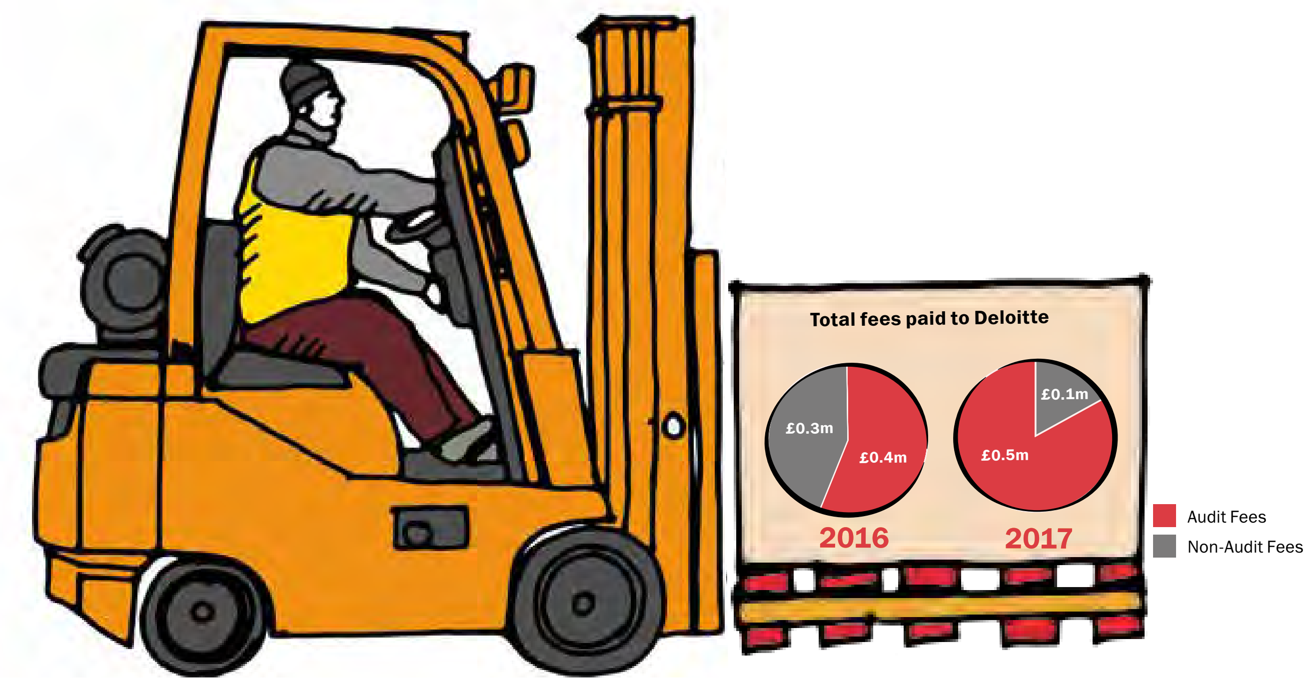
External audit tender

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

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

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

Deloitte has expressed their willingness to continue in office as auditor and the Committee has unanimously recommended to the Board that a proposal to reappoint them as auditor and to authorise the Directors to fix their remuneration is put to the shareholders at the Annual General Meeting in 2018.



Strategic report
Governance
Financial statements
Additional information

Audit Committee Report continued

CONTROLS AND INTERNAL AUDIT

Role of the Audit Committee:

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

Supporting actions, processes and information:

COMMITTEE ACTIONS

Internal Audit

During the year, the Committee reviewed:

- Internal Audit's programme of work and resources
- Results of key audits and other significant findings including the adequacy and timeliness of management's response (see Case Study on Product Safety and Recall on page 92)
- The level and nature of assurance activity performed by Internal Audit
- Staffing, reporting and effectiveness of divisional audit

Fraud Risk

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

Divisional Controls

Senior management from the business were invited to discuss the controls in their business areas. The Director of Commercial Finance and Head of Compliance of the Trade division gave presentations on the control environments in their area.

An update on the IT control environment was presented by the Chief Information Officer. Updates on cyber security and the General Data Protection Regulation were also provided by the Head of Information Systems Security and Group Counsel.

Independent Assurance

The Committee assessed the coverage of independent assurance by reviewing the Group assurance map and reviewed the business continuity management provisions.

WHISTLEBLOWING POLICY

The Group's whistleblowing policy contains arrangements for all our employees to have access to a confidential outsourced service, which allows calls and emails to be received in multiple languages, 24 hours a day. The policy will be reviewed by the Committee in 2018.

Complaints on accounting, risk issues, internal controls, auditing issues and related matters are reported to the Audit Committee as appropriate. In 2017, The Committee received a report on the activity reported under the Group's whistleblowing policy and the issues raised and investigated under this policy were formally reviewed by the Committee.

INDEPENDENT REVIEW OF THE INTERNAL AUDIT AND RISK FUNCTION

An independent review of the Internal Audit and Risk function was carried out by Grant Thornton during the year (in line with the Audit Committee's policy to perform an external review of the functions every five years) to assess its effectiveness and to ensure it was meeting Audit Committee and Board expectations.

The overall conclusion from the review was that the function was widely valued within the business as an independent voice, giving an early view of emerging risks and committed to helping the business to further improve.

In keeping with the overall business culture, the review also concluded that the function demonstrated energy and drive in its work and supported continuous improvement within the business. While this has led to more challenging audits – particularly where they address Group-wide themes – management recognised the usefulness and value of the function's work.

The audit plan's coverage of business risks was also assessed as good, with a mix of audits that either added or preserved value. The risk framework itself was well-developed with regular consultation within the business regarding risks and a good mix of top-down and bottom-up risk consideration in place. The underlying methodology and quality of audit work of the team was assessed to be appropriate.

GOVERNANCE

Role of the Audit Committee:

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

Supporting actions, processes and information:

COMMITTEE ACTIONS

Governance Updates

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

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

Committee Effectiveness

An effectiveness review was carried out on the Committee and its members as part of the Board's wider evaluation process (further details may be found on page 70).

The Committee also reviewed its own effectiveness by completing an Audit Committee effectiveness tool. The review encompassed a mix of qualitative and regulatory considerations as well as reviewing Committee structure, responsibilities and reporting.

Both reviews concluded that the current mix of financial, commercial and relevant sector experience of the Audit Committee, and that of its advisors, is such that the Committee can effectively exercise its responsibilities to the Group in relation to risk and controls.

Terms of Reference

The Committee updated its terms of reference to reflect changes in best practice.

Policies and Conflicts

The Committee reviewed its policies in relation to allocation of non-audit work (further detail on this policy may be found on page 88) and employment of ex-audit firm personnel. It also reviewed the Directors' conflicts of interest register.

CMA Order Compliance

The Audit Committee confirms that the Company has complied with the provisions of the Competition and Markets Authority Order throughout its financial year ended 30 December 2017 and up to the date of this report.

COMMITTEE MEMBERSHIP

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

Chairman

Andrew Cripps was appointed Audit Committee Chair in May 2016. He is responsible for determining the Committee's agenda and for maintaining the key relationships between the Group's senior management, Head of Risk and Internal Audit, the Company Secretary and senior representatives of the external auditor.

Andrew is also responsible for ensuring that key audit issues are reported to the Board in an effective and timely manner and that they are reported to shareholders via the Annual Report.

Recent and relevant financial experience

Andrew Cripps qualified as a Chartered Accountant with KPMG and has held executive director roles in the UK and Europe with Rothmans International, where he was Corporate Finance Director. More recently, Andrew has been Audit Committee Chairman of a number of public companies, including Booker Group plc.

Competence relevant to the sector

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

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

Audit Committee Report continued

Case Study: Product Safety and Recall

The Audit Committee has a broad remit and whilst a significant amount of the Committee's time is spent scrutinising the financial reporting aspects of the business, the Committee also provides important safeguards in relation to operational internal controls. One such area which has featured highly on the Audit Committee's agenda during 2017 (and will continue to do so) is product safety. Care for the health and safety of everyone who comes into contact with Howdens, be they employees, customers, or suppliers, is integral to our principles and to our behaviour.

Product safety and the ability of companies to successfully undertake product recall programmes came under increased scrutiny during 2017. To that end the Government has taken action by launching the Office for Product Safety and Standards to support companies on such matters but the onus remains on manufacturers, producers and sellers of products to safeguard their customers and their customers' customer. Howdens takes its social and legal responsibilities for product safety and product recall preparedness very seriously. As a producer of our own Lamona branded kitchen appliances, we are acutely aware that we are responsible for the products we produce. Whilst these products should be affordable, reliable and energy-efficient, first and foremost they need to be safe.

The Audit Committee is satisfied that there are extensive mitigating measures to ensure our products are safe; the safety of those using products supplied by Howdens is fundamental to our primary aim of being a business which is worthwhile for all concerned.

Following an internal audit review undertaken during 2016, the Audit Committee requested an update on the actions against the recommendations from management. At the July Audit Committee meeting the Chief Operating Officer for the Supply division provided an update on the progress of the recommendations against plan. At the meeting, he confirmed that:

- A cross-divisional Product Safety Committee had been established in order to review the strategic objectives and initiatives concerning product safety and product recall processes. This Committee would support the existing divisional product safety procedures and make recommendations to the Executive Committee when a product incident necessitated a product recall or other remedial action.
- Product traceability tests had been undertaken in order to establish the availability of purchaser data and other relevant information which could assist in the event of a product recall.
- Appliance serial number scanners had been installed in all depots.
- AMDEA registrations had improved but, in line with the wider market, remained low.
- Testing of the documented product recall processes would be performed before the end of the year.

