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

HOWDENS JOINERY CO. | MAKING SPACE MORE VALUABLE

HOWDENS
JOINERY CO.
MAKING SPACE MORE VALUABLE

The business review

The condensed consolidated financial statements

Highlights

Financial results

- Howden Joinery UK depot revenue increased by 4.9% to £334.9m, up 2.4% on a same depot basis. Sales in the last three periods (since mid-March), during which prices were unchanged from 2010, were up 3.7%. Group revenue was £341.7m (2010: £324.7m).
- Gross profit margin rose from 58.1% to 59.3%.
- Operating profit increased to £25.5m (2010: £24.5m).
- Profit before tax rose by £1.9m to £23.5m (2010: £21.6m).
- Basic earnings per share increased to 2.8p (2010: 2.3p).
- Net cash of £5.1m at 11 June 2011 (25 December 2010: £35.0m net cash, 12 June 2010: £27m net debt), after payments totalling £17.2m relating to legacy properties and a payment, in excess of the operating charge, of £17.9m to the Group's pension scheme (the "pension deficit contribution").

Business developments

- Investment in the future growth of the business continues:
  - new products introduced across whole spectrum of offer;
  - five new depots opened so far in 2011, bringing total to 494;
  - capital expenditure totalled £7.9m; and
  - orders placed for new cabinet production lines at Runcorn and Howden.
- Further mitigation of legacy property liability, with termination of leases on four more legacy properties since the Interim Management Statement, bringing the total so far this year to 12.

Current trading

- Howden Joinery UK depot total revenue increased by 10.5% in the first period of the second half of the year (period 7) compared with the same period last year. This included the benefit of a price rise being initiated and some associated pull-through effect on sales.
- Management's expectations for the year remain unchanged.

What is Howdens' business model?

Our competitive advantage resides in our ability to implement an integrated, low cost, proven business model. The key features of the Howden Joinery model are:

Wholly focused on the small builder

We have one customer whose needs are always paramount. This means we have no conflicts of interest in respect of product, pricing or service.

Focused product range

We offer a considered range of kitchens and joinery that meets all the small builder's routine needs and helps him to sell to all parts of the market.

"No-call-back" quality

Rigid, robust product, designed for fast, easy installation, saves the builder time on site and allows him the opportunity to maximise his margin.

In stock locally

All our product is available from local stock, all the time, so the builder can pick it up when he needs it, complete his job and get paid by his customer – which means he can pay Howdens.

Local accountability and motivation

Our depot managers hire their own staff and can adjust pricing and stock levels to suit local market conditions. Both managers and staff are incentivised on a share of locally generated profit less stock loss, resulting in a shared aim to maximise profit and virtually no stock loss.

Locally held accounts subject to central credit control

Howdens has a policy of "no national accounts", limiting exposure to any one customer. Tight credit control ensures the cost of managing accounts, including all debt recovery and bad debts, remains only 1.5% of sales.

Lowest cost production and distribution

High volumes, long runs, low-cost sourcing and manufacturing, optimised logistics, scalable systems and low-cost, 10,000 square foot trade depots (as opposed to retail showrooms) mean Howden Joinery's costs will always be lower than those of a retailer.

The model can only achieve its potential if it is implemented in its entirety. All of its elements are non-negotiable.

The real key to implementing the Howdens model, however, is personal, local accountability, which requires a high degree of trust. When individuals are truly trusted, they will always find ways of doing things better, of solving problems, and of daring to face the challenges of the future.

To continue to succeed in future, we have to be clear about what has made Howdens successful.

Nearly five years ago, in 2006, we started a project in Howdens that we called 'Rough Diamond'. We gave it that name because we wanted it to identify the gems already present within the business, and make sure we invested in the things that were really precious, in order to deliver market-beating service to the builder and drive value in our business.

In a nutshell, we said:

"Let's focus on what we know works, and build it to scale".

So we invested in...

