HOWDENS JOINERY CO.

MAKING SPACE MORE VALUABLE

Half-yearly report for the 24 weeks ended 15 June 2013

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

HOWDENS
JOINERY CO.
MAKING SPACE MORE VALUABLE

The business review

The condensed consolidated financial statements

Highlights

FINANCIAL RESULTS[1] (CONTINUING OPERATIONS)

- Howden Joinery UK depot revenue increased by 7.3% to £383.7m (up 5.5% on a same depot basis), rising by 4.3% if the first period of the year is excluded. Group revenue was £390.8m (2012: £364.6m);
- Gross profit margin was 61.5% (2012: 60.3%);
- Operating profit before exceptional items rose to £45.1m (2012: £29.6m);
- Profit before tax and exceptional items increased to £43.2m (2012: £25.9m);
- Basic earnings per share before exceptional items increased to 5.0p (2012: 3.2p);
- An exceptional operating cost of £4.5m was incurred to reconfigure our transport operations (2012: £nil);
- Net cash of £102.0m at 15 June 2013 (29 December 2012: £96.4m net cash, 9 June 2012: £37.4m net cash);
- Interim dividend of 1.0p per share declared (2012: 0.3p).

BUSINESS DEVELOPMENTS

- Investment in the future growth of the business continues:
  - new products introduced across entire spectrum of offer;
  - in line with our plans, eight new UK depots opened so far in 2013, bringing total to 537;
  - two-year programme of investment in our two manufacturing sites completed;
- Further mitigation of legacy property liability, with termination of leases on four more legacy properties since the 2012 Preliminary Results and one lease expiring, bringing the total so far this year to seven and the total remaining to nine.

CURRENT TRADING AND OUTLOOK

- Depot sales in the first four weeks of the second half of 2013 have continued to show solid progress, with total sales up 7.6%.
- With our important ‘period 11’ still to come, anticipated cost increases and market conditions continuing to be uncertain, our expectations for the year are unchanged.

1. Because of the 2013 financial year starting a week later than in 2012, results for the first half of 2013 reflect the benefit of an additional trading week in the first period of the year, which will be reversed at the end of the second half of the year. This is estimated to have increased operating profit and profit before tax for the first half of the year by around £6m.

Worthwhile for all concerned

The Howdens model is designed around the needs of the small builder. Since 1995 we have built a reputation for delivering a unique service that builders know they can rely on and are prepared to pay for.

We provide the builder with an integrated offer that combines a well-designed, robust range of kitchens, joinery and appliances with guaranteed availability from local stock at best local price and on excellent trade terms.

Our builder customers benefit from a confidential discount that allows them to make a margin on each job and a nett monthly account that allows them to manage their cash flow – and hence their business.

Our offer to the builder is supported by a finely tuned sales and manufacturing operation that is designed to maximise efficiency and minimise waste, enabling Howdens to deliver sales, profit and cash on a consistent basis.

Generating depot margin by providing a service of value

537 local depots across the country

Product in stock locally, all the time

Local manager autonomy and accountability

Knowledgeable, motivated local staff

Experienced designers offering an industry-leading free planning service

Depot manager and staff incentivised on a share of profit less stock loss

Further, targeted incentives relating to sales, profit, account opening and improved service

Regular meetings in each depot, focusing on key sales and profit indicators

A continuous flow of relevant new product

Sales and marketing tools for the builder including catalogues, videos and 3D plans

Efficient management information and point-of-sale systems

Low-cost depot property designed for trade customers

A valued partner in the local community

Generating margin through efficient manufacturing and supply

Focus on one customer

Scale

Predictability

Long runs

No ‘specials’

New, technically advanced equipment enabling improved quality and productivity as well as increased capacity

Efficiency supported by flexible working arrangements

Focused, on-site industrial design team

Low-cost sourcing of raw materials and finished products

Purchasing agreements designed to ensure security of supply and visibility of costs

Established relationships with suppliers who understand Howdens’ requirements

Responsive logistics assuring regular, tailored distribution to depots

Well-invested, integrated systems supporting manufacturing, warehousing, distribution and stock management

An outstanding health and safety record

Efficient use of energy and resources

No waste

Generating margin through management of central services

Tightly managed credit control

Focused property team

Effective financial reporting and treasury management

Systems that work

A focused, profitable business with scale and prospects

Summary of Group results[1]

Continuing operations[2], £m unless stated	2013	2012
Revenue		
– Group	390.8	364.6
– Howden Joinery UK depots	383.7	357.7
Gross profit	240.4	219.8
Gross profit margin	61.5%	60.3%
Operating profit before exceptional items	45.1	29.6
Profit before tax and exceptional items	43.2	25.9
Basic earnings per share before exceptional items	5.0p	3.2p
Exceptional operating cost before tax	(4.5)	–
Profit before tax	38.7	25.9
Basic earnings per share	4.4p	3.2p
Dividend per share	1.0p	0.3p
Net cash at end of period	102.0	37.4

1. Because of the 2013 financial year starting a week later than in 2012, results for the first half of 2013 reflect the benefit of an additional trading week in the first period of the year, which will be reversed at the end of the second half of the year. This is estimated to have increased operating profit and profit before tax for the first half of the year by around £6m.

2. There were no discontinued operations in the first half of 2013. In the first half of 2012, there was a loss before tax from discontinued operations of £0.5m. This meant profit before tax and exceptional items from continuing and discontinued operations was £25.4m.

