HOWDEN JOINERY GROUP PLC

HALF YEAR REPORT TO 13 JUNE 2020

SUMMARY OF GROUP RESULTS[1]

£m (unless stated)	2020	2019	% change
Revenue			
- Group	**465.0**	652.6	(28.7)
- Howden Joinery UK depots	**453.4**	638.1	(29.0)
Gross profit	**276.1**	404.2	(31.8)
Gross profit margin, %	**59.4**	61.9	(250)bp
Operating (loss)/profit	**(9.8)**	77.7	(112.6)
(Loss)/profit before tax	**(14.2)**	78.1	(118.2)
Basic (loss)/earnings per share	**(1.8)p**	10.3p	(117.5)
Dividend per share	**0.0p**	3.9p	(100.0)
Net cash at end of period	**253.4**	217.1	16.7

[1] The information presented relates to the 24 weeks to 13 June 2020 and the 24 weeks to 15 June 2019, unless otherwise stated. The H1 2020 results are presented under IFRS 16 for the first time, 2019 results have not been restated.
[2] Same depot basis for any year excludes depots opened in that year and the prior year. See Financial Review on page 4.

Financial highlights[1]:

- Howden Group results were significantly impacted by the COVID-19 pandemic, with Group revenue in the first half of £465.0m (2019: £652.6m). Howden Joinery UK depot revenue reduced by 29.0% to £453.4m (2019: £638.1m), and by 30.3% on a same depot basis[2]. Split by quarter, Howden Joinery UK revenue was 1.1% higher in the first quarter and 55.9% lower in the second quarter.

- Gross profit margin of 59.4% (2019: 61.9%), reflected mix changes and the impact of carrying fixed costs during reduced levels of production;

- Loss before tax of £14.2m (2019: profit before tax of £78.1m), included government furlough income of £21.5m;

- Net cash of £253.4m at 13 June 2020 (28 December 2019: £267.4m net cash; 15 June 2019: £217.1m net cash), assisted by £76m support from Government schemes, including tax deferrals, and actions taken by the Group to conserve cash.

Chief Executive, Andrew Livingston, said:

"Howdens performance in the first half of 2020 was materially impacted by COVID-19, with sales for the period being significantly lower than last year. The shortfall in sales all occurred in the second quarter, which coincided with the start of lockdown in the UK, and led to us making an overall loss of £14m in the first half. Our performance improved period on period in the second quarter as we found ways to re-open for business safely and with full stock availability. UK Depot Sales in the first four week period of the second half were up 2% year on year.

"During the period our first priority has been the health and wellbeing of our staff and our customers, whose ability to work was curtailed by lockdown. We introduced new ways of operating, provided new services to support our customers during this difficult time and reduced cash expenditure, whilst protecting essential areas.

"Given the COVID related and other economic uncertainties, we remain cautious about underlying market conditions, however we believe a more challenging and demanding marketplace can play to the advantage of our in-stock, local model."

Operational developments:

- On 24 March 2020, in response to the COVID-19 pandemic, Howdens announced the temporary closure of all its UK depots, along with its manufacturing and distribution sites. From late April, in line with the latest Government guidance and with additional safe working processes in place, Howdens began a phased reopening of depots, manufacturing and distribution. By period 6, all sites were open and operating safely.

- 13 new kitchen ranges introduced in H1 2020, 11 of which were in stock for the start of the year and synchronised with a promotional offer;

- Other new product introductions include extending the range of Lamona new technology appliances and 11 new worktops;

- Further progress on developing the new digital offering, with the new Howdens.com web platform improving brand awareness and leading to increased web visits, online brochure requests and resulting depot contacts, and the online trade customer area seeing a significant increase in adoption and usage;

- Capital expenditure of £22.3m (2019: £24.1m) included the next phase of our Raunds distribution centre and digital investments.

CURRENT TRADING AND OUTLOOK FOR 2020

In the first four-week period of H2 (Period 7, to 11 July 2020), total sales at Howdens Joinery UK depots rose by 2.2% on the same period in 2019, and by 0.3% on a same depot basis[2].

During the course of 2020, we now plan to open around 20 depots in the UK and France. We also intend to extend our mature depot test by refurbishing around 30 older depots to the new format during the year, 18 of which were completed in the first half, and introduce vertically racked product to a further 25 depots without further modifications, five of which have been completed.

In 2020, we expect additional operating costs of £20m to be incurred in respect of: the one-year impact of running the old National Distribution Centre whilst also incurring the costs of the second phase of our new Raunds distribution facility; increased pension charges; and additional depreciation. These are in addition to the impact of on-going growth in the business, inflationary pressures, new depots and COVID-19. Compared to 2019, we will benefit from not bearing the £5.8m costs of closing our operations in the Netherlands and Germany. Capital expenditure of around £60m (2019: £61.1m) is expected, including the final phase of the Raunds distribution centre, together with further investment in digital, new depots and depot refurbishments.

We continue to be cautious given the economic uncertainties that we face, with our key Period 11 trading ahead of us and with consumer and regulatory reactions to COVID-19 making predictions of future levels of demand difficult. However, despite this, we remain confident in our business model for the future.

[2] Same depot basis for any year excludes depots opened in that year and the prior year. See Financial Review on page 4.

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Note to editors:
Howden Joinery Group Plc is the parent company of Howden Joinery (Howdens). In the UK, Howdens is engaged in the sale of kitchens and joinery products to trade customers, primarily small local builders, through more than 730 depots. Around one-third of the products it sells are manufactured in the company's own factories in Runcorn, Cheshire, and Howden, East Yorkshire. The business also operates a total of 27 depots in France and Belgium.