500 depots Credit control

Property Local communities

Depots

Support Processes

230,000 credit accounts

Product

Quality Materials

Design Innovation

Availability Knowledge

Range Presentation

Systems

Point of sale CAD planning

Depot systems Warehousing

Logistics Manufacturing

Packaging Transportation

Management information

People

Incentives Relationships

Governance Health & Safety

Trust A unique culture

Supply

Technology Speed

Flexibility Quality

Capacity 2 first-class factories

The best global suppliers

Howdens is constantly adapting. As we grow, it takes a lot of work to make sure that we are doing things in the same way, rather than doing the same things.

In acquiring scale, we have accumulated a huge amount of knowledge about managing depots, opening accounts, building relationships, introducing new product, innovating in product, improving efficiency, optimising our supply base, generating cash and growing margin. We have built value in the Howdens proposition, and value in the Howden Joinery business.

Summary of Group results

	2011 £m unless stated	2010 £m unless stated
Revenue		
– Group	341.7	324.7
– Howden Joinery UK depots	334.9	319.2
Gross profit	202.8	188.8
Gross profit margin %	59.3%	58.1%
Operating profit	25.5	24.5
Profit before tax	23.5	21.6
Basic earnings per share	2.8p	2.3p
Net cash/(debt) at end of period	5.1	(2.7)

Chief Executive Matthew Ingle said:

“We are pleased to have increased sales and profit in what are demanding market conditions. This performance is testament to the strengths of our business model and the efforts of all our staff. It also gives us confidence to continue to invest in the long-term growth of the business.

We expect market conditions to continue to be challenging for the rest of the year but remain confident about our performance, which is in line with our expectations for 2011.”

Interim management report

Financial review

The financial results of the Group during the first half of 2011 benefited from the Group's competitive position and actions taken to improve performance.

Total Group revenue increased by £17.0m to £341.7m.

Revenue	2011 £m	2010 £m
Group	341.7	324.7
comprising:		
Howden Joinery UK depots	334.9	319.2
Howden Joinery French depots	6.8	5.5

Howden Joinery UK depots' revenue rose by 4.9%, increasing 2.4% on a same depot basis. Looking at the three periods since mid-March, which taken together are not distorted by the different dates of Easter, total sales increased by 3.7%. This was achieved without the benefit of a price increase in the first half of 2011.

In demanding market conditions, this growth has been achieved through a number of factors. The value of kitchen (furniture, worktops, sinks & taps, appliances) sales has risen partly as a result of a higher proportion of sales from mid and higher priced ranges. Also, the value of door sales has increased as the mix has changed and the volume of sales of joinery and flooring has increased substantially. In addition, revenue until March of this year benefited from the price increase implemented in March 2010.

Sales by our French depots of £6.8m were up over 20% in constant currency terms.

Gross profit rose by £14.0m to £202.8m, the gross profit margin rising from 58.1% in the first half of 2010 to 59.3%.

Selling and distribution costs and administrative expenses increased by £13.0m to £177.3m. This reflects the costs of new depots, additional staffing in existing depots, increased marketing expenditure and the impact of inflation, particularly on payroll costs.

Operating profit increased by £1.0m to £25.5m.

The net interest charge fell by £0.9m to £2.0m, reflecting the reduced finance expense in respect of pensions. The net result was that profit before tax from continuing operations rose by £1.9m to £23.5m.

The tax charge on profit before tax was £6.5m, based on the estimated effective rate of tax on profit before tax for the 2011 financial year of 27.6%. This tax rate reflects the impact of depreciation on capital expenditure that is not allowable for tax purposes and other non-deductible expenditure.

Basic earnings per share were 2.8p (2010: 2.3p).

At 11 June 2011, the pension deficit shown on the balance sheet was £110.8m (25 December 2010: £135.7m). The decrease in the deficit in the period was mainly driven by the

The financial results of the Group during the first half of 2011 benefited from the Group's competitive position and actions taken to improve performance.