The Committee also considered the external assurance received specifically in relation to the safety design features of Lamona fridge freezers. Further to the update, the Audit Committee agreed to revisit the product safety and recall work following testing of the product recall process.

Given the importance of this work, the Audit Committee will continue to review the control framework safeguarding product safety on a recurring basis in the future in order to ensure the appropriate safeguards remain in place.

THE AUDIT COMMITTEE IN 2018

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

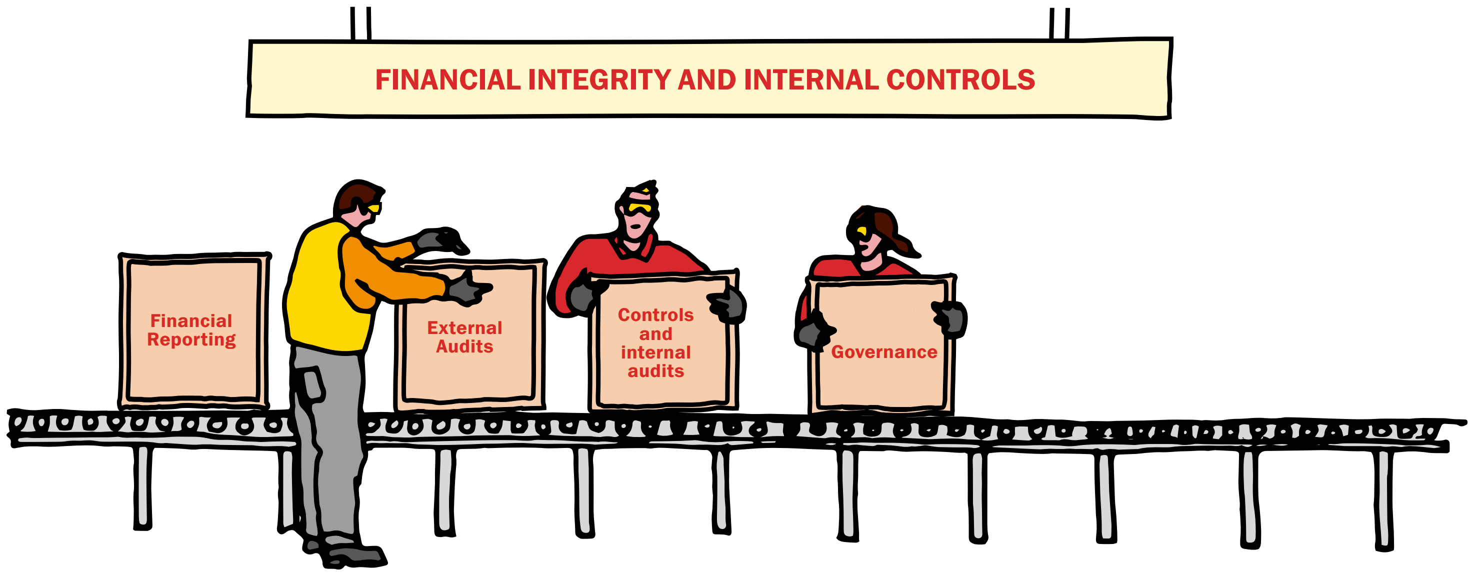
The Committee will continue to consider all of the matters set out in this report for which it has primary responsibility in relation to financial statements, reporting and controls, the work of the external auditor and the Internal Audit function.

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

The Committee is scheduled to meet at least three times during 2018 and these meetings will follow the annual reporting cycle.

By order of the Board

Andrew Cripps
Audit Committee Chairman
28 February 2018



Directors' Report

The Directors have pleasure in submitting their report and the audited financial statements for the 53 week period ended 30 December 2017. Comparative figures relate to the 52 weeks ended 24 December 2016.

In order to make our Annual Report and Accounts more accessible a number of the sections traditionally found in this report can now be found in other sections of this Annual Report and Accounts where it was deemed that the information would be presented in a more connected and accessible way. The Directors' report comprises the sections detailed below, including the statement on political donations.

Any sections that have been moved have been cross-referenced below for ease of reference:

Located in the Strategic Report:

Principal Group activities, business review and results: The principal activities of Howden Joinery Group Plc and its subsidiaries can be found on pages 5 to 49.

Dividend: Information about the final dividend can be found in the Chairman's Statement on page 8 and the Review of Finance and Operations on page 24.

Going Concern, Viability and other Statements of the Directors: These statements may be found on pages 33 and 34.

Principal Risks and Uncertainties: The Group's principal risks and uncertainties and information on the Group's approach to risk and the risk management process may be found on pages 28 to 32.

Located in the Corporate Social Responsibility Report:

Greenhouse Gas Emissions: Details of the Group's greenhouse gas emissions, as required by Schedule 7 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulation 2008 (SI 2008/410) as amended by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (SI 2013/1970), are set out on page 45.

Employees: Information about employee participation in the Howden Joinery Share Incentive Plan can be found on page 40.

Located in the Nominations Committee Report:

Directors: Information with regard to the appointment and replacement of Directors is located on page 66.

Employees: Information about the total number of employees and gender diversity statistics are located on page 67. The average number of employees and their remuneration are shown in note 7 to the financial statements.

Located in the Corporate Governance Report:

Share capital, substantial shareholdings and acquisition of the Company's own shares: Information in this regard can be found on page 59.

Directors: Details of Directors who served during the year and up to the date of signing may be found on page 51. Details of Directors and their interests are on page 83 and details of Directors' Indemnity and Insurance on page 61.

Annual General Meeting: Information about the Annual General Meeting, including reappointment of the Group's auditor, can be found on page 59. A copy of the UK Corporate Governance Code can be accessed at www.frc.org.uk.

POLITICAL DONATIONS

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

By order of the Board

Forbes McNaughton
Company Secretary

28 February 2018

Financial statements

Consolidated income statement

	Notes	53 weeks to 30 December 2017 £m	52 weeks to 24 December 2016 £m
Continuing operations:			
Revenue – sale of goods	4	1,403.8	1,307.3
Cost of sales		(515.4)	(467.4)
Gross profit		888.4	839.9
Selling & distribution costs		(564.5)	(513.5)
Administrative expenses		(89.5)	(89.2)
Operating profit	6	234.4	237.2
Finance income	8	0.2	0.8
Other finance expense – pensions		(2.4)	(1.0)
Profit before tax		232.2	237.0
Tax on profit	9	(47.2)	(51.4)
Profit for the period attributable to the equity holders of the parent		185.0	185.6
Earnings per share:			
Basic earnings per 10p share	10	29.9p	29.5p
Diluted earnings per 10p share	10	29.8p	29.4p

Consolidated statement of comprehensive income

	53 weeks to 30 December 2017 £m	52 weeks to 24 December 2016 £m
Profit for the period	185.0	185.6
Items of other comprehensive income:		
Items that will not be reclassified subsequently to profit or loss:		
Actuarial losses on defined benefit pension scheme	(22.1)	(86.4)
Deferred tax on actuarial losses on defined benefit pension scheme	4.2	16.3
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	–	0.8
Other comprehensive income for the period	(17.9)	(69.3)
Total comprehensive income for the period attributable to equity holders of the parent	167.1	116.3

Consolidated balance sheet

	Notes	30 December 2017 £m	24 December 2016 £m
Non-current assets			
Intangible assets	12	15.4	7.3
Property, plant and equipment	13	180.0	167.9
Deferred tax asset	14	25.8	26.0
Long-term prepayments		0.1	0.4
		221.3	201.6
Current assets			
Inventories	15	208.3	183.7
Trade and other receivables	16	137.8	135.9
Investments	16	55.0	87.3
Cash at bank and in hand	22	186.1	139.3
		587.2	546.2
Total assets		808.5	747.8
Current liabilities			
Trade and other payables	17	(212.1)	(214.2)
Current tax liability		(20.6)	(19.8)
		(232.7)	(234.0)
Non-current liabilities			
Pension liability	19	(109.3)	(106.0)
Deferred tax liability	14	(1.8)	(1.8)
Provisions	20	(10.5)	(9.0)
		(121.6)	(116.8)
Total liabilities		(354.3)	(350.8)
Net assets		454.2	397.0
Equity			
Share capital	21	62.8	63.9
Share premium account		87.5	87.5
ESOP reserve		(10.7)	(0.2)
Treasury shares		(36.2)	(52.8)
Retained earnings		350.8	298.6
Total equity		454.2	397.0

The financial statements were approved by the Board and authorised for issue on 28 February 2018 and were signed on its behalf by