There will be an audio webcast for analysts and investors at 09.30 UK time today, 23 July 2020. For details and more information, please see: www.howdenjoinerygroupplc.com. The presentation can also be heard via a phone link, where there will be the opportunity to ask questions, details below:

Confirmation code: 1332261

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FINANCIAL CALENDAR

2020	
Trading update	5 November 2020
End of financial year	26 December 2020
2021	
2020 Preliminary Results	25 February 2021
Trading update	29 April 2021
Annual General Meeting	6 May 2021
Half Year Report	22 July 2021
Trading update	4 November 2021

FINANCIAL REVIEW

FINANCIAL RESULTS FOR FIRST HALF OF 2020[1]

REVENUE

Revenue	2020 £m	2019 £m
Group:	**465.0**	652.6
Howden Joinery UK depots - same depot basis	**443.8**	636.8
UK depots opened in previous two years	**9.6**	1.3
Howden Joinery UK depots – total sales	**453.4**	638.1
Howden Joinery Continental European depots	**11.6**	14.5
Revenue	***€m***	*€m*
France and Belgium – same depot basis	***12.4***	*16.4*
Depots opened in previous two years	***0.9***	*-*
France and Belgium – total sales	***13.3***	*16.4*

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[2] Same depot basis for any year excludes depots opened in that year and the prior year.

Total group revenue was £465.0m (2019: £652.6m). Howden Joinery UK depot revenue fell by 29.0% to £453.4m (2019: £638.1m). UK revenue reduced by 30.3% on a same depot basis[2] to £443.8m in 2020 (2019: £636.8m); this excludes the additional revenue from depots opened in 2019 and 2020 of £9.6m in 2020 (2019: £1.3m). Split by quarter, Howden Joinery UK revenue was 1.1% higher in the first quarter and 55.9% lower in the second quarter, and 0.8% lower and 56.9% lower, respectively, on a same depot basis[2].

As can be seen from the table below, steady progress was made following the initial impact of COVID-19 at the beginning of period 4, with period 7 showing growth compared to the same period last year.

Howden Joinery UK Revenue	2020 £m	2019 £m	Change %
Quarter 1 (periods 1 – 3)	**304.6**	301.3	1.1
Period 4	**15.3**	113.6	(86.5)
Period 5	**48.7**	109.2	(55.4)
Period 6	**84.8**	113.9	(25.5)
First half	**453.4**	638.1	(29.0)
Period 7	**116.7**	114.1	2.2

Depot revenue in Continental Europe was £11.6m (2019: £14.5m). On a local currency basis, sales at our French and Belgian depots reduced by 19.2% overall and by 24.5% on a same depot basis[2]. Sales in the first period of the second half (Period 7) increased 46% compared to the same period last year, and by 34% on a same depot basis[2].

GROSS PROFIT

Gross profit reduced £128.1m to £276.1m (2019: £404.2m). This change reflected a negative volume and mix impact of £183m, lower pricing of £4m and input cost pressures of £2m. These were partly offset by £60m lower cost of goods and a £1m benefit from exchange rate movements. The gross profit margin was 59.4% (2019: 61.9%), reflecting mix changes and the impact of carrying fixed manufacturing costs with reduced levels of production.

OPERATING PROFIT

Selling and distribution costs and administrative expenses (SD&A) reduced to £285.9m (2019: £326.5m). As expected, cost increases were due to continued investments in areas across the business, including £6m in depots opened in 2019 and £4m additional costs to support growth, including the Raunds development. The lower activity levels resulted in £13m lower costs in existing depots and £8m lower other operating costs. £21m was claimed in furlough payments and the adoption of IFRS 16 reduced operating costs by £4m. There was also the absence of £5m depot closure costs in Germany and the Netherlands, incurred in the prior year. As a result, the Group reported an operating loss of £9.8m (2019: operating profit of £77.7m).

PROFIT BEFORE AND AFTER TAX

There was a net interest credit of £0.2m (2019: £0.4m credit) and an IFRS 16 interest charge for the first time of £4.6m. The loss before tax was £14.2m (2019: profit before tax of £78.1m).

The tax credit on profit before tax was £3.3m (2019: tax charge of £16.4m), representing an effective rate of tax of 23.2% (2019: 21.0%).

As a result, loss after tax was £10.9m (2019: profit after tax of £61.7m). Reflecting the above and the reduced share count following share repurchases, basic loss per share was 1.8p (2019: earnings per share of 10.3p).

DIVIDEND AND SHARE REPURCHASES

As previously announced, the dividend and share buy-back programmes have been suspended until further notice and will resume as soon as the Group has greater clarity about the impact on the business of COVID-19. This means that the Group will not pay an interim dividend in 2020 (2019: 3.9p per share). Ahead of this decision, the Group acquired 1.8m shares for a consideration of £9.8m, relating to the £50m 2019 share repurchase programme.

CASH

As soon as the impact of COVID-19 became clear, the Group took a number of actions in order to preserve cash, including suspending shareholder returns, deferring non-essential capital expenditure and agreeing a deferral of payments towards the Group pension deficit. In addition, the Group benefitted from available UK Government support, including furlough receipts of £15m and tax payment deferrals of £61m.

There was a net cash inflow from operating activities of £44.1m (2019: £56.3m). This was after a cash contribution to the Group's pension schemes, in excess of the operating charge, of £2.6m (2019: £9.8m).

Working capital reduced by £14.5m. Debtors at the end of the period were £39.0m lower than at the beginning of the period and stock levels increased by £33.9m, due to COVID-19 contingency stock and the introduction of new kitchen ranges. Creditors increased by £9.4m.

Payments to acquire fixed and intangible assets totalled £22.3m (2019: £24.1m). We expect full year capital expenditure to be around £60m (2019: £61.1m).

Share repurchases totalled £9.8m (2019: £46.3m), corporation tax payments were £12.3m (2019: £20.8m) and the interest and principal paid on lease liabilities totalled £26.8m.

Reflecting the above, there was a £14.0m net cash outflow in the first half of the year (2019: £14.2m), leaving the Group with net cash at the end of the period of £253.4m (28 December 2019: £267.4m net cash; 15 June 2019: £217.1m net cash).

The Group has access to both a £140m asset backed lending facility and an agreed Government facility, both of which remained undrawn at the balance sheet date.

PENSIONS

At 13 June 2020, the pension deficit shown on the balance sheet was £33.3m (28 December 2019: £56.6m). The decrease in the deficit was primarily due to actuarial gains of £21.0m, arising mainly from a change in actuarial assumptions which increased liabilities by £118.6m offset by increased asset returns of £139.6m. The current service, administrative and finance charges totalled £11.2m and employer contributions were £13.5m. As mentioned above, deficit contributions were deferred during the COVID-19 lockdown period.