Gross profit rose by £14.0m to £202.8m, the gross profit margin rising from 58.1% in the first half of 2010 to 59.3%.

Interim management report
continued

In addition to laying the foundations for future growth, the steps we are taking allow Howdens to continue to prosper in what are demanding market conditions.

Company's contribution (£17.9m) made as part of the 2009 agreement to clear the actuarial deficit. A new triennial actuarial review of the pension scheme as at 1 April 2011 is currently being undertaken on behalf of the trustees.

There was a net cash outflow from operating activities of £21.5m. This included payments relating to legacy properties totalling £17.2m and a cash contribution to the Group's pension scheme, in excess of the operating charge, of £17.9m.

Excluding the legacy property payments, underlying working capital increased by £10.7m. Within this, stock levels at the end of the period were £5.5m higher than at the beginning of the year and debtors increased by £17.3m. Offsetting these, creditors increased by £12.1m. These movements reflect the seasonal difference in sales levels at the year-end and the end of the half-year, and stock levels having risen as a result of new product introduction over the last 12 months (see below).

Also included within net cash flows from operating activities was tax paid totalling £11.6m.

Payments to acquire fixed and intangible assets totalled £7.9m (2010: £6.7m).

Reflecting the above, there was a £29.9m net cash outflow in the first half of the year, the Group having net cash at the end of the period of £5.1m (25 December 2010: £35.0m net cash, 12 June 2010: £2.7m net borrowings). Excluding payments in respect of legacy properties and the contribution to the pension deficit, there was a cash inflow of £5.2m.

Dividend

No interim dividend is being paid (2010: nil). However, it remains the Board's intention that a prudent final dividend should be paid with respect to the current financial year, subject to the continued progress of the Group.

Operational review

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

In July 2010, in our 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.

During 2010, this investment in growth saw 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 2011.

Depot network
Five new depots have been opened so far this year, bringing the total to 494. A number of other depots are at various stages of the acquisition/shopfitting process.

Product
We continue to enhance our product offering. So far this year, we have introduced three new kitchen ranges, two of which extend the popular Burford family and the other is our first range featuring an integrated handle. In addition, we have updated four existing ranges. We have also introduced a new light oak cabinet to replace the previous beech cabinet. In our door and joinery collection, we have introduced a range of products that complement our most popular Burford and Greenwich kitchen ranges. In our flooring collection, we have enhanced a number of the laminate wood and tile products we offer.

Following meetings with a large number of our kitchen designers to ascertain their views on how sales of various product categories could be improved, the recurring themes were picked up in our new product development programme. The new products that would be launched this year were then presented to our depot staff at a series of major events held around the UK early in the year. Part of this roadshow included demonstrating the versatility of our Lamona appliances by showing them being used by a top chef.

Manufacturing and logistics operations
As part of a £20m two-year programme of investment in our manufacturing sites in Runcorn and Howden, orders have been placed for a new cabinet production line at each site. These lines will entail investment of £12m. In addition, further automation of assembly lines at Runcorn has been undertaken.

Implementation of a new warehouse management system in all three of our distribution centres has been completed with the installation at our Howden site.

General
New central computers and data storage systems have been installed in our main data centre in Northampton and back-up data centre in Harrogate. This investment will support future business growth.

Group developments

Legacy properties
The Group continues to reduce its legacy property portfolio.

Since the release of the Interim Management Statement, on 28 April 2011, the leases of a further four properties have been terminated, at a cost of £2.3m. This means that the leases of 12 properties have been terminated so far this year, at a cost of £11.4m (of which £10.4m was incurred in the first half of the year), mitigating future liabilities that would have totalled over £35m. In addition, two leases have expired so far this year.

So far this year we have launched three new kitchen ranges, updated four existing ranges, introduced a new light oak cabinet, and further enhanced our joinery, flooring and hardware offering.

Interim management report
continued

The number of legacy properties now stands at 26, compared with 40 at the end of 2010.

Although we remain cautious about the macro outlook, we will continue to invest in the longer-term growth and development of the business.