Mark Robson
Deputy Chief Executive and Chief Financial Officer

Consolidated statement of changes in equity

	Share capital £m	Share premium account £m	ESOP reserve £m	Treasury shares £m	Other reserve £m	Retained profit £m	Total £m
At 26 December 2015	65.2	87.5	11.0	(45.3)	28.1	275.2	421.7
Accumulated profit for the period	–	–	–	–	–	185.6	185.6
Other comprehensive income for the period	–	–	–	–	–	(70.1)	(70.1)
Total comprehensive income for the period	–	–	–	–	–	115.5	115.5
Current tax on share schemes	–	–	–	–	–	1.5	1.5
Deferred tax on share schemes	–	–	–	–	–	(2.1)	(2.1)
Currency translation differences	–	–	–	–	–	0.8	0.8
Movement in ESOP	–	–	5.0	–	–	–	5.0
Buyback and cancellation of shares	(1.3)	–	–	–	–	(55.0)	(56.3)
Buyback of shares into treasury	–	–	–	(23.7)	–	–	(23.7)
Transfer of shares from treasury into share trust	–	–	(16.2)	16.2	–	–	–
Dividends declared and paid	–	–	–	–	–	(65.4)	(65.4)
Transfer of other reserve into retained earnings	–	–	–	–	(28.1)	28.1	–
At 24 December 2016	63.9	87.5	(0.2)	(52.8)	–	298.6	397.0
Accumulated profit for the period	–	–	–	–	–	185.0	185.0
Other comprehensive income for the period	–	–	–	–	–	(17.9)	(17.9)
Total comprehensive income for the period	–	–	–	–	–	167.1	167.1
Current tax on share schemes	–	–	–	–	–	0.4	0.4
Deferred tax on share schemes	–	–	–	–	–	(0.1)	(0.1)
Movement in ESOP	–	–	6.1	–	–	–	6.1
Buyback and cancellation of shares	(1.1)	–	–	–	–	(46.8)	(47.9)
Transfer of shares from treasury into share trust	–	–	(16.6)	16.6	–	–	–
Dividends declared and paid	–	–	–	–	–	(68.4)	(68.4)
At 30 December 2017	62.8	87.5	(10.7)	(36.2)	–	350.8	454.2

The ESOP reserve includes shares in Howden Joinery Group Plc with a market value on the balance sheet date of £36.5m (2016: £20.8m), which are held by the Group's Employee Share Trusts in order to satisfy share options and awards made under the Group's various share-based payment schemes.

The item "Movement in ESOP" consists of the share-based payment charge in the year, together with any receipts of cash from employees on exercise of share options.

At the current period end there were 7,420,580 ordinary shares held in treasury, each with a nominal value of 10p (2016: 10,828,842 shares).

Strategic report
Governance
Financial statements
Additional information

Consolidated cash flow statement

	Notes	53 weeks to 30 December 2017 £m	52 weeks to 24 December 2016 £m
Group operating profit		234.4	237.2
Adjustments for:			
Depreciation and amortisation included in operating profit		28.0	24.0
Share-based payments charge		4.0	4.0
Loss/(profit) on disposal of property, plant and equipment and intangible assets		0.2	(0.1)
Operating cash flows before movements in working capital		266.6	265.1
Movements in working capital and exceptional items			
Increase in stock		(24.6)	(6.6)
Increase in trade and other receivables		(1.9)	(6.4)
(Decrease)/increase in trade and other payables and provisions		(0.4)	14.5
Difference between pensions operating charge and cash paid		(21.2)	(30.6)
		(48.1)	(29.1)
Cash generated from operations		218.5	236.0
Tax paid		(41.8)	(41.5)
Tax refund received		–	12.7
Net cash flow from operating activities		176.7	207.2
Cash flows used in investing activities			
Payments to acquire property, plant and equipment and intangible assets		(48.5)	(63.5)
Receipts from sale of property, plant and equipment and intangible assets		–	0.2
Interest received		0.2	0.8
Net cash used in investing activities		(48.3)	(62.5)
Cash flows used in financing activities			
Payments to acquire own shares		(47.9)	(80.0)
Receipts from release of shares from share trust		2.1	1.0
Decrease in long-term prepayments		0.3	0.2
Dividends paid to Group shareholders		(68.4)	(65.4)
Net cash used in financing activities		(113.9)	(144.2)
Net increase in cash and cash equivalents		14.5	0.5
Cash and cash equivalents at beginning of period		226.6	226.1
Cash and cash equivalents at end of period	22	241.1	226.6

Notes to the consolidated financial statements

1 GENERAL INFORMATION

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Group's accounting period covers the 53 weeks to 30 December 2017. The comparative period covered the 52 weeks to 24 December 2016.

Statement of compliance and basis of preparation

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

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

Standards in issue but not yet effective

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

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

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

IFRIC 22: Foreign Currency Transactions and Advance Consideration

Amendments to IAS 40: Transfers of Investment Property

Annual Improvements to IFRSs: 2014 - 2016 Cycle

IFRS 9: Financial Instruments

IFRS 14: Regulatory Deferral Accounts

IFRS 15: Revenue from Contracts with Customers

IFRS 16: Leases

IFRIC 23: Uncertainty over Income Tax Treatments

Amendments to IFRS 9: Prepayment Features with Negative Compensation

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

Annual Improvements to IFRSs: 2015-17 cycle

IFRS 17: Insurance Contracts

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

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

IFRS 15: Revenue from Contracts with Customers

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

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

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

The effect of IFRS 15 is expected to be most significant for companies which, for example, sell combined bundles of both goods and services, and companies who have long-term contracts.

The Group's business model does not include any such transactions. We are an in-stock business, we currently recognise revenue on despatch from our depots, and we do not expect that to change under IFRS 15.

The effect of IFRS 15 on the amount of revenue recognised

IFRS 15 will require some companies to adjust the amount of revenue they recognise in a period as it requires companies to adjust revenue for discounts, rebates, incentives, penalties and similar items.

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

Notes to the consolidated financial statements continued

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

We lease our depot, warehouse, factory and office properties, as well as other assets such as fork lift trucks, lorries, vans and cars. Under the current leasing standard, these leases are operating leases. This means that they are not represented on the balance sheet, and that rent payments are charged to income on a straight-line basis over the course of the lease. The amount of our future operating lease commitments can be seen at note 23 to these accounts, and our annual lease payment is shown at note 6.

When IFRS 16 comes into effect, we will have to bring these operating leases onto our balance sheet. Also, our annual lease expense will no longer be equal to the rent paid for that year.

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

IFRS 16 will also have a timing effect on the annual lease expense, which will no longer be equal to the rent paid for that year. We will have to treat the leases in a similar way to borrowings, and will have to calculate a notional interest charge on them. This notional interest will be calculated in a similar way to that in which interest is charged on a loan. More interest will be charged in the early periods of each lease and less interest will be charged in 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. We have carried out a high level impact assessment, and as part of our ongoing IFRS 16 implementation project we have selected a software solution which we will use to carry out the detailed IFRS 16 calculations and which we will begin to implement in 2018. The actual amount of additional assets and liabilities which we will recognise when we adopt IFRS 16 in 2020 will depend on several factors. Some of the most material factors will be: the transition option we decide to use; the incremental borrowing rates we use to discount our future lease commitments, and any significant leases which the Group enters into or which come to an end between now and 2020.

Basis of consolidation

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

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

Inventories

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

Property, plant and equipment

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. The calculation is performed by a qualified actuary using the projected unit method. Scheme assets are valued at bid price.

Current and past service costs are recognised in operating profit and net financing costs include interest on pension scheme liabilities and assets. Actuarial gains and losses are recognised immediately through the remeasurement of the defined benefit pension liability and are taken through the Statement of Other Comprehensive Income.

Leased assets

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

Operating leases

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

Lease incentives

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

Leases with predetermined fixed rental increases

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

Borrowing costs

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

Other payables

Other payables are stated at their fair value.

Share-based payments

The Group 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 SIGNIFICANT ACCOUNTING JUDGEMENTS AND MAJOR SOURCES OF ESTIMATION UNCERTAINTY

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

Actuarial assumptions underlying the value of pension liabilities

The Group operates a defined benefit scheme for its employees. There is significant judgement involved in selecting appropriate measurement bases for the actuarial assumptions used to measure the pension deficit. There is also estimation uncertainty which means that reasonable alternative assumptions could have led to measurement at a materially different amount, or that a reasonably possible change in an assumption during the next period could lead to a material change in the valuation.

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

Allowances against the carrying value of inventories

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

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

Notes to the consolidated financial statements continued

4 REVENUE

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

	53 weeks to 30 December 2017 £m	52 weeks to 24 December 2016 £m
Continuing operations		
Sales of goods	1,403.8	1,307.3
Finance income	0.2	0.8
Total revenue	1,404.0	1,308.1

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

	53 weeks to 30 December 2017 £m	52 weeks to 24 December 2016 £m
Capital additions	48.5	63.5
Depreciation and amortisation	(28.0)	(24.0)

(c) Geographical information

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

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

	53 weeks to 30 December 2017 £m	52 weeks to 24 December 2016 £m
Revenues from external customers		
UK	1,372.0	1,281.7
Continental Europe	31.8	25.6
	1,403.8	1,307.3

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:

	30 December 2017 £m	24 December 2016 £m
Carrying amount of segment assets		
UK	774.9	726.0
Continental Europe	33.6	21.8
	808.5	747.8

	30 December 2017 £m	24 December 2016 £m
Non-current assets (excluding deferred tax assets)		
UK	191.5	171.6
Continental Europe	4.0	4.0
	195.5	175.6

	53 weeks to 30 December 2017 £m	52 weeks to 24 December 2016 £m
Additions to property plant and equipment and intangible assets		
UK	47.9	61.7
Continental Europe	0.6	1.8
	48.5	63.5

Notes to the consolidated financial statements continued

6 OPERATING PROFIT

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

	53 weeks to 30 December 2017 £m	52 weeks to 24 December 2016 £m
Net foreign exchange loss	(11.3)	(22.9)
Depreciation of property plant and equipment:		
– on owned assets	(25.6)	(21.9)
Amortisation of intangible assets (included in administrative expenses):		
– on owned assets	(2.4)	(2.1)
Cost of inventories recognised as an expense	(497.3)	(437.7)
Write down of inventories	(6.8)	(6.8)
(Loss)/profit on disposal of fixed assets	(0.2)	0.1
Increase in allowance for doubtful debts (note 16)	(1.2)	(0.4)
Staff costs (note 7)	(379.7)	(350.9)
Lease payments under operating leases	(78.6)	(73.8)
Auditor's remuneration for audit services (see below)	(0.5)	(0.4)

All of the items above relate to continuing operations.

