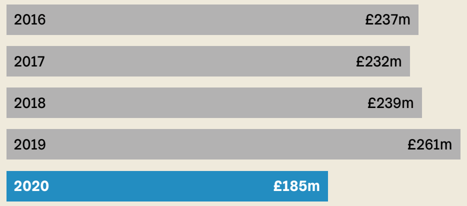
Revenue

£1,548m (2019: £1,584m)

UK revenue was 1.1% higher than 2019 in the first quarter and 55.9% lower in the second quarter. H2 UK sales showed strong growth of 15.8%. A 13.6% increase in European sales gave us full year revenue down 2.3%.

Profit before tax

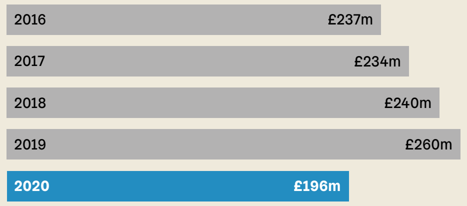
£185m (2019: £261m)



Profit before tax was £185m, down £76m from 2019.

Operating profit

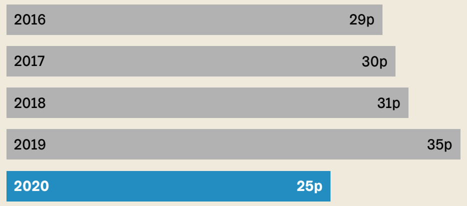
£196m (2019: £260m)



Operating profit reduced to £196m (2019: £260m), giving an operating profit margin of 12.6% (2019: 16.4%).

EPS

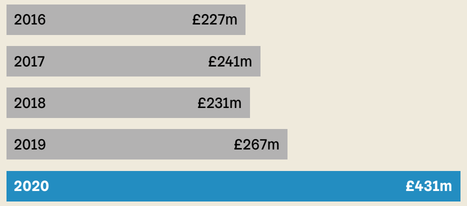
24.9p (2019: 35.0p)



Basic earnings per share were 24.9p (2019: 35.0p).

Net cash

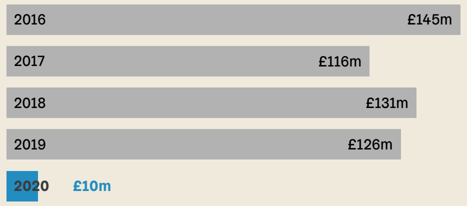
£431m (2019: £267m)



2020 year end net cash of £431m (2019: £267m).

Returns to shareholders

Suspended in 2020. To resume in 2021.



Share buybacks and dividends were suspended in 2020. The Board propose to resume dividends in 2021. £108m is proposed, including a special dividend equal to the cancelled 2019 final dividend.

Financial Statements

Consolidated income statement

	Notes	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Continuing operations:			
Revenue	4	1,547.5	1,583.6
Cost of sales		(617.5)	(597.4)
Gross profit		930.0	986.2
Selling & distribution costs		(636.7)	(621.7)
Administrative expenses		(97.6)	(104.5)
Operating profit	5	195.7	260.0
Finance income	7	0.6	1.1
Finance costs	8	(11.0)	(0.4)
Profit before tax		185.3	260.7
Tax on profit	9	(37.7)	(51.7)
Profit for the period attributable to the equity holders of the parent		147.6	209.0
Earnings per share:			
Basic earnings per 10p share	10	24.9p	35.0p
Diluted earnings per 10p share	10	24.8p	34.8p

Consolidated statement of comprehensive income

	Notes	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Profit for the period		147.6	209.0
Items of other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial losses on defined benefit pension scheme	20	(12.7)	(47.1)
Deferred tax on actuarial losses on defined benefit pension scheme	9	2.4	8.0
Change of tax rate on deferred tax		1.1	(0.7)
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		0.5	(1.9)
Other comprehensive income for the period		(8.7)	(41.7)
Total comprehensive income for the period attributable to equity holders of the parent		138.9	167.3

NOTE: the figures for the 52 weeks to 26 December 2020 include lease depreciation and lease-related interest charges accounted for under IFRS 16, whereas the figures for the previous period account for leases under the previous leasing standard, IAS 17. This difference in treatment is because the Group has adopted IFRS 16 in the current period using the modified retrospective basis, which does not require restatement of prior periods. See note 28 for more detail on the effects of adopting IFRS 16, note 2 for our IFRS 16 accounting policies and note 14 for the effect of IFRS 16 on the current period financial statements.

Consolidated balance sheet

	Notes	26 December 2020 £m	28 December 2019 £m
Non-current assets			
Intangible assets	12	24.3	24.9
Property, plant and equipment	13	248.8	212.4
Lease right-of-use assets	14	544.2	-
Deferred tax asset	15	17.0	13.5
Long-term prepayments		0.6	0.9
		834.9	251.7
Current assets			
Inventories	16	255.0	231.8
Trade and other receivables	17	166.6	193.1
Cash and cash equivalents	23	430.7	267.4
		852.3	692.3
Total assets		1,687.2	944.0
Current liabilities			
Lease liabilities	14	(70.0)	-
Trade and other payables	18	(300.4)	(241.4)
Current tax liability		(22.2)	(20.3)
		(392.6)	(261.7)
Non-current liabilities			
Pension liability	20	(47.7)	(56.6)
Lease liabilities	14	(510.5)	-
Deferred tax liability	15	(1.7)	(1.5)
Provisions	21	(13.9)	(9.0)
		(573.8)	(67.1)
Total liabilities		(966.4)	(328.8)
Net assets		720.8	615.2
Equity			
Share capital	22	60.3	60.5
Capital redemption reserve		4.9	4.7
Share premium		87.5	87.5
ESOP reserve		(3.5)	(6.3)
Treasury shares		(28.2)	(29.3)
Retained profit		599.8	498.1
Total equity		720.8	615.2

NOTE: the figures as at 26 December 2020 include lease-related right-of-use assets and liabilities, accounted for under IFRS 16. The figures at the previous period end account for leases under the previous leasing standard, IAS 17. Under IAS 17, the Group's leases were treated as operating leases and not recognised on the balance sheet. This difference in treatment is because the Group has adopted IFRS 16 in the current period using the modified retrospective basis, which does not require restatement of prior periods. See note 28 for more detail on the effects of adopting IFRS 16, note 2 for our IFRS 16 accounting policies and note 14 for the effect of IFRS 16 on the current period financial statements.

The financial statements were approved by the Board and authorised for issue on 24 February 2021 and were signed on its behalf by

Paul Hayes
Chief Financial Officer

Consolidated statement of changes in equity

	Share capital £m	Capital redemption reserve £m	Share premium account £m	ESOP reserve £m	Treasury shares £m	Retained profit £m	Total £m
At 29 December 2018	61.5	-	87.5	(8.8)	(32.9)	459.8	567.1
Accumulated profit for the period	-	-	-	-	-	209.0	209.0
Other comprehensive income for the period	-	-	-	-	-	(41.7)	(41.7)
Total comprehensive income for the period	-	-	-	-	-	167.3	167.3
Current tax on share schemes	-	-	-	-	-	0.3	0.3
Deferred tax on share schemes	-	-	-	-	-	0.2	0.2
Movement in ESOP	-	-	-	6.1	-	-	6.1
Buyback and cancellation of shares [1]	(1.0)	4.7	-	-	-	(58.9)	(55.2)
Transfer of shares from treasury into share trust	-	-	-	(3.6)	3.6	-	-
Dividends	-	-	-	-	-	(70.6)	(70.6)
At 28 December 2019	60.5	4.7	87.5	(6.3)	(29.3)	498.1	615.2
Impact of adopting IFRS 16 - see note 28	-	-	-	-	-	(30.9)	(30.9)
Tax effect of adopting IFRS 16 - see note 28	-	-	-	-	-	3.6	3.6
Adjusted opening balance after adopting IFRS 16	60.5	4.7	87.5	(6.3)	(29.3)	470.8	587.9
Accumulated profit for the period	-	-	-	-	-	147.6	147.6
Other comprehensive losses for the period	-	-	-	-	-	(8.7)	(8.7)
Total comprehensive income for the period	-	-	-	-	-	138.9	138.9
Current tax on share schemes	-	-	-	-	-	0.1	0.1
Deferred tax on share schemes	-	-	-	-	-	(0.2)	(0.2)
Movement in ESOP	-	-	-	3.9	-	-	3.9
Buyback and cancellation of shares	(0.2)	0.2	-	-	-	(9.8)	(9.8)
Transfer of shares from treasury into share trust	-	-	-	(1.1)	1.1	-	-
At 26 December 2020	60.3	4.9	87.5	(3.5)	(28.2)	599.8	720.8

1 The line 'Buyback and cancellation of shares' for the prior period includes a re-presentation of the cancellation of shares to retained earnings and capital redemption reserve for the shares bought back and cancelled before 29 December 2018, under which retained earnings has been reduced by £3.7m and the capital redemption reserve has been increased by £3.7m. This line also records the shares bought back and cancelled in the period ended 28 December 2019, which had an aggregate nominal value of £1m and a cost of £55.2m.

The ESOP reserve includes shares in Howden Joinery Group Plc with a market value on the balance sheet date of £35.9m (2019: £38.7m), 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 5,775,230 ordinary shares held in treasury, each with a nominal value of 10p (2019: 6,015,580 shares).