As a result, the number of legacy properties now stands at 26, compared with 40 at the end of 2010. Included within this are nine properties that are fully or partly occupied by tenants.

The profile of properties remaining and the net annual rent and rates (current values) for the associated leases going forward, before any further mitigating action is taken, is shown below.

Estimated future costs associated with these properties were originally provided for in 2009 and previous years.

Current trading and Outlook

Howden Joinery UK depot total sales grew by 10.5% in the first period of the second half of 2011. This included the benefit of a price rise being initiated and some associated pull-through effect on sales.

For the rest of 2011, the key risk to performance is the challenging market conditions we face and is the continuing uncertainty surrounding the general economic environment. In the light of which we remain cautious about the outlook. We expect to face increased pressure on product input costs, but would hope to be able to offset this through the price increase.

As a result, our expectations for the year remain unchanged.

Although we remain cautious about the macro outlook, we will continue to invest in the longer-term growth and development of the business. However, as in recent years, we will continue to manage the business 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 May 2014. 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

	Current	31 Dec 2011	31 Dec 2014	31 Dec 2019	31 Dec 2024
Number of properties[1]	26	26	15	9	3[3]
Net annual rent and rates, £m[2]	8.8	8.8	5.2	4.2	0.4

1. Vacant and tenanted.
2. Gross rent & rates less payments by tenants.
3. The remaining leases all expire during the course of 2025.

within the level of its current facility and covenants. The Group's banking facility expires in May 2014 so at this stage the Group has not sought any written commitment that the facility will be renewed. We will open renewal negotiations with the banks in due course.

After making due enquiries, and in accordance with the FRC's "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009", 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 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.

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 18 to 20 of the Group's 2010 Annual Report, and which are summarised below:

- Defined benefit pension scheme
- Legacy properties
- Market conditions
- IT systems
- Continuity of supply
- Failure to implement business strategy
- Product design leadership
- Loss of key personnel

A copy of the Group's 2010 Annual Report 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 half-yearly 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 half-yearly 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

Mark Robson
Chief Financial Officer

20 July 2011

Condensed consolidated income statement

	Notes	24 weeks to 11 June 2011 unaudited £m	24 weeks to 12 June 2010 unaudited £m	52 weeks to 25 December 2010 audited £m
Revenue – sale of goods		341.7	324.7	807.9
Cost of sales		(138.9)	(135.9)	(324.9)
Gross profit		202.8	188.8	483.0
Selling & distribution costs		(149.4)	(133.6)	(315.5)
Administrative expenses		(27.9)	(30.7)	(60.1)
Operating profit		25.5	24.5	107.4
Finance income	6	–	0.2	0.3
Finance expense	6	(0.6)	(0.7)	(1.5)
Other finance expense - pensions	6	(1.4)	(2.4)	(5.3)
Profit before tax		23.5	21.6	100.9
Tax charge for the period	7	(6.5)	(7.4)	(34.0)
Profit for the period attributable to the equity holders of the parent		17.0	14.2	66.9

Earnings per share:		pence	pence	pence
Basic earnings per 10p share	8	2.8	2.3	11.1
Diluted earnings per 10p share	8	2.7	2.3	10.8

Condensed consolidated statement of comprehensive income

	Notes	24 weeks to 11 June 2011 unaudited £m	24 weeks to 12 June 2010 unaudited £m	52 weeks to 25 December 2010 audited £m
Profit for the period		17.0	14.2	66.9
Items of other comprehensive income:				
Actuarial gain on defined benefit pension scheme	10	8.4	9.4	40.5
Deferred tax on actuarial gain on defined benefit pension scheme		(2.2)	(2.6)	(11.3)
Deferred tax on share schemes		(0.3)	(0.3)	–
Effect of change in tax rate on deferred tax on actuarial gains/losses		(2.8)	–	–
Currency translation differences		(0.4)	(0.4)	(0.8)
Other comprehensive income for the period		2.7	6.1	28.4
Total comprehensive income for the period attributable to equity holders of the parent		19.7	20.3	95.3