Chief Executive Matthew Ingle said:

“We are pleased with our underlying performance in the first half of the year, which has been in line with our expectations. Our current performance confirms our strategy of investing in the growth of the business in all core areas.

We have started the second half well and we are on track with our plans for the year as a whole. Looking forward, with our important ‘period 11’ still to come, anticipated operating cost increases and market conditions continuing to be uncertain, our expectations for the year are unchanged, albeit that we have the flexibility and responsiveness to react to whatever conditions we encounter.”

Interim management report

FINANCIAL REVIEW

Financial results[1] for first half of 2013 (continuing operations[2])

The financial results of the Group during the first half of 2013 benefited from the Group's competitive position and actions taken to improve performance.

Total Group revenue increased by £26.2m to £390.8m. This included sales made in an extra week's trading at the start of the year.

Revenue	2013 £m	2012 £m
Group	390.8	364.6
comprising:		
Howden Joinery UK depots	383.7	357.7
Howden Joinery French depots	7.1	6.9

Howden Joinery UK depots' revenue rose by 7.3%, increasing 5.5% on a same depot basis. As previously explained, sales in the first period of the year benefited from an additional week of trading. Excluding the first period, total revenue in the five periods since then increased by 4.3%, there being no distorting factors.

In what have continued to be demanding market conditions, this growth has been achieved through a number of factors and is testament to the strength of our business model. It reflects the benefit of a price increase that was implemented in the early part of the year, as was the case in 2012. In addition, the number of customer accounts has continued to grow.

Sales by our French depots of £7.1m saw a slight decline on a same depot basis in constant currency terms.

Gross profit rose by £20.6m to £240.4m. The gross profit margin of 61.5% (2012: 60.3%) reflects the underlying improvement seen in the second half of 2012. However, the currency gain that was seen then has reversed as a result of the devaluation of the pound against the € and US$ that has occurred since the start of this year.

Selling and distribution costs, administrative expenses (before exceptional items) and other income increased by £5.1m to £195.3m. This reflects the costs of new depots and the impact of inflation, particularly on payroll costs. However, the impact of both these factors in the first half was less than in recent years.

It should be noted that we are anticipating that a number of factors will mean that operating costs will increase in the second half of the year, including the implementation of pension auto-enrolment and the number of depot openings planned (see below).

Operating profit before exceptional items increased by £15.5m to £45.1m.

The net interest charge decreased by £1.8m to £1.9m, reflecting a lower finance expense in respect of pensions. The net result was that profit before tax and exceptional items rose by £17.3m to £43.2m.

The financial results of the Group during the first half of 2013 benefited from the Group's competitive position and actions taken to improve performance.

Gross profit rose by £20.6m to £240.4m, with a gross profit margin of 61.5% (2012: 60.1%).

1. Because of the 2013 financial year starting a week later than in 2012, results for the first half of 2013 reflect the benefit of an additional trading week in the first period of the year, which will be reversed at the end of the second half of the year. This is estimated to have increased operating profit and profit before tax for the first half of the year by around £6m.
2. There were no discontinued operations in the first half of 2013. In the first half of 2012, there was a loss before tax from discontinued operations of £0.5m. This meant profit before tax and exceptional items from continuing and discontinued operations was £25.4m.

Interim management report continued

The Board has approved the payment of an interim dividend of 1.0p per share (2012: 0.3p).

The tax charge on profit before tax before exceptional items was £11.2m, an effective rate of tax of 25.9%.

Basic earnings per share excluding exceptional items were 5.0p (2012: 3.2p).

As previously reported, an exceptional operating cost of £4.5m was incurred. This was in relation to the reconfiguration of our transport operations to better reflect the geographical mix of our sales in the UK and improve service to our depots. This restructuring involved one-off closure, relocation and reorganisation costs.

Basic earnings per share were 4.4p (2012: 3.2p).

At 15 June 2013, the pension deficit shown on the balance sheet was £93.3m (29 December 2012: £154.5m). More than half of the decrease in the deficit in the period was due to lower liabilities arising from an increase in the discount rate. It also reflected an increase in assets, due to the Group's contribution to fund the deficit and better than expected asset returns.

There was a net cash inflow from operating activities of £10.2m. This included payments relating to legacy properties totalling £5.3m and a cash contribution to the Group's pension deficit of £13.6m.

Excluding legacy property payments, underlying working capital increased by £11.3m.

Within this, debtors at the end of the period were £25.0m higher than at the beginning of the period and stock levels increased by £4.7m, reflecting the seasonality of sales. Offsetting this, creditors increased by £18.4m, reflecting the then still to be paid 2012 final dividend.

Also included within net cash flows from operating activities was tax paid totalling £11.3m.

Payments to acquire fixed and intangible assets totalled £8.8m (2012: £6.5m).

Reflecting the above, there was a £5.6m net cash inflow in the first half of the year, the Group having net cash at the end of the period of £102.0m (29 December 2012: £96.4m net cash, 11 June 2012: £37.4m net cash). Excluding payments in respect of legacy properties and the contribution to the pension deficit, there was a cash inflow of £24.5m.

Dividend

In our 2012 Preliminary Results, we said that the Group intended to pay an interim dividend equal to one third of the previous year's full dividend (2012: 3p).

Reflecting this, the Board has approved the payment of an interim dividend of 1p per share (2012: 0.3p). It will be paid on 22 November 2013 to shareholders on the register at close of business on 25 October 2013.

OPERATIONAL REVIEW

The business model of Howden Joinery is "To supply from local stock nationwide the small builder's ever-changing routine integrated kitchen and joinery requirements, assuring no-call-back quality and best local price".