Consolidated cash flow statement

	Notes	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Operating profit		195.7	260.0
Adjustments for:			
Depreciation and amortisation of owned assets		34.5	34.5
Depreciation of leased assets		79.5	-
Share-based payments charge		3.6	4.9
Loss on disposal of property, plant and equipment and intangible assets		-	1.4
Operating cash flows before movements in working capital		313.3	300.8
Movements in working capital and exceptional items			
Increase in inventories		(23.2)	(5.5)
Decrease/(increase) in trade and other receivables		2.3	(7.1)
Increase in trade and other payables and provisions		91.2	6.3
Difference between pensions operating charge and cash paid		(22.2)	(26.9)
		48.1	(33.2)
Cash generated from operations		361.4	267.6
Tax paid		(32.2)	(46.2)
Net cash flow from operating activities		329.2	221.4
Cash flows used in investing activities			
Payments to acquire property, plant and equipment and intangible assets		(69.7)	(61.1)
Receipts from sale of property, plant and equipment and intangible assets		-	0.3
Interest received		0.6	1.1
Net cash used in investing activities		(69.1)	(59.7)
Cash flows used in financing activities			
Payments to acquire own shares		(9.8)	(55.2)
Receipts from release of shares from share trust		0.3	1.1
Decrease/(increase) in long-term prepayments		0.3	(0.9)
Dividends paid to Group shareholders		-	(70.6)
Interest paid - including on lease liabilities		(10.4)	-
Repayment of principal on lease liabilities		(77.2)	-
Net cash used in financing activities		(96.8)	(125.6)
Net increase in cash and cash equivalents		163.3	36.1
Cash and cash equivalents at beginning of period		267.4	231.3
Cash and cash equivalents at end of period	23	430.7	267.4

NOTE: The Group has adopted IFRS 16 in the current period, using the modified retrospective method of adoption which does not require prior period figures to be restated. The main effects on the cash flow statement are: (i) current year operating cash flows add back amortisation of leased assets; (ii) changes in working capital are calculated using the opening asset and liability balances after adjustments on adopting IFRS 16, and (iii) cash flows used in financing activities in the current year include interest and principal payments on leased assets. See note 28 for more detail on the effects of adopting IFRS 16 - including adjustments to opening assets and liabilities, note 2 for our IFRS 16 accounting policies and note 14 for the effect of IFRS 16 on the current period financial statements.

Notes to the consolidated financial statements

1 General information

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

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

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

2 Significant accounting policies

Accounting period

The Group's accounting period covers the 52 weeks to 26 December 2020. The comparative period covered the 52 weeks to 28 December 2019.

Statement of compliance and basis of preparation, including going concern

The group financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The financial statements have been prepared on the historical cost basis, modified for certain items carried at fair value, as stated in the accounting policies.

The financial statements are prepared on the going concern basis as the Directors have a reasonable expectation that the Company and Group will have adequate resources to continue in operational existence for the foreseeable future.

The Directors did not identify any material uncertainties leading to significant doubt about going concern status. The reasons for this, together with details of the Directors' assessment of principal risks and their review of trading results and various financial scenario models, are described in detail in the going concern statement.

Recognising the increased importance of the going concern statement to users of the Annual Report and its close relationship with the viability statement, and wanting to give them due prominence, the Group presents both statements together in the Strategic Report, beginning on page 63. The auditor's conclusion on going concern, together with details of the work they performed, can be found in the audit opinion beginning on page 177.

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:

IFRS 17: Insurance Contracts.

Amendments to References to the Conceptual Framework in IFRS Standards.

Amendment to IFRS 3: Business Combinations.

Amendments to IAS 1 and IAS 8: Definition of Material.

Amendments to IFRS 9, IAS 39, and IFRS 7 - Interest rate Benchmark Reform.

Amendments to IAS 1 - Classification of liabilities as Current or Non-Current.

Amendments to IFRS 16: COVID-related rent concessions.

Amendments to IAS 4: Insurance Contracts.

Annual Improvements 2018-2020 cycle.

Amendments to IAS 37: Costs of fulfilling an onerous contract.

Amendments to IAS 16: Property, Plant and Equipment

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies.

Amendments to IAS 8: Definition of Accounting Estimates.

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.

Adoption of IFRS 16: Leases in the current period

We have adopted IFRS 16 in the current period, using the modified retrospective basis of adoption. The effect of adoption is shown at note 28, the revised lease accounting policies are shown below in this note and disclosure of the effect of IFRS on the current period is shown at note 14.

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. Further details of all subsidiaries are given in the 'Additional information' section at the back of this Annual Report.

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.

Accounting policy for income from Government grants

In the first half of the current year, the Group recognised amounts due from government-sponsored COVID-related employee furlough schemes as a credit against the related staff costs and not as an item of other income. These amounts were repaid in the second half of the year and those entries were then reversed.

Inventories

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

Property, plant and equipment

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

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

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

Freehold property	50 years
Leasehold property improvements & fittings	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.

Notes to the consolidated financial statements continued

Deferred tax

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

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

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

Foreign currencies

Foreign currency transactions

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

Foreign operations

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

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

Provisions

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

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

Pensions

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

The Group operates a defined benefit pension scheme. The Group's net obligation in respect of the defined benefit pension scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is then discounted to determine its present value, and the fair value of any scheme assets is deducted. The discount rate used is selected so as to closely approximate the yield at the balance sheet date on AA-rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit method. Scheme assets are valued at bid price.

Current and past service costs are recognised in operating profit and net financing costs include interest on pension scheme liabilities and assets. Actuarial gains and losses are recognised immediately through the remeasurement of the defined benefit liability and are taken through the statement of comprehensive income.

Lease assets and liabilities

We assess whether a lease exists at the inception of the related contract. If a lease exists, we recognise a right-of-use asset and a corresponding lease liability with effect from the date the lease commences.

The lease liability

The lease liability is initially measured at the present value of the lease payments due. As the discount rate inherent in our leases is not readily determinable, we use the Group's incremental borrowing rate to discount the payments and arrive at net present value.

The Group does not have a history of borrowing, and therefore it does not have a credit agency rating. Therefore, we derive the incremental borrowing rate by a process of:

- discussion with our bankers to estimate a reasonable proxy credit rating for the Group;
- using an independent third-party borrowing rate curve, giving indicative costs of borrowing for companies with a comparable credit rating over various durations, and
- selecting borrowing rates from the appropriate points on that curve to best match the duration of our lease portfolios.

Our leases are on relatively simple terms. Lease payments included in the measurement of the lease liability comprise fixed lease payments, less any lease incentives. We do not have variable lease payments which depend on an index, residual value guarantees, purchase options or termination penalties.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

We remeasure the lease liability (and make a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments have changed as a result of a change in an index, or, as is common with property leases, to reflect changes in market rental rates. In these cases, the lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

In any cases other than those described immediately above, where a lease contract is modified and the lease modification is not accounted for as a separate lease, the lease liability is remeasured by discounting the revised remaining lease payments using a revised discount rate.

The lease liability is presented as a separate item in the balance sheet and is split between current and non-current portions.

The lease right-of-use asset

The lease right-of-use asset comprises the initial measurement of the corresponding lease liability and any initial direct costs of obtaining the lease. It is subsequently measured at cost less accumulated depreciation and any impairment losses.

Whenever we incur an obligation for costs to restore a leased asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37.

Right-of-use assets are depreciated over the lease term as this is always shorter than the useful life of the underlying asset. Depreciation starts at the commencement date of the lease. We do not have any leases that include purchase options or transfer ownership of the underlying asset.

The right-of-use assets are presented as a separate line item in the balance sheet.

Property leases treated as short-term leases when in the process of being renewed

From time to time when renewing a property lease, the new lease may not be formally signed before the end date of the previous lease. In these circumstances, although both we and the landlord will have agreed our willingness to renew the lease in principle, and we may also have protection under property law which grants us the right to renew the lease, our interpretation of IFRS 16 is that there is no enforceable right to renew the lease until the new lease is formally signed.

Therefore, we treat any lease payments made in this period between expiry and renewal as short-term lease payments under IFRS 16 and we expense them, taking advantage of the IFRS 16 short-term lease exemption.

Amounts treated as variable lease payments - rent reviews

It is common for property leases to contain a clause whereby the rent is reviewed every five years and adjusted in line with prevailing market rates. The process of agreeing rent reviews can sometimes be a lengthy one, and some reviews are not agreed until after their effective date.

In these cases we will continue to pay rent at the old rate until the rent review is agreed and neither the lease asset nor the lease liability is remeasured. If the new rent is agreed at a higher rate than the old rent, there will be a one-off payment to the lessor, covering the increase in rent for the period between the date from which the rent review was effective and the date on which the rent review was agreed.

This payment is treated as a variable lease payment and is not included in the measurement of the lease liability.

The lease asset and liability are remeasured from the rent review agreement date, based on the future agreed cashflows.

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.

HOWDENS

Notes to the consolidated financial statements continued

Share-based payments

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

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

Financial instruments

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

Trade receivables

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

Cash and cash equivalents

Cash and cash equivalents comprises cash at bank and on hand together with any overdrafts repayable on demand, and any short-term investments with a maturity date of less than three months from the balance sheet date.

Short-term 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. They form part of our cash and cash equivalents for balance sheet and cash flow purposes.

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.

Trade payables

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

3 Significant accounting judgements and major sources of estimation uncertainty

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

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

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

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

The key assumptions within this calculation are discount rate, inflation rates and mortality rates. These are set out in note 20, together with sensitivity analysis that shows the effect that these estimates can have on the carrying value of the pension deficit.

Allowances against the carrying values of inventories - estimation uncertainty.

In order to achieve the accounting 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 regularly reviewed against actual experience, and revised to reflect any differences, 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 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 allowance against their carrying amount for the current and prior period end are shown in note 16.

We derive our allowance against carrying value based on specific kitchen ranges and stock items where a decision has been made to discontinue future sales or where our monitoring of current sales indicates that the rate of sales is in decline. As such, the allowance is specific in nature and does not lend itself to meaningful sensitivity analysis in the same way as a figure which is derived by a general formula.