Condensed consolidated balance sheet

	Notes	11 June 2011 unaudited £m	12 June 2010 unaudited £m	25 December 2010 audited £m
Non-current assets				
Goodwill		2.5	2.5	2.5
Other intangible assets		4.4	5.1	4.8
Property, plant and equipment	9	79.2	78.7	80.8
Investments		2.0	2.0	2.0
Deferred tax asset		43.0	68.4	50.1
		131.1	156.7	140.2
Current assets				
Inventories		111.0	83.3	105.5
Trade and other receivables		112.3	102.4	95.0
Other assets		0.2	0.4	0.2
Cash at bank and in hand		18.9	17.4	38.6
		242.4	203.5	239.3
Total assets		373.5	360.2	379.5
Current liabilities				
Trade and other payables		(148.2)	(127.1)	(136.8)
Current tax liability		(12.0)	(12.7)	(18.9)
Current borrowings		(1.3)	(1.9)	(1.5)
		(161.5)	(141.7)	(157.2)
Non-current liabilities				
Non-current borrowings		(12.7)	(18.6)	(2.3)
Pension liability	10	(110.8)	(176.1)	(135.7)
Deferred tax liability		(5.2)	(5.5)	(5.3)
Provisions	11	(38.8)	(70.1)	(55.9)
		(167.5)	(270.3)	(199.2)
Total liabilities		(329.0)	(412.0)	(356.4)
Net assets/(liabilities)		44.5	(51.8)	23.1
Equity				
Called up share capital		63.4	63.4	63.4
Share premium account		85.1	85.1	85.1
ESOP reserve		(24.3)	(25.9)	(26.0)
Other reserves		28.1	28.1	28.1
Retained loss		(107.8)	(202.5)	(127.5)
Total surplus/(deficit)		44.5	(51.8)	23.1

Condensed consolidated statement of changes in equity

	24 weeks to 11 June 2011					
	Share capital £m	Share premium account £m	ESOP reserve £m	Other reserves £m	Retained earnings £m	Total £m
As at 25 December 2010 – audited	63.4	85.1	(26.0)	28.1	(127.5)	23.1
Profit for the period	–	–	–	–	17.0	17.0
Net actuarial gain on pension scheme	–	–	–	–	6.2	6.2
Deferred tax on share schemes	–	–	–	–	(0.3)	(0.3)
Effect of change in tax rate on deferred tax on actuarial gains/losses	–	–	–	–	(2.8)	(2.8)
Currency translation differences	–	–	–	–	(0.4)	(0.4)
Net movement in ESOP	–	–	1.7	–	–	1.7
As at 11 June 2011 – unaudited	63.4	85.1	(24.3)	28.1	(107.8)	44.5

During the current period, the Group did not issue any shares.

	24 weeks to 12 June 2010					
	Share capital £m	Share premium account £m	ESOP reserve £m	Other reserves £m	Retained earnings £m	Total £m
As at 26 December 2009 – audited	63.4	85.1	(27.5)	28.1	(222.8)	(73.7)
Profit for the period	–	–	–	–	14.2	14.2
Net actuarial gain on pension scheme	–	–	–	–	6.8	6.8
Deferred tax on share schemes	–	–	–	–	(0.3)	(0.3)
Currency translation differences	–	–	–	–	(0.4)	(0.4)
Net movement in ESOP	–	–	1.6	–	–	1.6
As at 12 June 2010 – unaudited	63.4	85.1	(25.9)	28.1	(202.5)	(51.8)

During the period above, the Group did not issue any shares.