Three years ago, in our 2010 half-yearly report, we said that the opportunity to transform the scale of the business was apparent and that, as the performance of the business was improving and legacy issues were diminishing, we were stepping up investment in the future growth of Howdens. Since then, this investment in growth has seen not only a step-up in capital expenditure but also increased expenditure in a number of other areas, and we have continued with this in the first half of 2013. In addition, we are continually looking for ways to improve the performance of our business operations.

Depot network

Eight new depots have been opened in the UK so far this year, bringing the total to 537. A number of other depots are at various stages of the acquisition/shopfitting process, the opening programme being in line with our expectations to open up to 30 depots this year.

Product and marketing

We continue to enhance our product offering, having introduced a number of new products in the first half of the year across all of our product categories. Notable amongst these are: four new kitchens – three Shaker options in our Greenwich family, and a gloss graphite option in our Glendevon range; a number of decorative elements for the Tewkesbury kitchen family, to further enhance this as our premium range; and black and white single fan Lamona ovens, with matching hobs and extractors. Based on our most successful product designs, a number of lower priced sinks, taps and joinery door options have been introduced.

As well as regularly updating our collection of product literature, we have introduced a flooring catalogue to further promote this product category.

A new version of the Howdens product website (www.howdens.com) was launched. Major improvements to this included the automatic resizing of the website to suit the device on which it is being viewed and improved navigation around the site, making it easier for users to use. The content has also been enhanced, with the addition of further product movies designed to help bring the kitchen to life. The new website coincided with the launch of the Howden App.

Manufacturing and logistics operations

The £20m two-year programme of investment in new production facilities at our two manufacturing sites has been completed. The new production lines at our Howden and Runcorn factories have been installed and commissioned, and are now fully operational.

Eight new depots have been opened in the UK so far this year, bringing the total to 537.

Interim management report continued

The new £1.5m painted skirting board and architrave production facility at our Howden factory is now fully operational.

As previously announced, we have reconfigured our transport operations to better reflect the geographical mix of our sales in the UK and improve service to our depots.

All three of these projects are delivering the benefits that had been expected.

GROUP DEVELOPMENTS

Legacy properties

The Group continues to reduce its legacy property portfolio.

After the announcement of our 2012 Preliminary Results earlier this year, the lease of one property was terminated and another, with only one year of the lease remaining, was released early, prior to the end of the first half of the year. Subsequently, the lease of a further property was terminated, this being one of the longest and most onerous, and there has been an early exit from another. This brought the total number of leases terminated so far this year to six, at a cost of £7.5m. In addition, the lease of one property expired after the end of the first half of the year.

This means that there are now nine legacy properties remaining, with a net annual rent and rates of less than £2m.

CURRENT TRADING AND OUTLOOK

Depot sales in the first four weeks of the second half of 2013 (period 7) have continued to show solid progress, with total sales up 7.6% on the same period in 2012, and we are on track with our plans for the year as a whole.

At this stage, our expectations for the remainder of the year are unchanged. Our important 'period 11', when sales are usually more than twice those of a normal period, is still to come and market conditions continue to be uncertain. As already mentioned, we are anticipating that a number of factors will cause operating costs to increase.

We will continue to invest in the longer term growth and development of the business. However, as in recent years, we will manage the business flexibly in light of economic conditions.

GOING CONCERN

The Group meets its day to day working capital requirements through an asset-backed lending facility of £160m, which is due for renewal in July 2016. The current economic conditions create uncertainty, particularly over (a) the level of demand for the Group's products and (b) the exchange rate between sterling and both the Euro and the US Dollar, which would affect the cost of the Group's operations.

The Group's forecasts and projections have been stress-tested for reasonably possible adverse variations in trading performance. The results of this testing show that the Group should be able to operate within the level of its current facility and covenants.

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

RELATED PARTIES

Related party transactions are disclosed in Note 15 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.

RISKS AND UNCERTAINTIES

The Board continually assesses and monitors the key risks of the business. The principal risks and uncertainties that could have a material impact on the Group's performance over the remaining 28 weeks of the financial year have not changed from those which are set out in detail on pages 21 to 22 of the Group's 2012 Annual Report & Accounts, and which are summarised below:

- Market conditions – a severe downturn in market conditions could put pressure on our ability to meet sales and profit forecasts, which in turn could put pressure on cash availability and banking covenants.
- Failure to implement the Group's business model and culture – could have an adverse effect on the Group's future financial condition and profitability.
- Failure to maximise exploiting the growth potential of the businesses – could adversely affect the Group's ability to obtain maximum benefit from its growth potential.
- Continuity of supply – could adversely affect the Group's ability to implement the business model.
- Loss of key personnel – could adversely affect the Group's operations.
- Input price pressure – could adversely affect profitability.
- Financial position – if it were to deteriorate significantly, this could limit the financial resources available to fund the growth and development of the business.

A copy of the Group's 2012 Annual Report & Accounts is available on the Group's website, www.howdenjoinerygroupplc.com.

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

Matthew Ingle
Chief Executive Officer

Mark Robson
Chief Financial Officer

24 July 2013

HOWDENS JOINERY CO.