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

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

IFRS 16 - LEASES

The Group adopted IFRS 16 for the first time in the current period. The effects of adoption are shown in detail at note 13 to the condensed financial statements, together with our revised accounting policies.

The effect of IFRS 16 on the Income Statement in the first half of 2020 compared to the previous accounting standard, IAS 17, was an increase in operating profit of £3.9m. This is more than offset by an increase in interest charges of £4.6m.

OPERATIONAL REVIEW

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

Our model is a powerful combination of locally empowered depot management teams served by a dedicated supply chain, which is both cost effective and critical to the success of our in-stock offer. A key feature of Howdens success is our trade customer focus, which underpins everything we do. Our account base remains stable at approximately 470,000 customers.

RESPONDING TO COVID-19

On 24 March 2020 we announced the closure of all UK depots and manufacturing and distribution facilities, having already closed depots in Continental Europe. Thereafter, a phased re-opening of our facilities was undertaken, initially with a skeleton staff and restricted trading hours, as we established ways of operating safely in a socially distanced environment. Throughout lockdown we maintained an emergency provision to support the NHS, care providers and vulnerable people. By the start of period 6 on 18 May 2020, all depots were trading, albeit not at full scale, with closer to a full complement of staff and Saturday opening.

During this time our priorities have been to: take care of our people, working with Trade Unions and Works Councils to ensure a safe environment for those returning to work and to provide financial support for those on furlough; preserve cash where possible, by deferring new depot openings and refurbishments but continuing with essential works, such as the move to the new Raunds distribution facilities, and maintaining sufficient stock available for depots; and support our customers and their communities by re-opening depots safely and as soon as possible, selectively investing in price and introducing new services such as "call and collect" and a remote kitchen design service.

The last few months have necessitated changes to our business practices but we believe there are learnings that can be taken and applied to the ways we operate in the future. We understand more about the potential value of remote working; have a more validated view of how we utilise IT to free depot time and manage stock more effectively; appreciate people's propensity to shop online and interact remotely; and are helping identify whether there are surplus costs and inefficiencies in the business that can be eliminated.

UK DEPOT ROLLOUT AND OPERATIONS

The total number of depots trading at the end of the half was 732, with around 15 new depots now expected to be opened in the second half. All new depots are in the new format, described below, aimed at creating the best depot environment in which to do business with our customers.

New depot format and roll-out

Howdens depots typically have an average size of around 10,000 square feet. The new depot format, using vertical racking in the warehouse section, has the potential to make productivity gains from reduced picking times and reduces required storage space.

Where this new racking has been tested, the space has been reallocated to provide a more open front area, allowing depot staff to better interact with customers, and approximately doubling the space available to display a wider range of kitchen designs. There is also space for a small goods picking area behind the counter with an improved range of everyday essential items, including hardware and ironmongery, to add incremental profit and as a way of encouraging footfall and incremental kitchen sales. The fit-out cost of a new format depot is around £350,000, broadly in line with the cost of our previous format.

The new format also offers the potential to open new, smaller, infill depots of around 6,000 square feet in rural locations and big cities. Including the smaller sized depots, the number of UK depots could potentially reach around 850.

By the end of 2019, 11 older depots had also been converted as a test to understand the rollback opportunity of the new format in the existing depot estate. This year we are extending the test by converting around 30 more of the older depots to the new format, at an expected average cost of £225,000. Having completed 18 conversions in the first half, we expect to convert a further 11 in the second half. We also now plan to introduce vertically racked product to around a further 25 depots, without further modifications, compared to our previous plan of 50 depots, including the five which were completed in the first half.

By the end of 2020, assuming our revised depots plans for this year are implemented, we will have a total of 115 new format depots, comprising 75 new depots and 40 refurbished depots, and 87 depots that have been re-racked without other modifications.

PRODUCT AND MARKETING

We introduced 13 new kitchen ranges in the first half of 2020, of which 11 were launched and in stock in January and synchronised with a promotional offer. First half new range sales were ahead of last year, when the new ranges were launched later, and this earlier introduction meant we were well positioned with product when we returned to all-depot trading following the temporary closure in late March.

With the remaining five new kitchen ranges already launched in Period 7, we have all our new products on sale well ahead of our traditional peak Period 11 trading period. This brings our total kitchen range introductions to 18 for the year.

New product initiatives and launches for this year include:

- two new kitchen styles, the Hockley (a modern slab range with seamless door edges that offers a trade up from our entry-price Greenwich Gloss range) and the Chilcomb (an updated painted timber shaker range available in six colours);
- adding more colours across ranges, including adding a new green in the successful mid-priced Fairford shaker range and pebble and navy being extended across three kitchen families, including Greenwich, thereby strengthening our entry price point offer;
- development of a new handle less cabinet platform to meet demand for a linear look which can be used within the current ranges, thereby providing increased customer choice without a commensurate rise in the range count;
- introducing 11 new worktops, focussing on lighter shades and thinner profiles, which complement our new Linear kitchen range; and
- extending the range of Lamona new technology appliances, including self-cleaning ovens and design led refrigeration at lower price points.

Range management

Managing the number of kitchen ranges efficiently is crucial for both our customers, who want best availability, and for our own profitability, as the number of ranges and the products within a range add significant complexity to our supply chain and the inventory that we hold.

A key part of this is the timely discontinuation of underperforming ranges and the management of clearance stock from the business. At the start of the year, we had 67 current kitchen ranges, including initial stock of some ranges launched in 2020, having cleared 19 ranges during 2019. We believe around 65 current ranges is the appropriate number for our market at present and we plan to remove at least as many ranges as are added during 2020. We are also looking at how we can further improve service and availability by looking at where we hold stock and delivery patterns to depots.

MANUFACTURING AND SUPPLY

Our dedicated manufacturing and supply chain is critical to the success of our in-stock offer, supplying all product, whether manufactured or sourced, to all depots, each of which have individual and changing day to day requirements. It is structured to respond to these needs and meet demand in our peak weeks of Period 11 trading, when sales are typically more than double those in other periods.

Operating under COVID-19 conditions has meant finding ways to re-engineer how factories operate and how we distribute product to depots. Following the temporary closure of our sites in late March, in preparation for a phased return to work, our leadership and engineering teams assessed and designed, with employee consultation, a series of social distancing measures and safe working processes and practises.