	52 weeks to 25 December 2010					
	Share capital £m	Share premium account £m	ESOP reserve £m	Other reserves £m	Retained earnings £m	Total £m
As at 26 December 2009	63.4	85.1	(27.5)	28.1	(222.8)	(73.7)
Profit for the period	–	–	–	–	66.9	66.9
Net actuarial gain on pension scheme	–	–	–	–	29.2	29.2
Currency translation differences	–	–	–	–	(0.8)	(0.8)
Net movement in ESOP	–	–	1.5	–	–	1.5
As at 25 December 2010	63.4	85.1	(26.0)	28.1	(127.5)	23.1

During the period above, the Group did not issue any shares.

Condensed consolidated cash flow statement

	Notes	24 weeks to 11 June 2011 unaudited £m	24 weeks to 12 June 2010 unaudited £m	52 weeks to 25 December 2010 audited £m
Net cash flows (used in)/from operating activities	13	(21.5)	2.1	51.5
Cash flows from investing activities				
Interest received		–	0.1	0.3
Payments to acquire property, plant and equipment and intangible assets		(7.9)	(6.7)	(18.2)
Receipts from sale of property, plant and equipment and intangible assets		–	–	0.3
Net cash used in investing activities		(7.9)	(6.6)	(17.6)
Cash flows from financing activities				
Interest paid		(0.5)	(0.6)	(1.3)
Increase/(decrease) in loans		10.4	9.0	(7.1)
Repayment of capital element of finance leases		(0.2)	(0.8)	(1.4)
Decrease in other assets		–	0.3	0.5
Net cash from/(used in) financing activities		9.7	7.9	(9.3)
Net (decrease)/increase in cash and cash equivalents		(19.7)	3.4	24.6
Cash and cash equivalents at beginning of period	13	38.6	14.0	14.0
Cash and cash equivalents at end of period	13	18.9	17.4	38.6

Notes to the condensed financial statements

1 General information

The results for the 24 week periods ended 11 June 2011 and 12 June 2010 are unaudited but have been reviewed by the Group's auditors, whose report on the current period forms part of this document. The information for the 52 week period ended 25 December 2010 does not constitute statutory accounts as defined in section 435 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 auditors' 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 on pages 7 to 11, 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 current period

There are no new accounting standards which are applicable to the Group in the current period.

3 Segmental results

Basis of segmentation

Information reported to the Group's Board and its Executive Committee 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.

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. 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 credit of £0.5m in respect of writing inventories down to their net realisable value (24 weeks to 12 June 2010: net charge of £0.6m, 52 weeks to 25 December 2010: net charge of £0.1m).

6 Finance income, finance expense and other finance expense - pensions

	24 weeks to 11 June 2011 unaudited £m	24 weeks to 12 June 2010 unaudited £m	52 weeks to 25 December 2010 audited £m
Finance income			
Bank interest receivable	–	0.1	–
Other interest receivable	–	0.1	0.3
	–	0.2	0.3
Finance expense			
Interest payable on bank loans	(0.5)	(0.5)	(1.3)
Other interest (including finance lease interest) payable	–	(0.1)	–
Interest charge on remeasuring creditors to fair value	(0.1)	(0.1)	(0.2)
	(0.6)	(0.7)	(1.5)
Other finance expense - pensions			
Pensions finance expense	(1.4)	(2.4)	(5.3)

7 Tax

Tax for the 24 weeks to 11 June 2011 is charged at 27.6% (24 weeks to 12 June 2010: 34.1%), representing 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.

8 Earnings per share

	24 weeks to 11 June 2011 unaudited			24 weeks to 12 June 2010 unaudited			52 weeks to 25 December 2010 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 earnings per share	17.0	606.7	2.8	14.2	605.0	2.3	66.9	605.2	11.1
Effect of dilutive share options	–	15.6	(0.1)	–	0.7	–	–	12.2	(0.3)
Diluted earnings per share	17.0	622.3	2.7	14.2	605.7	2.3	66.9	617.4	10.8

Notes to the condensed financial statements continued

9 Property, plant and equipment

During the period, the Group spent £7.9m on additions to property, plant and equipment (24 weeks to 12 June 2010: £6.4m, 52 weeks to 25 December 2010: £18.2m). It also disposed of property, plant and equipment with a net book value of £nil (24 weeks to 12 June 2010: £nil, 52 weeks to 25 December 2010: £0.3m) for proceeds of £nil (24 weeks to 12 June 2010: £nil, 52 weeks to 25 December 2010: £0.3m).