Once a decision is made to discontinue future sales of a product, it will still be available for sale in depots for a set standard period of time, after which any remaining units of that product will be removed from sale. Our stock allowance is calculated so that the carrying value of any unsold units is progressively written down to nil over the period in which they are available for sale. The rate at which the units are written down to nil is based on actual historical experience of realised selling prices for previous similar products, and recognises that higher selling prices are typically achievable at the beginning of the period than at the end of the period.

4 Segmental reporting

(a) Basis of segmentation, and other general information

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

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

(b) Other information

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Capital additions	67.0	63.6
Depreciation and amortisation	(34.5)	(34.5)

(c) Geographical information

The Group's operations are mainly located in the UK, with a small presence in France and Belgium. The Group has depots in each of these three 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:

Revenues from external customers

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
UK	1,509.6	1,550.3
Continental Europe	37.9	33.3
	1,547.5	1,583.6

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

N.B. 2020 figures for carrying amount of total assets and non-current assets (excluding deferred tax assets) include IFRS 16 right-of-use assets of £14.9m in Continental Europe and £529.3m in the UK. No such assets were recognised in 2019, as is explained in the note at the foot of the Group balance sheet.

Notes to the consolidated financial statements continued

Carrying amount of total assets

	26 December 2020 £m	28 December 2019 £m
UK	1,638.2	916.8
Continental Europe	49.0	27.2
	1,687.2	944.0

Non-current assets (excluding deferred tax assets)

	26 December 2020 £m	28 December 2019 £m
UK	795.1	233.8
Continental Europe	22.8	4.4
	817.9	238.2

Additions to property plant and equipment and intangible assets

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
UK	63.1	61.0
Continental Europe	3.9	2.6
	67.0	63.6

5 Operating profit

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

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Net foreign exchange gain/(loss)	0.4	(2.5)
Depreciation of property plant and equipment	(28.7)	(28.0)
Amortisation of intangible assets	(5.8)	(6.5)
Depreciation of lease right-of-use assets	(79.5)	-
Lease payments under operating leases	-	(85.1)
Cost of inventories recognised as an expense	(611.0)	(586.5)
Write down of inventories	(6.8)	(8.4)
Loss on disposal of fixed assets	-	(1.4)
Increase in allowance for doubtful debts	(1.5)	(0.1)
Staff costs	(461.7)	(440.7)
Auditor's remuneration for audit services	(0.6)	(0.6)

All of the items above relate to continuing operations.

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

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Audit services:		
Fees paid to the Company's auditor for the audit of the Company's annual financial statements	(0.2)	(0.2)
Fees paid to the Company's auditor and their associates for other services to the Group:		
- the audit of the subsidiary companies pursuant to legislation	(0.4)	(0.4)
Total audit fees	(0.6)	(0.6)
Other services:		
Audit related assurance services (review of the half-year results)	(0.1)	(0.1)
Total non-audit fees	(0.1)	(0.1)

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.

6 Staff costs

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

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Wages and salaries	(388.6)	(375.0)
Social security costs	(35.8)	(35.2)
Pension operating costs (note 20)	(37.3)	(30.5)
	(461.7)	(440.7)

Wages and salaries includes a charge in respect of share-based payments of £3.6m (2019: £4.9m). In the first half of the current year, the Group recognised £21.5m due from government-sponsored COVID-related employee furlough schemes as a credit against the related staff costs. These amounts were repaid in the second half of the year and those accounting entries were then reversed in full.

Directors remuneration is shown in detail in the Remuneration Committee Report.

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

	52 weeks to 26 December 2020 No.	52 weeks to 28 December 2019 No.
	10,004	9,903

Notes to the consolidated financial statements continued

7 Finance income

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Bank interest receivable	0.6	1.1

8 Finance costs

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Interest expense on lease liabilities	(10.3)	-
Other finance expense - pensions	(0.6)	(0.4)
Other interest	(0.1)	-
Total finance costs	(11.0)	(0.4)

9 Tax

(a) Tax in the income statement

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Current tax:		
Current year	33.6	47.9
Adjustments in respect of previous periods	0.6	(1.3)
Total current tax	34.2	46.6
Deferred tax:		
Current year	4.8	5.3
Adjustments in respect of previous periods	(1.3)	(0.2)
Total deferred tax	3.5	5.1
Total tax charged in the income statement	37.7	51.7

UK Corporation tax is calculated at 19% (2019: 19%) 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 of other comprehensive income or changes in equity

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Deferred tax credit to other comprehensive income on actuarial loss on pension scheme	(2.4)	(8.0)
Change of rate effect on deferred tax	(1.1)	0.7
Deferred tax charge/(credit) to equity on share schemes	0.2	(0.2)
Current tax credit to equity on share schemes	(0.1)	(0.3)
Total credit to other comprehensive income or changes in equity	(3.4)	(7.8)

(c) Reconciliation of the total tax charge

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

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Profit before tax	185.3	260.7
Tax at the UK corporation tax rate of 19% (2019: 19%)	35.2	49.5
IFRS2 share scheme charge	0.2	0.2
Expenses not deductible for tax purposes	0.5	1.9
Overseas losses not utilised	1.4	0.4
Non-qualifying depreciation	1.1	1.2
Other tax adjustments in respect of previous years	(0.7)	(1.5)
Total tax charged in the income statement	37.7	51.7

The Group's effective rate of tax is 20.3% (2019: 19.8%).

10 Earnings per share

	52 weeks to 26 December 2020			52 weeks to 28 December 2019		
From continuing operations	Earnings £m	Weighted average number of shares m	Earnings per share p	Earnings £m	Weighted average number of shares m	Earnings per share p
Basic earnings per share	147.6	592.3	24.9	209.0	596.9	35.0
Effect of dilutive share options	-	2.7	(0.1)	-	3.0	(0.2)
Diluted earnings per share	147.6	595.0	24.8	209.0	599.9	34.8

11 Dividends

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the 52 weeks to 28 December 2019 - 3.9p/share	-	23.2
Final dividend for the 52 weeks to 29 December 2018 - 7.9p/share	-	47.4
	-	70.6

	52 weeks to 26 December 2020 £m
Dividend proposed at the end of the period (but not recognised in the period):	
Proposed final dividend for the 52 weeks to 26 December 2020 - (9.1p/share)	53.9
Proposed special dividend - (9.1p/share)	53.9
	107.7

The Directors propose a final dividend in respect of the 52 weeks to 26 December 2020 of 9.1p per share, payable to ordinary shareholders who are on the register of shareholders at 21 May 2021, and payable on 18 June 2021.

Notes to the consolidated financial statements continued

The Directors also declare a special dividend of 9.1p per share, in lieu of the cancelled final dividend for 2019, payable to ordinary shareholders who are on the register of shareholders at 21 May 2021, and payable on 18 June 2021.

The proposed final dividend for the current period is subject to the approval of the shareholders at the 2021 Annual General Meeting.

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

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 29 December 2018	39.6	2.9	42.5
Exchange adjustments	(0.1)	-	(0.1)
Additions	6.2	2.3	8.5
Disposals	(1.3)	(0.1)	(1.4)
Reclassifications	1.3	(1.3)	-
At 28 December 2019	45.7	3.8	49.5
Exchange adjustments	0.1	-	0.1
Additions	1.7	3.5	5.2
Disposals	(1.3)	-	(1.3)
Reclassifications	4.4	(4.4)	-
At 26 December 2020	50.6	2.9	53.5
Accumulated amortisation			
At 29 December 2018	(19.4)	-	(19.4)
Exchange adjustments	0.1	-	0.1
Charge for the period	(6.5)	-	(6.5)
Disposals	1.2	-	1.2
At 28 December 2019	(24.6)	-	(24.6)
Exchange adjustments	(0.1)	-	(0.1)
Charge for the period	(5.8)	-	(5.8)
Disposals	1.3	-	1.3
At 26 December 2020	(29.2)	-	(29.2)
Net book value at 26 December 2020	21.4	2.9	24.3
Net book value at 28 December 2019	22.4	2.5	24.9

13 Property, plant and equipment

	Freehold property £m	Leasehold property improvements £m	Plant, machinery & vehicles £m	Fixtures & fittings £m	Capital WIP £m	TOTAL £m
Cost						
At 29 December 2018	38.6	71.7	178.7	133.8	10.5	433.3
Exchange adjustments	-	-	(0.1)	(0.3)	-	(0.4)
Additions	0.6	5.2	8.1	15.9	25.3	55.1
Disposals	-	(0.6)	(11.3)	(2.4)	(0.1)	(14.4)
Reclassifications	0.2	5.2	3.6	0.1	(9.1)	-
At 28 December 2019	39.4	81.5	179.0	147.1	26.6	473.6
Adjustment on adopting IFRS 16 (note 28)	-	(16.6)	-	-	-	(16.6)
At 28 December 2019 after adopting IFRS 16	39.4	64.9	179.0	147.1	26.6	457.0
Exchange adjustments	-	-	0.1	0.3	-	0.4
Additions	3.1	11.1	6.5	27.5	13.6	61.8
Disposals	-	-	(8.0)	(0.4)	-	(8.4)
Reclassifications	0.4	15.9	7.1	7.6	(18.7)	12.3
At 26 December 2020	42.9	91.9	184.7	182.1	21.5	523.1
Accumulated depreciation						
At 29 December 2018	(5.4)	(30.3)	(120.0)	(90.5)	-	(246.2)
Exchange adjustments	-	-	0.1	0.1	-	0.2
Charge for the period	(1.2)	(5.4)	(12.1)	(9.3)	-	(28.0)
Disposals	-	0.5	11.1	1.2	-	12.8
At 28 December 2019	(6.6)	(35.2)	(120.9)	(98.5)	-	(261.2)
Adjustment on adopting IFRS 16 (note 28)	-	7.4	-	-	-	7.4
At 28 December 2019 after adopting IFRS 16	(6.6)	(27.8)	(120.9)	(98.5)	-	(253.8)
Exchange adjustments	-	-	(0.1)	(0.1)	-	(0.2)
Charge for the period	(1.2)	(4.4)	(12.0)	(11.1)	-	(28.7)
Disposals	-	-	8.0	0.4	-	8.4
At 26 December 2020	(7.8)	(32.2)	(125.0)	(109.3)	-	(274.3)
Net book value at 26 December 2020	35.1	59.7	59.7	72.8	21.5	248.8
Net book value at 28 December 2019	32.8	46.3	58.1	48.6	26.6	212.4

Notes to the consolidated financial statements continued

14 Lease right-of-use assets and lease liabilities

We present a description of nature of the Group's leasing activities in note 28, which also shows the effect of adopting IFRS 16 in the current year and discusses practical expedients and judgements on adoption.