In April, with these additional safety measures in place, we were able to re-open our manufacturing sites in Howden and Runcorn and associated distribution facilities. New measures included specialised lifting equipment, shift airlocks, one-way systems, additional welfare facilities, screening and advanced hygiene measures. Throughout the process we engaged and worked with Trade Union representatives and Works Councils and the measures taken were implemented with their support.

Since re-opening, we have continued to work through processes with "COVID bottlenecks" and we are now able to manufacture all products whilst maintaining social distancing and our efficiency, whilst below pre-COVID levels, is much improved.

We have continued with our policy of holding increased levels of safety stock and back-up sources of supply when we believe this is necessary to protect our "in-stock offer" against potential disruptions to our supply chain. We first did this as part of our Brexit planning and again ahead of lockdown. We also took temporary additional storage space pending some warehouse capacity that forms part of our new Raunds facilities.

We continue to keep under review what we believe it is best to make or to buy, both in terms of cost and overall supply chain resilience and flexibility. Actively managing our stock position also helps us to accommodate changes in patterns of demand, should these be less regular or predictable than in the past. We believe that successfully operating this in-stock model provides us with a competitive advantage, particularly at these times when supply chains are being interrupted.

DIGITAL

We are continuing to develop the new platform for our website as we enhance our digital capability to reinforce the Howdens model. Our investment in digital will enhance the strong local relationships and improve communications between depots and their builder customers, including through offering streamlined operating processes to free up depot staff and customers' time. In the first half, the digital investments that we made were particularly instrumental in doing this, at a time when relationships and ways of doing business were disrupted.

The new web platform, which has enriched product content and improved search optimisation, has moved Howdens.com into more prominent search positions, raising brand awareness with consumers. As a result, visitors to the site were up 31% year on year with an average of over 340,000 visitors per week. In the second quarter, average visitors exceeded 500,000 visitors a week for the first time. Furthermore, depot contacts made via the website increased 58% in the half and brochure requests increased by 34% in the second quarter.

In January, we rolled out our digital online account offering in line with our aim to put "a tradesperson's local depot in their pocket". Around 19% of our credit account holders have registered to use this secure customer-only area of the website with around 40% of users making a payment or downloading documents, with average online payments per customer above the average company level.

With planning meetings in our depots or in peoples' homes not permitted, a new personal kitchen design service was also made available online. Depot kitchen designers equipped with online design and conferencing tools to work from home were able to plan kitchens and transmit designs to depots to deal with as they re-opened. Feedback from users and depots has been positive and we are making this service a permanent feature of the Howdens offer.

In the second half, we will continue to improve content and add capability to our platform, including introducing digitised account opening to reduce the time and costs of administering that process, improving functionality to improve communications between customers and depots and using computer-generated imagery to extend the number of kitchen range lay-out options which can be viewed online.

CONTINENTAL EUROPE

At the end of 2019, there were 27 depots across France (25) and Belgium (2), with the Belgian depots continuing to be run within the French field structure.

In France, lockdown occurred a little earlier than the UK and all depots closed on 17 March 2020, at which point sales were up around 3% on the prior year. By adopting the same safety-first approach and taking similar measures to the UK we re-opened for business with depots offering a "call and collect" service, with depots starting to trade again during the first two periods of the second quarter. The French Government ended lockdown on 11 May and depots were opened to more normal ways of trading with appropriate safety measures in place. While first half sales were down around 20% compared with last year as a result of lockdown, they increased significantly in the final two periods compared with the same periods last year. Sales in the first period of the second half (Period 7) increased 46% compared to the same period last year.

We believe there is the potential for a viable business based in France. The French market has low penetration rates of integrated kitchens and most kitchens are purchased through DIY outlets and specialist shops, which is similar to the way the UK market was structured when Howdens was founded.

Based on the way current depots perform in their local areas we think both the French trade customer and end consumer can see the benefits of buying a kitchen though the trade. We also believe that depots in small clusters within cities perform better, partly due to word of mouth between builder customers and because of our ability to build a local and trusted brand.

Clustering also helps to build the Howdens culture within our business teams. We are therefore developing our operation in France by way of a city-based strategy. We now expect to open four depots in France in the second half.

GOING CONCERN

The directors have adopted the going concern basis in preparing these accounts after assessing the Group's principal risks including the risks arising from COVID-19 and Brexit.

Consumer and regulatory reactions to COVID-19 make prediction of future levels of demand difficult, particularly whilst sales remain on a recovery path. Management have taken actions to secure availability of stock and raw materials and to secure workplaces and distribution routes to meet reasonably foreseeable levels of sales. The most significant remaining uncertainties are therefore around the timing and level of demand.

The directors have reviewed actual trading results in the first half of 2020 and the first four-week period after the half year end, which are presented in the Financial Review and Current Trading and Outlook sections of this report. They have also considered three scenarios prepared by management:

- the Group's latest forecast, which takes into account the experience of actual trading under COVID 19 until the half year end, and assumes some improvement for the remainder of the going concern period;
- a plausible downside scenario which assumes no further recovery from the year-on-year reduction in sales experienced in the final four-week period of this half year over the whole of the going concern period; and
- a reverse stress test which finds the maximum level of additional reduction in sales that could occur, over and above that modelled in the downside scenario, with the Group still remaining cash positive over the whole going concern period, without borrowing or taking further mitigating actions.

In the first two scenarios the Group has significant cash throughout the going concern period after meeting its commitments.

The results of reverse stress testing show that there would have to be a significant additional fall in sales over and above the downside scenario before the Group has to take further mitigating actions or draw on borrowing facilities.

None of these scenarios envisage the Group drawing on either its existing £140m borrowing facility or the agreed Government facility, which is for a substantially greater amount. In certain downside scenarios, the EBITDA covenant in the Group's existing facility may need to be renegotiated or partially waived for the facility to be available. More detail on the facility is given in Note 18 of the December 2019 Annual Report and Accounts.

Taking these into account, the directors believe that the Group is well placed to manage its financing and other business risks satisfactorily and have a reasonable expectation that the Company and Group will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these condensed financial statements.