Condensed consolidated income statement

	Note	24 weeks to 15 June 2013 Before exceptional items unaudited £m	Exceptional items unaudited (note 6) £m	Total unaudited £m	24 weeks to 9 June 2012 unaudited £m	53 weeks to 29 December 2012 audited £m
Continuing operations:						
Revenue – sale of goods		390.8	–	390.8	364.6	887.1
Cost of sales		(150.4)	–	(150.4)	(144.8)	(341.8)
Gross profit		240.4	–	240.4	219.8	545.3
Selling & distribution costs		(163.5)	–	(163.5)	(160.3)	(359.1)
Administrative expenses		(31.8)	(4.5)	(36.3)	(30.2)	(66.4)
Other operating income		–	–	–	0.3	–
Operating profit		45.1	(4.5)	40.6	29.6	119.8
Finance income	7	0.2	–	0.2	0.1	0.2
Finance expense	7	(0.2)	–	(0.2)	(0.4)	(0.6)
Other finance expense – pensions	7	(1.9)	–	(1.9)	(3.4)	(7.3)
Profit before tax		43.2	(4.5)	38.7	25.9	112.1
Tax charge for the period	8	(11.2)	0.4	(10.8)	(5.8)	(24.1)
Profit after tax		32.0	(4.1)	27.9	20.1	88.0
Discontinued operations:						
Loss on discontinued operations	12	–	–	–	(0.5)	(4.4)
Tax on loss	12	–	–	–	0.2	0.6
Loss after tax on discontinued operations		–	–	–	(0.3)	(3.8)
Profit for the period attributable to the equity holders of the parent		32.0	(4.1)	27.9	19.8	84.2

Earnings per share:	Note	pence	pence	pence
From continuing operations:				
Basic earnings per 10p share	9	4.4	3.2	14.0
Diluted earnings per 10p share	9	4.4	3.2	13.9
From continuing and discontinued operations:				
Basic earnings per 10p share	9	4.4	3.2	13.4
Diluted earnings per 10p share	9	4.4	3.2	13.3

Condensed consolidated statement of comprehensive income

	Note	24 weeks to 15 June 2013 unaudited £m	24 weeks to 9 June 2012 unaudited £m	53 weeks to 29 December 2012 audited £m
Profit for the period		27.9	19.8	84.2
Items of other comprehensive income:				
Items that will not be reclassified subsequently to profit or loss:				
Actuarial gain/(loss) on defined benefit pension scheme	13	49.5	(1.9)	(52.0)
Deferred tax on actuarial gain/loss on defined benefit pension scheme		(11.4)	0.5	13.0
Effect of change in UK tax rate on deferred tax on cumulative actuarial loss		–	(3.3)	(7.5)
Current tax on share schemes		4.0	–	2.0
Deferred tax on share schemes		(2.0)	0.1	1.9
Effect of change in UK tax rate on deferred tax on cumulative balance on share schemes		–	–	(0.4)
Items that may be reclassified subsequently to profit or loss:				
Currency translation differences		0.4	(0.1)	(0.3)
Other comprehensive income for the period		40.5	(4.7)	(43.3)
Total comprehensive income for the period, attributable to equity holders of the parent		68.4	15.1	40.9

Condensed consolidated balance sheet

	Note	15 June 2013 unaudited £m	9 June 2012 unaudited £m	29 December 2012 audited £m
Non-current assets				
Goodwill		–	2.5	–
Other intangible assets		3.8	4.3	4.0
Property, plant and equipment	11	90.2	81.2	89.3
Deferred tax asset		29.5	38.8	46.1
Bank borrowings net of prepaid fees		1.2	–	1.0
		124.7	126.8	140.4
Current assets				
Inventories		120.6	112.5	115.9
Trade and other receivables		121.0	119.9	96.0
Cash at bank and in hand		101.7	39.5	96.7
		343.3	271.9	308.6
Total assets		468.0	398.7	449.0
Current liabilities				
Trade and other payables		(173.5)	(149.3)	(137.1)
Current tax liability		(9.2)	(11.7)	(16.9)
Current borrowings		(0.9)	(1.2)	(1.2)
		(183.6)	(162.2)	(155.2)
Non-current liabilities				
Non-current borrowings		–	(0.9)	(0.1)
Pension liability	13	(93.3)	(122.1)	(154.5)
Deferred tax liability		(4.2)	(4.7)	(4.3)
Provisions	14	(16.2)	(22.8)	(22.1)
		(113.7)	(150.5)	(181.0)
Total liabilities		(297.3)	(312.7)	(336.2)
Net assets		170.7	86.0	112.8
Equity				
Share capital		64.3	64.0	64.2
Share premium account		87.5	86.8	87.2
ESOP reserve		(12.9)	(21.3)	(19.0)
Other reserves		28.1	28.1	28.1
Retained earnings		3.7	(71.6)	(47.7)
Total equity		170.7	86.0	112.8

Condensed consolidated statement of changes in equity

	Share capital £m	Share premium account £m	ESOP reserve £m	Other reserves £m	Retained earnings £m	Total £m
24 weeks to 15 June 2013						
As at 29 December 2012 – audited	64.2	87.2	(19.0)	28.1	(47.7)	112.8
Accumulated profit for the period	–	–	–	–	27.9	27.9
Dividend declared	–	–	–	–	(17.0)	(17.0)
Net actuarial gain on defined benefit pension scheme	–	–	–	–	38.1	38.1
Deferred tax on share schemes	–	–	–	–	(2.0)	(2.0)
Current tax on share schemes	–	–	–	–	4.0	4.0
Currency translation differences	–	–	–	–	0.4	0.4
Net movement in ESOP	–	–	6.1	–	–	6.1
Issue of new shares	0.1	0.3	–	–	–	0.4
As at 15 June 2013 – unaudited	64.3	87.5	(12.9)	28.1	3.7	170.7

During the current period, the Group issued 766,298 shares.