We have set out the Group's lease accounting policies in note 2.

Amounts recognised in the balance sheet

	26 December 2020 £m
Right-of-use assets	
Property	495.8
Vehicles, plant & machinery	48.4
	544.2
Additions to right-of-use assets in the period	86.5

	26 December 2020 £m
Lease liabilities	
Current	(70.0)
Non-current	(510.5)
	(580.5)

Amounts recognised in the income statement

	52 weeks to 26 December 2020 £m
Included in net operating expenses	
Depreciation of right-of-use assets:	
- property	62.9
- vehicles, plant & machinery	14.7
Impairment	1.9
Total - recognised in net operating costs	79.5
Expense relating to short-term leases	2.9
Variable lease payments, not included in the measurement of lease liabilities	1.1
Included in finance costs	
Interest expense on lease liabilities	10.3

Cash flows and maturity analysis of lease liabilities

	52 weeks to 26 December 2020 £m
Total cash outflow for leases	87.5

	26 December 2020 £m
Maturity analysis of lease liabilities	
Contractual undiscounted cashflows due	
- within 1 year	74.8
- 1 to 5 years	228.8
- more than 5 years	345.5
	649.1

Sublettings

From time to time the Group has leases on properties which it no longer requires. The Group will sublease any such properties wherever possible.

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Sublease income recognised in the period	3.6	4.6

15 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	Leasing £m	Other temporary differences £m	Total £m
At 29 December 2018	6.8	1.2	0.6	-	1.1	9.7
(Charge)/credit to income statement	(4.5)	(0.7)	0.1	-	-	(5.1)
Credit outside the income statement- change of rate	(0.7)	-	0.1	-	-	(0.6)
Credit/(charge) outside income statement	8.0	-	-	-	-	8.0
At 28 December 2019	9.6	0.5	0.8	-	1.1	12.0
On adoption of IFRS 16 (note 28)				3.6		3.6
Adjusted opening balance after adopting IFRS 16	9.6	0.5	0.8	3.6	1.1	15.6
(Charge)/credit to income statement	(4.0)	0.8	(0.3)	(0.5)	0.4	(3.6)
Credit outside the income statement- change of rate	1.1	-	-	-	-	1.1
Credit/(charge) outside the income statement	2.4	-	(0.2)	-	-	2.2
At 26 December 2020	9.1	1.3	0.3	3.1	1.5	15.3

Deferred tax arising from accelerated capital allowances can be further analysed as a £3.0m asset and a £1.7m liability (2019: £2.0m asset and £1.5m liability).

Notes to the consolidated financial statements continued

The presentation in the balance sheet is as follows:

	26 December 2020 £m	28 December 2019 £m
Deferred tax assets	17.0	13.5
Deferred tax liabilities	(1.7)	(1.5)
	15.3	12.0

At the balance sheet date the Group had unused tax losses as disclosed below. These losses are carried forward by particular Group companies and may only be offset against profits of that particular company. Deferred tax assets are not recognised in relation to these losses as it is not considered probable that suitable future taxable profits will be available in the relevant company against which the unused losses can be utilised. Specifically, in the case of the trading and non-trading losses this is due to the unpredictability of future profit streams in the relevant entities, while for the capital losses it is due to the future capital gains not currently being forecast to arise. All unrecognised losses may be carried forward indefinitely and have been valued in GBP at the year end closing exchange rate.

The analysis below does not include any tax losses attributable to our former subsidiaries in The Netherlands and Germany, which have now ceased to trade.

	26 December 2020 £m	28 December 2019 £m
Trading losses	53	41
Non-trading losses	20	20
Capital losses	86	86
Total losses	159	147

16 Inventories

	26 December 2020 £m	28 December 2019 £m
Raw materials	10.2	8.7
Work in progress	4.8	5.7
Finished goods and goods for resale	274.1	255.3
Allowance against carrying value of inventories	(34.1)	(37.9)
	255.0	231.8

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 19.

17 Other financial assets

Trade and other receivables

	26 December 2020 £m	28 December 2019 £m
Trade receivables (net of allowance)	132.4	148.3
Prepayments	29.0	42.1
Other receivables	5.2	2.7
	166.6	193.1

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:

	26 December 2020 £m	28 December 2019 £m
Balance at start of period	11.4	11.3
Increase in allowance recognised in the income statement	1.5	0.1
Balance at end of period	12.9	11.4

The Group's exposure to the credit risk inherent in its trade receivables is discussed in note 27. 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 allowance for bad debts of £12.9m (2019: £11.4m) consists of a specific allowance of £4.7m (2019: £4.6m) which has been made against specific debts with a gross carrying value of £6.0m (2019: £5.8m), and a general allowance of £8.2m (2019: £6.8m). 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 £4.4m of debts in the period (2019: £6.9m). Included within our aggregate trade receivables balance are specific debtor balances with customers totalling £29.0m before bad debt provision (2019: £27.7m 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.

Notes to the consolidated financial statements continued

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

	26 December 2020 £m	28 December 2019 £m
1-30 days past due	14.9	13.2
31-60 days past due	2.9	3.2
61-90 days past due	1.6	2.2
90+ days past due	9.6	9.1
Total overdue amounts, excluding allowance for doubtful receivables	29.0	27.7

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 and cash equivalents

Cash and cash equivalents comprises cash at bank and on hand together with demand deposits, and other short-term investments (see below). 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.

Short-term investments

Short-term investments included in cash and cash equivalents at the end of 2020 comprised investments in short-term UK Gilts. They had maturity dates ranging between 1 and 3 months from the balance sheet date. They returned a fixed rate of interest and the weighted average effective interest rate on the Gilts held at the balance sheet date was (0.04)% pa.

These investments were classified as held-to-maturity, and held at amortised cost. The directors estimated that the fair value of these investments at the period end was equal to their carrying value.

Assets pledged as security

In the event that the Group were to use its bank facility, it has pledged its trade receivables as security for any borrowing under the facility. More details are given in note 19.

18 Other financial liabilities

Trade and other payables

	26 December 2020 £m	28 December 2019 £m
Current liabilities		
Trade payables	161.0	96.4
Other tax and social security	72.5	71.1
Other payables	17.1	11.3
Accruals	49.8	62.6
	300.4	241.4

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 ratio of average credit taken for trade purchases during the period, based on total operations, was 55 days (2019: 42 days). Our payment terms have not changed during the year, and we have continued to pay our suppliers promptly, in line with their agreed credit terms. However the rise in trade creditors at year end, which was due principally to a high level of stock receipts and which we have already seen reversing in the first quarter of 2021, has caused a rise in the calculated ratio.

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.

19 Borrowing facility

At the period end date, the Group had a £140m committed borrowing facility, due to expire in December 2023. 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 26 December 2020, the Group had available £138m of undrawn committed borrowing facilities, in respect of which all conditions precedent had been met (28 December 2019: £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 permits (i) normal trade credit granted in the ordinary course of business; (ii) up to £10m of additional secured borrowings, and (iii) vehicle and equipment hire purchase transactions of up to a total of £20m.

20 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. Employees make contributions out of their salaries, and the Group also makes additional contributions. The plan's assets are held separately from those of the Group.

The total cost charged to income in respect of this plan in the current period of £12.2m (2019: £9.3m) represents the Group's contributions due and payable in respect of the period.

Defined contribution: other plan

The Group operates another defined contribution plan for its employees. Employees make contributions out of their salaries, and the Group also makes additional contributions. The plan's assets are held separately from those of the Group.

The total cost charged to income in respect of this plan in the current period of £1.3m (2019: £1.2m) 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. In November 2020, the Company entered into a consultation process with affected employees and collective bargaining groups regarding the potential closure of the defined benefit Howden Joinery Pension Plan to future accrual. The outcome of the consultation was that the plan would be closed to future accrual from 31 March 2021.

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 April 2017 by the plan actuary. The April 2020 actuarial valuation has begun, but has not been finalised at the date of approving these financial statements. The actuary advising the Group has subsequently rolled forward the results of the April 2017 valuation to 26 December 2020. 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 26 December 2020. We are using CMI 2019 mortality tables, being the most recent tables available.

Notes to the consolidated financial statements continued

Funding and estimated contributions

The Group has an agreement with the pension plan trustees to make additional deficit contributions to the plan, over and above the normal level of contributions, of £30m per year until June 2023. The Group's estimated total cash contributions to the defined benefit plan in the 52 weeks ending 25 December 2021 are £36m.

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 £47.7m. 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 £163.5m, this estimate being based on an approximate roll-forward of the 2017 triennial funding valuation, updated for market conditions.