RELATED PARTIES

Related Party transactions are disclosed in Note 12 to the condensed set of financial statements. There have been no material changes to the related party transactions described in the last Annual Report & Accounts.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties that could have a material impact on the Group's performance over the remaining half of the financial year have not changed from those which are set out in detail in the Group's 2019 Annual Report & Accounts, and which are summarised below.

1) Failure to maximise the growth potential of the business – if we do not understand and exploit our growth opportunities in line with our business model and risk appetite, or if we do not meet the related growth challenges, we will not get maximum benefit from our growth potential.
2) Deterioration of business model and culture – if we lose sight of our model and culture, we may not serve our customers successfully and our long-term profitability may suffer.
3) Changes in market conditions – weaker market conditions could affect our ability to achieve sales and profit forecasts, impacting on our cash position. Weaker exchange rates could increase our cost of goods sold. This risk has increased due to the impact of Covid-19.
4) Interruption to continuity of supply – could compromise our ability to deliver our in-stock business model.
5) Loss of key personnel – could adversely affect the Group's operations.
6) Health and Safety – could compromise the safety and wellbeing of individuals and the reputation and viability of the business.
7) Cyber security incident – could cause a key system and/or sensitive data to be compromised.
8) Product design relevance – if we do not offer the builder the products that they and their customers want, we could lose sales and customers.
9) Credit control failure – could affect our ability to continue to support our customers via their nett monthly trade accounts, and potentially our ability to collect debts.

COVID-19
Our principal risks have been and continue to be impacted by the pandemic to some degree. Management have taken mitigating actions to protect the safety of our staff and customers whilst securing the continued sustainability and viability of the group.

Effect of COVID-19 on principal risks

Principal Risk Area	Implications	Actions taken
Operations – Supply Continuity – Cyber Security – Credit Control Failure	– Potential supply chain delays – Increased cyber threat's both externally and through increased remote working – Risk to continued operation of critical activities	– Increased safety stock to secure supply during disruption and worked actively with our suppliers – Refreshed cyber training for staff, reinforced existing safe ways of working remotely – Invoked our Business Continuity Plans to secure critical business activities.
People – Health & Safety – Loss of Key Personnel	– Normal operations not safe for COVID-19 Environment – Potential loss of business leadership	– Risk assessed all operations through a COVID-19 lens – Introduced new operating procedures to protect our staff, customers and other stakeholders – Established links with external expertise to ensure approach remains appropriate.
Strategy, Model & Culture – Growth – Market Conditions – Model & Culture	– Market uncertainty impacting on sales, strategic decisions and cash holdings – Potential cultural impact of new ways of working	– Modelling challenges and opportunities and optimising strategic plans whilst protecting the cashflow of the business – Adapting leadership approach and using technology to secure culture in new operational environment.

We have a low appetite for COVID-19 risk and aim to mitigate its effects as much as reasonably possible. It remains a key point of focus across the entire business.

BREXIT

Brexit will impact a number of our principal risks, with the severity and timeframes varying significantly, depending on the nature of our exit from the EU. These influences are summarised in the table below:

Risk Area	What it means	Actions taken	Risks
Trade & Customs – UK exits Single Market – UK exits Customs Union – Regulatory Differences	– Product Tariffs – Supply Chain Delays – Regulatory Uncertainty	– Modelling risks & opportunities – Obtained importer accreditation – Managing stock levels – Reviewing Supplier Contracts	1 2 3 4
People & Immigration – No free movement	– Labour shortages for us, our suppliers and our customers	– Monitoring workforce composition – Working with our migrant workers	1 4
Strategy & Business Plan – Uncertainty with o Consumer o Investor o Exchange rates	– Impact on Sales; and, Strategic Decisions – Increased costs	– Modelling challenges and opportunities – Optimising strategic plans	1 2 3 4

The business has established a Brexit Committee who regularly meet to discuss the likely exit scenarios to ensure our exit plans remain appropriate.

CAUTIONARY STATEMENT

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

RESPONSIBILITY STATEMENT

We confirm that, to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting';

(b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first 24 weeks and description of principal risks and uncertainties for the remaining 28 weeks of the year); and

(c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

The directors are responsible for the maintenance and integrity of the corporate and financial information included in the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

By order of the Board

Andrew Livingston	Mark Robson
Chief Executive Officer	Deputy Chief Executive and Chief Financial Officer
22 July 2020	

Condensed consolidated income statement

	Notes	24 weeks to 13 June 2020 unaudited £m	24 weeks to 15 June 2019 unaudited £m	52 weeks to 28 December 2019 audited £m
Revenue – sale of goods		**465.0**	652.6	1,583.6
Cost of sales		**(188.9)**	(248.4)	(597.4)
Gross profit		**276.1**	404.2	986.2
Selling & distribution costs		**(245.5)**	(275.7)	(621.7)
Administrative expenses		**(40.4)**	(50.8)	(104.5)
Operating (loss)/profit		**(9.8)**	77.7	260.0
Finance income		**0.5**	0.6	1.1
Other finance cost – interest on lease payments		**(4.6)**	-	-
Other finance cost - pensions		**(0.3)**	(0.2)	(0.4)
Finance costs		**(4.9)**	(0.2)	(0.4)
(Loss)/profit before tax		**(14.2)**	78.1	260.7
Tax credit/(charge) on profit	6	**3.3**	(16.4)	(51.7)
(Loss)/profit for the period attributable to the equity holders of the parent		**(10.9)**	61.7	209.0
(Loss)/earnings per share:				
Basic (loss)/earnings per 10p share	7	**(1.8)p**	10.3p	35.0p
Diluted (loss)/earnings per 10p share	7	**(1.8)p**	10.2p	34.8p

Condensed consolidated statement of comprehensive income

	Notes	24 weeks to 13 June 2020 unaudited £m	24 weeks to 15 June 2019 unaudited £m	52 weeks to 28 December 2019 audited £m
(Loss)/profit for the period		**(10.9)**	61.7	209.0
Items of other comprehensive income				
Items that will not be reclassified subsequently to profit or loss:				
Actuarial gains/(losses) on defined benefit pension scheme	10	**21.0**	19.5	(47.1)
Deferred tax on actuarial gains/losses on defined benefit pension scheme		**(4.0)**	(3.4)	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**	(0.9)	(1.9)
Other comprehensive income for the period		**18.6**	15.2	(41.7)
Total comprehensive income for the period attributable to equity holders of the parent		**7.7**	76.9	167.3

NOTE: the figures for the 24 weeks to 13 June 2020 include lease depreciation and lease-related interest charges accounted for under IFRS 16, whereas the figures for the previous half year and full year 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. For more detail on the effects of adopting IFRS 16, see note 13.