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

	53 weeks to 30 December 2017 £m	52 weeks to 24 December 2016 £m
Audit services:		
Fees paid to the Company's auditor for the audit of the Company's annual financial statements	(0.2)	(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	(0.5)	(0.4)
Other services:		
Audit related assurance services	(0.1)	(0.1)
Tax compliance services	–	(0.1)
Tax advisory services	–	(0.1)
Total non-audit fees	(0.1)	(0.3)

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:

	53 weeks to 30 December 2017 £m	52 weeks to 24 December 2016 £m
Wages and salaries	(323.3)	(301.7)
Social security costs	(30.6)	(26.4)
Pension operating costs (note 19)	(25.8)	(22.8)
	(379.7)	(350.9)

Wages and salaries includes a charge in respect of share-based payments of £4.0m (2016: £4.0m).

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

	53 weeks to 30 December 2017 Number	52 weeks to 24 December 2016 Number
	9,044	8,852

8 FINANCE INCOME

	53 weeks to 30 December 2017 £m	52 weeks to 24 December 2016 £m
Bank interest receivable	0.2	0.5
Other interest receivable	–	0.3
Total finance income	0.2	0.8

Notes to the consolidated financial statements continued

9 TAX

(a) Tax in the income statement

	53 weeks to 30 December 2017 £m	52 weeks to 24 December 2016 £m
Current tax:		
Current year	43.3	44.9
Adjustments in respect of previous periods	(0.4)	(0.1)
Total current tax	42.9	44.8
Deferred tax		
Current year	4.5	7.2
Adjustments in respect of previous periods	(0.2)	(0.6)
Total deferred tax	4.3	6.6
Total tax charged in the income statement	47.2	51.4

UK Corporation tax is calculated at 19.25% (2016: 20%) 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

	53 weeks to 30 December 2017 £m	52 weeks to 24 December 2016 £m
Deferred tax credit to other comprehensive income on actuarial loss on pension scheme	(4.2)	(16.3)
Deferred tax charge to equity on share schemes	0.1	2.1
Current tax credit to equity on share schemes	(0.4)	(1.5)
	(4.5)	(15.7)

(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:

	53 weeks to 30 December 2017 £m	52 weeks to 24 December 2016 £m
Profit before tax	232.2	237.0
Tax at the UK corporation tax rate of 19.25% (2016: 20%)	44.7	47.4
IFRS2 share scheme charge	(0.9)	(0.4)
Expenses not deductible for tax purposes	1.6	2.2
Overseas losses not utilised	1.2	1.6
Change of tax rate*	–	0.4
Non-qualifying depreciation	1.2	0.9
Other tax adjustments in respect of previous years	(0.6)	(0.7)
Total tax charged in the income statement	47.2	51.4

* 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%.

The Group's effective rate of tax is 20.3% (2016: 21.7%).

10 EARNINGS PER SHARE

	53 weeks to 30 December 2017			52 weeks to 24 December 2016		
	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	185.0	619.1	29.9	185.6	629.6	29.5
Effect of dilutive share options	–	2.1	(0.1)	–	1.9	(0.1)
Diluted earnings per share	185.0	621.2	29.8	185.6	631.5	29.4

Notes to the consolidated financial statements continued

11 DIVIDENDS

	53 weeks to 30 December 2017 £m	52 weeks to 24 December 2016 £m
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the 53 weeks to 30 December 2017 – 3.6p/share	22.2	–
Final dividend for the 52 weeks to 24 December 2016 – 7.4p/share	46.2	–
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
	68.4	65.4

	53 weeks to 30 December 2017 £m	52 weeks to 26 December 2016 £m
Dividends proposed at the end of the period (but not recognised in the period):		
Proposed final dividend for the 53 weeks to 30 December 2017 – 7.5p/share	46.0	
Proposed final dividend for the 52 weeks to 24 December 2016 – 7.4p/share		46.1

The directors propose a final dividend in respect of the 53 weeks to 30 December 2017 of 7.5p per share, payable to ordinary shareholders who are on the register of shareholders at 25 May 2018, and payable on 22 June 2018.

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 2018 Annual General Meeting, and has not been included as a liability in these financial statements.

12 INTANGIBLE ASSETS

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

	Intangible assets in use £m	Intangible assets under construction £m	TOTAL £m
Cost			
At 26 December 2015	15.2	–	15.2
Exchange adjustments	0.2	–	0.2
Additions	4.8	–	4.8
Disposals	(0.2)	–	(0.2)
At 24 December 2016	20.0	–	20.0
Exchange adjustments	0.1	–	0.1
Additions	3.7	6.8	10.5
Disposals	(0.3)	–	(0.3)
At 30 December 2017	23.5	6.8	30.3
Accumulated depreciation			
At 26 December 2015	(10.6)	–	(10.6)
Exchange adjustments	(0.2)	–	(0.2)
Charge for the period	(2.1)	–	(2.1)
Disposals	0.2	–	0.2
At 24 December 2016	(12.7)	–	(12.7)
Exchange adjustments	(0.1)	–	(0.1)
Charge for the period	(2.4)	–	(2.4)
Disposals	0.3	–	0.3
At 30 December 2017	(14.9)	–	(14.9)
Net book value at 30 December 2017	8.6	6.8	15.4
Net book value at 24 December 2016	7.3	–	7.3

Additions to intangible assets under construction in the period include £1.4m which has been transferred from the property plant and equipment asset class "Capital WIP" and is shown as a disposal in note 13.

Notes to the consolidated financial statements continued

13 PROPERTY, PLANT AND EQUIPMENT

	Freehold property £m	Leasehold property £m	Plant, machinery & vehicles £m	Fixtures & fittings £m	Capital WIP £m	TOTAL £m
Cost						
At 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
Exchange adjustments	–	–	0.1	0.2	–	0.3
Additions	1.5	7.7	11.1	10.7	8.2	39.2
Disposals	(0.1)	(1.8)	(6.4)	(2.0)	(1.6)	(11.9)
Reclassifications	1.7	4.7	13.6	0.5	(20.5)	–
At 30 December 2017	33.9	67.8	167.5	118.5	18.9	406.6
Accumulated depreciation						
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
Exchange adjustments	–	–	–	0.1	–	0.1
Charge for the period	1.0	4.7	12.8	7.1	–	25.6
Disposals	–	(1.8)	(6.4)	(2.0)	–	(10.2)
At 30 December 2017	4.3	25.7	113.4	83.2	–	226.6
Net book value at 30 December 2017	29.6	42.1	54.1	35.3	18.9	180.0
Net book value at 24 December 2016	27.5	34.4	42.1	31.1	32.8	167.9

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 26 December 2015	9.8	1.0	4.8	1.0	16.6
(Charge)/credit 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
(Charge)/credit to income statement	(3.5)	0.1	(0.8)	(0.1)	(4.3)
Credit/(charge) outside income statement	4.2	–	(0.1)	–	4.1
At 30 December 2017	20.8	1.6	0.7	0.9	24.0

Deferred tax arising from accelerated capital allowances, company share schemes and other timing differences can be further analysed as a £5.0m asset and a £1.8m liability (2016: £5.9m asset and £1.8m liability).

The presentation in the balance sheet is as follows:

	30 December 2017 £m	24 December 2016 £m
Deferred tax assets	25.8	26.0
Deferred tax liabilities	(1.8)	(1.8)
	24.0	24.2

At the balance sheet date the Group had unused tax losses as disclosed below. These losses are carried forward by particular Group companies and may only be offset against profits of that particular company. Deferred tax assets are not recognised in relation to these losses as it is not considered probable that suitable future taxable profits will be available in the relevant company against which the loss can be utilised. Specifically, in the case of the trading and non-trading losses this is due to the unpredictability of future profit streams in the relevant entities, while for capital losses it is due to no current forecasted future capital gains. Included in unrecognised trading losses are losses arising in The Netherlands of £5m (2016: £3m) which can only be carried forward for up to nine years. Other unrecognised losses may be carried forward indefinitely. All losses have been valued in GBP at the year end closing exchange rate.