	Share capital £m	Share premium account £m	ESOP reserve £m	Other reserves £m	Retained earnings £m	Total £m
24 weeks to 9 June 2012						
As at 24 December 2011 – audited	63.4	85.1	(22.8)	28.1	(83.6)	70.2
Accumulated profit for the period	–	–	–	–	19.8	19.8
Dividend declared	–	–	–	–	(3.1)	(3.1)
Net actuarial loss on defined benefit pension scheme	–	–	–	–	(1.4)	(1.4)
Deferred tax on share schemes	–	–	–	–	0.1	0.1
Effect of change in UK tax rate on deferred tax on cumulative actuarial loss	–	–	–	–	(3.3)	(3.3)
Currency translation differences	–	–	–	–	(0.1)	(0.1)
Net movement in ESOP	–	–	1.5	–	–	1.5
Issue of new shares	0.6	1.7	–	–	–	2.3
As at 9 June 2012 – unaudited	64.0	86.8	(21.3)	28.1	(71.6)	86.0

During the period above, the Group issued 6,325,814 shares.

	Share capital £m	Share premium account £m	ESOP reserve £m	Other reserves £m	Retained earnings £m	Total £m
53 weeks to 29 December 2012						
As at 24 December 2011 – audited	63.4	85.1	(22.8)	28.1	(83.6)	70.2
Accumulated profit for the period	–	–	–	–	84.2	84.2
Dividends declared and paid	–	–	–	–	(5.0)	(5.0)
Net actuarial loss on defined benefit pension scheme	–	–	–	–	(39.0)	(39.0)
Effect of change in UK tax rate on deferred tax on cumulative actuarial loss	–	–	–	–	(7.5)	(7.5)
Current tax on share schemes	–	–	–	–	2.0	2.0
Deferred tax on share schemes	–	–	–	–	1.9	1.9
Effect of change in UK tax rate on deferred tax on cumulative balance on share schemes	–	–	–	–	(0.4)	(0.4)
Currency translation differences	–	–	–	–	(0.3)	(0.3)
Net movement in ESOP	–	–	3.8	–	–	3.8
Issue of new shares	0.8	2.1	–	–	–	2.9
At 29 December 2012 – audited	64.2	87.2	(19.0)	28.1	(47.7)	112.8

During the period above, the Group issued 8,100,734 shares.

Condensed consolidated cash flow statement

	Note	24 weeks to 15 June 2013 unaudited £m	24 weeks to 9 June 2012 unaudited £m	53 weeks to 29 December 2012 audited £m
Group operating profit before tax and interest				
Group operating profit – continuing operations		40.6	29.6	119.8
Group operating loss – discontinued operations		–	(0.5)	(4.4)
Group operating profit before tax and interest		40.6	29.1	115.4
Adjustments for:				
Depreciation and amortisation included in operating profit		8.1	7.6	16.9
Share-based payments charge		2.4	1.5	2.7
Profit on disposal of property, plant and equipment and intangible assets		–	(0.3)	–
Exceptional items (before tax)		4.5	–	3.3
Operating cash flows before movements in working capital and exceptional items		55.6	37.9	138.3
Movements in working capital and exceptional items				
(Increase)/decrease in stock		(4.7)	6.0	2.6
Increase in trade and other receivables		(25.0)	(24.6)	(0.7)
Increase/(decrease) in trade and other payables and provisions		13.1	(5.7)	(16.2)
Difference between pensions operating charge and cash paid		(13.6)	(20.1)	(41.7)
Net cash outflow – exceptional items		(3.9)	–	(0.5)
		(34.1)	(44.4)	(56.5)
Cash generated from/(used in) operations		21.5	(6.5)	81.8
Tax paid		(11.3)	(9.0)	(16.9)
Net cash flows from/(used in) operating activities		10.2	(15.5)	64.9
Cash flows used in investing activities				
Payments to acquire property, plant and equipment and intangible assets		(8.8)	(6.5)	(24.2)
Receipts from sale of property, plant and equipment and intangible assets		–	0.4	0.3
Interest received		0.2	0.1	0.2
Net cash used in investing activities		(8.6)	(6.0)	(23.7)
Cash flows from financing activities				
Interest paid		(0.1)	(0.2)	(0.6)
Receipts from issue of own share capital		0.4	2.3	2.9
Receipts from release of shares from share trust		3.7	–	1.1
Decrease in loans		(0.6)	(0.5)	(2.2)
Repayment of capital element of finance leases		–	–	(0.1)
Dividends paid to Group shareholders		–	–	(5.0)
Net cash from/(used in) financing activities		3.4	1.6	(3.9)
Net increase/(decrease) in cash and cash equivalents		5.0	(19.9)	37.3
Cash and cash equivalents at beginning of period	16	96.7	59.4	59.4
Cash and cash equivalents at end of period	16	101.7	39.5	96.7

Notes to the condensed financial statements

1 GENERAL INFORMATION

The results for the 24 week periods ended 15 June 2013 and 9 June 2012 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 53 week period ended 29 December 2012 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 financial 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 on pages 5 to 9, which include 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.

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.

Adoption of new accounting standards in the period

There are no new accounting standards which are applicable to the Group in the current period and which are anticipated to have a material impact.

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 (2012: 29 weeks). It also reflects sales in the peak October trading period. In the last two financial years, approximately 60% of sales have been in the second half of the year.

5 WRITE DOWN OF INVENTORIES

During the period, the Group has recognised a net charge of £0.9m in respect of writing inventories down to their net realisable value (24 weeks to 12 June 2012: net credit of £0.2m, 53 weeks to 29 December 2012: net charge of £1.5m).