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

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Charged to the income statement:		
Defined benefit plan - current service cost	20.8	17.2
Defined benefit plan - past service cost	0.3	-
Defined benefit plan - administration costs	2.7	2.8
Defined benefit plan - total operating charge	23.8	20.0
Defined benefit plan - net finance charge	0.6	0.4
Defined contribution plans - total operating charge	13.5	10.5
Total net amount charged to profit before tax	37.9	30.9
Charged to equity:		
Defined benefit plan - actuarial losses	12.7	47.1
Total charge	50.6	78.0

(c) Other information - defined benefit pension plan

Key assumptions used in the valuation of the plan	52 weeks to 26 December 2020	52 weeks to 28 December 2019
Rate of increase of pensions in deferment capped at lower of CPI and 5%	2.45%	2.40%
Rate of CARE revaluation capped at lower of RPI and 3%	2.35%	2.50%
Rate of increase of pensions in payment:		
- pensions with increases capped at lower of CPI and 5%	2.45%	2.40%
- pensions with increases capped at lower of CPI and 5%, with a 3% minimum	3.35%	3.35%
- pensions with increases capped at the lower of LPI and 2.5%	2.10%	2.20%
Rate of increase in salaries	3.95%	4.20%
Inflation assumption - RPI	2.95%	3.20%
Inflation assumption - CPI	2.45%	2.40%
Discount rate	1.30%	1.95%
Life expectancy (years): pensioner aged 65		
- male	86.5	86.5
- female	88.3	88.1
Life expectancy (years): non-pensioner aged 45		
- male	87.8	87.6
- female	90.5	90.3

Sensitivities

If there was a decrease in the discount rate of 0.25%, there would be a corresponding increase in the scheme liabilities of around 6%, or £93m, an increase in the operating charge of around £1.6m and an increase in pensions finance charge of around £0.7m.

An increase of 0.25% to the inflation rate would increase scheme liabilities by around 2.7%, or £45m, increase the operating charge by around £0.6m and increase the pensions finance charge by around £0.6m.

The effect of increasing the assumption regarding life expectancy by one year longer than shown above would be to increase the assessed value of liabilities by around 3.5%, or £57m, to increase the operating charge by around £0.7m and to increase the pensions finance charge by around £0.8m.

The sensitivities above are applied to the defined benefit obligation at the end of the reporting period, and the projected total service cost for 2021. Whilst the analysis does not take account of the full distribution of cash flows expected under the scheme, it does provide a reasonable approximation. The same amount of movement in the opposite direction would produce a broadly equal and opposite effect.

Analysis of plan assets

	26 December 2020		28 December 2019	
	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	423.0	-	505.5	-
Equities				
- passive equities	141.3	-	138.6	-
Private equity	-	2.6	-	4.1
Alternative growth assets				
- fund of hedge funds	-	137.8	-	94.2
- absolute return fund	85.0	-	80.6	-
Insurance-linked securities	-	71.6	-	64.0
Corporate bonds	237.5	-	170.4	-
Commercial property fund	103.0	117.7	36.9	65.7
Other secure income	-	128.7	-	89.6
Asset-backed securities	104.9	-	126.1	-
Cash and cash equivalents	40.2	-	53.0	-
Total	1,134.9	458.4	1,111.1	317.6

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

Asset allocation

The following text explaining the plan trustees' asset allocation strategy is taken from the plan's 2020 Annual Report and Accounts, published in September 2020:

The investment strategy currently in place has a 60% allocation to 'return-seeking' assets and a 40% allocation to 'risk-reducing' assets.

'Return-seeking' assets are generally higher risk instruments that over the longer term would be expected to produce a return in excess of the Plan's liabilities. The Trustee has made the decision that the Plan's allocation to 'return-seeking' assets be split between quoted equities, secure income assets and absolute return funds at 31 March 2020.

'Risk-reducing' assets are generally considered as lower risk and would typically be expected to move in a broadly similar fashion to the Plan's liabilities, due to changes in both interest rates and inflation. Within the 'risk-reducing' portfolio, the Trustee has made the decision to invest in fixed and inflation linked government bonds as well as corporate bonds.

Notes to the consolidated financial statements continued

Analysis of plan members, scheme liability split and duration

	2020[1]		
	No. of members	% of total liability	Duration (yrs)
Active members	1,342		
Deferred members	5,440		
Total members	6,782	66%	25
Pensioners	3,871	34%	14
Total No./average duration	10,653	100%	22

1 The figures are on an IAS 19 basis and are as at 31 March 2020, the date of the latest agreed pension plan accounts.

	2019[2]		
	No. of members	% of total liability	Duration (yrs)
Active members	1,448		
Deferred members	5,677		
Subtotal	7,125	72%	25
Pensioners	3,652	28%	15
Total No./average duration	10,777	100%	22

2 The figures are on an IAS 19 basis and are as at 31 March 2019, from the pension plan accounts.

Balance sheet

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

	26 December 2020 £m	28 December 2019 £m
Present value of defined benefit obligations	(1,641.0)	(1,485.3)
Fair value of scheme assets	1,593.3	1,428.7
Deficit in the scheme, recognised in the balance sheet	(47.7)	(56.6)

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

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Present value at start of period	1,485.3	1,281.7
Current service cost	20.8	17.2
Past service cost	0.3	-
Administration cost	2.7	2.8
Interest on obligation	28.3	35.8
Actuarial losses/(gains):		
- changes in financial and demographic assumptions	165.8	203.5
- experience	(19.9)	(6.6)
Benefits paid, including expenses	(42.3)	(49.1)
Present value at end of period	1,641.0	1,485.3

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

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Fair value at start of period	1,428.7	1,245.7
Interest income on plan assets	27.7	35.4
Contributions from the Group	46.0	46.9
Actuarial gains	133.2	149.8
Benefits paid, including expenses	(42.3)	(49.1)
Fair value at end of period	1,593.3	1,428.7

Movements in the deficit during the period are as follows:

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Deficit at start of period	(56.6)	(36.0)
Current service cost	(20.8)	(17.2)
Past service cost	(0.3)	-
Administration cost	(2.7)	(2.8)
Employer contributions	46.0	46.9
Other finance charge	(0.6)	(0.4)
Actuarial losses gross of deferred tax	(12.7)	(47.1)
Deficit at end of period	(47.7)	(56.6)

Income statement

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

Amount charged to operating profit:

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Current service cost	20.8	17.2
Past service cost	0.3	-
Administration cost	2.7	2.8
Total operating charge	23.8	20.0

The total operating charge is included in the financial statements heading 'Staff costs'.

Notes to the consolidated financial statements continued

Amount credited to other finance charges:

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Interest income on plan assets	(27.7)	(35.4)
Interest cost on defined benefit obligation	28.3	35.8
Net charge	0.6	0.4

The actual return on plan assets was £160.9m (52 weeks to 28 December 2019: £185.2m).

Statement of comprehensive income

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

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Actuarial gain on plan assets	133.2	149.8
Actuarial loss on plan liabilities	(145.9)	(196.9)
Net actuarial loss, before associated deferred tax	(12.7)	(47.1)

21 Provisions

	Property £m	Warranty £m	Closure costs £m	French post-employment benefits £m	Total £m
At 29 December 2018	3.4	3.6	-	0.3	7.3
Additional provision in the period	3.1	5.3	5.5	-	13.9
Provision released in the period	(0.9)	-	-	-	(0.9)
Utilisation of provision in the period	(2.2)	(3.8)	(5.3)	-	(11.3)
At 28 December 2019	3.4	5.1	0.2	0.3	9.0
Transferred to lease right-of-use assets on adoption of IFRS 16	(0.2)	-	-	-	(0.2)
Additional provision in the period	3.6	6.9	-	-	10.5
Provision released in the period	(0.3)	-	-	-	(0.3)
Utilisation of provision in the period	(0.9)	(4.0)	(0.2)	-	(5.1)
At 26 December 2020	5.6	8.0	-	0.3	13.9

Effect of adopting IFRS 16 on the property provision

On adopting IFRS 16, the Group took advantage of the transitional provision to treat existing onerous lease provisions as lease impairments and therefore transferred them out of Provisions on the balance sheet and set them against the lease assets.

Property provision

The property provision at December 2020 covers obligations to make dilapidations payments to landlords of leased properties.

The timing of outflows from the provision is variable, and is dependent 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.

French post-employment benefits provision

This provision relates to a benefit which is payable to employees in our French subsidiary under French law on retirement. It is a lump sum payable on retirement, not a recurring pension. It will only be payable if any of the eligible employees are employed by our French subsidiaries immediately before their retirement.

The provision represents our best estimate of the potential liability and it is calculated based on several factors, mainly the age profile and salary details of the current workforce in France, and the current rate of staff turnover.

Closure costs

This relates to the costs of closing our trial operations in Germany and The Netherlands, which was completed in the current year.

22 Share capital

Ordinary shares of 10p each:	52 weeks to 26 December 2020 No.	52 weeks to 28 December 2019 No.	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Allotted, called up and fully paid				
Balance at the beginning of the period	604,663,861	615,436,307	60.5	61.5
Bought back and cancelled during the period	(1,800,000)	(10,772,446)	(0.2)	(1.0)
Balance at the end of the period	602,863,861	604,663,861	60.3	60.5

23 Notes to the cash flow statement

Analysis of cash and cash equivalents	Cash at bank and in hand £m	Short-term investments £m	Cash and cash equivalents £m
At 28 December 2019	218.5	48.9	267.4
Cash flow	182.2	(18.9)	163.3
At 26 December 2020	400.7	30.0	430.7

The short-term investments had a maturity of less than three months, and as such were considered to be cash equivalents for the purposes of the cash flow statement. More details are given at note 2 and note 19.

24 Financial commitments

Capital commitments

	26 December 2020 £m	28 December 2019 £m
Contracted for, but not provided for in the financial statements:		
- Tangible assets	13.8	17.8
- Intangible assets	0.7	0.3
	14.5	18.1

Notes to the consolidated financial statements continued

25 Share-based payments

1) Details of each scheme

The Group recognised a charge of £3.6m (2019: charge of £4.9m) 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.