	30 December 2017 £m	24 December 2016 £m
Trading losses	50	44
Non-trading losses	20	20
Capital losses	86	86
Total losses	156	150
Trading losses expiring in 2023	2	2
Trading losses expiring in 2024	1	1
Trading losses expiring in 2025	2	–
Losses available indefinitely	151	147
Total losses	156	150

Notes to the consolidated financial statements continued

15 INVENTORIES

	30 December 2017 £m	24 December 2016 £m
Raw materials	5.7	5.0
Work in progress	5.3	4.2
Finished goods and goods for resale	224.4	196.9
Allowance against carrying value of inventories	(27.1)	(22.4)
	208.3	183.7

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

	30 December 2017 £m	24 December 2016 £m
Trade receivables (net of allowance)	103.8	99.2
Prepayments and accrued income	31.8	35.3
Other receivables	2.2	1.4
	137.8	135.9

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:

	30 December 2017 £m	24 December 2016 £m
Balance at start of period	8.7	8.3
Increase in allowance recognised in the income statement	1.2	0.4
Balance at end of period	9.9	8.7

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

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

The historical level of customer default is low, and as a result we consider the "credit quality" of period end trade receivables to be high. We regularly review trade receivables which are past due but not impaired, and we consider, based on past experience, whether the credit quality of these amounts at the balance sheet date has deteriorated since the transaction was entered into and therefore whether the amounts are recoverable. We maintain regular contact with all such customers and, where necessary, we take legal action to recover the receivable. We make an allowance for impairment for any specific amounts which we consider to be irrecoverable or only partly recoverable. We also have a separate general allowance, which is calculated as a percentage of sales and is based on historical default rates. At the period end, the total bad debt provision of £9.9m (2016: £8.7m) consists of a specific provision of £4.0m (2016: £3.5m) which has been made against specific debts with a gross carrying value of £5.2m (2016: £4.5m), and a general provision of £5.9m (2016: £5.2m). 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 £5.3m of debts in the period (2016: £5.0m). Included within our aggregate trade receivables balance are specific debtor balances with customers totalling £24.1m before bad debt provision (2016: £18.9m 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:

	30 December 2017 £m	24 December 2016 £m
1–30 days past due	12.0	9.3
31–60 days past due	2.8	2.2
61–90 days past due	1.6	1.1
90+ days past due	7.7	6.3
Total overdue amounts, excluding allowance for doubtful receivables	24.1	18.9

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

	30 December 2017 £m	24 December 2016 £m
Current liabilities		
Trade payables	88.6	93.9
Other tax and social security	61.5	58.4
Other payables	11.7	10.6
Accruals and deferred income	50.3	51.3
	212.1	214.2

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 45 days (2016: 47 days).

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

Notes to the consolidated financial statements continued

18 BORROWING FACILITY

The Group has a £140m committed borrowing facility, which expires in July 2019. The Group did not use the facility in the year.

The facility is secured on the trade receivables and stock of the Group. The available facility limit is calculated every week, based on the asset backing at the time and can never exceed £140m. There were no borrowings under the facility at either the current or previous year end. As at 30 December 2017, the Group had available £138m of undrawn committed borrowing facilities, in respect of which all conditions precedent had been met (24 December 2016: £138m), in addition to the Group's cash and short-term investments as shown on the balance sheet.

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

19 RETIREMENT BENEFIT OBLIGATIONS

(a) Overview of all retirement benefit arrangements

Defined contribution: auto-enrolment plan

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

The total cost charged to income in respect of this plan in the current period of £4.8m (2016: £4.1m) represents the Group's contributions due and payable in respect of the period. All of this amount was paid in the period (2016: £0.4m 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 (2016: £0.8m) represents the Group's contributions due and paid in respect of the period.

Defined benefit plan

Characteristics and risks of the plan

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

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

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

Accounting and actuarial valuation

Contributions are charged to the consolidated income statement so as to spread the cost of pensions over the employees' working lives with the Group. The present value of the defined benefit obligation, the related current service cost, and past service cost are determined by a qualified actuary using the projected unit method. The most recent completed actuarial valuation was carried out at 5 April 2014 by the plan actuary. The 5 April 2017 valuation is in progress but is not completed. The actuary advising the Group has subsequently rolled forward the results of the 5 April 2014 valuation to 30 December 2017. This roll-forward exercise involves updating all the assumptions which are market-based (i.e. inflation, discount rate, rate of increase in pensions and rate of CARE revaluation) to values as at 30 December 2017. The mortality tables used to derive life expectancy assumptions for the accounting valuation are the same as those used for the most recent agreed triennial actuarial valuation, albeit that they are adjusted each year for actual experience. We only change the underlying mortality tables once a triennial actuarial valuation has been agreed with the plan Trustees. We are currently using CMI 2013 mortality tables, and we will update these in line with the agreed April 2017 triennial valuation once it is completed.

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. Funding arrangements beyond June 2018 are in the process of being agreed with the plan trustees together with the April 2017 valuation. The Group's estimated total cash contributions to the defined benefit plan in the 52 weeks ending 29 December 2018 will depend on these funding arrangements, so they cannot be accurately estimated at the time of approving these financial statements.

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 £109m. 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 £220m, this estimate being based on an approximate roll-forward of the 2014 triennial funding valuation.

French post-employment benefits

We recognised a provision in 2014 for a post-employment benefit which is payable under French law to employees in our French subsidiaries 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 in respect of pensions in the period

	53 weeks to 30 December 2017 £m	52 weeks to 24 December 2016 £m
Charged to the income statement:		
Defined benefit plan – current service cost	18.1	15.0
Defined benefit plan – administration costs	2.1	2.9
Defined benefit plan – total operating charge	20.2	17.9
Defined benefit plan – net finance charge	2.4	1.0
Defined contribution plans – total operating charge	5.6	4.9
French post-employment benefits – charge in period	–	0.1
Total net amount charged to profit before tax	28.2	23.9
Charged/(credited) to equity:		
Defined benefit plan – actuarial losses	22.1	86.4
Total charge	50.3	110.3

(c) Other information – defined benefit pension plan

Key assumptions used in the valuation of the plan	53 weeks to 30 December 2017	52 weeks to 24 December 2016
Rate of increase of pensions in deferment capped at lower of CPI and 5%	2.40%	2.50%
Rate of CARE revaluation capped at lower of RPI and 3%	2.55%	2.60%
Rate of increase of pensions in payment:		
– pensions with increases capped at lower of CPI and 5%	2.40%	2.50%
– pensions with increases capped at lower of CPI and 5%, with a 3% minimum	3.35%	3.55%
– pensions with increases capped at the lower of LPI and 2.5%	2.25%	2.25%
Rate of increase in salaries	4.40%	4.50%
Inflation assumption – RPI	3.40%	3.50%
Inflation assumption – CPI	2.40%	2.50%
Discount rate	2.50%	2.85%
Life expectancy (yrs): pensioner aged 65		
– male	88.0	87.9
– female	89.5	89.4
Life expectancy (yrs): non-pensioner aged 45		
– male	89.6	89.5
– female	92.4	92.3

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 5.6%, or £77m, and a decrease/increase in the total service cost of around £1.5m.

An increase/decrease of 0.25% to the inflation rate would increase/decrease scheme liabilities by around 2.7%, or £37m, and would increase/decrease the total service cost by around £0.4m.

The effect of increasing/decreasing the assumption regarding life expectancy by one year longer/shorter than shown above would be to increase/decrease the assessed value of liabilities by around 2% or £27m, and would increase/decrease total service cost by around £0.3m.

The sensitivities above are applied to the defined benefit obligation at the end of the reporting period, and the projected total service cost for 2018. 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

	30 December 2017		24 December 2016	
	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	459.1	–	435.7	–
Equities				
– passive equities	135.5	–	113.6	–
– low volatility equities	228.3	–	215.2	–
Private equity	–	26.5*	–	43.2*
Alternative growth assets				
– fund of hedge funds	89.2	–	84.3	–
– absolute return fund	68.0	–	67.2	–
Corporate bonds	156.7	–	124.6	–
Commercial property fund	57.9	31.2**	52.3	30.1**
Cash and cash equivalents	12.9	–	11.6	–
Total	1,207.6	57.7	1,104.5	73.3

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

* The private equity investments are held in two funds. One fund values the assets based on guidelines from the European Private Equity and Venture Capital Association and International Private Equity and Venture Capital Valuation. The assets in the other fund are measured at fair market value on a quarterly basis in accordance with US GAAP: using the latest closing prices for publicly traded and quoted securities and applying a possible exit price for non-marketable and direct investments.

** This holding is recorded at historical costs and then adjusted for amortisation and other payments received.

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 2017), 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 members, liability split and duration

	30 December 2017[1]		
	No. of members	% of total liability	Duration (yrs)
Active	1,655	7%	32
Deferred	6,069	56%	24
Pensioners	3,372	37%	15
Total number/average duration	11,096	100%	21

1 The number of members is as per the 5 April 2017 trustees' report, and the duration and percentage of total liability are on the funding basis and as at 5 April 2014 (being the date of the most recent agreed triennial valuation).

	24 December 2016[2]		
	No. of members	% of total liability	Duration (yrs)
Active	1,781	7%	32
Deferred	6,226	56%	24
Pensioners	3,198	37%	15
Total number/average duration	11,205	100%	21

2 The number of members is as per the 5 April 2016 trustees' report, and the duration and percentage of total liability are on the funding basis and as at 5 April 2014 (being the date of the most recent agreed triennial valuation).