Notes to the condensed consolidated financial statements continued

6 CONTINUING OPERATIONS – EXCEPTIONAL ITEMS

Exceptional items for the 24 weeks to 15 June 2013

During the current period, the Group reconfigured its transport operations to better reflect the geographical mix of its sales in the UK, and to improve service to depots. This restructuring involved closure, relocation and reorganisation costs.

The costs are shown below, together with the associated tax credit.

The restructuring was completed by the end of the current period. £3.9m of the expenses were paid in the period, and are shown in the condensed consolidated cash flow statement. The remaining expenses are accrued at 15 June 2013.

	24 weeks to 15 June 2013 unaudited £m
Exceptional costs before tax	(4.5)
Tax on exceptional costs	0.4
Exceptional costs after tax	(4.1)

There were no continuing exceptional items in either of the comparative periods.

There were discontinued exceptional items in the 53 weeks to 29 December 2012, and these are analysed in note 12.

7 FINANCE INCOME, FINANCE EXPENSE, AND OTHER FINANCE EXPENSE – PENSIONS

	24 weeks to 15 June 2013 unaudited £m	24 weeks to 9 June 2012 unaudited £m	53 weeks to 29 December 2012 audited £m
Finance income			
Bank interest receivable	0.2	0.1	0.2
Finance expense			
Bank interest	(0.1)	(0.2)	(0.4)
Other interest (including finance lease interest) payable	–	(0.1)	–
Finance charge on remeasuring creditors to fair value	(0.1)	(0.1)	(0.2)
	(0.2)	(0.4)	(0.6)
Other finance expense – pensions			
Pensions finance expense	(1.9)	(3.4)	(7.3)

8 TAX

Tax for the 24 weeks to 15 June 2013 is charged at 27.9% (24 weeks to 9 June 2012: 22.0%), representing the tax effects of discrete items arising in the period, together with the best estimate of the average effective tax rate expected for the full year applied to the pre-tax income of the 24 week period.

9 EARNINGS PER SHARE

	24 weeks to 15 June 2013 unaudited			24 weeks to 9 June 2012 unaudited			53 weeks to 29 December 2012 audited		
	Earnings	Weighted average number of shares	Earnings per share	Earnings	Weighted average number of shares	Earnings per share	Earnings	Weighted average number of shares	Earnings per share
	£m	m	p	£m	m	p	£m	m	p
From continuing operations:									
Basic earnings per share	27.9	636.3	4.4	20.1	623.6	3.2	88.0	627.0	14.0
Effect of dilutive share options	–	1.4	–	–	4.9	–	–	4.2	(0.1)
Diluted earnings per share	27.9	637.7	4.4	20.1	628.5	3.2	88.0	631.2	13.9
From discontinued operations:									
Basic loss per share				(0.3)	623.6	–	(3.8)	627.0	(0.6)
Effect of dilutive share options				–	4.9	–	–	4.2	–
Diluted loss per share				(0.3)	628.5	–	(3.8)	631.2	(0.6)
From continuing and discontinued operations:									
Basic earnings per share	27.9	636.3	4.4	19.8	623.6	3.2	84.2	627.0	13.4
Effect of dilutive share options	–	1.4	–	–	4.9	–	–	4.2	(0.1)
Diluted earnings per share	27.9	637.7	4.4	19.8	628.5	3.2	84.2	631.2	13.3

There were no discontinued operations in the current period.

Notes to the condensed consolidated financial statements continued

10 DIVIDENDS

Amounts recognised as distributions to equity holders in the period

	24 weeks to 15 June 2013 unaudited £m	24 weeks to 9 June 2012 unaudited £m	53 weeks to 29 December 2012 audited £m
Final dividend for the 53 weeks to 29 December 2012 – 2.7p/share	17.0	–	–
Final dividend for the 52 weeks to 24 December 2011 – 0.5p/share	–	3.1	3.1
Interim dividend for the 53 weeks to 29 December 2012 – 0.3p/share	–	–	1.9
	17.0	3.1	5.0

No dividends were paid in the current period, or the 24 week period to 9 June 2012. The final dividend for the 52 weeks to 24 December 2011 (0.5p/share) was approved at the 2012 AGM in May 2012, and was paid on 22 June 2012. The final dividend for the 53 weeks to 29 December 2012 (2.7p/share) was approved at the 2013 AGM in May 2013, and was paid on 21 June 2013. The interim dividend for the 53 weeks to 29 December 2012 (0.3p/share) was paid on 30 November 2012.

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

Proposed dividends

On 24 July, the Board approved the payment of an interim dividend of 1.0 p/share to be paid on 22 November 2013 to ordinary shareholders on the register on 25 October 2013.

	24 weeks to 15 June 2013 unaudited £m	24 weeks to 9 June 2012 unaudited £m	53 weeks to 29 December 2012 audited £m
Proposed interim dividend for the 52 weeks ended 28 December 2013 – 1.0p/share	6.3		
Proposed interim dividend for the 53 weeks ended 29 December 2012 – 0.3p/share		1.9	
Proposed final dividend for the 53 weeks ended 29 December 2012 – 2.7p/share			16.7

11 PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent £8.8m on additions to property, plant and equipment (24 weeks to 9 June 2012: £6.4m; 53 weeks to 29 December 2012: £23.7m). It also disposed of property, plant and equipment with a net book value of £nil (24 weeks to 9 June 2012: £0.1m; 53 weeks to 29 December 2012: £0.3m) for proceeds of £nil (24 weeks to 9 June 2012: £0.4m; 53 weeks to 29 December 2012: £0.3m).