Freeshares

This is a UK tax-advantaged 'all-employee' Share Incentive Plan where eligible UK employees receive an award of free shares in the Company. If participants are still employed by a UK Howdens Group company on the third anniversary of the date the shares were granted, the shares will vest. There are no other performance conditions attached to these awards. Dividends are payable on the free shares during the vesting period.

Howden Joinery Group long-term incentive plan ('LTIP')

This is a discretionary employee share plan under which the Company may grant different types of award including options, conditional awards and restricted share awards. With the exception of (iv) below, neither dividends nor dividend equivalents are payable during the vesting period. The different types of awards are as follows:

(i) **Conditional share awards**, the vesting period for which is three years commencing on the date of grant and subject to continued employment. The shares are not subject to any other performance conditions.

(ii) **Market value options,** the vesting period for which is three years commencing from the date of grant with an exercise period of seven years (i.e. a total life of ten years). The vesting conditions for these options are as follows:

Date of award	2011	2012	2013
Vesting based on growth in profits - from year ended December	2010	2011	2012
- to year ended December	2013	2014	2015
Award vests at 25% if profits over the vesting period grow by	6%	6%	6%
Award vests at 100% if profits over the vesting period grow by	12%	12%	12%

Date of award	2014
Vesting based on growth in profits - from year ended December	2013
- to year ended December	2016
Award vests at 15% if profits over the vesting period grow by	8%
Award vests at 100% if profits over the vesting period grow by	20%

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

(iii) **Performance share plan**, the vesting period for which is three years commencing from the date of grant. The awards are subject to the following performance conditions:

Date of award	2017	2018	2019
Vesting based on growth in profits - from year ended December	2016	2017	2018
- to year ended December	2019	2020	2021
Award vests at 15% if profits over the vesting period grow by	3%	5%	5%
Award vests at 100% if profits over the vesting period grow by	15%	15%	15%

Date of award	2020
Performance period - from year ended December	2019
- to year ended December	2022
Performance Conditions:	
Total shareholder return (the 'TSR tranche') represents the following proportion of the Award	67%
- TSR tranche vests at 15% if the Company is ranked compared to comparators at	Median
- TSR tranche vests at 100% if the Company is ranked compared to comparators in the	Upper quartile
Growth in pre-exceptional profit before tax (the 'PBT tranche') represents the following proportion of the Award	33%
- PBT tranche vests at 15% if profits over the performance period grow by	5%
- PBT tranche vests at 100% if profits over the performance period grow by	15%

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

(iv) **Restricted share awards**, where the participant receives beneficial entitlement to shares upon grant of the award. The legal interest however is not transferred to the participant until the forfeiture provisions and restrictions applicable to the awards cease to apply. The shares are not subject to any performance conditions other than continued employment. Dividends are payable during the vesting period.

Recruitment plan

This is a discretionary employee share plan under which the Company may grant an eligible employee conditional rights to acquire shares subject to certain conditions. The shares are not subject to any performance conditions other than continued employment. Neither dividends nor dividend equivalents are payable during the vesting period. The awards granted under this plan may only be satisfied with existing shares.

Notes to the consolidated financial statements continued

2) Movements in the period

52 weeks to 26 December 2020	Freeshares Number	LTIP (i) Number	LTIP (iii) Number	LTIP (iv) Number
In issue at start of period	2,778,447	22,900	4,731,277	111,327
Granted in period	456,274	-	1,245,483	-
Lapsed in period	(140,200)	(3,700)	(1,541,943)	-
Exercised in period	(409,394)	(9,200)	(230,819)	(46,385)
In issue at end of period	2,685,127	10,000	4,203,998	64,942
Exercisable at end of period	811,357	-	32	-
Number of options in the closing balance granted before 7 November 2002	19,890	-	-	-
Weighted average share price for options exercised during the period (£)	5.74	5.03	5.05	5.01
Weighted average life remaining for options outstanding at the period end (years)	1.1	0.3	1.4	0.5
Weighted average fair value of options granted during the period (£)	5.36	N/A	3.11	N/A
Exercise price for all options (£)	0.00	0.00	0.00	0.00

	LTIP (ii) Number	LTIP (ii) WAEP (£)	Recruitment Plan Number
In issue at beginning of period	531,082	3.22	48,294
Granted in period	-	N/A	-
Lapsed in period	(2,521)	2.38	-
Exercised in period	(115,599)	3.16	(48,294)
In issue at end of period	412,962	3.25	-
Exercisable at end of period	412,962	3.25	-
Number of options in the closing balance granted before 7 November 2002	-		-
Weighted average share price for options exercised during the period (£)	6.19		6.41
Weighted average life remaining for options outstanding at the period end (years)	-		N/A
Weighted average fair value of options granted during the period (£)	N/A		N/A
Exercise price for all options (£)	1.09 to 3.79		0.00

52 weeks to 28 December 2019	Freeshares Number	LTIP (i) Number	LTIP (iii) Number	LTIP (iv) Number
In issue at start of period	2,496,344	42,500	4,840,735	-
Granted in period	944,100	-	1,589,842	111,327
Lapsed in period	(208,500)	(11,500)	(1,690,324)	-
Exercised in period	(453,497)	(8,100)	(8,976)	-
In issue at end of period	2,778,447	22,900	4,731,277	111,327
Exercisable at end of period	530,847	-	-	-
Number of options in the closing balance granted before 7 November 2002	23,456	-	-	-
Weighted average share price for options exercised during the period (£)	5.34	5.22	5.07	N/A
Weighted average life remaining for options outstanding at the period end (years)	1.37	0.79	1.37	0.96
Weighted average fair value of options granted during the period (£)	5.17	N/A	4.65	5.60
Exercise price for all options (£)	0.00	0.00	0.00	0.00

	LTIP (ii) Number	LTIP (ii) WAEP (£)	Recruitment Plan Number
In issue at beginning of period	927,176	2.94	117,691
Granted in period	-	N/A	-
Lapsed in period	-	N/A	-
Exercised in period	(396,094)	2.56	(69,397)
In issue at end of period	531,082	3.22	48,294
Exercisable at end of period	531,082	3.22	-
Number of options in the closing balance granted before 7 November 2002	-		-
Weighted average share price for options exercised during the period (£)	5.52		4.86
Weighted average life remaining for options outstanding at the period end (years)	0.00		0.18
Weighted average fair value of options granted during the period (£)	N/A		N/A
Exercise price for all options (£)	1.09 to 3.79		0.00

3) Fair value of options granted

The fair value of awards granted is estimated on the date of grant using a binomial or a Monte Carlo option valuation model, as appropriate for the type of award granted.

The key assumptions used in the model were:

	52 weeks to 26 December 2020	52 weeks to 28 December 2019
Dividend yield (%)	2.2	2.2 to 2.6
Expected life of options (years)	3.0	0.6 to 3.0
Expected share price volatility (%)	30.9	N/A

Notes to the consolidated financial statements continued

26 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 20.

Remuneration of key management personnel

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

	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Short-term employment benefits	9.6	8.4
Termination benefits	0.6	-
Share-based payments	0.6	0.4
	10.8	8.8

Other transactions with key management personnel

There were no other transactions with key management personnel.

27 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 19 - 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 22).

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

(b) Significant accounting policies

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

(c) Categories of financial instruments

	26 December 2020 £m	28 December 2019 £m
Financial assets (current and non-current)		
Trade receivables	132.4	148.3
Cash and cash equivalents	430.7	267.4
Financial liabilities (current and non-current)		
Trade payables	161.0	96.4

(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 17.

Notes to the consolidated financial statements continued

(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 17 and note 2. Trade receivables are spread over a large number of customers, and we do not have a significant exposure to any single counterparty.

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

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

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

	26 December 2020 £m	28 December 2019 £m
Trade receivables (net of allowance)	132.4	148.3
Cash	400.7	218.5
Current asset investments	30.0	48.9
Total credit risk exposure	563.1	415.7

(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. The Group manages its liquidity risk by using reasonable and retrospectively-assessed assumptions to forecast the future cash-generative capabilities and working capital requirements of the businesses it operates and by maintaining sufficient cash and investment reserves, committed borrowing facilities and other credit lines as appropriate. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has agreed an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities as far as is possible. Included in note 19 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.

(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:

	26 December 2020 £m	28 December 2019 £m
Euro		
Trade receivables	5.5	4.5
Other receivables	2.7	2.4
Cash and cash equivalents	14.8	13.5
Trade payables	(32.9)	(18.8)
Other payables	(5.2)	(3.1)
	(15.1)	(1.5)
US Dollar		
Cash and cash equivalents	0.5	0.1
Trade payables	(0.2)	(0.1)
	0.3	-
TOTAL	(14.8)	(1.5)

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:

Notes to the consolidated financial statements continued

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 £1.3m (2019: increase by £0.4m).

For a decrease of 50 basis points, the current year figures would decrease by £1.3m (2019: decrease by £0.4m).

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. It shows their impact on the income statement.

	26 December 2020 £m	28 December 2019 £m
10% weakening of Sterling to Euro	(1.7)	(0.2)
10% strengthening of Sterling to Euro	1.4	0.1
10% weakening of Sterling to US dollar	-	-
10% strengthening of Sterling to US dollar	(0.0)	-

28 Effect of adopting IFRS 16 in the current year

The Group has adopted IFRS 16 Leases for the first time in the current period, with a transition date of 29 December 2019. This has replaced the previous lease accounting standard, IAS 17. The previous period has not been restated and is presented under IAS 17.

The nature of the Group's leasing activities, and how their accounting has been affected by IFRS 16

We lease our depot, warehouse, factory and office properties, as well as other assets such as fork lift trucks, lorries, vans and cars. Under IAS 17 these leases were all classified as operating leases and therefore were not recognised on the balance sheet. Rent payments under IAS 17 were charged to income on a straight-line basis. The Group did not have any leases which were classified as finance leases under IAS 17.