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:

	30 December 2017 £m	24 December 2016 £m
Present value of defined benefit obligations	(1,374.6)	(1,283.8)
Fair value of scheme assets	1,265.3	1,177.8
Deficit in the scheme, recognised in the balance sheet	(109.3)	(106.0)

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

	53 weeks to 30 December 2017 £m	52 weeks to 24 December 2016 £m
Present value at start of period	1,283.8	1,042.3
Current service cost	18.1	15.0
Administration cost	2.1	2.9
Interest on obligation	36.0	38.3
Contributions from scheme members	0.1	0.1
Actuarial losses/(gains):		
– changes in financial assumptions	83.0	232.3
– experience	(4.0)	(12.5)
Benefits paid, including expenses	(44.5)	(34.6)
Present value at end of period	1,374.6	1,283.8

Notes to the consolidated financial statements continued

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

	53 weeks to 30 December 2017 £m	52 weeks to 24 December 2016 £m
Fair value at start of period	1,177.8	993.1
Interest income on plan assets	33.6	37.3
Contributions from plan members	0.1	0.1
Contributions from the Group	41.4	48.5
Actuarial gains	56.9	133.4
Benefits paid, including expenses	(44.5)	(34.6)
Fair value at end of period	1,265.3	1,177.8

Movements in the deficit during the period were as follows:

	53 weeks to 30 December 2017 £m	52 weeks to 24 December 2016 £m
Deficit at start of period	(106.0)	(49.2)
Current service cost	(18.1)	(15.0)
Administration cost	(2.1)	(2.9)
Employer contributions	41.4	48.5
Other finance charge	(2.4)	(1.0)
Actuarial loss	(22.1)	(86.4)
Deficit at end of period	(109.3)	(106.0)

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:

	53 weeks to 30 December 2017 £m	52 weeks to 24 December 2016 £m
Current service cost	18.1	15.0
Administration cost	2.1	2.9
Total operating charge	20.2	17.9

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

Amount credited to other finance charges:

	53 weeks to 30 December 2017 £m	52 weeks to 24 December 2016 £m
Interest income on plan assets	(33.6)	(37.3)
Interest cost on defined benefit obligation	36.0	38.3
Net charge	2.4	1.0

The actual return on plan assets was £90.5m (52 weeks to 24 December 2016: £170.7m).

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:

	53 weeks to 30 December 2017 £m	52 weeks to 24 December 2016 £m
Actuarial gain on plan assets	56.9	133.4
Actuarial loss on plan liabilities	(79.0)	(219.8)
Net actuarial (loss)/gain, before associated deferred tax	(22.1)	(86.4)

20 PROVISIONS

	Property £m	Warranty £m	Other £m	Total £m
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
Additional provision in the period	1.5	3.6	2.0	7.1
Provision released in the period	(0.9)	–	–	(0.9)
Utilisation of provision in the period	(1.0)	(3.7)	–	(4.7)
At 30 December 2017	4.3	3.9	2.3	10.5

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

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

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

Notes to the consolidated financial statements continued

21 SHARE CAPITAL

	53 weeks to 30 December 2017 Number	52 weeks to 24 December 2016 Number	53 weeks to 30 December 2017 £m	52 weeks to 24 December 2016 £m
Ordinary shares of 10p each				
Allotted, called up and fully paid:				
Balance at the beginning of the period	639,363,815	651,830,815	63.9	65.2
Bought back and cancelled during the period	(11,171,060)	(12,467,000)	(1.1)	(1.3)
Balance at the end of the period	628,192,755	639,363,815	62.8	63.9

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 24 December 2016	139.3	87.3	226.6
Cash flow	46.8	(32.3)	14.5
At 30 December 2017	186.1	55.0	241.1

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

23 FINANCIAL COMMITMENTS

Capital commitments

	30 December 2017 £m	24 December 2016 £m
Contracted for, but not provided for in the financial statements		
– Tangible assets	3.7	7.3
– Intangible assets	2.1	0.4
	5.8	7.7

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	
	30 December 2017 £m	24 December 2016 £m	30 December 2017 £m	24 December 2016 £m	30 December 2017 £m	24 December 2016 £m
Payments falling due:						
Within one year	60.1	58.2	15.0	15.4	75.1	73.6
In the second to fifth year inclusive	179.8	190.3	30.6	32.4	210.4	222.7
After five years	169.6	195.1	9.7	10.4	179.3	205.5
	409.5	443.6	55.3	58.2	464.8	501.8

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:

	30 December 2017 £m	24 December 2016 £m
Payments receivable:		
Within one year	1.7	0.7
In the second to fifth year inclusive	2.9	1.0
After five years	1.2	0.7
	5.8	2.4

24 SHARE-BASED PAYMENTS

1) Details of each scheme

The Group recognised a charge of £4.0m (2016: charge of £4.0m) in respect of share-based payments during the period. The Group has various share-based payment schemes, which are all equity-settled. The main details of all schemes which existed during the period are given below.

Share Incentive Scheme ("Freeshares")

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

Share Award Plan

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

Co-investment Plan ("COIP")

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

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

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

Notes to the consolidated financial statements continued

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

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

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

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

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

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

Date of award	2015	2016	2017
Vesting based on growth in profits – from year ended December	2014	2015	2016
– to year ended December	2017	2018	2019
Award vests at 15% if profits over the vesting period grow by	8%	8%	3%
Award vests at 100% if profits over the vesting period grow by	20%	20%	15%

2) Movements in the current and prior periods

53 weeks to 30 December 2017	COIP Number	Freeshares Number	Share Award Plan Number	LTIP (i) Number	LTIP (ii) Number
In issue at start of period	2,265,674	1,457,113	22,143	142,683	107,369
Granted in period	–	847,100	–	–	–
Lapsed in period	–	(176,800)	–	–	–
Exercised in period	(1,230,493)	(26,303)	–	(80,533)	(10,450)
In issue at end of period	1,035,181	2,101,110	22,143	62,150	96,919
Exercisable at end of period	–	67,910	–	62,150	96,919
Number of options in the closing balance granted before 7 November 2002	–	67,910	–	–	–
Weighted average share price for options exercised during the period (£)	4.30	4.30	–	4.37	4.29
Weighted average life remaining for options outstanding at the period end (yrs)	0.24	1.41	0.24	0.00	0.00
Weighted average fair value of options granted during the period (£)	N/A	4.23	N/A	N/A	N/A
Exercise price for all options (£)	0.00	0.00	0.00	0.36	0.81

	LTIP (iii) Number	LTIP (v) Number	LTIP (iv) Number	LTIP (iv) WAEP (£)
In issue at beginning of period	506,900	2,164,138	1,948,982	2.97
Granted in period	16,700	1,729,400	–	N/A
Lapsed in period	(12,400)	(112,157)	(13,087)	3.51
Exercised in period	(476,400)	(2,405)	(669,460)	3.07
In issue at end of period	34,800	3,778,976	1,266,435	2.91
Exercisable at end of period	–	–	1,266,435	2.91
Number of options in the closing balance granted before 7 November 2002	–	–	–	
Weighted average share price for options exercised during the period (£)	4.28	4.28	4.43	
Weighted average life remaining for options outstanding at the period end (yrs)	1.57	1.58	0.00	
Weighted average fair value of options granted during the period (£)	0.00	4.31	N/A	
Exercise price for all options (£)	0.00	0.00	1.09 to 3.79	

Notes to the consolidated financial statements continued

52 weeks to 26 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
Number of options in the closing balance granted before 7 November 2002	–	77,413	–	–	–
Weighted average share price for options exercised during the period (£)	4.65	4.53	N/A	4.99	4.91
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 beginning 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
Number of options in the closing balance granted before 7 November 2002	–	–	–	
Weighted average share price for options exercised during the period (£)	4.67	N/A	4.80	
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	

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:

	53 weeks to 30 December 2017	52 weeks to 24 December 2016
Dividend yield (%)	2.4	2.0
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.

	53 weeks to 30 December 2017 £m	52 weeks to 24 December 2016 £m
Short-term employment benefits	6.4	6.8
Share-based payments	5.5	9.3
	11.9	16.1

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

	30 December 2017 £m	24 December 2016 £m
Financial assets (current and non-current)		
Trade receivables	103.8	99.2
Cash	186.1	139.3
Current asset investments	55.0	87.3
Financial liabilities (current and non-current)		
Trade payables	88.6	93.9

(d) Financial risk management

General

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

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

Cash and cash equivalents

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

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

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

Management of trade receivables is discussed in note 16.

(e) Credit risk

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

We describe our policy on dealing with trade customers in note 2 and note 16. 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:

	30 December 2017 £m	24 December 2016 £m
Trade receivables (net of allowance)	103.8	99.2
Cash	186.1	139.3
Current asset investments	55.0	87.3
Total credit risk exposure	344.9	325.8

(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 our financial assets and liabilities to currency risk is as follows:

	30 December 2017 £m	24 December 2016 £m
Euro		
Trade receivables	2.4	2.6
Other receivables	1.9	1.9
Cash and cash equivalents	19.3	6.9
Trade payables	(19.6)	(18.2)
Other payables	(2.0)	(2.1)
	2.0	(8.9)
US Dollar		
Cash and cash equivalents	0.4	0.2
Trade payables	(0.7)	(0.5)
	(0.3)	(0.3)
Japanese Yen		
Trade payables	(0.1)	–
	(0.1)	–
TOTAL	1.6	(9.2)

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 increase by £0.2m (2016: remain the same).