There are non-cancellable commitments to purchase property, plant and equipment of £2.1m at the current period end (24 weeks to 9 June 2012: £11.5m; 53 weeks to 29 December 2012: £5.2m).

12 DISCONTINUED OPERATIONS

There were no discontinued operations in the current period.

There were discontinued operations in the 24 weeks to 9 June 2012, and there were both discontinued operations and discontinued exceptional items in the 53 weeks to 29 December 2012. These items are summarised below, and are analysed in more detail at note 6 to the consolidated financial statements in the Group's 2012 Annual Report and Accounts.

Cash flows from discontinued operations are shown at note 16 to this half-yearly report.

		53 weeks to 29 December 2012 audited £m	24 weeks to 9 June 2012 unaudited £m
(a)	**Discontinued operating loss**		
	Relating to the closure of Howden Joinery Supply Division (Asia) Ltd:		
	Expenses	(1.1)	(0.5)
	Pre-tax loss of discontinued operation	(1.1)	(0.5)
	Tax thereon	0.3	0.2
	Post-tax loss of discontinued operations	(0.8)	(0.3)
(b)	**Discontinued exceptional items**		
	Relating to the closure of Howden Joinery Supply Division (Asia) Ltd:		
	Loss on closure of operation	(3.5)	
	Tax thereon	0.4	
	Loss for the period on closure of discontinued operation	(3.1)	
	Relating to the closure of Southon Insurance Company Ltd:		
	Pre-tax profit on closure of discontinued operation	0.4	
	Tax thereon	(0.1)	
	Profit for the period on closure of discontinued operation	0.3	
	Accrual for potential interest:		
	Accrual for potential interest	(0.2)	
	Tax thereon	–	
		(0.2)	
	Discontinued exceptional items subtotal:		
	Pre-tax discontinued exceptional items	(3.3)	
	Tax thereon	0.3	
	Post-tax discontinued exceptional items	(3.0)	
(c)	**Total discontinued operations**		
	Total pre-tax loss for the period from discontinued operations	(4.4)	(0.5)
	Total tax on discontinued operations	0.6	0.2
	Post-tax loss for the period from discontinued operations	(3.8)	(0.3)

Notes to the condensed consolidated financial statements continued

13 RETIREMENT BENEFIT OBLIGATIONS

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

	24 weeks to 15 June 2013 unaudited £m	24 weeks to 9 June 2012 unaudited £m	53 weeks to 29 December 2012 audited £m
Charged to the income statement:			
Defined benefit scheme – total operating charge	5.6	5.2	11.2
Defined benefit scheme – net finance charge	1.9	3.4	7.3
Total net amount charged to profit before tax	7.5	8.6	18.5
Charged to equity:			
Defined benefit scheme – net actuarial (gains)/losses, net of deferred tax	(38.1)	1.4	39.0

(b) Other information – defined benefit pension scheme

The most recent completed actuarial valuation was carried out at 5 April 2011 by the scheme actuary. The actuary advising the Group has subsequently rolled forward the results of this valuation to 15 June 2013 and restated the results onto a basis consistent with market conditions at that date. The pension deficit has decreased over the 24 weeks ended 15 June 2013. The following summary information analyses the main changes in greater detail.

Key assumptions used in the valuation of the scheme

	24 weeks to 15 June 2013 unaudited	24 weeks to 9 June 2012 unaudited	53 weeks to 29 December 2012 audited
Rate of increase of pensions in deferment capped at lower of CPI and 5%	2.35%	1.75%	2.25%
Rate of CARE revaluation capped at lower of RPI and 3%	2.50%	2.35%	2.30%
Rate of increase of pensions in payment:			
– pensions with increases capped at lower of CPI and 5%	2.60%	3.05%	3.05%
– pensions with increases capped at lower of CPI and 5%, with a 3% minimum	3.70%	3.70%	3.75%
– pensions with increases capped at the lower of RPI and 2.5%	2.30%	2.10%	2.15%
Rate of increase in salaries	4.60%	4.05%	4.15%
Inflation assumption – RPI	3.60%	3.05%	3.15%
Inflation assumption – CPI	2.60%	2.05%	2.45%
Expected return on scheme assets (weighted average)	4.93%	5.07%	4.93%
Discount rate	4.65%	4.70%	4.45%

Balance sheet

Movements in the deficit during the period are as follows:

	24 weeks to 15 June 2013 unaudited £m	24 weeks to 9 June 2012 unaudited £m	53 weeks to 29 December 2012 audited £m
Deficit at start of period	(154.5)	(136.9)	(136.9)
Current service cost	(5.6)	(5.2)	(11.2)
Employer contributions	19.2	25.3	52.9
Other finance charge	(1.9)	(3.4)	(7.3)
Actuarial gains/(losses), gross of deferred tax	49.5	(1.9)	(52.0)
Deficit at end of period	(93.3)	(122.1)	(154.5)

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

	24 weeks to 15 June 2013 unaudited £m	24 weeks to 9 June 2012 unaudited £m	53 weeks to 29 December 2012 audited £m
Actuarial gain/(loss) on scheme assets	14.8	(2.6)	14.9
Actuarial gain/(loss) on scheme liabilities	34.7	0.7	(66.9)
Total actuarial gain/(loss) before tax	49.5	(1.9)	(52.0)