The effect of IFRS 16

Under IFRS 16 we now recognise these leases on the balance sheet, causing both our gross assets and gross liabilities to increase. The addition to gross assets represents our right to use the leased asset, and the addition to gross liabilities reflects the present value of our obligation to make future lease payments.

IFRS 16 also has a timing effect on the annual lease expense, which is no longer equal to the rent payable for that year. The total income statement charge under IFRS 16 consists of an operating charge, representing straight line depreciation on the leased asset, plus an interest charge, which will vary over the life of the lease. More interest is charged in the early periods of each lease and less interest is charged in the later periods as the outstanding balance reduces, as with interest on a loan.

Rent-free periods and cash lease incentives are recognised under IFRS 16 as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts.

In the cash flow statement under IFRS 16 the Group separates the total amount of cash paid for leases into principal and interest elements, both of which are presented within financing activities. Under IAS 17 operating lease payments were presented as operating cash outflows.

Adoption and transition

We have adopted IFRS 16 using the modified retrospective approach. Consequently, we have not restated the 2019 comparative figures on adoption, and we have discounted our leases using incremental borrowing rates as at the transition date.

For all our property leases and some of our vehicle leases - representing approximately 90% of our total lease commitments on adoption by value - we measured the leases on adoption as if IFRS 16 had always been applied since the lease commencement date. The remaining leases are measured as if the lease had started on the transition date.

We have elected to use the following permitted practical expedients on transition for some leases, where applicable:

- to apply the portfolio approach, using a single discount rate for a group of leases which have similar characteristics
- to use hindsight when determining the lease term
- to use the existing onerous lease provision on transition to reduce the right-of-use asset, rather than conducting an impairment review
- to exclude initial direct costs from measurement of the right-of-use asset
- to use the definition of a lease which existed under the previous accounting standard when determining if a contract contains a lease under IFRS 16
- to treat property leases as short term leases, and to expense their payments, if there is a short period between the old lease ending and the lease renewal being signed. This is explained in more detail in the accounting policy at note 2

We have not elected to use the practical expedient to not recognise low value leases on transition.

Incremental borrowing rate

Our weighted average incremental borrowing rate on adoption was 1.74%. The range of rates used for individual leases varied from 1.2% to 2.5%.

Reconciliation of IAS 17 lease commitments at 28 December 2019 to opening IFRS 16 lease liability

	£m
Non-cancellable operating lease commitments at 28 December 2019 under IAS 17	586
Cancellable commitments, excluded under IAS 17 but included under IFRS 16[1]	65
Total lease commitments on an IFRS 16 basis - before discounting	651
Effect of discounting	(83)
Opening lease liability at 29 December 2019 under IFRS 16	568

1 IAS 17 required us to analyse 'non-cancellable' lease commitments. This meant that we only included property lease commitments until the time of the first break clause in the lease. IFRS 16 requires us to include all payments where we think that we are reasonably likely not to exercise a break clause. Our default position on measurement of leases under IFRS 16, based on both our past experience and our current intentions, is to assume that we will not exercise break clauses.

Notes to the consolidated financial statements continued

Analysis of opening balance sheet adjustment

In order to help users better understand the effect of adopting IFRS 16, the following analysis shows its effect on the opening balance sheet and reserves.

		Recognise:	Derecognise:			Transfer:	
	28 Dec 2019 Under IAS 17 £m	IFRS 16 assets and liabilities £m	Prepaid rents £m	Rent-free periods and lease incentives £m	Initial direct costs £m	Property provision to lease assets £m	29 Dec 2019 Under IFRS 16 £m
Non-current assets							
Property, plant & equipment	212.4	-	-	-	(9.2)	-	203.2
Lease right-of-use assets	-	548.8	-	-	-	(0.2)	548.6
Current assets							
Trade and other receivables	193.1	-	(15.0)	(9.2)	-	-	168.9
Non-current liabilities							
Lease liabilities	-	(74.1)	-	-	-	-	(74.1)
Provisions	(9.0)	-	-	-	-	0.2	(8.8)
Current liabilities							
Lease liabilities	-	(494.1)	-	-	-	-	(494.1)
Trade and other payables	(241.4)	-	-	21.9	-	-	(219.5)
Reserves							
Dr/(Cr) to opening reserves - before deferred tax	-	19.4	15.0	(12.7)	9.2	-	30.9

In addition to the amounts shown above, the Group recognised a deferred tax asset of £3.6m on adoption of IFRS 16, and a corresponding credit to reserves.

Judgements on adopting IFRS 16

We do not consider any of the judgements applied in the adoption of IFRS 16 to be significant.

For some companies, there is significant judgement in deciding how to treat extension options and break clauses in leases, and therefore how to determine the most likely lease term at the inception of the lease.

We do not have extension options in any of our leases. We typically have break clauses in property leases, but our best assessment at the inception of a lease is that we are virtually certain not to exercise any break clauses and that the lease will run to its maximum term. We do not feel that this involves significant judgement, and this is borne out by us having no significant history of exercising break clauses in the normal course of business.

Some companies consider that there is significant judgement involved in arriving at a suitable incremental borrowing rate. We do not consider that to be the case for us as we feel that our process - which we describe as part of the accounting policy for lease liabilities at note 2 - is based on objective third-party data.

Independent auditor's report

to the members of Howden Joinery Group Plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Howden Joinery Group plc (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 26 December 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the 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.

We have audited the financial statements 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; and
- the related Group Notes 1 to 28 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 international accounting standards in conformity with the requirements of the Companies Act 2006 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'.

2. 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 Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and parent company for the year are disclosed in note 5 to the financial statements. 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.

Independent auditor's report continued

to the members of Howden Joinery Group Plc

3. 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; and • appropriateness of the actuarial assumptions underlying the valuation of pension liabilities Within this report, key audit matters are identified as follows: ◀▶ Similar level of risk
Materiality	The materiality that we used for the Group financial statements was £11.0 million which was determined on the basis of considering a number of different metrics used by investors and other readers of the Financial Statements. These consisted of profit before tax and revenue.
Scoping	Full audit procedures were performed over the Group's UK trading and corporate entities, consistent with 2019.
Significant changes in our approach	The basis for determining materiality was changed from profit before tax to a number of different metrics used by investors and other readers of the Financial Statements to reflect the volatility in the results of the Group arising from the impact of the coronavirus pandemic.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and Company's ability to continue to adopt the going concern basis of accounting included:

- testing of the mechanical accuracy of the model used to prepare the Group's going concern forecast;
- evaluating the consistency of management's forecasts with other areas of the audit;
- challenging the key assumptions within the going concern assessment including in relation to future sales projections and specifically the Period 11 peak trading period;
- obtaining an understanding of the base and reasonable worst case scenarios together with the financing facilities available to the Group, including the associated financial covenants;
- assessing the impact of reverse stress testing on the Group's cash position and covenant calculations, including the appropriateness of coronavirus and Brexit assumptions;
- evaluating the mitigating actions available to management, should these be required to offset the impact of the forecast performance not being achieved;
- challenging the sufficiency of the Group's disclosures over the going concern basis of preparation by reference to FRC guidance and the requirements of IAS 1 Presentation of Financial Statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. 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.

5.1. Valuation of the UK inventory obsolescence provision ◀▶

Key audit matter description	At the year end, the gross inventory balance is £289.1 million (2019: £269.6 million), of which there is a £34.1 million (2019: £37.9 million) allowance against the carrying value. Whilst the Group has retained extra stock levels to mitigate against any impact of the coronavirus pandemic and Brexit, these stock lines relate to faster moving items which under the Group's policy do not attract a provision. The scale of the Group's product range means there is significant Management judgement involved in determining the adequacy of the inventory obsolescence provision, 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 128 also refers to inventory provisioning as one of the significant issues and judgements. Further information is included in note 3 and note 16.
How the scope of our audit responded to the key audit matter	Our audit procedures included: • obtaining an understanding of relevant controls over the inventory obsolescence provision; • considering the appropriateness of the methodology used to calculate the inventory provision; • challenging the level of provision applied by Management to discontinued items by independently recalculating the provision percentages; • assessing the integrity of the underlying calculation by evaluating the accuracy of the ageing of the discontinued inventory items; • evaluating the appropriateness of the provisioning methodology by comparing the brought forward provision to utilisation in the year to assess Management's ability to forecast accurately; and • determining the completeness of the provision by assessing a sample of current stock lines for slow moving items or sales below cost to evaluate whether additional provisioning is required.
Key observations	On the basis of our testing, we are satisfied the overall provision is appropriate and is prepared on a basis consistent with the prior period.

Independent auditor's report continued

to the members of Howden Joinery Group Plc

5.2. 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 £47.7 million (2019: £56.6 million), particularly in respect of the discount rate, inflation and mortality rates applied. The valuation of gross pension liabilities of £1,641.0 million (2019: £1,485.3 million) is materially sensitive to changes in these underlying assumptions. Management has highlighted defined pension arrangements as a critical accounting judgement and key source of estimation in note 3 to the financial statements. Further information in respect of the pension scheme is included in note 20. The Audit Committee report on page 128 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	Our audit procedures included: • obtaining an understanding of relevant controls over the key assumptions used to determine the pension liability; • with the involvement of our pension specialists, reviewing the valuation report prepared by the Group's external actuaries and assessing each of the key assumptions, being the discount rate, inflation rate and mortality. We did this through comparison to available market data, our own benchmarks and by reference to the Company's accounting policies. We also assessed the appropriateness of the methodology used by the Group's actuaries to calculate the liabilities of the pension scheme. In addition, we benchmarked the key assumptions against a population of other companies as at December 2020. • considering whether, individually and in aggregate, the assumptions are appropriate. • assessing the competence, capabilities and objectivity of the Group's external actuaries, to evaluate whether they have sufficient and appropriate experience and are members of the Institute and Faculty of Actuaries. • assessing the pension disclosures in the financial statements and considered their compliance with the requirements of IAS 19 Employee Benefits.
Key observations	We are satisfied that, individually and in aggregate, the actuarial assumptions applied in respect of the scheme's liabilities are appropriate.