There are non-cancellable commitments to purchase property, plant and equipment of £7.4m at the current period end (24 weeks to 12 June 2010: £3.5m, 52 weeks to 26 December 2010: £5.0m).

10 Retirement benefit obligations

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

	24 weeks to 11 June 2011 unaudited	24 weeks to 12 June 2010 unaudited	52 weeks to 25 December 2010 audited
	£m	£m	£m
Charged to the income statement			
Defined benefit scheme – current service cost and total operating charge	4.2	3.5	7.6
Defined benefit scheme – net finance charge	1.4	2.4	5.3
Total net amount charged to profit before tax	5.6	5.9	12.9
Charged to equity			
Defined benefit scheme – net actuarial gains, net of deferred tax	(6.2)	(6.8)	(29.2)

(b) Other information – defined benefit pension scheme

The most recent actuarial valuation was carried out at 6 April 2008 by the scheme actuary. The actuary advising the Group has subsequently rolled forward this valuation to 11 June 2011 and restated the results onto a basis consistent with market conditions at that date. The pension deficit has decreased over the 24 weeks ended 11 June 2011. The following summary information analyses the main changes in greater detail.

Key assumptions used in the valuation of the scheme

	24 weeks to 11 June 2011 unaudited	24 weeks to 12 June 2010 unaudited	52 weeks to 25 December 2010 audited
	%	%	%
Rate of increase of pensions in payment:			
– pensions with guaranteed increases (i.e. most of the pre-1997 pensions) – RPI based	3.50	3.25	3.50
– pensions with guaranteed increases (i.e. most of the post-1997 pensions) – CPI based	2.80	n/a	2.80
– pensions with increases capped at the lower of LPI and 5% – RPI based	3.50	3.25	3.50
– pensions with increases capped at the lower of LPI and 5% – CPI based	2.80	n/a	2.80
– pensions with increases capped at the lower of LPI and 2.5%	2.50	2.50	2.50
Rate of increase in salaries	4.50	4.25	4.50
Inflation assumption – RPI	3.50	3.25	3.50
Inflation assumption – CPI	2.80	n/a	2.80
Expected return on scheme assets (weighted average)	6.30	6.79	6.30
Discount rate	5.55	5.55	5.50

Balance sheet

Movements in the deficit during the period were as follows:

	24 weeks to 11 June 2011 unaudited £m	24 weeks to 12 June 2010 unaudited £m	52 weeks to 25 December 2010 audited £m
Deficit at start of period	(135.7)	(196.3)	(196.3)
Current service cost	(4.2)	(3.5)	(7.6)
Employer contributions	22.1	16.7	33.0
Other finance charge	(1.4)	(2.4)	(5.3)
Actuarial gains gross of deferred tax	8.4	9.4	40.5
Deficit at end of period	(110.8)	(176.1)	(135.7)

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 11 June 2011 unaudited £m	24 weeks to 12 June 2010 unaudited £m	52 weeks to 25 December 2010 audited £m
Actuarial (loss)/gain on scheme assets	(0.5)	(9.7)	1.9
Actuarial gain on scheme liabilities	8.9	19.1	38.6
Total actuarial gain before tax	8.4	9.4	40.5

Notes to the condensed financial statements continued

11 Provisions

	Property provision £m	Other provisions £m	Total £m
At 25 December 2010 - audited	54.4	1.5	55.9
Additional provision in the period	1.0	0.9	1.9
Utilisation of provision in the period	(18.0)	(0.9)	(18.9)
Provision released in the period	(0.1)	–	(0.1)
At 11 June 2011 – unaudited	37.3	1.5	38.8

The property provision mainly covers onerous leases. For any such leases, the Group provides for any shortfall between rent payable and rent receivable. The provision is based on the period until the end of the lease, or until the Group can cover the shortfall by subletting, assigning or surrendering the lease. None of the provisions are short-term. The property provision also includes amounts for any related shortfalls in business rates on these properties and for dilapidations.