Condensed consolidated balance sheet

	Notes	**13 June 2020 unaudited £m**	15 June 2019 unaudited £m	28 December 2019 audited £m
Non-current assets				
Intangible assets		**22.8**	23.6	24.9
Property, plant and equipment	9	**207.7**	194.7	212.4
Lease right-of-use assets		**530.2**	-	-
Deferred tax asset		**13.7**	5.5	13.5
Long-term prepayments		**0.8**	1.1	0.9
		775.2	224.9	251.7
Current assets				
Inventories		**265.7**	247.6	231.8
Trade and other receivables		**129.9**	203.2	193.1
Cash and cash equivalents		**253.4**	217.1	267.4
		649.0	667.9	692.3
Total assets		**1,424.2**	892.8	944.0
Current liabilities				
Lease liabilities		**(73.0)**	-	-
Trade and other payables		**(224.3)**	(310.6)	(241.4)
Current tax liability		**(4.3)**	(13.3)	(20.3)
		(301.6)	(323.9)	(261.7)
Non-current liabilities				
Pension liability	10	**(33.3)**	(6.9)	(56.6)
Lease liabilities		**(490.1)**	-	-
Deferred tax liability		**(1.5)**	(1.5)	(1.5)
Provisions	11	**(10.2)**	(6.9)	(9.0)
		(535.1)	(15.3)	(67.1)
Total liabilities		**(836.7)**	(339.2)	(328.8)
Net assets		**587.5**	553.6	615.2
Equity				
Share capital		**60.3**	60.6	60.5
Share premium account and capital redemption reserve		**92.4**	92.1	92.2
ESOP reserve		**(5.6)**	(9.3)	(6.3)
Treasury shares		**(28.2)**	(29.3)	(29.3)
Retained earnings		**468.6**	439.5	498.1
Total equity		**587.5**	553.6	615.2

NOTE: the figures as at 13 June 2020 include lease-related right-of-use assets and liabilities, accounted for under IFRS 16. The figures at the previous half year and full year 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. For more detail on the effects of adopting IFRS 16, see note 13.

Condensed consolidated statement of changes in equity

	Share capital £m	Capital redemption reserve £m	Share premium account £m	ESOP reserve £m	Treasury shares £m	Retained earnings £m	Total £m
24 weeks to 13 June 2020							
At 28 December 2019 - audited	60.5	4.7	87.5	(6.3)	(29.3)	498.1	615.2
Impact of adopting IFRS 16 (Note 13)	-	-	-	-	-	(30.9)	(30.9)
Tax effect of adopting IFRS 16 (Note 13)	-	-	-	-	-	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 loss	-	-	-	-	-	(10.9)	(10.9)
Other comprehensive income	-	-	-	-	-	18.6	18.6
Total comprehensive income	-	-	-	-	-	7.7	7.7
Current tax on share schemes	-	-	-	-	-	0.1	0.1
Deferred tax on share schemes	-	-	-	-	-	(0.2)	(0.2)
Movement in ESOP	-	-	-	1.8	-	-	1.8
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 13 June 2020	60.3	4.9	87.5	(5.6)	(28.2)	468.6	587.5

The ESOP Reserve includes shares in Howden Joinery Group plc with a market value on the balance sheet date of £30.4m (June 2019: £30.9m, December 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 period, together with any receipts of cash from employees on exercise of share options.

At the current period end there were 5.8 million ordinary shares held in treasury, each with a nominal value of 10p (June 2019: 6.0 million shares, December 2019: 6.0 million shares).

Condensed consolidated statement of changes in equity – continued

	Share capital £m	Capital redemption reserve £m	Share premium account £m	ESOP reserve £m	Treasury shares £m	Retained earnings £m	Total £m
24 weeks to 15 June 2019							
At 29 December 2018 - audited	61.5	-	87.5	(8.8)	(32.9)	459.8	567.1
Accumulated profit	-	-	-	-	-	61.7	61.7
Other comprehensive income	-	-	-	-	-	15.2	15.2
Total comprehensive income	-	-	-	-	-	76.9	76.9
Current tax on share schemes	-	-	-	-	-	0.1	0.1
Deferred tax on share schemes	-	-	-	-	-	0.1	0.1
Movement in ESOP	-	-	-	3.1	-	-	3.1
Buyback and cancellation of shares (Note 1)	(0.9)	4.6	-	-	-	(50.0)	(46.3)
Transfer of shares from treasury into share trust	-	-	-	(3.6)	3.6	-	-
Dividends declared and paid	-	-	-	-	-	(47.4)	(47.4)
At 15 June 2019	60.6	4.6	87.5	(9.3)	(29.3)	439.5	553.6

Note 1: This 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 24 weeks to 15 June 2019, which had an aggregate nominal value of £0.9m and a cost of £46.3m.

	Share capital £m	Capital redemption reserve £m	Share premium account £m	ESOP reserve £m	Treasury shares £m	Retained earnings £m	Total £m
52 weeks to 28 December 2019							
At 29 December 2018	61.5	-	87.5	(8.8)	(32.9)	459.8	567.1
Accumulated profit	-	-	-	-	-	209.0	209.0
Other comprehensive income	-	-	-	-	-	(41.7)	(41.7)
Total comprehensive income	-	-	-	-	-	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 (Note 2)	(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	(6.3)	(29.3)	498.1	615.2

Note 2: This 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 52 weeks to 28 December 2019, which had an aggregate nominal value of £1m and a cost of £55.2m.