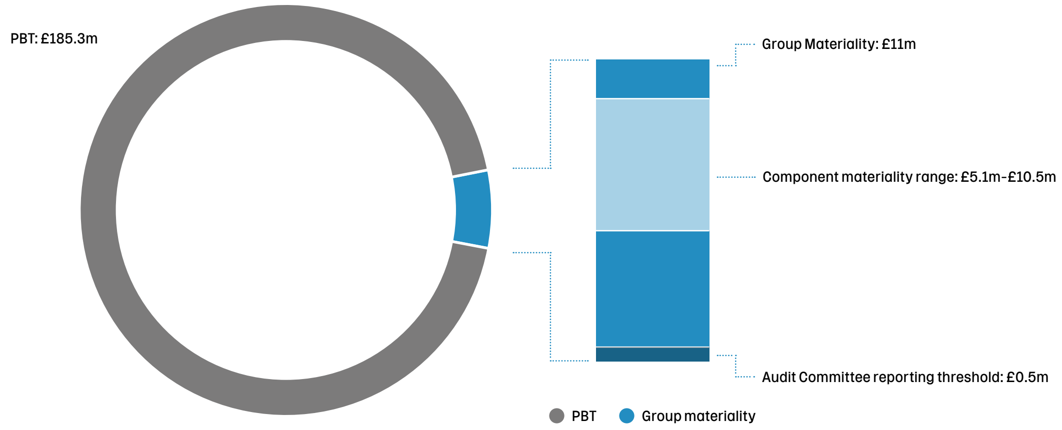
6. Our application of materiality

6.1. 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 (2019: £12.5 million)	£5.1 million (2019: £5.0 million)
Basis for determining materiality	We considered the following metrics: • profit before tax; and • revenue. Using professional judgment we determined materiality to be £11 million. In the prior year, materiality was determined on the basis of 5% of statutory profit before tax.	0.4% (2019: 0.5%) of net assets
Rationale for the benchmark applied	In determining our benchmark for materiality we considered a number of different metrics used by investors and other users of the Financial Statements. This approach is a change from the prior year to reflect the volatility in the results of the Group arising from the impact of the coronavirus pandemic.	The Company does not trade so materiality has been determined using net assets.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Company financial statements
Performance materiality	65% (2019: 70%) of Group materiality	70% (2019: 70%) of Company materiality
Basis and rationale for determining performance materiality	Group • our risk assessment, including our assessment of the Group's overall control environment together with the changes implemented in response to the coronavirus pandemic; and • history of prior period errors of which there were a low number of corrected and uncorrected misstatements. Company • our risk assessment and the fact the company is a non-trading investment holding company; • history of prior period errors of which there were a low number of corrected and uncorrected misstatements.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £500,000 (2019: £625,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent auditor's report continued

to the members of Howden Joinery Group Plc

7. An overview of the scope of our audit

7.1. Identification and scoping of components

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 trading and corporate entities. All of these were subject to a full audit.

Our audit work for the UK trading and corporate entities was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged between £5.1 million and £10.5 million. These locations represent the principal business units and account for 97% (2019: 98%) of the Group's net assets, 98% (2019: 98%) of Group revenue and 96% (2019: 98%) of Group profit before tax for the 52 weeks ended 26 December 2020. 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 and corporate entities account for 98% (2019: 98%) of Group revenue and were audited by the Group team.

At Group 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.

7.2. Our consideration of the control environment

We have obtained an understanding of relevant controls over the key business cycles, including financial reporting, revenue, inventory, fixed assets, expenditure and pensions. In addition, we have tested relevant controls over stock existence and revenue.

Together with our IT specialists we tested controls over the revenue, inventory and financial reporting systems. We performed testing on access security, change management and network operations.

As noted on page 133 in the Audit Committee Report, the Group has commenced a key controls project to focus and further strengthen its overall control framework in light of the increasing size of the Group and increased public interest in internal control systems following the Kingman and Brydon reviews.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

We have nothing to report in this regard.

9. 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.

10. 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, in-house legal counsel and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of its policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following valuation of the UK inventory obsolescence provision. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act 2006, Listing Rules, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included occupational health and safety regulations and employment legislation.

Independent auditor's report continued

to the members of Howden Joinery Group Plc

11.2. Audit response to risks identified

As a result of performing the above, we identified the valuation of the UK inventory obsolescence provision as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and both in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing internal audit reports; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. 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 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.

13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 63;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 65;
- the directors' statement on fair, balanced and understandable set out on page 67;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 65;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 134; and
- the section describing the work of the audit committee set out on page 126.

14. Matters on which we are required to report by exception

14.1. 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.

14.2. 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.

Independent auditor's report continued

to the members of Howden Joinery Group Plc

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the members at the Annual General meeting held on 21 June 2002 to audit the financial statements for the year ending 28 December 2002 and subsequent financial periods. The period of total uninterrupted engagement including renewals and reappointments of the firm is 19 years, covering the years ending 28 December 2002 to 26 December 2020.

15.2. 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).

16. Use of our report

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

Claire Faulkner FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor

London, England
24 February 2021

Company balance sheet

	Notes	26 December 2020 £m	28 December 2019 £m
Non-current assets			
Investments in subsidiaries	3	699.0	699.0
Long-term prepayments		0.6	0.9
		699.6	699.9
Current assets			
Debtors	4	44.1	2.9
Cash and cash equivalents		413.1	256.0
		457.2	258.9
Current liabilities			
Creditors: amounts falling due within one year	5	-	(27.0)
Net current assets		457.2	231.9
Total assets less current liabilities		1,156.8	931.8
Net assets		1,156.8	931.8
Equity			
Share capital	6	60.3	60.5
Capital redemption reserve		4.9	4.7
Share premium		87.5	87.5
Treasury shares		(28.2)	(29.3)
Retained earnings		1,032.3	808.4
Total equity		1,156.8	931.8

The Company profit after tax for the 52 weeks to 26 December 2020 was £233.7m (52 weeks to 28 December 2019: profit after tax of £220.4m).

These financial statements were approved by the Board on 24 February 2021 and were signed on its behalf by

Paul Hayes

Chief Financial Officer

For and on behalf of Howden Joinery Group Plc, registered number 02128710

Company statement of changes in equity

	Share capital £m	Capital redemption reserve £m	Share premium account £m	Treasury shares £m	Retained earnings £m	Total £m
At 29 December 2018	61.5	-	87.5	(32.9)	717.5	833.6
Retained profit for the period	-	-	-	-	220.4	220.4
Buyback and cancellation of shares [1]	(1.0)	4.7	-	-	(58.9)	(55.2)
Transfer of shares from treasury into share trust	-	-	-	3.6	-	3.6
Dividends declared and paid	-	-	-	-	(70.6)	(70.6)
At 28 December 2019	60.5	4.7	87.5	(29.3)	808.4	931.8
Retained profit for the period	-	-	-	-	233.7	233.7
Buyback and cancellation of shares	(0.2)	0.2	-	-	(9.8)	(9.8)
Transfer of shares from treasury into share trust	-	-	-	1.1	-	1.1
Dividends declared and paid	-	-	-	-	-	-
At 26 December 2020	60.3	4.9	87.5	(28.2)	1,032.3	1,156.8

1 The line 'Buyback and cancellation of shares' for the prior period includes a re-presentation of the cancellation of shares to retained earnings and capital redemption reserve for the shares bought back and cancelled before 29 December 2018, under which retained earnings has been reduced by £3.7m and the capital redemption reserve has been increased by £3.7m. This line also records the shares bought back and cancelled in the period ended 28 December 2019, which had an aggregate nominal value of £1m and a cost of £55.2m.

The Company's distributable reserves at period end are:

	26 December 2020 £m
Retained earnings	1,032.3
Treasury shares	(28.2)
Distributable reserves	1,004.1

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 192. The Company is registered in England and the Company's registered address is 40 Portman Square, London W1H 6LT.

Basis of presentation

The Company's accounting period covers the 52 weeks to 26 December 2020. The comparative period covered the 52 weeks to 28 December 2019.

Basis of accounting

These financial statements have been prepared on the going concern basis and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101') and the UK Companies Act.

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

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

- Statement of Cash Flows and related notes;
- a comparative period reconciliation for share capital;
- disclosures in respect of transactions with wholly owned subsidiaries;
- comparative period reconciliations for tangible fixed assets and intangible assets;
- 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 (2019: none), did not pay directors' emoluments (2019: £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.

Notes to the Company financial statements continued

3 Investments in subsidiaries

	Shares in subsidiary undertakings £m	Long-term loans to subsidiary undertakings £m	Total £m
Cost and carrying value:			
At 28 December 2019 and 26 December 2020	262.1	436.9	699.0

Details of principal subsidiary undertakings are given on page 192.

4 Debtors

	26 December 2020 £m	28 December 2019 £m
Other debtors	0.3	0.3
Amounts owed by subsidiary undertakings	36.7	-
Other tax and social security	7.1	2.6
	44.1	2.9

5 Creditors: amounts falling due within one year

	26 December 2020 £m	28 December 2019 £m
Owed to subsidiaries	-	(27.0)
	-	(27.0)

6 Share capital

	52 weeks to 26 December 2020 No.	52 weeks to 28 December 2019 No.	52 weeks to 26 December 2020 £m	52 weeks to 28 December 2019 £m
Ordinary shares of 10p each:				
Balance at the beginning of the period	604,663,861	615,436,307	60.5	61.5
Bought back and cancelled during the period	(1,800,000)	(10,772,446)	(0.2)	(1.0)
Balance at the end of the period	602,863,861	604,663,861	60.3	60.5