14 PROVISIONS

	Property £m	Other £m	Business closure £m	Total £m
At 29 December 2012 – audited	17.8	3.4	0.9	22.1
Created in the period	0.7	1.1	–	1.8
Utilised in the period	(5.3)	(1.5)	(0.4)	(7.2)
Released in the period	(0.2)	(0.3)	–	(0.5)
At 9 June 2013 – unaudited	13.0	2.7	0.5	16.2

Property provision:
The property provision covers onerous leases on any non-trading leased properties. For some properties, the provision is based on the shortfall between rent payable and rent receivable. For other properties, where negotiations to surrender the lease are in progress, the provision is based on the amount which the landlord has indicated that they are willing to take as a premium in order for the Group to surrender the lease. The provision is based on the period until the end of the lease, or until the Group considers that it can cover the shortfall by subletting, assigning, or surrendering the lease. Throughout the course of the year the Group reviews the range of options for unused properties, and maintains ongoing discussions with landlords and external agents, with a view to identifying possible lease surrenders and finding tenants. The property provision also includes amounts for any related shortfalls in business rates on these properties, and for dilapidations, agents' fees and other professional fees.

During the current period, the property provision has been increased by £0.1m arising from an unwinding of the discount rate over time. None of this amount relates to a change in the discount rate. This amount is shown as a finance expense in note 6. The amount of the expected future cash flows has been adjusted to reflect the expected range of possibilities and, as the outflows under this provision are expected to take place over a number or years, the provision has been discounted to its present value.

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

Other provision:
The other 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 data to periodically revise the basis on which it makes further provision.

Provision for business closure:
The provision for business closure relates to the costs of closure of the Group subsidiary company Howden Joinery Supply Division (Asia) Ltd, which was reported in the 53 weeks ended 29 December 2012. More details of this are provided in note 23 to the consolidated financial statements for that period. The provision represents management's best estimate of the costs of closing the business, which are mainly staff costs and the costs of closing the company's office in Hong Kong. The remaining outflows from the closure provision are expected to occur within the next 6 months.

Notes to the condensed consolidated financial statements continued

15 RELATED PARTY TRANSACTIONS

There have been no changes to related party arrangements or transactions as reported in the Annual Report and Accounts for the period ended 29 December 2012.

Transactions between Group companies, which are related parties, have been eliminated on consolidation and are therefore not disclosed. The only 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 Accounts. Transactions between the Group and the Group's defined benefit pension scheme are disclosed in note 13.

16 NOTES TO THE CASH FLOW STATEMENT

(a) Net cash flows from operating activities

	24 weeks to 15 June 2013 unaudited £m	24 weeks to 9 June 2012 unaudited £m	53 weeks to 29 December 2012 audited £m
Net cash flows from operating activities comprises:			
Continuing operating activities	10.2	(15.0)	66.5
Discontinued operating activities	–	(0.5)	(1.1)
Discontinued operations – exceptional items	–	–	(0.5)
	10.2	(15.5)	64.9

(b) Reconciliation of movement in net cash

	24 weeks to 15 June 2013 unaudited £m	24 weeks to 9 June 2012 unaudited £m	53 weeks to 29 December 2012 audited £m
Net funds at start of period	96.4	57.1	57.1
Net increase/(decrease) in cash and cash equivalents	5.0	(19.9)	37.3
Decrease in bank borrowings	0.6	0.5	2.2
Increase in finance leases	–	(0.3)	(0.2)
Net cash at end of period	102.0	37.4	96.4
Represented by:			
Cash and cash equivalents	101.7	39.5	96.7
Bank loans	0.5	(1.8)	(0.1)
Finance leases	(0.2)	(0.3)	(0.2)
	102.0	37.4	96.4

(c) Analysis of net cash

	Cash and cash equivalents £m	Bank loans £m	Finance leases £m	Net cash £m
At 29 December 2012 – audited	96.7	(0.1)	(0.2)	96.4
Cash flow	5.0	0.6	–	5.6
At 9 June 2013 – unaudited	101.7	0.5	(0.2)	102.0

Closing bank loans at 15 June 2013 comprise £0.7m of current liabilities, and a non-current asset of £1.2m which represents the excess of prepaid loan fees over the amount of non-current borrowings which are drawn down at the period end.

Closing finance leases of £0.2m at 15 June 2013 are all current liabilities.

As previously announced, the Group's debt facilities are due to expire in July 2016.

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 report for the 24 week period ended 15 June 2013, which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes 1 to 16. We have read the other information contained in the half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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 Auditing Practices Board. 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.

DIRECTORS' RESPONSIBILITIES

The half-yearly report is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the half-yearly report in accordance with the Disclosure 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 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 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 Auditing Practices Board 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 Ireland) 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 report for the 24 week period ended 15 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor, London

24 July 2013

HOWDENS JOINERY CO.

Financial calendar

2013	
Interim Management Statement	14 November 2013
End of financial year	28 December 2013

2014	
2013 Preliminary Results	27 February 2014
Interim Management Statement	1 May 2014
Half-yearly report	24 July 2014
Interim Management Statement	13 November 2014
End of financial year	27 December 2014

Howden Joinery Group Plc is the parent company of Howden Joinery. In the UK, Howden Joinery is engaged in the sale of kitchens and joinery products to trade customers, primarily small local builders, through 537 depots. Around one-third of the products it sells are manufactured in the company's own factories in Runcorn, Cheshire, and Howden, East Yorkshire.

For more information about Howden Joinery, its products, philosophy and people, please visit www.howdens.com or our corporate website www.howdenjoinerygroupplc.com

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