For a decrease of 50 basis points, the current year figures would decrease by £0.2m (2016: 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.

	30 December 2017	24 December 2016
10% weakening of Sterling to Euro	(0.2)	(1.0)
10% strengthening of Sterling to Euro	0.2	0.8
10% weakening of Sterling to US dollar	–	–
10% strengthening of Sterling to US dollar	–	–

Independent auditor's report

to the members of Howden Joinery Group Plc

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion:

- **the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 December 2017 and of the Group's profit for the 53 weeks then ended;**
- **the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**
- **the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.**

We have audited the financial statements of Howden Joinery Group Plc (the 'Company') and its subsidiaries (the 'Group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and Company balance sheets;
- the consolidated and Company statements of changes in equity;
- the consolidated cash flow statement;
- the significant accounting policies; and
- the related Group notes 1 to 26 and Company notes 1 to 6.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation of the UK inventory obsolescence provision • Appropriateness of the actuarial assumptions underlying the valuation of pension liabilities Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with .
Materiality	The materiality that we used for the Group financial statements was £11.0 million which was determined on the basis of 5% of statutory profit before tax.
Scoping	Full audit procedures were performed over 99% of the Group's total assets, revenue and profit before tax which included all of the UK, French and Belgian components.
Significant changes in our approach	There has been no significant change in our approach.

Conclusions relating to going concern, principal risks and viability statement

Going concern We have reviewed the directors' statement in Note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements. We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**
Principal risks and viability statement Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to: • the disclosures on pages 28 - 32 that describe the principal risks and explain how they are being managed or mitigated; • the directors' confirmation on page 33 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or • the directors' explanation on page 33 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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

Independent auditor's report

to the members of Howden Joinery Group Plc continued

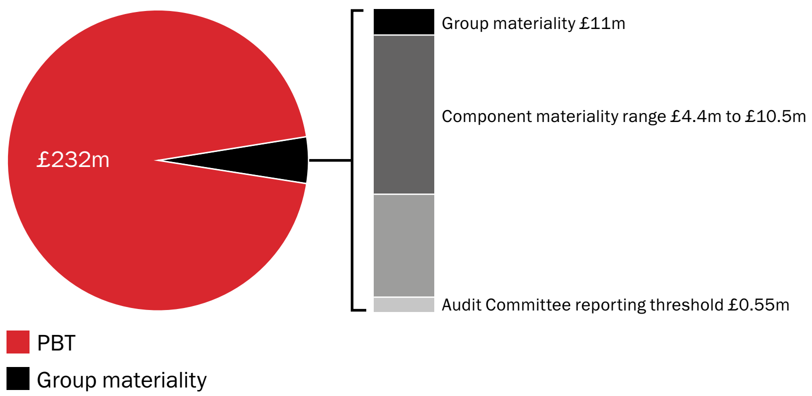
Valuation of the UK inventory obsolescence provision	
Key audit matter description	At the year end, the gross inventory balance is £235.4 million (2016: £206.1 million), of which there is a £27.1 million (2016: £22.4 million) allowance against the carrying value. The scale and expansion of the Group's product range means there is significant Management judgement involved in determining the adequacy of the inventory obsolescence provision and in particular the provision percentages applied to those discontinued and slow moving inventory lines. Given the high level of Management judgement involved, we deemed this a potential fraud risk for our audit. The Audit Committee report on page 86 also refers to inventory provisioning as one of the significant issues and judgements. Further information is included in note 3 and note 15.
How the scope of our audit responded to the key audit matter	We have considered the methodology used to calculate the inventory provision. We have challenged the reasonableness of Management's judgements and the assumptions used, specifically by assessing the provision percentages from an evaluation of sales of discontinued inventory lines. For other lines we have assessed the forecast sales demand with comparison to prior periods. We have assessed the integrity of the underlying calculation by checking the accuracy of the ageing of the discontinued inventory items. We have also reviewed the level of inventory write offs in the year compared to the overall inventory provision. We have checked the completeness of the provision by assessing the net realisable value and inventory turn for a sample of inventory lines.
Key observations	We consider the Group's provisioning policy to be appropriate when compared to the historical levels of write offs. We are satisfied the overall provision is not materially misstated, and is prepared on a basis consistent with the prior period.
Appropriateness of the actuarial assumptions underlying the valuation of pension liabilities	
Key audit matter description	There is a significant Management judgement involved in the assessment of the actuarial assumptions used to measure the defined benefit pension deficit of £109.3 million (2016: £106.2 million), particularly in respect of the discount rate, inflation and mortality rates applied. The valuation of gross pension liabilities (£1,374.6 million) is materially sensitive to changes in these underlying assumptions. Management has highlighted defined benefit pension arrangements as a significant accounting judgement and major source of estimation uncertainty in note 3. Further information in respect of the pension scheme is included in note 19. The Audit Committee report on page 86 also refers to the valuation of the defined benefit deficit as one of the significant judgements considered by the Committee.
How the scope of our audit responded to the key audit matter	We have reviewed the valuation report produced by the Group's external actuaries and challenged each of the key assumptions being the discount rate, inflation rate and the mortality assumptions by comparison to available market data, our own benchmarks and by reference to the Group's accounting policies. Our pension specialists have assessed the appropriateness of the actuarial assumptions underlying the valuation of the defined benefit pension deficit. We have also benchmarked the key assumptions against a population of other companies as at the end of December 2017. We have considered whether, individually and in aggregate the assumptions are appropriate. We have assessed the competence and independence of the Group's external actuaries, confirming they have sufficient and appropriate experience and are members of the Institute and Faculty of Actuaries. We have assessed the pension disclosures in the financial statements and considered their compliance with the requirements of IAS 19 Employee Benefits revised.
Key observations	We are satisfied that, individually and in aggregate, the actuarial assumptions applied in respect of the scheme's liabilities are appropriate. We note that Management's methodology in deriving each of the actuarial assumptions is consistent with the prior year.

Our application of materiality

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

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

	Group financial statements	Company financial statements
Materiality	£11.0 million (2016: £11.0 million)	£4.4million (2016:£5.5million)
Basis for determining materiality	5% of statutory profit before tax	1% of net assets
Rationale for the benchmark applied	Profit before tax has been used as the basis for determining materiality as it is one of the most relevant benchmarks for users of the accounts.	Net assets have been used as this is a non-trading holding company and we consider this to be the most appropriate basis.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £550,000 (2016: £550,000) for the Group and £220,000 (2016: £275,000) for the Company, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our audit scope on the UK, French and Belgian trading entities and each of the Head Office companies which is consistent with prior year. All of these were subject to a full audit. Our audit work at these entities was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged between £4.4 million and £10.5 million (2016: £5.5 million and £10.5 million) of Group materiality. These locations represent the principal business units and account for 99% (2016: 99%) of the Group's net assets, Group's revenue and of the Group's profit before tax for the 53 weeks ended 30 December 2017. 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% (2016: 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.

Independent auditor's report

to the members of Howden Joinery Group Plc continued

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that: • *Fair, balanced and understandable* – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or • *Audit committee reporting* – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or • *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.	**We have nothing to report in respect of these matters.**

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Company financial statements are not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Company at the Annual General Meeting on 21 June 2002 to audit the financial statements for the period ending 28 December 2002 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 16 years, covering the periods ending 28 December 2002 to 30 December 2017.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Claire Faulkner

(Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London

28 February 2018

Company balance sheet

	Notes	30 December 2017 £m	24 December 2016 £m
Non-current assets			
Investments in subsidiaries	3	699.0	699.0
Long-term prepayments		0.1	0.4
		699.1	699.4
Current assets			
Debtors	4	7.3	0.2
Current asset investments		55.0	87.3
Cash at bank and in hand		163.0	120.8
		225.3	208.3
Current liabilities			
Creditors: amounts falling due within one year	5	(171.6)	(281.4)
Net current assets/(liabilities)		53.7	(73.1)
Total assets less current liabilities		752.8	626.3
Net assets		752.8	626.3
Equity			
Share capital	6	62.8	63.9
Share premium account		87.5	87.5
Retained earnings		638.7	527.7
Treasury shares		(36.2)	(52.8)
Total equity		752.8	626.3

The Company profit after tax for the 53 weeks to 30 December 2017 was £226.2m (52 weeks to 24 December 2016: profit after tax of £182.1m).

These financial statements were approved by the Board on 28 February 2018 and were signed on its behalf by

Mark Robson
Deputy Chief Executive and Chief Financial Officer

For and on behalf of Howden Joinery Group Plc, registered number 02128710

Company statement of changes in equity

	Share capital £m	Share premium account £m	Treasury shares £m	Retained earnings £m	Total £m
At 26 December 2015	65.2	87.5	(45.3)	466.0	573.4
Retained profit for the period	–	–	–	182.1	182.1
Buyback and cancellation of shares	(1.3)	–	–	(55.0)	(56.3)
Buyback of shares into treasury	–	–	(23.7)	–	(23.7)
Transfer of shares from treasury into share trust	–	–	16.2	–	16.2
Dividends declared and paid	–	–	–	(65.4)	(65.4)
At 24 December 2016	63.9	87.5	(52.8)	527.7	626.3
Retained profit for the period	–	–	–	226.2	226.2
Buyback and cancellation of shares	(1.1)	–	–	(46.8)	(47.9)
Transfer of shares from treasury into share trust	–	–	16.6	–	16.6
Dividends declared and paid	–	–	–	(68.4)	(68.4)
At 30 December 2017	62.8	87.5	(36.2)	638.7	752.8

Notes to the Company financial statements

1 SIGNIFICANT COMPANY ACCOUNTING POLICIES

General information

Howden Joinery Group Plc is a company incorporated in the United Kingdom under the Companies Act 2006. The Company's principal activity is being the parent company of the Howden Joinery Group. More information about the Group structure is given at page 146.