Condensed consolidated cash flow statement

	Notes	**24 weeks to 13 June 2020 unaudited £m**	24 weeks to 15 June 2019 unaudited £m	52 weeks to 28 December 2019 audited £m
Group operating (loss)/profit before tax and interest		**(9.8)**	77.7	260.0
Adjustments for:				
Depreciation, amortisation and impairment of owned assets		**16.6**	15.4	34.5
Depreciation of leased assets		**36.1**	-	-
Share-based payments charge		**1.6**	2.5	4.9
Loss on disposal of property, plant and equipment, and intangible assets		**-**	1.1	1.4
Operating cash flows before movements in working capital		**44.5**	96.7	300.8

Movements in working capital

Increase in inventories		**(33.9)**	(21.3)	(5.5)
Decrease/(increase) in trade and other receivables		**39.0**	(17.0)	(7.1)
Increase in trade and other payables and provisions		**9.4**	28.5	6.3
Excess of pension operating charge over cash paid		**(2.6)**	(9.8)	(26.9)
		11.9	(19.6)	(33.2)
Cash generated from operations		**56.4**	77.1	267.6
Tax paid		**(12.3)**	(20.8)	(46.2)
Net cash flows from operating activities		**44.1**	56.3	221.4

Condensed consolidated cash flow statement – continued

	Notes	**24 weeks to 13 June 2020 unaudited £m**	24 weeks to 15 June 2019 unaudited £m	52 weeks to 28 December 2019 audited £m
Net cash flows from operating activities		**44.1**	56.3	221.4
Cash flows used in investing activities				
Payments to acquire property, plant and equipment, and intangible assets		**(22.3)**	(24.1)	(61.1)
Receipts from sale of property, plant and equipment, and intangible assets		**-**	0.1	0.3
Interest received		**0.5**	0.4	1.1
Net cash used in investing activities		**(21.8)**	(23.6)	(59.7)
Cash flows from financing activities				
Payments to acquire own shares		**(9.8)**	(46.3)	(55.2)
Receipts from release of shares from share trust		**0.2**	0.5	1.1
Decrease/(increase) in long-term prepayments		**0.1**	(1.1)	(0.9)
Dividends paid to Group shareholders	8	**-**	-	(70.6)
Interest paid – including on lease payments		**(4.6)**	-	-
Repayment of principal on lease liabilities		**(22.2)**	-	-
Net cash used in financing activities		**(36.3)**	(46.9)	(125.6)
Net (decrease)/increase in cash and cash equivalents		**(14.0)**	(14.2)	36.1
Cash and cash equivalents at beginning of period		**267.4**	231.3	231.3
Cash and cash equivalents at end of period		**253.4**	217.1	267.4

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1 General information

The results for the 24 week periods ended 13 June 2020 and 15 June 2019 are unaudited but have been reviewed by the Group's auditor, whose report on the current period forms part of this document. The information for the 52 week period ended 28 December 2019 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that period has been delivered to the Registrar of Companies, and is available via the Group's website at www.howdenjoinerygroupplc.com. The auditor's report on those accounts was not qualified or modified, did not draw attention to any matters by way of emphasis, and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

2 Accounting policies

The annual financial statements of Howden Joinery Group Plc are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union.

Basis of preparation

The Group's business activities, together with the factors likely to affect its future development, performance, and position are set out in the interim management report, which precedes these condensed financial statements and includes a summary of the Group's financial position, its cash flows, and borrowing facilities, and a discussion of why the directors consider that the going concern basis is appropriate.

These condensed financial statements are prepared on the going concern basis, as we explain in more detail in the "Going Concern" section of the interim management report, above. The same accounting policies, presentation methods, and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements, except that:
- the taxation charge for the half-year is calculated by applying the annual estimated effective tax rate to the profit for the period;
- the accounting standard IFRS 16: Leases is applicable for the Group for the first time in 2020 and has been adopted in the current period. Details of the effect of IFRS 16, together with our updated lease accounting policies, can be found at note 13;
- we are disclosing an accounting policy, below, for income from Government grants for the first time in the current period, in relation to amounts receivable under COVID-related compensation for furloughed staff.

Accounting policy for income from Government grants

The Group has recognised amounts due from government-sponsored COVID-related employee furlough schemes, of £21.5m, as a credit against the related staff costs and not as an item of other income. These amounts are recognised on an accruals basis.

3 Segmental results - Basis of segmentation

Information reported to the Group's Chief Executive is focused on one operating segment, Howden Joinery. Thus, the information required in respect of segmental disclosure can all be found in the condensed consolidated income statement, and condensed consolidated balance sheet.

4 Seasonality of revenue

Howden Joinery sales are more heavily weighted to the second half of the financial year. This partly reflects the fact that there are 24 weeks in the first half of the financial year and 28 weeks in the second half. It also reflects sales in the peak October trading period. Historically, the typical pattern has been that approximately 60% of sales have been in the second half of the year, but we note that this may be different in 2020 given the influence of COVID-19 on trading patterns.

5 Write down of inventories

During the period, the Group has recognised a net charge of £3.1m in respect of writing inventories down to their net realisable value (24 weeks to 15 June 2019 - net charge of £3.9m; 52 weeks to 28 December 2019 - net charge of £8.4m).

6 Tax

The half year effective tax rate is 23.2% (24 weeks to 15 June 2019: 21.0%). This is arrived at by applying the estimated full year effective tax rate to the actual half year profit, after adjusting for the tax effect of items which are recognised entirely in the current period and are not spread over the full year (such as actual share option exercises and payments to the pension scheme).

7 (Loss)/earnings per share

	24 weeks to 13 June 2020 Unaudited			24 weeks to 15 June 2019 unaudited			52 weeks to 28 December 2019 Audited		
	Earnings £m	**Weighted average number of shares m**	**Earnings per share p**	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 (loss)/earnings per share	**(10.9)**	**593.9**	**(1.8)**	61.7	600.3	10.3	209.0	596.9	35.0
Effect of dilutive share options	**-**	**2.9**	**-**	-	2.7	(0.1)	-	3.0	(0.2)
Diluted (loss)/ earnings per share	**(10.9)**	**596.8**	**(1.8)**	61.7	603.0	10.2	209.0	599.9	34.8

8 Dividends

Amounts recognised as distributions to equity holders in the period

	24 weeks to 13 June 2020 unaudited £m	24 weeks to 15 June 2019 unaudited £m	52 weeks to 28 December 2019 audited £m
Final dividend for the 52 weeks to 29 December 2018 - 7.9p/share	**-**	47.4	47.4
Interim dividend for the 52 weeks to 28 December 2019 - 3.9p/share	**-**	-	23.2
	-	47.4	70.6

9 Property, plant and equipment

During the period, the Group made additions to property, plant and equipment ("PPE") of £21.1m (24 weeks to 13 June 2019 - £24.1m; 52 weeks to 28 December 2019 - £55.1m).