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 charge 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 of years, the provision has been discounted to its present value.

Other provisions relate to amounts due in respect of warranties.

12 Related party transactions

There have been no changes to related party arrangements or transactions as reported in the Annual Report for the period ended 25 December 2010.

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 this half-yearly report, and which will be disclosed in the Group's next Annual Report.

13 Notes to the cash flow statement

(a) Net cash flows from operating activities

	24 weeks to 11 June 2011 unaudited £m	24 weeks to 12 June 2010 unaudited £m	52 weeks to 25 December 2010 audited £m
Group operating profit before tax and interest	25.5	24.5	107.4
Adjustments for:			
Depreciation and amortisation included in operating profit	8.8	7.7	18.2
Share-based payments charge	1.6	1.6	1.4
Operating cash flows before movements in working capital	35.9	33.8	127.0
Movements in working capital and exceptional items:			
(Increase)/decrease in stock	(5.5)	3.0	(19.2)
(Increase)/decrease in trade and other receivables	(17.3)	(7.0)	0.4
Decrease in trade and other payables and provisions	(5.1)	(9.3)	(15.3)
Difference between pensions operating charge and cash paid	(17.9)	(13.2)	(25.4)
	(45.8)	(26.5)	(59.5)
Cash (used in)/generated from operations	(9.9)	7.3	67.5
Tax paid	(11.6)	(5.2)	(16.0)
Net cash flows (used in)/from operating activities	(21.5)	2.1	51.5

Notes to the condensed financial statements continued

13 Notes to the cash flow statement continued

(b) Reconciliation of movement in net funds

	24 weeks to 11 June 2011 unaudited £m	24 weeks to 12 June 2010 unaudited £m	52 weeks to 25 December 2010 audited £m
Net funds at start of period	35.0	2.4	2.4
Net (decrease)/increase in cash and cash equivalents	(19.7)	3.4	24.6
Decrease in investments	–	(0.3)	(0.5)
(Increase)/decrease in bank borrowings	(10.4)	(9.0)	7.1
Decrease in finance leases	0.2	0.8	1.4
Net funds/(debt) at end of period	5.1	(2.7)	35.0
Represented by:			
Cash and cash equivalents	18.9	17.4	38.6
Investments	0.2	0.4	0.2
Bank loans	(13.8)	(19.5)	(3.4)
Finance leases	(0.2)	(1.0)	(0.4)
	5.1	(2.7)	35.0

(c) Analysis of net funds

	Cash and cash equivalents £m	Current asset investment £m	Bank loans £m	Finance leases £m	Net funds £m
At 25 December 2010 – audited	38.6	0.2	(3.4)	(0.4)	35.0
Cash flow	(19.7)	–	(10.4)	0.2	(29.9)
At 11 June 2011 – unaudited	18.9	0.2	(13.8)	(0.2)	5.1

Closing bank loans at 11 June 2011 comprise £12.7m of non-current liabilities and £1.1m of current liabilities.

Closing finance leases at 11 June 2011 are all current liabilities.

As previously disclosed, the Group's debt facilities are due to expire in May 2014.

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 week period ended 11 June 2011 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.

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 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 and Transparency Rules of the United Kingdom's Financial Services 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 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 financial report for the 24 week period ended 11 June 2011 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 Services Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor, London

20 July 2011

Financial Calendar

2011	
Interim Management Statement	10 November 2011
End of financial year	24 December 2011
2012	
2011 Preliminary Results	1 March 2012
Interim Management Statement	26 April 2012
Half-yearly report	19 July 2012
Interim Management Statement	8 November 2012
End of financial year (53 week)	29 December 2012

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 494 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

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