Basis of presentation

The Company's accounting period covers the 53 weeks to 30 December 2017. The comparative period covered the 52 weeks to 24 December 2016.

Basis of accounting

These financial statements have been prepared on the going concern basis and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the UK Companies Act.

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

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

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

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

Investments in subsidiaries

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

2 PROFIT AND LOSS ACCOUNT INFORMATION

The Company has no employees (2016: none), did not pay directors' emoluments (2016: £nil), and the fees payable to the Company's auditor for the audit of the Company's annual accounts were £10,000 in both current and prior periods.

3 INVESTMENTS IN SUBSIDIARIES

Cost and carrying value:	Shares in subsidiary undertakings £m	Long-term loans to subsidiary undertakings £m	Total £m
At 24 December 2016 and 30 December 2017	262.1	436.9	699.0

Details of subsidiary undertakings are given on page 146.

4 DEBTORS

	30 December 2017 £m	24 December 2016 £m
Other debtors	0.3	0.2
Other tax and social security	7.0	–
	7.3	0.2

5 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

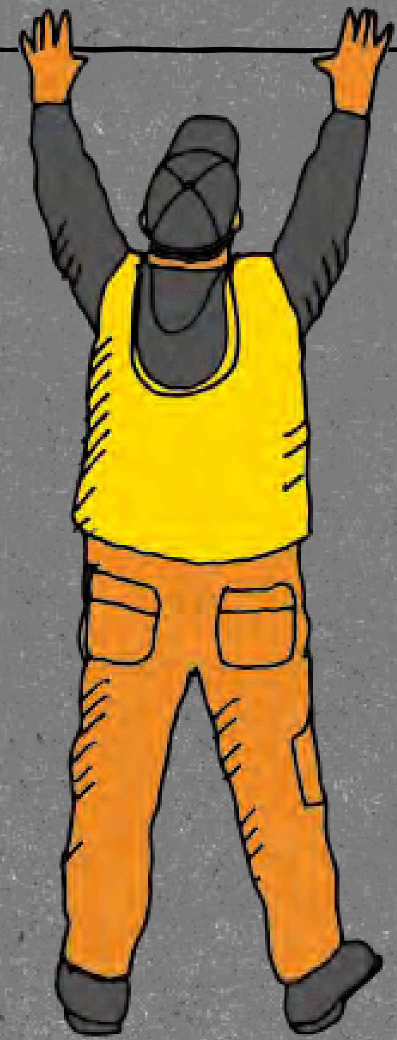
	30 December 2017 £m	24 December 2016 £m
Other tax and social security	–	(0.2)
Owed to subsidiaries	(171.5)	(281.1)
Accruals and deferred income	(0.1)	(0.1)
	(171.6)	(281.4)

Notes to the Company financial statements continued

6 SHARE CAPITAL

ORDINARY SHARES OF 10p EACH	53 weeks to 30 December 2017 No.	52 weeks to 24 December 2016 No.	53 weeks to 30 December 2017 £m	52 weeks to 24 December 2016 £m
Allotted, called up and fully paid:				
Balance at the beginning of the period	639,363,815	651,830,815	63.9	65.2
Bought back and cancelled during the period	(11,171,060)	(12,467,000)	(1.1)	(1.3)
Balance at the end of the period	628,192,755	639,363,815	62.8	63.9

Additional information



Parent company and all subsidiary undertakings

as at 30 December 2017

	Country of registration or incorporation	Registered office
PARENT COMPANY		
Howden Joinery Group Plc	England and Wales	40 Portman Square, London, W1H 6LT
ALL SUBSIDIARY UNDERTAKINGS		
Intermediate Holding Companies:		
Howden Joinery Holdings Limited	England and Wales	40 Portman Square, London, W1H 6LT
Howden Joinery International Holdings Limited	England and Wales	40 Portman Square, London, W1H 6LT
Trading:		
Howden Joinery Limited	England and Wales	40 Portman Square, London, W1H 6LT
Houdan Cuisines SAS	France	1 Rue Calmette, ZA Du Bois Rigault Nord, 62880 Vendin-Le-Vieil
Lamona Cuisines SAS	France	1 Rue Calmette, ZA Du Bois Rigault Nord, 62880 Vendin-Le-Vieil
Houdan Cuisines SPRL	Belgium	Rue Des Emailleries 4, 6041 Gosselies
Howden Keukens BV	The Netherlands	Van Der Madeweg 55, 1114AM Amsterdam-Duivendrecht
Howden Küchen GmbH	Germany	Gutenbergring 73–75, 22848 Norderstedt
Property Management:		
Howden Joinery Properties Limited	England and Wales	40 Portman Square, London, W1H 6LT
Howden Kitchens Properties Limited	England and Wales	40 Portman Square, London, W1H 6LT
Administration and Employee Services:		
Howden Joinery Corporate Services Limited	England and Wales	40 Portman Square, London, W1H 6LT
Howden Joinery People Services Limited	England and Wales	40 Portman Square, London, W1H 6LT
Dormant:		
Howden Kitchens Limited	England and Wales	40 Portman Square, London, W1H 6LT
Galiform Limited	England and Wales	40 Portman Square, London, W1H 6LT

The Company ultimately owns 100% of the ordinary share capital of all of the companies listed above.

Five year record

	Dec 2017 53 weeks £m	Dec 2016 52 weeks £m	Dec 2015 52 weeks £m	Dec 2014 52 weeks £m	Dec 2013 52 weeks £m
Summarised Income Statement					
Revenue – continuing operations	1,403.8	1,307.3	1,220.2	1,090.8	956.5
Operating profit – continuing operations	234.4	237.2	221.9	189.8	138.0
Loss from discontinued operations	–	–	–	(2.1)	–
	234.4	237.2	221.9	187.7	138.0
Profit on continuing ordinary activities before tax	232.2	237.0	219.6	188.8	133.9
Full year dividend per share (pence)	11.1	10.7	9.9	8.4	5.5
Basic EPS – continuing operations (pence)	29.9	29.5	27.3	23.2	15.7
Summarised Balance Sheet					
Total non-current assets	221.3	201.6	153.0	151.1	123.3
Inventories	208.3	183.7	177.1	143.1	123.4
Receivables	137.8	135.9	129.5	133.1	122.4
Payables and provisions	(245.0)	(244.8)	(214.8)	(207.2)	(192.6)
Pension liability	(109.3)	(106.0)	(49.2)	(142.6)	(54.3)
	(8.2)	(31.2)	42.6	(73.6)	(1.1)
Net cash, short-term investments and borrowings	241.1	226.6	226.1	217.4	139.5
Total net assets	454.2	397.0	421.7	294.9	261.7
Number of depots at end of year					
UK	661	642	619	589	559
France	20	20	17	12	11
Belgium	2	2	2	2	–
Netherlands	1	1	1	–	–
Germany	1	1	–	–	–
Capital expenditure	49	64	46	33	46

Shareholder ranges as at 30 December 2017

	Number of holders	Percentage of holders	Number of shares	Percentage of shares
Corporate holders				
0 to 1,000	147	1.54	61,314	0.01
1,001 to 5,000	170	1.78	420,361	0.07
5,001 to 10,000	71	0.74	518,966	0.08
10,001 to 50,000	152	1.59	3,971,033	0.63
50,001 to 100,000	73	0.76	5,185,826	0.83
100,001 to 250,000	78	0.81	12,411,628	1.98
250,001 to max	227	2.37	595,352,259	94.76
	918	9.59	617,921,387	98.36
Individual holders				
0 to 1,000	7,176	74.95	2,515,952	0.40
1,001 to 5,000	1,239	12.94	2,925,280	0.47
5,001 to 10,000	152	1.59	1,122,042	0.18
10,001 to 50,000	80	0.84	1,673,907	0.27
50,001 to 100,000	3	0.03	211,989	0.03
100,001 to 250,000	3	0.03	387,990	0.06
250,001 to max	3	0.03	1,434,208	0.23
	8,656	90.41	10,271,368	1.64
Total	9,574	100.00	628,192,755	100.00

Corporate timetable

2018	
Trading update	2 May
Half-Yearly Report	26 July
Trading update	8 November
End of financial year	29 December

Advisors and committees

PRINCIPAL BANKER
Lloyds Bank Plc
25 Gresham Street
London
EC2V 7HN

JOINT FINANCIAL ADVISORS AND STOCKBROKERS
Numis Securities Ltd
The London Stock Exchange Building
10 Paternoster Square
London
EC4M 7LT

UBS LTD
5 Broadgate
London
EC2M 2QS

SOLICITORS
Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London
EC4Y 1HS

AUDITOR
Deloitte LLP
2 New St Square
London
EC4A 3BZ

REGISTRAR
Equiniti Ltd
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

REGISTERED OFFICE
40 Portman Square
London
W1H 6LT

EXECUTIVE COMMITTEE
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