It had no disposals of PPE in the current or prior periods which had any significant net book value.

There are non-cancellable commitments to purchase PPE of £11.1m at the current period end (15 June 2019 - £7.5m; 28 December 2019 - £17.8m).

10 Retirement benefit obligations

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

	24 weeks to 13 June 2020 unaudited £m	**24 weeks to 15 June 2019 unaudited £m**	52 weeks to 28 December 2019 audited £m
Charged to the income statement			
Defined benefit plan – current service cost	**9.6**	**7.9**	17.2
Defined benefit plan – administration costs	**1.3**	**1.2**	2.8
Defined benefit plan - total operating charge	**10.9**	**9.1**	20.0
Defined benefit plan - net finance charge	**0.3**	**0.2**	0.4
Defined contribution plans – total operating charge	**5.0**	**4.0**	10.5
Total charged to profit before tax	**16.2**	**13.3**	30.9
Credited to equity			
Defined benefit plan – actuarial (gains)/losses	**(21.0)**	**(19.5)**	47.1

10 Retirement benefit obligations (continued)

(b) Other information – defined benefit pension plan

Key assumptions used in the valuation of the plan

		24 weeks to 13 June 2020 unaudited	24 weeks to 15 June 2019 unaudited	52 weeks to 28 December 2019 audited
Rate of increase of pensions in deferment capped at lower of CPI and 5%		**2.15%**	2.45%	2.40%
Rate of CARE revaluation capped at lower of RPI and 3%		**2.35%**	2.60%	2.50%
Rate of increase of pensions in payment:				
pensions with increases capped at the lower of CPI and 5%		**2.20%**	2.45%	2.40%
pensions with increases capped at the lower of CPI and 5%, with a 3% minimum		**3.25%**	3.35%	3.35%
pensions with increases capped at the lower of RPI and 2.5%		**2.10%**	2.25%	2.20%
Rate of increase in salaries		**3.95%**	4.45%	4.20%
Inflation assumption – RPI		**2.95%**	3.45%	3.20%
Inflation assumption – CPI		**2.15%**	2.45%	2.40%
Discount rate		**1.45%**	2.30%	1.95%
Life expectancy (years):	pensioner aged 65 - male	**86.5**	86.4	86.5
	pensioner aged 65 - female	**88.2**	88.1	88.1
	non-pensioner aged 45 - male	**87.7**	87.6	87.6
	non-pensioner aged 45 - female	**90.4**	90.2	90.3

10 Retirement benefit obligations (continued)

Balance sheet

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

	13 June 2020 £m	15 June 2019 £m	28 December 2019 £m
Present value of defined benefit obligations	**(1,609.8)**	(1,393.6)	(1,485.3)
Fair value of scheme assets	**1,576.5**	1,386.7	1,428.7
Deficit in the scheme, recognised in the balance sheet	**(33.3)**	(6.9)	(56.6)

Movements in the deficit during the period are as follows:

	24 weeks to 13 June 2020 unaudited £m	24 weeks to 15 June 2019 unaudited £m	52 weeks to 28 December 2019 audited £m
Deficit at start of period	**(56.6)**	(36.0)	(36.0)
Current service cost	**(9.6)**	(7.9)	(17.2)
Administration cost	**(1.3)**	(1.2)	(2.8)
Employer contributions	**13.5**	18.9	46.9
Other finance charge	**(0.3)**	(0.2)	(0.4)
Actuarial gains/(losses) gross of deferred tax	**21.0**	19.5	(47.1)
Deficit at end of period	**(33.3)**	(6.9)	(56.6)

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:

Actuarial gains/(losses)	**24 weeks to 13 June 2020 unaudited £m**	24 weeks to 15 June 2019 unaudited £m	52 weeks to 28 December 2019 audited £m
Return on assets	**139.6**	126.2	149.8
Changes in liabilities due to financial assumptions and experience	**(114.0)**	(151.6)	(244.8)
Changes in liabilities due to demographic assumptions	**(4.6)**	44.9	47.9
Total actuarial gains	**21.0**	19.5	(47.1)

11 Provisions

	Property £m	Warranty £m	Other £m	Total £m
At 28 December 2019 - audited	3.4	5.1	0.5	9.0
Transferred to lease right-of-use assets on adoption of IFRS 16	(0.2)	-	-	(0.2)
Created in the period	1.6	2.3	-	3.9
Utilised in the period	(0.5)	(1.8)	-	(2.3)
Released in the period	(0.2)	-	-	(0.2)
At 13 June 2020 - unaudited	**4.1**	**5.6**	**0.5**	**10.2**

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

12 Related party transactions

There have been no changes to the related party arrangements or transactions as reported in the 2019 Annual Report & Accounts.

Transactions between Group companies, which are related parties, have been eliminated on consolidation and are therefore not disclosed. Other transactions which fall to be treated as related party transactions are: those relating to the remuneration of key management personnel, which are not disclosed in the half-yearly report, and which will be disclosed in the Group's next Annual Report; and transactions between the Group and the Group's defined benefit pension plan, which are disclosed in note 10.

13 Adoption of IFRS 16 in the half year to 13 June 2020

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. Previous periods in this report have not been restated and are presented under IAS 17.

Transactions 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 below.

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

Reconciliation of closing Dec 19 IAS 17 lease commitments to IFRS 16 opening balances

	£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 initial 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.*

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-19 Under IAS 17 £m	IFRS16 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-19 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

Deferred tax

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 below - is based on objective third-party data.

Accounting policies under IFRS 16

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 credit rating. Therefore, we have derived 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 right-of-use asset

The 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

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 IFRS16 short term lease exemption.

INDEPENDENT REVIEW REPORT TO HOWDEN JOINERY GROUP PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the 24 weeks ended 13 June 2020 which comprises the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and related notes 1 to 13. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 24 weeks ended 13 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London
22 July 2020